sherritt

2018

FINANCIAL RESULTS

Sherritt International Corporation

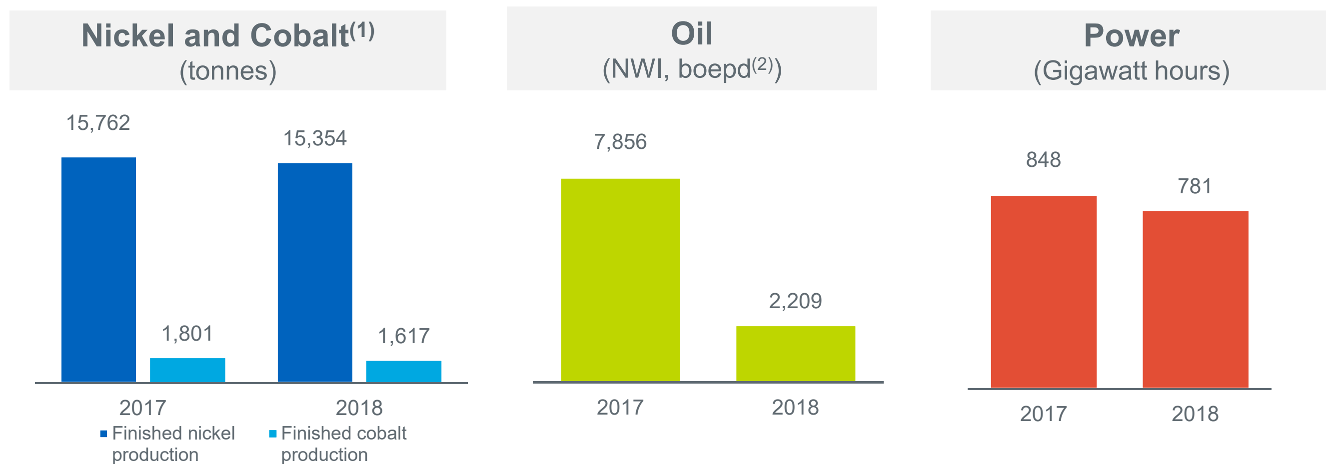
Not all nickel is the same…

The rapid emergence of the electric vehicle market presents a potential boon for nickel and cobalt prices as both metals are key components in current battery technology. With the expected growth of the electric vehicle market and concerns of security of cobalt supply, battery makers are starting to increase their reliance on nickel given its superior energy density.

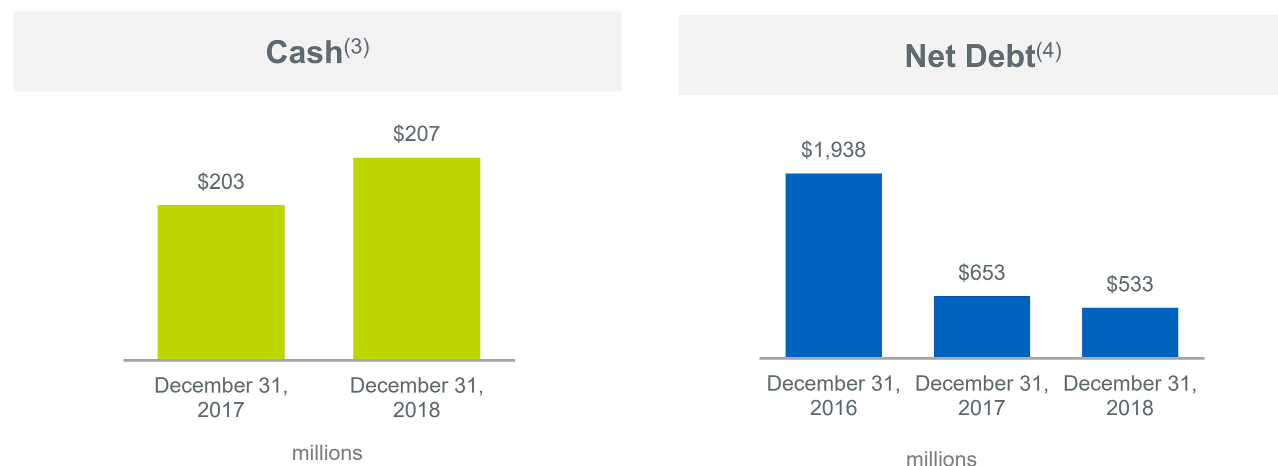
As a low-cost, high purity producer of Class 1 nickel, Sherritt is poised to take advantage of growing demand given that our production is primarily in briquette form – a type ideally suited to battery production.

2018 Operational Highlights

Sherritt's focus is nickel and cobalt, but we also have a long history of oil production in Cuba. In 2018, our production results for nickel at the Moa Joint Venture, oil production in Cuba, and power production were in line with guidance.



2018 Financial Highlights



1. Moa Joint Venture, Sherritt's share = 50% basis.
2. NWI = Net working-interest; barrels of oil equivalent per day.
3. Cash = Cash, cash equivalents and short-term investments.
4. Net Debt = Principal amount of Ambatovy Partner loans plus accrued interest, face value of unsecured debentures and amount owing on term capital facility, less cash, cash equivalents and short-term investments.

Sherritt Reported Higher Nickel Production at Moa JV and Stronger Balance Sheet for Q4 2018

CEO COMMENTARY

"Sherritt ended 2018 with lower debt and more cash than we started the year with as a result of several initiatives designed to reduce expenses, buy back $130 million of outstanding debentures and improve production reliability at our operations," said David Pathe, President and CEO of Sherritt International.

"Although concerns of international trade disputes and the impacts of tariffs have resulted in recent commodity price volatility, we expect to sustain our momentum through 2019 and beyond by capitalizing on the strong market fundamentals and outlook for Class 1 nickel, completing drilling on Block 10, and identifying opportunities where we can bring innovations developed by our Technologies Group to market," added Mr. Pathe.

HIGHLIGHTS FOR Q4 AND FY2018

- Sherritt's share of finished nickel production at the Moa Joint Venture ("Moa JV") in Q4 2018 was 4,294 tonnes, up 4% from last year, while finished cobalt was 428 tonnes, down 8% from Q4 2017. Production for Q4 2018 was impacted by the disruption in the supply of hydrogen sulphide, a key reagent used in the production of finished nickel and cobalt at the refinery in Fort Saskatchewan, as previously disclosed.
- Q4 2018 Adjusted EBITDA(1) was $17.7 million, down from $49.6 million in Q4 2017. The decrease was due to a number of factors, including lower contributions from the Oil and Gas business, lower cobalt sales and higher input costs, including higher sulphur and energy prices, at the Moa JV.
- Received $6.7 million in distributions from the Moa JV in Q4 2018 for a total of $11.9 million in distributions for FY2018. Q4 2018 marks the second consecutive quarter that the Moa JV has made distributions, indicative of improved nickel prices over the past several quarters.
- Net direct cash cost (NDCC)(1) at the Moa JV for FY2018 was US$2.24 per pound of finished nickel sold, in line with the US$1.90 - $2.40 per pound guidance that Sherritt provided for the year. NDCC for 2018 ranked the Moa JV within the lowest cost quartile relative to other producers and ranked it as the lowest cost nickel HPAL operation according to annualized information tracked by Wood Mackenzie.
- Cash from continuing operations in FY2018 was $7.4 million compared to cash flow used of $9.6 million in FY2017. The improvement was driven largely by the receipt of distributions from the Moa JV, lower interest payments on debentures and increased fertilizer customer prepayments.
- Sherritt ended the year with cash, cash equivalents and short-term investments of $207.0 million, up from $203.0 million at the end of 2017. The increase was due to a combination of factors, including the receipt of distributions, working capital and advance repayments from the Moa JV totaling $47.7 million, reduced interest payments of $6.3 million and reduced administrative expenses of $6.1 million, excluding the reduction of share-based compensation. The lower administrative expenses were due to various cost-savings initiatives, including lower consulting fees, reduced employee costs and the relocation of the Toronto corporate office.

DEVELOPMENTS SUBSEQUENT TO YEAR END

- Reached an agreement in principle, subject to final approvals, with Cuban partner on a payment plan to reduce overdue receivables.
- Based on a decision to prudently manage drilling and exploration costs, drilling on Block 10 has been suspended to enable the completion of additional analysis of the geological conditions between the upper and lower target reservoir.
- To date, third-party industry experts have completed detailed lab analysis of rock cuttings collected during previous operations on Block 10. Results of the lab analysis, which indicated that the rock formation between the upper and lower target reservoirs has unique characteristics, are currently being used with the assistance of other third-party experts to adjust drilling parameters, including modifying the drilling fluid and making use of casing while drilling technology that addresses the challenges of well-bore degradation and fractured zones experienced to date.
- Drilling on Block 10 will resume at the end of March with the new drilling parameters, and is expected to be completed in the second quarter of 2019. The adoption of new drilling parameters will not result in any increases to planned capital spending previously disclosed for the Oil and Gas business. Any incremental capital spend at the Oil and Gas business in 2019 will be predicated on successful drill results on Block 10 and collections on receivables. Sherritt intends to explore partnerships for further investment in Block 10 following completion of the current drilling.

(1) For additional information see the Non-GAAP measures section of the MD&A.

Q4 2018 FINANCIAL HIGHLIGHTS[1]

$ millions, except per share amount	For the three months ended 2018 December 31	2017 December 31	Change	For the years ended 2018 December 31	2017 December 31	Change
Revenue	**37.1**	54.8	(32%)	**$ 152.9**	$ 267.3	(43%)
Combined Revenue[2]	**166.1**	223.8	(26%)	**701.9**	917.5	(23%)
Net earnings (loss) for the period	**(53.1)**	537.8	(110%)	**(64.2)**	293.8	(122%)
Adjusted EBITDA[2]	**17.7**	49.6	(64%)	**144.2**	149.8	(4%)
Cash provided (used) by continuing operations	**12.6**	(33.9)	137%	**7.4**	(9.6)	177%
Combined free cash flow [2]	**6.4**	(41.2)	116%	**(7.5)**	(62.1)	88%
Net earnings (loss) from continuing operations per share	**(0.17)**	1.85	(109%)	**(0.21)**	1.04	(120%)

(1) The amounts for the periods ended December 31, 2018 have been prepared in accordance with IFRS 9 and IFRS 15; prior year periods amounts have not been restated. Refer to note 3 in the audited consolidated financial statements for the year ended December 31, 2018 for further information.

(2) For additional information see the Non-GAAP measures section of the MD&A.

$ millions, as at December 31	**2018**	2017	Change
Cash, cash equivalents and short-term investments	**207.0**	203.0	2%
Loans and borrowings	**705.7**	824.1	(14%)

Adjusted earnings (loss) from continuing operations[1]

For the three months ended December 31	**2018 $ millions**	**2018 $/share**	2017 $ millions	2017 $/share
Net earnings (loss) from continuing operations	(69.1)	(0.17)	552.9	1.85
Adjusting items:				
Unrealized foreign exchange (gain) loss	(20.7)	(0.05)	24.1	0.08
Revaluation of expected credit losses under IFRS 9	44.1	0.11	-	-
Gain on Ambatovy restructuring	-	-	(629.0)	(2.11)
Other	24.9	0.06	1.8	0.01
Adjusted net loss from continuing operations	(20.8)	(0.05)	(50.2)	(0.17)

For the year ended December 31	**2018 $ millions**	**2018 $/share**	2017 $ millions	2017 $/share
Net earnings (loss) from continuing operations	(80.2)	(0.21)	308.9	1.04
Adjusting items:				
Unrealized foreign exchange (gain) loss	(33.3)	(0.09)	7.7	0.03
Revaluation of expected credit losses under IFRS 9	47.4	0.12	-	-
Gain on Ambatovy restructuring	-	-	(629.0)	(2.13)
Other	15.6	0.05	(4.7)	(0.01)
Adjusted net loss from continuing operations	(50.5)	(0.13)	(317.1)	(1.07)

(1) For additional information see the Non-GAAP measures section of the MD&A.

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Adjusted net loss from continuing operations was $20.8 million, or $0.05 per share, and $50.5 million, or $0.13 per share, for Q4 2018 and FY2018, respectively. In 2017, Sherritt incurred an adjusted net loss from continuing operations of $50.2 million, or $0.17 per share, for Q4 and $317.1 million, or $1.07 per share, on a full-year basis. Significant adjustments to earnings or losses in the reporting periods include the gain on the Ambatovy Joint Venture ("Ambatovy JV") restructuring in Q4 2017, a non-cash loss on the revaluation of the Ambatovy JV subordinated loans receivable in Q4 2018 resulting from changes in expected repayment schedule, and unrealized foreign exchange gains and losses in both FY2018 and FY2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2018

This Management's Discussion and Analysis (MD&A) is intended to help the reader understand Sherritt International Corporation's operations, financial performance and the present and future business environment. This MD&A, which has been prepared as of February 13, 2019, should be read in conjunction with Sherritt's audited consolidated financial statements for the year ended December 31, 2018. Additional information related to the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at www.sedar.com or on the Corporation's website at www.sherritt.com.

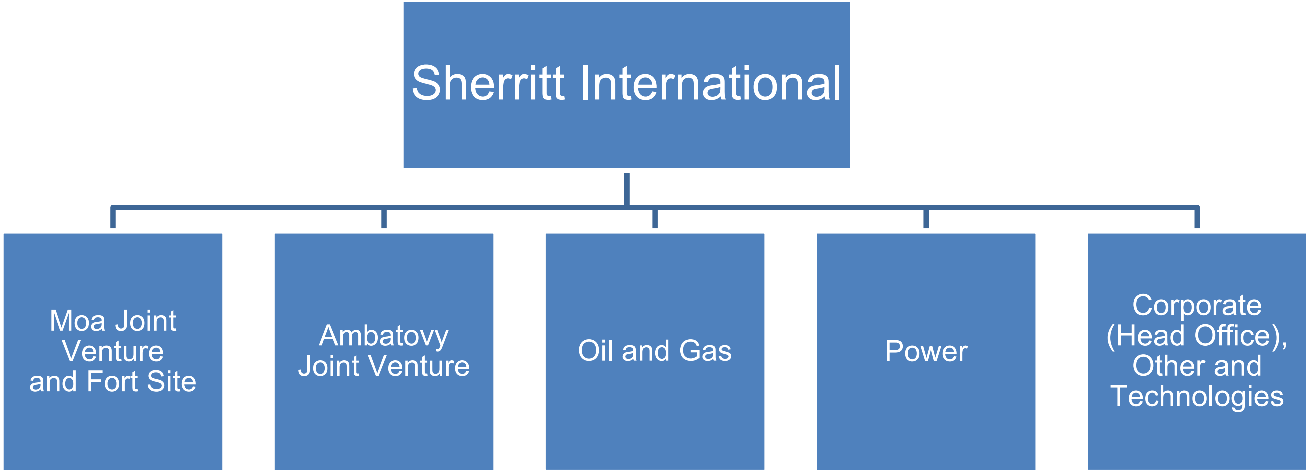
References to "Sherritt" or the "Corporation" refer to Sherritt International Corporation and its share of consolidated subsidiaries, joint operations, joint ventures and associate, unless the context indicates otherwise. All amounts are in Canadian dollars unless otherwise indicated. References to "US$" are to United States dollars.

Securities regulators encourage companies to disclose forward-looking information to help investors understand a company's future prospects. This MD&A contains statements about Sherritt's future financial condition, results of operations and business. See the end of this report for more information on forward-looking statements.

Overview of the business	4
Strategic Priorities	8
Highlights	10
Financial results	12
Outlook	18
Significant factors influencing operations	19
Review of operations	20
Moa Joint Venture and Fort Site	20
Oil and Gas	24
Power	27
Investment in Ambatovy Joint Venture	29
Liquidity and capital resources	31
Managing risk	36
Critical accounting estimates and judgments	44
Accounting pronouncements	48
Three-year trend analysis	54
Summary of quarterly results	55
Off-balance sheet arrangements	56
Transactions with related parties	56
Controls and procedures	57
Supplementary information	58
Sensitivity analysis	58
Non-GAAP measures	58
Forward-looking statements	69

Overview of the business

Sherritt is a world leader in the mining and refining of nickel and cobalt from lateritic ores with projects and operations in Canada, Cuba and Madagascar. The Corporation is the largest independent energy producer in Cuba, with extensive oil and power operations across the island. Sherritt licenses its proprietary technologies and provides metallurgical services to mining and refining operations worldwide. The common shares of the Corporation are listed on the Toronto Stock Exchange under the symbol "S".



MOA JOINT VENTURE AND FORT SITE

Sherritt has a 50/50 partnership with General Nickel Company S.A. (GNC) of Cuba (the Moa Joint Venture) and a wholly-owned fertilizer business and sulphuric acid, utilities and fertilizer storage facilities in Fort Saskatchewan, Alberta, Canada (Fort Site) that provides additional sources of income.

The Moa Joint Venture mines, processes and refines nickel and cobalt for sale worldwide (except in the United States). The Moa Joint Venture is a vertically-integrated joint venture that mines lateritic ore by open pit methods and processes them at its facilities at Moa, Cuba into mixed sulphides containing nickel and cobalt. The mixed sulphides are transported to the refining facilities in Fort Saskatchewan, Alberta. The resulting nickel and cobalt products are sold to various markets, primarily in Europe, Japan and China. At current depletion rates, the concessions of the Moa Joint Venture will reach their limit in 2034.

The Fort Site facilities provides inputs (ammonia, sulphuric acid and utilities) for the Moa Joint Venture metals refinery, produces agriculture fertilizer for sale in Western Canada and provides additional fertilizer storage and administrative facilities. The metals refinery facilities in Fort Saskatchewan have an annual production capacity of approximately 35,000 (100% basis) tonnes of nickel and approximately 3,800 (100% basis) tonnes of cobalt.

OIL AND GAS

Sherritt's Oil and Gas division explores for and produces oil and gas primarily from reservoirs located offshore, but in close proximity to the coastline along the north coast of Cuba. Specialized long reach directional drilling methods are being used to economically exploit these reserves from land-based drilling locations.

Under the terms of its production-sharing contracts (PSCs), Sherritt's net production is made up of an allocation from gross working-interest production (cost-recovery oil) to allow recovery of all approved costs in addition to a negotiated percentage of the remaining production (profit oil). The pricing for oil produced by Sherritt in Cuba is based on a discount to U.S. Gulf Coast High Sulphur Fuel Oil (USGC HSFO) reference prices.

Sherritt currently has an interest in four PSCs, one PSC which is developed and at the production stage and the remaining three PSCs in the exploration phase.

In addition, Sherritt holds working-interests in several oil fields and the related production platform located in the Gulf of Valencia in Spain plus a working interest in a natural gas field in Pakistan.

POWER

Sherritt's primary power generating assets are located in Cuba at Varadero, Boca de Jaruco and Puerto Escondido. These assets are held by Sherritt through its one-third interest in Energas S.A. (Energas), which is a Cuban joint arrangement established to process raw natural gas and generate electricity for sale to the Cuban national electrical grid. Cuban government agencies Unión Eléctrica (UNE) and Unión Cubapetróleo (CUPET) hold the remaining two-thirds interest in Energas.

Raw natural gas is supplied to Energas by CUPET free of charge. The processing of raw natural gas produces clean natural gas, used to generate electricity, as well as by-products such as condensate and liquefied petroleum gas. All of Energas' electrical generation is purchased by UNE under long-term fixed-price contracts while the by-products are purchased by CUPET or a Cuban entity providing natural gas to the City of Havana at market based prices. Sherritt provided the financing for the construction of the Energas facilities and is being repaid from the cash flows generated by the facilities.

The Energas facilities, which are comprised of the two combined cycle plants at Varadero and Boca de Jaruco, produce electricity using natural gas and steam generated from the waste heat captured from the gas turbines. Energas' electrical generating capacity is 506 MW.

AMBATOVY JOINT VENTURE

Sherritt has a 12% interest in Ambatovy Minerals S.A. (AMSA) and Dynatec Madagascar S.A. (DMSA). Together AMSA and DMSA form the Ambatovy Joint Venture which owns a significant nickel operation in Madagascar. The Ambatovy Joint Venture is one of the world's largest, vertically integrated, nickel mining, processing and refining operations utilizing lateritic ore. Subject to the terms of the Ambatovy Operating Agreement and the direction of the Ambatovy Executive Committee, Sherritt is the operator of the mine and refining facilities and has as its principal partners Sumitomo Corporation (Sumitomo) and Korea Resources Corporation (KORES) (collectively, the Ambatovy Partners). The Ambatovy Joint Venture has two nickel deposits located near Moramanga (eastern-central Madagascar) which is expected to operate until at least 2043.

CORPORATE AND OTHER - TECHNOLOGIES

Sherritt's Technologies group provides technical support, process optimization and technology development services to Sherritt's operating divisions, and identifies opportunities for the Corporation as a result of its research and development activities. Its activities include the internally focused development of technologies that provide strategic advantages to the Corporation; evaluating, developing and commercializing process technologies for natural resource based industries, in particular for the hydrometallurgical recovery of non-ferrous metals; and providing technical support for Sherritt's operations, marketing and business development arms.

In Q2 2018, the Corporation successfully completed a pilot-scale test of a proprietary technology for the partial upgrading of Alberta bitumen. This technology is an innovative evolution of Sherritt's metallurgical reactor technology and involves combining hydrogen with bitumen under pressure at high temperature in the presence of a proprietary catalyst suspended in a slurry through mechanical agitation. Sherritt's technology eliminates the requirement for diluent, which is a high-cost thinning agent that reduces bitumen viscosity, and improves pipeline capacity at significantly lower cost than competing technologies.

ACCOUNTING PRESENTATION

Sherritt manages its nickel, oil, gas, power and technologies operations through different legal structures including 100% owned subsidiaries, joint arrangements, an associate and production sharing contracts. With the exception of the Moa Joint Venture, which Sherritt operates jointly with its partner, Sherritt is the operator of these assets. The relationship for accounting purposes that Sherritt has with these operations and the economic interest recognized in the Corporation's financial statements are as follows:

	Relationship for accounting purposes	Interest	Basis of accounting
Moa Joint Venture	Joint venture	50%	Equity method
Ambatovy Joint Venture	Associate	12%	Equity method
Oil and Gas	Subsidiary	100%	Consolidation
Power	Joint operation	33⅓%	Share of assets, liabilities revenues and expenses
Technologies	Subsidiary	100%	Consolidation

For financial statement purposes, the Moa Joint Venture and Ambatovy Joint Venture are accounted for using the equity method of accounting which recognizes the Corporation's share of earnings (loss) from the joint venture and associate, respectively. The financial results and review of operations sections in this MD&A presents amounts by reporting segment, based on the Corporation's economic interest.

Moa Joint Venture and Fort Site: Includes the Corporation's 50% interest in the Moa Joint Venture and 100% interest in the utility and fertilizer operations at Fort Site.

Ambatovy Joint Venture: Includes the Corporation's 12% interest (40% interest to December 10, 2017) interest, except where otherwise indicated.

Metals Other: Includes the Corporation's 100% interests in wholly-owned subsidiaries established to buy, market and sell certain Moa Joint Venture's nickel and cobalt production.

Oil and Gas: Includes the Corporation's 100% interest in its Oil and Gas business.

Power: Includes the Corporation's 33⅓% interest in its Power business.

Corporate and Other: Includes the Corporation's head office activities and the operations of its Technologies business.

In December 2017, the Corporation concluded an agreement with its Ambatovy Joint Venture partners to reduce its interest in the joint venture from 40% to 12% (the Ambatovy restructuring). Financial and operating results for the Ambatovy Joint Venture after December 10, 2017 are presented on a 12% basis; results prior to December 11, 2017 are presented on a 40% basis, except where otherwise indicated. Any balance sheet amounts in this MD&A at December 31, 2017 include the Corporation's interest in the Ambatovy Joint Venture at 12%.

Amounts presented in this MD&A can be reconciled to note 4 of the audited consolidated financial statements for the year ended December 31, 2018.

NON-GAAP MEASURES

Management uses the following non-GAAP financial performance measures in this MD&A:

- combined results,
- adjusted EBITDA,
- average-realized price,
- unit operating cost/Net Direct Cash Cost (NDCC),
- adjusted earnings,
- adjusted operating cash flow, and
- free cash flow.

Management uses non-GAAP measures to monitor the financial performance of the Corporation and its operating divisions and believes these measures enable investors and analysts to compare the Corporation's financial performance with its competitors and/or evaluate the results of its underlying business. These measures are intended to provide additional information, not to replace IFRS measures. Non-GAAP measures do not have a standard definition under IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. As these measures do not have a standardized meaning, they may not be comparable to similar measures provided by other companies.

The non-GAAP measures are reconciled to the most directly comparable IFRS measure in the non-GAAP measures section starting on page 58.

Strategic priorities

The table below summarizes how the Corporation performed against its strategic priorities for 2018.

Strategic Priorities	2018 Actions	Status
PRESERVE LIQUIDITY AND BUILD BALANCE SHEET STRENGTH	Continue to emphasize de-leveraging of the balance sheet	Sherritt's net debt at the end of 2018 was $533 million, down from almost $2 billion at the end of 2016. The reduction was driven by the restructuring of Sherritt's ownership interest in the Ambatovy JV at the end of 2017 and the purchase of more than $130 million of debentures in 2018.
	Optimize working capital and receivables collection	Management continues to take action to expedite Cuban energy receipts and has reached an agreement in principle subject to final approvals, with Cuban partner on a payment plan to reduce overdue receivables. Overdue scheduled receivables at quarter end were US$152.5 million.
	Operate the Metals businesses to maintain a leadership position as a low-cost producer of finished nickel and cobalt while maximizing Free Cash Flow	The Moa JV and Fort Site generated $106.3 million of adjusted operating cash flow during 2018, up 46% from 2017.
UPHOLD GLOBAL OPERATIONAL LEADERSHIP IN FINISHED NICKEL LATERITE PRODUCTION	Further reduce NDCC towards the goal of being consistently in the lowest cost quartile.	NDCC at the Moa JV was US$2.24/lb, in 2018 down 5% from last year, ranking it within the lowest cost quartile relative to other producers and the lowest cost nickel HPAL operation globally according to information tracked by Wood Mackenzie.
	Maximize production of finished nickel and cobalt and improve predictability over 2017 results	Although production was impacted throughout the year by adverse weather conditions, transportation delays and the disruption of hydrogen sulphide supply, the Moa JV produced 30,708 (100% basis) tonnes of finished nickel in 2018, in line with guidance. The Moa JV has taken measures over the past year to mitigate the production challenges of the past year by building inventory of mixed sulphides and ore stock piles, deploying new mining equipment and developing contingency plans for alternative supply deliveries.
	Achieve peer leading performance in environmental, health, safety and sustainability	Sherritt's operations at Moa, Oil & Gas and Power had zero work-related fatalities and one lost time incident. The operations had a recordable injury frequency rate in 2018 of 0.23 and a lost time injury frequency rate of 0.08, both are in the lowest quartile of benchmark peer set data.
OPTIMIZE OPPORTUNITIES IN CUBAN ENERGY BUSINESS	Successfully execute Block 10 drilling program	Drilling on Block 10 will recommence at the end of March. Drilling has been suspended based on a decision to prudently manage exploration costs and complete an analysis of geological conditions. Third-party experts have assisted in the analysis of rock cuttings and development of new drilling parameters. Drilling on Block 10 is expected to be completed in Q2 2019 with no increase to planned capital spend for the year. Any incremental capital spend at the Oil and Gas business in 2019 will be predicated on successful Block 10 drill results and collections of receivables. The company intends to explore potential partnerships on Block 10 pending completion of current drilling.
	Review opportunities to leverage Oil and Gas experience and relationships	The Production Sharing Contract at Puerto Escondido/ Yumuri was extended for three years to 2021.

The table below lists Sherritt's Strategic Priorities for 2019. As we execute on our 2019 Strategic Priorities, protecting the health and safety of our employees, contractors and communities will continue to be our top priority. Sherritt's purpose is to be ***a leader in the low-cost production of finished nickel and cobalt that creates sustainable prosperity for our employees, investors and communities***.

Strategic Priorities	2019 Actions
UPHOLD GLOBAL OPERATIONAL LEADERSHIP IN FINISHED NICKEL AND COBALT PRODUCTION FROM LATERITES	Protect the health and safety of all employees in all operations. Achieve peer-leading performance in environmental, health, safety and sustainability. Maximize production of finished nickel and cobalt and improve predictability over 2018 results. Capitalize on growing electric vehicle market by strengthening existing relationships with battery manufacturers. Continue to pursue reductions in controllable costs towards the goal of being consistently in the lowest cash cost quartile. Leverage technical innovation for the purposes of reducing operating costs and identifying new market opportunities.
PRESERVE LIQUIDITY AND BUILD BALANCE SHEET STRENGTH	Continue to emphasize de-leveraging of the balance sheet. Optimize working capital and maximize Cuban energy receivables collection. Maintain a leadership position as a low-cost producer of finished nickel and cobalt while maximizing free cash flow.
OPTIMIZE OPPORTUNITIES IN CUBAN ENERGY BUSINESS	Successfully execute on current Block 10 drilling. Review opportunities to leverage Oil and Gas experience and relationships. Continue to maintain strong relationships in Cuba.

Highlights

MOA JOINT VENTURE OPERATIONS UPDATE

Sherritt's share of finished nickel production at the Moa Joint Venture for the three months ended December 31, 2018 was 4,294 tonnes, up 4% from same period last year. This nickel production improvement was supported by the purchase of new mining equipment in Q2 2018 and the resulting higher mixed sulphides availability despite a reduction in refinery production rates caused by a temporary hydrogen sulphide supply disruption. Finished cobalt production of 428 tonnes was 8% lower compared to Q4 2017 as a result of higher nickel to cobalt ratio in the Moa and third-party feeds.

For the year ended December 31, 2018 finished nickel production of 15,354 tonnes was 3% lower than the prior year as the production increases in the second half of 2018 were offset by lower Moa mixed sulphides production caused by unusually heavy rainfall and the related mining access challenges and a Canadian rail transportation disruption in the first quarter of 2018.

Net direct cash cost of nickel (NDCC) for the three months ended December 31, 2018 was higher compared to the same period in the prior year as a result of higher sulphur and fuel oil prices and lower cobalt credits which more than offset higher nickel sales volumes. For the year ended December 31, 2018 the higher cobalt credit more than offset higher sulphur, fuel oil, and third-party feed prices.

Sales of cobalt were lower in Q4 2018 compared to the same period in the prior year as a result of the lower production and a softening of the spot market.

OIL AND GAS BLOCK 10 UPDATE

Based on a decision to prudently manage drilling and exploration costs, drilling on Block 10 has been suspended to enable the completion of additional analysis of the geological conditions between the upper and lower target reservoir.

To date, third-party industry experts have completed detailed lab analysis of rock cuttings collected during previous operations on Block 10. Results of the lab analysis, which indicated that the rock formation between the upper and lower target reservoirs has unique characteristics, are currently being used with the assistance of other third-party experts to adjust drilling parameters, including modifying the drilling fluid and making use of casing while drilling technology that addresses the challenges of well-bore degradation and fractured zones experienced to date.

Drilling on Block 10 will resume at the end of March with the new drilling parameters, and is expected to be completed in the second quarter of 2019. The adoption of new drilling parameters will not result in any increases to planned capital spending previously disclosed for the Oil and Gas business. Any incremental capital spend at the Oil and Gas business in 2019 will be predicated on successful drill results on Block 10 and collections on receivables. Sherritt intends to explore partnerships for further investment in Block 10 following completion of the current drilling.

WORKING CAPITAL UPDATE

Cash, cash equivalents and short-term investments at December 31, 2018 were $207.0 million, relatively unchanged from September 30, 2018 and the end of 2017. During Q4 2018, positive operating cash flow from Sherritt's operations and distributions received from the Moa Joint Venture offset the cash usage at Corporate, interest payment on debentures and spending on capital.

During 2018, positive operating cash flow from Sherritt's operations, repayment on advances and the working capital facility and distributions received from the Moa Joint Venture offset cash usage at Corporate, the interest payments on debentures and spending on capital. The funds raised by the issuance of Units in Q1 2018 were primarily used to repurchase debentures. As a result, interest payments on debentures were $6.3 million lower than in 2017.

Cuban energy receipts were higher in the quarter compared to the prior quarter. During the quarter, US$17.4 million of Cuban energy payments were received compared to US$14.0 million in Q3 2018. Total Cuban overdue scheduled receivables were US$152.5 million at December 31, 2018 compared to US$147.8 million at September 30, 2018 and US$132.6 million at December 31, 2017.

Subsequent to year end, the Corporation reached an agreement in principle, subject to final approvals, with Cuban partner on a payment plan to reduce overdue receivables.

ADMINISTRATIVE EXPENSES

Administrative expenses were $31.0 million for the year. Excluding the benefit of stock based compensation revaluation, savings of $6.1 million were achieved in administrative expenses in 2018 compared to 2017. These savings were achieved through various cost-savings initiatives, including lower consulting fees, reduced employee costs and the relocation of the Toronto corporate office.

AMBATOVY FUNDING

Sherritt's escrow account to cover funding requirements of the Ambatovy Joint Venture was depleted following a cash call in October 2018. The escrow account was established as a requirement of the Ambatovy restructuring completed in December 2017. Any future cash funding requirements will depend on Ambatovy's production as well as prevailing commodity prices among other items. If additional cash funding is required, Sherritt does not anticipate providing any such funding based on Ambatovy's current debt structure.

Financial results[1][2]

$ millions, except as otherwise noted	For the three months ended **2018** **December 31**	2017 December 31	Change	For the years ended **2018** **December 31**	2017 December 31	Change
FINANCIAL HIGHLIGHTS						
Revenue	**$ 37.1**	$ 54.8	(32%)	**$ 152.9**	$ 267.3	(43%)
Combined revenue[3]	**166.1**	223.8	(26%)	**701.9**	917.5	(23%)
(Loss) earnings from operations, joint venture and associate	**(43.9)**	606.5	(107%)	**(60.6)**	440.8	(114%)
Net (loss) earnings from continuing operations	**(69.1)**	552.9	(112%)	**(80.2)**	308.9	(126%)
Earnings (loss) from discontinued operations, net of tax	**16.0**	(15.1)	206%	**16.0**	(15.1)	206%
Net (loss) earnings for the period	**(53.1)**	537.8	(110%)	**(64.2)**	293.8	(122%)
Adjusted net loss from continuing operations[3]	**(20.8)**	(50.2)	59%	**(50.5)**	(317.1)	84%
Adjusted EBITDA[3]	**17.7**	49.6	(64%)	**144.2**	149.8	(4%)
Net (loss) earnings per share (basic) ($ per share)						
Net (loss) earnings from continuing operations	**(0.17)**	1.85	(109%)	**(0.21)**	1.04	(120%)
Net (loss) earnings for the period	**(0.13)**	1.80	(107%)	**(0.16)**	0.99	(116%)
Net (loss) earnings per share (diluted) ($ per share)						
Net (loss) earnings from continuing operations	**(0.17)**	1.80	(109%)	**(0.21)**	1.02	(121%)
Net (loss) earnings for the period	**(0.13)**	1.75	(107%)	**(0.16)**	0.97	(116%)
CASH						
Cash, cash equivalents and short-term investments	**$ 207.0**	$ 203.0	2%	**$ 207.0**	$ 203.0	2%
Cash provided (used) by continuing operating activities	**12.6**	(33.9)	137%	**7.4**	(9.6)	177%
Combined adjusted operating cash flow[3]	**(12.6)**	15.7	(180%)	**32.8**	50.7	(35%)
Combined free cash flow[3]	**6.4**	(41.2)	116%	**(7.5)**	(62.1)	88%
OPERATIONAL DATA						
SPENDING ON CAPITAL AND INTANGIBLE ASSETS	**$ 25.4**	$ 25.0	2%	**$ 81.3**	$ 86.0	(5%)
PRODUCTION VOLUMES						
Moa Joint Venture (50% basis, tonnes)						
Finished nickel	**4,294**	4,134	4%	**15,354**	15,762	(3%)
Finished cobalt	**428**	465	(8%)	**1,617**	1,801	(10%)
Ambatovy Joint Venture (12%[4]basis, tonnes)						
Finished nickel	**1,253**	1,105	13%	**3,982**	4,257	(6%)
Finished cobalt	**106**	88	21%	**342**	366	(7%)
Oil (boepd, NWI production)[5]	**1,597**	6,101	(74%)	**2,209**	7,856	(72%)
Electricity (gigawatt hours) (33⅓% basis)	**184**	201	(8%)	**781**	848	(8%)
AVERAGE EXCHANGE RATE (CAD/USD)	**1.320**	1.271	4%	**1.296**	1.299	-
AVERAGE-REALIZED PRICES[3]						
Moa Joint Venture ($ per pound)						
Nickel	**$ 6.84**	$ 6.72	2%	**$ 7.75**	$ 6.14	26%
Cobalt	**38.43**	38.78	(1%)	**46.23**	32.98	40%
Ambatovy Joint Venture ($ per pound)						
Nickel	**7.59**	6.56	16%	**7.87**	$ 6.05	30%
Cobalt	**38.07**	39.03	(2%)	**45.30**	33.35	36%
Oil ($ per boe, NWI)[5]	**50.47**	47.48	6%	**50.74**	42.90	18%
Electricity ($ per megawatt hour)	**55.34**	54.01	2%	**54.31**	55.15	(2%)
UNIT OPERATING COSTS[3]						
Moa Joint Venture (US$ per pound)(NDCC)	**$ 2.94**	$ 1.80	63%	**$ 2.24**	$ 2.35	(5%)
Ambatovy Joint Venture (US$ per pound)(NDCC)	**3.66**	3.27	12%	**3.91**	3.83	2%
Oil ($ per boe, GWI)[5]	**31.32**	12.95	142%	**22.54**	10.52	114%
Electricity ($ per megawatt hour)	**21.09**	23.43	(10%)	**20.28**	19.29	5%

(1) Sherritt's share of financial results for the Ambatovy Joint Venture reflects its ownership interest at 40% to December 10, 2017 and 12% thereafter.

(2) The amounts for the periods ended December 31, 2018 have been prepared in accordance with IFRS 9 and IFRS 15; prior year periods amounts have not been restated. Refer to note 3 in the audited consolidated financial statements for the year ended December 31, 2018 for further information.

(3) For additional information see the Non-GAAP measures section.

(4) To allow for easier comparison, Ambatovy production volume information for the periods ended December 31, 2017 are presented on a 12% basis.

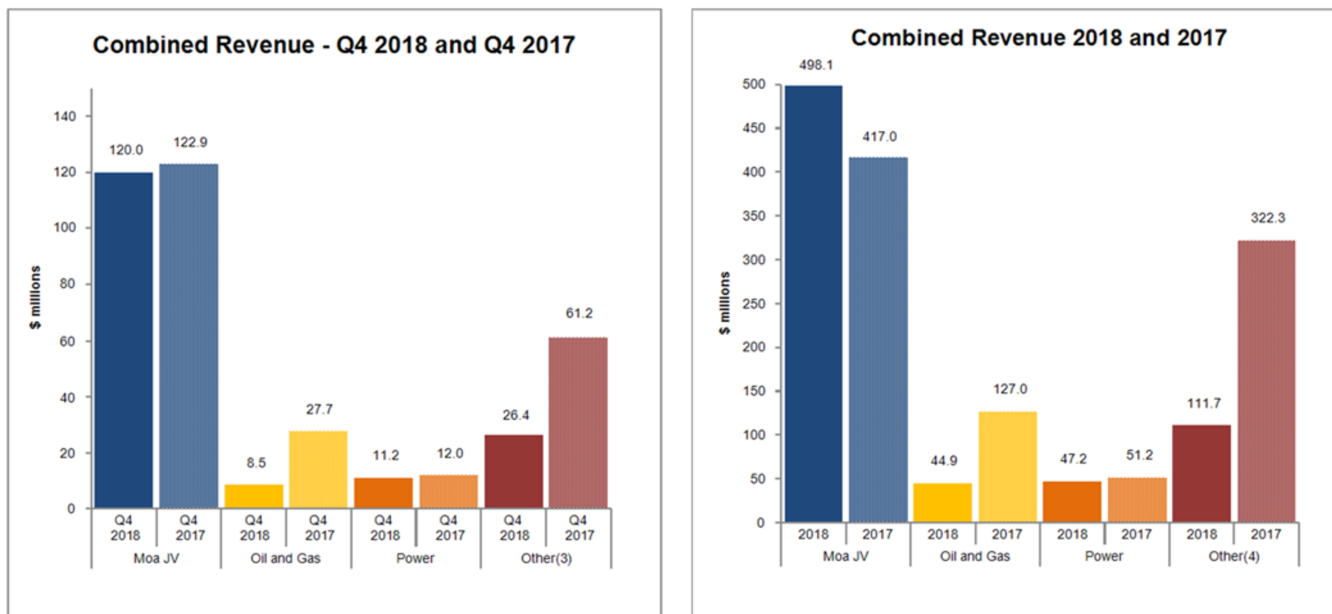
(5) Net working-interest (NWI); gross working-interest (GWI); barrels of oil equivalent per day (boepd); barrels of oil equivalent (boe).

Revenue for accounting purposes, which excludes revenue from the Moa and Ambatovy joint ventures, was lower for the three months and year ended December 31, 2018 compared to the same periods in the prior year primarily due to lower oil production and sales volume which more than offset higher realized prices.

Total combined revenue[1][2] was $166.1 million and $701.9 million, respectively, for the three months and year ended December 31, 2018 compared to $223.8 million and $917.5 million for the same periods in the prior year.

The prior year periods included recognition of the Ambatovy Joint Venture revenue on a 40% basis to December 10, 2017.

Combined revenue is composed of the following:



(1) For additional information see the Non-GAAP measures section.

(2) Sherritt's share of financial and operating results for the Ambatovy Joint Venture reflects its interest at 40% to December 10, 2017 and 12% thereafter.

(3) Q4 2018 Other includes - Ambatovy Joint Venture - $23.5 million, Other Metals - $2.9 million and Corporate and other - nil. (Q4 2017 Other includes - Ambatovy Joint Venture - $58.1 million, Other Metals - $3.0 million and Corporate and other - $ 0.1 million).

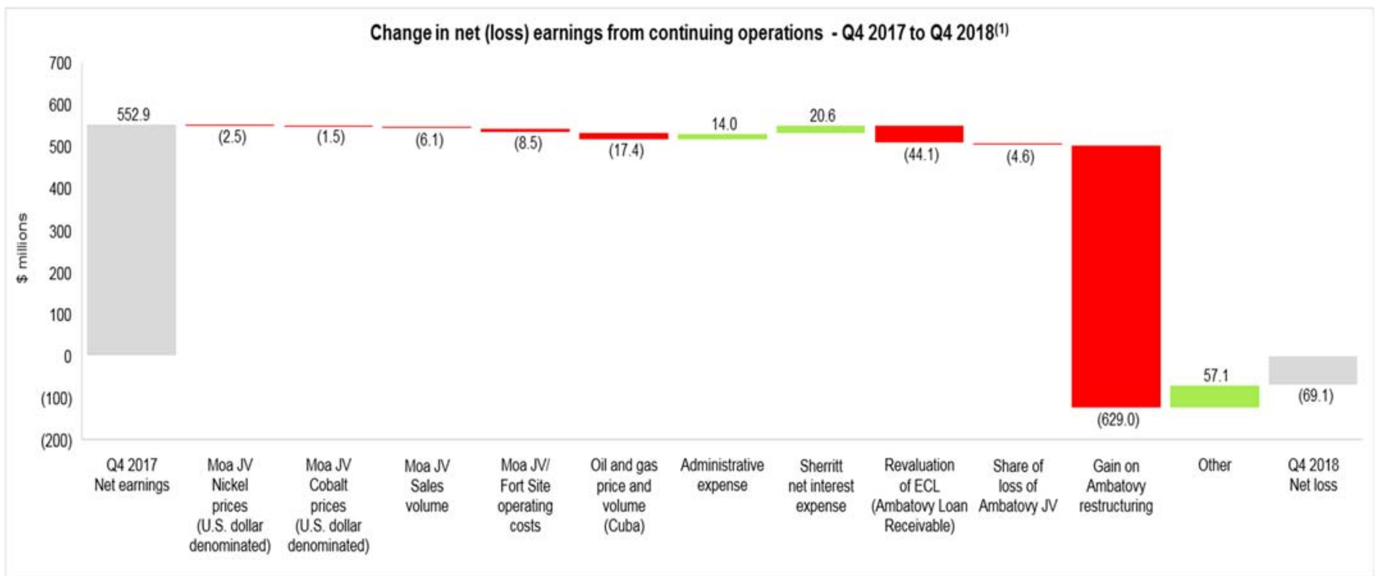
(4) 2018 Other includes - Ambatovy Joint Venture - $101.2 million, Other Metals - $11.0 million and Corporate and other - $ (0.5) million. (2017 Other includes - Ambatovy Joint Venture - $279.2 million, Other Metals - $43.1 million and Corporate and other - nil).

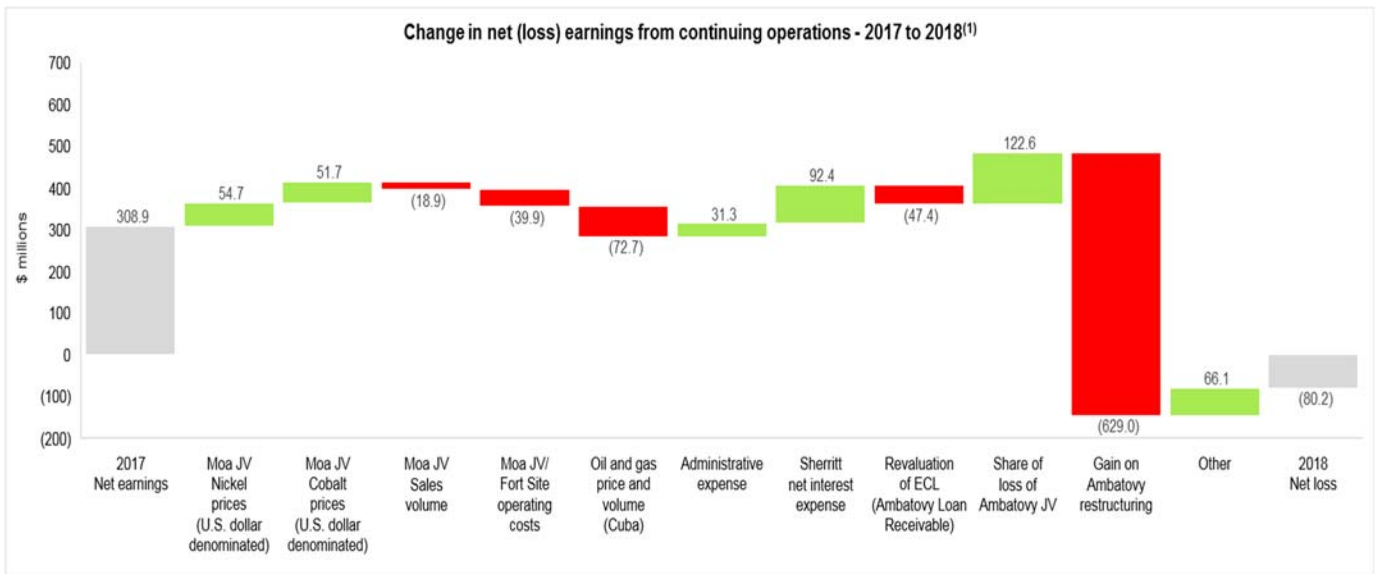
For the three months ended December 31, 2018, the net loss from continuing operations was $69.1 million, or $0.17 per share, compared to earnings of $552.9 million, or $1.85 per share in the same period in the prior year. For the year ended December 31, 2018, the net loss from continuing operations was $80.2 million, or $0.21 per share, compared to earnings of $308.9 million, or $1.04 per share in the prior year. Earnings for the three months and year ended December 31, 2017 were primarily related to the gain recognized on the Ambatovy restructuring which offset operating losses.

Adjusted net loss from continuing operations[1][2] of $20.8 million, or $0.05 per share, and $50.5 million, or $0.13 per share for the three months and year ended December 31, 2018, respectively, compared to an adjusted net loss from continuing operations of $50.2 million, or $0.17 per share, and $317.1 million, or $1.07 per share for the same periods in the prior year, respectively. Significant adjustments to loss/earnings include the gain on Ambatovy restructuring in Q4 2017, a loss on revaluation of expected credit losses under IFRS 9 in Q4 2018 and unrealized foreign exchange gains and losses in each of the current and prior year periods.

For the three months ended December 31, 2018, the net loss of $53.1 million, or $0.13 per share, compared to net earnings of $537.8 million, or $1.80 per share in the same period in the prior year. For the year ended December 31, 2018, net loss was $64.2 million, or $0.16 per share, compared to net earnings $293.8 million, or $0.99 per share in the prior year. The net loss in the current year periods includes earnings from discontinued operations of $16.0 million related to insurance proceeds received in respect to the Corporation's previous Coal operations.

The change in net loss from continuing operations is detailed below:





(1) The amounts for the periods ended December 31, 2018 have been prepared in accordance with IFRS 9 and IFRS 15; prior period amounts have not been restated. Refer to note 3 in the audited consolidated financial statements for the year ended December 31, 2018 for further information.

Reference prices for nickel and cobalt were relatively unchanged in Q4 2018 and were 26% and 41% higher, for the year ended December 31, 2018, respectively, compared to the same periods in the prior year. The average reference price for U.S. Gulf Coast High Sulphur Fuel Oil (USGC HSFO) was 18% and 31% higher in the three months and year ended December 31, 2018, respectively.

For Moa Joint Venture, revenue for the three months ended was relatively unchanged as the revenue resulting from higher nickel sales volume was offset by lower cobalt sales volume. Revenue for the year ended December 31, 2018 was higher compared to the prior year as the higher nickel and cobalt realized prices more than offset the lower finished nickel and cobalt sales volumes. In 2018, the latter half of the year benefited from increased operating efficiencies and better access to planned mining areas while the first half of the year was impacted by weather and transportation issues. Cobalt revenue was lower during 2018 as the nickel to cobalt ratios were higher than in the prior year and a softening of demand for cobalt in the spot market in the latter part of 2018.

Moa Joint Venture operating costs were higher for the current year periods compared to the same periods in the prior year primarily as a result of higher sulphur prices, energy input prices and maintenance costs. Third-party feed costs were lower in the fourth quarter of 2018 and higher in 2018 compared to the same prior year period consistent with the change in reference prices and the nickel/cobalt mix in the mixed sulphides.

At Oil and Gas, lower production volumes more than offset the impact of higher reference prices. Lower production was primarily due to the expiration of the Varadero West PSC in November 2017 and a reduction in profit oil percentage on the renewed Puerto Escondido/Yumuri PSC as well as natural reservoir declines.

Net finance expense was lower in the current year periods primarily due to lower interest expense as a result the extinguishment of approximately $1.4 billion debt as part of the Ambatovy restructuring in December 2017, partially offset by lower interest income on advances to the Ambatovy Joint Venture. Current year periods also benefited from the impact of lower interest expense on the Corporation's senior unsecured debentures as a result of the repurchases made in Q1 and Q2 of 2018 and gains on the revaluation of the Corporation's cobalt-linked warrants. Offsetting these net reductions in expense were non-cash losses on the revaluation of the Ambatovy Joint Venture subordinated loans receivable of $44.1 million and $47.4 million during the three months and year ended December 31, 2018, respectively, resulting from changes in expected repayment.

Lower administrative expenses in the three months and year ended December 31, 2018 compared to the same periods in the prior year were primarily due to stock based compensation recoveries and various cost saving initiatives during the current year periods, including lower consulting fees, reduced employee costs and the relocation of the Toronto corporate office.

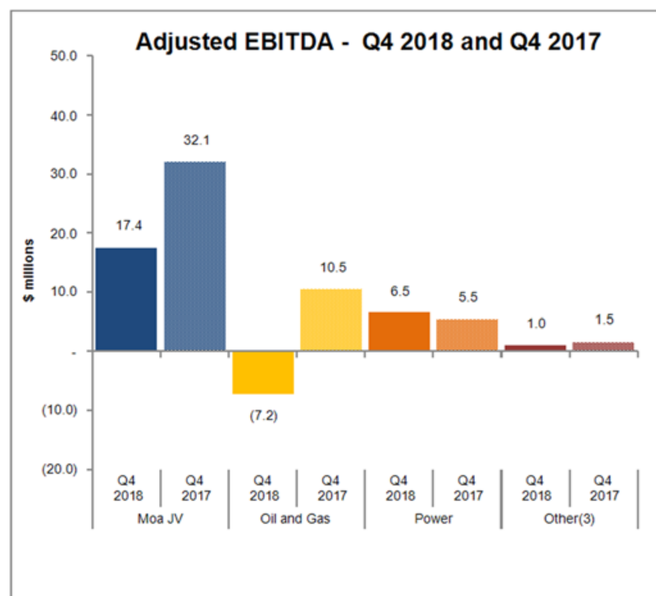
In addition to the reduction in net interest expense associated with Sherritt's significant reduction in Ambatovy related debt, the change in Sherritt's ownership interest in the Ambatovy Joint Venture at the end of 2017 from 40% to 12% reduced the impact of the Ambatovy Joint Venture's net loss on the Corporation's operating results in 2018. The Corporation's loss from associate was $72.4 million in 2018 compared to $195.0 million in 2017 despite higher net losses at the Ambatovy Joint Venture on a 100% basis in 2018.

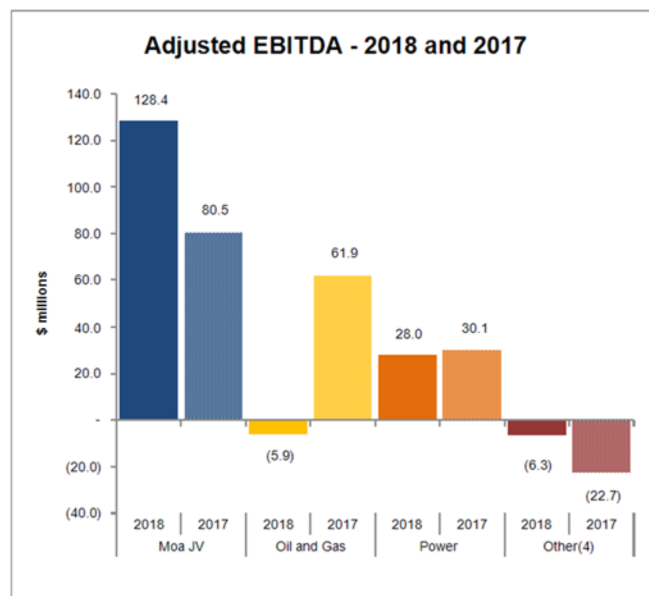
In 2017, as a result of the Ambatovy restructuring, the Corporation realized a gain of $629.0 million which, except for transaction costs of $11.3 million, was non-cash.

Other includes the recognition of an unrealized foreign exchange gains of $20.7 million and $33.3 million in the three months and year ended December 31, 2018, respectively, compared to losses of $24.1 million and $7.7 million for the same periods in the prior year, respectively. Unrealized exchange gains/losses are impacted by the change in period-end exchange rates and the balance of the Corporation's U.S. dollar denominated net assets. In addition, Other includes lower depletion, depreciation and amortization primarily at Oil and Gas on derecognition of assets on the expiry of the Varadero West PSC and the impact of combined income tax expense which was lower in the three months ended December 31, 2018 primarily due to lower income at both the Moa Joint Venture and Oil and Gas and marginally lower for the current year as lower income at Oil and Gas was offset by higher income at the Moa Joint Venture.

ADJUSTED EBITDA

Total Adjusted EBITDA[1][2] for the three months and year ended December 31, 2018 was $17.7 million and $144.2 million, respectively, compared to $49.6 million and $149.8 million, respectively, in the same periods in the prior year. Adjusted EBITDA by business segment is as follows:





(1) For additional information see the Non-GAAP measures section.

(2) Sherritt's share of financial and operating results for the Ambatovy Joint Venture reflects its interest at 40% to December 10, 2017 and 12% thereafter.

(3) Q4 2018 Other includes - Ambatovy Joint Venture - $5.3 million, Other Metals - $0.1 million and Corporate and other - $(4.4) million. (Q4 2017 Other includes - Ambatovy Joint Venture - $18.1 million, Other Metals - nil and Corporate and other - $(16.6) million).

(4) 2018 Other includes - Ambatovy Joint Venture - $18.0 million, Other Metals - $0.8 million and Corporate and other - $(25.1) million. (2017 Other includes - Ambatovy Joint Venture - $26.0 million, Other Metals - $0.9 million and Corporate and other - $(49.6) million).

CONSOLIDATED FINANCIAL POSITION

The following table summarizes the significant items as derived from the consolidated statements of financial position:

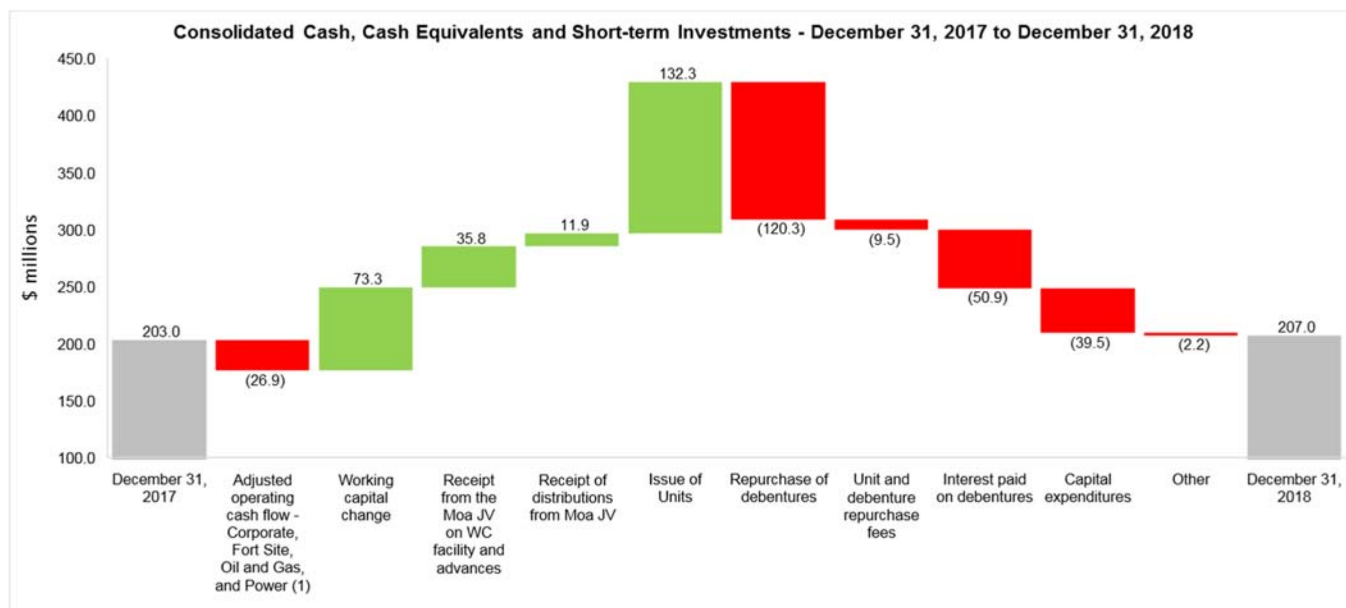
$ millions, except as otherwise noted, as at December 31	2018	2017	Change
Current assets	**$ 498.2**	$ 580.3	(14%)
Current liabilities	**232.3**	245.1	(5%)
Working capital	**265.9**	335.2	(21%)
Current ratio	**2.14:1**	2.37:1	(9%)
Cash, cash equivalents and short-term investments	**$ 207.0**	$ 203.0	2%
Non-current advances, loans receivable and other financial assets	**720.5**	713.0	1%
Investment in a joint venture	**438.0**	367.1	19%
Investment in an associate	**148.1**	211.9	(30%)
Property, plant and equipment	**227.9**	228.5	-
Total assets	**2,194.4**	2,244.8	(2%)
Loans and borrowings	**705.7**	824.1	(14%)
Provisions	**117.2**	110.3	6%
Total liabilities	**1,063.5**	1,188.5	(11%)
Deficit	**(2,534.6)**	(2,427.7)	(4%)
Shareholders' equity	**1,130.9**	1,056.3	7%

(1) The amounts for the year ended December 31, 2018 have been prepared in accordance with IFRS 9 and IFRS 15; prior period amounts have not been restated. Refer to note 3 in the audited consolidated financial statements for the year ended December 31, 2018 for further information.

LIQUIDITY

At December 31, 2018, total available liquidity was $222.1 million which is composed of cash, cash equivalents, short-term investments and $15.1 million of available credit facilities. The total liquidity excludes restricted cash of $2.8 million.

Cash, cash equivalents and short-term investments at December 31, 2018 increased by $4.0 million from December 31, 2017. The components of this change is shown below:



(1) Excludes debenture interest.

The change in consolidated cash, cash equivalents and short-term investments is primarily due to:

- negative adjusted operating cash flow at Oil and Gas, Fort Site and Corporate, partly offset by positive adjusted cash flow at Power;
- positive working capital change primarily due to collections of overdue Cuban energy receivables in excess of current Cuban energy receivables and the receipt of fertilizer customer prepayments;
- payment of interest on the Corporation's debentures which is lower in the first and third quarters based on the timing of payments on it's senior debenture series;
- receipts from the Moa Joint Venture, including repayment on its working capital facility in the first half of 2018, dividend and distribution payments, and repayment of advances in the second half of 2018; and
- capital expenditures which primarily relate to drilling activities on Block 10.

The dividends and distributions from the Moa Joint Venture to Sherritt of $11.9 million in the second half of 2018 reflect payments of free cash in the Joint Venture and were the first such dividend or distributions since the first quarter of 2015.

Outlook

2019 PRODUCTION, OPERATING COST AND CAPITAL SPENDING GUIDANCE

Production volumes, unit operating costs and spending on capital	2018 Guidance	Year-to-date actual at December 31, 2018	2019 Guidance
Production volumes			
Moa Joint Venture (tonnes, 100% basis)			
Nickel, finished [1]	30,500 - 31,000	30,708	31,000 - 33,000
Cobalt, finished[1]	3,250 - 3,400	3,234	3,300 - 3,600
Ambatovy Joint Venture (tonnes, 100% basis)			
Nickel, finished[2]	35,000 - 38,000	33,183	40,000 - 45,000
Cobalt, finished[2]	3,100 - 3,400	2,850	3,500 - 4,000
Oil – Cuba (gross working-interest, bopd)	4,300 - 4,800	4,839	3,800 - 4,100
Oil and Gas – All operations (net working-interest, boepd)[3]	2,300-2,600	2,209	1,800 - 2,100
Electricity (GWh, 33⅓% basis)	750 - 800	781	650 - 700
Unit operating costs			
NDCC (US$ per pound)			
Moa Joint Venture[1][3]	$1.90 - $2.40	$2.24	$3.40 - $3.90
Ambatovy Joint Venture[1][2]	$3.75 - $4.25	$3.91	$3.80 - $4.30
Oil and Gas - Cuba (unit operating costs, $ per barrel)	$22.00 - $23.50	$20.21	$25.00 - $26.50
Electricity (unit operating cost, $ per MWh)	$20.75 - $21.50	$20.28	$25.25 - $26.75
Spending on capital (US$ millions)			
Moa Joint Venture (50% basis), Fort Site (100% basis)[4][1]	US$31 (CDN$40)	US$29 (CDN$37)	US$40 (CDN$54)
Ambatovy Joint Venture (12% basis)	US$13 (CDN$17)	US$12 (CDN$15)	US$10 (CDN$14)
Oil and Gas [1][2]	US$29 (CDN$37)	US$20 (CDN$26)	US$21 (CDN$28)
Power (33⅓% basis)	US$1 (CDN$1)	US$1 (CDN$1)	US$1 (CDN$1)
Spending on capital (excluding Corporate)	US$74 (CDN$95)	US$62 (CDN$79)	US$72 (CDN$97)

(1) 2018 guidance was updated September 30, 2018.
(2) 2018 guidance was updated June 30, 2018.
(3) 2018 guidance was updated March 31, 2018.
(4) Spending is 50% of US$ expenditures for Moa JV and 100% expenditures for Fort Site fertilizer and utilities.

Significant factors influencing operations

METAL MARKETS

Nickel

Nickel prices softened in Q4 2018, slowing the momentum established over the past year when nickel reached a high of US$7.26/lb. The average-reference price in Q4 2018 was US$5.20/lb, down from US$6.01/lb in the preceding quarter.

The downward price pressure was driven by a number of developments. The most notable being ongoing concerns that the international trade dispute between the U.S. and China would weaken global demand for nickel. Initial market reaction to news of a planned facility in Indonesia that is expected to produce 50,000 tonnes per year of battery-grade material also contributed to softening nickel prices. Market reaction to the construction timelines and funding requirements to build the high pressure acid leach facility has since become skeptical. Increased availability of nickel pig iron supply was another contributing factor in weakening nickel prices.

The softening of prices belied the strong underlying nickel fundamentals. Combined nickel inventories on the London Metals Exchange and the Shanghai Futures Exchange at the end of Q4 2018 totaled 219,804 tonnes, down 8% from the combined total of 240,066 tonnes at the end of Q3 2018. The Class 1 nickel inventory decline in 2018 was even more dramatic at 55%. As demand continues to exceed available supply, the nickel market is anticipated to be in a structural deficit in the coming years. Since the start of Q1 2019, nickel prices have risen approximately 12%.

Demand for nickel will continue to be driven by the stainless steel sector. According to market research by CRU, stainless steel demand is expected to grow at an average annual rate of approximately 4% through 2022 with production emanating largely from China and Indonesia. Demand for nickel – particularly Class 1 nickel – from non-stainless steel sectors is also expected to accelerate given the growth of the electric vehicle battery market. Class I nickel, along with cobalt, are key metals needed to manufacture electric vehicle batteries.

Beyond 2018, a shortage of Class 1 nickel is anticipated over the coming years since current market prices are below incentive levels needed to develop new nickel projects. As a result, no new Class 1 nickel supply is expected to come on stream in the near term.

Cobalt

Cobalt prices experienced continued softness in Q4 2018. Consistent with developments earlier in the year, the price decline was driven by increased supply of intermediate product from the Democratic Republic of Congo as well as by the destocking of inventory by Chinese consumers. The average-reference price for Q4 2018 was US$32.23/lb, down from US$35.21/lb in the preceding quarter.

Low physical demand and current cobalt oversupply is likely to keep market conditions relatively volatile in the near term. The recent softening of prices is expected to be temporary due to the growing demand from the electric vehicle battery market and persistent supply risk concerns linked to the Democratic Republic of Congo, which is currently the world's largest source of cobalt supply.

High cobalt prices are not expected to cause supply-chain disruptions or delay the growth of the electric vehicle market given that cobalt prices represent a relatively small percentage of the overall battery pack costs. As a result, the potential for removing cobalt from electric vehicle battery production in the near term is relatively low especially since cobalt's unique properties give batteries energy stability. While battery manufacturers continue to explore alternatives to existing electric vehicle battery chemistry, particularly to increase the battery's energy density, the likely beneficiary of any changes is expected to be Class I nickel.

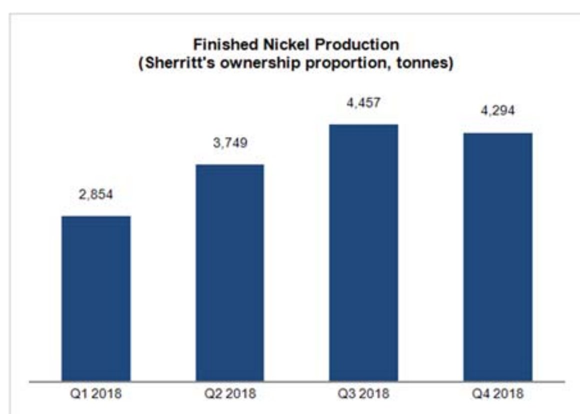
Review of operations

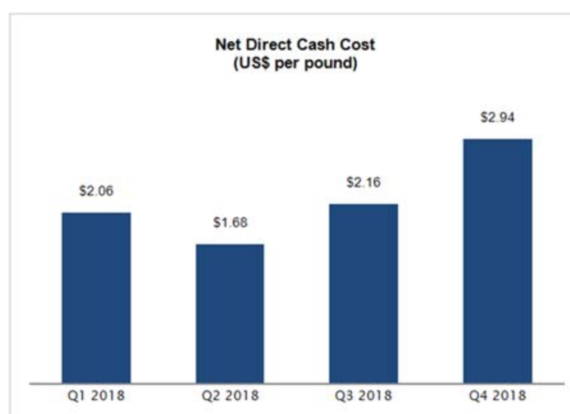
MOA JOINT VENTURE AND FORT SITE

	For the three months ended					For the years ended				
		2018		2017			2018		2017	
$ millions, except as otherwise noted		December 31		December 31	Change		December 31		December 31	Change
FINANCIAL HIGHLIGHTS										
Revenue	**$**	**120.0**	$	122.9	(2%)	**$**	**498.1**	$	417.0	19%
Earnings from operations		**5.4**		19.9	(73%)		**78.9**		31.3	152%
Adjusted EBITDA[1]		**17.4**		32.1	(46%)		**128.4**		80.5	60%
CASH FLOW										
Cash provided by operations	**$**	**50.2**	$	32.5	54%	**$**	**90.7**	$	58.3	56%
Adjusted operating cash flow[1]		**13.4**		32.4	(59%)		**106.3**		72.9	46%
Free cash flow[1]		**39.3**		24.9	58%		**57.8**		37.4	55%
PRODUCTION VOLUMES (tonnes)										
Mixed Sulphides		**4,594**		4,090	12%		**17,563**		17,297	2%
Finished Nickel		**4,294**		4,134	4%		**15,354**		15,762	(3%)
Finished Cobalt		**428**		465	(8%)		**1,617**		1,801	(10%)
Fertilizer		**64,573**		61,923	4%		**226,989**		243,682	(7%)
NICKEL RECOVERY (%)		**84%**		79%	6%		**83%**		85%	(2%)
SALES VOLUMES (tonnes)										
Finished Nickel		**4,291**		4,129	4%		**15,273**		15,679	(3%)
Finished Cobalt		**392**		480	(18%)		**1,572**		1,783	(12%)
Fertilizer		**46,924**		51,141	(8%)		**163,698**		178,491	(8%)
AVERAGE REFERENCE PRICES (US$ per pound)										
Nickel	**$**	**5.20**	$	5.25	(1%)	**$**	**5.95**	$	4.72	26%
Cobalt[2]		**32.23**		31.60	2%		**37.35**		26.53	41%
AVERAGE REALIZED PRICE[1]										
Nickel ($ per pound)	**$**	**6.84**	$	6.72	2%	**$**	**7.75**	$	6.14	26%
Cobalt ($ per pound)		**38.43**		38.78	(1%)		**46.23**		32.98	40%
Fertilizer ($ per tonne)		**384**		348	11%		**388**		361	7%
UNIT OPERATING COST[1] (US$ per pound)										
Nickel - net direct cash cost (NDCC)	**$**	**2.94**	$	1.80	63%	**$**	**2.24**	$	2.35	(5%)
SPENDING ON CAPITAL										
Sustaining	**$**	**10.5**	$	7.7	36%	**$**	**37.0**	$	20.9	77%
	$	**10.5**	$	7.7	36%	**$**	**37.0**	$	20.9	77%

(1) For additional information see the Non-GAAP measures section.

(2) Average low-grade cobalt published price per Fastmarkets MB (formerly Metals Bulletin).





Revenue, cost of sales and NDCC are composed of the following:

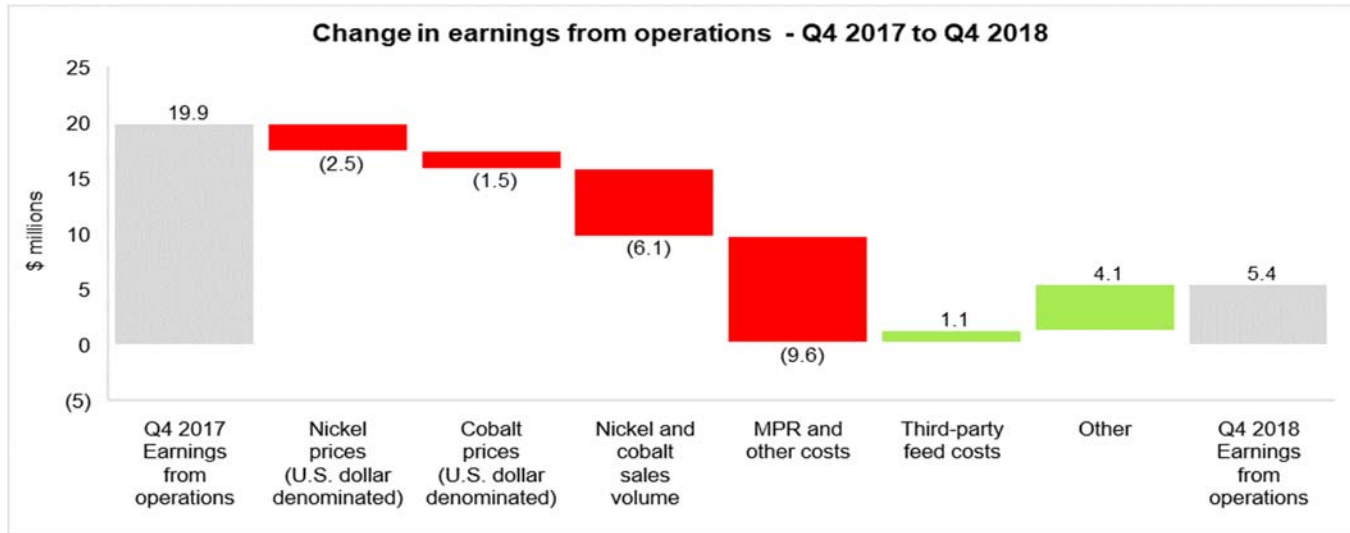
$ millions	For the three months ended 2018 December 31	2017 December 31	Change	For the years ended 2018 December 31	2017 December 31	Change
REVENUE						
Nickel	**$ 64.7**	$ 61.2	6%	**$ 260.8**	$ 212.4	23%
Cobalt	**33.2**	41.0	(19%)	**160.2**	129.6	24%
Fertilizers	**18.1**	17.8	2%	**63.6**	64.5	(1%)
Other	**4.0**	2.9	38%	**13.5**	10.5	29%
	$ 120.0	$ 122.9	(2%)	**$ 498.1**	$ 417.0	19%
COST OF SALES(1)						
Mining, processing and refining	**$ 66.3**	$ 54.1	23%	**$ 231.8**	$ 210.1	10%
Third-party feed costs	**5.7**	6.3	(10%)	**27.6**	19.3	43%
Fertilizers	**13.4**	14.5	(8%)	**52.5**	53.0	(1%)
Selling costs	**4.4**	4.4	-	**16.4**	16.9	(3%)
Other	**9.7**	8.5	14%	**33.4**	27.8	20%
	$ 99.5	$ 87.8	13%	**$ 361.7**	$ 327.1	11%
NET DIRECT CASH COST(2) (US$ per pound of nickel)						
Mining, processing and refining (MPR) costs	**$ 5.34**	$ 4.89	9%	**$ 5.37**	$ 4.80	12%
Third-party feed costs	**0.43**	0.54	(20%)	**0.63**	0.43	47%
Cobalt by-product credits	**(2.65)**	(3.54)	25%	**(3.67)**	(2.90)	(27%)
Other(3)	**(0.18)**	(0.09)	(100%)	**(0.09)**	0.02	(550%)
	$ 2.94	$ 1.80	63%	**$ 2.24**	$ 2.35	(5%)

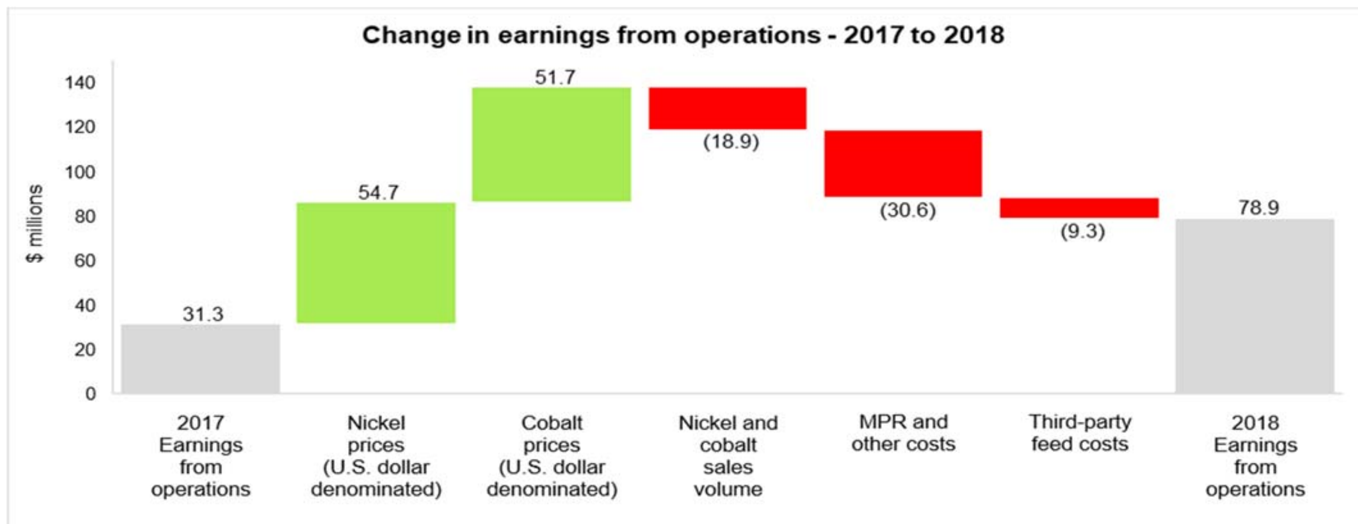
(1) Excludes depletion, depreciation and amortization

(2) For additional information see the Non-GAAP measures section.

(3) Includes the Moa Joint Venture and Fort Site refinery fertilizer by-product profit or loss and marketing costs, discounts, and other by-product credits.

The change in earnings from operations is detailed below:





Reference prices for nickel and cobalt were relatively unchanged in Q4 2018 compared to Q4 2017 while full year reference prices for nickel and cobalt were 26% and 41% higher, respectively, compared to 2017. Realized prices were positively impacted by a weaker Canadian dollar relative to the U.S. dollar in Q4 2018 compared to Q4 2017, while the full year exchange rate impact was minimal year over year.

Mixed sulphide production from Moa was higher for the three months and year ended December 31, 2018 primarily as a result of the deployment of new mining equipment in the second and third quarters of 2018 which significantly improved ore access compared to the same period in the prior year. In addition, Q4 2017 was impacted by unusually heavy rainfall. With the current inventory of mixed sulphides and ore stockpile, it is not anticipated that the refinery will experience any supply-related production disruptions during the 2019 wet season at Moa.

Nickel recovery rates were higher in Q4 2018 compared to Q4 2017 due to increased operating efficiencies and improved access to planned mining areas. Q4 2017 nickel recovery rates were impacted by poor mining fleet availability and weather-related ore access issues. For the full year, nickel recovery rates were lower in 2018 compared to the prior year, as ore access issues persisted through the first half of 2018 resulted in higher feed ore impurities, more than offsetting the production improvements in the second half of 2018.

Finished nickel production was higher in the three months ended December 31, 2018 compared to the same period in the prior year reflecting higher mixed sulphides availability partly offset by a reduction in refinery production rates caused by a temporary hydrogen sulphide supply disruption. However, for the full year ended December 31, 2018 finished nickel production was lower than the prior year as the production increases in the second half of 2018 were offset by the lower production in the first half as a result of lower Moa mixed sulphides production and Canadian rail transportation issues in the first quarter of 2018.

Finished cobalt production was lower in the three months and year ended December 31, 2018 compared to the same periods in the prior year primarily as a result of higher nickel to cobalt ratio in mixed sulphides produced at Moa and third-party feed.

Net direct cash cost of nickel (NDCC) for the three months ended December 31, 2018 was higher compared to the same period in the prior year as a result of higher sulphur and fuel oil prices and lower cobalt credits as a result of lower finished cobalt sales which more than offset higher nickel sales volumes. For full year ended December 31, 2018 the higher cobalt credit more than offset higher sulphur, fuel oil, and third-party feed prices.

Fertilizer's contribution to operating earnings for the three months and year ended December 31, 2018 was relatively unchanged compared to the same periods in the prior year. Other costs for the year ended December 31, 2018 includes higher royalties primarily as a result of higher nickel and cobalt reference prices.

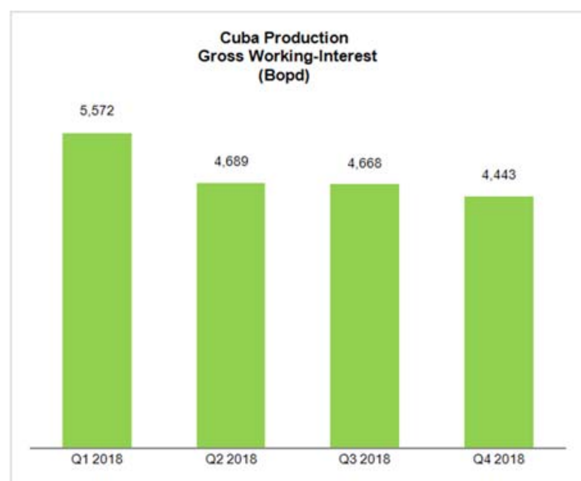
Sustaining capital spending in the three months and year ended December 31, 2018 was higher compared to the same periods in the prior year due to higher planned spending including the purchase of mining equipment in the second and third quarters and construction of the new slurry preparation plant dump pocket at Moa, which was commissioned in January 2019.

OIL AND GAS

$ millions, except as otherwise noted	For the three months ended 2018 December 31	2017 December 31	Change	For the years ended 2018 December 31	2017 December 31	Change
FINANCIAL HIGHLIGHTS						
Revenue	**$ 8.5**	$ 27.7	(69%)	**$ 44.9**	$ 127.0	(65%)
(Loss) earnings from operations	**(10.4)**	7.9	(232%)	**(17.0)**	33.6	(151%)
Adjusted EBITDA[1]	**(7.2)**	10.5	(169%)	**(5.9)**	61.9	(110%)
CASH FLOW						
Cash provided (used) by operations	**$ 13.1**	$ (2.3)	670%	**$ 31.7**	$ 30.8	3%
Adjusted operating cash flow[1]	**(5.4)**	10.2	(153%)	**(19.9)**	49.9	(140%)
Free cash flow[1]	**3.1**	(9.9)	131%	**3.7**	8.9	(58%)
PRODUCTION AND SALES[2]						
Gross working-interest (GWI) - Cuba	**4,443**	10,378	(57%)	**4,839**	13,479	(64%)
Total net working-interest (NWI)	**1,597**	6,101	(74%)	**2,209**	7,856	(72%)
AVERAGE REFERENCE PRICES (US$ per barrel)						
West Texas Intermediate (WTI)	**$ 59.98**	$ 55.19	9%	**$ 65.20**	$ 50.78	28%
U.S. Gulf Coast High Sulphur Fuel Oil (USGC HSFO)	**62.33**	52.81	18%	**61.45**	47.02	31%
Brent	**68.13**	61.77	10%	**71.16**	54.18	31%
AVERAGE-REALIZED PRICES[1] (per NWI)						
Cuba ($ per barrel)	**$ 62.72**	$ 48.82	28%	**$ 56.47**	$ 43.81	29%
Spain ($ per barrel)	**94.47**	78.91	20%	**92.25**	69.89	32%
Pakistan ($ per boe)[2]	**10.90**	10.11	8%	**10.59**	10.34	2%
Weighted-average ($ per boe)[2]	**50.47**	47.48	6%	**50.74**	42.90	18%
UNIT OPERATING COSTS[1][2] (per GWI)						
Cuba	**$ 25.16**	$ 12.24	106%	**$ 20.21**	$ 9.78	107%
Spain	**251.53**	44.78	462%	**96.43**	47.17	104%
Pakistan	**8.80**	6.95	27%	**7.11**	6.92	3%
Weighted-average ($ per boepd)	**31.32**	12.95	142%	**22.54**	10.52	114%
SPENDING ON CAPITAL						
Development, facilities and other	**$ -**	$ (1.4)	100%	**$ 1.4**	$ (1.7)	182%
Exploration	**8.4**	8.6	(2%)	**25.0**	21.1	18%
	$ 8.4	$ 7.2	17%	**$ 26.4**	$ 19.4	36%

(1) For additional information see the Non-GAAP measures section.

(2) Oil production is stated in barrels of oil per day (bopd). Natural gas production is stated in barrels of oil equivalent per day (boepd), which is converted at 6,000 cubic feet per barrel. Collectively, oil and natural gas production are stated in barrels of oil equivalent per day (boepd).



$ millions	For the three months ended 2018 December 31	2017 December 31	Change	For the years ended 2018 December 31	2017 December 31	Change
REVENUE						
Cuba	**$ 5.8**	$ 23.9	(76%)	**$ 31.9**	$ 113.3	(72%)
Spain	**1.2**	2.3	(48%)	**7.3**	8.0	(9%)
Pakistan	**0.4**	0.4	-	**1.7**	1.7	-
Processing	**1.1**	1.1	-	**4.0**	4.0	-
	$ 8.5	$ 27.7	(69%)	**$ 44.9**	$ 127.0	(65%)
DAILY PRODUCTION AND SALES VOLUMES (boepd)(1)(2)						
Gross working-interest oil production in Cuba(3)	**4,443**	10,378	(57%)	**4,839**	13,479	(64%)
Net working-interest oil production(4)						
Cuba (heavy oil)						
Cost recovery	**743**	1,208	(38%)	**947**	1,857	(49%)
Profit oil	**256**	4,127	(94%)	**598**	5,230	(89%)
Total	**999**	5,335	(81%)	**1,545**	7,087	(78%)
Spain (light oil)	**137**	312	(56%)	**218**	313	(30%)
Pakistan (natural gas)	**461**	454	2%	**446**	456	(2%)
	1,597	6,101	(74%)	**2,209**	7,856	(72%)

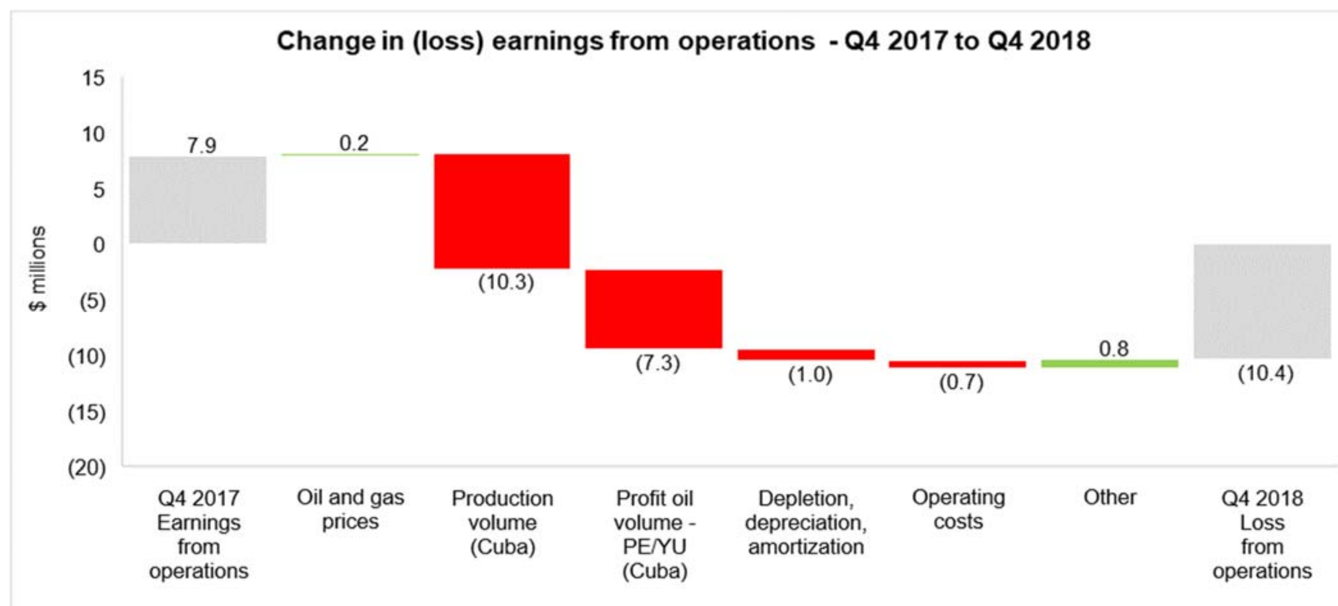
(1) Oil production is stated in barrels of oil per day (bopd). Natural gas production is stated in barrels of oil equivalent per day (boepd), which is converted at 6,000 cubic feet per barrel. Collectively, oil and natural gas production are referred to as boepd.

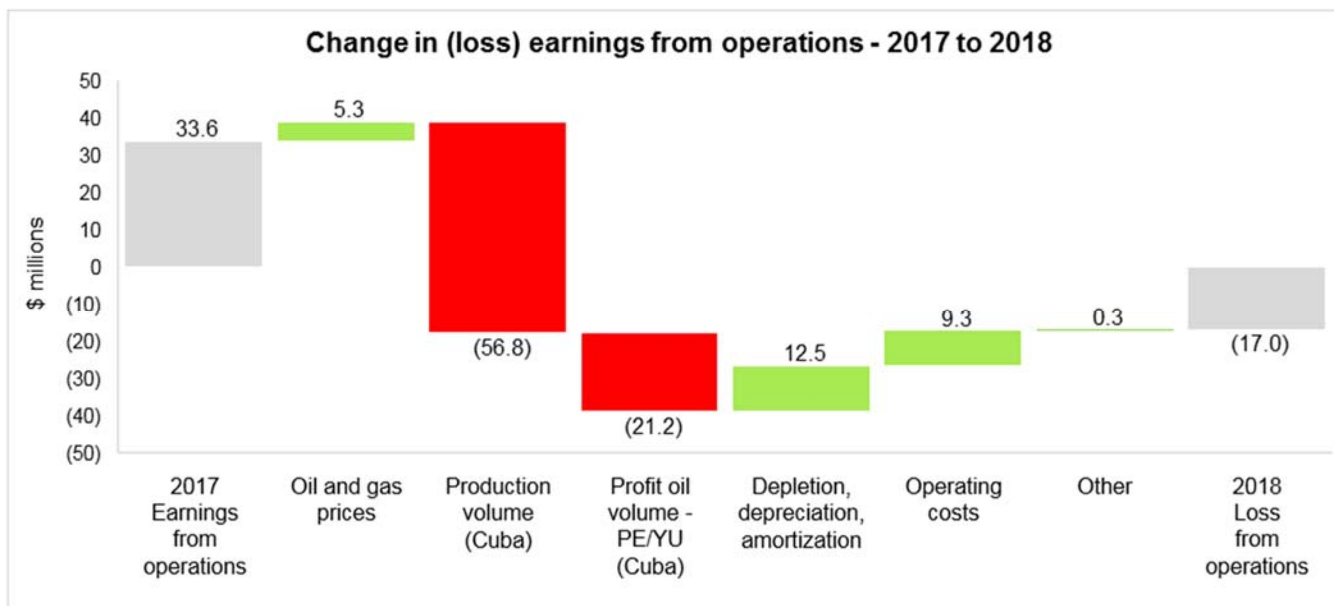
(2) In Cuba, Oil and Gas delivered all of its gross working-interest oil production to CUPET at the time of production.

(3) Gross working-interest oil production is allocated between Oil and Gas and CUPET in accordance with production-sharing contracts. The Corporation's share, referred to as net working-interest production, includes (i) cost recovery oil (based upon the recoverable capital and operating costs incurred by Oil and Gas under each production-sharing contract) and (ii) a percentage of profit oil (gross working-interest production remaining after cost recovery oil is allocated to Oil and Gas). Cost recovery pools for each production-sharing contract include cumulative recoverable costs, subject to certification by CUPET, less cumulative proceeds from cost recovery oil allocated to Oil and Gas. Cost recovery revenue equals capital and operating costs eligible for recovery under the production-sharing contracts.

(4) Net working-interest production (equivalent to net sales volume) represents the Corporation's share of gross working-interest production.

The change in (loss) earnings from operations is detailed below:





Realized prices for oil in the three months and year ended December 31, 2018 were higher than in the same periods in the prior year reflecting higher market prices. Realized prices were positively impacted by a weaker Canadian dollar relative to the U.S. dollar in Q4 2018 compared to Q4 2017, while the full year exchange rate impact was minimal year over year.

GWI production in Cuba was lower for the three months and year ended December 31, 2018 compared to the same periods in the prior year primarily due to the expiry of the Varadero West PSC (VDW) in November 2017 plus natural reservoir declines and the absence of new development drilling. Cuba cost recovery and profit oil production and revenue were all lower accordingly. Lower cost recovery oil production was also impacted by higher oil prices in the current year periods. Profit oil production, which represents Sherritt's share of production after cost recovery volumes are deducted from GWI volumes, was additionally impacted in the current year periods as Sherritt's profit oil percentage was reduced to 6% from 45% as per the terms of the renewal of the Puerto Escondido/Yumuri PSC (PE/YU). Renewal of this PSC allowed Sherritt to retain access to equipment and personnel, some of which is being used to support drilling in Block 10.

Operating costs, including maintenance, workover costs and treatment and transportation costs were lower; however, unit operating costs in Cuba were higher in the three months and year ended December 31, 2018 compared to the same periods in the prior year as lower costs were more than offset by the impact of lower production. Unit operating costs in Spain were higher in the three months and year ended December 31, 2018 compared to the same periods due to lower production and higher operating costs. Overall, costs were negatively impacted by a weaker Canadian dollar relative to the U.S. dollar in Q4 2018 compared to Q4 2017, while the full year exchange rate impact was minimal year over year.

Exploration spending was higher for 2018 and relatively unchanged for Q4 2018 compared to the same periods in the prior year related to the timing of expenditures on drilling activities on Block 10.

Based on a decision to prudently manage drilling and exploration costs, drilling on Block 10 has been suspended to enable the completion of additional analysis of the geological conditions between the upper and lower target reservoir.

To date, third-party industry experts have completed detailed lab analysis of rock cuttings collected during previous operations on Block 10. Results of the lab analysis, which indicated that the rock formation between the upper and lower target reservoirs has unique characteristics, are currently being used with the assistance of other third-party experts to adjust drilling parameters, including modifying the drilling fluid and making use of casing while drilling technology that addresses the challenges of well-bore degradation and fractured zones experienced to date.

Drilling on Block 10 will resume at the end of March with the new drilling parameters, and is expected to be completed in the second quarter of 2019. The adoption of new drilling parameters will not result in any increases to planned capital spending previously disclosed for the Oil and Gas business. Any incremental capital spend at the Oil and Gas business in 2019 will be predicated on successful drill results on Block 10 and collections on receivables. Sherritt intends to explore partnerships for further investment in Block 10 following completion of the current drilling.

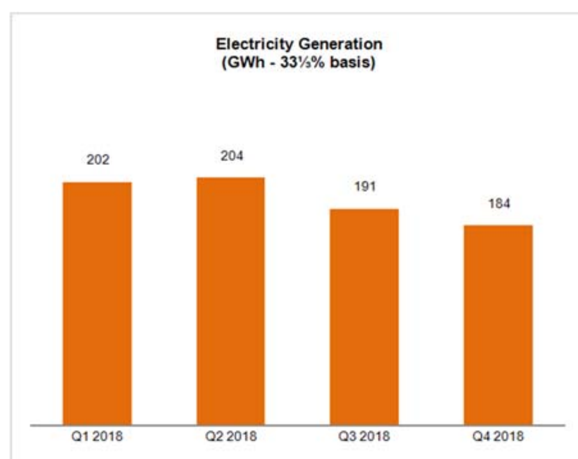
POWER

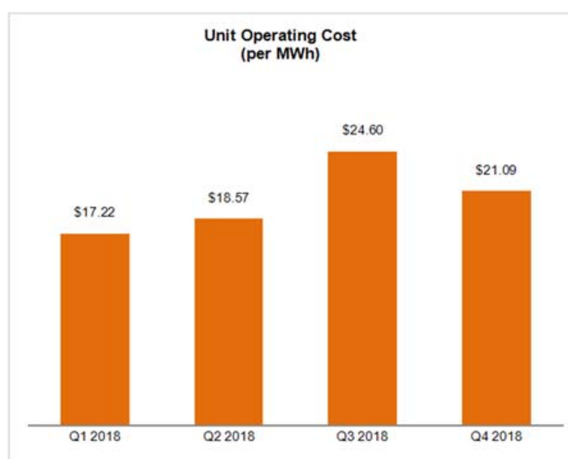
$ millions (331/3% basis), except as otherwise noted		For the three months ended 2018 December 31		2017 December 31	Change		For the years ended 2018 December 31		2017 December 31	Change
FINANCIAL HIGHLIGHTS										
Revenue	**$**	**11.2**	$	12.0	(7%)	**$**	**47.2**	$	51.2	(8%)
Earnings (loss) from operations		**(0.3)**		(0.6)	50%		**2.8**		5.2	(46%)
Adjusted EBITDA[1]		**6.5**		5.5	18%		**28.0**		30.1	(7%)
CASH FLOW										
Cash provided by operations	**$**	**5.0**	$	5.4	(7%)	**$**	**34.3**	$	44.5	(23%)
Adjusted operating cash flow[1]		**6.4**		6.4	-		**26.9**		30.9	(13%)
Free cash flow[1]		**4.6**		5.3	(13%)		**33.4**		43.0	(22%)
PRODUCTION AND SALES										
Electricity (GWh[2])		**184**		201	(8%)		**781**		848	(8%)
AVERAGE-REALIZED PRICES[1]										
Electricity (per MWh[2])	**$**	**55.34**	$	54.01	2%	**$**	**54.31**	$	55.15	(2%)
UNIT OPERATING COSTS[1](per MWh)										
Base	**$**	**19.19**	$	20.66	(7%)	**$**	**16.59**	$	16.48	1%
Non-base[3]		**1.90**		2.77	(31%)		**3.69**		2.81	31%
		21.09		23.43	(10%)		**20.28**		19.29	5%
SPENDING ON CAPITAL										
Sustaining	**$**	**0.4**	$	0.1	300%	**$**	**0.9**	$	1.5	(40%)
	$	**0.4**	$	0.1	300%	**$**	**0.9**	$	1.5	(40%)

(1) For additional information see the Non-GAAP measures section.

(2) Gigawatt hours (GWh), Megawatt hours (MWh).

(3) Costs incurred at the Boca de Jaruco and Puerto Escondido facilities that otherwise would have been capitalized if these facilities were not accounted for as service concession arrangements.





Power revenue is composed of the following:

$ millions (331/3% basis)	For the three months ended 2018 December 31	2017 December 31	Change	For the years ended 2018 December 31	2017 December 31	Change
Electricity sales	**$ 10.2**	$ 10.9	(6%)	**$ 42.4**	$ 46.8	(9%)
By-products and other	**1.0**	1.1	(9%)	**4.8**	4.4	9%
	$ 11.2	$ 12.0	(7%)	**$ 47.2**	$ 51.2	(8%)

Electricity production and sales volumes were lower for the three months and year ended December 31, 2018 compared to the same periods in the prior year primarily as a result of lower gas supply. The change in average-realized price of electricity for the three months and year ended December 31, 2018 compared to the same periods in the prior year was due to changes in the Canadian dollar relative to the U.S. dollar.

Unit operating costs were relatively unchanged in both the three months and year ended December 31, 2018 compared to the same periods in the prior year. Some maintenance activities planned for Q4 2018 have been rescheduled for the first quarter of 2019. Costs were negatively impacted by a weaker Canadian dollar relative to the U.S. dollar in Q4 2018 compared to Q4 2017, while the full year exchange rate impact was minimal year over year.

Capital spending was relatively unchanged for the three months and year ended December 31, 2018 compared to the same periods in the prior year.

Investment in the Ambatovy Joint Venture

REVIEW OF OPERATIONS[1]

	For the three months ended			For the years ended		
	2018	2017		**2018**	2017	
$ millions, except as otherwise noted	**December 31**	December 31	Change	**December 31**	December 31	Change
FINANCIAL HIGHLIGHTS						
Revenue	**$ 23.5**	$ 58.1	(60%)	**$ 101.2**	$ 279.2	(64%)
Loss from operations	**(22.6)**	(7.7)	(194%)	**(40.8)**	(109.5)	63%
Adjusted EBITDA[2]	**5.3**	18.1	(71%)	**18.0**	26.0	(31%)
CASH FLOW						
Cash used by operations	**$ (1.8)**	$ (3.4)	47%	**$ (0.8)**	$ (26.7)	97%
Adjusted operating cash flow[2]	**(2.8)**	4.7	(160%)	**2.9**	(5.9)	149%
Free cash flow[2]	**(6.0)**	(20.7)	71%	**(14.1)**	(55.6)	75%
PRODUCTION VOLUMES (tonnes)[3]						
Mixed Sulphides	**1,316**	1,171	12%	**4,331**	4,623	(6%)
Finished Nickel	**1,253**	1,105	13%	**3,982**	4,257	(6%)
Finished Cobalt	**106**	88	21%	**342**	366	(7%)
Fertilizer	**3,187**	3,504	(9%)	**11,321**	13,436	(16%)
NICKEL RECOVERY (%)	**86%**	84%	2%	**86%**	85%	1%
SALES VOLUMES (tonnes)[3]						
Finished Nickel	**1,026**	897	14%	**3,944**	4,224	(7%)
Finished Cobalt	**74**	77	(4%)	**324**	375	(14%)
Fertilizer	**2,411**	2,790	(14%)	**9,822**	12,961	(24%)
AVERAGE REFERENCE PRICES (US$ per pound)						
Nickel	**$ 5.20**	$ 5.25	(1%)	**$ 5.95**	$ 4.72	26%
Cobalt[4]	**32.23**	31.60	2%	**37.35**	26.53	41%
AVERAGE REALIZED PRICE[2]						
Nickel ($ per pound)	**$ 7.59**	$ 6.56	16%	**$ 7.87**	$ 6.05	30%
Cobalt ($ per pound)	**38.07**	39.03	(2%)	**45.30**	33.35	36%
Fertilizer ($ per tonne)	**189**	173	9%	**193**	168	15%
UNIT OPERATING COST[2] (US$ per pound)						
Nickel - net direct cash cost	**$ 3.66**	$ 3.27	12%	**$ 3.91**	$ 3.83	2%
SPENDING ON CAPITAL						
Sustaining	**$ 5.1**	$ 10.0	(49%)	**$ 15.3**	$ 44.2	(65%)
	$ 5.1	$ 10.0	(49%)	**$ 15.3**	$ 44.2	(65%)

(1) Sherritt's share of financial results for the Ambatovy Joint Venture reflects its ownership interest at 40% to December 10, 2017 and 12% thereafter.
(2) For additional information see the Non-GAAP measures section.
(3) To allow for easier comparison, Ambatovy production and sales volume information for the periods ended December 31, 2017 are presented on a 12% basis.
(4) Average low-grade cobalt published price per Fastmarkets MB (formerly Metals Bulletin).

Revenue, cost of sales and NDCC are composed of the following:

	For the three months ended			For the years ended		
	2018	2017		**2018**	2017	
$ millions	**December 31**	December 31	Change	**December 31**	December 31	Change
REVENUE[1]						
Nickel	**$ 16.9**	$ 37.6	(55%)	**$ 67.3**	$ 182.3	(63%)
Cobalt	**6.1**	19.0	(68%)	**31.9**	88.9	(64%)
Fertilizers	**0.5**	1.4	(64%)	**1.9**	7.0	(73%)
Other	**-**	0.1	(100%)	**0.1**	1.0	(90%)
	$ 23.5	$ 58.1	(60%)	**$ 101.2**	$ 279.2	(64%)
COST OF SALES[1][2]						
Mining, processing and refining	**$ 16.8**	$ 38.2	(56%)	**$ 77.6**	$ 227.6	(66%)
Selling costs	**0.6**	2.3	(74%)	**2.1**	11.2	(81%)
Other	**0.6**	2.6	(77%)	**2.5**	7.3	(66%)
	$ 18.0	$ 43.1	(58%)	**$ 82.2**	$ 246.1	(67%)
NET DIRECT CASH COST[3] (US$ per pound of nickel)						
Mining, processing and refining (MPR) costs	**$ 5.76**	$ 5.76	-	**$ 6.79**	$ 6.01	13%
Cobalt by-product credits	**(2.00)**	(2.66)	25%	**(2.98)**	(2.35)	(27%)
Other[4]	**(0.10)**	0.16	(163%)	**0.10**	0.17	(41%)
	$ 3.66	$ 3.26	12%	**$ 3.91**	$ 3.83	2%

(1) Sherritt's share of financial results for the Ambatovy Joint Venture reflects its ownership interest at 40% to December 10, 2017 and 12% thereafter.
(2) Excludes depletion, depreciation and amortization.
(3) For additional information see the Non-GAAP measures section.
(4) Includes selling costs, discounts and other by-product credits.

On December 11, 2017, Sherritt reduced its ownership interest in the Ambatovy Joint Venture from 40% to 12%. For periods ending after December 11, 2017, Sherritt's share of financial and operating results reflect the impact of its reduced ownership interest.

On a 100% basis, finished nickel and cobalt production was higher for the three months ended December 31, 2018 and lower for 2018 compared to the same periods in the prior year. For Q4 2018, production was impacted by unplanned maintenance in the HPAL and Ammonium Sulphate Plant. In Q4 2017, the failure of an economizer in Acid plant 1 reduced nickel production capacity by approximately 50% during November and December. This capacity issue carried into the second quarter of 2018 when the economizer was replaced. Production for 2018 was also impacted by a temporary bottleneck in the PAL circuit caused by highly oxidizing ore and a longer than expected planned shutdown in the third quarter as well as other equipment reliability issues during the year. In addition, in January 2018, Cyclone Ava necessitated a plant shutdown of approximately one month due to damage to equipment and facilities.

Net direct cash cost (NDCC) of nickel was higher in the three months ended December 31, 2018 compared to the same period in the prior year as the lower cobalt credits more than offset the impact of higher sales premiums and higher finished nickel sales volume. For the year ended December 31, 2018, NDCC was relatively unchanged as the higher cobalt credit was offset by the impact of lower sales volume and higher input prices.

Spending on sustaining capital was relatively unchanged on a 100% basis for the three months and year ended December 31, 2018 compared to the same periods in the prior year. Capital spending in the current year periods is primarily related to replacing the economizers, restoring the general condition of the acid plants, fixing corroded equipment and improving plant reliability. During the maintenance shutdown in Q3 2018, the economizer in Acid Plant 2 was replaced as planned. In Q4 2018 the joint venture recorded losses of $15.7 million (12% basis) following a fixed asset physical verification, useful life review and long-term ore stockpile re-valuation.

Sherritt's escrow account to cover funding requirements of the Ambatovy Joint Venture was depleted following a cash call in October 2018. The escrow account was established as a requirement of the Ambatovy restructuring completed in December 2017. Any future cash funding requirements will depend on Ambatovy's production as well as prevailing commodity prices among other items. If additional cash funding is required, Sherritt does not anticipate providing any such funding based on Ambatovy's current debt structure. Refer to the Managing Risk section of this MD&A for further detail on Ambatovy Liquidity and Funding Risk.

Liquidity and capital resources

Total available liquidity at December 31, 2018 was $222.1 million which is composed of available cash, cash equivalents, short term investments and $15.1 million available on the syndicated revolving-term credit facility.

CASH AND SHORT-TERM INVESTMENTS

The Corporation's cash balances are deposited with major financial institutions rated A- or higher by Standard & Poor's, except for institutions located in Madagascar and Cuba that are not rated.

$ millions, as at December 31, 2018	Cash	Cash equivalents and short-term investments	Total
Canada	$ 81.4	$ 41.5	$ 122.9
Cuba	79.1	-	79.1
Other	5.0	-	5.0
	$ 165.5	$ 41.5	$ 207.0

Sherritt's share of cash in the Moa Joint Venture and Ambatovy Joint Venture, not included in the above balances:	
Moa Joint Venture	$ 27.7
Ambatovy Joint Venture	6.8
	$ 34.5

SOURCES AND USES OF CASH

The Corporation's cash flows from operating, investing and financing activities are summarized in the following table as derived from Sherritt's consolidated statements of cash flow.

	For the three months ended			For the years ended		
	2018	2017		**2018**	2017	
$ millions	**December 31**	December 31	Change	**December 31**	December 31	Change
Cash provided (used) by operating activities						
Oil and Gas operating cash flow	**$ 13.1**	$ (2.3)	670%	**$ 31.7**	$ 30.8	3%
Power operating cash flow	**5.0**	5.4	(7%)	**34.3**	44.5	(23%)
Fort Site operating cash flow	**21.4**	3.9	449%	**16.1**	11.0	46%
Distributions received from the Moa Joint Venture	**6.7**	-	-	**11.9**	-	-
Interest paid on debentures	**(16.5)**	(18.8)	12%	**(50.9)**	(57.2)	11%
Corporate, Metals Other, and other operating cash flow	**(17.1)**	(22.1)	23%	**(35.7)**	(38.7)	8%
Cash provided (used) by operations	**12.6**	(33.9)	137%	**7.4**	(9.6)	177%
Cash used by discontinued operations[(1)]	**(0.7)**	0.8	(188%)	**(8.5)**	(5.2)	(63%)
	$ 11.9	$ (33.1)	136%	**$ (1.1)**	$ (14.8)	93%
Cash provided (used) by investing and financing activities						
Property, plant, equipment and intangible expenditures	**$ (13.9)**	$ (10.4)	(34%)	**$ (39.5)**	$ (30.6)	(29%)
Receipts of advances, loans receivable and other financial assets	**-**	19.9	(100%)	**35.8**	31.7	13%
Increase in advances, loans receivable and other financial assets	**-**	(10.5)	100%	**-**	(10.5)	100%
Decrease in loans, borrowings and other financial liabilities	**(2.0)**	-	-	**-**	-	-
Repayment of loans and borrowings	**-**	(8.0)	100%	**-**	(35.0)	100%
Repurchase of senior unsecured debentures	**-**	-	-	**(120.3)**	-	-
Issuance of units	**-**	-	-	**132.3**	-	-
Fees paid on debenture repurchase and unit offer	**-**	-	-	**(9.5)**	-	-
Loans to the Ambatovy Joint Venture	**-**	(38.6)	100%	**-**	(38.6)	100%
Increase in restricted cash	**-**	(12.0)	100%	**-**	(12.0)	100%
Issuance of common shares	**-**	4.9	(100%)	**0.8**	5.6	(86%)
Other	**3.9**	0.5	680%	**5.5**	(1.4)	493%
	$ (12.0)	$ (54.2)	78%	**$ 5.1**	$ (90.8)	106%
	(0.1)	(87.3)	100%	**4.0**	(105.6)	104%
Cash, cash equivalents and short-term investments:						
Beginning of the period	**207.1**	290.3	(29%)	**203.0**	308.6	(34%)
End of the period	**$ 207.0**	$ 203.0	2%	**$ 207.0**	$ 203.0	2%

(1) Cash used by discontinued operations relates to payments made in respect of a provision retained by the Corporation following the sale of its Coal operations in 2014.

The following significant items affected the sources and uses of cash:

Cash from continuing operations was higher in the three months and year ended December 31, 2018 compared to the prior-year periods, respectively, primarily as a result of the following:

- Increased cash from operating activities at Oil and Gas in Q4 2018 compared to the prior year period was primarily due to the receipt of $12.8 million of Cuban energy payments and lower taxes paid;
- the receipt by the Corporation of distributions from the Moa Joint Venture of $6.7 million and $11.9 million during Q4 2018 and the year ended December 31, 2018 respectively;
- lower interest payments on the secured debentures as a result of the repurchase of debentures in the first half of 2018;
- increased cash from operating activities at Fort Site was primarily due to timing of payments and fertilizer customer prepayments;
- cash used by Corporate, Metals Other and other operating activities were relatively unchanged and primarily due to timing of working capital payments.

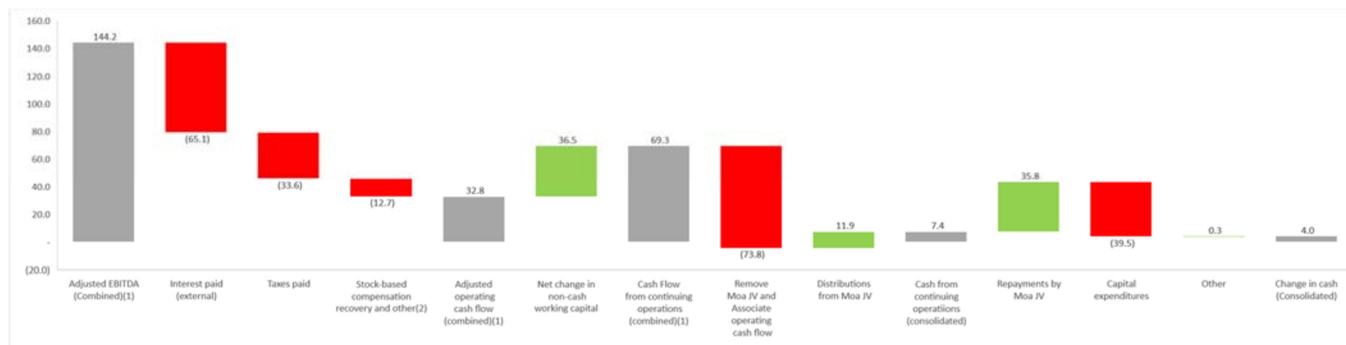
partly offset by:

- cash from operating activities at Power were lower in the current year periods due to lower revenues on reduced sales volumes and lower receipts of overdue receivables.

Included in investing and financing activities:

- the Corporation received $25.0 million from the Moa Joint Venture in the first half of 2018 which fully repaid its working capital facility and $10.8 million in Q3 2018 on amounts previously advanced to the joint venture;
- cash received in first quarter of 2018 on the Unit offering of $132.3 million was primarily used to repurchase for cancellation $131.9 million principal amount of the Corporation's senior unsecured debentures at a total cost, excluding fees and accrued interest, of $120.3 million; and
- expenditures on property, plant and equipment and intangibles primarily related to Block 10 and sustaining activities.

The Corporation's adjusted EBITDA(1) reconciles to the increase in cash, cash equivalents and short-term investments as follows for the year ended December 31, 2018:



(1) For additional information see the Non-GAAP measures section.

(2) Includes a stock-based compensation recovery of $11.8 million.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table provides a summary of consolidated significant liquidity and capital commitments based on existing commitments and debt obligations (including accrued interest):

Canadian $ millions, as at December 31, 2018	Total	Falling due within 1 year	Falling due between 1-2 years	Falling due between 2-3 years	Falling due between 3-4 years	Falling due between 4-5 years	Falling due in more than 5 years
Trade accounts payable and accrued liabilities	$ 183.2	$ 183.2	$ -	$ -	$ -	$ -	$ -
Income taxes payable	0.6	0.6	-	-	-	-	-
Senior unsecured debentures	824.7	45.8	45.8	215.4	32.2	230.0	255.5
Ambatovy Joint Venture Partner loans(1)	174.5	-	-	-	-	174.5	-
Syndicated revolving-term credit facility	8.7	0.5	8.2	-	-	-	-
Provisions	159.6	8.6	0.9	6.6	0.4	-	143.1
Operating leases	21.9	5.0	3.6	1.9	1.7	1.6	8.1
Finance leases	0.8	0.2	0.2	0.2	0.1	0.1	-
Capital commitments	12.6	12.6	-	-	-	-	-
Other	0.4	0.2	0.1	0.1	-	-	-
Total	$ 1,387.0	$ 256.7	$ 58.8	$ 224.2	$ 34.4	$ 406.2	$ 406.7

Repurchase of senior unsecured debentures

In the first half of 2018, the Corporation purchased $131.9 million principal amount of debentures at a cost of $120.3 million. Debentures that were purchased were retired and cancelled and no longer remain outstanding. See note 15 of the December 31, 2018 consolidated financial statements for further details.

Ambatovy Joint Venture partner loans

In 2008, the Ambatovy Joint Venture partners finalized agreements to provide Sherritt with loans of up to US$236.0 million to be used to fund Sherritt's contributions for the project. The loans are provided at an interest rate based on a six-month LIBOR plus 1.125% with a 15-year term.

The partner loans continue to be secured by Sherritt's 12% interest following the Ambatovy Joint Venture restructuring during the year ended December 31, 2017. The partner loans are repaid from Sherritt's share of distributions from the Ambatovy Joint Venture. Additionally, the partner loans can be repaid in cash at any time through to maturity in August 2023. At maturity, Sherritt can elect to: (i) repay the loans in cash, (ii) repay the loans in shares or a combination of cash and shares at 105% of the amount then due, or (iii) repay in 10 equal semi-annual principal installments (plus interest) commencing in December 2024, at an interest rate of LIBOR +5% applied from the original August 2023 maturity date.

The principal amount outstanding under this facility at December 31, 2018 was $144.0 million (December 31, 2017 - $128.2 million). The Corporation's ability to draw additional amounts on the facility expired on August 22, 2014.

Syndicated revolving-term credit facility

In 2018, the maturity of the syndicated revolving-term credit facility was extended to April 30, 2020. The maximum credit available is $70.0 million and interest rates are prime plus 3.00% or bankers' acceptance plus 4.00%.

The facility is subject to the following financial covenants and restrictions:

- EBITDA, as defined in the agreement, of not less than $100 million;
- EBITDA-to-interest expense covenant of not less than 1.75:1;
- Limits on capital expenditures and funding of the Ambatovy Joint Venture and Moa Joint Venture; and
- Maintenance of a minimum balance of cash and cash equivalents and short-term investments held by the Corporation's wholly-owned subsidiaries of $100.0 million, less undrawn credit (previously the facility size multiplied by two, less undrawn credit). The minimum balance of cash and cash equivalents and short-term investments, less undrawn credit, as at December 31, 2018 is $84.9 million.

As at December 31, 2018, the Corporation has $46.9 million of letters of credit outstanding pursuant to this facility (December 31, 2017- $50.0 million). As at December 31, 2018, $8.0 million has been drawn on this facility (December 31, 2017 - $8.0 million).

OTHER COMMITMENTS

The following commitments are not reflected in the table above:

Moa Joint Venture

As a result of the Corporation's 50% interest in the Moa Joint Venture, its proportionate share of significant commitments of the joint venture includes the following:

- Environmental rehabilitation commitments of $97.6 million, with no significant payments due in the next five years;
- Other contractual commitments of $14.5 million; and
- Advances and loans payable of $234.6 million. Included within advances and loans payable is the loan related to the construction of the acid plant of $1.1 million.

Ambatovy Joint Venture

As a result of the Corporation's 12% interest in the Ambatovy Joint Venture, its proportionate share of significant commitments of the Joint Venture includes the following:

- Environmental rehabilitation commitments of $56.3 million, with no significant payments due in the next five years;
- Other contractual commitments of $19.8 million;
- Ambatovy revolving credit facilities of $10.0 million. The facilities bear interest rates between three-month LIBOR plus 4.5% and 11.85% and mature on February 28, 2019 and April 30, 2019; and
- The Ambatovy Joint Venture senior debt financing of US$192.1 million ($262.1 million) which is non-recourse to the Joint Venture partners. Interest is payable based on LIBOR plus a weighted-average margin of 2.4%. Deferred principal will be subject to an additional 2% accrued interest calculated from the date of each deferral. On an undiscounted basis, principal and interest repayments are $318.4 million.

Covenants

Certain of the Corporation's credit facilities, loans and debentures have financial tests and other covenants with which the Corporation and its affiliates must comply. Non-compliance with such covenants could result in accelerated repayment of the related debt or credit facilities and classification of the amounts to current. The Corporation monitors its covenants on an ongoing basis and reports on its compliance with the covenants to its lenders on a quarterly basis.

As at December 31, 2018, there are no events of default on the Corporation's borrowings or debentures. The Corporation did not meet the financial ratios required to remove limitations on the incurrence of debt or certain distributions under the senior unsecured debentures indenture agreement.

CAPITAL STRUCTURE

$ millions, except as otherwise noted		**2018 December 31**	2017 December 31	Change
Loans and borrowings	$	705.7 $	824.1	(14%)
Other financial liabilities		13.1	24.2	(46%)
Total debt	$	718.8 $	848.3	(15%)
Shareholders' equity		1,130.9	1,056.3	7%
Total debt-to-capital [(1)]		**39%**	45%	(13%)
Common shares outstanding		**397,281,686**	301,758,665	32%
Stock options outstanding		**9,897,219**	10,435,061	(5%)
Common Share Warrants outstanding		**57,611,554**	11,244,176	412%

(1) Calculated as total debt divided by the sum of total debt and shareholders' equity.

Common Share Warrants

Common Share Warrants were issued as part of the debenture extension in 2016 when 19.1 million warrants with a fair value of $0.43 were granted to the Noteholders that elected to accept warrants. Warrants are exercisable at any time at an exercise price of $0.74 per share and had an original term of 5 years. They are not listed on any exchange. During 2018, 0.9 million warrants were exercised for total proceeds of $0.6 million (2017 - 7.6 million warrants were exercised for total proceeds of $5.6 million).

Issue of Units

In January 2018, the Corporation completed an equity offering and issued units consisting of 94.5 million common shares and 47.2 million cobalt-linked warrants at $1.40 per unit, for gross proceeds of $132.3 million, less transaction costs of $7.2 million.

The cobalt-linked warrants have an exercise price of $1.95. Each cobalt-linked warrant is exercisable to acquire between 1.00 and 1.25 common shares, determined based on a prescribed cobalt reference price.

COMMON SHARES

As at February 13, 2019, the Corporation had 397,281,686 common shares outstanding. An additional 9,897,219 common shares are issuable upon exercise of outstanding stock options granted to employees and directors pursuant to the Corporation's stock option plan, a maximum of 47,232,200 on the issue of Cobalt-Linked Warrants and 10,379,354 common shares issuable on the exercise of other common share warrants.

Managing risk

For the purposes of this section, all capitalized terms that are not specifically defined herein, have the meaning ascribed to them in the 2018 AIF.

Sherritt manages a number of risks in each of its businesses in order to achieve an acceptable level of risk without appreciably hindering its ability to maximize returns. Management has procedures to identify and manage significant operational and financial risks. Significant risks include, amongst others:

- Commodity Risk
- Securities Market Fluctuations and Price Volatility
- Liquidity and Access to Capital
- Identification and Management of Growth Opportunities
- Ambatovy Liquidity and Funding Risks
- Restrictions in Debt Instruments, Debt Covenants and Mandatory Repayments
- Depletion of Reserves
- Reliance on Partners
- Mining, Processing and Refining Risks
- Operating Risks
- Risks Related to Sherritt's Operations in Cuba

COMMODITY RISK

Sherritt's principal businesses include the sale of several commodities. Revenues, earnings and cash flows from the sale of nickel, cobalt, oil and gas, and fertilizers are sensitive to changes in market prices, over which the Corporation has no control. The Corporation's earnings and financial condition depend largely upon the market prices for nickel, cobalt, oil, gas, fertilizer and other commodities, which are volatile. Significant reductions in commodity prices or sustained low commodity prices could have a material adverse effect on the Corporation's business, results of operations and financial performance. The prices for commodities produced by the Corporation can be affected by numerous factors beyond the Corporation's control, including expectations for inflation, speculative activities, relative exchange rates to the U.S. dollar, production activities of mining and oil and gas companies, global and regional supply and demand, supply and market prices for substitute commodities, international trade dynamics and disputes, political and economic conditions and production costs in major producing regions. The prices for these commodities have fluctuated widely in recent years. Forecasts of commodity prices can prove to be inaccurate as factors such as supply and demand fundamentals (including the potential growth in the electric vehicle market), speculative market participation by financial entities, and structural and economic changes may not behave as predicted.

Sherritt's current businesses are dependent upon commodity inputs such as natural gas, sulphur, sulphuric acid, coal, electricity, fuel oil, diesel, limestone and related products, and materials that are subject to prevailing commodity prices. Costs and earnings from the use of these products are sensitive to changes in market prices over which Sherritt has no control.

SECURITIES MARKET FLUCTUATIONS AND PRICE VOLATILITY

The securities markets in Canada and elsewhere can experience significant price and volume volatility which can affect the prices of Sherritt's securities. The prices of Sherritt's securities have been, and may continue to be, affected by this market volatility, as well as varying in response to a number of other events and factors. These factors may include, but are not limited to: the price of commodities; political and macro-economic factors; Sherritt's operating performance; the public's reaction to the Corporation's press releases, other public announcements and the Corporation's filings with the various securities regulatory authorities; and changes in earnings estimates or recommendations by research analysts who trade the Shares or the shares of other companies in the resource sector.

Securities of the Corporation listed on these markets or traded over the counter can experience wide fluctuations which are not necessarily related to the operating performance, underlying asset values or prospects of the Corporation. Such securities can be affected by a number of factors outside the Corporation's control and which affect the price and value of securities more generally, these factors may include, but are not limited to: changes in interest rates, tax policy, international trade dynamics and disputes, political and macro-economic factors and economic growth rates. As such, the Corporation's securities have been, and could continue to be, subject to significant volatility in trading volumes and market prices. There can be no assurance that the market price of the Corporation's securities will accurately reflect the value of the Corporation's underlying assets and future business prospects at any time (including the value of its interests in commodities and their current and forecasted market prices).

LIQUIDITY AND ACCESS TO CAPITAL

Sherritt's ability to fund its capital and operating expenses and to meet its financial obligations depends on being able to generate sufficient cash flow from its operations and its ability to obtain additional financing and/or refinance its existing credit facilities and loans on terms that are acceptable to the Corporation. As noted in the risk factor entitled "Commodity Risk" above, Sherritt's earnings and financial condition are highly dependent upon the market prices for nickel, cobalt, oil, gas and other commodities, which are highly volatile in nature. Should a negative trend in commodity prices not abate or reverse, Sherritt may find itself unable to access sufficient capital to fund its operations in the manner required for the long term viability of the business and/or remain in compliance with its debt covenants. Accordingly, there can be no assurance that Sherritt will have sufficient funds to repay its Debentures at maturity, nor can there be any assurance that Sherritt will be able to refinance its Debentures or raise funds in the equity capital markets on terms and conditions that would be acceptable. Failure to provide adequate funds to its operations, execute growth strategies, replace depleted reserves or meet or refinance its financial obligations could have a material adverse effect on Sherritt's business, results of operations and financial performance.

Sherritt's current financing includes, among other things, the Syndicated Facility. The total available draw under the Syndicated Facility is based on eligible receivables and inventory. If prices for nickel and cobalt decline, this could result in a material reduction in the amount of funding available under the Syndicated Facility. Certain debt covenants under the Syndicated Facility are based on ratios involving the Corporation's EBITDA and/or interest expense and other covenants require the maintenance of minimum cash balances. The Corporation's ability to satisfy these covenants could also be negatively affected by decreases in commodity prices. As a result, there can be no assurance that this Syndicated Facility can be extended or renewed at any time, or otherwise replaced with a different credit facility on similar terms.

Agencies of the Cuban government have significant payment obligations to the Corporation in connection with the Corporation's Oil and Gas, Metals and Power operations in Cuba. This exposure to the Cuban government and its potential inability to timely or fully pay such amounts could have a material adverse effect on the Corporation's financial condition and results of operations. Please see the risk factor entitled "Risks Related to Sherritt's Operations in Cuba" for additional information.

Please see the risk factor entitled "Ambatovy Liquidity and Funding Risk" for information regarding liquidity and access to capital risks associated with the Ambatovy Joint Venture.

Please see the risk factor entitled "Restrictions in Debt Instruments, Debt Covenants and Mandatory Repayments" for more information on Sherritt's loans and borrowings and on the effect of non-compliance with certain debt covenants.

IDENTIFICATION AND MANAGEMENT OF GROWTH OPPORTUNITIES

In order to manage it current operations and any future growth effectively, Sherritt must examine opportunities to replace and expand its reserves through the exploration of its existing properties and through acquisitions of interests in new properties or of interests in companies which own such properties. The development of Sherritt's business will be in part dependent on management's ability to identify, acquire and develop suitable acquisition targets in both new and existing markets. In certain circumstances, acceptable acquisition targets might not be available. Sherritt may also not be able to identify suitable partners with whom it could make such acquisitions. Acquisitions involve a number of risks, including: (i) the possibility that the Corporation, as a successor owner, may be legally and financially responsible for liabilities of prior owners; (ii) the possibility that the Corporation may pay more than the acquired company or assets are worth; (iii) the additional expenses associated with completing an acquisition and amortizing any acquired intangible assets; (iv) the difficulty of integrating the operations and personnel of an acquired business; (v) the challenge of implementing uniform standards, controls, procedures and policies throughout an acquired business; (vi) the inability to integrate, train, retain and motivate key personnel of an acquired business; and (vii) the potential disruption of the Corporation's ongoing business and the distraction of management from its day to day operations.

Additionally, the future viability of the Corporation will also depend on its ability to implement and improve its operational, financial and management information systems and to hire, train, motivate, manage and retain its employees. If and when any such growth occurs, there can be no assurance that the Corporation will be able to manage such growth effectively, that its management, personnel or systems will be adequate to support the Corporation's operations or that the Corporation will be able to achieve the increased levels of revenue commensurate with increased levels of operating expenses associated with this growth, and failure to do so could have a material adverse effect on the Corporation's business, financial condition and results of operations.

AMBATOVY LIQUIDITY AND FUNDING RISKS

The Ambatovy Joint Venture borrowed US$2.1 billion (US$1.6 billion as at December 31, 2018) under the Ambatovy Financing Agreements and all of the Ambatovy Joint Venture's assets and the interests of its shareholders in the Ambatovy Joint Venture have been pledged as security for the financing. Under the Ambatovy Financing Agreement, certain debt service repayments that had been deferred through 2018 are scheduled to recommence in June 2019. The Ambatovy Joint Venture is currently in discussions with the Ambatovy Senior Lenders regarding the terms of the Ambatovy Financing Agreements. There can be no assurance that these discussions will result in any amendments or modifications to the Ambatovy Financing Agreements. If the parties cannot reach a satisfactory agreement and the Ambatovy Joint Venture is unable to comply with the terms of the Ambatovy Senior Financing, including its obligations to make semi-annual interest and principal repayments in June 2019, the Ambatovy Senior Lenders could realize upon their security and seize all of the Ambatovy Joint Venture's assets and all of Sherritt's interest therein. This could have a material adverse effect on Sherritt's investment in the Ambatovy Joint Venture, and on the Corporation's business, results of operations and financial performance.

Due to the current nickel pricing environment, and current production and pricing forecasts, the Ambatovy Joint Venture may require ongoing financing in order to support debt service payments and continued operations through 2019 and thereafter. The Ambatovy Joint Venture secured funding commitments from KORES and Sumitomo (and the Corporation funded its pro rata share of such commitments into an escrow account) which covered debt service requirements and continued operations throughout 2018. However, there is currently no agreement or commitment among Sherritt and the Ambatovy Partners to provide additional funding in 2019 or thereafter. The Corporation has publicly stated that it does not anticipate providing further funding based on Ambatovy's current debt structure. Although the Ambatovy Joint Venture has successfully secured sufficient financing from its shareholders and third party lenders in the past, there can be no assurance that it will be successful in securing additional financing or creditor concessions when required or on favourable terms. If the Ambatovy Joint Venture is unable to continue operations, this would have a material adverse effect on Sherritt's investment in the Ambatovy Joint Venture, and could have a material adverse effect on the Corporation's business, results of operations and financial performance. Please see the risk factors entitled "Liquidity and Access to Capital", above, and "Restrictions in Debt Instruments, Debt Covenants and Mandatory Repayments" and "Reliance on Partners" below. As the escrow account has been fully drawn, if the Ambatovy Joint Venture makes a cash call approved by the majority shareholders, absent a waiver from the other shareholders, Sherritt would become a defaulting shareholder should it fail to fund its pro rata share of such cash call. Such default could result in, among other things, the following: (a) Sherritt would not receive any Ambatovy Joint Venture distributions; (b) Sherritt would lose its voting rights at the Ambatovy Joint Venture's Executive Committee, its corporate boards of directors and its shareholder meetings; (c) Sherritt would lose its right to attend and be represented at meetings of the Ambatovy Joint Venture's Executive Committee and its corporate boards of directors; (d) Sherritt will be required to offer its 12% shareholder interest pro rata to the other Ambatovy Partners who have the right to purchase at the lower of fair market value and book value; (e) the other Ambatovy Partners can elect to cure Sherritt's funding deficit by funding on Sherritt's behalf, in which case such funding is deemed to be a loan to Sherritt, payable on demand, which accrues interest at LIBOR +3% and is limited recourse to Sherritt's interest in the Ambatovy Joint Venture and repayable from future distributions; (f) the other Ambatovy Partners can elect to dilute Sherritt's interest by converting such deemed loans or by funding on Sherritt's behalf and electing dilution of Sherritt's interest, without any deemed loan; and (g) the other Ambatovy Partners can elect to fund additional subordinated debt to the Ambatovy Joint Venture, which accrues interest at a preferential rate and is repaid in priority to all other shareholder distributions ("Preferred Debt"). In the event that any of the other Ambatovy Partners elect to purchase the Corporation's interest pursuant to paragraph (d), there can be no assurance that the Corporation will receive any proceeds once such purchase price is offset against amounts outstanding under the Initial Partner Loans (as defined below). Preferred Debt lenders under paragraph (g) can also elect to exercise an enhanced dilution remedy entitling them to an equivalent amount of subordinated shareholder loans (and to the extent such loans are not available, equity) held by the defaulting shareholder for nil consideration. This enhanced dilution mechanism may not alter the defaulting shareholder's equity interest, but could have a significant adverse effect on other shareholders' future distributions from the Ambatovy Joint Venture and its effective economic interest therein.

Due to the Ambatovy Joint Venture's current and projected funding requirements, in a persistently low nickel price environment there can be no certainty that Sherritt will receive any distributions from the Ambatovy Joint Venture. Accordingly, Sherritt's future funding to the Ambatovy Joint Venture may not be commercially or economically justified. Whether as a result of Sherritt not funding future cash calls or otherwise, Sherritt's interest in the Ambatovy Joint Venture and entitlements to future distributions could be at risk if Sherritt becomes a defaulting shareholder and there is no assurance that it will be able to retain all or any portion of its 12% interest or entitlement to future distributions, which could have a materially adverse effect on the Corporation's business, results of operations, and financial performance.

RESTRICTIONS IN DEBT INSTRUMENTS, DEBT COVENANTS AND MANDATORY REPAYMENTS

Sherritt is a party to certain agreements in connection with the Syndicated Facility, as well as the trust indenture governing the Debentures (collectively, the "Indenture"). Sherritt is also a party to various agreements with the Ambatovy Senior Lenders relating to the Ambatovy Financing Agreements. In addition, Sherritt is a debtor under the Initial Partner Loans that were used to fund part of Sherritt's contributions to the Ambatovy Joint Venture. These agreements and loans contain covenants which could have the effect of restricting Sherritt's ability to react to changes in Sherritt's business or to local and global economic conditions. In addition, Sherritt's ability to comply with these covenants and other terms of its indebtedness may be affected by changes in the Corporation's business, local or global economic conditions or other events beyond the Corporation's control. Failure by Sherritt to comply with any of the covenants contained in the Indenture, the Syndicated Facility, the Ambatovy Financing Agreements, the Initial Partner Loans or any future debt instruments or credit agreements, could materially adversely affect the Corporation's business, results of operations, and financial performance.

The Corporation provided certain completion guarantees to the Ambatovy Senior Lenders under the Ambatovy Financing Agreements. These guarantees became non recourse to the Corporation once the Ambatovy Joint Venture achieved financial completion in September 2015. As a result, the Ambatovy Senior Lenders' recourse under the Ambatovy Joint Venture Financing Agreements, including for repayment of semi annual principal and interest, is limited to the Ambatovy Joint Venture and Sherritt's and the other Ambatovy Partners' interests therein.

The Initial Partner Loans ($144.0 million, in principal, as at December 31, 2018) are generally repayable by Sherritt at maturity in August 2023 and are secured by Sherritt's interest in the Ambatovy Joint Venture, which is subordinate to the security interests therein held by the Ambatovy Senior Lenders. Certain events under the Initial Partner Loans trigger a mandatory prepayment of the loans within 30 trading days of such event, including an enforcement by the Ambatovy Senior Lenders of their security interests over the Ambatovy Joint Venture shares following a default under the Ambatovy Financing Agreement. In such cases, Sherritt has the option to prepay in cash or in Shares, provided its Shares are trading on the TSX at the time of payment and subject to applicable TSX rules (including applicable shareholder approval requirements) or with a mix of cash and Shares. The Initial Partner Loans can be repaid in cash at any time through to maturity. At maturity, Sherritt can elect to: (i) repay the loans in cash, (ii) repay the loans in shares or a combination of cash and shares at 105% of the amount then due, or (iii) repay in 10 equal semi annual principal installments (plus interest) commencing in December 2024, at an interest rate of LIBOR +5% applied from the original August 2023 maturity date.

Should the Ambatovy Joint Venture not be able to make the required interest or principal payments under, or is otherwise in default of, the Ambatovy Financing Agreements and the Ambatovy Senior Lenders elect to enforce any of their security interests over the Ambatovy Joint Venture shares, this would trigger the mandatory pre-payment of the Initial Partner Loans and otherwise potentially give rise to an event of default under the Initial Partner Loans with the resulting obligation to repay any outstanding Initial Partner Loans. In such a circumstance, Sherritt has the option to repay in cash or, provided its Shares are trading on the TSX at the time of payment and subject to applicable TSX rules, including shareholder approval requirements, in Shares. Unless the lenders otherwise agree, the Initial Partner Loans also require repayment in cash within five business days in the event of the sale of all or substantially all of the assets of Sherritt, the acquisition of more than 50% of the Shares or a corporate restructuring of Sherritt. Repayment of the Initial Partner Loans in cash could have significant consequences for Sherritt's liquidity and would materially adversely affect the Corporation's business, results of operations and financial performance. In those cases where it has the option, if Sherritt repays all or any portion of the Initial Partner Loans in Shares this could result in significant dilution to existing shareholders depending on the prevailing Share price at the time of payment.

If Sherritt becomes a defaulting shareholder under the terms of the Ambatovy Joint Venture Shareholders Agreement (the "Shareholders Agreement"), for example, by failing to fund a cash call, a cross default to the Initial Partner Loans would be triggered and the lenders could, among other things, elect to accelerate repayment. However, due to the limited recourse nature of the Initial Partner Loans, such acceleration will not require Sherritt to repay the loans until maturity and the lenders' recourse is effectively limited to their subordinated security interest over Sherritt's interest in, and future distributions from, the Ambatovy Joint Venture until that time.

Furthermore, if Sherritt becomes a defaulting shareholder under the terms of the Shareholders Agreement and a cross default to the Initial Partner Loans is triggered, this could trigger a cross default under the Syndicated Facility. Similarly, a cross-default under the Syndicated Facility could also be triggered if there was an event of default under the Initial Partner Loans or Ambatovy Financing Agreements.

If a cross default to the Initial Partner Loans is triggered by a breach of the Shareholders' Agreement, and the lenders under those loans were to accelerate repayment, although generally such acceleration would not require repayment by Sherritt until after maturity, it could in turn trigger a cross default under the Indenture. An event of default under the Initial Partner Loans, including the failure to make a mandatory prepayment, would also trigger a cross-default under the Indenture. Such a cross default under the Indenture could result in acceleration of the Debentures unless the default is cured by repaying the Initial Partners Loans or is waived in accordance with the Indenture. Sherritt may not have sufficient cash and short term investments to repay all or any portion of the amounts outstanding under any or all series of outstanding Debentures (in the aggregate, $588.1 million principal amount as at December 31, 2018) and there can be no assurance that Sherritt could refinance such amounts. An acceleration of the Debentures would, in turn, trigger an event of default under the Syndicated Facility. Accordingly, acceleration of any one or more series of debentures could materially adversely affect the Corporation's business, results of operations, and financial performance.

DEPLETION OF RESERVES

Subject to any future expansion or other development, production from existing operations at the Corporation's mines and wells will typically decline over the life of the mine or well. As a result, Sherritt's ability to maintain or increase its current production of nickel, cobalt and oil and gas and generate revenues therefrom will depend significantly upon the Corporation's ability to discover or acquire and to successfully bring new mines and wells into production and to expand mineral and oil and gas reserves at existing or new operations. Exploration and development of mineral and oil and gas properties involves significant financial risk. Very few exploratory properties are developed into operating mines or wells. Whether a deposit will be commercially viable depends on a number of factors, including: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; commodity prices, which are highly cyclical; political and social stability; and government regulation, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of natural resources and supplies and environmental protection. Even if the Corporation identifies and acquires an economically viable deposit, several years may elapse from the initial stages of development. Significant expenses could be incurred to locate and establish reserves, to develop the required extractive processes and to construct mining facilities, drill wells and construct oil and gas processing facilities.

In November 2017 the PSC for Block II (Varadero West) reverted to the Cuban Government. The majority of future oil and gas production will depend on new reserves in Blocks 10, 8A and 6A and/or the ability to obtain and develop additional PSCs. Sherritt cannot provide assurance that its exploration or development efforts will result in any new commercial operations or yield new mineral or oil and gas reserves to replace or increase current reserves. Failure to obtain significant oil production on Blocks 10, 8A and 6A to replace Sherritt's currently declining and expiring production volumes could have a material adverse effect on Sherritt's financial condition and operations.

RELIANCE ON PARTNERS

The Corporation holds its interest in certain projects and operations through joint ventures or partnerships. A failure by a partner to comply with its obligations under applicable partnership or similar joint venture arrangements, to continue to fund such projects or operations, a breakdown in relations with its partners or the decision of a partner to adopt a competing strategy could have a material adverse effect on the Corporation's business, results of operations and financial performance.

MINING, PROCESSING AND REFINING RISKS

The business of mining, processing and refining involves many risks and hazards, including environmental hazards, industrial accidents, labour force disruptions, supply problems and delays, unusual or unexpected geological or operating conditions, geology related failures, change in the regulatory environment, weather conditions, floods, earthquakes and water conditions. Such occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability. As a result, Sherritt may incur significant liabilities and costs that could have a material adverse effect upon its business, results of operations and financial performance. In addition, failure to maintain high levels of safety, health and security could adversely affect the Corporation's operations, financial performance, reputation and social license to operate.

Other risks and uncertainties which could impact the performance of mining projects include factors such as the ore characteristics; adverse impacts from construction or commissioning activities on ongoing operations; and difficulties with commissioning, changing geological conditions and integrating the operations of newly constructed mines and processing facilities.

The Corporation's business is also inherently subject to the risk of disruptive successful technological change in nickel and cobalt processing or otherwise and to market shifts to substitute products.

OPERATING RISKS

Variability in production at Sherritt's operations in Cuba and Madagascar is most likely to arise from the following categories of potential risk: (i) Parts and Equipment – the inherent risk that parts and equipment may fail or fail to perform in accordance with design due to mechanical or engineering issues (given the location and associated logistics, replacement components may not be immediately available); (ii) Operational Risk – production is directly affected by the performance of core operators and maintenance teams; and (iii) Weather and Natural Disasters – risks related to increased frequency of severe weather events, including hurricanes and cyclones, and other natural disasters that can impede operations before, during and after such events.

Please see the Risk Factors entitled "Risks Related to Sherritt's Operations in Cuba" below and "Risks Related to Sherritt's Operations in Madagascar", and "Climate Change/Greenhouse Gas Emissions" in the 2018 AIF for additional information.

RISKS RELATED TO SHERRITT'S OPERATIONS IN CUBA

The Corporation directly or indirectly holds significant interests in mining, metals processing, exploration for and production of crude oil and the generation of electricity in Cuba. The operations of the Cuban businesses may be affected by economic pressures on Cuba. Risks include, but are not limited to, fluctuations in official or convertible currency exchange rates, access to foreign exchange, and high rates of inflation. Any changes in regulations or shifts in political attitudes are beyond the control of Sherritt and may adversely affect its business. Operations may be affected in varying degrees by such factors as Cuban government regulations with respect to currency conversion, production, project approval and execution, price controls, import and export controls, income taxes or reinvestment credits, expropriation of property, environmental legislation, land use, water use and mine and plant safety.

Operations in Cuba may also be affected by the fact that, as a Caribbean nation, Cuba regularly experiences hurricanes and tropical storms of varying intensities. The risk of damage is dependent upon such factors as intensity, footprint, wind direction and the amount of precipitation associated with the storm and tidal surges. While the Corporation, its joint venture partners and agencies of the Government of Cuba maintain comprehensive disaster plans and the Corporation's Cuban facilities have been constructed to the extent reasonably possible to minimize damage, there can be no guarantee against severe property damage and disruptions to operations.

The Cuban government has allowed, for more than two decades, foreign entities to repatriate profits out of Cuba. However, there can be no assurance that allowing foreign investment and profit repatriation will continue or that a change in economic conditions will not result in a change in the policies of the Cuban government or the imposition of more stringent foreign investment or foreign exchange restrictions. Such changes are beyond the control of Sherritt and the effect of any such changes cannot be accurately predicted.

All sales of Sherritt's oil production in Cuba are made to an agency of the Government of Cuba, as are all electricity sales made by Energas. The access of the Cuban government to foreign exchange is severely limited. As a consequence, from time to time, the Cuban agencies have had difficulty in discharging their foreign currency obligations. During such times, Sherritt has worked with these agencies in order to ensure that Sherritt's operations continue to generate positive cash flow to the extent possible. However, there is a risk, beyond the control of Sherritt, that receivables and contractual performance due from Cuban entities will not be paid or performed in a timely manner, or at all. If any of these agencies or the Cuban government are unable or unwilling to conduct business with Sherritt, or satisfy their obligations to Sherritt, Sherritt could be forced to close some or all of its Cuban businesses, which could have a material adverse effect upon Sherritt's results of operations and financial performance.

Sherritt is entitled to the benefit of certain assurances received from the Government of Cuba and certain agencies of the Government of Cuba that protect it in many circumstances from adverse changes in law, although such changes remain beyond the control of the Corporation and the effect of any such changes cannot be accurately predicted.

RISKS RELATED TO U.S. GOVERNMENT POLICY TOWARDS CUBA

The United States has maintained a general embargo against Cuba since the early 1960s, and the enactment in 1996 of the Cuban Liberty and Democratic Solidarity (Libertad) Act (commonly known as the "Helms Burton Act") extended the reach of the U.S. embargo. In December 2014, President Obama announced his intention to normalize diplomatic relations between the United States and Cuba and to reduce certain restrictions on travel, commercial and personal transactions between Americans and Cubans. Bilateral discussions between the U.S. and Cuba continued to advance for the remainder of the Obama administration. However, President Trump has since reversed many of these changes.

The U.S. Embargo

In its current form, apart from the Helms Burton Act, the embargo applies to most transactions involving Cuba, Cuban enterprises, and Cuban nationals and it bars all “U.S. Persons” from participating in such transactions unless such persons have general or specific licenses from the U.S. Department of the Treasury (“U.S. Treasury”) authorizing their participation in the transactions. U.S. Persons include U.S. citizens, U.S. residents, individuals or enterprises located in the United States, enterprises organized under U.S. laws and enterprises owned or controlled by any of the foregoing. Subsidiaries of U.S. enterprises are subject to the embargo’s prohibitions. The embargo also targets dealings directly or indirectly involving entities deemed to be owned or controlled by Cuba and listed as specially designated nationals (“SDNs”). The three entities constituting the Moa Joint Venture in which Sherritt holds an indirect 50% interest have been deemed SDNs by U.S. Treasury. Sherritt, however, is not an SDN. The U.S. embargo generally prohibits U.S. Persons from engaging in transactions involving the Cuban related businesses of the Corporation. Furthermore, despite the relaxation of certain restrictions over the past two years, generally U.S. origin technology, U.S. origin goods, and many goods produced from U.S. origin components or with U.S. origin technology cannot under U.S. law be transferred to Cuba or used in the Corporation’s operations in Cuba. Additionally, the embargo also prohibits imports into the United States of Cuban origin goods, or of foreign goods made or derived, in whole or in part, of Cuban origin goods, including Cuban nickel. In 1992, Canada issued an order pursuant to the Foreign Extraterritorial Measures Act (Canada) to block the application of the U.S. embargo under Canadian law to Canadian subsidiaries of U.S. enterprises. However, the general embargo limits Sherritt’s access to U.S. capital, financing sources, customers, and suppliers.

The Helms Burton Act

Separately from the general provisions of the embargo summarized above, the Helms Burton Act authorizes sanctions on non U.S. individuals or entities that “traffic” in Cuban property that was confiscated from U.S. nationals or from persons who have become U.S. nationals. The term “traffic” includes various forms of use of Cuban property as well as “profiting from” or “participating in” the trafficking of others.

The Helms Burton Act authorizes damage lawsuits to be brought in U.S. courts by U.S. claimants against those “trafficking” in the claimants’ confiscated property. No such lawsuits have been filed because all Presidents of the United States in office since the enactment of the Helms Burton Act have exercised their authority to suspend the right of claimants to bring such lawsuits for successive periods of up to six months. Pursuant to this authority, the President has suspended the right of claimants for successive six month periods since 1996. This includes the incumbent U.S. administration which has issued a number of suspensions since taking office. However, in issuing its latest suspension, the incumbent U.S. administration has signaled that it is undertaking a review to determine whether to issue any further suspensions, including by reducing the suspension period to 45 days from February 1, 2019. The Corporation has received letters in the past from U.S. nationals claiming ownership of certain Cuban properties or rights in which the Corporation has an indirect interest. However, even if the suspension were permitted to expire, Sherritt does not believe that its operations would be materially affected by any Helms Burton Act lawsuits, because Sherritt’s minimal contacts with the United States would likely deprive any U.S. court of personal jurisdiction over Sherritt. Furthermore, even if personal jurisdiction were exercised, any successful U.S. claimant would have to seek enforcement of the U.S. court judgment outside the U.S. in order to reach material Sherritt assets. Management believes it unlikely that a court in any country in which Sherritt has material assets would enforce a Helms Burton Act judgment.

The Foreign Extraterritorial Measures Act (Canada) was amended as of January 1, 1997 to provide that any judgment given under the Helms Burton Act will not be recognized or enforceable in any manner in Canada and certain other countries implemented “blocking statutes” at that time. The amendments to the Canadian statute permit the Attorney General of Canada to declare, by order, that a Canadian corporation may sue for and recover in Canada any loss or damage it may have suffered by reason of the enforcement of a Helms Burton Act judgment abroad. In such a proceeding, the Canadian court could order the seizure and sale of any property in which the defendant (i.e., a claimant under the Helms Burton Act) has a direct or indirect beneficial interest, or the property of any person who controls or is a member of a group of persons that controls, in law or in fact, the defendant. The property seized and sold could include shares of any company incorporated under the laws of Canada or a province.

The Government of Canada also responded to the Helms Burton Act through diplomatic channels. Other countries, such as the members of the European Union and the Organization of American States, have expressed their strong opposition to the Helms Burton Act as well.

Nevertheless, in the absence of any judicial interpretation of the scope of the Helms Burton Act, the threat of potential litigation creates a distraction from constructive business operations and may discourage some potential investors, lenders, suppliers and customers from doing business with Sherritt and there can be no assurance that litigation against Sherritt pursuant to the Helms Burton Act would not ultimately be successful or have a material adverse effect on Sherritt’s business, results of operations or financial performance.

In addition to authorizing private lawsuits, the Helms Burton Act also authorizes the U.S. Secretary of State and the U.S. Attorney General to exclude from the United States those aliens who engage in certain "trafficking" activities, as well as those aliens who are corporate officers, principals, or controlling shareholders of "traffickers" or who are spouses, minor children, or agents of such excludable persons. The U.S. Department of State has deemed Sherritt's indirect 50% interest in Moa Nickel S.A. to be a form of "trafficking" under the Helms Burton Act. In their capacities as officers of the Corporation, certain individuals have been excluded from entry into the U.S. under this provision. Management does not believe the exclusion from entry into the U.S. of such individuals will have any material effect on the conduct of the Corporation's business.

The U.S. Department of State has issued guidelines for the implementation of the immigration provision, which state that it is "not sufficient in itself for a determination" of exclusion that a person "has merely had business dealings with a person" deemed to be "trafficking". Also, the statutory definition of "traffics" relevant to the Helms Burton Act's immigration provision explicitly excludes "the trading or holding of securities publicly traded or held, unless the trading is with or by a person determined by the Secretary of the Treasury to be a specially designated national".

The embargo has been, and may be, amended from time to time, including the Helms Burton Act, and therefore the U.S. sanctions applicable to transactions with Cuba may become more or less stringent. The stringency and longevity of the U.S. laws relating to Cuba are likely to continue to be functions of political developments in the United States and Cuba, over which Sherritt has no control. The process initiated by President Obama to relax the general embargo has been reversed in a number of respects under President Trump, and the pace and extent of any future changes are uncertain and beyond Sherritt's control. There can be no assurance that the general embargo and the Helms Burton Act will not have a material adverse effect on the Corporation's business, results of operations or financial performance.

OTHER RISKS

Below is a list of the other significant business risks as presented in the Corporation's 2018 AIF. Further detail of these and other risks and the strategies designed to manage them can be found in the Corporation's 2018 AIF to the extent not included herein.

- Transportation
- Uncertainty of gas supply to Energas
- Reliance on key personnel and skilled workers
- Equipment failure and other unexpected failures
- Uncertainty of resources and reserves estimates
- Environmental risks and liabilities
- Risks related to Sherritt's corporate structure
- Political, economic, and other risks of foreign operations
- Risks related to Sherritt's operations in Madagascar
- Project operations
  - Generally
  - Capital and operating cost estimates
- Foreign exchange and pricing risks
- Environment, health and safety
- Climate change/greenhouse gas emissions
- Community relations and social license to grow and operate
- Credit risk
- Shortage of equipment and supplies
- Competition in product markets
- Future market access
- Interest rate changes
- Insurable risk
- Labour relations
- Legal rights
- Legal contingencies
- Accounting policies
- Government permits
- Risks related to information technologies system
- Government regulations
- Anti-corruption and bribery

Critical accounting estimates and judgments

For the purposes of this section, all capitalized terms that are not specifically defined herein, have the meaning ascribed to them in the December 31, 2018 consolidated financial statements.

The preparation of financial statements requires the Corporation's management to make estimates and assumptions that affect the reported amounts of the assets, liabilities, revenue and expenses reported each period. Each of these estimates varies with respect to the level of judgment involved and the potential impact on the Corporation's reported financial results. Estimates are deemed critical when the Corporation's financial condition, change in financial condition or results of operations would be materially impacted by a different estimate or a change in estimate from period to period.

By their nature, these estimates are subject to measurement uncertainty, and changes in these estimates may affect the consolidated financial statements of future periods.

CRITICAL ACCOUNTING ESTIMATES

Property, plant and equipment

Property, plant and equipment is the largest component of the Corporation's assets and, as such, the capitalization of costs, the determination of estimated recoverable amounts and the depletion and depreciation of these assets have a significant impact on the Corporation's financial results.

Certain assets are depreciated using a unit-of-production basis, which involves the estimation of recoverable reserves in determining the depletion and/or depreciation rates of the specific assets. Each item's life, which is assessed annually, is assessed for both its physical life limitations and the economic recoverable reserves of the property at which the asset is located.

For those assets depreciated on a straight-line basis, management estimates the useful life of the assets and their components, which in certain cases may be based on an estimate of the producing life of the property. These assessments require the use of estimates and assumptions including market conditions at the end of the asset's useful life, costs of decommissioning the asset and the amount of recoverable reserves.

Asset useful lives and residual values are re-evaluated at each reporting date.

Environmental rehabilitation provisions

The Corporation's operations are subject to environmental regulations in Canada, Cuba, Madagascar and other countries in which the Corporation operates. Many factors such as future changes to environmental laws and regulations, life of mine estimates, the cost and time it will take to rehabilitate the property and discount rates, all affect the carrying amount of environmental rehabilitation provisions. As a result, the actual cost of environmental rehabilitation could be higher than the amounts the Corporation has estimated. For certain operations, actual costs will ultimately be determined after site closure in agreement with predecessor companies.

The environmental rehabilitation provision is assessed quarterly and measured by discounting the expected cash flows. The applicable discount rate is a pre-tax rate that reflects the current market assessment of the time value of money which is determined based on government bond interest rates and inflation rates. The actual rate depends on a number of factors, including the timing of rehabilitation activities that can extend decades into the future and the location of the property.

Reserves for oil and gas properties

Reserves are estimates of the amount of product that can be economically and legally extracted from the Corporation's oil and gas properties. Reserve estimates are an integral component in the determination of the commercial viability of a site, depletion amounts charged to the cost of sales and any impairment analysis.

In calculating reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, production techniques, production decline rates, production costs, commodity prices and exchange rates. In addition, future changes in regulatory environments, including government levies or changes in the Corporation's rights to exploit the resource imposed over the producing life of the reserves may also significantly impact estimates.

Income taxes

The Corporation operates in a number of industries in several tax jurisdictions and, consequently, its income is subject to various rates and rules of taxation. As a result, the Corporation's effective tax rate may vary significantly from the Canadian statutory tax rate depending upon the profitability of operations in the different jurisdictions.

The Corporation calculates deferred taxes based upon temporary differences between the assets and liabilities that are reported in its consolidated financial statements and their tax bases as determined under applicable tax legislation. The Corporation records deferred tax assets when it determines that it is probable that such assets will be realized. The future realization of deferred tax assets can be affected by many factors, including current and future economic conditions, net realizable sale prices, production rates and production costs, and can either be increased or decreased where, in the view of management, such change is warranted.

Financial Instruments

Forward-looking information

The measurement of the ECL for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

Multiple forward-looking scenarios

The Corporation estimates an ACL using probability-weighted forward-looking scenarios. The Corporation considers both internal and external sources of information in order to achieve an unbiased measure of the scenarios used. The Corporation determines an ECL in each scenario and uses external sources and judgment to apply a probability-weighting to each scenario. The ACL is measured as the present value of the probability-weighted ECL in each scenario, discounted using the original effective interest rate of the instrument.

CRITICAL ACCOUNTING JUDGMENTS

Interests in other entities

The Corporation applies judgment in determining the classification of its interest in other entities, such as: (i) the determination of the level of control or significant influence held by the Corporation; (ii) the legal structure and contractual terms of the arrangement; (iii) concluding whether the Corporation has rights to assets and liabilities or to net assets of the arrangement; and (iv) when relevant, other facts and circumstances. The Corporation has determined that Energas S.A. and its Oil and Gas production-sharing contracts represent joint operations while the Moa Joint Venture represents a joint venture as described in IFRS 11, "Joint Arrangements". The Corporation has concluded that the Ambatovy Joint Venture represents an investment in an associate as described in IAS 28, "Investments in Associates and Joint Ventures". All other interests in other entities have been determined to be subsidiaries as described in IFRS 10, "Consolidated Financial Statements".

Ambatovy – Investment in Associate

It is the Corporation's judgment that the Ambatovy Joint Venture continues to be an associate given the Corporation's power to participate in its operating and financial decisions, in particular due to the Corporation's representation on the board of directors, participation in policy-making processes, existence of material transactions between the Corporation and the Ambatovy Joint Venture, interchange of managerial personnel and provision of essential technical information with Sherritt's commitment to continue as operator until at least 2024.

Aggregation of segments

When determining its reportable segments, the Corporation considers qualitative factors, such as operations that offer distinct products and services and are considered to be significant by the Chief Operating Decision Maker, identified as the senior executive team. The Corporation also considers quantitative thresholds when determining reportable segments, such as if revenue, earnings (loss) or assets are greater than 10% of the total consolidated revenue, net earnings (loss), or assets of all the reportable segments, respectively. Operating segments that share similar economic characteristics are aggregated to form a single reportable segment. Aggregation occurs when the operating segments have similar economic characteristics, and have similar (a) products and services; (b) production processes; (c) type or class of customer for their products and services; (d) methods used to distribute their products or provide their services; and (e) nature of the regulatory environment, if applicable.

Impairment of non-financial assets

The Corporation assesses the carrying amount of non-financial assets including property, plant and equipment and intangible assets subject to depreciation and amortization at each reporting date to determine whether there are any indicators that the carrying amount of the assets may be impaired or require a reversal of impairment. Impairment is assessed at the CGU level and the determination of CGUs is an area of judgment.

For purposes of determining fair value, management assesses the recoverable amount of the asset using the net present value of expected future cash flows. Projections of future cash flows are based on factors relevant to the asset and could include estimated recoverable production, commodity or contracted prices, foreign exchange rates, production levels, cash costs of production, capital and reclamation costs. Projections inherently require assumptions and judgments to be made about each of the factors affecting future cash flows. Changes in any of these assumptions or judgments could result in a significant difference between the carrying amount and fair value of these assets. Where necessary, management engages qualified third-party professionals to assist in the determination of fair values.

Measuring the recoverable amount of the Corporation's interest in the Ambatovy Joint Venture

The Corporation accounts for its investment in a joint venture and investment in an associate using the equity method. The Corporation assesses the carrying amount of its investments at each reporting date to determine whether there are any indicators that the carrying amount of the investments may be impaired.

For purposes of determining the recoverable amount, management calculates the net present value of expected future cash flows. Projections of future cash flows are based on factors relevant to the investment's operations and could include estimated recoverable production, commodity or contracted prices, foreign exchange rates, production levels, cash costs of production, capital and reclamation costs. Projections inherently require assumptions and judgments to be made about each of the factors affecting future cash flows. The determination of the recoverable amount involves a detailed review of the investment's life of mine model and the determination of weighted average cost of capital among other critical factors.

Changes in any of these assumptions or judgments could result in a significant difference between the carrying amount and the recoverable amount of these investments. Where necessary, management engages qualified third-party professionals to assist in the determination of recoverable amounts.

Exploration and evaluation

Management must make judgments when determining when to transfer E&E expenditures from intangible asset to property, plant and equipment, which is normally at the time when commercial viability is achieved. Assessing commercial viability requires management to make certain judgments as to future events and circumstances, in particular whether an economically viable operation can be established. Any such judgments may change as new information becomes available. If after having capitalized the expenditure, a decision is made that recovery of the expenditure is unlikely, the amount capitalized is recognized in cost of sales in the consolidated statements of comprehensive income (loss).

Commercial viability

Management uses the best available information to determine when a development project reaches commercial viability which is generally based on management's assessment of when economic quantities of proven and/or probable reserves are determined to exist and the point at which future costs incurred to develop a mine on the property are capitalized. Management also uses the best available information to determine when a project achieves commercial production, the stage at which pre-production costs cease to be capitalized.

For assets under construction, management assesses the stage of each construction project to determine when a project is commercially viable. The criteria used to assess commercial viability are dependent upon the nature of each construction project and include factors such as the asset purpose, complexity of a project and its location, the level of capital expenditure compared to the construction cost estimates, completion of a reasonable period of testing of the mine plant and equipment, ability to produce the commodity in saleable form (within specifications), and ability to sustain ongoing production of the commodity.

Arrangements containing a lease

The Corporation determined that the Power facilities in Varadero, Cuba are subject to operating lease arrangements. The Corporation applies judgment in interpreting these arrangements such as determining which assets are specified in an arrangement, determining whether a right to use a specified asset has been conveyed and if relative fair value or another estimation technique to separate lease payments from payments for other goods or services should be used. The Corporation also uses judgment in applying accounting guidance to determine whether these leases are operating or finance leases.

Service concession arrangements

The Corporation determined that the contract terms regarding the Boca de Jaruco and Puerto Escondido, Cuba, facilities operated by Energas represent service concession arrangements as described in IFRIC 12, "Service concession arrangements" (IFRIC 12). The Corporation uses judgment to determine whether the grantor sets elements of the services provided by the operator, whether the grantor retains any significant ownership interest in the infrastructure at the end of the agreement, and to determine the classification of the service concession asset as either a financial asset or intangible asset.

Income taxes

In determining whether it is probable that a deferred tax asset will be realized, management reviews the timing of expected reversals of taxable temporary differences, the estimates of future taxable income and prudent and feasible tax planning that could be implemented. Significant judgment may be involved in determining the timing of expected reversals of temporary differences.

Financial Instruments

Business model assessment

The Corporation applies judgment in determining whether financial assets are managed in order to generate cash flows from the collection of contractual cash flows, selling financial assets or both. For the assessment of business models, the Corporation takes into consideration whether the financial asset is held for trading purposes and the frequency and volume of sales in prior periods and expectations about future sales activity.

Cash flow characteristics assessment

The Corporation applies judgment in assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are SPPI.

In performing this assessment, the Corporation takes into consideration contractual features that could change the amount or timing of contractual cash flows, such that the cash flows are no longer consistent with a basic lending arrangement. If the Corporation identifies any contractual features that could modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

Accounting Pronouncements

ADOPTION OF NEW AND AMENDED ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2018, the Corporation adopted the requirements of IFRS 9 and IFRS 15. The effects of adoption of IFRS 9 and IFRS 15 are described below. There has been no change to the Corporation's accounting policies or critical accounting estimates and judgments related to IFRS 9 and IFRS 15 subsequent to adoption.

IFRS 9 – Financial Instruments

In July 2014, the IASB issued IFRS 9 Financial Instruments which replaced IAS 39 effective January 1, 2018. IFRS 9 provides new guidance on the classification, measurement, impairment and hedge accounting for financial instruments in addition to new guidance for the treatment of contractual modifications of financial liabilities. IFRS 9 is required to be adopted retrospectively with certain available transition provisions which allow the Corporation to elect not to restate prior period comparative information.

The Corporation elected to apply the standard on a modified retrospective basis using the available transitional provisions. Under this approach, the 2017 comparative period was not restated and a cumulative transitional adjustment of $42.7 million reducing the opening balance of shareholders' equity was recognized on January 1, 2018.

Reconciliation table:

The following table reconciles the impact of transitioning from IAS 39 to IFRS 9 on the consolidated statements of financial position at the date of initial application, January 1, 2018. The impact consists of adjustments related to the reclassification and remeasurement of financial assets and financial liabilities.

Canadian $ millions, as at	December 31, 2017 IAS 39 Measurement basis	 IAS 39 Carrying value	Reclass- ification	Remeas- urement	January 1, 2018 IFRS 9 Carrying value	 IFRS 9 Measurement basis
Financial assets						
Cash held in banks	Amortized cost	$ 127.8	**$ -**	**$ -**	**$ 127.8**	**Amortized cost**
Restricted cash	Amortized cost	13.0	**-**	**-**	**13.0**	**Amortized cost**
Cash equivalents and short-term investments[1]	FVPL	75.2	**(75.2)**			
Cash equivalents and short-term investments[1]			**75.2**	**-**	**75.2**	**FVOCI**
Advances, loans receivable and other financial assets:						
Ambatovy Joint Venture subordinated loans receivable[4]	Loans and receivables	223.4	**-**	**(50.4)**	**173.0**	**Amortized cost**
Ambatovy Joint Venture subordinated loans receivable - post financial completion	Loans and receivables	47.9	**-**	**-**	**47.9**	**Amortized cost**
Ambatovy Joint Venture operator fee receivable[2]	Loans and receivables	9.7	**(9.7)**			
Ambatovy Joint Venture operator fee receivable[2]			**9.7**	**-**	**9.7**	**FVPL**
Energas conditional sales agreement	Loans and receivables	206.7	**-**	**-**	**206.7**	**Amortized cost**
Moa Joint Venture expansion loans receivable	Loans and receivables	232.0	**-**	**-**	**232.0**	**Amortized cost**
Moa Joint Venture working capital facility	Loans and receivables	25.2	**-**	**-**	**25.2**	**Amortized cost**
Other	Loans and receivables	10.9	**-**	**-**	**10.9**	**Amortized cost**
Trade accounts receivable, net[5]	Loans and receivables	284.9	**-**	**(5.6)**	**279.3**	**Amortized cost**
Investment in an associate						
Investment in an associate[3]		211.9	**-**	**(5.7)**	**206.2**	
Total assets impacted by transition		$ 1,468.6	**$ -**	**$ (61.7)**	**$ 1,406.9**	

Canadian $ millions, as at	December 31, 2017 IAS 39 Measurement basis	IAS 39 Carrying value	Reclass-ification	Remeas-urement	January 1, 2018 IFRS 9 Carrying value	IFRS 9 Measurement basis
Financial liabilities						
8.00% senior unsecured debentures due 2021[6]	Amortized cost	$ 213.2	**$ -**	**$ (5.6)**	**$ 207.6**	**Amortized cost**
7.50% senior unsecured debentures due 2023[6]	Amortized cost	240.7	**-**	**(8.3)**	**232.4**	**Amortized cost**
7.875% senior unsecured debentures due 2025[6]	Amortized cost	234.4	**-**	**(10.6)**	**223.8**	**Amortized cost**
Ambatovy Joint Venture partner loans[7]	Amortized cost	127.8	**-**	**6.0**	**133.8**	**Amortized cost**
Syndicated revolving-term credit facility	Amortized cost	8.0	**-**	**-**	**8.0**	**Amortized cost**
Deferred income taxes liability						
Deferred income taxes[8]		15.8	**-**	**(0.5)**	**15.3**	
Total liabilities impacted by transition		839.9	**-**	**(19.0)**	**820.9**	
Shareholders' equity		1,056.3	**-**	**(42.7)**	**1,013.6**	
Total equity impacted by transition		1,056.3	**-**	**(42.7)**	**1,013.6**	
Total liabilities and equity impacted by transition		$ 1,896.2	**$ -**	**$ (61.7)**	**$ 1,834.5**	

(1) Cash equivalents and short-term investments measured at FVPL were reclassified to be measured at FVOCI. The reclassifications were due to the Corporation's business model for managing the financial assets which is held to collect and sell and the cash flows represent solely payments of principal and interest.

(2) The Ambatovy Joint Venture operator fee receivable classified as loans and receivables and measured at amortized cost was reclassified to be measured at FVPL. The reclassification was due to the contractual cash flows not representing solely payments of principal and interest due to the Corporation not charging interest on the non-current balance owing.

(3) The terms of the Ambatovy Joint Venture financing were modified in 2016 to defer six principal payments. Under IFRS 9, this modification increased the carrying value of this financing, resulting in the Ambatovy Joint Venture recognizing a modification loss of $47.8 million (100% basis), which reduced the Corporation's investment in an associate by its proportionate $5.7 million share of the loss (12% basis) upon initial application. The modification loss was due to the additional interest charged being higher than the original effective interest rate.

(4) The Corporation recognized an allowance for credit losses on the Ambatovy Joint Venture subordinated loans receivable of $50.4 million. No allowance for credit losses was previously recognized under IAS 39.

(5) The Corporation recognized a $5.6 million increase in the allowance for credit losses on trade accounts receivable. The Corporation had previously recognized an allowance for credit losses of $10.7 million under IAS 39.

(6) The terms of the senior unsecured debentures were each modified in 2016 to extend their maturity dates. Under IFRS 9, this modification reduced the carrying values of the debentures, resulting in modification gains on each of these debentures upon initial application. The modification gains were a result of the coupons on the debentures being lower than the original effective interest rates.

(7) The terms of the Ambatovy Joint Venture partner loans were modified in 2017 to include the option to extend their maturity dates. Under IFRS 9, this modification increased the carrying value of these loans, resulting in a modification loss upon initial application. The modification loss was a result of additional interest charged on amounts outstanding being higher than the original effective interest rate.

(8) The reduction in the deferred income taxes liability relates to the cumulative tax impact of the initial application of IFRS 9 resulting from the adjustments described above.

Reclassification:

These adjustments reflect the movement of balances between categories on the consolidated statements of financial position with no impact to shareholders' equity. There is no change to the carrying value of the balances as a result of the reclassifications.

Remeasurement:

These adjustments result in a change to the carrying value of the financial instruments on the consolidated statements of financial position with an impact to shareholders' equity, net of tax.

IFRS 15 - Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 which replaces IAS 18 Revenue and IAS 11 Construction Contracts effective January 1, 2018. The objective of IFRS 15 is to establish the principles that the Corporation will apply to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

The Corporation elected to apply the standard on a modified retrospective basis using certain practical expedients described below. Under this approach, the 2017 comparative period was not restated and no cumulative transitional adjustment to the opening balance of shareholders' equity was recognized on January 1, 2018, given that the net impact of adoption of IFRS 15 to the opening balance of shareholders' equity was immaterial.

Management identified the following impacts to revenue recognition upon adoption, all of which are immaterial:

- In the Moa JV and Fort Site segment, revenue from the Moa JV is excluded from consolidated revenue due to the equity method and is included in the share of earnings of a joint venture. At the Moa JV, no material transitional adjustment was recognized upon adoption and there was no material change in the timing and recognition of revenue. The Corporation determined that Moa JV's revenue associated with performance obligations for shipping and insurance for certain sales was immaterial and therefore there was no change to the timing of revenue recognition upon adoption.

- In the Ambatovy JV segment, all revenue relates to the Ambatovy JV and is excluded from consolidated revenue due to the equity method and is included in the share of loss of an associate. At the Ambatovy JV, no material transitional adjustment was recognized upon adoption and there was no material change in the timing of revenue recognition. Upon adoption of IFRS 15 at the Ambatovy JV, marketing expenses and other fees paid to customers for the sale of nickel and cobalt are recognized as reductions of revenue rather than expenses, with no impact to Ambatovy JV's net loss. Total marketing expenses and other fees deducted from the Ambatovy Joint Venture's revenue are approximately US$10.4 million (100% basis) for the year ended December 31, 2018. The Corporation determined that Ambatovy JV's revenue associated with performance obligations for shipping and insurance for certain sales was immaterial and therefore there was no change to the timing of revenue recognition upon adoption.

- In the Oil and Gas segment, no material transitional adjustment was recognized upon adoption and there was no material change in the timing and recognition of revenue. The Corporation is entitled to the recovery of certain costs incurred as a result of its production-sharing contracts from an agency of the Government of Cuba. Upon adoption, amounts to which the Corporation expects to be entitled that have not yet been approved by the agency are presented separately from trade accounts receivable, net, until approval is received. These amounts are presented as unbilled revenue within trade accounts receivable, net, and unbilled revenue on the consolidated statements of financial position.

- In the Power segment, no material transitional adjustment was recognized upon adoption and there was no material change in the timing and recognition of revenue.

There was no impact on the consolidated statements of cash flow as a result of adoption.

The Corporation applied the following practical expedients upon adoption:

- IFRS 15.63: The Corporation has not adjusted the promised amount of consideration for the effects of a significant financing component when the Corporation expects, at contract inception, that the period between when a promised good or service is transferred to a customer and when the customer pays for that good or service will be one year or less; and

- IFRS 15.C7: The Corporation has elected to apply IFRS 15 retrospectively only to contracts that are not completed contracts at the date of initial application, January 1, 2018.

ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 Leases (IFRS 16) which replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease effective January 1, 2019.

IFRS 16 introduces a single, on-balance sheet accounting model for lessees and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The Corporation is in the final stages of its evaluation of the impact of this standard on its consolidated financial statements. The Corporation will adopt IFRS 16 for the annual period beginning January 1, 2019 and will apply the standard on a modified retrospective basis using certain practical expedients and transitional provisions, and making certain accounting policy choices, as follows:

- The Corporation elected not to recognize right-of-use assets and lease liabilities for short-term leases with a lease term of 12 months or less and leases of low-value assets. The Corporation will recognize these lease payments associated with these leases as an expense in the consolidated statements of comprehensive income (loss) on a straight-line basis over the lease term.

- The Corporation elected not to apply the practical expedient to grandfather the assessment of which contracts are leases. The Corporation applied IFRS 16 to all contracts that may contain a lease. Therefore, the definition of a lease under IFRS 16 was applied to all contracts in effect on or after January 1, 2019.

- IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts (non-lease components) on the basis of whether the use of an identified asset is controlled by the lessee. The Corporation elected not to separate non-lease components and account for the lease and non-lease components as a single lease component for all classes of assets.

- The Corporation elected to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

- The Corporation elected to apply the transitional exemption not to recognize right-of-use assets and liabilities for leases with a remaining lease term of less than 12 months as at January 1, 2019.

- The Corporation, as a lessee, elected not to apply IFRS 16 to leases of intangible assets.

Under the modified retrospective approach, the 2018 comparative period will not be restated.

For leases currently classified as operating leases in accordance with IAS 17, the lease liability will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on the date the standard is first applied. The associated right-of-use asset will be measured at the amount of the lease liability. For lessor accounting, except for sub-lessor accounting, the Corporation anticipates that the accounting treatment will remain substantially the same, resulting in no material impact to the consolidated financial statements.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to assess the classification of a sub-lease as finance or operating lease with reference to the right-of-use asset arising from the head lease, not by reference to the underlying right-of-use asset. On transition, the Corporation will reassess the classification of sub-lease contracts previously classified as operating leases under IAS 17. The Corporation expects that the sub-leases will be finance leases under IFRS 16 and will account for the sub-leases as new finance leases entered into at the date of initial application.

On transition, an intermediate lessor is required to derecognize the sub-lease right-of-use asset and recognize a finance lease receivable. The finance lease receivable will be recognized in the consolidated statements of financial position at an amount equal to the net investment in the lease.

IFRS 16 replaces the straight-line operating lease expense for those leases applying IAS 17 with a depreciation expense on right-of-use assets (included within (loss) earnings from operations, joint venture and associate) and an interest expense on the lease liabilities (included within financing expense). Although the depreciation expense is typically even throughout the lease term due to the straight-line basis of depreciation, the interest expense decreases over the life of the lease due to the effective interest rate method. This results in a declining total expense as leases mature.

The Corporation has substantially completed its analysis of existing leases. The expected impact is summarized as follows:

- The Corporation expects to recognize a material increase in right-of-use assets and lease liabilities in the consolidated statements of financial position as at January 1, 2019 and an increase in finance lease receivables. Management does not expect there to be a material impact on shareholders' equity.

- The Corporation expects to recognize an increase in depreciation expense and interest expense and a decrease in operating lease expense, with no material impact expected on net (loss) earnings from continuing operations in the consolidated statements of comprehensive income (loss) for the annual period commencing January 1, 2019.

- The Moa Joint Venture expects to recognize a material increase in right-of-use assets and lease liabilities, with no impact to shareholders' equity, resulting in the Corporation recognizing no change in the investment in a joint venture in the consolidated statements of financial position as at January 1, 2019.

- The Moa Joint Venture expects to recognize an increase in depreciation expense and interest expense and a decrease in operating lease expense, with no material impact expected on the share of earnings of a joint venture, net of tax in the consolidated statements of comprehensive income (loss) for the annual period commencing January 1, 2019.

- The Ambatovy Joint Venture expects to recognize a material increase in right-of-use assets and lease liabilities, with no impact to shareholders' equity, resulting in the Corporation recognizing no change in the investment in an associate in the consolidated statements of financial position as at January 1, 2019.

- The Ambatovy Joint Venture expects to recognize an increase in depreciation expense and interest expense and a decrease in operating lease expense, with no material impact expected on the share of loss of an associate, net of tax in the consolidated statements of comprehensive income (loss) for the annual period commencing January 1, 2019.

- The change in presentation of operating lease expenses will result in an increase in cash provided by operating activities and a decrease in cash provided by financing activities within the consolidated statements of cash flow, as the lease payments previously included in cash used by operating activities will be included in cash used by financing activities in accordance with IAS 7.

Three-year trend analysis[1]

The following table presents select financial and operational results for the last three years:

$ millions, except per share amounts for the years ended December 31		**2018**		2017		2016
Revenue	**$**	**152.9**	$	267.3	$	262.3
Adjusted EBITDA[1]		**144.2**		149.8		40.0
(Loss) earnings from operations, joint venture and associate		**(60.6)**		440.8		(320.8)
Net (loss) earnings from continuing operations		**(80.2)**		308.9		(381.8)
Earnings (loss) from discontinued operations, net of tax		**16.0**		(15.1)		2.9
Net (loss) earnings for the year		**(64.2)**		293.8		(378.9)
(Loss) earnings per common share (basic)($ per share):						
Net (loss) earnings from continuing operations		**(0.21)**		1.04		(1.30)
Net (loss) earnings for the year		**(0.16)**		0.99		(1.29)
(Loss) earnings per common share (diluted)($ per share):						
Net (loss) earnings from continuing operations		**(0.21)**		1.02		(1.30)
Net (loss) earnings for the year		**(0.16)**		0.97		(1.29)
PRODUCTION VOLUMES						
Moa Joint Venture (50% basis)						
Finished nickel (tonnes)		**15,354**		15,762		16,464
Finished cobalt (tonnes)		**1,617**		1,801		1,847
Ambatovy Joint Venture (12% basis) [2][3]						
Finished nickel (tonnes)		**3,982**		4,257		5,053
Finished cobalt (tonnes)		**342**		366		393
Oil (boepd, net working-interest production)[3]		**2,209**		7,856		9,483
Electricity (gigawatt hours) (331/3% basis)		**781**		848		894

(1) For additional information see the Non-GAAP measures section.
(2) Sherritt's share of financial results for the Ambatovy Joint Venture reflects its interest at 40% to December 10, 2017 and 12% thereafter.
(3) To allow for easier comparison, Ambatovy production volume information for the periods ended December 31, 2017 and December 31, 2016 are presented on a 12% basis.

In each year, the primary factors affecting on-going operating results are production and sales volumes, commodity prices, primarily nickel, cobalt and oil; changes in input commodity prices; maintenance and operating costs, which are discussed in the Review of operations sections; and the exchange relationship between the Canadian and U.S. dollars. Other impacts such as impairments, gains and losses on sale of assets, among others, are recognized periodically as events occur.

In addition to the impacts of production volumes, commodity prices and input commodity prices, the following factors impacted operating results:

In 2018, the loss from continuing operations was negatively impacted by a $47.4 million loss on revaluation of the expected credit loss allowance for the Ambatovy subordinated loans receivable, partially offset by $33.3 million of unrealized foreign exchange gains primarily as a result of the change in U.S. dollar denominated net assets.

In 2017, the net earnings from continuing operations was positively impacted by the gain of $629.0 million on the Ambatovy restructuring and the recognition of $7.7 million of unrealized foreign exchange losses primarily as a result of the change in U.S. dollar denominated net assets.

In 2016, the loss from continuing operations was positively impacted by $35.9 million of unrealized foreign exchange gains and a gain on the repurchase of $30.0 million in the Corporation's debentures of $12.6 million; partly offset by an impairment recognized in Oil and Gas of $6.6 million after tax and a write down of deferred tax assets of $7.7 million in the Moa Joint Venture.

Summary of quarterly results[1]

The following table presents selected amounts derived from the Corporation's consolidated financial statements:

$ millions, except per share amounts, for the three months ended		**2018 Dec 31[2]**		2018 Sept 30[2]		2018 June 30[2]		2018 Mar 31[2]		2017 Dec 31[4]		2017 Sept 30		2017 June 30		2017 Mar 31
Revenue per financial statements	$	**37.1**	$	29.9	$	46.5	$	39.4	$	54.8	$	63.3	$	76.8	$	72.4
Share of earnings of a joint venture, net of tax		**6.2**		24.7		21.4		11.9		17.4		11.6		1.8		1.1
Share of loss of an associate, net of tax		**(32.1)**		(17.4)		(9.0)		(13.9)		(27.5)		(53.2)		(64.2)		(50.1)
Net (loss) earnings from continuing operations		**(69.1)**		(13.3)		2.8		(0.6)		552.9		(69.5)		(101.9)		(72.6)
Earnings (loss) from discontinued operations, net of tax[3]		**16.0**		-		-		-		(15.1)		-		-		-
Net (loss) earnings for the period	$	**(53.1)**	$	(13.3)	$	2.8	$	(0.6)	$	537.8	$	(69.5)	$	(101.9)	$	(72.6)
Net (loss) earnings per share, basic ($ per share)																
Net (loss) earnings from continuing operations	$	**(0.17)**	$	(0.03)	$	0.01	$	0.00	$	1.85	$	(0.24)	$	(0.35)	$	(0.25)
Net (loss) earnings for the period		**(0.13)**		(0.03)		0.01		0.00		1.80		(0.24)		(0.35)		(0.25)

(1) Sherritt's share of financial results for the Ambatovy Joint Venture reflects its ownership interest at 40% to December 10, 2017 and 12% thereafter.

(2) The amounts for the periods ended after December 31, 2017 have been prepared in accordance with IFRS 9 and IFRS 15; amounts for the periods December 31, 2017 and prior have not been restated. Refer to note 3 in the audited consolidated financial statements for the year ended December 31, 2018 for further information.

(3) Expenses relate to additional costs and penalties in respect of the Corporation's previous Coal operations, the liability for which was retained by the Corporation following the sale of the Coal operations in 2014. Earnings relate to insurance recoveries to be received by the Corporation.

(4) Diluted per share results are the same in all periods except the quarter ended December 31, 2017 when net earnings from continuing operations per share was $1.80 and net earnings per share was $1.75.

In general, net loss or earnings for the Corporation are primarily affected by production and sales volume, commodity prices, maintenance and operating costs, and exchange rates. The average Canadian dollar cost to purchase one U.S. dollar for the above quarters ranged from $1.25 (Q3 2017) to $1.34 (Q2 2017) and period-end rates ranged between $1.25 (Q3 2017) to $1.36 (Q4 2018).

Effective December 11, 2017, the Corporation reduced its interest in the Ambatovy Joint Venture from 40% to 12%. In general, this change in ownership interest has a positive impact on financial results of the Corporation for quarters ending after December 11, 2017 as a result of the corresponding reduction in losses from the Ambatovy Joint Venture.

In addition to the impact of commodity prices, sales volumes, and the reduction in Ambatovy ownership interest, the net earnings/losses in the eight quarters were impacted by the following significant items (pre-tax):

- the fourth quarter of 2018 includes an unrealized foreign exchange gain of $20.7 million, a $44.1 million loss on the revaluation of the Ambatovy Joint Venture subordinated loans receivable expected credit loss allowance within Corporate and Other and $15.7 million in losses on write-down of long-lived assets in the Ambatovy Joint Venture;
- the third quarter of 2018 includes an unrealized foreign exchange loss of $6.1 million and $8.1 million lower earnings as a result of the reduced profit oil percentage at Oil and Gas on the Puerto Escondido/Yumuri PSC;
- the second quarter of 2018 includes $11.0 million of unrealized foreign exchange gains and approximately $5.8 million lower earnings as a result of the reduced profit oil percentage at Oil and Gas on the Puerto Escondido/Yumuri PSC;
- the first quarter of 2018 includes the recognition of $7.7 million of unrealized foreign exchange gains and the impact on net earnings as a result of the expiry of the Varadero West PSC in Oil and Gas in November 2017;
- the fourth quarter of 2017 includes a gain of $629.0 million on the Ambatovy restructuring and the recognition of $24.1 million of unrealized foreign exchange losses primarily as a result of the reduction of U.S. dollar denominated loans derecognized as part of the Ambatovy restructuring;
- the third quarter of 2017 includes a $13.5 million unrealized foreign exchange gain;
- the second quarter of 2017 includes a $4.4 million unrealized foreign exchange loss;
- the first quarter of 2017 includes a $7.3 million unrealized foreign exchange gain.

Off-balance sheet arrangements

The Corporation has no foreign exchange or commodity options, futures or forward contracts.

Transactions with related parties

The Corporation enters into transactions related to its investment in an associate and joint arrangements. For further detail, refer to Note 6, 7 and 21 of the Corporation's audited consolidated financial statements for the year ended December 31, 2018. Transactions between related parties are generally based on standard commercial terms. All amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received on the outstanding amounts. No expense has been recognized in the current or prior periods for bad debts in respect of amounts owed by related parties.

Canadian $ millions, as at December 31	**2018**	2017
Accounts receivable from joint operations	**$ 0.1**	$ 0.2
Accounts receivable from joint venture	**16.4**	15.0
Accounts receivable from associate	**10.2**	8.2
Accounts payable to joint venture	**94.8**	105.2
Accounts payable to associate	**5.5**	5.4
Advances, loans and other receivable from associate	**238.7**	281.0
Advances and loans receivable from joint operations	**221.1**	206.7
Advances and loans receivable from joint venture	**269.2**	268.0

Canadian $ millions, for the years ended December 31	**2018**	2017
Total value of goods and services:		
Provided to joint operations	**$ 14.9**	**$** 19.9
Provided to joint venture	**246.4**	191.8
Provided to associate	**2.4**	2.6
Purchased from joint venture	**800.8**	736.1
Purchased from associate	**-**	30.4
Net financing income from joint operations	**14.4**	14.4
Net financing income from associate	**20.9**	37.8
Net financing income from joint venture	**8.8**	11.4

Transactions between related parties are generally based on standard commercial terms. All amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received on the outstanding amounts. No expense has been recognized in the current or prior periods for bad debts in respect of amounts owed by related parties.

Goods and services provided to joint venture primarily relates to services provided by Fort Site to the Moa Joint Venture. Goods and services purchased from associate relate to nickel purchased from the Ambatovy Joint Venture purchased under long term nickel off take agreements by a subsidiary of the Corporation established to buy, market and sell certain Ambatovy nickel production. Net financing income from associate relates to interest income recognized by the Corporation on the Ambatovy subordinated loans receivable.

KEY MANAGEMENT PERSONNEL

Key management personnel is composed of the Board of Directors, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Senior Vice Presidents of the Corporation. The following is a summary of key management personnel compensation:

Canadian $ millions, for the years ended December 31	**2018**	2017
Short-term benefits	**$ 6.9**	$ 7.8
Post-employment benefits[(1)]	**0.4**	0.4
Share-based payments	**5.2**	6.1
	$ 12.5	$ 14.3

(1) Post-employment benefits include a non-registered defined contribution executive supplemental pension plan. The total cash pension contribution for key management personnel was $0.2 million for the year ended December 31, 2018 ($0.9 million for the year ended December 31, 2017). The total pension expense that is attributable to key management personnel was nil for the year ended December 31, 2018 ($0.2 million for the year ended December 31, 2017).

Controls and procedures

DISCLOSURE CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining adequate internal control over disclosure controls and procedures, as defined in National Instrument 52-109 of the Canadian Securities Commission (NI 52-109). Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. Management, with the participation of the certifying officers, has evaluated the effectiveness of the design and operation, as of December 31, 2018, of the Corporation's disclosure controls and procedures. Based on that evaluation, the certifying officers have concluded that such disclosure controls and procedures are effective and designed to ensure that material information known by others relating to the Corporation and its subsidiaries is provided to them.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in NI 52-109. Internal control over financial reporting means a process designed by or under the supervision of the CEO and CFO, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The internal controls are not expected to prevent and detect all misstatements due to error or fraud. Management advises that there have been no changes in the Corporation's internal controls over financial reporting during 2018 that have materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

Management, with the participation of the certifying officers, conducted an evaluation of the effectiveness of the Corporation's internal controls over financial reporting, as of December 31, 2018, using the Internal Control-Integrated Framework published in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 Framework). Based on this evaluation, the CEO and CFO have concluded that the internal controls over financial reporting were effective as of December 31, 2018.

Supplementary information

SENSITIVITY ANALYSIS

The following table shows the approximate impact on the Corporation's net earnings and earnings per share from continuing operations for the year ended December 31, 2018 from a change in selected key variables. The impact is measured changing one variable at a time and may not necessarily be indicative of sensitivities on future results.

Factor		Increase	Approximate change in annual net earnings ($ millions) Increase/ (decrease)	Approximate change in annual basic EPS Increase/ (decrease)
Prices				
Nickel - LME price per pound(1)	US$	1.00	$ 48	$ 0.12
Cobalt - Metal Bulletin price per pound(1)	US$	5.00	23	0.06
Exchange rate				
Strengthening of the Canadian dollar relative to the U.S. dollar	$	0.05	(14)	(0.04)
Operating costs(1)				
Natural gas - per gigajoule (Moa Joint Venture)	$	1.00	(3)	(0.01)
Sulphur - per tonne (Moa Joint Venture and Ambatovy)	US$	25.00	(6)	(0.02)

(1) Changes are applied at the operating level with the approximate change in net earnings and basic EPS representing the Corporation's 50% interest in the Moa Joint Venture and 12% interest in the Ambatovy Joint Venture.

NON-GAAP MEASURES

Management uses the following non-GAAP financial performance measures in this MD&A and/or press release:

- combined results,
- adjusted EBITDA,
- average-realized price,
- unit operating cost/NDCC,
- adjusted earnings,
- adjusted operating cash flow, and
- free cash flow.

Management uses non-GAAP measures to monitor the financial performance of the Corporation and its operating divisions and believes these measures enable investors and analysts to compare the Corporation's financial performance with its competitors and/or evaluate the results of its underlying business. These measures are intended to provide additional information, not to replace IFRS measures. Non-GAAP measures do not have a standard definition under IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. As these measures do not have a standardized meaning, they may not be comparable to similar measures provided by other companies.

The non-GAAP measures are reconciled to the most directly comparable IFRS measure in the sections below.

Combined results

The Corporation uses combined revenue (along with other combined measures, not used in this current MD&A) as a measure to help management assess the Corporation's financial performance across its operating divisions. The combined results include the Corporation's consolidated financial results and the results of its 50% share of the Moa Joint Venture and its share of the Ambatovy Joint Venture (40% to December 10, 2017 and 12% thereafter), both of which are accounted for using the equity method for accounting purposes. Management uses these measures to reflect the Corporation's economic interest in its operating divisions prior to the application of equity accounting to help allocate financial resources and provide investors with information that it believes is useful in understanding the scope of Sherritt's business, based on its economic interest, irrespective of the accounting treatment.

The table below reconciles Combined revenue to financial statement revenue:

	For the three months ended			For the years ended		
	2018	2017		**2018**	2017	
$ millions	**December 31**	December 31	Change	**December 31**	December 31	Change
Revenue by segment						
Moa Joint Venture and Fort Site	**$ 120.0**	$ 122.9	(2%)	**$ 498.1**	$ 417.0	19%
Oil and Gas	**8.5**	27.7	(69%)	**44.9**	127.0	(65%)
Power	**11.2**	12.0	(7%)	**47.2**	51.2	(8%)
Other(1)(2)	**26.4**	61.2	(57%)	**111.7**	322.3	(65%)
Combined revenue	**$ 166.1**	$ 223.8	(26%)	**$ 701.9**	$ 917.5	(23%)
Adjust joint venture and associate	**(129.0)**	(169.0)		**(549.0)**	(650.2)	
Financial statement revenue	**$ 37.1**	$ 54.8	(32%)	**$ 152.9**	$ 267.3	(43%)

(1) Other Q4 2018 revenue includes - Ambatovy Joint Venture - $23.5 million, Other Metals - $2.9 million and Corporate and other - nil. (Other Q4 2017 revenue includes - Ambatovy Joint Venture - $58.1 million, Other Metals - $3.0 million and Corporate and other - $ 0.1 million).

(2) Other YTD 2018 revenue includes - Ambatovy Joint Venture - $101.2 million, Other Metals - $11.0 million and Corporate and other - $ (0.5) million. (Other YTD 2017 revenue includes - Ambatovy Joint Venture - $279.2 million, Other Metals - $43.1 million and Corporate and other - nil).

Adjusted EBITDA

The Corporation defines Adjusted EBITDA as earnings (loss) from operations, associate and joint venture as reported in the financial statements for the period adjusted for depletion, depreciation and amortization; impairment charges for long lived assets, intangible assets, goodwill and investments; gain or loss on disposal of property, plant and equipment of the Corporation, associate and joint venture; and gain or loss on disposition of an interest in investment in associate or joint venture of the Corporation. The exclusion of impairment charges eliminates the non-cash impact. Management uses Adjusted EBITDA internally to evaluate Sherritt's operating divisions on a combined and individual basis as an indicator of ability to fund working capital needs, service debt and fund capital expenditure as well as provide a level of comparability to similar entities, Management believes that Adjusted EBITDA provides useful information to investors in evaluating our operating results in the same manner as management and the board of directors.

The tables below reconcile Adjusted EBITDA to net earnings (loss) from operations, associate and joint venture:

$ millions, for the three months ended December 31								2018
	Moa JV and Fort Site	Ambatovy JV	Metals Other	Oil and Gas	Power	Corporate and Other	Adjustment for Joint Venture and Associate	Total
(Loss) earnings from operations, joint venture and associate per financial statements	$ 5.4	$ (22.6)	$ 0.1	$ (10.4)	$ (0.3)	$ (6.3)	$ (9.8)	$ (43.9)
Add (deduct):								
Depletion, depreciation and amortization	2.0	-	-	3.2	6.8	0.2	-	12.2
Impairment of assets	-	-	-	-	-	1.7	-	1.7
Adjustments for share of joint venture and associate:								
Depletion, depreciation and amortization	10.0	12.2	-	-	-	-	-	22.2
Losses on write-down of long-lived assets	-	15.7	-	-	-	-	-	15.7
Net finance expense	-	-	-	-	-	-	11.7	11.7
Income tax expense	-	-	-	-	-	-	(1.9)	(1.9)
Adjusted EBITDA	$ 17.4	$ 5.3	$ 0.1	$ (7.2)	$ 6.5	$ (4.4)	$ -	$ 17.7
Loss from operations, joint venture and associate								$ (43.9)
Net finance expense								(24.5)
Income tax expense								(0.7)
Net loss from continuing operations								$ (69.1)

$ millions, for the three months ended December 31								2017
	Moa JV and Fort Site	Ambatovy JV	Metals Other	Oil and Gas	Power	Corporate and Other	Adjustment for Joint Venture and Associate	Total
Earnings (loss) from operations, joint venture and associate per financial statements	$ 19.9	$ (7.7)	$ -	$ 7.9	$ (0.6)	$ 611.9	$ (24.9)	$ 606.5
Add (deduct):								
Depletion, depreciation and amortization	2.4	-	-	2.6	6.1	0.5	-	11.6
Gain on Ambatovy restructuring	-	-	-	-	-	(629.0)	-	(629.0)
Adjustments for share of joint venture and associate:								
Depletion, depreciation and amortization	9.8	30.0	-	-	-	-	-	39.8
Gain on write off of operator fee	-	(4.2)	-	-	-	-	4.2	-
Net finance expense	-	-	-	-	-	-	16.2	16.2
Income tax expense	-	-	-	-	-	-	4.5	4.5
Adjusted EBITDA	$ 32.1	$ 18.1	$ -	$ 10.5	$ 5.5	$ (16.6)	$ -	$ 49.6
Earnings from operations, joint venture and associate								$ 606.5
Net finance expense								(50.0)
Income tax expense								(3.6)
Net earnings from continuing operations								$ 552.9

$ millions, for the year ended December 31								2018
	Moa JV and Fort Site	Ambatovy JV	Metals Other	Oil and Gas	Power	Corporate and Other	Adjustment for Joint Venture and Associate	Total
(Loss) earnings from operations, joint venture and associate per financial statements	**$ 78.9**	**$ (40.8)**	**$ 0.8**	**$ (17.0)**	**$ 2.8**	**$ (27.7)**	**$ (57.6)**	**$ (60.6)**
Add (deduct):								
Depletion, depreciation and amortization	**9.1**	**-**	**-**	**11.1**	**25.2**	**0.9**	**-**	**46.3**
Impairment of assets	**2.3**	**-**	**-**	**-**	**-**	**1.7**	**-**	**4.0**
Adjustments for share of joint venture and associate:								
Depletion, depreciation and amortization	**38.1**	**43.1**	**-**	**-**	**-**	**-**	**-**	**81.2**
Losses on write-down of long-lived assets	**-**	**15.7**	**-**	**-**	**-**	**-**	**-**	**15.7**
Net finance expense	**-**	**-**	**-**	**-**	**-**	**-**	**40.4**	**40.4**
Income tax expense	**-**	**-**	**-**	**-**	**-**	**-**	**17.2**	**17.2**
Adjusted EBITDA	**$ 128.4**	**$ 18.0**	**$ 0.8**	**$ (5.9)**	**$ 28.0**	**$ (25.1)**	**$ -**	**$ 144.2**
Loss from operations, joint venture and associate								**$ (60.6)**
Net finance expense								**(16.2)**
Income tax expense								**(3.4)**
Net loss from continuing operations								**$ (80.2)**

$ millions, for the year ended December 31								2017
	Moa JV and Fort Site	Ambatovy JV	Metals Other	Oil and Gas	Power	Corporate and Other	Adjustment for Joint Venture and Associate	Total
Earnings (loss) from operations, joint venture and associate per financial statements	$ 31.3	$ (109.5)	$ 0.9	$ 33.6	$ 5.2	$ 576.7	$ (97.4)	$ 440.8
Add (deduct):								
Depletion, depreciation and amortization	9.9	-	-	28.3	24.9	2.7	-	65.8
Gain on Ambatovy restructuring	-	-	-	-	-	(629.0)	-	(629.0)
Adjustments for share of joint venture and associate:								
Depletion, depreciation and amortization	39.3	139.7	-	-	-	-	-	179.0
Gain on write off of operator fee	-	(4.2)	-	-	-	-	4.2	-
Net finance expense	-	-	-	-	-	-	86.2	86.2
Income tax expense	-	-	-	-	-	-	7.0	7.0
Adjusted EBITDA	$ 80.5	$ 26.0	$ 0.9	$ 61.9	$ 30.1	$ (49.6)	$ -	$ 149.8
Earnings from operations, joint venture and associate								$ 440.8
Net finance expense								(117.7)
Income tax expense								(14.2)
Net earnings from continuing operations								$ 308.9

Average-realized price

Average-realized price is generally calculated by dividing revenue by sales volume for the given product in a given division. The average-realized price for nickel, cobalt, and fertilizer excludes the impact of by-product revenue. Transactions by the metals marketing company, included in other revenue, are excluded. The average-realized price for oil and gas is based on net working-interest oil plus natural gas production stated in barrels of oil equivalent. Management uses this measure, and believes investors use this measure, to compare the relationship between the revenue and direct costs on a per unit basis in each reporting period for nickel, cobalt, fertilizer, oil and gas, and power and provide comparability with other similar external operations.

The tables below reconcile average-realized price to revenue as per the financial statements:

$ millions, except average-realized price and sales volume, for the three months ended December 31							**2018**
	Moa Joint Venture						
	Nickel	Cobalt	Fertilizer	Other revenue	Total	Oil and Gas	Power
Revenue per financial statements	**$ 64.7**	**$ 33.2**	**$ 18.1**	**$ 4.0**	**$ 120.0**	**$ 8.5**	**$ 11.2**
Adjustments to revenue:							
By-product revenue	**-**	**-**	**-**			**-**	**(1.0)**
Processing revenue	**-**	**-**	**-**			**(1.1)**	**-**
Revenue for purposes of average-realized price calculation	**64.7**	**33.2**	**18.1**			**7.4**	**10.2**
Sales volume for the period	**9.5**	**0.9**	**46.9**			**0.15**	**184**
Volume units	Millions of pounds	Millions of pounds	Thousands of tonnes			Millions of barrels(1)	Gigawatt hours
Average-realized price(2)(3)	**$ 6.84**	**$ 38.43**	**$ 384**			**$ 50.47**	**$ 55.34**

$ millions, except average-realized price and sales volume, for the three months ended December 31							2017
	Moa Joint Venture						
	Nickel	Cobalt	Fertilizer	Other revenue	Total	Oil and Gas	Power
Revenue per financial statements	$ 61.2	$ 41.0	$ 17.8	$ 2.9	$ 122.9	$ 27.7	$ 12.0
Adjustments to revenue:							
By-product revenue	-	-	-			-	(1.1)
Processing revenue	-	-	-			(1.1)	-
Revenue for purposes of average-realized price calculation	61.2	41.0	17.8			26.6	10.9
Sales volume for the period	9.1	1.1	51.1			0.56	201
Volume units	Millions of pounds	Millions of pounds	Thousands of tonnes			Millions of barrels(1)	Gigawatt hours
Average-realized price(2)(3)	$ 6.72	$ 38.78	$ 348			$ 47.48	$ 54.01

$ millions, except average-realized price and sales volume, for the year ended December 31							**2018**
	Moa Joint Venture						
	Nickel	Cobalt	Fertilizer	Other revenue	Total	Oil and Gas	Power
Revenue per financial statements	**$ 260.8**	**$ 160.2**	**$ 63.6**	**$ 13.5**	**$ 498.1**	**$ 44.9**	**$ 47.2**
Adjustments to revenue:							
By-product revenue	**-**	**-**	**-**			**-**	**(4.8)**
Processing revenue	**-**	**-**	**-**			**(4.0)**	**-**
Revenue for purposes of average-realized price calculation	**260.8**	**160.2**	**63.6**			**40.9**	**42.4**
Sales volume for the period	**33.7**	**3.5**	**163.7**			**0.81**	**781**
Volume units	Millions of pounds	Millions of pounds	Thousands of tonnes			Millions of barrels(1)	Gigawatt hours
Average-realized price(2)(3)	**$ 7.75**	**$ 46.23**	**$ 388**			**$ 50.74**	**$ 54.31**

$ millions, except average-realized price and sales volume, for the year ended December 31							2017
	Moa Joint Venture						
	Nickel	Cobalt	Fertilizer	Other revenue	Total	Oil and Gas	Power
Revenue per financial statements	$ 212.4	$ 129.6	$ 64.5	$ 10.5	$ 417.0	$ 127.0	$ 51.2
Adjustments to revenue:							
By-product revenue	-	-	-			-	(4.4)
Processing revenue	-	-	-			(4.0)	-
Revenue for purposes of average-realized price calculation	212.4	129.6	64.5			123.0	46.8
Sales volume for the period	34.6	3.9	178.5			2.87	848
Volume units	Millions of pounds	Millions of pounds	Thousands of tonnes			Millions of barrels(1)	Gigawatt hours
Average-realized price(2)(3)	$ 6.14	$ 32.98	$ 361			$ 42.90	$ 55.15

For purposes of average-realized price tables, above:

(1) Net working-interest oil production.

(2) Average-realized price may not calculate based on amounts presented due to foreign exchange and rounding.

(3) Power, average-realized price per MWh.

Unit operating cost/NDCC

With the exception of the Moa and Ambatovy joint ventures, which use net direct cash cost (NDCC), unit operating cost is generally calculated by dividing cost of sales as reported in the financial statements, less depreciation, depletion and amortization in cost of sales, the impact of impairment, gains and losses on property, plant, and equipment and exploration and evaluation assets and certain other non-production related costs by the number of units sold.

The Moa Joint Venture's and Ambatovy Joint Venture's net direct cash cost is calculated by dividing cost of sales, as reported in the financial statements, adjusted for the following: depreciation, depletion and amortization in cost of sales; cobalt by-product, fertilizer and other revenue; and other costs primarily related to the impact of opening and closing inventory values, by the number of finished nickel pounds sold in the period, and expressed in U.S. dollars.

Average unit operating costs for oil and gas is based on gross working-interest oil plus natural gas production stated in barrels of oil equivalent.

Unit operating costs for nickel, oil, and electricity are key measures that management and investors uses to monitor performance. NDCC of nickel is a widely used performance measure for nickel producers. Management uses unit operating costs/NDCC to assess how well the Corporation's producing mines, oil wells and power facilities are performing and to assess overall production efficiency and effectiveness internally across periods and compared to its competitors.

The tables below reconcile unit operating cost/NDCC to cost of sales per the financial statements:

$ millions, except unit cost and sales volume, for the three months ended December 31			**2018**			2017
	Moa JV and Fort Site	Oil and Gas	Power	Moa JV and Fort Site	Oil and Gas	Power
Cost of sales per financial statements	**$ 111.5**	**$ 17.7**	**$ 10.7**	$ 100.0	$ 16.4	$ 10.9
Less:						
Depletion, depreciation and amortization in cost of sales	**(12.0)**	**(3.1)**	**(6.7)**	(12.2)	(2.6)	(6.0)
	99.5	**14.6**	**4.0**	87.8	13.8	4.9
Adjustments to cost of sales:						
Cobalt by-product, fertilizer and other revenue	**(55.3)**	**-**	**-**	(61.7)	-	-
Impact of opening/closing inventory and other	**(7.1)**	**-**	**-**	(4.7)	-	-
Cost of sales for purposes of unit cost calculation	**37.1**	**14.6**	**4.0**	21.4	13.8	4.9
Sales volume for the period	**9.5**	**0.46**	**184**	9.1	1.03	201
Volume units	**Millions of pounds**	**Millions of barrels[1]**	**Gigawatt hours**	Millions of pounds	Millions of barrels[1]	Gigawatt hours
Unit operating cost[2][3]	**$ 3.92**	**$ 31.32**	**$ 21.09**	$ 2.35	$ 12.95	$ 23.43
Unit operating cost (U.S. dollars) (NDCC)	**$ 2.94**			$ 1.80		

$ millions, except unit cost and sales volume, for the year ended December 31			**2018**			2017
	Moa JV and Fort Site	Oil and Gas	Power	Moa JV and Fort Site	Oil and Gas	Power
Cost of sales per financial statements	**$ 408.7**	**$ 55.8**	**$ 41.0**	$ 376.1	$ 83.0	$ 41.3
Less:						
Depletion, depreciation and amortization in cost of sales	**(47.0)**	**(11.0)**	**(25.1)**	(49.0)	(27.7)	(24.8)
	361.7	**44.8**	**15.9**	327.1	55.3	16.5
Adjustments to cost of sales:						
Cobalt by-product, fertilizer and other revenue	**(237.3)**	**-**	**-**	(204.6)	-	-
Impact of opening/closing inventory and other	**(23.8)**	**-**	**-**	(16.9)	-	-
Impairment on assets	**(2.3)**	**-**	**-**	-		-
Cost of sales for purposes of unit cost calculation	**98.3**	**44.8**	**15.9**	105.6	55.3	16.5
Sales volume for the period	**33.7**	**2.01**	**781**	34.6	5.20	848
Volume units	**Millions of pounds**	**Millions of barrels[1]**	**Gigawatt hours**	Millions of pounds	Millions of barrels[1]	Gigawatt hours
Unit operating cost[2][3]	**$ 2.92**	**$ 22.54**	**$ 20.28**	$ 3.05	$ 10.52	$ 19.29
Unit operating cost (U.S. dollars) (NDCC)	**$ 2.24**			$ 2.35		

For purposes unit operating cost/NDCC price tables, above:

(1) Gross working-interest oil production.

(2) Unit operating cost/NDCC may not calculate based on amounts presented due to foreign exchange and rounding.

(3) Power, unit operating cost price per MWh.

Adjusted earnings/loss from continuing operations

The Corporation defines adjusted earnings/loss from continuing operations as earnings/loss from continuing operations less items not reflective of operational performance. These adjusting items include, but are not limited to, the Ambatovy VAT receivable provision fair value adjustment, impairment of assets, gains and losses on the acquisition or disposition of assets (including the Corporation's interest in the Ambatovy Joint Venture), gains and losses on unrealized foreign exchange, gains and losses on revaluation of allowances for credit losses, and other one-time adjustments. While some adjustments are recurring (such as unrealized foreign exchange (gain) loss), management believes that they do not reflect the Corporation's operational performance or future operational performance.

Management uses this measure internally and believes that it provides investors with a performance measure with which to assess the Corporation's core operations by adjusting for items or transactions that are not reflective of its core operating activities.

The table below reconciles adjusted earnings to net loss from continuing operations per the financial statements:

	For the three months ended		For the years ended	
	2018	2017	**2018**	2017
$ millions	**December 31**	December 31	**December 31**	December 31
Net (loss) earnings from continuing operations	**$ (69.1)**	$ 552.9	**$ (80.2)**	$ 308.9
Adjusting items:				
Sherritt - Unrealized foreign exchange (gain) loss - Continuing	**(20.7)**	24.1	**(33.3)**	7.7
Corporate - Gain on repurchase of debentures, net of transaction costs	**-**	-	**(1.0)**	-
Corporate - Cobalt linked Warrants - Fair value revaluation	**(2.8)**	-	**(13.2)**	-
Corporate - Gain on Ambatovy restructuring	**-**	(629.0)	**-**	(629.0)
Corporate - Revaluation of allowance for credit losses	**44.1**	-	**47.4**	-
Corporate - Fair value of Ambatovy operating fee	**4.1**	-	**3.4**	-
Corporate - PPE Impairment	**1.7**	-	**1.7**	-
Ambatovy - Inventory obsolescense	**-**	1.4	**-**	1.4
Ambatovy - VAT adjustment	**(0.1)**	(1.8)	**(2.6)**	(10.4)
Ambatovy - Write-down of long-lived assets	**15.7**	-	**15.7**	-
Moa JV - Inventory obsolescence	**1.6**	1.0	**1.6**	1.0
Fort Site - PPE impairment	**-**	-	**2.3**	-
Oil and Gas - Inventory obsolescence	**1.8**	1.2	**1.8**	1.2
Oil and Gas and Power - Revaluation of allowance for credit losses	**0.5**	-	**1.9**	-
Severance	**2.4**	-	**4.0**	2.1
Total adjustments, before tax	**$ 48.3**	$ (603.1)	**$ 29.7**	$ (626.0)
Tax adjustments	**-**	-	**-**	-
Adjusted net loss from continuing operations	**$ (20.8)**	$ (50.2)	**$ (50.5)**	$ (317.1)

Combined adjusted operating cash flow

The Corporation defines combined adjusted operating cash flow as cash provided (used) by continuing operations adjusted for dividends received from joint venture and associate and before net changes in non-cash working capital.

Combined adjusted operating cash flow is used by management, and management believes this information is used by investors, to assess its ability to generate cash from its operations in each period without the impact of working capital changes.

The tables below reconcile combined adjusted operating cash flow to the consolidated statement of cash flow:

$ millions, for the three months ended December 31									**2018**
	Moa JV and Fort Site	Ambatovy JV	Metals Other	Oil and Gas	Power	Corporate and Other	**Combined total**	Adjustment for joint venture and associate	**Total derived from financial statements**
Cash provided (used) by continuing operations	**$ 50.2**	**$ (1.8)**	**$ (0.5)**	**$ 13.1**	**$ 5.0**	**$ (33.1)**	**$ 32.9**	**$ (20.3)**	**$ 12.6**
Adjust: net change in non-cash working capital	**(36.8)**	**(1.0)**	**1.1**	**(18.5)**	**1.4**	**8.3**	**(45.5)**	**15.4**	**(30.1)**
Adjusted operating cash flow	**$ 13.4**	**$ (2.8)**	**$ 0.6**	**$ (5.4)**	**$ 6.4**	**$ (24.8)**	**$ (12.6)**	**$ (4.9)**	**$ (17.5)**

$ millions, for the three months ended December 31	Moa JV and Fort Site	Ambatovy JV	Metals Other	Oil and Gas	Power	Corporate and Other	**Combined total**	Adjustment for joint venture and associate	**Total derived from financial statements**
2017									
Cash provided (used) by continuing operations	$ 32.5	$ (3.4)	$ (0.5)	$ (2.3)	$ 5.4	$ (40.3)	$ (8.6)	$ (25.3)	$ (33.9)
Adjust: net change in non-cash working capital	(0.1)	8.1	1.2	12.5	1.0	1.6	24.3	(10.7)	13.6
Adjusted operating cash flow	$ 32.4	$ 4.7	$ 0.7	$ 10.2	$ 6.4	$ (38.7)	$ 15.7	$ (36.0)	$ (20.3)

$ millions, for the year ended December 31	Moa JV and Fort Site	Ambatovy JV	Metals Other	Oil and Gas	Power	Corporate and Other	**Combined total**	Adjustment for joint venture and associate	**Total derived from financial statements**
2018									
Cash provided (used) by continuing operations	**$ 90.7**	**$ (0.8)**	**$ (0.3)**	**$ 31.7**	**$ 34.3**	**$ (86.3)**	**$ 69.3**	**$ (61.9)**	**$ 7.4**
Adjust: net change in non-cash working capital	**15.6**	**3.7**	**1.5**	**(51.6)**	**(7.4)**	**1.7**	**(36.5)**	**(36.8)**	**(73.3)**
Adjusted operating cash flow	**$ 106.3**	**$ 2.9**	**$ 1.2**	**$ (19.9)**	**$ 26.9**	**$ (84.6)**	**$ 32.8**	**$ (98.7)**	**$ (65.9)**

$ millions, for the year ended December 31	Moa JV and Fort Site	Ambatovy JV	Metals Other	Oil and Gas	Power	Corporate and Other	**Combined total**	Adjustment for joint venture and associate	**Total derived from financial statements**
2017									
Cash provided (used) by continuing operations	$ 58.3	$ (26.7)	$ 3.0	$ 30.8	$ 44.5	$ (98.8)	$ 11.1	$ (20.7)	$ (9.6)
Adjust: net change in non-cash working capital	14.6	20.8	2.1	19.1	(13.6)	(3.4)	39.6	(46.3)	(6.7)
Adjusted operating cash flow	$ 72.9	$ (5.9)	$ 5.1	$ 49.9	$ 30.9	$ (102.2)	$ 50.7	$ (67.0)	$ (16.3)

Combined free cash flow

The Corporation defines combined free cash flow as cash flow provided (used) by continuing operations adjusted for dividends received from joint venture and associate less cash spending on property plant and equipment, exploration and evaluation, and intangible expenditures.

Free cash flow is used by management, and management believes this information is used by investors as a non-GAAP measure to analyze cash flows generated from operations and assess its operations' ability to provide cash or its use of cash, after funding cash capital requirements, to service current and future working capital need and service debt.

The tables below reconcile combined free cash flow to the consolidated statement of cash flow:

$ millions, for the three months ended December 31	Moa JV and Fort Site	Ambatovy JV	Metals Other	Oil and Gas	Power	Corporate and Other	**Combined total**	Adjustment for joint venture and associate	**Total derived from financial statements**
2018									
Cash provided (used) by continuing operations	**$ 50.2**	**$ (1.8)**	**$ (0.5)**	**$ 13.1**	**$ 5.0**	**$ (33.1)**	**$ 32.9**	**$ (20.3)**	**$ 12.6**
Less:									
Property, plant and equipment expenditures	**(10.9)**	**(4.2)**	**-**	**(3.6)**	**(0.4)**	**(1.0)**	**(20.1)**	**12.6**	**(7.5)**
Intangible expenditures	**-**	**-**	**-**	**(6.4)**	**-**	**-**	**(6.4)**	**-**	**(6.4)**
Free cash flow	**$ 39.3**	**$ (6.0)**	**$ (0.5)**	**$ 3.1**	**$ 4.6**	**$ (34.1)**	**$ 6.4**	**$ (7.7)**	**$ (1.3)**

$ millions, for the three months ended December 31	Moa JV and Fort Site	Ambatovy JV	Metals Other	Oil and Gas	Power	Corporate and Other	**Combined total**	Adjustment for joint venture and associate	**Total derived from financial statements**
2017									
Cash provided (used) by continuing operations	$ 32.5	$ (3.4)	$ (0.5)	$ (2.3)	$ 5.4	$ (40.3)	$ (8.6)	$ (25.3)	$ (33.9)
Less:									
Property, plant and equipment expenditures	(7.6)	(17.3)	-	(1.9)	(0.1)	-	(26.9)	22.2	(4.7)
Intangible expenditures	-	-	-	(5.7)	-	-	(5.7)	-	(5.7)
Free cash flow	$ 24.9	$ (20.7)	$ (0.5)	$ (9.9)	$ 5.3	$ (40.3)	$ (41.2)	$ (3.1)	$ (44.3)

$ millions, for the year ended December 31	Moa JV and Fort Site	Ambatovy JV	Metals Other	Oil and Gas	Power	Corporate and Other	**Combined total**	Adjustment for joint venture and associate	**Total derived from financial statements**
2018									
Cash provided (used) by continuing operations	**$ 90.7**	**$ (0.8)**	**$ (0.3)**	**$ 31.7**	**$ 34.3**	**$ (86.3)**	**$ 69.3**	**$ (61.9)**	**$ 7.4**
Less:									
Property, plant and equipment expenditures	**(32.9)**	**(13.3)**	**-**	**(11.7)**	**(0.9)**	**(1.7)**	**(60.5)**	**37.3**	**(23.2)**
Intangible expenditures	**-**	**-**	**-**	**(16.3)**	**-**	**-**	**(16.3)**	**-**	**(16.3)**
Free cash flow	**$ 57.8**	**$ (14.1)**	**$ (0.3)**	**$ 3.7**	**$ 33.4**	**$ (88.0)**	**$ (7.5)**	**$ (24.6)**	**$ (32.1)**

$ millions, for the year ended December 31	Moa JV and Fort Site	Ambatovy JV	Metals Other	Oil and Gas	Power	Corporate and Other	**Combined total**	Adjustment for joint venture and associate	**Total derived from financial statements**
2017									
Cash provided (used) by continuing operations	$ 58.3	$ (26.7)	$ 3.0	$ 30.8	$ 44.5	$ (98.8)	$ 11.1	$ (20.7)	$ (9.6)
Less:									
Property, plant and equipment expenditures	(20.9)	(28.9)	-	(9.9)	(1.5)	-	(61.2)	42.6	(18.6)
Intangible expenditures	-	-	-	(12.0)	-	-	(12.0)	-	(12.0)
Free cash flow	$ 37.4	$ (55.6)	$ 3.0	$ 8.9	$ 43.0	$ (98.8)	$ (62.1)	$ 21.9	$ (40.2)

Investment in the Ambatovy Joint Venture – Non-GAAP reconciliations

The following tables reconcile average-realized price and NDCC to the Ambatovy Joint Venture segment in note 4 of the consolidated financial statements. See the discussions above regarding usage of these measures by management and investors.

Average-realized price

$ millions, except average-realized price and sales volume, for the three months ended December 31									**2018**
		Nickel		Cobalt		Fertilizer		Other revenue	Total
Revenue per financial statements	$	**16.9**	$	**6.1**	$	**0.5**	$	**-**	$ **23.5**
Sales volume for the period[1]		**2.3**		**0.2**		**2.4**			
Volume units		Millions of pounds		Millions of pounds		Thousands of tonnes			
Average-realized price[2]	$	**7.59**	$	**38.07**	$	**189**			

$ millions, except average-realized price and sales volume, for the three months ended December 31									2017
		Nickel		Cobalt		Fertilizer		Other revenue	Total
Revenue per financial statements	$	37.6	$	19.0	$	1.4	$	0.1	$ 58.1
Sales volume for the period[1]		5.8		0.5		8.1			
Volume units		Millions of pounds		Millions of pounds		Thousands of tonnes			
Average-realized price[2]	$	6.56	$	39.03	$	173			

$ millions, except average-realized price and sales volume, for the year ended December 31									**2018**
		Nickel		Cobalt		Fertilizer		Other revenue	Total
Revenue per financial statements	$	**67.3**	$	**31.9**	$	**1.9**	$	**0.1**	$ **101.2**
Sales volume for the period[1]		**8.7**		**0.7**		**9.8**			
Volume units		Millions of pounds		Millions of pounds		Thousands of tonnes			
Average-realized price[2]	$	**7.87**	$	**45.30**	$	**193**			

$ millions, except average-realized price and sales volume, for the year ended December 31									2017
		Nickel		Cobalt		Fertilizer		Other revenue	Total
Revenue per financial statements	$	182.3	$	88.9	$	7.0	$	1.0	$ 279.2
Sales volume for the period[1]		30.2		2.7		42.0			
Volume units		Millions of pounds		Millions of pounds		Thousands of tonnes			
Average-realized price[2]	$	6.05	$	33.35	$	168			

(1) For purposes of these reconciliations, revenue and sales volume information is based on Sherritt's ownership interest for each respective period. Subject to rounding, the average-realized price would be unchanged in the prior periods if all amounts were adjusted to reflect Sherritt's 12% interest.

(2) Average-realized price may not calculate based on amounts presented due to foreign exchange and rounding.

Net Direct Cash Cost

$ millions, except unit cost and sales volume	For the three months ended 2018 December 31	2017 December 31	For the year ended 2018 December 31	2017 December 31
Cost of sales per financial statements	**$ 30.2**	72.8	**$ 125.3**	$ 385.5
Less:				
Depletion, depreciation and amortization in cost of sales	**(12.2)**	(29.7)	**(43.1)**	(139.4)
	18.0	43.1	**82.2**	246.1
Adjustments to cost of sales:				
Cobalt by-product, fertilizer and other revenue	**(6.6)**	(20.5)	**(33.9)**	(96.9)
Impact of opening/closing inventory and other	**(1.3)**	0.7	**(4.2)**	1.0
Cost of sales for purposes of unit cost calculation	**10.1**	23.3	**44.1**	150.2
Sales volume for the period(1)	**2.3**	5.8	**8.7**	30.2
Volume units	**Millions of pounds**	Millions of pounds	**Millions of pounds**	Millions of pounds
Unit operating cost(2)	**$ 4.38**	$ 3.99	**$ 5.07**	$ 4.97
Unit operating cost (U.S. dollars) (NDCC)(2)	**$ 3.66**	$ 3.27	**$ 3.91**	$ 3.83

(1) For purposes of these reconciliations, cost of sales and sales volume information is based on Sherritt's ownership interest for each respective period. Subject to rounding, the NDCC would be unchanged in the prior periods if all amounts were adjusted to reflect Sherritt's 12% interest.

(2) NDCC amount may not calculate based on amounts presented due to foreign exchange and rounding.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements. Forward-looking statements can generally be identified by the use of statements that include such words as "believe", "expect", "anticipate", "intend", "plan", "forecast", "likely", "may", "will", "could", "should", "suspect", "outlook", "potential", "projected", "continue" or other similar words or phrases. Specifically, forward-looking statements in this document include, but are not limited to, statements set out in the "Outlook" section of this MD&A and certain expectations regarding production volumes, operating costs and capital spending; supply, demand and pricing outlook in the nickel and cobalt markets; anticipated payments of outstanding receivables; future distributions from the Moa Joint Venture, funding of future Ambatovy Joint Venture cash calls, drill plans and results on exploration wells and amounts of certain other commitments.

Forward looking statements are not based on historical facts, but rather on current expectations, assumptions and projections about future events, including commodity and product prices and demand; the level of liquidity and access to funding; share price volatility; production results; realized prices for production; earnings and revenues; development and exploration wells and enhanced oil recovery in Cuba; environmental rehabilitation provisions; availability of regulatory approvals; compliance with applicable environmental laws and regulations; debt repayments; collection of accounts receivable; and certain corporate objectives, goals and plans. By their nature, forward looking statements require the Corporation to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that those assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections.

The Corporation cautions readers of this MD&A not to place undue reliance on any forward looking statement as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward looking statements. These risks, uncertainties and other factors include, but are not limited to, changes in the global price for nickel, cobalt, oil and gas, fertilizers or certain other commodities; security market fluctuations and price volatility; level of liquidity; access to capital; access to financing; risks related to the liquidity and funding of the Ambatovy Joint Venture; the risk to Sherritt's entitlements to future distributions from the Moa and Ambatovy joint ventures; risk of future non-compliance with debt restrictions and covenants and mandatory repayments; uncertainty of exploration results and Sherritt's ability to replace depleted mineral and oil and gas reserves; risks associated with the Corporation's joint venture partners; variability in production at Sherritt's operations in Cuba and Madagascar; risks related to Sherritt's operations in Cuba; risks related to the U.S. government policy toward Cuba, including the U.S. embargo on Cuba and the Helms-Burton legislation; potential interruptions in transportation; uncertainty of gas supply for electrical generation; the Corporation's reliance on key personnel and skilled workers; the possibility of equipment and other failures; risks associated with mining, processing and refining activities; uncertainty of resources and reserve estimates; the potential for shortages of equipment and supplies; risks related to environmental liabilities including liability for reclamation costs, tailings facility failures and toxic gas releases; risks related to the Corporation's corporate structure; political, economic and other risks of foreign operations; risks related to Sherritt's operations in Madagascar; risks associated with Sherritt's operation of large projects generally; risks related to the accuracy of capital and operating cost estimates; foreign exchange and pricing risks; compliance with applicable environment, health and safety legislation and other associated matters; risks associated with governmental regulations regarding climate change and greenhouse gas emissions; risks relating to community relations and maintaining the Corporation's social license to grow and operate; credit risks; shortage of equipment and supplies; competition in product markets; future market access; interest rate changes; risks in obtaining insurance; uncertainties in labour relations; uncertainty in the ability of the Corporation to enforce legal rights in foreign jurisdictions; uncertainty regarding the interpretation and/or application of the applicable laws in foreign jurisdictions; legal contingencies; risks related to the Corporation's accounting policies; identification and management of growth opportunities; uncertainty in the ability of the Corporation to obtain government permits; risks to information technologies systems and cybersecurity; failure to comply with, or changes to, applicable government regulations; bribery and corruption risks, including failure to comply with the Corruption of Foreign Public Officials Act or applicable local anti-corruption law; the ability to accomplish corporate objectives, goals and plans for 2019; and the Corporation's ability to meet other factors listed from time to time in the Corporation's continuous disclosure documents. Readers are cautioned that the foregoing list of factors is not exhaustive and should be considered in conjunction with the risk factors described in this press release and in the Corporation's other documents filed with the Canadian securities authorities, including without limitation the Annual Information Form of the Corporation dated February 13, 2019 for the period ending December 31, 2018, which is available on SEDAR at www.sedar.com.

The Corporation may, from time to time, make oral forward-looking statements. The Corporation advises that the above paragraph and the risk factors described in this MD&A and in the Corporation's other documents filed with the Canadian securities authorities should be read for a description of certain factors that could cause the actual results of the Corporation to differ materially from those in the oral forward-looking statements. The forward-looking information and statements contained in this MD&A are made as of the date hereof and the Corporation undertakes no obligation to update publicly or revise any oral or written forward-looking information or statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws. The forward-looking information and statements contained herein are expressly qualified in their entirety by this cautionary statement.

CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2018 and 2017

CONSOLIDATED FINANCIAL STATEMENTS

Management's report	71
Independent auditor's report	72
Consolidated statements of comprehensive income (loss)	75
Consolidated statements of financial position	76
Consolidated statements of cash flow	77
Consolidated statements of changes in shareholders' equity	78

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Nature of operations and corporate information	79
Note 2 – Basis of presentation	79
Note 3 – Accounting pronouncements	82
Note 4 – Segmented information	88
Note 5 – Expenses	92
Note 6 – Joint arrangements	93
Note 7 – Investment in an associate	95
Note 8 – Net finance expense	98
Note 9 – Income taxes	99
Note 10 – (Loss) earnings per share	102
Note 11 – Financial instruments	103
Note 12 – Advances, loans receivable and other financial assets	109
Note 13 – Inventories	110
Note 14 – Non-financial assets	111
Note 15 – Loans, borrowings and other financial liabilities	117
Note 16 – Provisions, contingencies and guarantees	119
Note 17 – Shareholders' equity	122
Note 18 – Stock-based compensation plans	123
Note 19 – Supplemental cash flow information	128
Note 20 – Financial risk and capital risk management	128
Note 21 – Related party transactions	133
Note 22 – Operating lease arrangements	134
Note 23 – Commitments for expenditures	135

Management's report

The accompanying consolidated financial statements are the responsibility of Sherritt International Corporation's ("Sherritt" or the "Corporation") management. They have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and include amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects.

Management has developed and maintains a system of internal control to provide reasonable assurance that the Corporation's assets are safeguarded, transactions are authorized and the consolidated financial statements are complete and accurate.

The consolidated financial statements are approved by the Board of Directors on the recommendation of the audit committee. The audit committee of the Board of Directors is composed entirely of independent directors. Sherritt's consolidated financial statements are reviewed by the audit committee with management before the consolidated financial statements are approved by the Board of Directors. In addition, the audit committee has the duty to review the accounting principles and practices applied and followed by the Corporation during the fiscal year, including critical accounting policies and significant estimates and judgments underlying the consolidated financial statements as presented by management. Deloitte LLP ("Deloitte") performs an audit of the consolidated financial statements, the results of which are reflected in their independent auditor's report for 2018 included on the next page. Deloitte has full and independent access to the audit committee to discuss their audit and related matters. In addition, Sherritt has an internal audit function that evaluates and formally reports to management and the audit committee on the adequacy and effectiveness of internal controls specified in the approved annual internal audit plan.

/s/ David V. Pathe

David V. Pathe
Chairman, President and Chief Executive Officer

/s/ Andrew Snowden

Andrew Snowden
Senior Vice President and Chief Financial Officer

February 13, 2019

Deloitte LLP
Bay Adelaide East
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Independent Auditor's Report

To the Shareholders of Sherritt International Corporation

Opinion

We have audited the consolidated financial statements of Sherritt International Corporation and its subsidiaries (the "Corporation"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income (loss), changes in shareholders' equity and cash flow for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis; and
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Eric Leopold.

/s/ Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
February 13, 2019

Consolidated statements of comprehensive income (loss)

Canadian $ millions, except per share amounts, for the years ended December 31	Note		2018		2017
Revenue	4	**$**	**152.9**	$	267.3
Cost of sales	5		**(174.3)**		(230.1)
Administrative expenses	5		**(31.0)**		(62.3)
Share of earnings of a joint venture, net of tax	6		**64.2**		31.9
Share of loss of an associate, net of tax	7		**(72.4)**		(195.0)
Gain on Ambatovy Joint Venture restructuring	7		**-**		629.0
(Loss) earnings from operations, joint venture and associate			**(60.6)**		440.8
Financing income	8		**15.1**		65.4
Financing expense	8		**(31.3)**		(183.1)
Net finance expense			**(16.2)**		(117.7)
(Loss) earnings before tax			**(76.8)**		323.1
Income tax expense	9		**(3.4)**		(14.2)
Net (loss) earnings from continuing operations			**(80.2)**		308.9
Earnings (loss) from discontinued operations, net of tax	16		**16.0**		(15.1)
Net (loss) earnings for the year		**$**	**(64.2)**	$	293.8
Other comprehensive income (loss)					
Items that may be subsequently reclassified to profit or loss:					
Foreign currency translation differences on foreign operations	17		**70.9**		(72.1)
Items that will not be subsequently reclassified to profit or loss:					
Actuarial losses on pension plans, net of tax	17		**(0.2)**		(0.2)
Other comprehensive income (loss)			**70.7**		(72.3)
Total comprehensive income		**$**	**6.5**	$	221.5
Net (loss) earnings from continuing operations per common share					
Basic	10	**$**	**(0.21)**	$	1.04
Diluted	10	**$**	**(0.21)**	$	1.02
Net (loss) earnings per common share					
Basic	10	**$**	**(0.16)**	$	0.99
Diluted	10	**$**	**(0.16)**	$	0.97

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of financial position

Canadian $ millions, as at	Note	2018 December 31	2017 December 31
ASSETS			
Current assets			
Cash and cash equivalents	11	**$ 206.9**	$ 185.0
Restricted cash	7, 11	**2.8**	13.0
Short-term investments	11	**0.1**	18.0
Advances, loans receivable and other financial assets	12	**24.6**	42.8
Trade accounts receivable, net, and unbilled revenue	11	**227.5**	284.9
Inventories	13	**33.6**	33.9
Prepaid expenses		**2.7**	2.7
		498.2	580.3
Non-current assets			
Advances, loans receivable and other financial assets	12	**720.5**	713.0
Other non-financial assets		**0.3**	0.2
Property, plant and equipment	14	**227.9**	228.5
Investment in a joint venture	6	**438.0**	367.1
Investment in an associate	7	**148.1**	211.9
Intangible assets	14	**160.5**	142.9
		1,695.3	1,663.6
Assets held for sale		**0.9**	0.9
Total assets		**$ 2,194.4**	$ 2,244.8
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Loans and borrowings	15	**$ 8.0**	$ 8.0
Trade accounts payable and accrued liabilities		**183.2**	182.3
Income taxes payable		**0.6**	11.8
Other financial liabilities	15	**7.4**	8.0
Deferred revenue		**24.5**	16.7
Provisions	16	**8.6**	18.3
		232.3	245.1
Non-current liabilities			
Loans and borrowings	15	**697.7**	816.1
Other financial liabilities	15	**5.7**	16.2
Other non-financial liabilities		**3.0**	3.3
Provisions	16	**108.6**	92.0
Deferred income taxes	9	**16.2**	15.8
		831.2	943.4
Total liabilities		**1,063.5**	1,188.5
Shareholders' equity			
Capital stock	17	**2,894.9**	2,784.6
Deficit	3	**(2,534.6)**	(2,427.7)
Reserves	17	**233.4**	232.9
Accumulated other comprehensive income	7, 17	**537.2**	466.5
		1,130.9	1,056.3
Total liabilities and shareholders' equity		**$ 2,194.4**	$ 2,244.8

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors,

/s/ Lisa Pankratz

Lisa Pankratz
Director

/s/ David V. Pathe

David V. Pathe
Director

Consolidated statements of cash flow

Canadian $ millions, for the years ended December 31	Note	2018	2017
Operating activities			
Net (loss) earnings from continuing operations		**$ (80.2)**	$ 308.9
Add (deduct):			
Depletion, depreciation and amortization	5	**46.3**	65.8
Gain on Ambatovy Joint Venture restructuring	7	**-**	(629.0)
Share of earnings of a joint venture, net of tax	6	**(64.2)**	(31.9)
Share of loss of an associate, net of tax	7	**72.4**	195.0
Net finance expense (net of accretion expense)	8	**15.5**	116.7
Income tax expense	9	**3.4**	14.2
Net change in non-cash working capital	19	**73.3**	6.7
Interest received		**4.1**	9.3
Interest paid		**(50.9)**	(57.2)
Income tax paid		**(15.1)**	(17.6)
Distributions received from joint venture	6	**11.9**	-
Liabilities settled for environmental rehabilitation provisions		**-**	(0.7)
Other operating items	19	**(9.1)**	10.2
Cash provided (used) by continuing operations		**7.4**	(9.6)
Cash used by discontinued operations	16	**(8.5)**	(5.2)
Cash used by operating activities		**(1.1)**	(14.8)
Investing activities			
Property, plant and equipment expenditures	4	**(23.2)**	(18.6)
Intangible asset expenditures	4	**(16.3)**	(12.0)
Increase in advances, loans receivable and other financial assets		**-**	(10.5)
Receipts of advances, loans receivable and other financial assets		**35.8**	31.7
Increase in restricted cash		**-**	(12.0)
Loans to an associate		**-**	(38.6)
Net proceeds from sale of property, plant and equipment		**-**	0.8
Proceeds from short-term investments		**17.9**	22.0
Cash provided (used) by continuing operations		**14.2**	(37.2)
Cash provided (used) by investing activities		**14.2**	(37.2)
Financing activities			
Repayment of loans and borrowings		**-**	(35.0)
Repurchase of senior unsecured debentures	15	**(120.3)**	-
Issuance of units	17	**132.3**	-
Fees paid on repurchase of senior unsecured debentures and issuance of units	15, 17	**(9.5)**	-
Issuance of common shares		**0.8**	5.6
Cash provided (used) by continuing operations		**3.3**	(29.4)
Cash provided (used) by financing activities		**3.3**	(29.4)
Effect of exchange rate changes on cash and cash equivalents		**5.5**	(2.2)
Increase (decrease) in cash and cash equivalents		**21.9**	(83.6)
Cash and cash equivalents at beginning of the year		**185.0**	268.6
Cash and cash equivalents at end of the year	11	**$ 206.9**	$ 185.0

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of changes in shareholders' equity

Canadian $ millions

	Note	Capital stock	Deficit	Reserves	Accumulated other comprehensive income (loss)	Total
Balance as at December 31, 2016		**$ 2,775.7**	**$ (2,721.5)**	**$ 234.7**	**$ 809.0**	**$ 1,097.9**
Total comprehensive income:						
Net earnings for the year		-	293.8	-	-	293.8
Foreign currency translation differences on foreign operations	17	-	-	-	(72.1)	(72.1)
Actuarial losses on pension plans, net of tax	17	-	-	-	(0.2)	(0.2)
		-	293.8	-	(72.3)	221.5
Shares issued for:						
Restricted stock plan (vested)	17	0.1	-	(0.1)	-	-
Warrants exercised - 2016 debenture extension	17	8.8	-	(3.2)	-	5.6
Reclassification to Gain on Ambatovy Joint Venture restucturing	7	-	-	-	(269.6)	(269.6)
Reclassification to net finance expense upon dissolution of foreign operation		-	-	-	(0.6)	(0.6)
Stock option plan expense	17	-	-	1.5	-	1.5
Balance as at December 31, 2017		**2,784.6**	**(2,427.7)**	**232.9**	**466.5**	**1,056.3**
Cumulative transitional adjustment on initial application of IFRS 9	3	-	(42.7)	-	-	(42.7)
Total comprehensive income:						
Net loss for the year		-	(64.2)	-	-	(64.2)
Foreign currency translation differences on foreign operations	17	-	-	-	70.9	70.9
Actuarial losses on pension plans, net of tax	17	-	-	-	(0.2)	(0.2)
		-	(64.2)	-	70.7	6.5
Shares issued for:						
Stock options exercised	17	0.2	-	(0.1)	-	0.1
Equity issuance, net of transaction costs - 2018 unit offering	17	109.0	-	-	-	109.0
Warrants exercised - 2016 debenture extension	17	1.1	-	(0.4)	-	0.7
Stock option plan expense	17	-	-	1.0	-	1.0
Balance as at December 31, 2018		**$ 2,894.9**	**$ (2,534.6)**	**$ 233.4**	**$ 537.2**	**$ 1,130.9**

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

(All dollar amounts presented in tables are expressed in millions of Canadian dollars except share and per share amounts)

1. NATURE OF OPERATIONS AND CORPORATE INFORMATION

Sherritt International Corporation ("Sherritt" or the "Corporation") is a world leader in the mining and refining of nickel from lateritic ores with projects and operations in Canada, Cuba, and Madagascar. The Corporation is the largest independent energy producer in Cuba, with extensive oil and power operations across the island. Sherritt licenses its proprietary technologies and provides metallurgical services to mining and refining operations worldwide.

The Corporation is domiciled in Ontario, Canada and its registered office is 22 Adelaide Street West, Toronto, Ontario, M5H 4E3. These consolidated financial statements were approved and authorized for issuance by the Board of Directors of Sherritt on February 13, 2019. The Corporation is listed on the Toronto Stock Exchange.

2. BASIS OF PRESENTATION

2.1 Basis of presentation

The consolidated financial statements of the Corporation are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements are prepared on a going concern basis, under the historical cost convention, except for certain financial assets and liabilities and cash-settled share-based payments, which have been measured at fair value. All financial information is presented in Canadian dollars rounded to the nearest hundred thousand, except as otherwise noted.

The Corporation has consistently applied the same accounting policies and methods of computation to all periods presented, with the exception of the adoption of IFRS 9 Financial Instruments (IFRS 9) and IFRS 15 Revenue from Contracts with Customers (IFRS 15) with a date of initial application of January 1, 2018. The Corporation adopted IFRS 9 and IFRS 15 using transition methods that did not require the comparative periods to be restated and therefore comparative information is presented as previously reported under IAS 39 Financial Instruments (IAS 39), IAS 18 Revenue (IAS 18) and IAS 11 Construction Contracts (IAS 11).

The adoption of IFRS 9 had a material impact on the accounting policies, methods of computation and presentation of financial instruments applied by the Corporation. The adoption of IFRS 9 also resulted in the Corporation identifying new critical accounting estimates and judgments related to financial instruments. The adoption of IFRS 15 did not have a material impact on the accounting policies, methods of computation and presentation of revenue applied by the Corporation. The Corporation's accounting policies and critical accounting estimates and judgments related to IFRS 9 and IFRS 15 are described in notes 11 and 4, respectively, and the effects of adoption of IFRS 9 and IFRS 15 are described in note 3.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Corporation's accounting policies. These estimates and judgments are continuously evaluated and are based on management's experience and knowledge of relevant facts and circumstances. Actual results may differ from estimates.

Certain of the Corporation's accounting policies that relate to the financial statements as a whole, as well as estimates and judgments it has made and how they affect the amounts reported in the consolidated financial statements, are incorporated in this section. To facilitate a better understanding of the Corporation's consolidated financial statements, significant accounting policies and critical accounting estimates and judgments (with the exception of those identified in this note 2) are disclosed throughout the following notes:

Note	Topic	Accounting policies	Critical accounting estimates and judgments	Page
4	Reportable segments	x	x	88
4	Revenue recognition	x		88
6	Joint arrangements	x	x	93
7	Investment in an associate	x	x	95
9	Income taxes	x	x	99
11	Financial instruments	x	x	103
13	Inventories	x		110
14	Property, plant and equipment	x	x	111
14	Intangible assets	x	x	111
14	Impairment of non-financial assets	x	x	111
16	Provisions	x	x	119
18	Stock-based compensation	x		123
19	Statement of cash flows	x		128
22	Leases	x	x	134

2.2 Principles of consolidation

These consolidated financial statements include the financial position, financial performance and cash flows of the Corporation, its subsidiaries, its interest in a joint venture, its interest in an associate and its share of assets, liabilities, revenues and expenses related to its interests in joint operations. Intercompany balances, transactions, income and expenses, profits and losses, including gains and losses relating to subsidiaries and joint operations have been eliminated on consolidation.

The Corporation's significant subsidiaries, joint arrangements and interest in an associate are as follows:

	Relationship	Economic interest	Basis of accounting
Metals			
Moa Joint Venture	Joint venture	50%	Equity method
Composed of the following operating companies:			
International Cobalt Company Inc.		50%	
Moa Nickel S.A.		50%	
The Cobalt Refinery Company Inc.		50%	
Ambatovy Joint Venture	Associate	12%(1)	Equity method
Composed of the following operating companies:			
Ambatovy Minerals S.A.		12%(1)	
Dynatec Madagascar S.A.		12%(1)	
Oil and Gas			
Sherritt International (Cuba) Oil and Gas Ltd.	Subsidiary	100%	Consolidation
Sherritt International Oil and Gas Ltd.	Subsidiary	100%	Consolidation
Power			
Energas S.A. (Energas)	Joint operation	33⅓%	Share of assets, liabilities, revenues and expenses

(1) On December 11, 2017, the Corporation's economic interest in the Ambatovy Joint Venture was reduced from 40% to 12% as part of the Ambatovy Joint Venture restructuring (note 7).

Subsidiaries

Subsidiaries are entities over which the Corporation has control. Control is defined as when the Corporation is exposed or has rights to the variable returns from the subsidiary and has the ability to affect those returns through its power over the subsidiary. Power is defined as existing rights that give the Corporation the ability to direct the relevant activities of the subsidiary. Subsidiaries are fully consolidated from the date control is transferred to the Corporation and are de-consolidated from the date control ceases.

Joint arrangements

A joint arrangement is an arrangement whereby two or more parties are subject to joint control. Joint control is considered to be when all parties to the joint arrangement are required to reach unanimous consent over decisions about relevant business activities pertaining to the contractual arrangement. The Corporation has two types of joint arrangements: a joint venture and joint operations. See note 6 for details.

Associate

An associate is an entity over which the Corporation has significant influence. Significant influence is the power to participate in operating and financial decisions of the investee, but is not control or joint control over those policies. The Corporation is presumed to have significant influence over an entity if it holds, directly or indirectly, 20 percent or more of the voting power of the entity or if significant influence can be clearly demonstrated. The Corporation has one associate. See note 7 for details.

Impairment of the investment in an associate and investment in a joint venture

At each reporting date, the Corporation assesses whether there is any indication that the carrying amounts of the Corporation's investment in a joint venture and investment in an associate may be impaired. Significant changes in commodity price forecasts, reserve estimates and production forecasts are examples of factors that could indicate impairment.

Impairment is determined as the excess of the carrying amount of the investment in a joint venture or investment in an associate over their respective recoverable amounts (higher of value in use and fair value less costs to sell). The recoverable amount is based on estimated future recoverable production, expected commodity or contracted prices (considering current and historical prices, price trends and related factors), discount rates, foreign exchange rates, production levels, cash costs of production and environmental rehabilitation costs over the life of mine. Cash flow projections are based on detailed mine plans and independent estimates of critical commodity prices.

See note 14 for the Corporation's policy on impairment of non-financial assets of its subsidiaries and joint operations.

Critical accounting judgments

Interests in other entities

The Corporation applies judgment in determining the classification of its interest in other entities, such as: (i) the determination of the level of control or significant influence held by the Corporation; (ii) the legal structure and contractual terms of the arrangement; (iii) concluding whether the Corporation has rights to assets and liabilities or to net assets of the arrangement; and (iv) when relevant, other facts and circumstances. The Corporation has determined that Energas S.A. and its Oil and Gas production-sharing contracts represent joint operations while the Moa Joint Venture represents a joint venture as described in IFRS 11, "Joint Arrangements". The Corporation has concluded that the Ambatovy Joint Venture represents an investment in an associate as described in IAS 28, "Investments in Associates and Joint Ventures". All other interests in other entities have been determined to be subsidiaries as described in IFRS 10, "Consolidated Financial Statements".

Measuring the recoverable amount of the Corporation's investment in an associate and investment in a joint venture

The Corporation accounts for its investment in a joint venture and investment in an associate using the equity method. The Corporation assesses the carrying amount of its investments at each reporting date to determine whether there are any indicators that the carrying amount of the investments may be impaired.

For purposes of determining the recoverable amount, management calculates the net present value of expected future cash flows. Projections of future cash flows are based on factors relevant to the investment's operations and could include estimated recoverable production, commodity or contracted prices, foreign exchange rates, production levels, cash costs of production, capital and reclamation costs. Projections inherently require assumptions and judgments to be made about each of the factors affecting future cash flows. The determination of the recoverable amount involves a detailed review of the investment's life of mine model and the determination of weighted average cost of capital among other critical factors.

Changes in any of these assumptions or judgments could result in a significant difference between the carrying amount and the recoverable amount of these investments. Where necessary, management engages qualified third-party professionals to assist in the determination of recoverable amounts.

2.3 Foreign currency translation

The consolidated financial statements are presented in Canadian dollars, the Corporation's functional and presentation currency.

Translation of foreign entities

The functional currency for each of the Corporation's subsidiaries, joint arrangements and associate is the currency of the primary economic environment in which it operates. Operations with foreign functional currencies are translated into the Corporation's presentation currency in the following manner:

- Monetary and non-monetary assets and liabilities are translated at the spot exchange rate in effect at the reporting date;
- Revenue and expense items (including depletion, depreciation and amortization) are translated at average rates of exchange prevailing during the period, which approximate the exchange rates on the transaction dates;
- Impairment of assets are translated at the prevailing rate of exchange on the date of the impairment recognition, and;
- Exchange gains and losses that result from translation are recognized as foreign currency translation differences on foreign operations in accumulated other comprehensive income.

Translation of transactions and balances

Operations with transactions in currencies other than the entity's functional currency are recognized at the rates of exchange prevailing at the date of the transaction as follows:

- Monetary assets and liabilities are translated at current rates of exchange with the resulting gains or losses recognized within financing expense in the consolidated statements of comprehensive income (loss);
- Non-monetary items are translated at historical exchange rates; and
- Revenue and expense items are translated at the average rates of exchange, except depletion, depreciation and amortization, which are translated at the rates of exchange applicable to the related assets, with any gains or losses recognized within financing expense in the consolidated statements of comprehensive income (loss).

3. ACCOUNTING PRONOUNCEMENTS

Adoption of new and amended accounting pronouncements

Effective January 1, 2018, the Corporation adopted the requirements of IFRS 9 and IFRS 15. The effects of adoption of IFRS 9 and IFRS 15 are described below. There has been no change to the Corporation's accounting policies or critical accounting estimates and judgments related to IFRS 9 and IFRS 15 subsequent to adoption.

IFRS 9 – Financial Instruments

In July 2014, the IASB issued IFRS 9 Financial Instruments which replaced IAS 39 effective January 1, 2018. IFRS 9 provides new guidance on the classification, measurement, impairment and hedge accounting for financial instruments in addition to new guidance for the treatment of contractual modifications of financial liabilities. IFRS 9 is required to be adopted retrospectively with certain available transition provisions which allow the Corporation to elect not to restate prior period comparative information.

The Corporation elected to apply the standard on a modified retrospective basis using the available transitional provisions. Under this approach, the 2017 comparative period was not restated and a cumulative transitional adjustment of $42.7 million reducing the opening balance of shareholders' equity was recognized on January 1, 2018.

Reconciliation table:

The following table reconciles the impact of transitioning from IAS 39 to IFRS 9 on the consolidated statements of financial position at the date of initial application, January 1, 2018. The impact consists of adjustments related to the reclassification and remeasurement of financial assets and financial liabilities.

	December 31, 2017					**January 1, 2018**
Canadian $ millions, as at	**IAS 39 Measurement basis**	**IAS 39 Carrying value**	**Reclass-ification**	**Remeas-urement**	**IFRS 9 Carrying value**	**IFRS 9 Measurement basis**
Financial assets						
Cash held in banks	Amortized cost	$ 127.8	**$ -**	**$ -**	**$ 127.8**	**Amortized cost**
Restricted cash	Amortized cost	13.0	**-**	**-**	**13.0**	**Amortized cost**
Cash equivalents and short-term investments[1]	FVPL	75.2	**(75.2)**			
Cash equivalents and short-term investments[1]			**75.2**	**-**	**75.2**	**FVOCI**
Advances, loans receivable and other financial assets:						
Ambatovy Joint Venture subordinated loans receivable[4]	Loans and receivables	223.4	**-**	**(50.4)**	**173.0**	**Amortized cost**
Ambatovy Joint Venture subordinated loans receivable - post financial completion	Loans and receivables	47.9	**-**	**-**	**47.9**	**Amortized cost**
Ambatovy Joint Venture operator fee receivable[2]	Loans and receivables	9.7	**(9.7)**			
Ambatovy Joint Venture operator fee receivable[2]			**9.7**	**-**	**9.7**	**FVPL**
Energas conditional sales agreement	Loans and receivables	206.7	**-**	**-**	**206.7**	**Amortized cost**
Moa Joint Venture expansion loans receivable	Loans and receivables	232.0	**-**	**-**	**232.0**	**Amortized cost**
Moa Joint Venture working capital facility	Loans and receivables	25.2	**-**	**-**	**25.2**	**Amortized cost**
Other	Loans and receivables	10.9	**-**	**-**	**10.9**	**Amortized cost**
Trade accounts receivable, net[5]	Loans and receivables	284.9	**-**	**(5.6)**	**279.3**	**Amortized cost**
Investment in an associate						
Investment in an associate[3]		211.9	**-**	**(5.7)**	**206.2**	
Total assets impacted by transition		$ 1,468.6	**$ -**	**$ (61.7)**	**$ 1,406.9**	

Canadian $ millions, as at	December 31, 2017 IAS 39 Measurement basis	IAS 39 Carrying value	Reclass-ification	Remeas-urement	January 1, 2018 IFRS 9 Carrying value	IFRS 9 Measurement basis
Financial liabilities						
8.00% senior unsecured debentures due 2021[6]	Amortized cost	$ 213.2	**$ -**	**$ (5.6)**	**$ 207.6**	**Amortized cost**
7.50% senior unsecured debentures due 2023[6]	Amortized cost	240.7	**-**	**(8.3)**	**232.4**	**Amortized cost**
7.875% senior unsecured debentures due 2025[6]	Amortized cost	234.4	**-**	**(10.6)**	**223.8**	**Amortized cost**
Ambatovy Joint Venture partner loans[7]	Amortized cost	127.8	**-**	**6.0**	**133.8**	**Amortized cost**
Syndicated revolving-term credit facility	Amortized cost	8.0	**-**	**-**	**8.0**	**Amortized cost**
Deferred income taxes liability						
Deferred income taxes[8]		15.8	**-**	**(0.5)**	**15.3**	
Total liabilities impacted by transition		839.9	**-**	**(19.0)**	**820.9**	
Shareholders' equity		1,056.3	**-**	**(42.7)**	**1,013.6**	
Total equity impacted by transition		1,056.3	**-**	**(42.7)**	**1,013.6**	
Total liabilities and equity impacted by transition		$ 1,896.2	**$ -**	**$ (61.7)**	**$ 1,834.5**	

(1) Cash equivalents and short-term investments measured at FVPL were reclassified to be measured at FVOCI. The reclassifications were due to the Corporation's business model for managing the financial assets which is held to collect and sell and the cash flows represent solely payments of principal and interest.

(2) The Ambatovy Joint Venture operator fee receivable classified as loans and receivables and measured at amortized cost was reclassified to be measured at FVPL. The reclassification was due to the contractual cash flows not representing solely payments of principal and interest due to the Corporation not charging interest on the non-current balance owing.

(3) The terms of the Ambatovy Joint Venture financing were modified in 2016 to defer six principal payments. Under IFRS 9, this modification increased the carrying value of this financing, resulting in the Ambatovy Joint Venture recognizing a modification loss of $47.8 million (100% basis), which reduced the Corporation's investment in an associate by its proportionate $5.7 million share of the loss (12% basis) upon initial application. The modification loss was due to the additional interest charged being higher than the original effective interest rate.

(4) The Corporation recognized an allowance for credit losses on the Ambatovy Joint Venture subordinated loans receivable of $50.4 million. No allowance for credit losses was previously recognized under IAS 39.

(5) The Corporation recognized a $5.6 million increase in the allowance for credit losses on trade accounts receivable. The Corporation had previously recognized an allowance for credit losses of $10.7 million under IAS 39.

(6) The terms of the senior unsecured debentures were each modified in 2016 to extend their maturity dates. Under IFRS 9, this modification reduced the carrying values of the debentures, resulting in modification gains on each of these debentures upon initial application. The modification gains were a result of the coupons on the debentures being lower than the original effective interest rates.

(7) The terms of the Ambatovy Joint Venture partner loans were modified in 2017 to include the option to extend their maturity dates. Under IFRS 9, this modification increased the carrying value of these loans, resulting in a modification loss upon initial application. The modification loss was a result of additional interest charged on amounts outstanding being higher than the original effective interest rate.

(8) The reduction in the deferred income taxes liability relates to the cumulative tax impact of the initial application of IFRS 9 resulting from the adjustments described above.

Reclassification:

These adjustments reflect the movement of balances between categories on the consolidated statements of financial position with no impact to shareholders' equity. There is no change to the carrying value of the balances as a result of the reclassifications.

Remeasurement:

These adjustments result in a change to the carrying value of the financial instruments on the consolidated statements of financial position with an impact to shareholders' equity, net of tax.

The Corporation's accounting policy for financial instruments in accordance with IFRS 9 is described in note 11.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 which replaces IAS 18 Revenue and IAS 11 Construction Contracts effective January 1, 2018. The objective of IFRS 15 is to establish the principles that the Corporation will apply to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

The Corporation elected to apply the standard on a modified retrospective basis using certain practical expedients described below. Under this approach, the 2017 comparative period was not restated and no cumulative transitional adjustment to the opening balance of shareholders' equity was recognized on January 1, 2018, given that the net impact of adoption of IFRS 15 to the opening balance of shareholders' equity was immaterial.

Management identified the following impacts to revenue recognition upon adoption, all of which are immaterial:

- In the Moa JV and Fort Site segment, revenue from the Moa JV is excluded from consolidated revenue due to the equity method and is included in the share of earnings of a joint venture. At the Moa JV, no material transitional adjustment was recognized upon adoption and there was no material change in the timing and recognition of revenue. The Corporation determined that Moa JV's revenue associated with performance obligations for shipping and insurance for certain sales was immaterial and therefore there was no change to the timing of revenue recognition upon adoption.

- In the Ambatovy JV segment, all revenue relates to the Ambatovy JV and is excluded from consolidated revenue due to the equity method and is included in the share of loss of an associate. At the Ambatovy JV, no material transitional adjustment was recognized upon adoption and there was no material change in the timing of revenue recognition. Upon adoption of IFRS 15 at the Ambatovy JV, marketing expenses and other fees paid to customers for the sale of nickel and cobalt are recognized as reductions of revenue rather than expenses, with no impact to Ambatovy JV's net loss. Total marketing expenses and other fees deducted from the Ambatovy Joint Venture's revenue are approximately US$10.4 million (100% basis) for the year ended December 31, 2018. The Corporation determined that Ambatovy JV's revenue associated with performance obligations for shipping and insurance for certain sales was immaterial and therefore there was no change to the timing of revenue recognition upon adoption.

- In the Oil and Gas segment, no material transitional adjustment was recognized upon adoption and there was no material change in the timing and recognition of revenue. The Corporation is entitled to the recovery of certain costs incurred as a result of its production-sharing contracts from an agency of the Government of Cuba. Upon adoption, amounts to which the Corporation expects to be entitled that have not yet been approved by the agency are presented separately from trade accounts receivable, net, until approval is received. These amounts are presented as unbilled revenue within trade accounts receivable, net, and unbilled revenue on the consolidated statements of financial position (note 11).

- In the Power segment, no material transitional adjustment was recognized upon adoption and there was no material change in the timing and recognition of revenue.

There was no impact on the consolidated statements of cash flow as a result of adoption.

The Corporation applied the following practical expedients upon adoption:

- IFRS 15.63: The Corporation has not adjusted the promised amount of consideration for the effects of a significant financing component when the Corporation expects, at contract inception, that the period between when a promised good or service is transferred to a customer and when the customer pays for that good or service will be one year or less; and
- IFRS 15.C7: The Corporation has elected to apply IFRS 15 retrospectively only to contracts that are not completed contracts at the date of initial application, January 1, 2018.

The Corporation's accounting policy for revenue recognition in accordance with IFRS 15 is described in note 4.

Accounting pronouncements issued but not yet effective

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 Leases (IFRS 16) which replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease effective January 1, 2019.

IFRS 16 introduces a single, on-balance sheet accounting model for lessees and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The Corporation is in the final stages of its evaluation of the impact of this standard on its consolidated financial statements. The Corporation will adopt IFRS 16 for the annual period beginning January 1, 2019 and will apply the standard on a modified retrospective basis using certain practical expedients and transitional provisions, and making certain accounting policy choices, as follows:

- The Corporation elected not to recognize right-of-use assets and lease liabilities for short-term leases with a lease term of 12 months or less and leases of low-value assets. The Corporation will recognize these lease payments associated with these leases as an expense in the consolidated statements of comprehensive income (loss) on a straight-line basis over the lease term.

- The Corporation elected not to apply the practical expedient to grandfather the assessment of which contracts are leases. The Corporation applied IFRS 16 to all contracts that may contain a lease. Therefore, the definition of a lease under IFRS 16 was applied to all contracts in effect on or after January 1, 2019.

- IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts (non-lease components) on the basis of whether the use of an identified asset is controlled by the lessee. The Corporation elected not to separate non-lease components and account for the lease and non-lease components as a single lease component for all classes of assets.

- The Corporation elected to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

- The Corporation elected to apply the transitional exemption not to recognize right-of-use assets and liabilities for leases with a remaining lease term of less than 12 months as at January 1, 2019.

- The Corporation, as a lessee, elected not to apply IFRS 16 to leases of intangible assets.

Under the modified retrospective approach, the 2018 comparative period will not be restated.

For leases currently classified as operating leases in accordance with IAS 17, the lease liability will be measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on the date the standard is first applied. The associated right-of-use asset will be measured at the amount of the lease liability. For lessor accounting, except for sub-lessor accounting, the Corporation anticipates that the accounting treatment will remain substantially the same, resulting in no material impact to the consolidated financial statements.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to assess the classification of a sub-lease as finance or operating lease with reference to the right-of-use asset arising from the head lease, not by reference to the underlying right-of-use asset. On transition, the Corporation will reassess the classification of sub-lease contracts previously classified as operating leases under IAS 17. The Corporation expects that the sub-leases will be finance leases under IFRS 16 and will account for the sub-leases as new finance leases entered into at the date of initial application.

On transition, an intermediate lessor is required to derecognize the sub-lease right-of-use asset and recognize a finance lease receivable. The finance lease receivable will be recognized in the consolidated statements of financial position at an amount equal to the net investment in the lease.

IFRS 16 replaces the straight-line operating lease expense for those leases applying IAS 17 with a depreciation expense on right-of-use assets (included within (loss) earnings from operations, joint venture and associate) and an interest expense on the lease liabilities (included within financing expense). Although the depreciation expense is typically even throughout the lease term due to the straight-line basis of depreciation, the interest expense decreases over the life of the lease due to the effective interest rate method. This results in a declining total expense as leases mature.

The Corporation has substantially completed its analysis of existing leases. The expected impact is summarized as follows:

- The Corporation expects to recognize a material increase in right-of-use assets and lease liabilities in the consolidated statements of financial position as at January 1, 2019 and an increase in finance lease receivables. Management does not expect there to be a material impact on shareholders' equity.

- The Corporation expects to recognize an increase in depreciation expense and interest expense and a decrease in operating lease expense, with no material impact expected on net (loss) earnings from continuing operations in the consolidated statements of comprehensive income (loss) for the annual period commencing January 1, 2019.

- The Moa Joint Venture (note 6) expects to recognize a material increase in right-of-use assets and lease liabilities, with no impact to shareholders' equity, resulting in the Corporation recognizing no change in the investment in a joint venture in the consolidated statements of financial position as at January 1, 2019.

- The Moa Joint Venture expects to recognize an increase in depreciation expense and interest expense and a decrease in operating lease expense, with no material impact expected on the share of earnings of a joint venture, net of tax in the consolidated statements of comprehensive income (loss) for the annual period commencing January 1, 2019.

- The Ambatovy Joint Venture (note 7) expects to recognize a material increase in right-of-use assets and lease liabilities, with no impact to shareholders' equity, resulting in the Corporation recognizing no change in the investment in an associate in the consolidated statements of financial position as at January 1, 2019.

- The Ambatovy Joint Venture expects to recognize an increase in depreciation expense and interest expense and a decrease in operating lease expense, with no material impact expected on the share of loss of an associate, net of tax in the consolidated statements of comprehensive income (loss) for the annual period commencing January 1, 2019.

- The change in presentation of operating lease expenses will result in an increase in cash provided by operating activities and a decrease in cash provided by financing activities within the consolidated statements of cash flow, as the lease payments previously included in cash used by operating activities will be included in cash used by financing activities in accordance with IAS 7.

4. SEGMENTED INFORMATION

Accounting policies

The accounting policies of the segments are the same as those described throughout the notes to the financial statements and are measured in a manner consistent with that of the consolidated financial statements.

Reportable segments

The Corporation has determined the following to be reportable segments based on qualitative and quantitative considerations discussed within the critical accounting estimates and judgments sections below:

- The Moa JV and Fort Site segment is comprised of mining, processing and refining activities of nickel and cobalt for the Corporation's 50% interest in the Moa Joint Venture in Cuba and Canada and the production and sale of agricultural fertilizers for its 100% interest in the utility and fertilizer operations in Fort Saskatchewan;
- The Ambatovy JV segment represents the mining, processing and refining activities of nickel and cobalt for the Corporation's 12% interest in the Ambatovy Joint Venture integrated facility in Madagascar. Prior to the Ambatovy Joint Venture restructuring on December 11, 2017, the Corporation's interest was 40%.
- The Metals Other segment is comprised of the Corporation's three wholly-owned subsidiaries established to buy, market and sell certain of Ambatovy Joint Venture and Moa Joint Venture's nickel and cobalt production;
- The Oil and Gas segment is comprised of the oil and gas operations in Cuba, Spain and Pakistan, as well as the exploration and development of oil and gas in Cuba;
- The Power segment represents the power operations in Cuba, which construct and operate electricity generating plants that provide electricity in Cuba; and,
- The Corporate and Other segment is comprised of the Corporation's metallurgical technology business, Technologies; management of cash and short-term investments; general corporate activities; and wholly-owned subsidiaries of the Corporation established to finance the Ambatovy Joint Venture.

Revenue recognition

Revenue from the sale of goods and services is recognized when the Corporation transfers control of the good or service to the customer, reflecting the amount of consideration to which the Corporation expects to be entitled in exchange for those goods or services. Control generally transfers to the customer upon shipment or delivery to the destination, as specified in the sales contract.

Moa JV and Fort Site and Ambatovy JV

Certain product sales at the Moa JV and Ambatovy JV are provisionally priced, with the selling price subject to final adjustment at the end of a quotation period, in accordance with the terms of the sale. The quotation period is normally within 90 days after shipment to the customer, and final pricing is based on a reference price established at the end of the quotation period.

Revenue from provisionally priced sales is initially recorded at the estimated fair value of the consideration that is expected to be ultimately received based on forecast reference prices. At each reporting date, all outstanding receivables originating from provisionally priced sales are revalued based on a forecast of reference prices at that time. The adjustment to trade accounts receivable, net, is recorded as an adjustment to revenue. Provisional pricing is only used in the pricing of nickel and cobalt sales for which reference prices are established in a freely traded and active market.

Payment for fertilizer sales at Fort Site is generally received before shipment and recognized as deferred revenue until shipment.

Oil and Gas

Revenue from Oil and Gas is recognized when control transfers at the time of production and the amount of revenue recognized is determined based on the Corporation's working interest. In Cuba, all oil production is sold to an agency of the Government of Cuba and delivery coincides with production. The Corporation is allocated a share of Cuban oil production pursuant to its production-sharing contracts.

Revenue from cost recovery oil, up to the total recoverable costs incurred in connection with oil activities, is recognized when entitlement to the cost recovery oil component of production is established. The production-sharing contracts limit cost recovery oil to a maximum percentage of total production in a calendar quarter, which is 60% of total production for the Puerto Escondido/Yumuri production-sharing contract. In the comparative periods, cost recovery oil from the Varadero West production-sharing contract, which expired in November 2017, was limited to 50%. Recoverable costs that do not provide cost recovery oil entitlements in the current period are included in the determination of cost recovery oil entitlements, and thus revenue, in future periods.

Revenue from profit oil represents the Corporation’s share of oil production after cost recovery oil production is deducted.

Payment terms for oil sales to an agency of the Cuban government are based on U.S. Gulf Coast High Sulphur Fuel Oil (USGC HSFO) reference prices and range from 90 days to 180 days from the date of invoice.

Power

Substantially all of Power’s revenue is from agencies of the Government of Cuba.

The facilities located in Boca de Jaruco and Puerto Escondido, Cuba operate under a service concession arrangement. Revenue from Power on operational facilities is recognized at the time electricity is delivered or services are performed. The consideration to be received is subject to variability as the quantity of power to be generated is not fixed and the rate for the power generated declines once construction costs are repaid. Management estimates the transaction price based on expected power generation and the forecasted repayment schedule for construction costs and reassesses this estimate each reporting period.

The facilities located in Varadero, Cuba operate under lease arrangements, whereby the Corporation is the lessor. All operating lease revenue related to the Varadero facility is contingent on the amount of electricity produced or services provided and is recognized when lease payments become due.

Payment terms for electricity and by-product sales to agencies of the Government of Cuba are 60 days from the date of invoice.

Critical accounting judgments

When determining its reportable segments, the Corporation considers qualitative factors, such as operations that offer distinct products and services and are considered to be significant by the Chief Operating Decision Maker, identified as the senior executive team. The Corporation also considers quantitative thresholds when determining reportable segments, such as if revenue, earnings (loss) or assets are greater than 10% of the total consolidated revenue, net earnings (loss), or assets of all the reportable segments, respectively. Operating segments that share similar economic characteristics are aggregated to form a single reportable segment. Aggregation occurs when the operating segments have similar economic characteristics, and have similar (a) products and services; (b) production processes; (c) type or class of customer for their products and services; (d) methods used to distribute their products or provide their services; and (e) nature of the regulatory environment, if applicable.

Supporting information

Canadian $ millions, for the year ended December 31								2018
	Metals						**Adjustments for**	
	Moa JV and Fort Site	**Ambatovy JV**	**Other[1]**	**Oil and Gas**	**Power**	**Corporate and Other**	**Joint Venture and Associate[2]**	**Total**
Revenue[3]	**$ 498.1**	**$ 101.2**	**$ 11.0**	**$ 44.9**	**$ 47.2**	**$ (0.5)**	**$ (549.0)**	**$ 152.9**
Cost of sales	**(408.7)**	**(125.3)**	**(10.4)**	**(55.8)**	**(41.0)**	**(10.1)**	**477.0**	**(174.3)**
Administrative expenses	**(10.5)**	**(4.5)**	**0.2**	**(6.1)**	**(3.4)**	**(17.1)**	**10.4**	**(31.0)**
Losses on write-down of long-lived assets	**-**	**(15.7)**	**-**	**-**	**-**	**-**	**15.7**	**-**
Other gains	**-**	**3.5**	**-**	**-**	**-**	**-**	**(3.5)**	**-**
Share of earnings of a joint venture, net of tax	**-**	**-**	**-**	**-**	**-**	**-**	**64.2**	**64.2**
Share of loss of an associate, net of tax	**-**	**-**	**-**	**-**	**-**	**-**	**(72.4)**	**(72.4)**
Earnings (loss) from operations, joint venture and associate	**78.9**	**(40.8)**	**0.8**	**(17.0)**	**2.8**	**(27.7)**	**(57.6)**	**(60.6)**
Financing income								**15.1**
Financing expense								**(31.3)**
Net finance expense								**(16.2)**
Loss before tax								**(76.8)**
Income tax expense								**(3.4)**
Net loss from continuing operations								**(80.2)**
Earnings from discontinued operations, net of tax (note 16)								**16.0**
Net loss for the year								**(64.2)**
Supplementary information								
Depletion, depreciation and amortization	**$ 47.2**	**$ 43.1**	**$ -**	**$ 11.1**	**$ 25.2**	**$ 0.9**	**$ (81.2)**	**$ 46.3**
Property, plant and equipment expenditures	**32.9**	**13.3**	**-**	**11.7**	**0.9**	**1.7**	**(37.3)**	**23.2**
Intangible asset expenditures	**-**	**-**	**-**	**16.3**	**-**	**-**	**-**	**16.3**
Canadian $ millions, as at December 31								**2018**
Non-current assets[4]	**$ 699.7**	**$ 730.2**	**$ -**	**$ 126.0**	**$ 117.2**	**$ 4.1**	**$ (1,288.8)**	**$ 388.4**
Total assets[5]	**998.8**	**820.3**	**98.1**	**201.1**	**462.3**	**659.0**	**(1,045.2)**	**2,194.4**

Canadian $ millions, for the year ended December 31								2017
	Metals						Adjustments for	
	Moa JV Fort Site	Ambatovy JV	Other[1]	Oil and Gas	Power	Corporate and Other	Joint Venture and Associate[2]	Total
Revenue[3]	$ 417.0	$ 279.2	$ 43.1	$ 127.0	$ 51.2	$ -	$ (650.2)	$ 267.3
Cost of sales	(376.1)	(385.5)	(41.5)	(83.0)	(41.3)	(9.6)	706.9	(230.1)
Administrative expenses	(9.6)	(12.3)	(0.7)	(10.4)	(4.7)	(42.7)	18.1	(62.3)
Gain on Ambatovy Joint Venture restructuring	-	4.2	-	-	-	629.0	(4.2)	629.0
Other gains	-	4.9	-	-	-	-	(4.9)	-
Share of earnings of a joint venture, net of tax	-	-	-	-	-	-	31.9	31.9
Share of loss of an associate, net of tax	-	-	-	-	-	-	(195.0)	(195.0)
Earnings (loss) from operations, joint venture and associate	31.3	(109.5)	0.9	33.6	5.2	576.7	(97.4)	440.8
Financing income								65.4
Financing expense								(183.1)
Net finance expense								(117.7)
Earnings before tax								323.1
Income tax expense								(14.2)
Net earnings from continuing operations								308.9
Loss from discontinued operations, net of tax (note 16)								(15.1)
Net earnings for the year								293.8
Supplementary information								
Depletion, depreciation and amortization	$ 49.2	$ 139.7	$ -	$ 28.3	$ 24.9	$ 2.7	$ (179.0)	$ 65.8
Property, plant and equipment expenditures	20.9	28.9	-	9.9	1.5	-	(42.6)	18.6
Intangible asset expenditures	-	-	-	12.0	-	-	-	12.0
Canadian $ millions, as at December 31								2017
Non-current assets[4]	$ 666.7	$ 704.7	$ -	$ 96.3	$ 132.3	$ 4.1	$ (1,232.7)	$ 371.4
Total assets[5]	912.4	789.8	109.6	211.7	441.9	712.5	(933.1)	2,244.8

Included in the year ended December 31, 2017 is the financial performance of a subsidiary established to buy, market and sell certain Ambatovy Joint Venture production which was dissolved during the year ended December 31, 2017. The earnings of the subsidiary in the comparative period were negligible.

The Adjustments for Joint Venture and Associate reflect the adjustments for equity-accounted investments in the Moa Joint Venture and Ambatovy Joint Venture.

Revenue in the Metals Other segment includes $6.4 million of intersegment revenue with the Moa JV and Fort Site segment related to marketing of nickel and cobalt for the year ended December 31, 2018 ($7.0 million for the year ended December 31, 2017). Revenue in the Corporate and Other segment includes $1.7 million of intersegment revenue, net of elimination, with the Ambatovy JV segment related to the Ambatovy Joint Venture operator fee for the year ended December 31, 2018 ($1.7 million for the year ended December 31, 2017).

Non-current assets are composed of property, plant and equipment and intangible assets.

The Corporation revised its presentation of total assets by segment in the current and comparative periods as a result of a change in the way cash and cash equivalents is reported to the chief operating decision maker.

Geographic information

Canadian $ millions, as at	2018 December 31 Non-current assets(1)	2018 December 31 Total assets(2)	2017 December 31 Non-current assets(1)	2017 December 31 Total assets(2)
North America	$ 148.7	$ 491.1	$ 146.9	$ 497.5
Cuba	227.6	1,162.8	217.6	1,104.3
Madagascar	-	377.6	-	483.0
Europe	11.9	62.1	6.4	72.8
Asia	0.2	33.7	0.5	41.5
Other	-	67.1	-	45.7
	$ 388.4	$ 2,194.4	$ 371.4	$ 2,244.8

(1) Non-current assets are composed of property, plant and equipment and intangible assets and exclude the non-current assets of equity-accounted investments.

(2) For its geographic information, the Corporation has allocated assets based on their physical location.

Canadian $ millions, for the years ended December 31	2018 Total revenue(1)	2017 Total revenue(1)
North America	$ 58.6	$ 85.4
Cuba	83.2	168.5
Madagascar	2.0	1.7
Europe	7.2	8.6
Asia	1.7	1.7
Other	0.2	1.4
	$ 152.9	$ 267.3

(1) For its geographic information, the Corporation has allocated revenue based on the location of the customer. Revenue excludes the revenue of equity-accounted investments.

Disaggregation of revenue by product type

Revenue in the below table excludes the revenue of equity-accounted investments in the Ambatovy Joint Venture and Moa Joint Venture:

Canadian $ millions, for the years ended December 31	2018 Total revenue	2017 Total revenue
Nickel(1)	$ -	$ 31.7
Fertilizer	53.0	49.0
Oil and gas(2)	40.9	123.0
Power generation(3)	42.4	46.8
Other	16.6	16.8
	$ 152.9	$ 267.3

(1) Nickel revenue for the year ended December 31, 2017 includes revenue from a subsidiary established to buy, market and sell certain Ambatovy Joint Venture production. This subsidiary was dissolved during the year ended December 31, 2017. The earnings of this subsidiary for the year ended December 31, 2017 were negligible.

(2) Oil and gas revenue for the year ended December 31, 2018 decreased compared to the comparative period as a result of the reduction in profit oil percentage from 45% to 6% upon the extension of the Puerto Escondido/Yumuri production-sharing contract during the year ended December 31, 2018. Oil and gas revenue for the year ended December 31, 2017 includes revenue from the Varadero West production-sharing contract which expired during the year ended December 31, 2017.

(3) All of the revenue in the table above is revenue recognized from contracts with customers in accordance with IFRS 15, except for lease revenue related to power generation facilities, which is recognized in accordance with IAS 17 Leases. Included in power generation revenue for the year ended December 31, 2018 is $28.8 million of revenue from service concession arrangements and $13.6 million of lease revenue related to power generation facilities ($33.5 million of revenue from service concession arrangements and $13.2 million of lease revenue related to power generation facilities for the year ended December 31, 2017, respectively).

All of the deferred revenue as at December 31, 2017 was recognized during the year ended December 31, 2018.

Significant customers

The Oil and Gas segment derived $35.9 million of its revenue for the year ended December 31, 2018 ($117.3 million for the year ended December 31, 2017) directly and indirectly from agencies of the Government of Cuba.

The Power segment derived $47.2 million of its revenue for the year ended December 31, 2018 ($51.2 million for the year ended December 31, 2017) directly and indirectly from agencies of the Government of Cuba.

The Metals Other segment derived nil of its revenue for the year ended December 31, 2018 ($31.4 million for the year ended December 31, 2017) from a customer who markets and sells nickel.

No other single customer contributed 10% or more to the Corporation's revenue for both 2018 and 2017.

5. EXPENSES

Cost of sales includes the following:

Canadian $ millions, for the years ended December 31	2018	2017
Employee costs	**$ 66.0**	$ 63.1
Depletion, depreciation and amortization of property, plant and equipment and intangible assets	**45.4**	63.1
Raw materials and consumables	**39.6**	36.9
Repairs and maintenance	**43.2**	45.2
Shipping and treatment costs	**4.6**	12.9
Impairment losses and inventory obsolescence	**3.5**	2.4
Stock-based compensation (recovery) expense	**(0.7)**	0.6
Changes in inventories and other(1)	**(27.3)**	5.9
	$ 174.3	$ 230.1

(1) Included in the year ended December 31, 2017 is $30.4 million of other cost of sales from a subsidiary established to buy, market and sell certain Ambatovy Joint Venture production which was dissolved during the year ended December 31, 2017. The earnings of this subsidiary for the year ended December 31, 2017 were negligible.

Administrative expenses include the following:

Canadian $ millions, for the years ended December 31	2018	2017
Employee costs	**$ 25.7**	$ 30.0
Severance	**4.0**	2.1
Depreciation	**0.9**	2.7
Stock-based compensation (recovery) expense	**(11.1)**	14.1
Consulting services and audit fees	**5.2**	6.2
Other	**6.3**	7.2
	$ 31.0	$ 62.3

6. JOINT ARRANGEMENTS

Investment in a joint venture

Accounting policies

The Moa Joint Venture is recognized as an investment in a joint venture and accounted for using the equity method as follows:

- The Corporation recognizes its share of earnings (loss), net of tax in the consolidated statements of comprehensive income (loss), which is adjusted against the carrying amount of its interest in a joint venture;
- If the Corporation's share of losses equals or exceeds the carrying value of its investment in joint venture in the future, the Corporation does not recognize further losses, unless it has incurred obligations or made payments on behalf of the entity;
- Gains and losses on transactions between the Corporation and its joint venture are eliminated to the extent of the Corporation's interest in this entity. Losses are eliminated only to the extent that there is no evidence of impairment; and
- Interest revenue on a loan receivable from a joint venture is recognized to the extent of Sherritt's economic interest.

Supporting information

The Corporation indirectly holds a 50% interest in the Moa Joint Venture. The operations of the Moa Joint Venture are currently conducted among three companies. Moa Nickel S.A. owns and operates the mining and processing facilities located in Moa, Cuba; The Cobalt Refinery Company Inc. owns and operates the metals refinery located at Fort Saskatchewan, Canada; and International Cobalt Company Inc., incorporated in Bahamas, acquires mixed-sulphides from Moa Nickel S.A. and third parties, contracts the refining of such purchased materials and then markets finished nickel and cobalt.

During the year ended December 31, 2018, the Moa Joint Venture paid distributions of $23.8 million, of which $11.9 million were received by the Corporation (December 31, 2017 - nil). Of the $23.8 million in distributions paid by the Moa Joint Venture, $17.1 million were in the form of dividends and $6.7 million were in the form of advances repayable to the Moa Joint Venture until declaration as dividends.

The following provides additional information relating to the Corporation's investment in the Moa Joint Venture:

Statements of financial position

Canadian $ millions, 100% basis, as at	**2018 December 31**	2017 December 31
Assets		
Cash and cash equivalents	**$ 55.3**	$ 39.4
Income taxes receivable	**6.3**	4.6
Other current assets	**15.3**	8.6
Trade accounts receivable, net	**107.4**	107.0
Inventories	**315.2**	225.7
Other non-current assets	**5.4**	3.1
Property, plant and equipment	**1,211.9**	1,144.6
Total assets	**1,716.8**	1,533.0
Liabilities		
Trade accounts payable and accrued liabilities	**69.4**	72.2
Income taxes payable	**0.3**	1.4
Other current financial liabilities(1)	**0.3**	25.5
Loans and borrowings(2)	**20.1**	33.7
Environmental rehabilitation provisions	**87.2**	72.1
Other non-current financial liabilities(3)	**545.1**	481.1
Deferred income taxes	**23.7**	24.8
Total liabilities	**746.1**	710.8
Net assets of Moa Joint Venture	**$ 970.7**	$ 822.2
Proportion of Sherritt's ownership interest	**50%**	50%
Total	**485.4**	411.1
Intercompany capitalized interest elimination	**(47.4)**	(44.0)
Carrying value of investment in a joint venture	**$ 438.0**	$ 367.1

(1) During the year ended December 31, 2018, the working capital facility with the Corporation was fully repaid (December 31, 2017 - $25.2 million) (note 12).

(2) During the year ended December 31, 2018, the Moa Joint Venture made full repayment of $10.8 million previously advanced by the Corporation. Included in loans and borrowings as at December 31, 2018 is a $2.3 million loan for the construction of the Moa Joint Venture acid plant (December 31, 2017 - $27.9 million), which accrues interest at a rate of 10% per annum and is payable monthly, and a $7.8 million loan for the purchase of mining equipment (December 31, 2017 - nil).

(3) Included in other non-current financial liabilities as at December 31, 2018 is $538.4 million in expansion loans, of which $269.2 million are with the Corporation (December 31, 2017 - $464.0 million, $232.0 million of which are with the Corporation) (note 12). During the year ended December 31, 2017, interest was suspended for two years on the expansion loans, which resulted in a decrease to the Moa Joint Venture expansion loans payable of $64.8 million. During the year ended December 31, 2018, the Moa Joint Venture expansion loans payable increased $32.2 million due to accretion, respectively (for the year ended December 31, 2017 - $25.4 million).

Statements of comprehensive income

Canadian $ millions, 100% basis, for the years ended December 31		2018		2017
Revenue	$	**895.8**	$	741.9
Cost of sales[(1)]		**(703.4)**		(642.7)
Administrative expenses		**(11.6)**		(11.5)
Earnings from operations		**180.8**		87.7
Financing income		**0.9**		0.3
Financing expense[(2)]		**(45.3)**		(45.7)
Net finance expense		**(44.4)**		(45.4)
Earnings before tax		**136.4**		42.3
Income tax expense[(3)]		**(33.1)**		(10.5)
Net earnings and comprehensive income of Moa Joint Venture	$	**103.3**	$	31.8
Proportion of Sherritt's ownership interest		**50%**		50%
Total		**51.7**		15.9
Intercompany elimination		**12.5**		16.0
Share of earnings of a joint venture, net of tax	$	**64.2**	$	31.9

(1) Included in cost of sales for the year ended December 31, 2018 is depreciation and amortization of $76.3 million (for the year ended December 31, 2017 - $78.5 million).

(2) Included in financing expense for the year ended December 31, 2018 is accretion of $32.2 million on the Moa Joint Venture expansion loans (for the year ended December 31, 2017 - $25.4 million).

(3) Income tax expense for the year ended December 31, 2018 increased since the comparative period primarily due to the utilization of tax losses by one of the operating companies in the Moa Joint Venture in the comparative period. These tax losses were fully utilized during the year ended December 31, 2017.

Joint operations

Accounting policies

A joint operation is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control and whereby each party has rights to the assets and obligations for liabilities relating to the arrangement. Interests in joint operations are accounted for by recognizing the Corporation's share of assets, liabilities, revenues and expenses.

Supporting information

Sherritt's primary power generating assets are located in Cuba at Varadero, Boca de Jaruco and Puerto Escondido. These assets are held by Sherritt through its one-third interest in Energas S.A. (Energas), which is a Cuban joint arrangement established to process raw natural gas and generate electricity for sale to the Cuban national electrical grid. Cuban government agencies Union Electrica (UNE) and Unión Cuba Petróleo (CUPET) hold the remaining two-thirds interest in Energas.

The following provides information relating to the Corporation's one-third interest in Energas S.A. (Energas):

Canadian $ millions, 33⅓% basis, as at		2018 December 31		2017 December 31
Current assets[(1)]	$	**89.4**	$	66.5
Non-current assets		**108.0**		120.8
Current liabilities		**13.3**		20.1
Non-current liabilities		**108.4**		96.2
Net assets	$	**75.7**	$	71.0

(1) Included in current assets is $68.2 million of cash and cash equivalents (December 31, 2017 - $45.3 million).

Canadian $ millions, 33⅓% basis, for the years ended December 31	2018	2017
Revenue	$ 47.2	$ 51.2
Expense	(38.1)	(54.7)
Net earnings (loss)	**$ 9.1**	$ (3.5)

7. INVESTMENT IN AN ASSOCIATE

Accounting policies

The Ambatovy Joint Venture is recognized as an investment in an associate and accounted for using the equity method as follows:

- The Corporation recognizes its share of earnings (loss), net of tax in the consolidated statements of comprehensive income (loss), which is adjusted against the carrying amount of its investment in an associate;
- If the Corporation's share of losses equals or exceeds the carrying value of its investment in an associate in the future, the Corporation does not recognize further losses, unless it has incurred obligations or made payments on behalf of the entity;
- Gains and losses on transactions between the Corporation and its associate are eliminated to the extent of the Corporation's interest in this entity. Losses are eliminated only to the extent that there is no evidence of impairment; and
- Interest revenue on a loan receivable from an associate is recognized to the extent of the Corporation's economic interest.

Critical accounting judgments

It is the Corporation's judgment that the Ambatovy Joint Venture continues to be an associate given the Corporation's power to participate in its operating and financial decisions, in particular due to the Corporation's representation on the board of directors, participation in policy-making processes, existence of material transactions between the Corporation and the Ambatovy Joint Venture, interchange of managerial personnel and provision of essential technical information with Sherritt's commitment to continue as operator until at least 2024.

Supporting information

The Corporation indirectly holds a 12% interest in Ambatovy Minerals S.A. and Dynatec Madagascar S.A. (collectively, the Ambatovy Joint Venture).

Sherritt is the operator of the Ambatovy Joint Venture and has as its partners, Sumitomo Corporation (Sumitomo) and Korea Resources Corporation (KORES). The Ambatovy Joint Venture has two nickel deposits located near Moramanga, Madagascar. The ore from these deposits is delivered via pipeline to a processing plant and refinery located near the Port of Toamasina.

Ambatovy Joint Venture restructuring

On December 11, 2017, the Corporation closed the transaction to restructure its ownership interest in the Ambatovy Joint Venture from 40% to 12%. As a result, the Corporation's investment in an associate and share of loss of an associate as at December 31, 2017 are recognized at 12%, while all periods prior to December 11, 2017 are recognized at 40%.

As a result of the restructuring in the comparative period, the Corporation recognized a $629.0 million net gain in the consolidated statements of comprehensive income (loss). This gain resulted primarily from the derecognition of the Ambatovy Joint Venture additional partner loans (note 15), reduction of the Ambatovy Joint Venture subordinated loans receivable (note 12), reduction of the investment in an associate and reclassification of a proportion of accumulated other comprehensive income (note 17). In the comparative period, the non-current financial asset and corresponding non-current financial liability (note 15), related to Ambatovy Joint Venture's right to receive outstanding shareholder funding from the Corporation, were also derecognized.

Deferral of principal repayment on Ambatovy Joint Venture financing

No principal repayments are required to be made on the Ambatovy Joint Venture financing until June 2019 as a result of the deferral agreed to in August 2016, unless there is sufficient free cash flow. The Ambatovy Joint Venture continues to pay semi-annual interest payments in June and December. Total interest payments of US$76.2 million were made to the lenders during the year ended December 31, 2018 (US$63.2 million for the year ended December 31, 2017).

Ambatovy Joint Venture funding

For the year ended December 31, 2018, US$9.6 million ($12.2 million), of post-financial completion funding was provided to the Ambatovy Joint Venture at the Corporation's 12% interest (US$30.0 million ($38.6 million) for the year ended December 31, 2017). For the year ended December 31, 2018, the Corporation's funding obligations were satisfied through use of the escrow account classified within restricted cash on the Corporation's consolidated statements of financial position. Post-financial completion funding is presented within advances, loans receivable and other financial assets (note 12) on the Corporation's consolidated statements of financial position.

The following provides additional information relating to the Corporation's interest in the Ambatovy Joint Venture on a 100% basis:

Statements of financial position

Canadian $ millions, 100% basis, as at		**2018 December 31**		2017 December 31
Assets				
Cash and cash equivalents	**$**	**56.8**	$	56.6
Other current assets		**32.3**		27.1
Trade accounts receivable, net		**137.1**		104.0
Inventories		**511.4**		517.4
Deferred income taxes[(1)]		**-**		-
Other non-current assets		**15.7**		7.7
Property, plant and equipment		**6,082.5**		5,870.0
Total assets		**6,835.8**		6,582.8
Liabilities				
Trade accounts payable and accrued liabilities		**347.5**		315.7
Other taxes payable		**35.1**		24.8
Other current financial liabilities		**7.3**		0.5
Other current non-financial liabilities		**14.1**		-
Current portion of loans and borrowings:				
Ambatovy Joint Venture financing[(2),(3)]		**257.0**		-
Ambatovy revolving credit facility[(4)]		**83.1**		66.6
Non-current portion of loans and borrowings:				
Ambatovy Joint Venture financing[(3)]		**1,962.9**		1,991.0
Ambatovy subordinated loans payable[(5)]		**1,692.3**		1,861.5
Ambatovy subordinated loans payable - post-financial completion[(6)]		**593.0**		399.5
Environmental rehabilitation provisions		**123.0**		129.7
Other non-current liabilities		**23.4**		28.0
Total liabilities		**5,138.7**		4,817.3
Net assets of Ambatovy Joint Venture	**$**	**1,697.1**	$	1,765.5
Proportion of Sherritt's ownership interest		**12%**		12%
Total		**203.7**		211.9
Intercompany elimination[(5)]		**(55.6)**		-
Carrying value of investment in an associate	**$**	**148.1**	$	211.9

(1) As at December 31, 2018, the Ambatovy Joint Venture has earned investment tax credits which management has estimated to be $721.1 million (December 31, 2017 - $654.6 million), operating losses of $1,029.8 million (December 31, 2017 - $840.0 million) and $5,187.7 million (December 31, 2017 - $4,423.5 million) of deductible temporary differences for which deferred tax assets have not been recognized since the realization of any related tax benefit through future taxable profits is not probable. The investment tax credits have an indefinite carry forward period and may be used to partially offset Malagasy income tax otherwise payable by the Ambatovy Joint Venture in subsequent years. The operating losses have a 5-year expiry period.

(2) During the year ended December 31, 2018, US$188.4 million of the Ambatovy Joint Venture financing was reclassified from non-current to current due to the first two principal repayments in June 2019 and December 2019, US$94.2 million and US$94.2 million, respectively.

(3) The Ambatovy Joint Venture financing is project financing with a group of international lenders that matures on June 15, 2024. The project financing became non-recourse to the partners in September 2015 when the project filed the remaining completion certificates and is now solely secured by the project assets. As at December 31, 2018, the Ambatovy Joint Venture had borrowed US$1,601.1 million (December 31, 2017 - US$1,601.1 million) under the project financing.

(4) During the year ended December 31, 2018, the maturity of the Ambatovy revolving credit facility was extended to February 28, 2019. The Ambatovy revolving credit facility is comprised of a Malagasy Ariary (MGA) 172.0 billion ($67.1 million) revolving and MGA 20.0 billion ($7.9 million) overdraft credit facility agreement with local financial institutions (December 31, 2017 – MGA 156.0 billion ($60.6 million) and MGA 20.0 billion ($7.8 million), respectively), as well as MGA 35.2 billion ($13.8 million) of letters of credit. The revolving credit facility bears interest rates between 9.00% and 11.85% and is subordinated to the Ambatovy Joint Venture financing. During the year ended December 31, 2018, the Ambatovy Joint Venture secured an additional US$6.0 million ($8.2 million) revolving credit facility, as well as US$4.0 million ($5.5 million) letters of credit with a local financial institution, which matures on April 30, 2019. This revolving credit facility bears interest at a rate of three-month LIBOR plus 4.5% and is subordinated to the Ambatovy Joint Venture financing. As at December 31, 2018, MGA 172.0 billion ($67.1 million) and MGA 19.7 billion ($7.8 million) were drawn on the revolving and overdraft facilities, respectively (December 31, 2017 - MGA 156.0 billion ($60.6 million) and MGA 15.6 billion ($6.0 million) respectively), as well as US$6.0 million ($8.2 million) on the second facility. In addition, MGA 26.1 billion ($10.3 million) of letters of credit were utilized.

(5) The subordinated loans payable is comprised of pro-rata contributions provided by the Ambatovy Joint Venture partners. The debt bears interest at LIBOR plus 6%. Repayments of principal or interest will not be made prior to certain conditions of the finance agreements being satisfied. Unpaid interest is accrued monthly and capitalized to the principal balance semi-annually. During the year ended December 31, 2018, US$355.0 million of the Ambatovy Joint Venture subordinated loans payable was converted to equity which, at the Corporation's 12% share, resulted in a US$42.6 million ($55.6 million) decrease in the Corporation's subordinated loans receivable and corresponding decrease in the Corporation's allowance for credit losses, resulting in a net nil change. The Corporation has recorded its share of the related subordinated loans receivable within advances, loans receivable and other financial assets (note 12). There was no change to the Corporation's 12% ownership interest as a result of the conversion.

(6) The subordinated loans payable – post-financial completion is comprised of the Ambatovy Joint Venture partner contributions from and including December 15, 2015, and accrues interest at rates from six-month LIBOR plus 4.6% to six-month LIBOR plus 8.0%.

Statements of comprehensive income (loss)

Canadian $ millions, 100% basis, for the years ended December 31		2018		2017
Revenue	$	**843.0**	$	720.5
Cost of sales[1]		**(1,044.1)**		(988.5)
Administrative expenses		**(37.8)**		(32.3)
Gain on Ambatovy Joint Venture restructuring		**-**		10.4
Losses on write-down of long-lived assets		**(130.9)**		-
Other gains		**29.3**		14.8
Loss from operations		**(340.5)**		(275.1)
Financing income		**5.2**		3.7
Financing expense[2]		**(284.4)**		(273.6)
Net financing expense		**(279.2)**		(269.9)
Loss before tax		**(619.7)**		(545.0)
Income tax expense		**(5.4)**		(4.4)
Net loss and comprehensive loss of Ambatovy Joint Venture	$	**(625.1)**	$	(549.4)
Proportion of Sherritt's ownership interest		**12%**		40%, 12%[3]
Total		**(75.0)**		(215.2)
Intercompany elimination		**2.6**		20.2
Share of loss of an associate, net of tax	$	**(72.4)**	$	(195.0)

(1) Included in cost of sales for the year ended December 31, 2018 is depreciation and amortization of $358.5 million ($362.1 million for the year ended December 31, 2017).

(2) The Ambatovy Joint Venture has a value added tax (VAT) receivable of $37.3 million (December 31, 2017 - $31.2 million) from the government of Madagascar. The VAT receivable is net of a provision of $15.4 million (December 31, 2017 - $73.0 million) reflecting an assessment of the likelihood of receipt of these amounts. During the year ended December 31, 2018, a gain on the partial reversal of this provision of $21.7 million was recognized in financing expense ($27.7 million for the year ended December 31, 2017).

(3) Prior to the closing of the Ambatovy Joint Venture restructuring on December 11, 2017, the Corporation recognized its 40% share of the Ambatovy Joint Venture's losses. Subsequent to this date, the Corporation recognized its 12% share of the Ambatovy Joint Venture's losses.

8. NET FINANCE EXPENSE

Canadian $ millions, for the years ended December 31	Note		2018		2017
Net unrealized gain (loss) on financial instruments:					
Revaluation of cobalt-linked warrants	15	$	**13.2**	$	-
Revaluation of financial assets measured at fair value through profit or loss			**(3.4)**		(1.6)
Revaluation of allowance for credit losses:					
Trade accounts receivable, net	11		**(1.9)**		-
Ambatovy Joint Venture subordinated loans receivable	11		**(47.4)**		-
Other			**4.2**		-
Interest income on cash, cash equivalents and short-term investments			**3.1**		3.3
Interest income on investments			**0.8**		0.2
Interest income on advances and loans receivable			**36.1**		57.2
Interest income on accretion of advances and loans receivable[1]			**8.1**		6.3
Gain on repurchase of debentures	15		**2.3**		-
Total financing income			**15.1**		65.4
Interest expense and accretion on loans and borrowings[2]			**(59.9)**		(172.9)
Unrealized foreign exchange gain (loss)			**33.3**		(7.7)
Realized foreign exchange gain	19		**0.1**		0.6
Other finance charges[3]			**(4.1)**		(2.1)
Accretion expense on environmental rehabilitation provisions	16, 19		**(0.7)**		(1.0)
Total financing expense			**(31.3)**		(183.1)
Net finance expense		$	**(16.2)**	$	(117.7)

Interest income on accretion of advances and loan receivable relates to the Moa Joint Venture expansion loans receivable, which is recognized to the extent of Sherritt's economic interest (note 12).

Interest expense and accretion on loans and borrowings decreased since the comparative period primarily due to the derecognition of the Ambatovy Joint Venture additional partner loans as part of the Ambatovy Joint Venture restructuring on December 11, 2017 and the partial repurchase of the senior unsecured debentures during the year ended December 31, 2018.

Other finance charges for the year ended December 31, 2018 includes $1.3 million of transaction costs related to the debenture repurchase (note 15) and $1.0 million of transaction costs related to the issuance of cobalt-linked warrants (note 15).

9. INCOME TAXES

Accounting policies

The income tax expense or recovery for the reporting period consists of two components: current and deferred taxes.

The current income tax payable or recoverable is calculated using the tax rates and legislation that have been enacted or substantively enacted at each reporting date in each of the jurisdictions and includes any adjustments for taxes payable or recoverable in respect of prior periods.

Current tax assets and liabilities are offset when they relate to the same jurisdiction, the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are determined using the statement of financial position liability method based on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. In calculating the deferred tax assets and liabilities, the tax rates used are those that have been enacted or substantively enacted at each reporting date in each of the jurisdictions and that are expected to apply when the assets are recovered or the liabilities are settled. Deferred income tax assets and liabilities are presented as non-current.

Deferred tax liabilities are recognized on all taxable temporary differences, and deferred tax assets are recognized on all deductible temporary differences, carryforward of unused tax losses and carryforward of unused tax credits, with the exception of the following items:

- Temporary differences associated with investments in subsidiaries, associates and interests in joint ventures where the Corporation is able to control the timing of the reversal of temporary differences and such reversals are not probable in the foreseeable future;
- Temporary differences that arise on the initial recognition of assets and liabilities in a transaction that is not a business combination and has no impact on either accounting profit or taxable profit; and
- Deferred tax assets are only recognized to the extent that it is probable that sufficient taxable profits exist in future periods against which the deductible temporary differences can be utilized. The probability that sufficient taxable profits exist in future periods against which the deferred tax assets can be utilized is reassessed at each reporting date. The amount of deferred tax assets recognized is adjusted accordingly.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities when they relate to income taxes levied by the same taxation authority on the same taxable entity and when the Corporation has the legal right to offset them.

Current and deferred taxes that relate to items recognized directly in equity are also recognized in equity. All other taxes are recognized in income tax expense in the consolidated statements of comprehensive income (loss).

Critical accounting estimates

The Corporation operates in a number of industries in several tax jurisdictions and, consequently, its income is subject to various rates and rules of taxation. As a result, the Corporation’s effective tax rate may vary significantly from the Canadian statutory tax rate depending upon the profitability of operations in the different jurisdictions.

The Corporation calculates deferred taxes based upon temporary differences between the assets and liabilities that are reported in its consolidated financial statements and their tax bases as determined under applicable tax legislation. The Corporation records deferred tax assets when it determines that it is probable that such assets will be realized. The future realization of deferred tax assets can be affected by many factors, including current and future economic conditions, net realizable sale prices, production rates and production costs, and can either be increased or decreased where, in the view of management, such change is warranted.

Critical accounting judgments

In determining whether it is probable that a deferred tax asset will be realized, management reviews the timing of expected reversals of taxable temporary differences, the estimates of future taxable income and prudent and feasible tax planning that could be implemented. Significant judgment may be involved in determining the timing of expected reversals of temporary differences.

Supporting information

Canadian $ millions, for the years ended December 31	2018	2017
Current income tax expense[1]		
Current period	**$ 3.7**	$ 25.7
	3.7	25.7
Deferred income tax (recovery) expense[1]		
Origination and reversal of temporary differences	**(11.0)**	(28.4)
Non-recognition of tax assets	**10.7**	16.9
	(0.3)	(11.5)
Income tax expense	**$ 3.4**	$ 14.2

(1) During the year ended December 31, 2017, a deferred income tax liability of $8.4 million was reclassified to current income taxes payable as a result of certain tax payments paid during the first quarter of 2018. These tax payments relate to taxes owed upon the relinquishment of the Varadero West oil field in November 2017 in the Oil and Gas segment. The reclassification resulted in a current income tax expense of $8.4 million and a corresponding deferred income tax recovery of $8.4 million during the year ended December 31, 2017.

The following table reconciles income taxes calculated at a combined Canadian federal/provincial income tax rate with the income tax expense (recovery) in the consolidated statements of comprehensive income (loss):

Canadian $ millions, for the years ended December 31	2018	2017
(Loss) earnings before tax from continuing operations	**$ (76.8)**	$ 323.1
Add share of loss of equity accounted investments	**8.2**	163.1
Parent companies and subsidiaries (loss) earnings before tax	**(68.6)**	486.2
Income tax (recovery) expense at the combined basic rate of 27% (2017 - 27%)	**(18.5)**	131.3
(Decrease) increase in taxes resulting from:		
Difference between Canadian and foreign tax rates	**(0.1)**	15.3
Non-deductible expenses and losses	**11.1**	20.2
Non-recognition of tax assets	**10.7**	16.9
Non-taxable gain on Ambatovy Joint Venture restructuring	**-**	(169.8)
Other items	**0.2**	0.3
	$ 3.4	$ 14.2

Deferred tax assets (liabilities) relate to the following temporary differences and loss carry forwards:

Canadian $ millions, for the year ended December 31, 2018	Opening Balance	Recognized in deficit[1]	Recognized in net income	Recognized in total comp-rehensive income	Closing Balance
Deferred tax assets					
Property, plant and equipment	**$ 0.5**	**$ -**	**$ (0.4)**	**$ -**	**$ 0.1**
Other financial reserves	**-**	**0.5**	**0.1**	**-**	**0.6**
Deferred tax assets	**0.5**	**0.5**	**(0.3)**	**-**	**0.7**
Set off against deferred tax liabilities	**(0.5)**				**(0.7)**
	$ -				**$ -**
Deferred tax liabilities					
Property, plant and equipment and intangible assets	**$ (5.2)**	**$ -**	**$ 0.8**	**$ (0.3)**	**$ (4.7)**
Cuban tax contingency reserve	**(11.0)**	**-**	**(0.2)**	**(0.9)**	**(12.1)**
Other financial reserves	**(0.1)**	**-**	**-**	**-**	**(0.1)**
Deferred tax liabilities	**(16.3)**	**-**	**0.6**	**(1.2)**	**(16.9)**
Set off against deferred tax assets	**0.5**				**0.7**
Net deferred tax (liabilities) assets	**$ (15.8)**	**$ 0.5**	**$ 0.3**	**$ (1.2)**	**$ (16.2)**

The reduction in the net deferred tax liabilities relates to the cumulative tax impact of the initial application of IFRS 9.

Canadian $ millions, for the year ended December 31, 2017	Opening Balance	Recognized in net income	Recognized in total comp-rehensive income	Closing Balance
Deferred tax assets				
Property, plant and equipment	$ 1.1	$ (0.6)	$ -	$ 0.5
Deferred tax assets	1.1	(0.6)	-	0.5
Set off against deferred tax liabilities	(1.1)			(0.5)
	$ -			$ -
Deferred tax liabilities				
Property, plant and equipment and intangible assets	$ (9.1)	$ 3.6	$ 0.3	$ (5.2)
Cuban tax contingency reserve	(19.9)	8.1	0.8	(11.0)
Other financial reserves	(0.6)	0.4	0.1	(0.1)
Deferred tax liabilities	(29.6)	12.1	1.2	(16.3)
Set off against deferred tax assets	1.1			0.5
Net deferred tax (liabilities) assets	$ (28.5)	$ 11.5	$ 1.2	$ (15.8)

As at December 31, 2018, the Corporation had temporary differences of $843.7 million (December 31, 2017 - $763.7 million) associated with investments in subsidiaries, associated entities and interests in joint ventures for which no deferred tax liabilities have been recognized, as the Corporation is able to control the timing of the reversal of these temporary differences and it is not probable that these temporary differences will reverse in the foreseeable future.

As at December 31, 2018, the Corporation had non-capital losses of $735.5 million (December 31, 2017 - $567.5 million) and capital losses of $1,169.8 million (December 31, 2017 - $1,159.7 million) which may be used to reduce future taxable income. The Corporation has not recognized a deferred income tax asset on $735.5 million of non-capital losses, $1,169.8 million of capital losses and $178.4 million of other deductible temporary differences since the realization of any related tax benefit through future taxable profits is not probable. The capital losses have no expiry dates and the other deductible temporary differences do not expire under current tax legislation. The non-capital losses are located in the following countries and expire as follows:

Canadian $ millions, as at December 31, 2018	Expiry	Non-capital losses
Canada	2026-2038	$ 631.3
Other jurisdictions	Various	104.2

10. (LOSS) EARNINGS PER SHARE

Canadian $ millions, except share amounts in millions and per share amounts in dollars, for the years ended December 31	2018	2017
Net (loss) earnings from continuing operations	$ (80.2)	$ 308.9
Earnings (loss) from discontinued operations, net of tax	16.0	(15.1)
Net (loss) earnings - basic and diluted	$ (64.2)	$ 293.8
Weighted-average number of common shares - basic	391.0	295.6
Weighted-average effect of dilutive securities:		
Stock options	-	1.2
Warrants	-	5.6
Weighted-average number of common shares - diluted[1]	391.0	302.4
Net (loss) earnings from continuing operations per common share:		
Basic	$ (0.21)	$ 1.04
Diluted	$ (0.21)	$ 1.02
Earnings (loss) from discontinued operations per common share:		
Basic	$ 0.04	$ (0.05)
Diluted	$ 0.04	$ (0.05)
Net (loss) earnings per common share:		
Basic	$ (0.16)	$ 0.99
Diluted	$ (0.16)	$ 0.97

(1) The determination of the weighted-average number of common shares - diluted excludes 9.9 million shares related to stock options, 10.4 million shares related to the warrants from the 2016 debenture extension and 47.2 million shares related to the cobalt-linked warrants (note 15) that were anti-dilutive for the year ended December 31, 2018 (6.6 million, nil and nil, respectively, for the year ended December 31, 2017).

11. FINANCIAL INSTRUMENTS

Accounting policy

Classification and measurement of financial instruments

Management determines the classification of financial assets and financial liabilities at initial recognition and, except in limited circumstances, the classification is not changed subsequent to initial recognition. The classification of financial assets is based on the Corporation's business models for managing these financial assets and their contractual cash flow characteristics. Transaction costs with respect to financial instruments not classified as fair value through profit or loss are recognized as an adjustment to the cost of the underlying instruments and amortized using the effective interest method.

The Corporation's financial assets are classified into one of the following three measurement categories:

- Financial assets held within a business model for the purpose of collecting contractual cash flows ("held to collect") that represent solely payments of principal and interest ("SPPI") are measured at amortized cost
- Financial assets held within a business model where assets are both held for the purpose of collecting contractual cash flows or sold prior to maturity and the contractual cash flows represent solely payments of principal and interest are measured at fair value through other comprehensive income (loss) ("FVOCI").
- Financial assets held within another business model or assets that do not have contractual cash flow characteristics that are solely payments of principal and interest will be measured at fair value through profit or loss ("FVPL").

The Corporation's financial liabilities are measured at amortized cost, except for financial liabilities measured at FVPL.

Financial assets measured at amortized cost:

- Cash held in banks; restricted cash; advances, loans receivable and other financial assets; trade accounts receivable, net

Financial assets measured at FVOCI:

- Cash equivalents; short-term investments

Financial assets measured at FVPL:

- Ambatovy Joint Venture operator fee receivable

Financial liabilities measured at amortized cost:

- Trade accounts payable and accrued liabilities; loans and borrowings

Financial liabilities measured at FVPL:

- Cobalt-linked warrant liability

Financial assets and liabilities, measured at amortized cost

Financial assets and liabilities included in this category are initially recognized at fair value (net of transaction costs, if applicable) and are subsequently measured at amortized cost using the effective interest method less allowances for credit losses.

Financial assets measured at fair value through other comprehensive income (loss)

Financial assets included in this category are initially recognized at fair value and transaction costs are recognized in net earnings (loss). Subsequent to initial recognition, unrealized gains and losses on these instruments are recognized in other comprehensive income (loss). Upon derecognition, realized gains and losses are reclassified from other comprehensive income (loss) and recognized in net earnings (loss). Interest income and dividends from these instruments are recognized in net earnings (loss).

Financial assets and liabilities measured at fair value through profit or loss

Financial instruments included in this category are initially recognized at fair value and transaction costs are recognized in net earnings (loss), along with gains and losses arising from changes in fair value.

Derivative instruments are recorded at fair value unless exempted from derivative treatment as a normal purchase and sale. All changes in their fair value are recognized in net earnings (loss).

Derecognition of financial assets and liabilities

A financial asset is derecognized when its contractual rights to the cash flows that compose the financial asset expire or substantially all the risks and rewards of the asset are transferred. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Gains and losses on derecognition are recognized within financing income and financing expense, respectively.

Modifications of financial instruments

When the Corporation modifies a financial instrument and that modification does not result in derecognition, the Corporation revises the gross carrying value of the financial instrument and recognizes a modification gain or loss in net earnings (loss).

Impairment of financial assets

The Corporation applies a three-stage approach to measure an allowance for credit losses ("ACL"), using an expected credit loss ("ECL") approach as required under IFRS 9 for financial assets measured at amortized cost.

The ECL approach reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on the credit deterioration from inception. The ACL reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

- Stage 1 – Where there has not been a significant increase in credit risk since initial recognition of a financial instrument, an amount equal to twelve months expected credit loss is recorded. The ECL is computed using a probability of default occurring over the next twelve months. For instruments with a remaining maturity of less than twelve months, a probability of default corresponding to the remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a significant increase in credit risk subsequent to origination but is not considered to be in default, it is included in Stage 2. The ECL is computed using a probability of default occurring over the remaining life of the financial instrument. When contractual payments are more than 30 days past due, it is presumed that credit risk has increased significantly subsequent to origination unless the Corporation has reasonable and supportable information that demonstrates that the credit risk has not increased significantly since origination.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. The Corporation considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. Similar to Stage 2, the ACL captures the lifetime ECL. When contractual payments are more than 90 days past due, it is presumed that default has occurred unless the Corporation has reasonable and supportable information that demonstrates that a more lagging default criterion is more appropriate.

The Corporation assesses whether there has been a significant increase in credit risk since initial recognition of a financial instrument and both ECL and ACL measurement at each reporting date. Increases or decreases in the ACL are recognized as impairment gains or losses within net finance expense (income) in net earnings (loss).

For trade receivables and contract assets that result from transactions that are within the scope of IFRS 15 and lease receivables that result from transactions that are within the scope of IAS 17, IFRS 9 allows the Corporation to take a simplified approach where the ACL is always measured at the lifetime ECL.

The Corporation's financial assets measured at amortized cost are presented net of the ACL in the consolidated statements of financial position.

Financial instrument measurement hierarchy

All financial instruments are required to be measured at fair value on initial recognition. For those financial assets or liabilities measured at fair value at each reporting date, financial instruments and liquidity risk disclosures require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. These levels are defined below:

Level 1: Determined by reference to unadjusted quoted prices in active markets for identical assets and liabilities that the entity can access at the measurement date;

Level 2: Valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly; and

Level 3: Valuations using inputs that are not based on observable market data.

Critical accounting estimates

Forward-looking information

The measurement of the ECL for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

Multiple forward-looking scenarios

The Corporation estimates an ACL using probability-weighted forward-looking scenarios. The Corporation considers both internal and external sources of information in order to achieve an unbiased measure of the scenarios used. The Corporation determines an ECL in each scenario and uses external sources and judgment to apply a probability-weighting to each scenario. The ACL is measured as the present value of the probability-weighted ECL in each scenario, discounted using the original effective interest rate of the instrument.

Critical accounting judgments

Business model assessment

The Corporation applies judgment in determining whether financial assets are managed in order to generate cash flows from the collection of contractual cash flows, selling financial assets or both. For the assessment of business models, the Corporation takes into consideration whether the financial asset is held for trading purposes and the frequency and volume of sales in prior periods and expectations about future sales activity.

Cash flow characteristics assessment

The Corporation applies judgment in assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are SPPI.

In performing this assessment, the Corporation takes into consideration contractual features that could change the amount or timing of contractual cash flows, such that the cash flows are no longer consistent with a basic lending arrangement. If the Corporation identifies any contractual features that could modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

Supporting information

Cash, cash equivalents, restricted cash and short-term investments

Cash and cash equivalents consist of:

Canadian $ millions, as at	**2018 December 31**	2017 December 31
Cash equivalents	**$ 41.4**	$ 57.2
Cash held in banks	**165.5**	127.8
	$ 206.9	$ 185.0

The Corporation's cash balances are deposited with major financial institutions rated A- or higher by Standard and Poor's except for institutions located in Madagascar and Cuba that are not rated. The total cash held in Madagascan and Cuban bank deposit accounts was $0.3 million and $79.1 million, respectively, as at December 31, 2018 (December 31, 2017 – $2.8 million and $46.0 million, respectively).

As at December 31, 2018, $68.2 million of cash on the Corporation's consolidated statements of financial position was held by Energas (December 31, 2017 – $45.3 million). These funds are for use locally by the joint operation and will be transferred to the Corporation upon foreign exchange approval.

The Corporation's cash equivalents consist of Government of Canada treasury bills, term deposits with maturities of 90 days or less and demand deposits redeemable upon 31 days request. The term deposits and demand deposits are with major financial institutions. As at December 31, 2018, the Corporation had $25.9 million in Government of Canada treasury bills, nil in term deposits and $15.5 million in demand deposits (December 31, 2017 - $41.9 million, nil and $15.3 million, respectively) included in cash and cash equivalents and $0.1 million in Government of Canada treasury bills included in short-term investments (December 31, 2017 - $18.0 million).

The Corporation's restricted cash balances are deposited with major financial institutions rated BBB+ or higher by Standard and Poor's.

Fair value measurement

As at December 31, 2018, the carrying amounts of cash and cash equivalents, short-term investments, restricted cash, trade accounts receivable, current portion of advances, loans receivable and other financial assets, current portion of loans and borrowings, current portion of other financial liabilities, trade accounts payable and accrued liabilities are at fair value or approximate fair value due to their immediate or short terms to maturity.

The fair values of non-current loans and borrowings and other non-current financial assets and liabilities approximate their carrying amount except as indicated in the below table. Due to the use of judgment and uncertainties in the determination of the estimated fair values, these values should not be interpreted as being realizable in the immediate term.

The following table presents financial instruments with carrying amounts different from their fair values[1]:

Canadian $ millions, as at	Note			**2018 December 31**	2017	December 31
		Hierarchy level	**Carrying value**	**Fair value**	Carrying value	Fair value
Liabilities:						
8.00% senior unsecured debentures due 2021[2]	15	1	**$ 162.1**	**$ 127.2**	$ 213.2	$ 189.8
7.50% senior unsecured debentures due 2023[2]	15	1	**185.8**	**132.5**	240.7	203.4
7.875% senior unsecured debentures due 2025[2]	15	1	**199.6**	**136.8**	234.4	200.6
Ambatovy Joint Venture partner loans[3]	15	3	**150.2**	**65.4**	127.8	79.6
Assets:						
Ambatovy Joint Venture subordinated loans receivable[4]	12	3	**158.2**	**134.7**	223.4	195.2
Ambatovy Joint Venture subordinated loans receivable - post-financial completion[4]	12	3	**71.2**	**69.4**	47.9	47.9

(1) The carrying values are net of financing costs and the fair values exclude financing costs.

(2) The fair values of the senior unsecured debentures are based on market closing prices.

(3) The fair value of the Ambatovy Joint Venture partner loans is calculated by discounting future cash flows using rates that are based on market rates adjusted for the borrowers' credit quality for instruments with similar maturity horizons.

(4) The fair values of the Ambatovy subordinated loans receivable and Ambatovy subordinated loans receivable - post-financial completion are calculated by discounting future cash flows using rates that are based on market rates adjusted for the borrowers' credit quality.

The following table presents financial instruments, measured at fair value through profit or loss and fair value through other comprehensive income (loss), on a recurring basis:

Canadian $ millions, as at	Hierarchy level	**2018 December 31**
Fair value through profit or loss		
Assets:		
Ambatovy Joint Venture operator fee receivable[1]	3	**$ 8.6**
Liabilities:		
Cobalt-linked warrant liability[1]	1	**2.8**
Fair value through other comprehensive income (loss)		
Cash equivalents	1	**41.4**
Short-term investments	1	**0.1**

(1) Changes in fair value are recognized within net unrealized gain (loss) on financial instruments within net finance expense (note 8).

The following is a reconciliation of the beginning to ending balance for the Ambatovy Joint Venture operator fee receivable included in Level 3:

Canadian $ millions		For the year ended December 31 2018
Balance, beginning of the year	$	**9.7**
Additions		**2.0**
Unrealized loss on financial instruments in net finance expense		**(3.9)**
Effect of movements in exchange rates		**0.8**
Balance, end of the year	$	**8.6**

The fair value of the Ambatovy Joint Venture operator fee receivable is calculated by discounting future cash flows using a rate that is based on a market rate adjusted for the borrowers' credit quality.

Trade accounts receivable, net, and unbilled revenue

Trade accounts receivable, net, and unbilled revenue consist of:

Canadian $ millions, as at	2018 December 31	2017 December 31
Trade accounts receivable, net	**$ 226.9**	$ 283.5
Unbilled revenue[1]	**0.6**	1.4
	$ 227.5	$ 284.9

(1) Unbilled revenue represents amounts to which the Corporation expects to be entitled that have not yet been approved by an agency of the Government of Cuba. The Corporation is entitled to the recovery of certain costs incurred as a result of its production-sharing contracts in the Oil and Gas segment. Unbilled revenue increases when the Corporation incurs recoverable costs that have not yet been approved and decreases when the recoverable costs are approved and billed. Unbilled revenue is reclassified to trade accounts receivable, net, when the recoverable costs are approved and billed.

Aging of trade accounts receivable, net

Canadian $ millions, as at	2018 December 31	2017 December 31
Not past due	**$ 171.4**	$ 221.2
Past due no more than 30 days	**9.0**	12.6
Past due for more than 30 days but no more than 60 days	**1.0**	8.1
Past due for more than 60 days	**45.5**	41.6
	$ 226.9	$ 283.5

Trade accounts receivable, net

Canadian $ millions, as at	2018 December 31	2017 December 31
Trade accounts receivable	**$ 192.5**	$ 239.8
Allowance for credit losses	**(17.9)**	(10.7)
Accounts receivable from joint operations	**0.1**	0.2
Accounts receivable from joint venture	**16.4**	15.0
Accounts receivable from associate	**10.2**	8.2
Other	**25.6**	31.0
	$ 226.9	$ 283.5

Allowance for credit losses

Financial assets measured at amortized cost are presented net of allowances for credit losses within the consolidated statements of financial position.

		For the year ended December 31, 2018			
Canadian $ millions	As at 2018 January 1	Revaluation (note 8)	Debt-to-equity conversion[2]	Foreign exchange and other non-cash items	As at 2018 December 31
Lifetime expected credit losses					
Trade accounts receivable, net[1]	$ (16.3)	**$ (1.9)**	**$ -**	**$ 0.3**	**$ (17.9)**
Ambatovy Joint Venture subordinated loans receivable	(50.4)	**(47.4)**	**55.6**	**(2.7)**	**(44.9)**

(1) The allowance for credit losses in the Oil and Gas and Power segments increased by $2.1 million and $3.5 million, respectively, on January 1, 2018 upon initial application of IFRS 9 due to the time value of money (note 3).

(2) During the year ended December 31, 2018, the Ambatovy Joint Venture converted US$355.0 million of its subordinated loans payable to equity (note 7) which, at the Corporation's 12% share, resulted in a US$42.6 million ($55.6 million) decrease in the Corporation's subordinated loans receivable and corresponding decrease in the Corporation's allowance for credit losses.

12. ADVANCES, LOANS RECEIVABLE AND OTHER FINANCIAL ASSETS

Canadian $ millions, as at		2018 December 31		2017 December 31
Advances and loans receivable				
Ambatovy Joint Venture subordinated loans receivable[1]	**$**	**158.2**	$	223.4
Ambatovy Joint Venture subordinated loans receivable - post-financial completion[1]		**71.2**		47.9
Ambatovy Joint Venture operator fee receivable		**8.6**		9.7
Energas conditional sales agreement[1]		**221.1**		206.7
Moa Joint Venture expansion loans receivable[1]		**269.2**		232.0
Moa Joint Venture working capital facility		**-**		25.2
Other[2]		**-**		10.9
Other financial assets		**16.8**		-
		745.1		755.8
Current portion of advances, loans receivable and other financial assets		**(24.6)**		(42.8)
	$	**720.5**	$	713.0

(1) As at December 31, 2018, the non-current portions of the Ambatovy subordinated loans receivable, Ambatovy subordinated loans receivable – post-financial completion, Energas conditional sales agreement and the Moa Joint Venture expansion loans receivable are $158.2 million, $71.2 million, $212.5 million and $269.2 million, respectively (December 31, 2017 – $223.4 million, $47.9 million, $189.1 million and $232.0 million, respectively).

(2) During the year ended December 31, 2018, the Corporation received full repayment of amounts previously advanced to the Moa Joint Venture.

Ambatovy subordinated loans receivable

A funding agreement was entered into by the Corporation with the Ambatovy Joint Venture to finance the development of the Ambatovy Project. The facility bears interest at six-month LIBOR plus 6%. Repayments of principal or interest will not be made prior to certain conditions of the Ambatovy Joint Venture financing agreements being satisfied. Unpaid interest is accrued monthly and capitalized to the principal balance semi-annually. During the year ended December 31, 2018, the Ambatovy Joint Venture converted US$355.0 million of its subordinated loans payable to equity (note 7) which, at the Corporation's 12% share, resulted in a US$42.6 million ($55.6 million) decrease in the Corporation's subordinated loans receivable. During the year ended December 31, 2017, the Ambatovy Joint Venture converted US$400.0 million of its subordinated loans payable to equity (note 7) which, at the Corporation's share, resulted in a US$136.2 million ($176.1 million) decrease in the Corporation's subordinated loans receivable. As a result of the Ambatovy Joint Venture restructuring in the comparative period, the Ambatovy subordinated loans receivable decreased by US$436.5 million ($561.1 million). There was no change to the Corporation's ownership interest as a result of the conversions.

The Ambatovy Joint Venture subordinated loans receivable decreased by $50.4 million on January 1, 2018 upon initial application of IFRS 9 (note 3). As at December 31, 2018, the Ambatovy Joint Venture subordinated loans receivable is presented net of an allowance for credit losses of $44.9 million within the consolidated statements of financial position (note 11).

Ambatovy subordinated loans receivable – post-financial completion

The Ambatovy subordinated loans receivable – post-financial completion is comprised of funding from the Corporation to the Ambatovy Joint Venture as part of the Ambatovy Joint Venture restructuring. The facility bears interest at six-month LIBOR plus 8%. Repayments of principal or interest will not be made prior to certain conditions of the Ambatovy Joint Venture senior debt finance agreements being satisfied. Unpaid interest is accrued monthly and capitalized to the principal balance semi-annually. For the year ended December 31, 2018, US$9.6 million ($12.2 million) of post-financial completion cash funding was provided to the Ambatovy Joint Venture (US$30.0 million ($38.6 million) for the year ended December 31, 2017). For the year ended December 31, 2017, an additional $8.2 million, including accrued interest, was provided to the Corporation's joint venture partners, KORES and Sumitomo.

Energas conditional sales agreement

A conditional sales agreement was entered into by the Corporation with Energas to finance construction activity on specific power generating assets in Cuba. The agreement directs the Corporation to arrange for the performance of certain construction activity on behalf of Energas, and contains design specifications for each new construction phase. The Corporation retains title to the constructed assets until the loan is fully repaid. The facility bears interest at 8%. Income generated by the constructed assets will be used to repay the facilities. Until the loan is fully repaid, all of the income generated by these assets is paid to the Corporation. The amount of advances and loans receivable from Energas are presented net of the elimination of the 33⅓% proportionately consolidated intercompany balances.

Moa Joint Venture expansion loans receivable

The Moa Joint Venture expansion loans receivable is a funding agreement entered into by the Corporation in prior years to finance expansion. This loans receivable has a fixed interest rate of 6.5%. In June 2015, the maturity date of this agreement was extended to December 31, 2026. Repayments are being made from available distributable cash flows from the Moa Joint Venture. During the year ended December 31, 2017, interest was suspended for two years on the expansion loans, which resulted in a decrease to the Moa Joint Venture expansion loans receivable of $32.4 million. The interest suspension was an equity contribution to the joint venture and is accreted using the effective interest rate method in financing income. During the year ended December 31, 2018, the Moa Joint Venture expansion loans receivable increased $16.1 million due to accretion ($12.7 million for the year ended December 31, 2017).

Moa Joint Venture working capital facility

The Moa Joint Venture working capital facility is a working capital facility for use by the Moa Joint Venture. On January 31, 2017, the credit facility was renewed with a maximum credit available of $65.0 million, $13.7 million of which matured on April 21, 2017. Thereafter, the facility size decreased by 4.167% quarterly beginning April 28, 2017. Collectively, these reductions resulted in a facility size of $38.6 million at January 30, 2018. The interest rates increased from prime plus 2.50% or bankers' acceptance plus 3.50% to prime plus 3.50% or bankers' acceptance plus 4.50%.

In January 2018, the maturity of the Moa Joint Venture working capital facility was extended to January 30, 2019 and the maximum credit available was increased from $38.6 million to $45.0 million. The interest rates continued to be prime plus 3.50% or bankers' acceptance plus 4.50%.

On December 21, 2018, the maturity of the Moa Joint Venture working capital facility was extended to April 30, 2020 and the maximum credit available remains at $45.0 million. The interest rates decreased to prime plus 3.00% or bankers' acceptance plus 4.00%.

Other financial assets

As at December 31, 2018, included in other financial assets is $16.0 million related to an insurance claim reimbursement related to the Corporation's previous Coal operations (note 16).

13. INVENTORIES

Accounting policies

Raw materials, materials in process and finished products are valued at the lower of average production cost and net realizable value, with cost determined on a moving weighted-average basis. Spare parts and operating materials within inventory are valued at the lower of average cost and net realizable value, and recognized as cost of sales when used.

The cost of inventory includes all costs related to bringing the inventory to its current condition, including mining and processing costs, labour costs, supplies, direct and allocated indirect operating overhead and depreciation expense, where applicable, including allocation of fixed and variable costs.

Write-downs to net realizable value may be reversed, up to the amount previously written down, when circumstances support an increased inventory value.

Supporting information

Canadian $ millions, as at	**2018 December 31**	2017 December 31
Raw materials	**$ 0.1**	$ 0.1
Materials in process	**0.1**	0.1
Finished products	**6.3**	8.9
	6.5	9.1
Spare parts and operating materials	**27.1**	24.8
	$ 33.6	$ 33.9

For the year ended December 31, 2018, the cost of inventories included in cost of sales was $58.7 million ($61.2 million for the year ended December 31, 2017).

14. NON-FINANCIAL ASSETS

Accounting policies

Property, plant and equipment

Property, plant and equipment include acquisition costs, capitalized development costs and pre-production expenditures that are recorded at cost less accumulated depreciation and accumulated impairment losses. Costs of property, plant and equipment are incurred while construction is in progress and before the commencement of commercial production. Once the construction of an asset is substantially complete, and the asset is ready for its intended use, these costs are depreciated.

Plant and equipment

Plant and equipment include assets under construction, equipment and processing, refining, power generation and other manufacturing facilities.

The Corporation recognizes major long-term spare parts and standby equipment as plant and equipment when the parts and equipment are significant and are expected to be used over a period greater than a year. Major inspections and overhauls required at regular intervals over the useful life of an item of plant and equipment are recognized in the carrying amount of the related item if the inspection or overhaul provides benefit exceeding one year.

Plant and equipment are depreciated using the straight-line method based on estimated useful lives, once the assets are available for use. Plant and equipment may have components with different useful lives. Depreciation is calculated based on each individual component's useful life. New components are capitalized to the extent that they meet the recognition criteria of an asset. The carrying amount of the replaced component is derecognized, and any gain/loss is included in net earnings (loss). If the carrying amount of the replaced component is not known, it is estimated based on the cost of the new component less estimated depreciation. The useful lives of the Corporation's plant and equipment are as follows:

Buildings and refineries	5 to 40 years
Machinery and equipment	3 to 50 years
Office equipment	3 to 35 years
Fixtures and fittings	3 to 35 years
Assets under construction	not depreciated during development period

Oil and Gas properties

Oil and Gas properties include acquisition costs and development costs related to properties in production, under development and held for future development. Ongoing pre-development costs relating to properties held for future development are capitalized as incurred. Development costs incurred to access reserves at producing properties and properties under development are capitalized and are depreciated on a unit-of-production basis over the life of such reserves. Reserves are measured based on proven and probable reserves.

Capitalization of borrowing costs

Borrowing costs on funds directly attributable to finance the acquisition, construction or production of a qualifying asset are capitalized until such time as substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. A qualifying asset is one that takes a substantial period of time to prepare the asset for its intended use. Where money borrowed specifically to finance a project is invested to earn interest income, the income generated is also capitalized to reduce the total capitalized borrowing costs.

Where the funds used to finance a project form part of general borrowings, interest is capitalized based on the weighted-average interest rate applicable to the general borrowings outstanding during the period of construction.

Derecognition

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in net earnings (loss) in the period the item is derecognized.

Intangible assets

Intangible assets are developed internally or acquired as part of a business combination. Internally generated assets are recognized at cost and primarily arise as a result of exploration and evaluation activity and service concession arrangements. Intangible assets acquired as part of a business combination are recognized separately from goodwill, if the asset is separable or arises from contractual or legal rights, and are initially recorded at their acquisition date fair value.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with a finite life are amortized over their useful economic lives on a straight-line or units-of-production basis, as appropriate. The amortization expense is included in cost of sales unless otherwise noted. Intangible assets that are not yet ready for use are not amortized until put into use.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The Corporation has no identifiable intangible assets for which the expected useful life is indefinite.

Exploration and evaluation

Exploration and evaluation (E&E) expenditures are measured using the cost model and generally include the costs of licenses, technical services and studies, seismic studies, exploration drilling and testing, and directly attributable overhead and administration expenses including remuneration of operating personnel and supervisory management. These costs do not include general prospecting or evaluation costs incurred prior to having obtained the rights to explore an area, which are expensed as they are incurred.

E&E expenditures related to Oil and Gas properties are capitalized and carried forward until technical feasibility and commercial viability of extracting the resource is established. The technical feasibility and commercial viability is established when economic quantities of proven and/or probable reserves are determined to exist, at which point the E&E assets attributable to those reserves are reviewed for impairment before being transferred to property, plant and equipment.

Service concession arrangements

Service concession arrangements are contracts between private sector and government entities and can involve the construction, operation or upgrading of public infrastructure. Service concession arrangements can be classified as financial assets (where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement) or intangible assets (where the operator’s future cash flows are not specified).

Through its interest in Energas, the Corporation has been contracted to design, construct and operate electrical generating facilities at Boca de Jaruco and Puerto Escondido, Cuba, on behalf of the Cuban government. The sale price of electricity is contractually fixed, but decreases after loans provided by the Corporation to fund the construction are fully repaid. Ownership of these facilities will be transferred to the Cuban government for nil consideration at the end of the contract term which ends in 2023. Energas bears the demand risk on revenues related to assets covered under service concession arrangements as receipts are based on usage rather than an unconditional right to receive cash. As a result, the Boca de Jaruco and Puerto Escondido assets have been classified as intangible assets and represent the Corporation’s right to charge the Government of Cuba for future electricity and by-products delivered.

During periods of new construction, enhancement or upgrade activities, the Corporation records a new intangible asset and a corresponding construction revenue amount to reflect the right to charge the Cuban government for an incremental future supply of electricity. The construction expenses relating to the new construction activity are expensed as incurred. The net result of the construction activity is a nil impact to net earnings. Once operational, the carrying amount of the new service concession intangible asset, including capitalized interest, is amortized on a straight-line basis over the remaining contract term.

Repair, maintenance and replacement costs incurred in relation to service concession intangible assets are expensed as incurred.

Amortization

The following intangible assets are amortized on a straight-line basis over the following estimated useful lives:

Service concession arrangements	12 years
Exploration and evaluation	not amortized during development period

Impairment of non-financial assets

The Corporation assesses the carrying amount of non-financial assets including property, plant and equipment and intangible assets at each reporting date to determine whether there is any indication of impairment. Internal factors, such as estimated reserves, budgets and forecasts, as well as external factors, such as expected future prices, costs and other market factors are also monitored to determine if indications of impairment exist.

An impairment loss is the amount equal to the excess of the carrying amount over the recoverable amount. The recoverable amount takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use. To achieve this, the recoverable amount is the higher of value in use (being the net present value of expected pre-tax future cash flows of the relevant asset) and fair value less costs to sell the asset(s).

Impairment is assessed at the cash-generating unit (CGU) level. A CGU is the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows from other assets or group of assets. The assets of the corporate head office are allocated on a reasonable and consistent basis to CGUs or groups of CGUs.

If, after the Corporation has previously recognized an impairment loss, circumstances indicate that the recoverable amount of the impaired assets is greater than the carrying amount, the Corporation reverses the impairment loss by the amount the revised recoverable amount exceeds its carrying amount, to a maximum of the previous impairment loss. In no case shall the revised carrying amount exceed the original carrying amount, after depreciation or amortization, that would have been determined if no impairment loss had been recognized. An impairment loss or a reversal of an impairment loss is recognized in the consolidated statements of comprehensive income (loss).

Impairment of exploration and evaluation expenditures at Oil and Gas

Upon determination of proven and probable reserves, the related E&E assets attributable to those reserves are tested for impairment prior to being transferred to property, plant and equipment. Capitalized E&E costs are reviewed and evaluated for impairment at each reporting date for events or changes in circumstances that indicate the carrying amount may not be recoverable from future cash flows of the property.

Critical accounting estimates

Property, plant and equipment

Property, plant and equipment is the largest component of the Corporation's assets and, as such, the capitalization of costs, the determination of estimated recoverable amounts and the depletion and depreciation of these assets have a significant impact on the Corporation's financial results.

Certain assets are depreciated using a unit-of-production basis, which involves the estimation of recoverable reserves in determining the depletion and/or depreciation rates of the specific assets. Each item's life, which is assessed annually, is assessed for both its physical life limitations and the economic recoverable reserves of the property at which the asset is located.

For those assets depreciated on a straight-line basis, management estimates the useful life of the assets and their components, which in certain cases may be based on an estimate of the producing life of the property. These assessments require the use of estimates and assumptions including market conditions at the end of the asset's useful life, costs of decommissioning the asset and the amount of recoverable reserves.

Asset useful lives and residual values are re-evaluated at each reporting date.

Reserves for Oil and Gas properties

Reserves are estimates of the amount of product that can be economically and legally extracted from the Corporation's oil and gas properties. Reserve estimates are an integral component in the determination of the commercial viability of a site, depletion amounts charged to the cost of sales and any impairment analysis.

In calculating reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, production techniques, production decline rates, production costs, commodity prices and exchange rates. In addition, future changes in regulatory environments, including government levies or changes in the Corporation's rights to exploit the resource imposed over the producing life of the reserves may also significantly impact estimates.

Critical accounting judgments

Exploration and evaluation

Management must make judgments when determining when to transfer E&E expenditures from intangible asset to property, plant and equipment, which is normally at the time when commercial viability is achieved. Assessing commercial viability requires management to make certain judgments as to future events and circumstances, in particular whether an economically viable operation can be established. Any such judgments may change as new information becomes available. If after having capitalized the expenditure, a decision is made that recovery of the expenditure is unlikely, the amount capitalized is recognized in cost of sales in the consolidated statements of comprehensive income (loss).

Service concession arrangements

The Corporation determined that the contract terms regarding the Boca de Jaruco and Puerto Escondido, Cuba, facilities operated by Energas represent service concession arrangements as described in IFRIC 12, “Service concession arrangements” (IFRIC 12). The Corporation uses judgment to determine whether the grantor sets elements of the services provided by the operator, whether the grantor retains any significant ownership interest in the infrastructure at the end of the agreement, and to determine the classification of the service concession asset as either a financial asset or intangible asset.

Commercial viability

Management uses the best available information to determine when a development project reaches commercial viability which is generally based on management’s assessment of when economic quantities of proven and/or probable reserves are determined to exist and the point at which future costs incurred to develop a mine on the property are capitalized. Management also uses the best available information to determine when a project achieves commercial production, the stage at which pre-production costs cease to be capitalized.

For assets under construction, management assesses the stage of each construction project to determine when a project is commercially viable. The criteria used to assess commercial viability are dependent upon the nature of each construction project and include factors such as the asset purpose, complexity of a project and its location, the level of capital expenditure compared to the construction cost estimates, completion of a reasonable period of testing of the mine plant and equipment, ability to produce the commodity in saleable form (within specifications), and ability to sustain ongoing production of the commodity.

Impairment of non-financial assets

The Corporation assesses the carrying amount of non-financial assets including property, plant and equipment and intangible assets subject to depreciation and amortization at each reporting date to determine whether there are any indicators that the carrying amount of the assets may be impaired or require a reversal of impairment. Impairment is assessed at the CGU level and the determination of CGUs is an area of judgment.

For purposes of determining fair value, management assesses the recoverable amount of the asset using the net present value of expected future cash flows. Projections of future cash flows are based on factors relevant to the asset and could include estimated recoverable production, commodity or contracted prices, foreign exchange rates, production levels, cash costs of production, capital and reclamation costs. Projections inherently require assumptions and judgments to be made about each of the factors affecting future cash flows. Changes in any of these assumptions or judgments could result in a significant difference between the carrying amount and fair value of these assets. Where necessary, management engages qualified third-party professionals to assist in the determination of fair values.

Supporting information

Property, plant and equipment

Canadian $ millions, for the year ended December 31						**2018**
		Oil and Gas properties		**Plant, equipment and land**		**Total**
Cost						
Balance, beginning of the year	**$**	**176.0**	**$**	**654.5**	**$**	**830.5**
Additions		**1.0**		**23.3**		**24.3**
Additions and changes in estimates to environmental rehabilitation provisions		**6.0**		**3.1**		**9.1**
Disposals and derecognition		**-**		**(21.2)**		**(21.2)**
Effect of movements in exchange rates		**9.3**		**32.7**		**42.0**
Balance, end of the year	**$**	**192.3**	**$**	**692.4**	**$**	**884.7**
Depletion and depreciation						
Balance, beginning of the year	**$**	**169.5**	**$**	**432.5**	**$**	**602.0**
Depletion and depreciation		**2.5**		**23.8**		**26.3**
Impairments		**-**		**2.3**		**2.3**
Disposals and derecognition		**-**		**(9.5)**		**(9.5)**
Effect of movements in exchange rates		**8.7**		**27.0**		**35.7**
Balance, end of the year	**$**	**180.7**	**$**	**476.1**	**$**	**656.8**
Net book value	**$**	**11.6**	**$**	**216.3**	**$**	**227.9**

Extension of the Puerto Escondido/Yumuri production-sharing contract

In January 2018, a three-year extension of the Puerto Escondido/Yumuri production-sharing contract to March 2021 was executed with an agency of the Government of Cuba. As a result, the useful life of property, plant and equipment related to the Puerto Escondido/Yumuri production-sharing contract was extended from March 2018 to March 2021 and the environmental rehabilitation provision was reclassified from current to non-current.

Canadian $ millions, for the year ended December 31						2017
		Oil and Gas properties		Plant, equipment and land		Total
Cost						
Balance, beginning of the year	$	1,520.8	$	687.4	$	2,208.2
Additions		1.4		17.2		18.6
Additions and changes in estimates to environmental rehabilitation provisions		(9.3)		(2.7)		(12.0)
Disposals and derecognition		(1,286.2)		(19.5)		(1,305.7)
Effect of movements in exchange rates		(50.7)		(27.9)		(78.6)
Balance, end of the year	$	176.0	$	654.5	$	830.5
Depletion, depreciation and impairment losses						
Balance, beginning of the year	$	1,496.9	$	424.9	$	1,921.8
Depletion and depreciation		11.6		34.0		45.6
Disposals and derecognition		(1,287.6)		(4.2)		(1,291.8)
Effect of movements in exchange rates		(51.4)		(22.2)		(73.6)
Balance, end of the year	$	169.5	$	432.5	$	602.0
Net book value	$	6.5	$	222.0	$	228.5

Canadian $ millions		Plant, equipment and land
Assets under construction, included in above		
As at December 31, 2018	**$**	**11.0**
As at December 31, 2017		14.0

Intangible assets

Canadian $ millions, for the year ended December 31										2018
		Contractual arrange-ments		**Exploration and Evaluation**		**Service concession arrange-ments**		**Other**		**Total**
Cost										
Balance, beginning of the year	**$**	**27.0**	**$**	**52.3**	**$**	**218.2**	**$**	**9.1**	**$**	**306.6**
Additions through internal development		**-**		**25.1**		**-**		**-**		**25.1**
Effects of movements in exchange rates		**-**		**4.6**		**18.6**		**-**		**23.2**
Balance, end of the year	**$**	**27.0**	**$**	**82.0**	**$**	**236.8**	**$**	**9.1**	**$**	**354.9**
Amortization and impairment losses										
Balance, beginning of the year	**$**	**25.1**	**$**	**12.3**	**$**	**117.2**	**$**	**9.1**	**$**	**163.7**
Amortization		**0.3**		**-**		**19.5**		**-**		**19.8**
Effect of movements in exchange rates		**-**		**-**		**10.9**		**-**		**10.9**
Balance, end of the year	**$**	**25.4**	**$**	**12.3**	**$**	**147.6**	**$**	**9.1**	**$**	**194.4**
Net book value	**$**	**1.6**	**$**	**69.7**	**$**	**89.2**	**$**	**-**	**$**	**160.5**

Canadian $ millions, for the year ended December 31										2017
		Contractual arrange-ments		Exploration and Evaluation		Service concession arrange-ments		Other		Total
Cost										
Balance, beginning of the year	**$**	27.0	**$**	32.9	**$**	233.3	**$**	9.1	$	302.3
Additions through internal development		-		21.1		-		-		21.1
Effect of movements in exchange rates		-		(1.7)		(15.1)		-		(16.8)
Balance, end of the year	$	27.0	$	52.3	$	218.2	$	9.1	$	306.6
Amortization and impairment losses										
Balance, beginning of the year	**$**	24.8	**$**	12.3	**$**	105.5	**$**	8.8	$	151.4
Amortization		0.3		-		19.0		0.3		19.6
Effect of movements in exchange rates		-		-		(7.3)		-		(7.3)
Balance, end of the year	$	25.1	$	12.3	$	117.2	$	9.1	$	163.7
Net book value	$	1.9	$	40.0	$	101.0	$	-	$	142.9

Exploration and evaluation

In 2014, the Corporation signed two new PSCs with the Government of Cuba, respectively referred to as Block 8A and Block 10. In 2017, the Corporation signed an additional new PSC with the Government of Cuba referred to as Block 6A. The three PSCs have terms of 25 years. Exploration and evaluation assets include capitalized expenditures on these three blocks, and primarily consist of exploration drilling performed on Block 10.

Service concession arrangements

In 2016, construction of the Puerto Escondido/Yumuri pipeline was completed and the pipeline became operational. Also included in service concession arrangements is construction at the Energas Boca de Jaruco facility completed in 2014.

15. LOANS, BORROWINGS AND OTHER FINANCIAL LIABILITIES

Loans and borrowings

				For the year ended December 31, 2018			
				Cash flows	Non-cash changes		
Canadian $ millions	Note		As at 2017 December 31	Repurchase	Effect of movement in exchange rates	Other	As at 2018 December 31
8.00% senior unsecured debentures due 2021[1]	11	$	213.2	$ **(47.9)**	$ **-**	$ **(3.2)**	$ **162.1**
7.50% senior unsecured debentures due 2023[1]	11		240.7	**(46.9)**	**-**	**(8.0)**	**185.8**
7.875% senior unsecured debentures due 2025[1]	11		234.4	**(25.5)**	**-**	**(9.3)**	**199.6**
Ambatovy Joint Venture partner loans[2]	11		127.8	**-**	**11.3**	**11.1**	**150.2**
Syndicated revolving-term credit facility			8.0	**-**	**-**	**-**	**8.0**
		$	824.1	$ **(120.3)**	$ **11.3**	$ **(9.4)**	$ **705.7**
Current portion of loans and borrowings			(8.0)				**(8.0)**
		$	816.1				$ **697.7**

(1) As at December 31, 2018, the outstanding principal amounts of the 8.00% senior unsecured debentures due 2021, 7.50% senior unsecured debentures due 2023 and 7.875% senior unsecured debentures due 2025 are $169.6 million, $197.8 million and $220.7 million, respectively. Other non-cash changes consists of the effect of initial application of IFRS 9 on January 1, 2018 (note 3), accretion and gains/losses on repurchase of senior unsecured debentures.

(2) Other non-cash changes on the Ambatovy Joint Venture partner loans consists of the effect of initial application of IFRS 9 on January 1, 2018 (note 3), accretion and accrued interest. Accrued and unpaid interest on these loans is capitalized to the loan balance semi-annually in June and December.

Senior unsecured debentures

During the year ended December 31, 2018, the Corporation repurchased $131.9 million total principal amount of the senior unsecured debentures at a total cost of $120.3 million. A gain on repurchase of debentures of $2.3 million, net of $9.4 million related to deferred financing costs and the impact of the adoption of IFRS 9, was recognized during the year ended December 31, 2018. The gain was recognized within net finance expense in the consolidated statements of comprehensive income (loss) (note 8). The Corporation also paid accrued interest of $3.2 million on these repurchased debentures during the year ended December 31, 2018.

Transaction costs for the repurchase of the senior unsecured debentures totalled $1.3 million for the year ended December 31, 2018, of which $1.3 million were paid during the year ended December 31, 2018.

Under the Corporation's indenture agreement, the Corporation is subject to restrictions, often referred to as "baskets", which limit the incurrence of indebtedness and the ability to make certain distributions, unless certain financial ratios are met. If earnings before interest, taxes, depreciation and amortization ("EBITDA")-to-interest expense, both as defined in the agreement, is above 2:1, debt can be incurred without the use of a basket and an additional basket for restricted payments becomes available. Similarly, if indebtedness-to-EBITDA is below 3:1, distributions and other restricted payments are no longer limited.

Ambatovy Joint Venture partner loans

In 2008, the Ambatovy Joint Venture partners finalized agreements to provide Sherritt with loans of up to US$236.0 million to be used to fund Sherritt's contributions for the project. The loans are provided at an interest rate based on a six-month LIBOR plus 1.125% with a 15-year term.

The partner loans continue to be secured by Sherritt's 12% interest following the Ambatovy Joint Venture restructuring during the year ended December 31, 2017. The partner loans can be repaid in cash at any time through to maturity in August 2023. At maturity, Sherritt can elect to: (i) repay the loans in cash, (ii) repay the loans in shares or a combination of cash and shares at 105% of the amount then due, or (iii) repay in 10 equal semi-annual principal installments (plus interest) commencing in December 2024, at an interest rate of LIBOR +5% applied from the original August 2023 maturity date.

The principal amount outstanding under this facility at December 31, 2018 was $144.0 million, including accrued interest (December 31, 2017 - $128.2 million). The Corporation's ability to draw additional amounts on the facility expired on August 22, 2014.

Syndicated revolving-term credit facility

During the year ended December 31, 2018, the maturity of the syndicated revolving-term credit facility was extended to April 30, 2020 and the maximum credit available increased to $70.0 million. The interest rates decreased to prime plus 3.00% or bankers' acceptance plus 4.00%.

The facility is subject to the following financial covenants and restrictions as of December 21, 2018:

- EBITDA, as defined in the agreement, of not less than $100 million;
- EBITDA-to-interest expense covenant of not less than 1.75:1;
- Limits on capital expenditures and funding of the Ambatovy Joint Venture and Moa Joint Venture; and
- Maintenance of a minimum balance of cash and cash equivalents and short-term investments held by the Corporation's wholly-owned subsidiaries of $100.0 million, less undrawn credit. The minimum balance of cash and cash equivalents and short-term investments, less undrawn credit, as at December 31, 2018 is $84.9 million.

As at December 31, 2018, the Corporation has $46.9 million of letters of credit outstanding pursuant to this facility (December 31, 2017- $50.0 million). As at December 31, 2018, $8.0 million has been drawn on this facility (December 31, 2017 - $8.0 million).

Covenants

As at December 31, 2018, there are no events of default on the Corporation's borrowings or debentures. The Corporation did not meet the financial ratios required to remove limitations on the incurrence of debt or certain distributions under the senior unsecured debentures indenture agreement.

Other financial liabilities

Canadian $ millions, as at	**2018 December 31**	2017 December 31
Cobalt-linked warrant liability	**$ 2.8**	$ -
Stock-based compensation liability	**5.7**	23.6
Other financial liabilities	**4.6**	0.6
	13.1	24.2
Current portion of other financial liabilities	**(7.4)**	(8.0)
	$ 5.7	$ 16.2

In January 2018, the Corporation issued 47.2 million cobalt-linked warrants as part of a unit offering that also included common shares (note 17). The cobalt-linked warrants have an exercise price of $1.95 for a period of 36 months, effective January 25, 2018, and are listed on the Toronto Stock Exchange. Each cobalt-linked warrant is exercisable to acquire between 1.00 and 1.25 common shares, determined with reference to a common shares per warrant ratio based on a prescribed cobalt reference price. The common shares per warrant ratio as at December 31, 2018 was 1.00. The warrants are classified as a non-current financial liability and the fair value upon issuance was determined to be $0.34 per warrant using the closing market price on the date of issuance, which totaled $16.1 million. As at December 31, 2018, the closing price of the cobalt-linked warrants decreased to $0.06 per warrant, resulting in an unrealized gain on financial instruments of $13.2 million recognized within net finance expense (note 8). Transaction costs of $1.0 million were allocated to the cobalt-linked warrants based on the relative fair values of the warrants and common shares included in the unit offering and were recognized as other finance charges within net finance expense (note 8). As at December 31, 2018, 47.2 million cobalt-linked warrants related to the 2018 unit offering were outstanding (note 17).

16. PROVISIONS, CONTINGENCIES AND GUARANTEES

Accounting policies

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where appropriate, the future cash flow estimates are adjusted to reflect risks specific to the obligation. Where the Corporation expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in cost of sales or administrative expenses, depending on the nature of the provision. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognized as financing expense. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognized, but are disclosed where an inflow of economic benefits is probable.

Environmental rehabilitation

Provisions for environmental rehabilitation include decommissioning and restoration costs when the Corporation has an obligation to dismantle and remove infrastructure and residual materials as well as to restore the disturbed area. Estimated decommissioning and restoration costs are provided for in the accounting period when the obligation arising from the disturbance occurs, whether this occurs during mine development or during the production phase, based on the net present value of estimated future costs. The provision for environmental rehabilitation is reviewed and adjusted each period to reflect developments which could include changes in closure dates, legislation, discount rate or estimated future costs.

The amount recognized as a liability for environmental rehabilitation is calculated as the present value of the estimated future costs determined in accordance with local conditions and requirements. An amount corresponding to the provision is capitalized as part of property, plant and equipment and is depreciated over the life of the corresponding asset. The impact of amortization or unwinding of the discount rate applied in establishing the net present value of the provision is recognized in financing expense. The applicable discount rate is a pre-tax rate that reflects the current market assessment of the time value of money which is determined based on government bond interest rates and inflation rates.

Changes to estimated future costs are recognized in the consolidated statements of financial position by either increasing or decreasing the rehabilitation liability and rehabilitation asset if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16, “Property, Plant and Equipment”. Any reduction in the rehabilitation liability and therefore any deduction from the rehabilitation asset may not exceed the carrying amount of that asset. If it does, any excess over the carrying amount is taken immediately to cost of sales.

If the change in estimate results in an increase in the rehabilitation provision and therefore an addition to the carrying amount of the asset, the entity is required to consider whether the new carrying amount is recoverable, and whether this is an indication of impairment of the asset as a whole. If indication of impairment of the asset as a whole exists, the Corporation tests for impairment in accordance with IAS 36, “Impairment of Assets”. If the carrying amount of the revised mine assets, net of rehabilitation provisions, exceeds the recoverable value, that portion of the increase is charged directly to cost of sales. For closed sites, changes to estimated costs are recognized immediately in cost of sales. Also, rehabilitation obligations that arise as a result of the production phase of a mine are expensed as incurred.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated cost of outstanding rehabilitation work at each statement of financial position date and any increase in overall cost is expensed.

Critical accounting estimates

The Corporation’s operations are subject to environmental regulations in Canada, Cuba, Madagascar and other countries in which the Corporation operates. Many factors such as future changes to environmental laws and regulations, life of mine estimates, the cost and time it will take to rehabilitate the property and discount rates, all affect the carrying amount of environmental rehabilitation provisions. As a result, the actual cost of environmental rehabilitation could be higher than the amounts the Corporation has estimated. For certain operations, actual costs will ultimately be determined after site closure in agreement with predecessor companies.

The environmental rehabilitation provision is assessed quarterly and measured by discounting the expected cash flows. The applicable discount rate is a pre-tax rate that reflects the current market assessment of the time value of money which is determined based on government bond interest rates and inflation rates. The actual rate depends on a number of factors, including the timing of rehabilitation activities that can extend decades into the future and the location of the property.

Supporting information

Canadian $ millions, as at	2018 December 31	2017 December 31
Environmental rehabilitation provisions	**$ 107.7**	$ 95.3
Other provisions	**9.5**	15.0
	117.2	110.3
Current portion of provisions	**(8.6)**	(18.3)
	$ 108.6	$ 92.0

Environmental rehabilitation provisions

Provisions for environmental rehabilitation obligations are recognized in respect of Oil and Gas, Power and mining operations and include associated infrastructure and buildings, such as oil and gas production facilities, refinery, fertilizer and utilities facilities. The obligations normally take place at the end of the asset's useful life.

The following is a reconciliation of the environmental rehabilitation provisions:

Canadian $ millions, for the years ended December 31	Note	2018	2017
Balance, beginning of the year		**$ 95.3**	$ 103.2
Change in estimates		**9.1**	(12.0)
Utilized during the year		**-**	(0.4)
Accretion	8	**0.7**	1.0
Effect of movement in exchange rates		**2.6**	3.5
Balance, end of the year		**$ 107.7**	$ 95.3

The Corporation has estimated that it will require approximately $145.4 million in undiscounted cash flows to settle these obligations. The payments are expected to be funded by cash generated from operations. Discount rates from 2.06% to 13.38% were applied to expected future cash flows to determine the carrying value of the environmental rehabilitation provision.

Other provisions

The following is a reconciliation of other provisions:

Canadian $ millions, for the years ended December 31	2018	2017
Balance, beginning of the year	**$ 15.0**	$ 11.4
Change in estimates	**-**	15.1
Reclassified to trade accounts payable and accrued liabilities	**(0.3)**	(3.4)
Utilized during the year	**(5.2)**	(8.1)
Balance, end of the year	**$ 9.5**	$ 15.0

For the year ended December 31, 2018, the Corporation recognized $8.5 million in cash used by discontinued operations in the consolidated statements of cash flow ($5.2 million for the year ended December 31, 2017). Cash used by discontinued operations relates to cash paid to settle the obligations retained by the Corporation after the disposition of the Coal operations in 2014 and includes payments of $3.4 million for amounts reclassified to trade accounts payable and accrued liabilities in the comparative period.

In December 2018, the Corporation recognized $16.0 million in income within earnings (loss) from discontinued operations in the consolidated statements of comprehensive income (loss) related to an insurance claim reimbursement. The corresponding receivable has been included within other financial assets in the consolidated statements of financial position. The Corporation received the insurance claim reimbursement in January 2019.

Contingencies

A number of the Corporation's subsidiaries and affiliates have operations located in Cuba. The Corporation will continue to be affected by the difficult political relationship between the United States and Cuba. The Corporation has received letters from U.S. citizens claiming ownership of certain Cuban properties or rights in which the Corporation has an indirect interest, and explicitly or implicitly threatening litigation. Having regard to legal and other developments in the United States, and remedies available in Canada and in Europe, the Corporation believes that the impact of any claims against it will not be material.

In addition to the above matter, the Corporation and its subsidiaries are also subject to routine legal proceedings and tax audits. The Corporation does not believe that the outcome of any of these matters, individually or in aggregate, would have a material adverse effect on its consolidated net earnings, cash flow or financial position.

17. SHAREHOLDERS' EQUITY

Capital stock

In January 2018, the Corporation completed a unit offering and issued units consisting of 94.5 million common shares and 47.2 million cobalt-linked warrants (note 15) at $1.40 per unit for gross proceeds of $132.3 million. The value of the common shares was determined to be $1.23 per common share which totaled $116.2 million after measuring the fair value of the cobalt-linked warrants. Transaction costs of $7.2 million were allocated to the common shares based on the relative fair values of the common shares and cobalt-linked warrants and were deducted from equity, resulting in a net increase to equity of $109.0 million.

The Corporation's common shares have no par value and the authorized share capital is composed of an unlimited number of common shares. The changes in the Corporation's outstanding common shares were as follows:

Canadian $ millions, except share amounts, for the years ended December 31			2018			2017		
	Note	Number		Capital stock	Number		Capital stock
Balance, beginning of the year		**301,758,665**	**$**	**2,784.6**	294,174,923	$	2,775.7
Restricted stock plan (vested)	18	**-**		**-**	27,000		0.1
Equity issuance, net of transaction costs - 2018 unit offering		**94,464,400**		**109.0**	-		-
Stock options exercised		**193,800**		**0.2**	-		-
Warrants exercised - 2016 debenture extension		**864,821**		**1.1**	7,556,742		8.8
Balance, end of the year		**397,281,686**	**$**	**2,894.9**	301,758,665	$	2,784.6

During the year ended December 31, 2016, 19.1 million warrants were granted to Noteholders of the senior unsecured debentures that elected to extend the maturity dates with a fair value of $0.43 per warrant which totaled $8.2 million. As at December 31, 2018, 10.4 million warrants related to the 2016 debenture extension were outstanding (December 31, 2017 – 11.2 million).

Reserves

Canadian $ millions, for the years ended December 31		2018		2017
Stated capital reserve				
Balance, beginning of the year	**$**	**222.6**	$	225.8
Warrants exercised - 2016 debenture extension		**(0.4)**		(3.2)
Balance, end of the year		**222.2**		222.6
Stock-based compensation reserve[(1)]				
Balance, beginning of the year	**$**	**10.3**	$	8.9
Restricted stock plan (vested)		**-**		(0.1)
Stock options exercised		**(0.1)**		-
Stock option plan expense		**1.0**		1.5
Balance, end of the year		**11.2**		10.3
Total reserves, end of the year	**$**	**233.4**	$	232.9

(1) Stock-based compensation reserve relates to equity-settled compensation plans issued by the Corporation to its directors, officers and employees.

Accumulated other comprehensive income

Canadian $ millions, for the years ended December 31	Note		2018		2017
Foreign currency translation reserve					
Balance, beginning of the year		**$**	**470.9**	$	813.2
Foreign currency translation differences on foreign operations			**70.9**		(72.1)
Reclassification to Gain on Ambatovy Joint Venture restructuring	7		**-**		(269.6)
Reclassification to net finance expense upon dissolution of foreign operation			**-**		(0.6)
Balance, end of the year			**541.8**		470.9
Actuarial losses on pension plans					
Balance, beginning of the year			**(4.4)**		(4.2)
Actuarial losses on pension plans, net of tax			**(0.2)**		(0.2)
Balance, end of the year			**(4.6)**		(4.4)
Total accumulated other comprehensive income		**$**	**537.2**	$	466.5

18. STOCK-BASED COMPENSATION PLANS

Accounting policies

The Corporation operates a number of equity-settled and cash-settled share-based compensation plans under which it issues equity instruments of the Corporation, or makes cash payments based on the value of the underlying equity instrument of the Corporation, to directors, officers and employees in exchange for services.

The Corporation's equity-settled compensation plans include the stock options plan and the Restricted Stock Plan ("RSP"). Equity-settled stock options obligations are settled by the issuance of shares from treasury. RSP obligations are settled by the purchase of shares on the open market. The fair value of grants issued under the stock options plan are determined at the date of grant using the Black-Scholes option valuation model. They are only re-measured if there is a modification to the terms of the option, such as a change in exercise price or legal life. The fair value of the RSP obligation is measured as the value at which the shares are purchased on the market. The fair value of the equity-settled compensation plans is recognized as an expense over the expected vesting period with a corresponding entry to shareholders' equity.

The Corporation's cash-settled share plans, including stock options with tandem stock appreciation rights ("Options with Tandem SARs"), Restricted Share Units ("RSUs"), Performance Share Units ("PSUs") and Deferred Share Units ("DSUs"), are recognized as liabilities at the date of grant.

The fair value of the liability of the Options with Tandem SARs is determined based on the application of the Black-Scholes option valuation model at the date granted and subsequently re-measured each reporting date based on the market value of the Corporation's shares and management's estimate of the number of shares expected to vest. Projections are reviewed at each reporting date up to the vesting date to reflect management's best estimates and adjusted as required. Movements in the liability between reporting dates are recognized as an adjustment to the liability and an offsetting expense or recovery. At each reporting date until settlement, the fair value of the awards is re-measured based on revised pricing parameters of the model based on market conditions at the reporting date and estimates of forfeiture rates. Options with Tandem SARs permit awards to be settled in shares. If this occurs, the liability is transferred directly to equity as part of the consideration for the equity instruments issued.

The fair value of the RSU liability at the date of grant and at each subsequent reporting date until settlement is based on the market value of the Corporation's shares. If the Corporation's share price changes between reporting dates then the fair value of the RSU liability is adjusted and an offsetting expense or recovery is recognized in the statement of comprehensive income (loss). The adjusted fair value of the RSU liability is then amortized over the remaining vesting period. For RSUs issued with performance requirements, the fair value at the date of grant and at each subsequent reporting date until settlement is based on performance metrics which are defined at the time of issuance and on the market value of the Corporation's shares with the liability expensed over the vesting period. Adjustments recorded are amortized over the remaining vesting period.

The fair value of the PSU liability at the date of grant and at each subsequent reporting date until settlement is based on performance metrics which are defined at the time of issuance and on the market value of the Corporation's shares with the liability expensed over the vesting period. If the Corporation's share price or the expected achievement of the performance requirements changes between reporting dates then the fair value of the PSU liability is adjusted and an offsetting expense or recovery is recognized in the statement of comprehensive income (loss). Adjustments recorded are amortized over the remaining vesting period.

The fair value of DSUs at the date of grant and at each subsequent reporting date until settlement is based on the market value of the shares with the liability expensed over the vesting period. Movements in the liability between reporting dates are recognized as an adjustment to the liability and an offsetting expense or recovery. The adjustment amount is amortized over the remaining vesting period.

Supporting information

Stock options and options with tandem stock appreciation rights

The Corporation maintains a stock option plan, pursuant to which securities of the Corporation may be issued as compensation. Eligible participants are those persons designated from time to time by the Human Resources Committee of the Board of Directors (the Committee) from among the executive officers and certain senior employees of the Corporation or its subsidiaries who occupy responsible managerial or professional positions and who have the capacity to contribute to the success of the Corporation.

Under the Corporation's stock option plan, the Committee has the discretion to attach Tandem SARs to options, which entitles the holder to a cash payment of the difference between the option's exercise price and the volume-weighted average trading price of a share on the Toronto Stock Exchange for the five trading days preceding the exercise date. Options with Tandem SARs have not been issued since March 2010.

The maximum number of stock options issuable is 17,500,000. The remaining number of options which may be issued under the stock option plan is 1,193,985 at December 31, 2018. Under the stock option plan, the exercise price of each option equals the volume-weighted average trading price over the five days prior to the date the option is granted. An option's maximum term is 10 years. Options vest on such terms as the Committee determines, generally in three equal instalments on the annual anniversary date of the grant of the options. When options with or without Tandem SARs are exercised, the related options are cancelled and the shares underlying such options are issued and are no longer available for issuance under the stock option plan.

The following is a summary of stock option activity:

Canadian $, except number of options, for the years ended December 31			**2018**			2017
	Number of options		**Weighted-average exercise price**	Number of options		Weighted-average exercise price
Outstanding, beginning of the year	**10,435,061**	**$**	**2.77**	9,598,416	$	3.57
Granted	**758,139**		**1.25**	1,382,814		1.20
Exercised for shares	**(193,800)**		**0.68**	-		-
Forfeited	**(802,181)**		**3.63**	(50,000)		15.02
Expired	**(300,000)**		**13.20**	(496,169)		12.51
Outstanding, end of the year	**9,897,219**	**$**	**2.31**	10,435,061	$	2.77
Options exercisable, end of the year	**7,222,991**	**$**	**2.80**	5,924,077	$	4.10

The following table summarizes information on stock options outstanding and exercisable:

As at December 31							**2018**
Range of exercise prices	**Number outstanding**	**Weighted-average remaining contractual life (years)**		**Weighted-average exercise price**	**Number exercisable**		**Exercisable weighted-average exercise price**
$0.68 - $0.94	**3,511,700**	**7.1**	**$**	**0.68**	**2,341,132**	**$**	**0.68**
$0.95 - $1.68	**1,922,930**	**8.5**		**1.22**	**419,270**		**1.20**
$1.69 - $2.55	**1,545,000**	**6.2**		**2.11**	**1,545,000**		**2.11**
$2.56 - $5.15	**1,591,500**	**4.9**		**3.72**	**1,591,500**		**3.72**
$5.16 - $9.10	**1,326,089**	**1.6**		**6.75**	**1,326,089**		**6.75**
Total	**9,897,219**	**6.2**	**$**	**2.31**	**7,222,991**	**$**	**2.80**

As at December 31, 2018, 775,389 options with tandem SARs (December 31, 2017 – 1,236,547) and 9,121,830 options without tandem SARs (December 31, 2017 – 9,198,514) remained outstanding for which the Corporation has recognized a compensation expense of $1.0 million for the year ended December 31, 2018 (compensation expense of $1.5 million for the year ended December 31, 2017). The carrying amount of liabilities associated with stock options with tandem SARs is nil as at December 31, 2018 (December 31, 2017 – nil).

Inputs for measurement of grant date fair values

The fair value at the grant date of the stock options was measured using Black-Scholes. The following summarizes the weighted average fair value measurement factors for options granted during the year:

Canadian $, except as noted, for the years ended December 31	2018	2017
Share price at grant date	**$ 1.25**	$ 1.20
Exercise price	**$ 1.25**	$ 1.20
Risk-free interest rates (based on 10-year Government of Canada bonds)	**2.29%**	1.61%
Expected volatility	**58.85%**	57.92%
Expected dividend yield	**0.00%**	0.00%
Expected life of options	**10 years**	10 years
Weighted-average fair value of options granted during the year	**$ 0.86**	$ 0.79

Expected volatility is estimated based on the average historical share price volatility for a period equal to the expected life of the option. The expected life of the option is estimated to equal its legal life at the time of grant. The expected dividend yield is determined by comparing the most recent dividend payment to the share price at grant date.

Other stock-based compensation

Restricted Share Units (RSUs)

Under the terms of the Executive Share Unit Plan, the RSUs are available to be granted to executives and employees. The RSUs represent a right to receive a cash amount payable by the Corporation to a participant at the end of the vesting period for RSUs determined by reference to the market price of the common shares multiplied by the number of RSUs held by the participant as adjusted for dividend equivalents credited. RSUs are issued subject to vesting conditions, including performance criteria, if any, which are set by the Committee. The RSUs vest at the sole discretion of the Committee. RSUs vest not later than the earlier of (a) the earlier of: (i) December 31 of the third calendar year following the calendar year in respect of which the RSUs were granted or (ii) the date set out in the RSU grant agreement; and (b) the date of death of a participant. The vesting date set out in the grant agreement is typically the third anniversary of the grant date. The Corporation shall redeem all of a participant's vested RSUs on the vesting date and may, at the discretion of the Committee, redeem all or any part of a participant's unvested RSUs prior to the vesting date.

Beginning in 2013, the Corporation began issuing performance based RSUs to certain employees, which vest at the end of three years. Under the plan, each unit awarded is equivalent to a common share. A liability is accrued related to the units awarded and a compensation expense is recognized in the consolidated statement of comprehensive income (loss) over the service period required for employees to become fully entitled to the award. At the maturity date, the participant receives cash representing the value of the units. The final number of units that vest will vary from 80% to 120% of the number of outstanding units on the vesting date (initial number awarded plus additional units for dividend equivalents) based on the Corporation's total shareholder return relative to a benchmark index comprised of mining and oil and gas companies. The number of RSUs subject to a performance condition based solely on the Corporation's relative total shareholder return outstanding at December 31, 2018 was 10,044,510 (December 31, 2017 – 13,704,281).

In the first quarter of 2017 and the first quarter of 2018, the Corporation's Board of Directors approved the grant of RSUs to certain employees with a 3-year vesting period with no performance conditions. The number of RSUs subject to no performance conditions outstanding at December 31, 2018 was 4,896,136 (December 31, 2017 – 2,387,491).

Performance Share Units (PSUs)

In the first quarter of 2017 and the first quarter of 2018, the Corporation's Board of Directors approved the grant of PSUs to certain employees. The PSUs represent a right to receive a cash amount payable by the Corporation to a participant at the end of the vesting period determined by reference to the market price of the common shares multiplied by the number of PSUs held by the participant as adjusted for dividend equivalents credited, if any. A liability is accrued related to the units awarded and a compensation expense is recognized in the consolidated statements of comprehensive income (loss) over the 3-year service period required for employees to become fully entitled to the award. The PSUs are issued subject to vesting conditions, including performance conditions, which are set by the Human Resources Committee. The vesting of PSUs will be subject to the achievement of two equally-weighted performance conditions measured over the 3-year vesting period: (i) the Corporation's total shareholder return relative to benchmark indices comprised of mining and oil and gas companies (a market condition); and (ii) unit cost of production compared to budget (a non-market condition). The value of PSUs that vest will vary from 0% to 200% based on the achievement of the market and non-market performance conditions. The number of PSUs subject to these performance conditions outstanding at December 31, 2018 was 6,994,360 (December 31, 2017 – 3,761,449).

Deferred Share Units (DSUs)

Under the terms of the Non-executive Directors' Deferred Share Unit Plan, the DSUs are available to be granted to non-executive directors. The DSUs represent a right to receive a cash amount payable by the Corporation to a participant following departure from the Board of Directors. The value payable is determined by reference to the market price of the common shares multiplied by the number of DSUs held by the participant as adjusted for dividend equivalents credited. DSUs vest on the later of (a) the grant date or (b) the date that any terms of vesting conditions attached to the DSUs are satisfied. DSUs generally vest on the grant date. DSUs are redeemed by the Corporation at the election of the participant by filing a notice of redemption not earlier than the participant's termination date and not later than December 1st of the calendar year following the termination date.

Restricted Stock Plan (RSP)

The Corporation has a Restricted Stock Plan intended for senior executives, under which the Committee may grant restricted shares to employees of the Corporation. Under the terms of the plan, shares that are issued are subject to vesting conditions, which are set by the Committee for each grant of restricted stock. The shares granted under this plan are purchased on the open market by a trustee and held in each participant's custodial account until the vesting conditions have been met, or the shares are forfeited. The participant owns the restricted shares but cannot dispose or otherwise transfer ownership of them until the restrictions and performance conditions, if any, specified by the Committee at the time of grant have been satisfied.

For accounting purposes, these shares are excluded from the number of outstanding common shares of the Corporation and reduce the capital stock of the Corporation. As the shares vest, the shares are included in the number of outstanding common shares of the Corporation and the capital stock of the Corporation is increased accordingly. The Corporation purchased nil common shares during the year ended December 31, 2018 (for the year ended December 31, 2017 the Corporation purchased nil common shares). These shares are excluded from the calculation of the weighted-average number of common shares used for the purposes of calculating basic earnings per share. In June 2017, the restricted shares fully vested and the plan was closed.

A summary of the RSU, PSU, DSU and RSP units outstanding as at December 31, 2018 and 2017 and changes during the year ended is as follows:

For the year ended December 31				**2018**
	RSU	**PSU**	**DSU**	**RSP**
Outstanding, beginning of the year	**16,091,772**	**3,761,449**	**2,302,539**	**-**
Issued	**2,687,978**	**3,559,578**	**565,689**	**-**
Exercised	**(2,604,303)**	**-**	**(838,480)**	**-**
Forfeited	**(1,234,801)**	**(326,667)**	**-**	**-**
Outstanding, end of the year	**14,940,646**	**6,994,360**	**2,029,748**	**-**
Units exercisable, end of the year	**n/a**	**n/a**	**2,029,748**	**n/a**

For the year ended December 31				2017
	RSU	**PSU**	**DSU**	**RSP**
Outstanding, beginning of the year	24,670,181	-	1,682,089	27,000
Issued	2,404,158	3,778,116	620,450	-
Exercised	(1,971,994)	-	-	-
Forfeited	(9,010,573)	(16,667)	-	-
Vested	-	-	-	(27,000)
Outstanding, end of the year	16,091,772	3,761,449	2,302,539	-
Units exercisable, end of the year	n/a	n/a	2,302,539	n/a

For other stock-based compensation plans the Corporation recorded a compensation recovery of $12.8 million for the year ended December 31, 2018 (compensation expense of $13.2 million for the year ended December 31, 2017). The carrying amount of liabilities associated with cash-settled compensation arrangements is $5.7 million as at December 31, 2018 (December 31, 2017 - $23.6 million).

Measurement of fair values at grant date

The fair value of the RSUs, PSUs, DSUs and RSPs are determined by reference to the market value and performance conditions, as applicable, of the shares at the time of grant. The following summarizes the grant date fair values for the RSU, PSU and DSU units granted during the period:

Canadian $, for the years ended December 31	**2018**	2017
RSU	**$ 1.18**	$ 1.20
PSU	**1.20**	1.20
DSU	**1.06**	1.10

The intrinsic value of cash-settled stock-based compensation awards vested and outstanding as at December 31, 2018 was $5.4 million (December 31, 2017 - $19.0 million).

Employee share ownership plan

The Corporation offers an employee share ownership plan (ESOP) for eligible employees. Under the ESOP, contributions by the Corporation and eligible employees will be used by the plan administrator to make purchases of common shares of the Corporation on the open market. Each eligible employee may contribute up to 10% of the employee's salary to the ESOP. The Corporation will match 50% of employee contributions to the plan, up to a maximum annual contribution. Employer contributions will be used by the plan administrator to purchase additional common shares in the Corporation. These additional shares cannot be sold or withdrawn until the employee has participated in the plan for a continuous 24-month period. Shareholder approval is not required for this plan or any amendments to this plan.

The Corporation accounts for its contributions to the employee share ownership plan (ESOP) as compensation and benefits expense when the amounts are contributed to the plan. Compensation and benefits expense related to this plan was $0.7 million for the year ended December 31, 2018 ($0.6 million for the year ended December 31, 2017).

19. SUPPLEMENTAL CASH FLOW INFORMATION

Accounting policies

The Corporation presents the consolidated statements of cash flow using the indirect method. The Corporation presents interest paid and received as an operating activity in the consolidated statements of cash flow. Dividends paid are presented as a financing activity, while dividends and distributions received are presented as an operating activity in the consolidated statements of cash flow.

Supporting information

Other operating items includes the following:

Canadian $ millions, for the years ended December 31	Note	**2018**	2017
Add (deduct) non-cash items:			
Accretion expense on environmental rehabilitation provisions	8, 16	**$ 0.7**	$ 1.0
Stock-based compensation (recovery) expense, net	5	**(11.8)**	14.7
Other items		**3.7**	6.4
Cash flow arising from changes in:			
Other finance charges		**(1.8)**	(2.1)
Realized foreign exchange gain	8	**0.1**	0.6
Ambatovy Joint Venture transaction and other closing costs		**-**	(10.4)
		$ (9.1)	$ 10.2

Net change in non-cash working capital includes the following:

Canadian $ millions, for the years ended December 31	**2018**	2017
Trade accounts receivable, net, and unbilled revenue	**$ 76.1**	$ (34.9)
Inventories	**0.7**	2.7
Prepaid expenses	**0.2**	(0.4)
Trade accounts payable and accrued liabilities	**(11.2)**	36.0
Deferred revenue	**7.5**	3.3
	$ 73.3	$ 6.7

20. FINANCIAL RISK AND CAPITAL RISK MANAGEMENT

Risk management policies and hedging activities

The Corporation is sensitive to changes in commodity prices, foreign exchange and interest rates. The Corporation's Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. Although the Corporation has the ability to address its price-related exposures through the use of options, futures and forward contracts, it does not generally enter into such arrangements. The Corporation reduces the business-cycle risks inherent in its commodity operations through industry diversification.

Credit risk

Sherritt's sales of nickel, cobalt, oil, gas and electricity expose the Corporation to the risk of non-payment by customers. Sherritt manages this risk by monitoring the creditworthiness of its customers, covering some exposure through receivables insurance, documentary credit and seeking prepayment or other forms of payment security from customers with an unacceptable level of credit risk. In addition, there are certain credit risks that arise due to the fact that all sales of oil and electricity in Cuba are made to agencies of the Cuban government. Although Sherritt seeks to manage its credit risk exposure, there can be no assurance that the Corporation will be successful in eliminating the potential material adverse impacts of such risks.

Cuba

The Corporation has credit risk exposure related to its share of cash, accounts receivable and advances and loans receivable associated with its businesses located in Cuba or businesses which have Cuban joint venture partners as follows:

Canadian $ millions, as at	2018 December 31	2017 December 31
Cash	**$ 89.0**	$ 51.9
Trade accounts receivable, net	**71.4**	114.5
Advances and loans receivable	**600.9**	567.2
Total	**$ 761.3**	$ 733.6

The table above reflects the Corporation's maximum credit exposure to Cuban counterparties which may differ from balances in the consolidated results due to eliminations in accordance with accounting principles for subsidiaries and joint ventures.

Madagascar

The Corporation has credit risk exposure in Madagascar related to its share (12% basis) of net accounts receivable of $16.5 million (December 31, 2017 - $12.5 million) associated with the Ambatovy Joint Venture including value added tax (VAT) receivables of $4.5 million (December 31, 2017 - $3.7 million) from the government of Madagascar. The VAT receivable is net of a provision of $1.8 million (December 31, 2017 - $8.8 million) reflecting an assessment of the likelihood of receipt of these amounts. During the year ended December 31, 2018, a gain on the partial reversal of this provision of $2.6 million was recognized in financing expense ($10.4 million for the year ended December 31, 2017, 40% basis until the Ambatovy Joint Venture restructuring on December 11, 2017, 12% basis thereafter). As at December 31, 2018, total overdue VAT receivables (net of provision) for the Ambatovy Joint Venture amount to $2.7 million (December 31, 2017 - $2.4 million).

The Corporation also has credit risk exposure in Madagascar related to its share of advances and loans receivable due from the Ambatovy Joint Venture.

Allowance for credit losses

The Corporation uses a three-stage approach to measure an allowance for credit losses ("ACL"), using an expected credit loss ("ECL") approach as required under IFRS 9 for financial assets measured at amortized cost as described in note 11.

The following table presents the Corporation's financial assets measured at amortized cost, the stage that they are in for ACL measurement and the balance of the ACL as at December 31, 2018. The gross carrying value of the financial asset best represents the maximum exposure to credit risk at the reporting date:

Canadian $ millions	Note	ECL stage[(1)]	Gross carrying value	ACL	Net carrying value
Trade accounts receivable, net[(2)]	11	**n/a**	**$ 244.8**	**$ (17.9)**	**$ 226.9**
Ambatovy Joint Venture subordinated loans receivable[(3)]	12	**2**	**203.1**	**(44.9)**	**158.2**
Ambatovy Joint Venture subordinated loans receivable - post financial completion	12	**1**	**71.2**	**-**	**71.2**
Energas conditional sales agreement[(4)]	12	**2**	**221.1**	**-**	**221.1**
Moa Joint Venture expansion loans receivable	12	**1**	**269.2**	**-**	**269.2**
Other financial assets	12	**1**	**16.8**	**-**	**16.8**

(1) The Corporation's financial assets that are in stage 2 have experienced significant increases in credit risk since initial recognition. The Corporation's assessment that a significant increase in credit risk since initial recognition has occurred is based on a combination of factors that are expected to adversely impact the borrower's ability to meet its debt obligations, which include but are not limited to: changes in the business of the borrower, market and economic conditions, financial and regulatory environment, loan documentation and past due information.

(2) For trade receivables, the Corporation has applied the simplified approach in IFRS 9 to measure the ACL at lifetime ECL. The Corporation determines the ECL based on the past due status of the debtors, adjusted as appropriate to reflect current and estimated future economic conditions.

(3) For the Ambatovy Joint Venture subordinated loans receivable, the ECL reflects the present value of forecasted conversions of debt to equity in the Ambatovy Joint Venture which will result in a reduction to the loan receivable. These conversions of debt to equity are undertaken to ensure compliance with a Malagasy mining regulatory requirement at the Ambatovy Joint Venture.

(4) For the Energas conditional sales agreement, contractual payments on this financial asset are more than 90 days past due. However, based on historical experience with the borrower repaying similarly structured agreements with similar past due status and the Corporation's current estimate of forecasted cash flows indicating full repayment is expected to occur, this financial asset is in stage 2 with an ACL of nil.

Financial guarantee contracts

During the year ended December 31, 2018, the Corporation issued a letter of guarantee for sulphur purchases made by the Moa Joint Venture. The value and maximum exposure to credit risk from this letter of guarantee is $7.8 million as at December 31, 2018. If the Corporation were required to make a payment for the maximum exposure of the letter of guarantee, it would be required in January 2019. The Corporation's exposure to this letter of guarantee was extinguished in January 2019 when the Moa Joint Venture paid the amount due for this sulphur purchase.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations associated with financial liabilities. Liquidity risk arises from the Corporation's financial obligations and in the management of its assets, liabilities and capital structure. The Corporation manages this risk by regularly evaluating its liquid financial resources to fund current and long-term obligations and to meet its capital commitments in a cost-effective manner.

The main factors that affect liquidity include realized sales prices, production levels, cash production costs, working capital requirements, capital-expenditure requirements, scheduled repayments of long-term loans and borrowing obligations, credit capacity and debt and equity capital market conditions.

The Corporation's liquidity requirements are met through a variety of sources, including cash and cash equivalents, cash generated from operations, existing credit facilities, leases, and debt and equity capital markets.

Based on management's assessment of its financial position and liquidity profile at December 31, 2018, the Corporation will be able to satisfy its current and long-term obligations as they come due.

The agreements establishing certain jointly controlled entities require the unanimous consent of shareholders to pay dividends. It is not expected that this restriction will have a material impact on the ability of the Corporation to meet its obligations.

Financial obligation maturity analysis

The Corporation's significant contractual commitments, obligations, and interest and principal repayments in respect of its financial liabilities, provisions and operating leases are presented in the following table:

Canadian $ millions, as at December 31, 2018	Total	Falling due within 1 year	Falling due between 1-2 years	Falling due between 2-3 years	Falling due between 3-4 years	Falling due between 4-5 years	Falling due in more than 5 years
Trade accounts payable and accrued liabilities	$ 183.2	$ 183.2	$ -	$ -	$ -	$ -	$ -
Income taxes payable	0.6	0.6	-	-	-	-	-
Senior unsecured debentures	824.7	45.8	45.8	215.4	32.2	230.0	255.5
Ambatovy Joint Venture partner loans(1)	174.5	-	-	-	-	174.5	-
Syndicated revolving-term credit facility	8.7	0.5	8.2	-	-	-	-
Provisions	159.6	8.6	0.9	6.6	0.4	-	143.1
Operating leases	21.9	5.0	3.6	1.9	1.7	1.6	8.1
Finance leases	0.8	0.2	0.2	0.2	0.1	0.1	-
Other	0.4	0.2	0.1	0.1	-	-	-
Total	$ 1,374.4	$ 244.1	$ 58.8	$ 224.2	$ 34.4	$ 406.2	$ 406.7

(1) Ambatovy Joint Venture partner loans are loans provided by the Ambatovy Joint Venture partners to finance Sherritt's portion of the funding requirements of the Joint Venture, bearing interest of LIBOR plus a margin of 1.125%. The partner loans are to be repaid from the Corporation's share of cash distributions from the Ambatovy Joint Venture (note 15). The amounts above are based on management's best estimate of future cash flows including estimating assumptions such as commodity prices, production levels, cash costs of production, capital and reclamation costs. The maturity analysis table includes an estimate of interest repayments.

As a result of the Corporation's 50% interest in the Moa Joint Venture, its proportionate share of significant undiscounted commitments of the joint venture include accounts payable of $34.7 million, income taxes payable of $0.2 million, advances and loans payable of $234.6 million, environmental rehabilitation commitments of $97.6 million and other commitments of $14.5 million.

As a result of the Corporation's 12% interest in the Ambatovy Joint Venture, its proportionate share of significant undiscounted commitments of the joint venture include accounts payable of $41.7 million, income taxes payable of $4.2 million, environmental rehabilitation commitments of $56.3 million, other contractual commitments of $19.8 million and Ambatovy Joint Venture financing and revolving credit facility of $328.4 million.

Market risk

Market risk is the potential for financial loss from adverse changes in underlying market factors, including foreign exchange rates, commodity prices, interest rates and stock-based compensation costs.

Foreign exchange risk

Many of Sherritt's businesses transact in currencies other than the Canadian dollar. The Corporation is sensitive to foreign exchange exposure when commitments are made to deliver products quoted in foreign currencies or when the contract currency is different from the product price currency. Derivative financial instruments are not used to reduce exposure to fluctuations in foreign exchange rates. The Corporation is also sensitive to foreign exchange risk arising from the translation of the financial statements of subsidiaries with a functional currency other than the Canadian dollar impacting other comprehensive income (loss).

Based on financial instrument balances as at December 31, 2018, a weakening or strengthening of $0.05 of the Canadian dollar to the U.S. dollar with all other variables held constant could have a favourable or unfavourable impact of approximately $9.3 million, respectively, on net (loss) earnings.

Based on financial instrument balances as at December 31, 2018, a weakening or strengthening of $0.05 of the Canadian dollar to the U.S. dollar with all other variables held constant could have a favourable or unfavourable impact of approximately $5.4 million, respectively, on other comprehensive income (loss).

Commodity price risk

The Corporation is exposed to fluctuations in certain commodity prices. Realized prices for finished products and for input commodities are the most significant factors affecting the Corporation's revenue and earnings. Revenue, earnings and cash flows from the sale of nickel, cobalt and oil are sensitive to changes in market prices over which the Corporation has little or no control.

The Corporation has the ability to address its price-related exposures through the limited use of options, future and forward contracts, but has not entered into such arrangements for the years ended December 31, 2018 and December 31, 2017. Sherritt reduces the business-cycle risks inherent in its commodity operations through industry diversification.

The Corporation has certain provisional pricing agreements in Metals. These provisionally priced transactions are periodically adjusted to actual as prices are confirmed as the settlement occurs within a short period of time. In periods of volatile price movements, adjustments may be material to the Ambatovy Joint Venture or Moa Joint Venture.

Interest rate risk

The Corporation is exposed to interest rate risk based on its outstanding loans and borrowings, and short-term and other investments. A change in interest rates could affect future cash flows or the fair value of financial instruments.

Based on the balance of short-term and long-term loans and borrowings, cash equivalents, short-term and long-term investments, and advances and loans receivable at December 31, 2018, excluding interest capitalized to project costs, a 1.0% decrease or increase in the market interest rate could decrease or increase the Corporation's net (loss) earnings by approximately $2.0 million, respectively. The Corporation does not engage in hedging activities to mitigate its interest rate risk.

Stock-based compensation risk

The Corporation is exposed to a financial risk related to stock-based compensation costs.

Potential fluctuations in the price of Sherritt's common shares would have an impact on the stock-based compensation expense. Based on balances at December 31, 2018, a strengthening or weakening of $0.50 in the price of the Corporation's common shares would have had an unfavourable or favourable impact of approximately $4.1 million on the Corporation's net (loss) earnings, respectively. This impact on the Corporation's net (loss) earnings is not reflective of the stock-based compensation risk exposure during the year, as the sensitivity analysis was performed using the Corporation's share price as at December 31, 2018, which was significantly lower than the Corporation's share price during the majority of the year ended December 31, 2018.

Capital risk management

In the definition of capital, the Corporation includes, as disclosed in its consolidated financial statements and notes: capital stock, deficit, loans and borrowings, other financial liabilities and available credit facilities.

Canadian $ millions, as at	**2018 December 31**	2017 December 31
Capital stock	**$ 2,894.9**	$ 2,784.6
Deficit	**(2,534.6)**	(2,427.7)
Loans and borrowings	**705.7**	824.1
Other financial liabilities	**13.1**	24.2
Available credit facilities	**15.1**	8.8

The Corporation's objectives, when managing capital, are to maintain financial liquidity and flexibility in order to preserve its ability to meet financial obligations throughout the various resource cycles with sufficient capital and capacity to manage unforeseen operational and industry developments and to ensure the Corporation has the capital and capacity to allow for business growth opportunities and/or to support the growth of its existing businesses.

In order to maintain or adjust its capital structure, the Corporation may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, repay outstanding debt, issue new debt (secured, unsecured, convertible and/or other types of available debt instruments), refinance existing debt with different characteristics, acquire or dispose of assets or adjust the amount of cash and short-term investment balances.

Certain of the Corporation's credit facilities, loans and debentures have financial tests and other covenants with which the Corporation and its affiliates must comply. Non-compliance with such covenants could result in accelerated repayment of the related debt or credit facilities and reclassification of the amounts to current liabilities. The Corporation monitors its covenants on an ongoing basis and reports on its compliance with the covenants to its lenders on a quarterly basis.

Refer to note 15 for the Corporation's compliance with financial covenants as at December 31, 2018.

21. RELATED PARTY TRANSACTIONS

The Corporation and subsidiaries provide goods, labour, advisory and other administrative services to jointly controlled entities and an associate at fair value. The Corporation and its subsidiaries also market, pursuant to sales agreements, a portion of the nickel, cobalt and certain by-products produced by certain jointly controlled entities and an associate in the Metals business.

Balances and transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated and are not disclosed in this note. A listing of the Corporation's subsidiaries is included in note 2.2.

A description of the Corporation's interests in jointly controlled entities and its interest in an associate are included in notes 6 and 7, respectively.

Canadian $ millions, for the years ended December 31	**2018**	2017
Total value of goods and services:		
Provided to joint operations	**$ 14.9**	$ 19.9
Provided to joint venture	**246.4**	191.8
Provided to associate	**2.4**	2.6
Purchased from joint venture	**800.8**	736.1
Purchased from associate	**-**	30.4
Net financing income from joint operations	**14.4**	14.4
Net financing income from associate	**20.9**	37.8
Net financing income from joint venture	**8.8**	11.4

Canadian $ millions, as at	Note	**2018 December 31**	2017 December 31
Accounts receivable from joint operations	11	**$ 0.1**	$ 0.2
Accounts receivable from joint venture	11	**16.4**	15.0
Accounts receivable from associate	11	**10.2**	8.2
Accounts payable to joint venture		**94.8**	105.2
Accounts payable to associate		**5.5**	5.4
Advances, loans and other receivables from associate	12	**238.7**	281.0
Advances and loans receivable from joint operations	12	**221.1**	206.7
Advances and loans receivable from joint venture	12	**269.2**	268.0

Transactions between related parties are generally based on standard commercial terms. All amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received on the outstanding amounts. No expense has been recognized in the current or prior periods for bad debts in respect of amounts owed by related parties.

Key management personnel

Key management personnel are composed of the Board of Directors, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Senior Vice Presidents of the Corporation. The following is a summary of key management personnel compensation:

Canadian $ millions, for the years ended December 31		**2018**		2017
Short-term benefits	**$**	**6.9**	$	7.8
Post-employment benefits(1)		**0.4**		0.4
Share-based payments		**5.2**		6.1
	$	**12.5**	$	14.3

(1) Post-employment benefits include a non-registered defined contribution executive supplemental pension plan. The total cash pension contribution for key management personnel was $0.2 million for the year ended December 31, 2018 ($0.9 million for the year ended December 31, 2017). The total pension expense that is attributable to key management personnel was nil for the year ended December 31, 2018 ($0.2 million for the year ended December 31, 2017).

22. OPERATING LEASE ARRANGEMENTS

Accounting policies

Leases of property, plant and equipment are classified as finance leases when the lessee retains substantially all the risks and rewards of ownership. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Corporation as a lessee

Finance leases are recognized at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding lease obligations, net of finance charges, are recorded as interest-bearing liabilities. Each lease payment is allocated between the liability and finance cost when paid.

Operating lease payments (net of any amortization of incentives) are expensed as incurred. Incentives received from the lessor to enter into an operating lease are capitalized and depreciated over the life of the lease.

Corporation as a lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Contingent rental income is recognised as revenue in the period in which it is earned. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Determining whether an arrangement contains a lease

The Corporation determines whether a lease exists at the inception of an arrangement. A lease exists when one party is effectively granted control of a specific asset over the term of the arrangement.

At inception or upon reassessment of arrangements containing leases, the Corporation separates payments and other consideration required related to lease payments from those related to other goods or services using relative fair value or other estimation techniques.

Critical accounting judgments

The Corporation determined that the Power facilities in Varadero, Cuba are subject to operating lease arrangements. The Corporation applies judgment in interpreting these arrangements such as determining which assets are specified in an arrangement, determining whether a right to use a specified asset has been conveyed and if relative fair value or another estimation technique to separate lease payments from payments for other goods or services should be used. The Corporation also uses judgment in applying accounting guidance to determine whether these leases are operating or finance leases.

Supporting information

Corporation acts as a lessor

The Corporation acts as a lessor in operating leases related to the Power facilities in Varadero, Cuba. All operating lease payments related to the Varadero facility are contingent on power generation. For the year ended December 31, 2018, contingent revenue was $15.6 million ($15.2 million for the year ended December 31, 2017). The Corporation's operating lease commitments are disclosed in note 20.

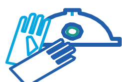
23. COMMITMENTS FOR EXPENDITURES

Canadian $ millions, as at December 31		**2018**
Property, plant and equipment commitments	**$**	**12.6**
Joint venture:		
Property, plant and equipment commitments		**10.3**

Committed to Sustainable Mining

We believe that as a Canadian company operating internationally, we have the ability to make meaningful progress against relevant Sustainable Development Goals. Launched in 2018, Sherritt has six five-year sustainability goals to drive our sustainability strategy, focus divisional efforts, and deliver tangible results to improve sustainability performance. These goals are:

Achieve Level A requirements in Towards Sustainable Mining (TSM) protocols across all operations



Strengthen safety culture, behaviour and performance

Improve water, energy and emissions management across operations

Create community benefit footprints that support local priorities and the SDGs

Be recognized as a "supplier of choice" for responsibly produced, high-quality products

Improve diversity at all levels throughout the company

Shareholder Information

INVESTOR INQUIRIES

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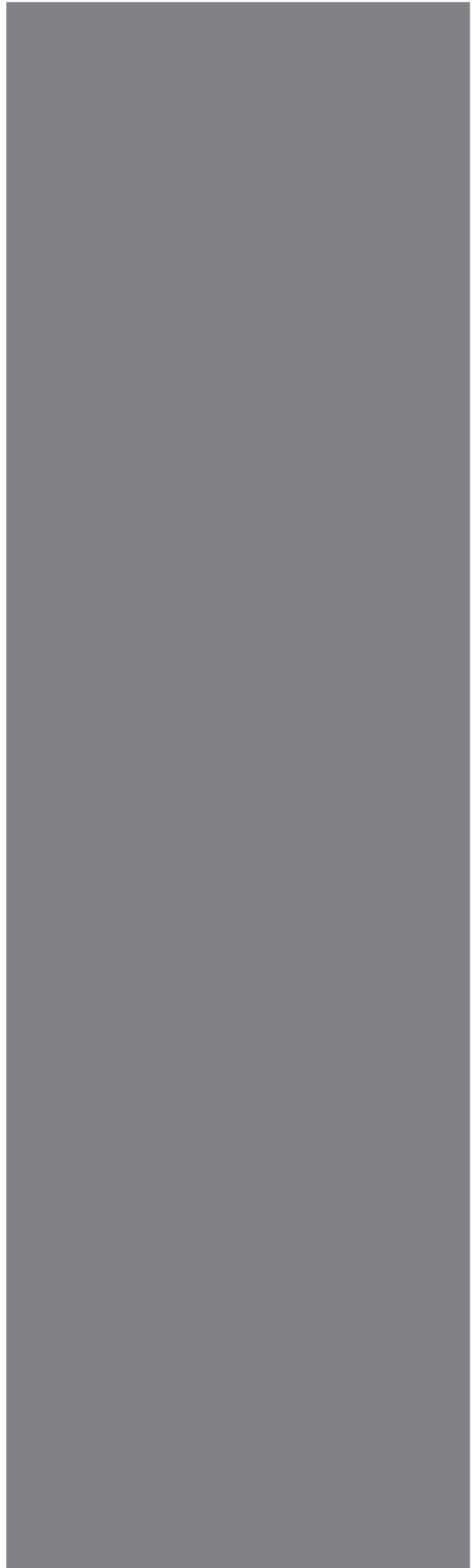
AUDITORS

Deloitte LLP, Toronto

STOCK EXCHANGE LISTING

Toronto Stock Exchange – TSX:S
Common Shares - S



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