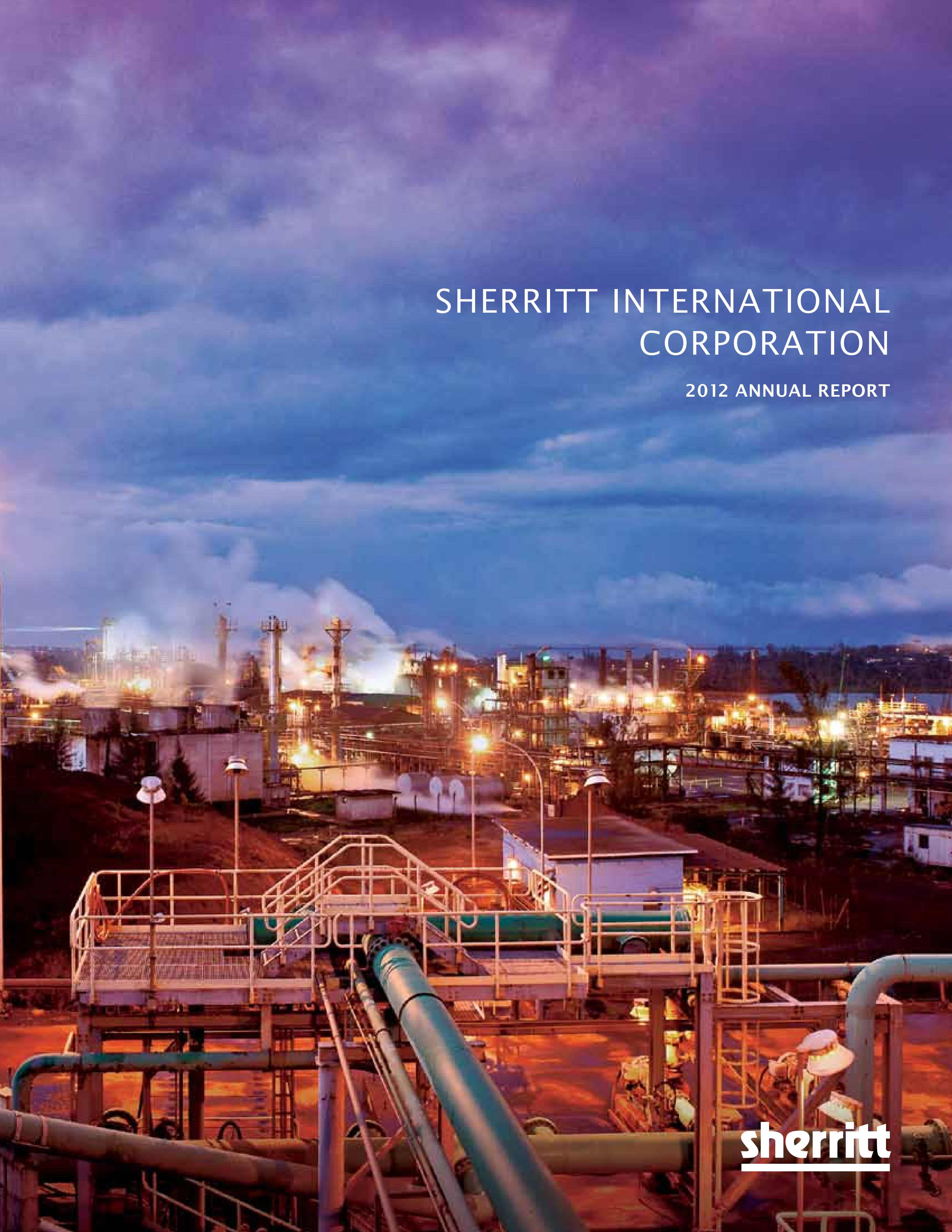


SHERRITT INTERNATIONAL CORPORATION

2012 ANNUAL REPORT

sherritt

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

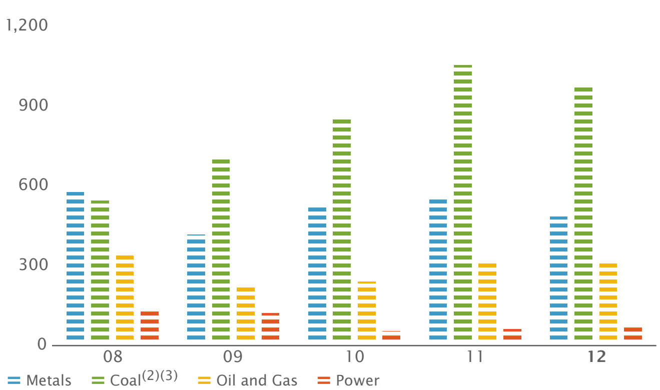
Financial highlights

($ millions, except per share amounts, as at December 31)	**2012**	2011
Revenue	**$ 1,840.2**	$ 1,978.3
Adjusted EBITDA[1]	**515.5**	643.2
Net earnings	**33.2**	197.3
Basic earnings per share	**0.11**	0.67
Net working capital[2]	**$ 979.1**	$ 1,016.7
Total assets	**6,758.3**	6,497.5
Weighted-average number of shares (millions)		
Basic	**296.3**	295.1
Diluted	**296.8**	296.3

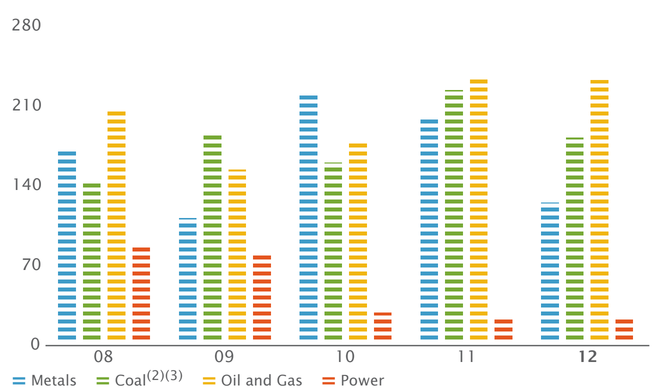
[1] Adjusted EBITDA is a non-GAAP measure. For additional information, see the Non-GAAP measures section of the MD&A.

[2] Net working capital is calculated as total current assets less total current liabilities.

REVENUE BY DIVISION[1]
($ millions)



ADJUSTED EBITDA BY DIVISION[1]
($ millions, excluding corporate costs)



[1] The effective transition date from Canadian GAAP to IFRS was January 1, 2010. As a result, the fiscal years 2008 and 2009 are stated in accordance with Canadian GAAP.

[2] On May 2, 2008, Sherritt acquired all of the units of the Royal Utilities Income Fund (RUIF) it did not already own. Prior to May 2, 2008, Sherritt equity accounted for its interest in RUIF.

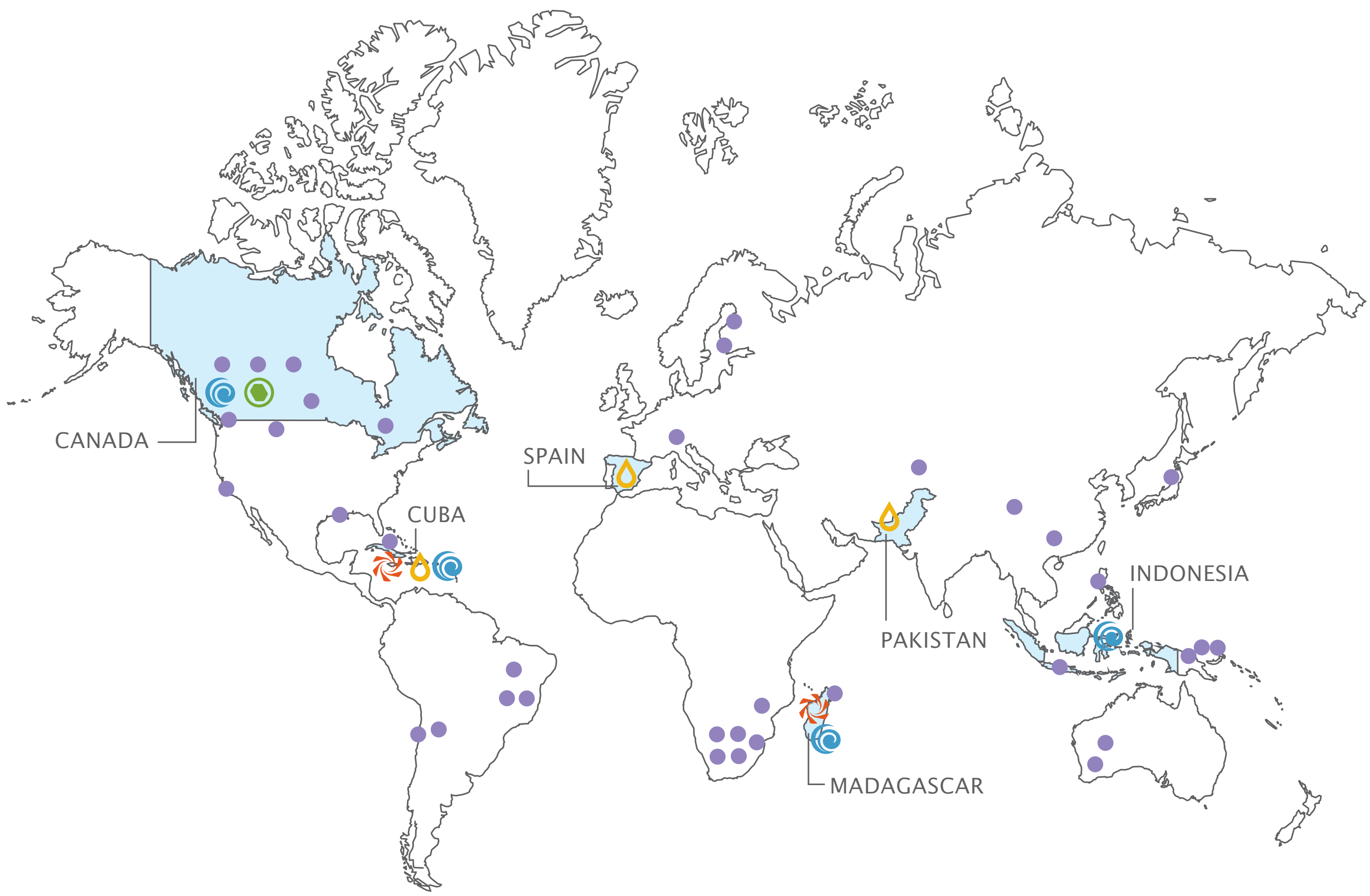
[3] Represents results from the Corporation's 100% interest in Coal Valley Partnership (CVP) from July 1, 2010. Prior to July 1, 2010, results represent the Corporation's 50% interest in CVP.

Cover image: Moa Plant Site, Cuba

Sherritt's global assets

Metals Coal Oil and Gas Power

Commercial operations developed with Sherritt technologies.



REVENUE BY DIVISION[1]

(% of total revenue)

Coal 53%

Metals 26%

Oil and Gas 16%

Power 4%

[1] Excluding items listed as corporate and other.

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Message from the CEO

In 2012, your company achieved a significant milestone in its history. Ambatovy, the largest finished lateritic nickel project in the world, transitioned from a construction project to an operating business. With the successful commissioning, commencement of production and significant progress in ramping up in 2012, your company is now well on the way to bringing Ambatovy up to full production. We are highly confident in our ability to achieve this. The completion of the largest project Sherritt has ever undertaken is a source of great pride and achievement for the thousands of people that have worked for over five years toward this goal. As a result of our success to date in Madagascar, we achieved record mixed sulphides and finished nickel production in our Metals business in 2012.

More globally, 2012 was a year marked by uncertainty in the global economy, and that uncertainty had a negative impact on commodity markets. Price levels for our products generally declined in 2012, while cost pressures on input commodities remained strong.

Notwithstanding these challenges, for another year, our other operations achieved safe and stable production. Despite the cost pressures, margins in the domestic thermal coal business expanded slightly year-over-year. The Moa Joint Venture continues to be a low-cost, reliable producer of nickel and cobalt, and our Oil and Power businesses continue to be dependable providers of critical energy for Cuba.

As ever, our focus in 2012 remained on maintaining liquidity and the strength of the balance sheet. We finished 2012 with over $1 billion in total liquidity. In the latter part of 2012, we completed a debenture offering to add to our liquidity position and proactively manage our debt maturity profile. As a result, we have achieved the transition of Ambatovy from project to operation with our balance sheet strong.

In 2013, we can expect the global economic uncertainty that marked 2012 to continue. With that uncertainty will inevitably come volatility in commodity markets. But with volatility will come opportunity, and as Ambatovy continues to ramp up to full production, your company is well positioned to capitalize on opportunities as they become available.

I would like to thank our employees for their dedication, our Board and our partners for their support, and you, our shareholders, for your confidence in us as we look forward to making 2013 another year of achievement for Sherritt.

DAVID V. PATHE
President and Chief Executive Officer
Sherritt International Corporation

Message from the Chairman

The Board of Directors of your company continues to maintain its solid foundation for the oversight of the company's governance system and management. An important part of that responsibility includes seeing that the right people are running the business. David Pathe has completed his first year as CEO. During that year, your company further strengthened its balance sheet by adding cash and terming out its debt.

Operations continued to produce at the low end of the cost curve in all of our businesses, which continue to grow that low-cost production. As a result, your company remains well positioned to both respond to the volatility of the commodity markets and to capitalize on the opportunities they present.

I would like to extend my sincere gratitude to the members of your Board, and in particular to your company's lead director, the Honourable Marc Lalonde, who retires from the Board in 2013. The foundation of your company is stronger, in large part due to Marc's wise counsel.

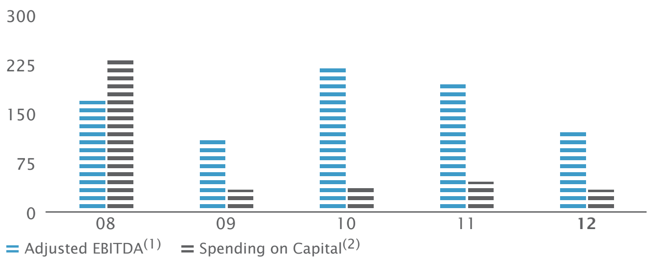
IAN W. DELANEY
Chairman
Sherritt International Corporation

Ambatovy Plant Site, Madagascar

METALS

Sherritt Metals achieved record production of mixed sulphides, finished nickel and finished cobalt in 2012. The Moa Joint Venture continued to maintain production levels at or beyond facility capacity, and the Ambatovy Joint Venture commenced production of finished nickel in 2012.

METALS ADJUSTED EBITDA AND SPENDING ON CAPITAL
($ millions)



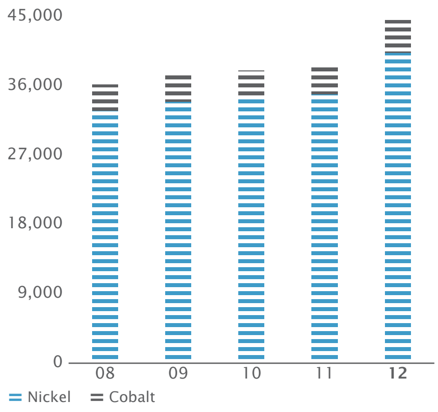
(1) The effective transition date from Canadian GAAP to IFRS was January 1, 2010. As a result, the fiscal years 2008 and 2009 are stated in accordance with Canadian GAAP.

(2) Spending on capital and intangible assets includes accruals and does not include spending on the Ambatovy Joint Venture.

Sherritt Metals is a world leader in the mining and refining of nickel and cobalt from lateritic ores.

Metals Refinery, Alberta

METAL PRODUCTION
(tonnes, 100% basis)



INTERNATIONAL NICKEL AND COBALT PORTFOLIO OF BUSINESSES

Sherritt's Metals portfolio contains operations and projects with similar technical characteristics, but at various stages of development. Sherritt Metals consists of three lateritic nickel and cobalt ventures: a 50% interest in the Moa Joint Venture, which operates a nickel and cobalt mine and processing facility in Cuba and a refinery in Fort Saskatchewan, Alberta; a 40% interest in the Ambatovy Joint Venture, which operates a fully integrated nickel and cobalt mining, processing plant and refinery in Madagascar; and the option to acquire a controlling interest in the Sulawesi Project in Indonesia.

When operating at full capacity, annual production of the Moa and Ambatovy Joint Ventures will exceed 100,000 tonnes (100% basis) of finished nickel and finished cobalt.

MOA JOINT VENTURE

The Moa Joint Venture facilities have demonstrated the successful application of hydrometallurgical process technologies for the processing and refining of nickel and cobalt from lateritic ore for more than 50 years.

In 2012, the Moa Joint Venture achieved production of 38,054 tonnes of nickel and cobalt contained in mixed sulphides (100% basis); 34,263 tonnes of finished nickel (100% basis); and 3,792 tonnes of finished cobalt (100% basis). The Moa Joint Venture obtains over 99% of its nickel and cobalt contained in feed from its mining facilities in Cuba.

The Corporation also owns fertilizer, sulphuric acid, utilities and other assets located in Fort Saskatchewan.

AMBATOVY JOINT VENTURE

The Ambatovy Joint Venture is the largest finished nickel and finished cobalt operation from lateritic ore in the world. The Ambatovy Joint Venture has an annual design capacity of 60,000 tonnes of finished nickel and 5,600 tonnes of finished cobalt. Mining activities have been underway since the third quarter of 2010. Construction of Ambatovy was completed in late 2011,

and commissioning and start-up of the plant facilities were completed in 2012.

In September 2012, Ambatovy received authorization to commercially operate the plant in Toamasina.

Mixed sulphides production commenced in the second quarter of 2012 and first finished nickel and cobalt were produced in the third quarter of 2012. In 2012, the Ambatovy Joint Venture produced 8,972 tonnes of nickel and cobalt contained in mixed sulphides (100% basis); 5,695 tonnes of finished nickel (100% basis); and 493 tonnes of finished cobalt (100% basis).

SULAWESI PROJECT

In December 2010, Sherritt signed an earn-in arrangement to acquire a 46% economic interest in a nickel and cobalt project on the island of Sulawesi in the Republic of Indonesia.

Exploration drilling is expected to begin in the second quarter of 2013. The environmental and social baseline studies are scheduled for completion in 2013 and work continues to advance on the prefeasibility study.

SHERRITT HYDROMETALLURGICAL TECHNOLOGIES

Sherritt has more than 50 years of technical and operational expertise in extracting and refining nickel and cobalt, including the extensive experience in mining and treating lateritic ores that it has gained from the operation of the Moa Joint Venture's facilities in Cuba and Canada.

Sherritt's technology and expertise have been, and continue to be, successfully provided to and adopted by numerous other mining companies in more than 40 commercial facilities worldwide.

The design of the Ambatovy facility is based on hydrometallurgical process steps that have been commercially proven at the Moa Joint Venture as well as at other commercial operations that have implemented Sherritt's technology.

39,958 tonnes
of nickel produced in 2012
(100% basis)

4,285 tonnes
of cobalt produced in 2012
(100% basis)

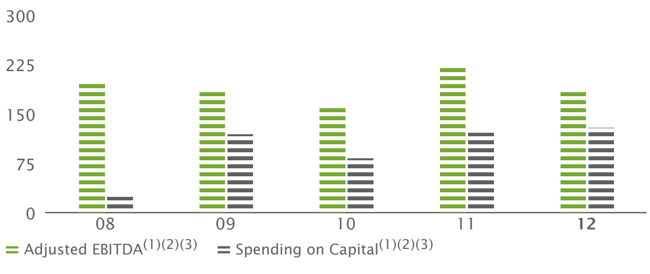
Poplar River Dragline, Saskatchewan

COAL

Sherritt Coal is the largest thermal coal producer in Canada, accounting for approximately 98% of the country's thermal coal production in 2012.

COAL ADJUSTED EBITDA AND SPENDING ON CAPITAL

($ millions)



Sherritt Coal has operations and projects in Western Canada in the provinces of Alberta and Saskatchewan.

(1) The effective transition date from Canadian GAAP to IFRS was January 1, 2010. As a result, the fiscal years 2008 and 2009 are stated in accordance with Canadian GAAP.

(2) On May 2, 2008, Sherritt acquired all of the units of the Royal Utilities Income Fund (RUIF) it did not already own. Prior to May 2, 2008, Sherritt equity accounted for its interest in RUIF.

(3) Represents results from the Corporation's 100% interest in Coal Valley Partnership (CVP) from July 1, 2010. Prior to July 1, 2010, results represent the Corporation's 50% interest in CVP.

Poplar River, Saskatchewan

COAL PRODUCTION

(millions of tonnes, 100% basis)

THERMAL COAL FOR POWER GENERATION AND EXPORT

Sherritt Coal comprises three operational groups: Prairie Operations, Mountain Operations and Coal Development Assets. In 2012, Sherritt Coal produced approximately 35 million tonnes of thermal coal, generating nearly $1 billion in revenue.

Sherritt Coal's Prairie Operations included seven surface mines in 2012. Those mines primarily produce coal for dedicated supply to power plants in Alberta and Saskatchewan. The majority of the electricity produced in Alberta and Saskatchewan is currently generated by power plants utilizing thermal coal at mine-mouth operations.

In 2012, Prairie Operations produced approximately 31 million tonnes of thermal coal. The coal is generally supplied to the power plants under long-term contracts with index-adjusted pricing provisions. In January 2013, the operation of the Highvale mine in Alberta was transferred to the customer/owner of the mine.

Prairie Operations also produces coal for other domestic customers, as well as char and activated carbon, which are value-added coal products. Char is used in the production of barbeque briquettes, and activated carbon is used in the reduction of mercury in flue gas emissions of coal-fired power plants.

Sherritt has a 50% interest in a joint venture that produces activated carbon and sources coal from Sherritt Coal's Bienfait mine site in Saskatchewan. In 2012, the Activated Carbon plant operated at full capacity and sold nearly 15,000 tonnes (100% basis) of activated carbon products.

Sherritt Coal's Mountain Operations includes two surface mines in Alberta, and produces thermal coal primarily for export markets. Most of this higher value thermal coal is transported by rail to port facilities in British Columbia for shipping and delivery to customers located primarily in Pacific-Rim countries.

In 2012, Mountain Operations produced approximately 3.7 million tonnes and sold approximately 3.5 million tonnes of thermal coal, mostly for export. Pricing for export thermal coal contracts is driven by market reference prices. Despite a decrease in reference prices for export thermal coal in 2012 from 2011, realized prices in 2012 were comparable to 2011 levels.

Sherritt Coal is well positioned to provide customers with a long-term, dependable, low-cost supply of fuel based on its large coal reserves and resource base that includes 0.6 billion tonnes of proven and probable reserves at its current mining operations and 1.1 billion tonnes of measured and indicated resources. Sherritt Coal also has potash reserves and resources in southern Saskatchewan, which consist of 0.2 billion tonnes of proven and probable reserves as well as an extensive resource base.

Sherritt Coal also has a 50% interest in the Carbon Development Partnership, which has extensive resource holdings in Western Canada.

ENVIRONMENTAL COMMITMENT

Land reclamation is an ongoing process. Sherritt Coal is a recognized leader in post-mining site reclamation. Wherever it is feasible, formerly mined land is reclaimed progressively as properties continue to be mined. In 2012, Sherritt Coal's mining operations disturbed 982 hectares of land, leveled and contoured 1,182 hectares in connection with reclamation efforts, and completed reclamation of 1,098 hectares. Completion included providing the contoured land with topsoil in accordance with mining licenses. By the end of 2012, Sherritt Coal had completed reclamation of approximately 69% of the total area of land disturbed since mining operations began.

31 million tonnes
of thermal coal produced by Prairie Operations in 2012 (100% basis)

3.7 million tonnes
of thermal coal produced by Mountain Operations in 2012 (100% basis)

Oil Rig in Yumuri, Cuba

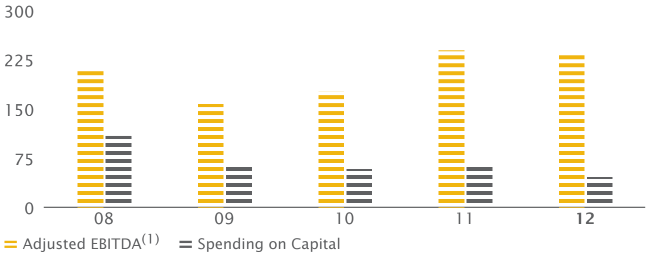
OIL AND GAS / POWER

Sherritt Oil is the largest independent oil producer in Cuba with 20 years of operational experience and extensive knowledge of the complex geology of Cuba's northern coast. Sherritt Power pioneered the processing of raw gas and the utilization of residue natural gas to generate electricity in Cuba.

Varadero Power Plant, Cuba

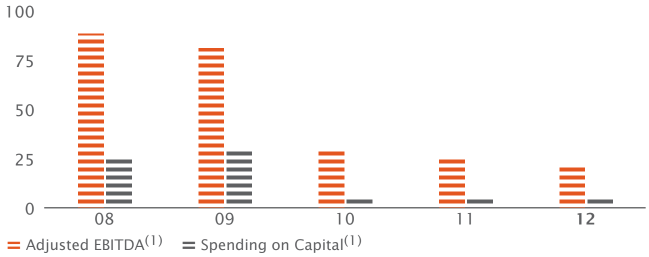
OIL AND GAS ADJUSTED EBITDA AND SPENDING ON CAPITAL

($ millions)



POWER ADJUSTED EBITDA AND SPENDING ON CAPITAL

($ millions)

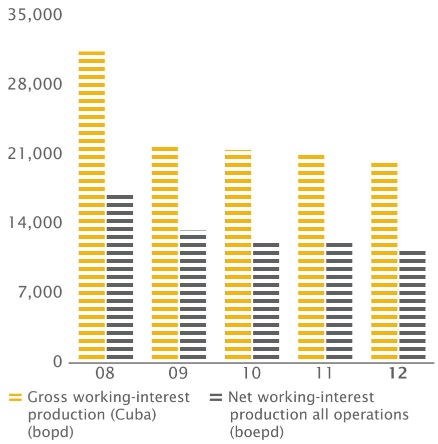


(1) The effective transition date from Canadian GAAP to IFRS was January 1, 2010. As a result, the fiscal years 2008 and 2009 are stated in accordance with Canadian GAAP.

Oil Pipes in Yumuri, Cuba

OIL AND GAS PRODUCTION (100% BASIS)

(barrels of oil equivalent per day)



OPERATIONS AND PRODUCTION

The Corporation holds exploration and production rights under production-sharing contracts with Union Cubapetroleo (CUPET), the Cuban state oil company. Since 1992, Sherritt Oil has drilled more than 200 oil wells and produced over 188 million barrels of oil in Cuba.

Sherritt Oil currently operates three commercial oil fields in Cuba – Puerto Escondido, Yumuri and Varadero West – in two separate blocks along the northern coast. Approximately 94% of Sherritt's oil and gas production originates in Cuba. In 2012, Sherritt Oil produced 20,164 gross working-interest barrels of oil per day in Cuba, representing approximately 50% of Cuba's oil production.

Sherritt also has oil and gas interests in Spain, Pakistan and the United Kingdom. In 2012, Sherritt Oil's global net working-interest production was 11,336 barrels of oil equivalent per day.

During 2012, Sherritt's drilling activity was concentrated in Cuba, where a total of six development wells were initiated and six development wells were completed, of which four are in production. As of December 31, 2012, there were a total of 53 producing wells in Cuba.

During 2012, the Corporation submitted applications for six new production-sharing contracts relating to exploration prospects in Cuba, two extensions of term for existing production-sharing contracts and two development drilling proposals on lands currently operated by Cuban entities.

ONGOING PROJECTS

The well optimization and remediation programs undertaken in Cuba in 2012 will continue in 2013. Four new development wells are planned for 2013 in addition to workover operations for several existing wells.

Sherritt also continues to pursue interests outside of Cuba. In Spain, Sherritt intends to acquire seismic data over the Casablanca oil field, where it currently holds an interest, and adjacent lands. In addition, the acquisition of seismic data is planned for four offshore blocks in the Alboran Sea in southern Spain.

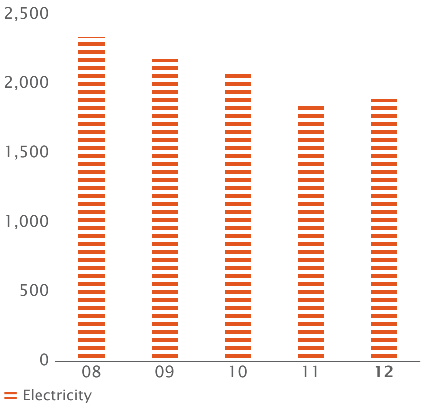
In the United Kingdom, Sherritt currently holds five exploration licenses in its central North Sea prospect, where Sherritt plans to shoot seismic in 2013.

20,164 bpd

gross working-interest oil production in Cuba in 2012 (100% basis)

Boca de Jaruco Power Plant, Cuba

ELECTRICITY GENERATION (100% BASIS)
(gigawatt hours)



POWER GENERATION FOR THE CUBAN NATIONAL ELECTRICAL GRID

Sherritt Power operates in Cuba through its one-third interest in Energas S.A. (Energas), a Cuban joint venture established to operate facilities for the processing of raw natural gas and the generation of electricity for sale and delivery to the Cuban national electrical grid system. The remaining two-thirds interest in Energas is held equally by two Cuban agencies, CUPET and Union Electrica (UNE). The use of clean gas to generate electricity realizes the economic benefit of a valuable source of energy, while mitigating the environmental impact that occurs when natural gas high in sulphur is flared in producing oil fields. Sherritt has financed, constructed and commissioned each of the integrated gas treatment and power generation facilities located near the Varadero, Boca de Jaruco and Puerto Escondido oil fields.

Energas facilities currently have the capacity to produce 356 MW of electricity. In 2012, Energas produced 1,884 GWh of electricity, representing approximately 11% of Cuba's electricity production. Construction of a pipeline to supply additional gas to the Boca de Jaruco power generation facility is expected to be completed in September 2013.

Energas will continue to investigate potential sources of fuel both inside and outside of Cuba, to secure long-term natural gas supplies for the business.

BOCA DE JARUCO COMBINED CYCLE PROJECT

Sherritt Power continued development of the 150 MW Boca de Jaruco Combined Cycle Project at Energas during 2012. When operational, the Project will increase Energas' power generating capacity by 42% to 506 MW. All engineering is complete and all major equipment has been delivered to the site. The Project is expected to be completed and commissioned in the first half of 2013, ramping up to full capacity in the second half of the year. The capital costs for the Project are estimated to be $271.0 million.

1,884 GWh
of electricity produced in 2012 (100% basis)

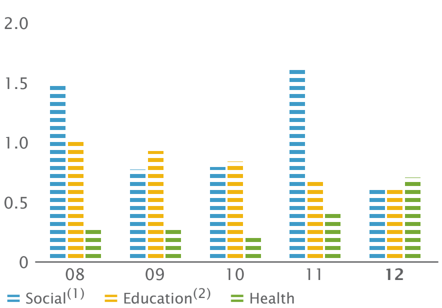

Local Market, Madagascar

TAKING RESPONSIBILITY

Sherritt is committed to providing a safe and rewarding place to work, operating ethically, demonstrating environmental responsibility, engaging stakeholders and benefitting the communities where we operate, and continually improving operational performance. We will meet or exceed the standards of the jurisdictions where we operate.

DONATIONS AND SPONSORSHIPS

($ millions)



(1) Social includes Infrastructure, Social, Economic and Arts.

(2) Education includes scholarship funds provided to dependants of employees.

Sherritt provided more than $1.9 million in support of 117 local organizations in 2012.

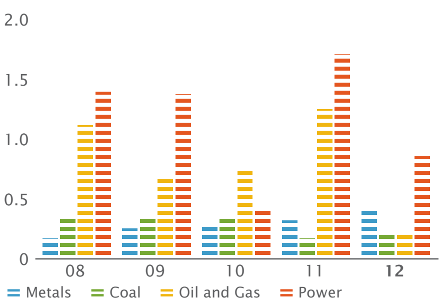

Safety Training, Alberta


Electrical Shop, Moa, Cuba

Workforce

TOTAL RECORDABLE INJURY (TRI) INDEX(1)(2)

(12-month rolling average as at December 31, 2012)

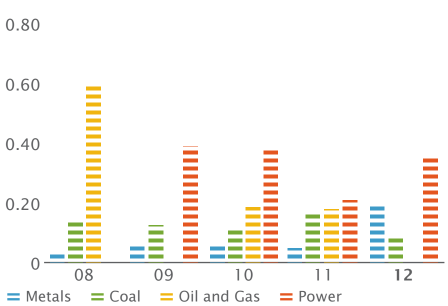


(1) The TRI index is calculated by multiplying the number of TRIs by 200,000 and then dividing by the total exposure hours. This index provides a measure that is comparable across industries and businesses of varying size.

(2) Data have been restated to include contractors throughout.

LOST TIME INJURY (LTI) INDEX(1)(2)

(12-month rolling average as at December 31, 2012)



(1) The LTI index is calculated by multiplying the number of total LTIs by 200,000 and then dividing by total exposure hours. This index provides a measure that is comparable across industries and businesses of varying size.

(2) Data have been restated to include contractors throughout.

Sherritt maintains a strong commitment to environment, health and safety in all of its business divisions, affiliates and subsidiaries. Sherritt's goal is zero harm, and the company strives to ensure that each worker in its global operations returns home safely after work.

Sherritt Coal's Paintearth mine in Forestburg, Alberta, was awarded the John T. Ryan Trophy for being the country's safest coal mine of 2011. This is the seventh time the Paintearth mine has received this honour. In Metals, the refinery in Fort Saskatchewan, Alberta, achieved 3.4 million hours of work without a lost time incident.

The Corporation sets a Lost Time Injury (LTI) index target of zero and a Total Recordable Injury (TRI) index target of less than 0.75. In 2012, Sherritt achieved an average LTI index of 0.17 and a TRI index of 0.38. While achieving its TRI target, the Corporation reported a year-over-year increase in lost time and recordable injury rates. Sadly, there were four work-related fatalities at Ambatovy in 2012. As a result, management has been actively involved in the investigation of these incidents and with development of corrective and preventative measures.

Safety performance is also being addressed by the senior leadership of Sherritt, through both corporate-wide initiatives and division-specific programs, to improve health and safety performance throughout the organization by re-emphasizing safety awareness.

At Ambatovy, as construction reached completion in 2011, a program was initiated to help demobilized Malagasy construction workers in finding new vocations. The Assistance Initiatives for Demobilized Workers (AIDE) is a temporary program established to provide short-term monthly payments, training in agriculture and job search assistance to transition these workers to new employment. The program was a great success, with 19,094 people registered with AIDE, which is approximately 97% of the eligible workers. By the end of 2012, over 12,000 participants had completed the program and approximately US$5.4 million had been paid under AIDE.

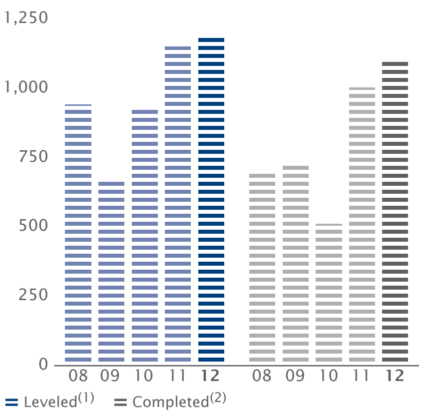
In 2012, Sherritt employed, directly or through a subsidiary or affiliate, a workforce of approximately 8,230 people. The 7% increase from 2011 is mainly a result of Ambatovy's requirement for long-term, skilled resources.


Lemur, Madagascar


Poplar River Reclamation, Saskatchewan

Environment

SHERRITT COAL LAND RECLAMATION
(hectares)



(1) Leveled land has been returned to the contour specified as the provincial standard and outlined in Mining Licenses.

(2) Completed land includes placement of all topsoil.

Sherritt is committed to practicing responsible and forward-looking environmental stewardship at all of its operations. Each business division works with local experts to blend their expertise with internationally recognized standards to develop and maintain an environmental framework for sustainable operations. Comprehensive policies and procedures have been implemented to ensure compliance with applicable regulations and operating licenses in all jurisdictions.

At each operation, Sherritt works with external stakeholders to conserve and protect the environment. The focus of land reclamation in all operations is to return formerly mined land to traditional uses as outlined in operating licenses. This may include productive farmland, natural prairie, mixed use or new wildlife habitats.

Sherritt's greenhouse gas (GHG) offset project in Cuba continues to operate at Energas S.A.'s Varadero facility. By the end of 2012, 1,407,196 tonnes of carbon dioxide (CO_2) emission reductions had been documented for the United Nations' Kyoto credits. Of these, the amount for which credits have been issued remains at 343,125 tonnes. An additional total of 829,365 tonnes is in the process of being monitored or reviewed for future issuance. 234,706 tonnes were documented on a preliminary basis in 2012.

The Madagascar government's decree on compatibility of investments with the environment forms the basis of Ambatovy's environmental program. In addition, its program follows guidelines from the International Finance Corporation of the World Bank, the Equator Principles, the Business and Biodiversity Offset Program and the Principles of the International Council on Mining and Metals. Ambatovy's biodiversity program is designed to achieve no net loss, and strives for a net biodiversity gain, in areas affected by its operations.

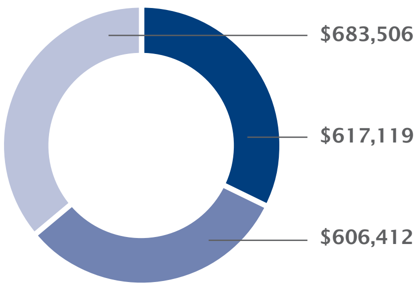
Sustainable natural resource management that includes stakeholder participation is an important part of forest management that can help alleviate human pressure on forests within the mine lease designated for conservation. In 2012, Ambatovy held special sessions in villages around the mine to increase local awareness of environmental issues, showing how each person is involved in forest management.

In 2012, the California Academy of Sciences formally recognized Ambatovy's support for biodiversity research in Madagascar by naming a recently discovered species of ant, Tetramorium Ambatovy.

Local Schools Receiving Donated Books, Madagascar

Communities

2012 DONATIONS AND SPONSORSHIPS



(1) Social includes Infrastructure, Social, Economic and Arts.

(2) Education includes scholarship funds provided to dependants of employees.

Sherritt works with its stakeholders to maintain and develop its social license, placing a high priority on mutually beneficial relationships with local, regional and national governments. Sherritt's business divisions maintain ongoing communications with local communities to ensure that information is shared efficiently and transparently. Investment is directed in consultation with local authorities to facilitate the provision of assistance where it is most effective and most desired.

The Corporation encourages employees to support local community initiatives. Each year, Sherritt and its workforce raise funds for local United Way campaigns. In 2012, Sherritt provided more than $1.9 million, as well as material and volunteer time, to the United Way, benefitting over 117 local organizations.

Sherritt Metals continues to play a significant role in sponsoring and participating in many community initiatives in Fort Saskatchewan, Alberta. With approximately 660 employees in the immediate area, Sherritt has focused its donations to provide the broadest benefit by making a $500,000 donation to the Fort Saskatchewan Community Hospital Foundation. The Foundation was instrumental in raising funds for the construction of a new hospital in the city. In September 2012, Sherritt was recognized for its commitment towards the purchase of the hospital's computed tomography (CT) scanner – the first in the community – and the Health Services wing of the new hospital is now named the Sherritt Health Services Centre.

In 2012, Sherritt continued to offer financial support to other community events, organizations and charities in Fort Saskatchewan such as sports teams, Boys and Girls Clubs, Canadian Cancer Society, United Way, Toys for Tots Program (Food Bank), Canada Day celebrations, and Northeast Region Community Awareness Emergency Response events.

The Moa Joint Venture continued to play a significant role in Cuban communities in 2012 by assisting in the clean-up work following Hurricane Sandy in October. In addition, Sherritt committed a total of $400,000 towards the provision of materials and equipment for the rebuilding effort in the City of Moa and for public sanitation equipment in the City of Santiago de Cuba.

Eldon Brown Park, Alberta

Volunteer Planting, Cuba

During 2012, Sherritt also continued to work with Cuba's national, provincial and municipal government authorities to provide materials and equipment to improve the everyday lives of Cuban citizens. Social infrastructure assistance included initiatives to provide greater pumping capacity for the neighbourhood's water supply in Matanzas Province, construction materials for general repairs in the City of Moa, equipment for production of locally sourced building materials in Matanzas Province, cooling equipment for a municipal hospital, and refrigeration and chemical reagents for oncology care in Havana.

At Ambatovy, Sherritt employees provided funds to initiate the construction of a library in Moramanga, to provide books for the library, and to provide training for the facility's librarians. A four-day training program on library management was organized for 79 librarians, headmasters and principals of local primary, secondary and vocational schools.

In an effort to help Madagascar realize its Education for All objectives, Ambatovy has partnered with UNICEF to bring quality education to the children of Atsinanana in a manner that respects the environment. With Ambatovy's financial support and UNICEF's technical expertise, the "Eco-friendly Schools" initiative provides an opportunity for the broader community to learn how to use local products and innovative technology to build sustainable schools in their communities. Construction began on three eco-friendly schools in 2012.

In 2012, Ambatovy opened the Business Training Centre in Toamasina, offering training to local companies, students and entrepreneurs. Courses offered include administration, entrepreneurship, finance, health and safety, quality control and anti-corruption practices.

In response to damage caused by Cyclone Giovanna, which struck Madagascar in February 2012, Ambatovy and its partners and contractors provided emergency relief to victims in the form of food, shelter materials and assistance in clearing debris from roads.

Approximately
US$5.4 million
paid under the AIDE program by the end of 2012

Approximately
1.4 million tonnes
of carbon dioxide (CO_2) emission reductions documented by the end of 2012

2012 FINANCIAL REVIEW

Ambatovy Plant Site, Madagascar

2012 Financial review

Management's discussion and analysis

For the year ended December 31, 2012

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 26, 2013, should be read in conjunction with Sherritt's audited consolidated financial statements for the year ended December 31, 2012. 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 and joint ventures, 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 discussion 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

Sherritt is a leader in the mining and refining of nickel and cobalt from lateritic ores with projects and operations in Canada, Cuba, Indonesia and Madagascar. The Corporation is the largest thermal coal producer in Canada and 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, trading under the symbol "S". Sherritt's operations are decentralized, having significant management autonomy at the business unit level with certain strategic, financing, administration, consolidation and reporting activities managed from the head office in Toronto, Canada.

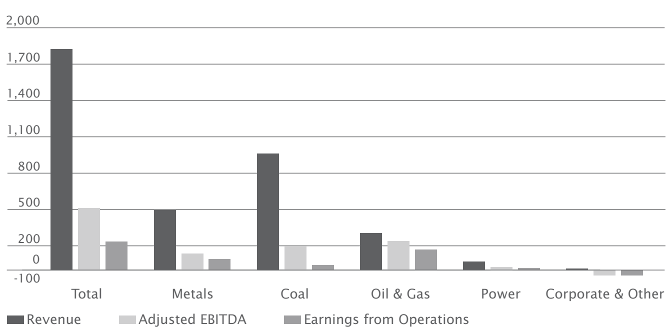
The Corporation remains focused on the long-term objective of effectively capitalizing on opportunities to grow its asset base through the expansion of existing businesses and strategic acquisitions. It also remains focused on maintaining a strong financial position, enhancing capacity, managing the cost of operations, and balancing the needs of partners and shareholders. Sherritt is committed to the highest standards of environmental, health and safety practices at all of its operations, while making valuable contributions to local communities.

SHERRITT INTERNATIONAL CORPORATION

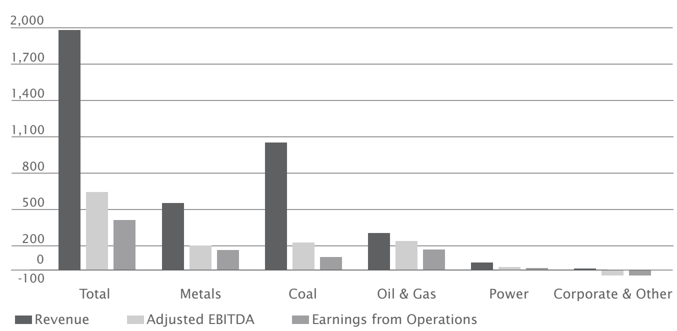
CORPORATE	METALS	COAL	OIL & GAS	POWER
Technology group, development projects and head office	Nickel and cobalt mining, processing and refining	Mine-mouth and export thermal coal production and coal development projects	Oil and gas exploration and production	Power generation

Revenue, Adjusted EBITDA[(1)] and Earnings from Operations by division are as follows:

2012
Revenue, Adjusted EBITDA[(1)] and Earnings from Operations by division
($ millions, for the year ending December 31)



2011
Revenue, Adjusted EBITDA[(1)] and Earnings from Operations by division
($ millions, for the year ending December 31)



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

Metals

Metals is an industry leader in mining, processing and refining nickel and cobalt from lateritic ore bodies. Sherritt has a 50/50 partnership with General Nickel Company S.A. (GNC) of Cuba (the Moa Joint Venture or Moa JV), and a 40% indirect interest in two companies (together the Ambatovy Joint Venture) that own a significant nickel operation.

The Moa Joint Venture mines, processes and refines nickel and cobalt for sale worldwide (except in the United States). The Moa JV has mining operations and associated processing facilities in Moa, Cuba; refining facilities in Fort Saskatchewan, Alberta; and an international marketing and sales organization.

The Corporation also owns and operates fertilizer, sulphuric acid, utilities and storage facilities in Fort Saskatchewan, some of which provide additional sources of income and enhance the security of supply of certain inputs and services required by the Moa JV's refining operations.

Continuous optimization of production facilities, combined with the implementation of innovative technologies at the Moa JV assists Metals in continuing to be one of the world's lower-cost producers of nickel and cobalt from lateritic ore. Metals' experienced and knowledgeable workforce and management team, combined with consistently high on-stream time and equipment reliability, have been the key to the safe and responsible utilization of production assets.

At the Moa JV, the Phase 2 Expansion remains an important growth initiative that will continue to use proven process technologies that have successfully processed nickel and cobalt for nearly 60 years. The expansion would take advantage of the significant infrastructure in place at both Moa and Fort Saskatchewan.

Ambatovy is expected to be one of the world's largest nickel mining, processing and refining operations utilizing lateritic ore. Sherritt is the operator of this project and has as its partners Sumitomo Corporation, Korea Resources Corporation and SNC-Lavalin Inc. (collectively referred to as the Ambatovy Partners). Ambatovy is a large tonnage nickel and cobalt project with two nickel deposits located near Moramanga (eastern central Madagascar) which are planned to be mined over a 20-year period. Additionally, reclaim of low-grade ore stockpiles is expected to extend project life by nine years. The ore from these deposits is delivered via pipeline to the processing plant and refinery located near the Port of Toamasina. Ambatovy began nickel and cobalt production in the third quarter of 2012 and has an estimated annual production capacity of 60,000 tonnes (100% basis) of nickel and 5,600 tonnes (100% basis) of cobalt. The Ambatovy Joint Venture is expected to reach commercial production in 2013.

Coal

Sherritt is Canada's largest thermal coal producer, and operated nine surface mines in Alberta and Saskatchewan during 2012. Sherritt supplies domestic and international markets with thermal coal for electricity generation. Sherritt has abundant, high-quality and strategically located reserves in Canada that are suited to providing its customers with a stable, low-cost and long-term fuel supply.

Coal consists of three distinct groups:

- Prairie Operations
- Mountain Operations
- Coal Development Assets

Prairie Operations consists of Sherritt's 100% interest in Prairie Mines & Royalty Ltd. (PMRL). In June 2012, Sherritt dissolved Royal Utilities Income Fund as an income trust and transferred its shares of PMRL to a wholly owned subsidiary of Sherritt. PMRL directly owns and operates the Paintearth, Sheerness, Genesee (50% interest), Poplar River, Boundary Dam and Bienfait mines which are mine-mouth thermal coal operations. It also operated the Highvale mine under contract in 2012. PMRL directly owns a 50% joint venture interest in the Bienfait Activated Carbon Joint Venture, which produces activated carbon for the removal of mercury from flue gas. Prairie Operations also produces char for the barbeque briquette industry from the Bienfait Char facility. In addition, Prairie Operations holds a portfolio of mineral rights located in Alberta and Saskatchewan on which it earns royalties from the production of coal, potash and other minerals.

Mountain Operations consists of a 100% interest in Coal Valley Resources Inc. (CVRI). CVRI owns and operates the Coal Valley mine, Obed Mountain mine, Gregg River mine and Coleman properties. The Coal Valley and Obed Mountain mines were the only active mines in this group during 2012. In November 2012, CVRI suspended operations at the Obed Mountain mine due to weak thermal export prices. The majority of coal from Mountain Operations is sold on the international market to overseas customers.

Coal's development assets include Carbon Development Partnership (CDP), a general partnership that is 50% indirectly owned by Sherritt, whose purpose is to undertake initiatives aimed at monetizing its significant undeveloped coal reserves.

The foundation of Coal is its philosophy which encourages a safe and productive work environment, enduring relationships with customers and partners, and mutually beneficial relationships with the communities at each mine site.

Oil and Gas

Sherritt explores for and produces oil and gas, primarily from fields situated in Cuba, from which the Corporation produced approximately 94% of its net oil production during 2012. Sherritt holds an interest in two production-sharing contracts in Cuba. All of Sherritt's oil sales in Cuba in 2012 were to an agency of the Government of Cuba. Under the production-sharing arrangements, Sherritt recovers approved costs from gross production and the remaining production is allocated on the basis of negotiated percentages. The pricing for oil produced by Sherritt in Cuba is based on a discount to Gulf Coast Fuel Oil Number 6 reference prices.

Oil and Gas has developed expertise in the exploration and development of fold-and-thrust geological plays along the north coast of Cuba. Reservoirs are located offshore, but in close proximity to the coastline. As a result, specialized long reach directional drilling methods have been developed to economically exploit the reserves from land-based drilling locations. Sherritt has also implemented state of the art production technology to optimize the production of heavy oil in Cuba.

Sherritt also holds working-interests in several oil fields located in the Gulf of Valencia in Spain, and a working-interest in a natural gas field in Pakistan. Sherritt holds exploration permits in the United Kingdom North Sea and in the Alboran Sea off the southern coast of Spain. The Corporation is currently completing initial geological and geophysical evaluations for these exploration properties.

Power

The majority of Sherritt's 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 CubaPetróleo (CUPET) hold the remaining two-thirds interest in Energas.

Raw natural gas that would otherwise be flared is supplied to Energas by CUPET free of charge, where it is processed and used to produce electricity. By-products produced by Energas in processing the raw natural gas, including condensate and liquefied petroleum gas, are purchased by CUPET at market-based prices. All of Energas' electrical generation is purchased by UNE under long-term fixed-price contracts. Sherritt provides the financing for the construction of the Energas facilities and is repaid from the cash flows generated by the facilities.

The facility at Varadero is an efficient combined cycle operation where electricity is produced from gas turbines and a steam turbine. The steam turbine produces electricity using steam generated from the waste heat captured from the gas turbines. A similar combined cycle project is currently under construction at Boca de Jaruco and will increase Energas' electrical generating capacity by 150 MW to 506 MW. This project is scheduled for completion in June 2013.

Sherritt also owns a 25 MW thermal power facility in Madagascar. The operation of the facility is contracted to the local electricity utility which is entitled to all of the electricity generated. Sherritt receives a fixed monthly fee which is recorded as lease revenue. Sherritt does not recognize any production or sales volumes from this facility.

Corporate and Other

TECHNOLOGIES

Sherritt Technologies is focused on providing technical support to Sherritt's operating divisions and in helping to identify opportunities for the Corporation as a result of the division's international activities. The division specialises in commercializing hydrometallurgical technologies for the recovery of non-ferrous metals and in the research and development of technologies for cleaning coal prior to combustion in power stations and coal gasification plants. More than 40 commercial plants worldwide have previously adopted Technologies' non-ferrous hydrometallurgical processes. Technologies employs approximately 65 personnel including project managers, scientists, engineers, technologists and support staff.

Technologies develops hydrometallurgical processes for the treatment of a wide range of ores, concentrates, mattes and other feed materials for the recovery of non-ferrous and precious metals. Hydrometallurgical processes are developed, tested and demonstrated extensively at the Technologies laboratory and pilot plant facilities, the data from which forms the basis for Technologies engineers to design commercial plants.

The division is evaluating, adapting and developing coal beneficiation and coal gasification technologies. Several cost-effective coal beneficiation technologies have been identified that could economically reduce greenhouse gas emissions. These technologies could also reduce the cost of installing carbon capture and emission reduction technologies at existing coal-fired power plants and at new gasification facilities. Emerging gasification technologies are also under evaluation. These clean energy technologies, successfully demonstrated by others, have tremendous potential to support the long-term utilization of Sherritt's deep, currently un-mineable, coal resources.

SULAWESI NICKEL PROJECT

In 2010, Sherritt entered into an earn-in and shareholders agreement with a subsidiary of Rio Tinto Limited (Rio Tinto) pursuant to which Sherritt could acquire a 57.5% interest in the holding company that owns the Sulawesi Nickel Project (Sulawesi Project) in Indonesia. The Sulawesi Project is located on the island of Sulawesi in the Republic of Indonesia. Based on exploration completed to date, the project includes a large, high-grade resource. Identification of further mineralization will be achieved through additional exploration and completion of a feasibility study.

Sherritt is the operator and will license its commercially proven, proprietary technology to the project. Drilling to define the resource is expected to begin in the second quarter of 2013.

Key financial and operational data

$ millions, except per share amounts, for the years ended December 31	**2012**	2011	Change
Financial highlights			
Revenue	**$ 1,840.2**	$ 1,978.3	(7%)
Adjusted EBITDA[1]	**515.5**	643.2	(20%)
Earnings from operations and associate	**241.8**	410.7	(41%)
Net earnings for the year	**33.2**	197.3	(83%)
Net earnings per share, basic and diluted ($ per share)	**0.11**	0.67	(84%)
Cash flow			
Cash provided by operating activities	**$ 269.9**	$ 354.8	(24%)
Spending on capital and intangible assets[2]	**$ 216.2**	$ 235.6	(8%)
Production volumes			
Finished nickel (tonnes)			
Moa Joint Venture (50% basis)	**17,132**	17,286	(1%)
Ambatovy Joint Venture (40% basis)	**2,278**	–	–
Finished cobalt (tonnes)			
Moa Joint Venture (50% basis)	**1,896**	1,927	(2%)
Ambatovy Joint Venture (40% basis)	**197**	–	–
Coal (millions of tonnes)			
Prairie Operations	**31.2**	32.7	(5%)
Mountain Operations	**3.7**	4.4	(16%)
Oil – Cuba – net working-interest (barrels per day)	**10,653**	11,286	(6%)
Electricity (gigawatt hours) (33 1/3% basis)	**628**	618	2%
Average-realized prices[3]			
Nickel – Moa Joint Venture ($ per pound)	**$ 7.82**	$ 10.14	(23%)
Cobalt – Moa Joint Venture ($ per pound)	**12.94**	15.82	(18%)
Coal ($ per tonne)			
Prairie Operations[4]	**17.48**	16.31	7%
Mountain Operations	**101.65**	101.61	–
Oil – Cuba ($ per barrel)	**72.21**	68.47	5%
Electricity ($ per megawatt hour)	**41.32**	41.00	1%
Unit operating costs[1]			
Nickel – Moa Joint Venture (US$ per pound)[5][6]	**$ 4.94**	$ 4.35	14%
Coal – Prairie Operations ($ per tonne)[4]	**14.91**	13.87	7%
Coal – Mountain Operations ($ per tonne)	**86.48**	79.61	9%
Oil – Cuba ($ per barrel)	**12.69**	12.07	5%
Electricity ($ per megawatt hour)	**16.62**	20.05	(17%)

$ millions, except as noted, as at December 31	**2012**	2011	Change
Financial condition			
Current ratio	**3.92:1**	3.73:1	5%
Net working capital balance	**$ 979.1**	$ 1,016.7	(4%)
Cash, cash equivalents and short-term investments	**526.8**	631.4	(17%)
Total assets	**6,758.3**	6,497.5	4%
Total loans and borrowings	**2,039.8**	1,744.7	17%
Shareholders' equity	**3,672.7**	3,731.7	(2%)
Long-term debt to total assets[7]	**32%**	28%	14%

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

(2) Spending on capital and intangible assets includes accruals and does not include spending on the Ambatovy Joint Venture or service concession arrangements.

(3) Management uses average-realized price statistics to monitor the performance of the Corporation's operating divisions. This non-GAAP measure does not have a standardized meaning under International Financial Reporting Standards (IFRS) and may not be comparable to similar measures provided by other companies. Average-realized price is calculated by dividing revenue by sales volume for the given product.

(4) Excludes royalties, activated carbon and char operating costs and revenue.

(5) Unit operating costs do not include the impact of Ambatovy Joint Venture.

(6) Net direct cash cost is inclusive of by-product credits and third-party feed costs.

(7) Calculated as total loans and borrowings divided by total assets excluding goodwill. This leverage ratio is monitored by management and lenders.

Executive summary

Highlights

RESULTS

- Revenue for the year ended December 31, 2012 was $1,840.2 million compared to $1,978.3 million in the prior year. Lower revenue was primarily the result of lower nickel and cobalt prices and lower export thermal coal sales volumes. These reductions were partly offset by higher fertilizer revenue and the overall impact of a weaker Canadian dollar relative to the U.S. dollar compared to the prior year.
- Adjusted EBITDA(1) for the year ended December 31, 2012 was $515.5 million compared to $643.2 million in the prior year. Lower Adjusted EBITDA was primarily due to lower revenue discussed above and higher mining and processing costs at Metals and operating costs at Coal's Mountain Operations.
- The net earnings for the year ended December 31, 2012 was $33.2 million compared to $197.3 million in the prior year. In addition to the impact of lower Adjusted EBITDA described above, net earnings were lower as a result of the following:
  - Net finance expense was higher primarily due to the redemption premium paid on the 2014 debentures which was higher than the amount paid for the redemption of debentures in 2011, higher interest expense and accretion on loans and borrowings as a result of higher debt balances, and a reduction in the fair value of the Ambatovy call option;
  - Depreciation was higher as a result of various factors including a change in estimate for environmental rehabilitation obligations at Mountain Operations and higher property, plant and equipment balances; and
  - During 2012, the Corporation wrote off $10.9 million in development costs at CDP attributable to the Dodds-Roundhill coal gasification project and $5.6 million relating to its investment on its Bow City Power project as the current economic climate does not support near term development of these projects.

  These higher expenses were partly offset by lower income tax expense as a result of lower net earnings.
- Operating cash flow for the year ended December 31, 2012 was $269.3 million compared to $354.8 million in the prior year. Lower operating cash flow was primarily due to lower net earnings partly offset by changes in non-cash items, including change in non-cash working capital; depletion, depreciation and amortization; impairments and deferred income tax recovery.

AMBATOVY JOINT VENTURE

- Ambatovy produced 8,972 tonnes (100% basis) of nickel and cobalt contained in mixed sulphides. Finished nickel production was 5,695 tonnes (100% basis) and finished cobalt production was 493 tonnes (100% basis). Approximately 4,969 tonnes of nickel and cobalt contained in mixed sulphides were produced in the fourth quarter of 2012, compared to 3,394 tonnes in the third quarter.
- During the fourth quarter, Ambatovy achieved another milestone with the sale of 9,857 thousands of pounds (100% basis) of nickel and 833 thousands of pounds (100% basis) of cobalt. For accounting purposes, all revenues from the sale of nickel and cobalt will be capitalized until commercial production is reached.
- Ramp-up of the Ambatovy Joint Venture facilities continued to progress well. Beginning in October 2012, the Pressure Acid Leach (PAL) circuit achieved a 55% ore throughput rate for a 30-day period. 70% of ore throughput of nameplate capacity in the PAL circuit is required for the declaration of commercial production. During fourth-quarter 2012, total operating time in the PAL circuit was 5,352 operating hours and the ore throughput rate was 39%, a 1,233 hour increase when compared to third-quarter 2012. In January 2013, the ore throughput rate in the PAL circuit averaged 46%.

FINANCIAL POSITION

- At December 31, 2012, total available liquidity was approximately $1.1 billion. Total debt at December 31, 2012 was $2.0 billion, including $841.4 million related to non-recourse Ambatovy Partner Loans to Sherritt. The Corporation's liquidity profile includes a current ratio of 3.92:1; a net working capital balance of $979.1 million; and cash, cash equivalents and short-term investments of $526.8 million. The Corporation's long-term debt to total assets ratio was 32%.

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

DEBENTURE OFFERING

- In September of 2012, Sherritt completed an offering of $500.0 million principal amount of 7.5% Senior Unsecured Debentures due September 24, 2020 (2020 debentures). The net proceeds of $489.6 million (after agents' fees and the deduction of expenses) were used to fund the repurchase and redemption of the outstanding principal amount of Sherritt's 8.25% Senior Unsecured Debentures that were due for redemption in October 2014 (2014 debentures) and the remainder for general corporate purposes. This transaction improved Sherritt's overall debt maturity and liquidity profile.

Consolidated financial results

$ millions, except per share amounts, for the years ended December 31	**2012**	2011	Change
Revenue by segment			
Metals	**$ 481.8**	$ 550.4	(12%)
Coal	**975.0**	1,050.5	(7%)
Oil and Gas	**300.9**	304.9	(1%)
Power	**70.0**	60.0	17%
Corporate and other	**12.5**	12.5	–
	1,840.2	1,978.3	(7%)
Adjusted EBITDA[1] by segment			
Metals	**$ 125.8**	$ 200.4	(37%)
Coal	**181.8**	224.2	(19%)
Oil and Gas	**232.7**	235.9	(1%)
Power	**22.0**	25.1	(12%)
Corporate and other	**(46.8)**	(42.4)	10%
	515.5	643.2	(20%)
Earnings (loss) from operations and associate			
Metals	**$ 87.6**	$ 166.3	(47%)
Coal	**30.3**	104.5	(71%)
Oil and Gas	**162.1**	170.0	(5%)
Power	**11.0**	14.5	(24%)
Corporate and other	**(49.2)**	(44.6)	10%
	241.8	410.7	(41%)
Net finance expense	**183.1**	123.0	49%
Income tax expense	**29.9**	89.2	(66%)
(Earnings) loss from discontinued operation, net of tax	**(4.4)**	1.2	(467%)
Net earnings	**$ 33.2**	$ 197.3	(83%)
Net earnings per share			
Basic and diluted	**$ 0.11**	$ 0.67	(84%)
Effective tax rate	**51%**	31%	65%

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

Detailed information on the performance of each division can be found in the Review of operations sections. In summary:

- Metals' earnings from operations and associate of $87.6 million for the year ended December 31, 2012 was $78.7 million lower than in the prior year. Earnings from operations were lower primarily due to lower nickel and cobalt prices and higher mining and processing costs, partly offset by the benefit from higher fertilizer revenue and the impact of a weaker Canadian dollar relative to the U.S. dollar;
- Coal's earnings from operations of $30.3 million for the year ended December 31, 2012 was $74.2 million lower than in the prior year, primarily due to lower export sales volume in part due to shipping delays as a result of reduced shipping capacity at Westshore Terminals in the fourth quarter, higher depreciation as a result of a change in estimate for environmental rehabilitation obligations and higher operating costs in Mountain Operations, partly offset by higher margins in Prairie Operations. In addition, Coal recognized non-cash impairment charges related to the Dodds-Roundhill and Bow City Power projects in coal development assets;
- Oil and Gas' earnings from operations of $162.1 million for the year ended December 31, 2012 was $7.9 million lower than in the prior year. Earnings from operations were relatively unchanged as the impact of lower gross working-interest production was offset by lower input costs and the impact of a weaker Canadian dollar relative to the U.S. dollar;

- Power's earnings from operations of $11.0 million for the year ended December 31, 2012 was $3.5 million lower than in the prior year primarily as a result of lower cost recoveries;
- Net finance expense of $183.1 million for the year ended December 31, 2012 was $60.1 million higher than in the prior year primarily due to the redemption premium of $27.0 million on the 2014 debentures compared to a redemption premium of $16.3 million paid on the redemption of the Corporation's 7.875% Senior Unsecured Debentures due 2012 (2012 Debentures) in the prior year; a reduction in the fair value of the Ambatovy call option of $15.8 million compared to a $2.7 million upward fair value adjustment in the prior year; higher foreign exchange losses; and higher interest expense and accretion on loans and borrowings in the year ended December 31, 2012. The Ambatovy call option relates to the right of the Corporation and Sumitomo Corporation to acquire SNC-Lavalin Inc.'s 5% equity interest in the Ambatovy Joint Venture at any time over a two-year period following the completion of construction and the satisfaction of certain completion tests. The fair value of the Ambatovy call option is a result of changes in various inputs used in the Black-Scholes model, including volatility, which is based on a blend of historical commodity prices and publicly traded stock prices of companies with comparable projects, and the time to expiration of the option; and
- The effective consolidated tax rate for the year ended December 31, 2012 was 51% compared to 31% in the prior year. The higher effective tax rate for the year ended December 31, 2012 was primarily a result of higher losses incurred in lower tax rate jurisdictions relative to lower earnings in higher tax rate jurisdictions in 2012, partly offset by the recognition of tax benefits for certain tax losses in 2012 that had not previously been recognized.

Significant factors influencing operating results

As a commodity-based, geographically diverse company, Sherritt's operating results are influenced by many factors, the most significant of which are: commodity prices, operating costs and foreign exchange rates.

COMMODITY PRICES

Results for the year ended December 31, 2012 were significantly impacted by market-driven commodity prices for nickel, cobalt, export thermal coal, oil and gas. A significant portion of domestic coal prices and electricity prices are established at the beginning of a negotiated supply contract period and are therefore less susceptible to commodity price fluctuations during the term of the agreement.

Nickel and cobalt commodity and thermal coal prices were lower and oil prices were higher in 2012 compared to the prior year. Average reference prices for nickel and cobalt decreased in 2012 primarily as a result of global production continuing to outpace global demand. The average oil reference prices were higher due to increased demand. A sensitivity analysis of 2012 earnings to changes in significant commodity prices is provided in the Supplementary information – Sensitivity analysis section.

OPERATING COSTS

The main operating cost drivers for all divisions are prices for commodity inputs such as electricity, fuel oil, diesel, natural gas, sulphur and sulphuric acid and for maintenance and labour. These costs are all driven by market forces. A sensitivity analysis of the 2012 earnings to changes in significant commodity input costs is provided in the Supplementary information – Sensitivity analysis section.

FOREIGN EXCHANGE RATE

As Sherritt reports its results in Canadian dollars, the fluctuation in foreign exchange rates has the potential to cause significant volatility in those results. Most commodity prices are quoted in U.S. dollars. In addition, many of Sherritt's trade accounts receivable, accounts payable and loans payable are denominated in U.S. dollars. A significant appreciation or depreciation in the exchange rate can have a significant impact on earnings and on the statement of financial position. During 2012, the Canadian dollar weakened relative to the U.S. dollar such that the average annual Canadian dollar cost to purchase one U.S. dollar increased to $1.00, compared to $0.99 in 2011.

For the year ended December 31, 2012, a strengthening or weakening of the Canadian dollar relative to the U.S. dollar of $0.05 would have decreased or increased 2012 annual net earnings by approximately $43 million, respectively. The majority of this decrease (increase) is related to the net impact of foreign exchange on commodity prices at the divisions. The foreign exchange losses (gains) arising from the revaluation of U.S. dollar denominated advances and loans receivable are mostly offset by foreign exchange gains (losses) arising from the revaluation of U.S. dollar denominated loans payable.

Review of operations

Metals

FINANCIAL REVIEW

$ millions, except as otherwise noted, for the years ended December 31	2012	2011	Change
Financial highlights[1]			
Revenue[2][3]	$ 481.8	$ 550.4	(12%)
Adjusted EBITDA[4]	125.8	200.4	(37%)
Share of loss of associate	2.1	3.5	(40%)
Earnings from operations and associate	87.6	166.3	(47%)
Production volumes (tonnes)			
Moa Joint Venture[2]			
Mixed sulphides (50% basis)	19,027	19,320	(2%)
Finished nickel (50% basis)	17,132	17,286	(1%)
Finished cobalt (50% basis)	1,896	1,927	(2%)
Fertilizer	263,918	238,535	11%
Ambatovy			
Mixed sulphides (40% basis)	3,589	–	–
Finished nickel (40% basis)	2,278	–	–
Finished cobalt (40% basis)	197	–	–
Fertilizer	6,329	–	–
Sales volumes			
Moa Joint Venture[2]			
Finished nickel (thousands of pounds) (50% basis)	37,754	38,088	(1%)
Finished cobalt (thousands of pounds) (50% basis)	4,123	4,249	(3%)
Fertilizer (tonnes)	183,493	165,208	11%
Average-reference prices (US$ per pound)			
Nickel	$ 7.95	$ 10.36	(23%)
Cobalt[5]	13.48	16.44	(18%)
Average-realized prices ($ per pound)			
Moa Joint Venture			
Nickel	$ 7.82	$ 10.14	(23%)
Cobalt	12.94	15.82	(18%)
Unit operating costs[4] **(US$ per pound)**			
Moa Joint Venture			
Nickel – net direct cash cost	$ 4.94	$ 4.35	14%
Spending on capital			
Moa Joint Venture[2]	$ 31.9	$ 44.7	(29%)

(1) Ambatovy is accounted for using the equity method of accounting which recognizes the Corporation's share of loss of associate. Except as specifically provided, operating results do not include the results of Ambatovy.

(2) Operating results, fertilizer volumes and spending on capital for Moa Joint Venture include the Corporation's 50% interest in the Moa Joint Venture and its 100% interest in the utility and fertilizer operations in Fort Saskatchewan.

(3) Includes revenue of $17.1 million recognized by a subsidiary of the Corporation established to buy, market and sell certain Ambatovy nickel production.

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

(5) Average low-grade cobalt published price per Metals Bulletin.

The change in earnings from operations and associated entity between 2012 and 2011 is detailed below:

$ millions, for the year ended December 31	2012
Lower U.S. dollar denominated realized nickel prices	$ (92.1)
Lower U.S. dollar denominated realized cobalt prices	(12.8)
Higher fertilizer prices	12.9
Higher fertilizer sales volumes net of lower metal sales volumes	0.6
Lower third-party feed and fertilizer costs net of higher mining and processing costs	1.3
Weaker Canadian dollar relative to the U.S. dollar	10.8
Other	0.6
Change in earnings from operations, compared to 2011	$ (78.7)

MOA JOINT VENTURE

Revenue for the Moa Joint Venture is composed of the following:

$ millions, for the years ended December 31	2012	2011	Change
Nickel	**$ 295.4**	$ 386.2	(24%)
Cobalt	**53.4**	67.2	(21%)
Fertilizers	**105.8**	82.5	28%
Other	**10.1**	14.5	(30%)
	$ 464.7	$ 550.4	(16%)

The average-realized nickel price decreased $2.32 per pound and the average-realized cobalt price decreased $2.88 per pound compared to the prior year primarily due to a decrease in reference prices as global production outpaced global demand partly offset by the weaker Canadian dollar relative to the U.S. dollar. Average realized fertilizer prices were higher in 2012 reflecting increased demand.

Finished nickel and cobalt sales volumes were lower compared to the prior year primarily due to lower finished metals production. Fertilizer sales volumes increased 18,285 tonnes compared to the prior year reflecting higher production of ammonia, crystalline and granular ammonium sulphate in response to higher demand.

Production of 38,054 tonnes (100% basis) of contained nickel and cobalt in mixed sulphides was 586 tonnes (100% basis) lower than the prior year as the mine experienced some difficulties in getting ore to the processing plant due to reduced mining equipment availability. Finished nickel production of 34,263 tonnes (100% basis) and finished cobalt production of 3,792 tonnes (100% basis) were 308 tonnes and 62 tonnes lower respectively than in the prior year primarily due to decreased availability of Moa mixed sulphides. Availability of third-party nickel feeds restricted the refinery's ability to compensate for lower mixed sulphides volumes.

Net direct cash cost is composed of the following:

NET DIRECT CASH COST[1]

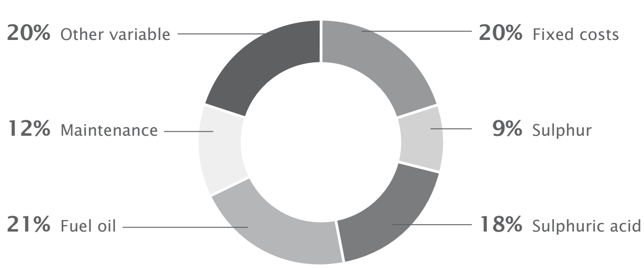
For the years ended December 31	2012	2011	Change
Mining, processing and refining costs	**$ 6.55**	$ 6.12	7%
Third-party feed costs	**0.10**	0.15	(33%)
Cobalt by-product credits	**(1.41)**	(1.78)	(21%)
Other[2]	**(0.30)**	(0.14)	114%
Net direct cash cost (US$ per pound of nickel)	**$ 4.94**	$ 4.35	14%
Natural gas costs ($ per gigajoule)	**2.39**	3.50	(32%)
Fuel oil (US$ per tonne)	**666**	617	8%
Sulphur (US$ per tonne)	**263**	239	10%
Sulphuric acid (US$ per tonne)	**185**	190	(3%)

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

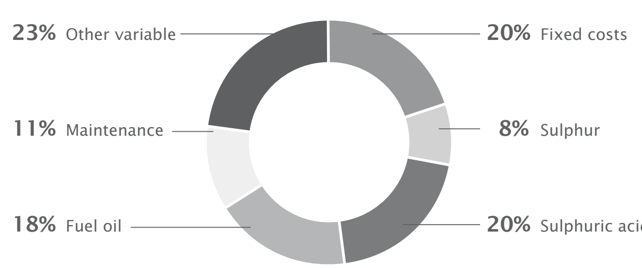
(2) Includes Moa Joint Venture refinery by-product fertilizer profit or loss and marketing costs, discounts, and other by-product credits.

Mining, processing and refining costs are composed of the following:

2012
Components of mining, processing and refining costs[1]



2011
Components of mining, processing and refining costs[1]



(1) Approximate breakdown of mining, processing and refining costs based on production costs for the period, excluding the impact of opening and closing inventory values on the cost of sales.

Net direct cash cost of nickel increased US$0.59 per pound primarily due to lower cobalt by-product credits and higher mining and processing costs, partially offset by higher fertilizer prices and sales volumes and lower third-party feed costs. Increased mining and processing costs largely reflected the impact of higher fuel oil and sulphur prices. The decrease in third-party feed costs reflected the lower availability and price.

Capital spending is composed of the following:

$ millions, for the years ended December 31	**2012**	2011	Change
Sustaining[(1)(2)]	**$ 30.8**	$ 40.9	(25%)
Expansion	**1.1**	3.8	(71%)
Total	**$ 31.9**	$ 44.7	(29%)

(1) Spending on capital related to the Corporation's 50% interest in the Moa Joint Venture and its 100% interest in the utility and fertilizer operations in Fort Saskatchewan.

(2) Includes assets acquired under finance leases of $1.2 million for the year ended December 31, 2012 (2011 – $3.0 million).

Capital spending for the Moa Joint Venture primarily focused on sustaining activities, and is lower than the prior year as spending was deferred in response to the lower nickel price environment early in the year and more recently due to delays in the execution of capital projects. Capitalization of interest related to financing of the Phase 2 expansion and Moa Acid plant ceased during the first quarter of 2012 due to prolonged administrative delays.

AMBATOVY

During 2012, Ambatovy produced 8,972 tonnes (100% basis) of nickel and cobalt contained in mixed sulphides. Finished nickel production was 5,695 tonnes (100% basis) and finished cobalt production was 493 tonnes (100% basis). Annual nameplate capacity is 60,000 tonnes of nickel and 5,600 tonnes of cobalt. Approximately 4,969 tonnes of nickel and cobalt contained in mixed sulphides were produced in the fourth quarter of 2012, compared to 3,394 tonnes in the third quarter.

During the fourth quarter, Ambatovy achieved another milestone with the sale of 9,857 thousands of pounds (100% basis) of nickel and 833 thousands of pounds (100% basis) of cobalt. For accounting purposes, all revenues from the sale of nickel and cobalt will be capitalized until commercial production is reached (defined as 70% of ore throughput of nameplate capacity in the PAL circuit) in 2013.

In early 2012, capital spending for Ambatovy focused on the construction close out activities associated with the completion of commissioning within the Refinery, addressing construction or design deficiencies and the demobilization of contractors from the site. In addition, in 2012 capital spending was directed towards continuous improvement projects at the mine site and within the Utilities and PAL areas.

Total capital costs for Ambatovy are expected to remain within the US$5.5 billion (100% basis) estimate. Cumulative spending on capital at Ambatovy to December 31, 2012 was US$5.3 billion (100% basis), excluding financing charges, working capital and foreign exchange, unchanged from the third quarter as construction has been completed.

With respect to the ramp-up, the second acid plant was successfully put into service during the quarter, and all five autoclaves in the PAL area were operable. Total autoclave operating hours in the fourth quarter of 2012 were 5,352 hours, progressing from 4,119 hours in the third quarter. Also during the fourth quarter, average ore throughput of approximately 39% of nameplate capacity was achieved in the PAL circuit compared to 30% in the third quarter.

The Ambatovy operations are expected to reach commercial production in 2013 at which time all operating costs, net of revenue, will cease to be capitalized.

Total project costs (including operating costs, financing charges, working capital and foreign exchange) in the fourth quarter of 2012 were US$312.8 million ($310.0 million) (100% basis) compared to US$170.7 million (100% basis) for the third quarter. Cumulative total project costs to December 31, 2012 were US$6.8 billion (100% basis). Total project costs will vary until commercial production is declared. The most significant variability in total project costs is likely to arise from the working capital, operating cost components and production revenue component (which is netted from these costs).

In the fourth quarter of 2012, a total of US$312.5 million (100% basis) in funding was provided by the Ambatovy Joint Venture partners, US$142.5 million higher than in the third quarter 2012. This increase is primarily due to a requirement that Ambatovy maintain, in local bank accounts, sufficient funds to pay 90 days of local expenses and financing charges. Sherritt's 40% share of the fourth quarter of 2012 funding of US$125.0 million ($123.9 million) was sourced from cash on hand.

In September 2012, Ambatovy received a six-month authorization (Operating Permit) to commercially operate the processing plant in Toamasina, Madagascar, which is to automatically convert to a life-of-mine Operating Permit on March 13, 2013.

The Transitional Government of Madagascar continues to progress the "Roadmap", which was designed by the Southern African Development Community to facilitate Madagascar's return to democratic rule. It is currently anticipated that the Malagasy Transitional Authority will hold presidential elections in May 2013. Ambatovy continues to regularly monitor the political climate in Madagascar and continues to engage in ongoing communication with representatives of the national, regional and local government as well as multilateral institutions and key embassies.

In 2012, the Corporation established a subsidiary to buy, market and sell certain Ambatovy nickel production (the Metals Marketing Company). During the year ended December 31, 2012, this subsidiary recognized $17.1 million in revenue and cost of sales.

OUTLOOK FOR 2013

PRODUCTION VOLUMES AND SPENDING ON CAPITAL AND PROJECT

For the years ended December 31	**Actual 2012**	Projected 2013
Production		
Mixed sulphides (tonnes, 100% basis):		
Moa Joint Venture	**38,054**	38,000
Ambatovy Joint Venture	**8,972**	40,000
	47,026	78,000
Finished nickel (tonnes, 100% basis):		
Moa Joint Venture	**34,263**	34,000
Ambatovy Joint Venture	**5,695**	35,000
	39,958	69,000
Finished cobalt (tonnes, 100% basis):		
Moa Joint Venture	**3,792**	3,350
Ambatovy Joint Venture	**493**	3,000
	4,285	6,350
Spending on capital ($ millions):		
Moa Joint Venture (50% basis), Fort Saskatchewan(1)	**32**	51
Ambatovy (40% basis)	**–**	29
Project capital spending (US$ millions, 100% basis):		
Ambatovy Joint Venture	**73**	–

(1) Spending on capital related to the Corporation's 50% interest in the Moa Joint Venture, and its 100% interest in the utility and fertilizer operations in Fort Saskatchewan.

Production guidance (for mixed sulphides and finished metal) reflects the first full year of contribution from both operations, the Moa Joint Venture (Cuba/Canada) and the Ambatovy Joint Venture (Madagascar). While Moa Joint Venture production guidance is largely consistent with 2012 levels, Ambatovy production levels are expected to ramp up over the course of 2013, reaching full capacity rates by the end of the year. Spending on capital of $80 million (Sherritt's share) for all operations reflects sustaining expenditures in all jurisdictions.

Coal

FINANCIAL REVIEW

$ millions, except as otherwise indicated, for the years ended December 31	2012	2011	Change
Financial highlights			
Revenue			
Prairie Operations	**$ 622.4**	$ 605.7	3%
Mountain Operations[1]	**352.6**	444.8	(21%)
	975.0	1,050.5	(7%)
Adjusted EBITDA[2]			
Prairie Operations	**$ 138.2**	$ 134.7	3%
Mountain Operations[1]	**43.6**	89.5	(51%)
	181.8	224.2	(19%)
Earnings (loss) from operations			
Prairie Operations	**$ 75.9**	$ 70.3	8%
Mountain Operations[1]	**(45.6)**	34.2	(233%)
	30.3	104.5	(71%)
Production volumes (millions of tonnes)			
Prairie Operations	**31.2**	32.7	(5%)
Mountain Operations	**3.7**	4.4	(16%)
	34.9	37.1	(6%)
Sales volumes (millions of tonnes)			
Prairie Operations	**30.8**	32.0	(4%)
Mountain Operations	**3.5**	4.4	(20%)
	34.3	36.4	(6%)
Average-realized prices ($ per tonne)			
Prairie Operations[3]	**$ 17.48**	$ 16.31	7%
Mountain Operations	**101.65**	101.61	–
Unit operating costs[2] **($ per tonne)**			
Prairie Operations	**$ 14.91**	$ 13.87	7%
Mountain Operations	**86.48**	79.61	9%
Spending on capital			
Prairie Operations	**$ 69.1**	$ 86.9	(20%)
Mountain Operations	**60.2**	34.9	72%
	$ 129.3	$ 121.8	6%

(1) Includes results for coal development assets which the Corporation proportionately consolidates its 50% interest.

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

(3) Average-realized price is a non-GAAP measure. It is calculated by dividing revenue from by the number of tonnes sold. For purposes of this calculation, for Prairie Operations, revenue excludes royalties, activated carbon, char and other of $85.1 million for year ended December 31, 2012 (2011 – $85.8 million) and tonnes sold excludes activated carbon and char of 113.5 thousand tonnes (2011 – 123.5 thousand tonnes). Average-realized price may not calculate based on amounts presented due to rounding.

PRAIRIE OPERATIONS

Prairie Operations revenue is composed of the following:

$ millions, for the years ended December 31	2012	2011	Change
Mining revenue	**$ 568.9**	$ 547.5	4%
Coal royalties	**40.2**	39.3	2%
Potash royalties	**13.3**	18.9	(30%)
	$ 622.4	$ 605.7	3%

The change in earnings from operations between 2012 and 2011 is detailed below:

$ millions, for the year ended December 31		**2012**
Higher mining revenue, net of cost of sales	**$**	**6.2**
Lower potash royalties, net of higher coal royalties		**(4.7)**
Lower depletion, depreciation and amortization		**2.1**
Higher defined benefit pension plan recovery		**1.9**
Other		**0.1**
Change in earnings from operations, compared to 2011	**$**	**5.6**

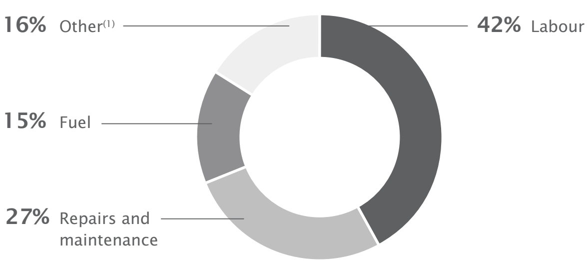
The average-realized price increased in 2012 primarily due to higher cost recoveries earned at the Highvale and Genesee mines. Average-realized prices also increased due to the Sheerness mine earning a significant portion of fixed revenue over lower sales volumes.

Production and sales volumes decreased in 2012 generally due to reduced customer demand, particularly at the Highvale and Sheerness mines. Record activated carbon production of 7,451 tonnes (50% basis) was 768 tonnes (50% basis) higher than 2011 primarily due to continued improvements in plant availability.

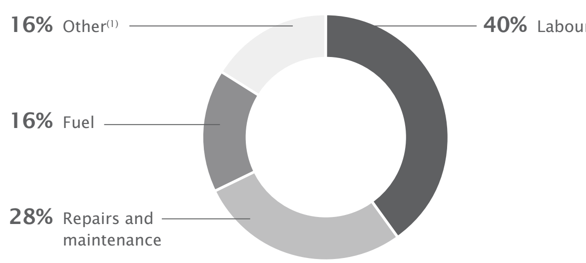
Coal royalties were slightly higher in 2012 due to the timing of mining activities in royalty assessable areas. Potash royalties were lower in 2012 due to lower production volumes from potash producers who experienced weaker market demand for their product.

Unit operating cost is composed of the following:

2012
Components of operating costs



2011
Components of operating costs



(1) Composed of rentals, subcontractors, explosives, power, taxes, tires, licenses and other miscellaneous expenses.

Unit operating costs increased in 2012 primarily due to reduced production volumes as discussed above and higher mining costs at the Highvale mine. Prairie Operations Adjusted EBITDA was 3% higher in 2012 compared to last year due to improved margin at Boundary Dam from operational initiatives that have been implemented.

Spending on capital is composed of the following:

$ millions, for the years ended December 31		**2012**		2011	Change
Sustaining					
Assets acquired under finance lease	**$**	**35.4**	$	54.6	(35%)
Cash capital		**33.7**		32.3	4%
	$	**69.1**	$	86.9	(20%)

In 2012, in addition to the acquisition of $35.4 million of leased equipment, Prairie Operations spent $15.0 million for the replacement of a major dragline component at the Bienfait mine that was completed at the beginning of October 2012. Lower capital spending in 2012 reflected a combination of the timing of equipment arrivals at the mines and management's efforts to reduce capital.

MOUNTAIN OPERATIONS

The change in earnings from operations between 2012 and 2011 is detailed below:

$ millions, for the year ended December 31	**2012**
Higher mining costs	**$ (23.8)**
Higher depletion, depreciation and amortization	**(17.4)**
Lost margin on reduced sales tonnage	**(14.1)**
Dodds-Roundhill and Bow City Power project impairment losses	**(16.5)**
Lower export coal prices, denominated in U.S. dollars	**(6.3)**
Other	**(1.7)**
Change in earnings from operations, compared to 2011	**$ (79.8)**

In 2012, in the fourth quarter, Mountain Operations results were negatively impacted by reduced shipping capacity at Westshore Terminals following an incident on December 7, 2012 that resulted in Berth 1 being out of commission for an extended period of time. During this period, Mountain Operations mitigated the impact of the incident by utilizing contractual capacity at Ridley Terminals as well as at Westshore Terminals through Berth 2. Even with mitigation efforts, the restricted capacity at Westshore resulted in the reduction of fourth-quarter 2012 sales volumes by approximately 0.4 million tonnes (or $4.5 million in Adjusted EBITDA). Berth 1 was reopened on February 8, 2013. While operations at Berth 1 have resumed, the incident will have an impact on sales volumes in first quarter of 2013. Management expects any backlog of material will be sold over the course of the year.

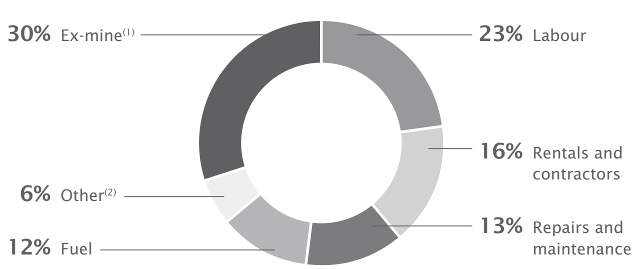
Mountain Operations production and sales volumes were also lower at the Obed Mountain mine in 2012 to achieve an optimal thermal export sales mix. In November, operations were suspended at the Obed Mountain mine due to weak thermal export prices and an expected increase in operating costs in new mining areas. Production volumes at the Coal Valley mine were higher primarily due to the impact of accessing a new mining area in May 2012 as well as additional loading equipment that arrived in the second quarter.

Excluded from Adjusted EBITDA but included in earnings (loss) from operations are a $10.9 million impairment charge to write off CDP's development costs attributable to the Dodds-Roundhill coal gasification project and a $5.6 million impairment of CDP's investment in the Bow City Power project. The current economic climate does not warrant near term development of these projects at this time.

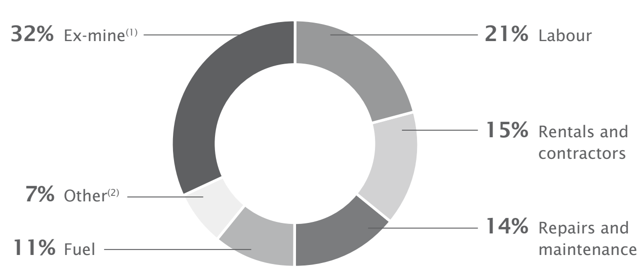
Depreciation expense increased in 2012 primarily due to adjustments to the environmental rehabilitation obligation estimates that were immediately depreciated. In the third quarter, a $12.2 million upward revision was made to reflect updated cost and productivity assumptions for reclamation activities in response to the new reclamation bonding requirements under the Mine Financial Security Program in Alberta. In the fourth quarter, as a result of suspending operations at the Obed Mountain mine a $5.5 million upward adjustment was made to reflect increased leveling cost assumptions relating to more highwalls left standing than anticipated in the original reclamation plan.

Unit operating cost is composed of the following:

2012
Components of operating costs



2011
Components of operating costs



(1) Primarily composed of commissions, royalties, freight and port fees.

(2) Composed of tires, explosives, power, taxes, licenses and other miscellaneous expenses.

Unit operating costs increased in 2012 primarily due to lower Obed Mountain mine production volumes as discussed above and higher rental and contractor costs in the first quarter at the Coal Valley mine.

Spending on capital consists of the following:

$ millions, for the years ended December 31	2012	2011	Change
Sustaining			
Assets acquired under finance lease	$ 28.6	$ 19.5	47%
Cash capital	31.6	15.4	105%
	$ 60.2	$ 34.9	72%

Assets acquired under finance leases were primarily related to mobile equipment. In addition to the acquisition of $28.6 million of leased equipment in 2012, Coal Valley mine spent $9.8 million related to the purchase of loading equipment in the first quarter and $15.7 million on infrastructure development for new and future production areas.

HIGHVALE MINE OPERATIONS

On January 10, 2013, Coal's Prairie Operations and its customer, the owner of the Highvale mine, agreed to transfer operations to the customer and terminate the Highvale mining contract. On January 17, 2013 the customer assumed responsibility for direct mining activities with a transition process expected to be completed over the next six months. For the year ended December 31, 2012 the mining contract contributed $6 million to the Corporation's net earnings.

As part of the transition agreement the Corporation will receive an estimated $12 million in cash from the customer upon transfer of mobile equipment at net-book-value following payment of the associated finance lease obligations. No accounting gain or loss will result from this net tangible asset transfer. In addition, a non-cash gain will be recognized upon transfer of the defined benefit pension obligation to the customer which will be partly offset by a non-cash write-off of approximately $17 million for intangible assets associated with this mining contract. Measurement of this gain will be based on the actuarial valuation of the plan at the time of transfer. Based on the December 31, 2012 actuarial valuation performed in accordance with IAS 19 (2011), which is to be adopted by the Corporation on January 1, 2013, this defined pension obligation gain was estimated to be $40 million.

OUTLOOK FOR 2013

PRODUCTION VOLUMES, ROYALTIES AND SPENDING ON CAPITAL

For the years ended December 31	Actual 2012	Projected 2013
Production		
Prairie Operations (millions of tonnes)	31	22
Mountain Operations (millions of tonnes)	3.7	3.5
Royalties ($ millions)		
Coal	40	40
Potash	13	11
Spending on capital ($ millions)		
Prairie Operations	69	76
Mountain Operations	60	52

In Prairie Operations, full-year 2013 production is expected to be 22 million tonnes, 29% (9 million tonnes) lower than 2012, primarily due to the transfer of mining operations at the Highvale mine to the customer/owner. Full-year 2013 spending on capital at Prairie Operations is expected to be 10% ($7 million) higher than the prior year, largely due to pre-strip mining equipment at the Paintearth mine.

In Mountain Operations, full-year 2013 production is expected to be 5% (0.2 million tonnes) lower than 2012, primarily due to the suspension of operations at the Obed Mountain mine in November 2012. Full-year 2013 spending on capital at Mountain Operations is expected to be 13% ($8 million) lower than 2012, mainly due to comparatively lower loading equipment capital additions.

Oil and Gas

FINANCIAL REVIEW

$ millions, except as otherwise noted, for the years ended December 31	2012	2011	Change
Financial highlights			
Revenue	**$ 300.9**	$ 304.9	(1%)
Adjusted EBITDA(1)	**232.7**	235.9	(1%)
Earnings from operations	**162.1**	170.0	(5%)
Production and sales(2) (net working-interest)			
Cuba (heavy oil)	**10,653**	11,286	(6%)
Spain (light/medium oil)	**332**	416	(20%)
Pakistan (natural gas)	**351**	355	(1%)
	11,336	12,057	(6%)
Average-reference prices (US$ per barrel)			
Gulf Coast Fuel Oil No. 6	**$ 99.31**	$ 95.41	4%
Brent	**112.44**	112.14	–
Average-realized prices			
Cuba ($ per barrel)	**$ 72.21**	$ 68.47	5%
Spain ($ per barrel)	**111.42**	110.16	1%
Pakistan ($ per boe)(3)	**8.09**	8.03	1%
Unit operating costs(1) ($ per net boe)			
Cuba	**$ 12.69**	$ 12.07	5%
Spain	**49.96**	46.51	7%
Pakistan	**3.48**	3.44	1%
Weighted-average	**13.58**	13.01	4%
Spending on capital	**$ 45.2**	$ 62.6	(28%)

(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.

(3) Average-realized price for natural gas production is stated in barrels of oil equivalent (boe), which is converted at 6,000 cubic feet per boe.

Oil and Gas revenue is composed of the following:

$ millions, for the years ended December 31	2012	2011	Change
Cuba	**$ 281.6**	$ 282.1	–
Spain	**13.6**	16.7	(19%)
Pakistan	**1.0**	1.1	(9%)
Processing	**4.7**	5.0	(6%)
	$ 300.9	$ 304.9	(1%)

The change in earnings from operations between 2012 and 2011 is detailed below:

$ millions, for the year ended December 31	2012
Higher realized oil and gas prices	**$ 8.6**
Lower exploration and evaluation impairment losses	**2.6**
Lower gross working-interest volumes	**(10.9)**
Lower cost recovery revenue due to lower recoverable capital spending	**(4.5)**
Higher administrative costs	**(1.3)**
Higher depletion, depreciation and amortization	**(6.7)**
Weaker Canadian dollar relative to the U.S. dollar	**2.5**
Other	**1.8**
Change in earnings from operations, compared to 2011	**$ (7.9)**

The average-realized price for oil produced in Cuba increased by $3.74 per barrel compared to the prior year primarily as a result of a higher Gulf Coast Fuel Oil No. 6 oil reference price and the impact of a weaker Canadian dollar relative to the U.S. dollar.

The average-realized price for oil produced in Spain increased by $1.26 per barrel compared to the prior year primarily as a result of a higher Brent reference price and the impact of a weaker Canadian dollar relative to the U.S. dollar.

Production and sales volumes are determined as follows:

DAILY PRODUCTION VOLUMES(1)

For the years ended December 31	**2012**	2011	Change
Gross working-interest oil production in Cuba(2)(3)	**20,164**	20,888	(3%)
Net working-interest oil production			
Cuba (heavy oil)			
Cost recovery	**2,871**	3,430	(16%)
Profit oil	**7,782**	7,856	(1%)
Total	**10,653**	11,286	(6%)
Spain (light/medium oil)(4)	**332**	416	(20%)
Pakistan (natural gas)(4)	**351**	355	(1%)
Total	**11,336**	12,057	(6%)

(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.

(2) In Cuba, Oil and Gas delivered all of its gross working-interest oil production to CUPET at the time of production. Gross working-interest oil production excludes (i) production from wells for which commercial viability has not been established in accordance with production-sharing contracts, and (ii) working-interests of other participants in the production-sharing contracts.

(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.

Gross working-interest (GWI) oil production in Cuba decreased 724 bopd in 2012 primarily due to natural reservoir declines, partly offset by production increases from new wells drilled and the optimization of production from existing wells.

Cost-recovery oil production in Cuba decreased 559 bopd in 2012 primarily due to higher oil prices and lower cost-recovery spending. Profit-oil production, which represents Sherritt's share of production after cost recovery volumes are deducted from GWI volumes, decreased by 74 bopd in 2012.

Production in Spain was lower due to natural reservoir declines and the loss of production from a well that is shut-in and is currently being evaluated. Production in Pakistan was lower due to natural reservoir declines.

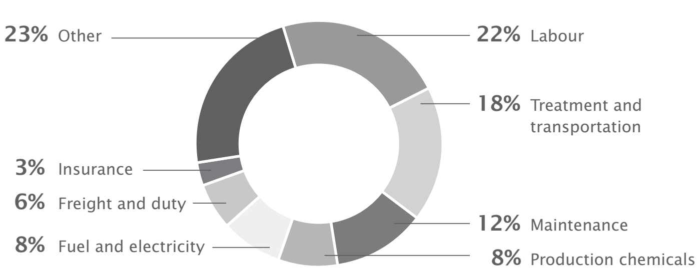
UNIT OPERATING COST(1) **($ PER NET BOE)**

For the years ended December 31	**2012**	2011	Change
Cuba	**$ 12.69**	$ 12.07	5%
Spain	**49.96**	46.51	7%
Pakistan	**3.48**	3.44	1%
Weighted-average	**$ 13.58**	$ 13.01	4%

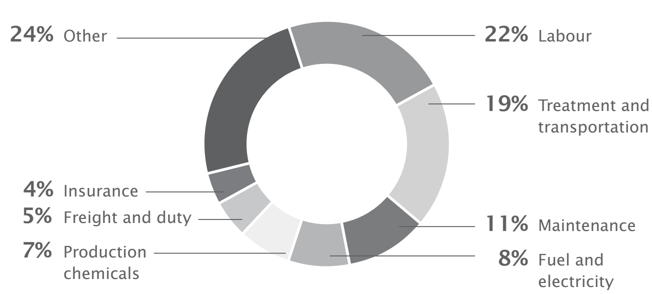
(1) For additional information see the Non-GAAP measures section.

Unit operating cost for Cuba is composed of the following:

2012
Components of operating costs – Cuba



2011
Components of operating costs – Cuba



Unit operating cost in Cuba increased $0.62 per barrel in 2012 due to lower net production.

Unit operating cost in Spain increased $3.45 per barrel in 2012 due to lower net production, partly offset by the effect of a stronger Canadian dollar relative to the Euro.

Spending on capital is composed of the following:

$ millions, for the years ended December 31	2012	2011	Change
Development, facilities and other	**$ 40.6**	$ 59.4	(32%)
Exploration	**4.6**	3.2	44%
Total	**$ 45.2**	$ 62.6	(28%)

Development and facilities capital spending was composed primarily of $26.1 million for development drilling activities, $2.1 million related to facility improvements and $9.5 million related to equipment and inventory purchases. Spending on capital was $17.4 million lower in 2012 due to reduced development drilling expenditures, and a decrease in facilities, equipment and inventory spending.

During 2012, six development wells were drilled and completed in Cuba, with the drilling of a seventh well in progress.

Exploration spending in 2012 continued to be focused in the United Kingdom North Sea prospect area and in the Alboran Sea prospect area off the southern coast of Spain.

During 2012, the Corporation relinquished three licenses in the United Kingdom North Sea resulting in an impairment loss of $2.2 million. In 2011, the Corporation discontinued exploration in the Cuban Block 8 prospect area, and a Cuban production-sharing agreement related to the Varadero enhanced oil recovery project expired resulting in impairment losses of $2.0 million and $2.8 million, respectively.

OUTLOOK FOR 2013

PRODUCTION VOLUMES AND SPENDING ON CAPITAL

For the years ended December 31	**Actual 2012**	Projected 2013
Production		
Gross working-interest oil (Cuba) (bopd)	**20,164**	18,000
Net working-interest production, all operations (boepd)	**11,336**	10,700
Spending on capital ($ millions)		
Cuba	**38**	54
Other	**7**	18

Full-year 2013 GWI production in Cuba is expected to be lower (11% or 2,164 bopd) than in 2012, reflecting the natural reservoir decline rates and the impact of a limited drilling program in 2012 and 2013. Total net working-interest production for full-year 2013 is expected to follow the same trend. Spending on capital for 2013 is expected to increase 42% ($16 million) in Cuba and 157% ($11 million) in other jurisdictions, reflecting increased spending on equipment, facilities and workovers in Cuba as well as seismic work in the United Kingdom North Sea prospect area and in the Alboran Sea prospect area off the southern coast of Spain.

Power

FINANCIAL REVIEW

$ millions, except as otherwise noted, for the years ended December 31	**2012**	2011	Change
Financial highlights			
Revenue	**$ 70.0**	$ 60.0	17%
Adjusted EBITDA(1)	**22.0**	25.1	(12%)
Earnings from operations	**11.0**	14.5	(24%)
Production and sales (33 1/3% basis)			
Electricity (GWh(2))	**628**	618	2%
Average-realized prices			
Electricity (per MWh(3))	**$ 41.32**	$ 41.00	1%
Unit operating costs(1) (per MWh)			
Base(4)	**$ 14.51**	$ 17.35	(16%)
Non-base(5)	**2.11**	2.70	(22%)
	$ 16.62	$ 20.05	(17%)
Spending on capital and service concession arrangements			
Capital (33 1/3% basis)	**$ 6.1**	$ 5.7	7%
Service concession arrangements (33 1/3% basis)	**32.0**	21.7	47%
	$ 38.1	$ 27.4	39%

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

(2) Gigawatt hours (GWh).

(3) Megawatt hours (MWh).

(4) 2012 excludes the impact of impairment of receivables.

(5) 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 (33 1/3% basis), for the years ended December 31	**2012**	2011	Change
Electricity sales	**$ 25.9**	$ 25.3	2%
By-products and other	**7.1**	7.7	(8%)
Fixed-price lease contracts(1)	**5.0**	5.3	(6%)
Construction activity(2)	**32.0**	21.7	47%
	$ 70.0	$ 60.0	17%

(1) In relation to the 25 MW power plant in Madagascar.

(2) Construction activity revenue relates to the costs of construction, enhancement or upgrading activity of the Boca de Jaruco and Puerto Escondido facilities. The contractual arrangements related to the activities of these facilities are treated as service concession arrangements for accounting purposes.

The change in earnings from operations between 2012 and 2011 is detailed below:

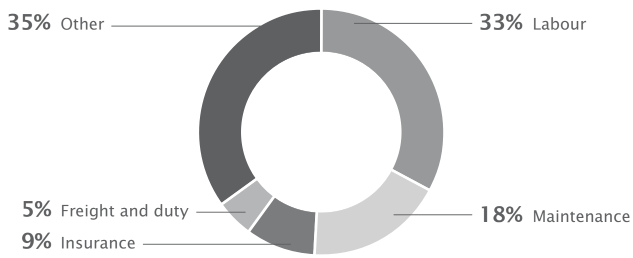
$ millions, for the year ended December 31	**2012**
Higher electricity volumes	**$ 0.4**
Lower realized by-product prices	**(0.7)**
Turbine failure in 2011	**1.0**
Higher administrative expenses	**(2.6)**
Weaker Canadian dollar relative to the U.S. dollar	**0.3**
Other	**(1.9)**
Change in earnings from operations, compared to 2011	**$ (3.5)**

Administrative expenses were higher in 2012 due to higher salaries and benefits and lower cost recoveries compared to 2011.

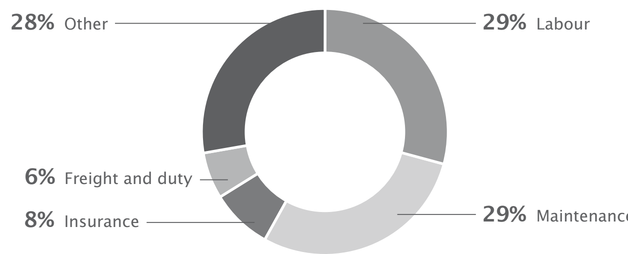
Production increased by 10 GWh compared to the prior year primarily due to a decrease in maintenance activities. The average-realized price of electricity was $0.32 per MWh higher in 2012 primarily due to a weaker Canadian dollar relative to the U.S. dollar.

Unit operating cost is composed of the following:

2012
Components of operating costs



2011
Components of operating costs



Overall, unit operating cost decreased by $3.43 per MWh. Base unit operating cost decreased by $2.84 per MWh primarily due to a decrease in maintenance costs. Non-base unit operating cost decreased by $0.59 per MWh primarily due to higher repair and maintenance costs at Puerto Escondido in 2011.

Spending on capital and service concession arrangements is composed of the following:

$ millions (33¹/₃% basis), for the years ended December 31	**2012**	2011	Change
Sustaining	**$ 0.9**	$ 2.7	(67%)
Growth	**5.2**	3.0	73%
Total	**$ 6.1**	$ 5.7	7%

Sustaining capital expenditures in 2012 were primarily related to the purchase of equipment and major long-term spare parts. Sustaining capital expenditures were higher in 2011 primarily due to major turbine maintenance at the Varadero facility. Growth spending is capitalized interest on the 150 MW Boca de Jaruco Combined Cycle Project.

$ millions (33¹/₃% basis), for the years ended December 31	**2012**	2011	Change
Service concession arrangements	**$ 32.0**	$ 21.7	47%

Service concession arrangement expenditures relate to the 150 MW Boca de Jaruco Combined Cycle project. The project is scheduled to begin production in June 2013. Sherritt's estimate of the total project cost remains $271.0 million.

OUTLOOK FOR 2013

PRODUCTION VOLUMES AND SPENDING ON CAPITAL (33¹/₃% BASIS)

For the years ended December 31	**Actual 2012**	Projected 2013
Production		
Electricity (GWh)	**628**	630
Spending on capital ($ millions)		
Cuba[(1)]	**6**	5
Project capital spending ($ millions)		
150 MW Boca de Jaruco (100% basis)	**96**	25

(1) Spending on capital for Power includes sustaining capital at the Varadero site as well as capitalized interest in respect of the 150 MW Boca de Jaruco Combined Cycle Project.

Full-year 2013 production is expected to be consistent with 2012 levels. Full-year 2013 spending on capital is expected to be relatively unchanged from the prior year.

At the 150 MW Boca de Jaruco Combined Cycle Project, initial production is scheduled to commence in first half of 2013. Sherritt's estimate of the total project cost remains $271.0 million.

Other

TECHNOLOGIES

Technologies continued to support the Ambatovy commissioning and production capacity ramp-up activities with rotational assignment of its personnel to Madagascar and by providing consulting support from Sherritt Technologies' office in Fort Saskatchewan. Technologies also continued to support the Sulawesi Project in Indonesia, Coal's initiatives on coal gasification, and development of coal pre-combustion beneficiation technologies.

The division is actively engaged in projects for third-party clients related to the development of commercial facilities for gold, copper and zinc projects in China, Colombia, Canada and Chile, and in the development and application of hydrometallurgical and associated technologies for application to other resource-based industries.

For the year ended December 31, 2012, Technologies generated external revenue of $11.4 million compared to $12.4 million in the prior year.

SULAWESI PROJECT UPDATE

The Sulawesi Project is a large, high-grade undeveloped lateritic nickel deposit on the Indonesian island of Sulawesi. Under the terms of its earn-in and shareholders' agreement, with a subsidiary of Rio Tinto, the Corporation may elect to acquire a 57.5% interest in a holding company that owns the Sulawesi Project in Indonesia upon funding expenditures of US$30.0 million and meeting certain other conditions by October 1, 2013. In addition, upon meeting the above conditions, the Corporation may elect to spend an additional US$80.0 million by June 30, 2017 towards producing a feasibility study from which a development decision will be made. If the Corporation elects not to spend the US$80.0 million it would forfeit its interest in the Sulawesi Project companies.

In compliance with Indonesia's mining law, Rio Tinto has concluded agreements to divest a 20% interest in the Sulawesi Project to Indonesian interests. Following such divestiture, which is expected to occur prior to production, Sherritt and Rio Tinto together will indirectly own and control an 80% interest in the Sulawesi Project, which will give Sherritt a 46% economic interest and Rio Tinto a 34% economic interest.

Pursuant to Indonesian Government Regulation No. 24 of 2012 which came into force on February 21, 2012, all foreign-owned mining companies in Indonesia must divest at least 51% of their shares to Indonesian interests by the end of the 10th year after the commencement of production. The implementation of this government regulation may result in a diminution of Sherritt's economic interest in the Sulawesi Project. The Corporation continues to study the impact on the Sulawesi Project of this and other Indonesian government regulations directed at the mining industry as the details become available.

In anticipation of starting exploration drilling in the second quarter of 2013, the Corporation has entered into a contract with an exploration drilling company and a helicopter service provider, and has pre-ordered the drilling exploration camp complex. The Corporation continues to advance work on the project including environmental and social baseline studies and the project prefeasibility study. The Forestry Borrow and Use Permit, one of the permits required to commence the exploration drilling program was received on December 17, 2012. Approval from the district environmental authorities was received in January 2013 and approval to proceed with the exploration drilling program was received from the Indonesian Ministry of Energy and Mineral Resources in February 2013. To December 31, 2012, the Corporation has incurred a total of US$17.9 million of qualifying expenditures or 16.3% of the funding requirements to obtain Sherritt's 46% economic interest in the project.

The Corporation expects to fund exploration and development activities to meet the US$30 million requirement under the Project's earn-in agreement by October 2013. This requirement, among others, must be satisfied in order for Sherritt to obtain ownership of a 46% economic interest in the Project.

Consolidated financial position

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

$ millions, except current ratio, as at December 31	**2012**	2011	Change
Current assets	**$ 1,314.0**	$ 1,389.0	(5%)
Current liabilities	**334.9**	372.3	(10%)
Working capital	**979.1**	1,016.7	(4%)
Current ratio	**3.92:1**	3.73:1	5%
Cash, cash equivalents and short-term investments	**$ 526.8**	$ 631.4	(17%)
Non-current advances, loans receivable and other financial assets	**1,616.8**	1,278.8	26%
Investment in an associate	**1,089.5**	1,053.1	3%
Property, plant and equipment	**1,417.5**	1,430.4	(1%)
Non-current investments	**4.9**	34.7	(86%)
Total assets	**6,758.3**	6,497.5	4%
Non-current loans and borrowings	**2,039.8**	1,687.8	21%
Non-current environmental rehabilitation provisions	**261.8**	235.8	11%
Total liabilities	**3,085.6**	2,765.8	12%
Retained earnings	**772.9**	784.9	(2%)
Shareholders' equity	**3,672.7**	3,731.7	(2%)

The significant changes to working capital from 2011 to 2012 are described below:

- Cash, cash equivalents and short-term investments decreased $104.6 million primarily due to advances to Ambatovy and Energas partly offset by the net proceeds from debentures of approximately $237 million;
- Accounts receivable increased by $19.4 million primarily due to receivables of the Metals Marketing Company and increased receivables in Oil and Gas;
- Inventories increased $33.1 million primarily due to the shipping delays as a result of reduced shipping capacity at Westshore Terminals; and
- The current portion of loans and borrowings decreased $56.9 million, primarily as a result of the senior credit facility outstanding at the end of the previous year being fully repaid in 2012.

For additional information see the Liquidity and capital resources – Sources and uses of cash section.

In addition to the changes in working capital, above, the significant changes in total assets, liabilities and shareholders' equity from 2011 to 2012 are discussed below:

Total assets:

- Non-current advances, loans receivable and other financial assets increased $338.0 million primarily due to loans provided to the Ambatovy Joint Venture to meet the Corporation's funding obligations and to Energas for the construction of the 150 MW Boca de Jaruco Combined Cycle Project, offset by amounts repaid to Sherritt on the Metals loan receivable;
- Investment in an associate increased $36.4 million primarily due to increased investment in Ambatovy Joint Venture partly offset by foreign exchange adjustments;
- Property plant and equipment decreased $12.9 million as a result of a reduced level of capital spending being more than offset by higher depletion, depreciation and amortization compared to the prior year. (A discussion of spending on capital is included in the Review of operations sections for each division); and
- Non-current investments decreased by $29.8 million primarily due to the receipt of amounts by Sherritt on the Cuban certificates of deposit.

Total liabilities:

- Non-current loans and borrowing increased by $352.0 million primarily due to the issuance of the 2020 debentures net of the redemption of the 2014 debentures and advances under the Coal credit facility; and
- Non-current environmental rehabilitation provisions increased by $26.0 million primarily due to an increase in the environmental rehabilitation provision at Coal as a result of its updating of cost and productivity assumptions for reclamation activities at Mountain Operations.

Shareholders' equity:

- Retained earnings decreased $12.0 million reflecting net earnings for the year of $33.2 million net of dividends paid of $45.2 million.

Liquidity and capital resources

Based on the Corporation's financial position and liquidity at December 31, 2012 and projected future earnings, management expects to be able to fund its working capital and project needs, and meet its other obligations including debt repayments.

Contractual obligations and commitments

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

$ millions, as at December 31, 2012	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	$ 196.6	$ 196.6	$ –	$ –	$ –	$ –	$ –
Advances and loans payable	133.7	10.2	11.8	10.8	11.0	10.3	79.6
Income taxes payable	18.3	18.3	–	–	–	–	–
Loans and borrowings(1)	3,308.9	92.0	92.0	412.2	229.7	69.5	2,413.5
Finance leases and other equipment financing	181.6	55.6	41.9	36.2	31.4	16.3	0.2
Environmental rehabilitation provisions	426.5	32.2	33.1	29.7	26.8	25.1	279.6
Operating leases	31.1	13.6	5.5	2.2	1.9	1.9	6.0
Capital commitments	9.5	9.5	–	–	–	–	–
Pensions	123.7	13.7	14.0	14.3	14.3	10.6	56.8
Total	$4,429.9	$ 441.7	$ 198.3	$ 505.4	$ 315.1	$ 133.7	$2,835.7

(1) The interest and principal on the loans from the Ambatovy Joint Venture partners will be repaid from the Corporation's share of distributions from the Ambatovy Joint Venture. Amounts 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. These loans are non-recourse to Sherritt unless there is a direct breach of certain restrictions stipulated in the loan documents.

Other commitments

The following commitments are not reflected in the table above:

AMBATOVY JOINT VENTURE

As a result of the Corporation's 40% interest in Ambatovy Joint Venture, its proportionate share of significant commitments of the Joint Venture includes the following:

- Environmental rehabilitation commitments of $152.5 million, with no significant repayments due in the next four years;
- Contractual commitments for commodities of $33.6 million; and
- Ambatovy Joint Venture senior debt financing of US$840.0 million ($835.7 million), with principal repayments beginning the later of six months after financial completion or 30 months after final draw down, but not later than June 2013. On an undiscounted basis, principal and interest repayments are $928.0 million.

SULAWESI PROJECT

The Corporation expects to fund US$30.0 million in exploration and development qualifying expenditures, and can elect to spend an additional US$80.0 million in accordance with the earn-in and shareholder agreement. The Corporation has incurred total qualifying expenditures of US$17.9 million as of December 31, 2012.

150 MW BOCA DE JARUCO COMBINED CYCLE PROJECT

The Corporation expects to fund $25.0 million (100% basis) related to the remainder of its service concession arrangement commitment for the 150 MW Boca de Jaruco Combined Cycle Project which is scheduled to begin production in June 2013.

Investment liquidity

At December 31, 2012, cash and cash equivalents, and short-term and long-term investments were located in the following countries:

$ millions, as at December 31, 2012	Cash	Cash equivalents and short-term investments	Investments	Total
Canada	**$ –**	**$ 478.4**	**$ –**	**$ 478.4**
Cuba	**22.2**	**–**	**31.7**	**53.9**
Other	**26.2**	**–**	**–**	**26.2**
Total	**$ 48.4**	**$ 478.4**	**$ 31.7**	**$ 558.5**

CASH AND SHORT-TERM INVESTMENTS

The Corporation's cash balances are deposited with major financial institutions rated A or higher by Standard and Poor's and with banks in Cuba that are not rated.

At December 31, 2012, cash equivalents included $122.3 million in Government of Canada treasury bills having original maturity dates of less than three months and short-term investments included $356.1 million in Government of Canada treasury bills having original maturity dates of greater than three months and less than one year.

Included in cash, cash equivalents and short-term investments was $23.6 million (50% basis) held by the Moa Joint Venture which is for the exclusive use of the joint venture.

The table above does not include cash and short-term investments of $52.4 million (the Corporation's 40% share) held by the Ambatovy Joint Venture. These amounts are included as part of the investment in an associate balance in the consolidated statement of financial position. The cash and short-term investments amounts are deposited with or issued by financial institutions whose parent company is rated A- or higher by Standard and Poor's and are for the exclusive use of the Ambatovy Joint Venture.

INVESTMENTS

As a result of the agreement in January 2009 with Oil and Gas and Power's Cuban customers, Sherritt acquired approximately US$159.1 million in certificates of deposit (CDs). These CDs were issued by a Cuban bank and bear interest at a rate of 30-day LIBOR plus 5%. In the event of default, Sherritt has the right to receive payment from the cash flows payable by the Moa Joint Venture to its Cuban beneficiaries. At December 31, 2012, the balance of the CDs was $31.7 million.

Capital structure

$ millions, except share amounts, as at December 31	**2012**	2011	Change
Current portion of loans and borrowings	**$ –**	$ 56.9	(100%)
Non-current loans and borrowings	**2,039.8**	1,687.8	21%
Other non-current financial and non-financial liabilities	**218.0**	220.5	(1%)
Total debt	**$ 2,257.8**	$ 1,965.2	15%
Shareholders' equity	**3,672.7**	3,731.7	(2%)
Total debt-to-capital[1]	**38%**	34%	10%
Common shares outstanding	**296,490,635**	296,390,692	–
Stock options outstanding	**4,244,317**	4,976,817	(15%)
Dividend payout ratio[2]	**138%**	23%	509%

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

(2) Calculated as annual dividends paid per common share divided by basic earnings per common share.

Available credit facilities

At December 31, 2012, the Corporation and its divisions had borrowed $2.0 billion under available credit facilities. Total credit available under these facilities was $562 million.

The following table outlines the maximum amount and amounts available to the Corporation for credit facilities that have amounts available at December 31, 2012 and December 31, 2011. A detailed description of these facilities is provided in the Loans, borrowings and other liabilities note in the Corporation's audited consolidated financial statements for the year ended December 31, 2012.

$ millions, as at December 31		**2012**		2011
	Maximum	**Available**	Maximum	Available
Short-term				
Syndicated 364-day revolving term credit facility[1]	**$ 90**	**$ 90**	$ 115	$ 109
Line of credit	**20**	**20**	20	20
Letters of credit facility[2]	**–**	**–**	64	6
Long-term				
Ambatovy Joint Venture partner loans (US$)[3]	**213**	**127**	213	127
Coal revolving credit facility[4]	**525**	**325**	–	–
Senior credit facility agreement[5]	**–**	**–**	235	159
Total Canadian equivalent	**$ 847**	**$ 562**	$ 651	$ 424

SUPPLEMENTARY INFORMATION

	Maximum	**Available**	Maximum	Available
Ambatovy Project financing (US$) (40%)[6]	**$ 840**	**$ –**	$ 840	–
Finance leases[7]	**$ 191**	**$ 56**	$ 190	$ 41

(1) Available for general corporate purposes. Total available draw is based on eligible receivables and inventory. At December 31, 2012, the Corporation did not have any letters of credit outstanding on this facility.

(2) Letters of credit issued by Coal Valley Resources Inc. (CVRI) under this facility were transferred to the Coal revolving credit facility.

(3) Available to fund Sherritt's contributions to the Ambatovy Joint Venture.

(4) Available to Prairie Mines and Royalty Ltd (PMRL) and CVRI. At December 31, 2012, a total of $43.0 million has been drawn on this facility and $157.1 million of letters of credit are outstanding.

(5) Facility was replaced with the Coal revolving credit facility in June 2012.

(6) Due to the equity accounting for Ambatovy Joint Venture, this loan is not included in loans and borrowings on the Corporation's statement of financial position.

(7) Finance leases include only those that have been committed by lenders.

LOANS AND BORROWINGS

Loans and borrowings is composed primarily of $1.2 billion in three public issues of senior unsecured debentures having interest rates of between 7.50% and 8.00% and maturities in 2015, 2018 and 2020 and $841.4 million in two loans provided by the Ambatovy Joint Venture partners to finance Sherritt's portion of the funding requirements of the Joint Venture bearing interest of six-month LIBOR plus a margin of 7.0% and 1.125%, respectively. The following is a summary of significant changes in the Corporation's credit facilities during 2012:

2020 DEBENTURES

In September 2012, Sherritt completed an offering of $500.0 million principal amount of 7.5% Senior Unsecured debentures due September 24, 2020. The net proceeds of $489.6 million (after agents' fees and the deduction of expenses) were used to repurchase and redeem the outstanding principal amount of Sherritt's 2014 debentures and for general corporate purposes. The early repurchase and redemption of the 2014 debentures required the Corporation pay a $27.0 million premium to the principal amount plus accrued interest to the date of repurchase/redemption.

COAL REVOLVING CREDIT FACILITY/SENIOR CREDIT FACILITY/3-YEAR NON-REVOLVING TERM LOAN

In June 2012, the Corporation negotiated a revolving credit facility agreement for PMRL and CVRI with a syndicate of financial institutions to replace the senior credit facility and the CVRI letters of credit facility. Concurrent with the establishment of the new facility, the senior credit facility and the 3-year non-revolving term loan were extinguished and letters of credit issued under the letters of credit facility were transferred to the new facility. The maximum funding available under the Coal revolving credit facility is $525.0 million consisting of a $350.0 million credit facility and $175.0 million in available letters of credit. The credit facility expires June 26, 2016.

SYNDICATED 364-DAY REVOLVING-TERM CREDIT FACILITY

In June 2012, the Corporation amended the terms of the syndicated 364-day revolving-term credit facility to change the maximum available credit under the facility to $90.0 million. The total amount available is based on eligible receivables and inventory. The facility expires on May 6, 2013.

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 reclassification 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.

At December 31, 2012, the Corporation and its divisions were in compliance with all of their financial covenants. The Corporation expects to remain in compliance with all of its financial covenants during the next 12 months, based on current market conditions. Other than the covenants required for the debt facilities, the Corporation is not subject to any externally imposed capital restrictions.

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.

$ millions, for the years ended December 31	**2012**	2011	Change
Cash from operating activities			
Cash from operating activities before change in non-cash working capital	**$ 330**	$ 443	(26%)
Change in non-cash working capital	**(60)**	(88)	(32%)
	$ 270	$ 355	(24%)
Cash provided by (used for) investing and financing activities			
Property, plant, equipment and intangible expenditures	**$ (147)**	$ (129)	14%
Net repayment of loans, borrowings and other financial liabilities	**(68)**	(53)	28%
Issuance of debentures, net of financing cost	**490**	391	25%
Repayment of debentures	**(225)**	(274)	(18%)
Loans to an associate	**(260)**	(277)	(6%)
Investment in an associate	**(136)**	(150)	(9%)
Decrease in investments	**27**	67	(60%)
Dividends paid on common shares	**(45)**	(45)	–
Repayment of short-term loans	**–**	(14)	(100%)
Other	**(10)**	–	–
	$ (374)	$ (484)	(23%)
	(104)	(129)	(19%)
Cash, cash equivalents and short-term investments:			
Beginning of the period	**631**	760	(17%)
End of the period	**$ 527**	$ 631	(16%)

The significant items affecting the sources and uses of cash during the year ended December 31, 2012 are described below:

- Cash from operating activities before change in non-cash working capital for the year ended December 31, 2012 was lower than the prior year primarily as a result of lower net earnings. Cash from operating activities after change in non-cash working capital decreased for the year ended December 31, 2012. The lower change in non-cash working capital compared to the prior year is primarily due to changes in accounts receivable and deferred revenue, partly offset by an increase in inventory.
- Cash used for spending on property, plant, equipment and intangibles in the year ended December 31, 2012 was $147 million. A discussion of these expenditures is included in the Review of operations sections for each division.

- A total of $396 million (US$395 million) was provided in cash to the Ambatovy Joint Venture as Sherritt's share of the joint venture funding requirements in the year ended December 31, 2012. Of the funding provided, $260 million was provided as a loan and the remaining funding was a direct contribution to Sherritt's investment in the joint venture.
- The net repayment of loans and borrowings for the year ended December 31, 2012 related primarily to the repayment of the Corporation's senior credit facilities and 3-year non-revolving term loan on the establishment of the Coal revolving credit facility and the paydown of finance lease obligations net of advances on the Coal revolving credit facility.
- In 2012, the Corporation issued the 2020 debentures for net proceeds of $490 million and redeemed/repurchased $225 million of the 2014 debentures. In 2011, the Corporation issued 8.00% senior unsecured debentures due in 2018 and redeemed/repurchased $274 million of 2012 debentures.
- The decrease in investments was primarily related to amounts collected by the Corporation on the Cuban certificates of deposit.

Common shares

As at February 26, 2013, the Corporation had 296,490,635 common shares outstanding. An additional 4,244,317 common shares are issuable upon exercise of outstanding stock options granted to employees and directors pursuant to the Corporation's stock option plan.

On November 14, 2012, the Board of Directors of the Corporation approved a quarterly dividend of $0.038 per share payable on January 14, 2013 to shareholders of record at the close of business on December 31, 2012.

On February 26, 2013, the Corporation's Board of Directors approved a quarterly dividend of $0.043 per common share, payable April 12, 2013 to shareholders of record as of the close of business on March 29, 2013.

Managing risk

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. Strategies designed to manage the Corporation's significant business risks are discussed below. A comprehensive list of significant business risks can be found in the Corporation's Annual Information Form.

Market conditions

GENERALLY

Since the middle of 2008, there has been global economic uncertainty, including reduced economic growth, reduced confidence in financial markets, bank failures and credit availability concerns.

These economic events have had a negative effect on the mining and minerals and oil and gas sectors in general. As a result, the Corporation will continue to consider its future plans and options carefully in light of prevailing economic conditions.

Should these conditions continue or re-intensify, they could have a material adverse effect on the Corporation's business, results of operations and financial performance.

COMMODITY RISK

Sherritt's principal businesses include the sale of several commodities. Revenues, earnings and cash flows from the sale of nickel, cobalt, export thermal coal, oil and gas are sensitive to changes in market prices, over which the Corporation has little or no control. The Corporation's earnings and financial condition depend largely upon the market prices for nickel, cobalt, thermal coal, oil, gas and other commodities, which can be volatile in nature. The prices for these commodities 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, political and economic conditions and production costs in major producing regions. The prices for these commodities have fluctuated widely in recent years. Significant reductions in the prices for these commodities could have a material adverse effect on the Corporation's business, results of operations and financial performance.

Sherritt's current businesses are dependent upon commodity inputs such as natural gas, sulphur, sulphuric acid, electricity, fuel oil, diesel and related products, and materials costs 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.

MARKET FLUCTUATIONS AND SHARE PRICE VOLATILITY

Since 2008, the securities markets in Canada and the rest of the developed world have experienced price and volume volatility, which has affected the market price of Sherritt's securities. There can be no assurance that price and volume fluctuations in securities markets, including the market price of Sherritt's securities, will not continue to occur.

Project development

GENERALLY

Sherritt's business involves the development and construction of large mining, metals refining projects and electrical generation projects. Certain of these projects have been delayed or are under review. There can be no assurance that projects that are currently under review will resume. For projects that continue, unforeseen conditions or developments could arise during the course of these projects that could delay or prevent completion of, and/or substantially increase the cost of construction and/or could affect the current and projected level of production, the sustaining capital requirements or operating cost estimates relating to the projects. Such conditions or developments may include, without limitation, shortages of equipment, materials or labour; delays in delivery of equipment or materials; customs issues; labour disruptions; difficulties in obtaining necessary services; delays in obtaining regulatory permits; local government issues; political events; adverse weather conditions; unanticipated increases in equipment, material and labour costs; unfavourable currency fluctuations; natural or man-made disasters or accidents; and unforeseen engineering, technical and technological design, geotechnical, environmental, infrastructure or geological problems. Any such event could delay commissioning, and affect production and cost estimates. There can be no assurance that the development or construction activities will proceed in accordance with current expectations or at all.

These risks and uncertainties could have a material adverse effect on the Corporation's business, results of operations and financial performance.

CAPITAL AND OPERATING COST ESTIMATES

Capital and operating cost estimates made in respect of the Corporation's operations and projects may not prove accurate. Capital and operating costs are estimated based on the interpretation of geological data, feasibility studies, anticipated climatic conditions and other factors. Any of the following, among the other events and uncertainties described herein, could affect the ultimate accuracy of such estimates: unanticipated changes in grade and tonnage to be mined and processed; incorrect data on which engineering assumptions are made; unanticipated transportation costs; the accuracy of major equipment and construction cost estimates; failure to meet scheduled construction completion dates and metal production dates due to any of the foregoing events and uncertainties; expenditures in connection with a failure to meet such scheduled dates; unsatisfactory construction quality resulting in failure to meet such scheduled dates; capital overrun related to the end of the construction phase in connection with, among other things, the demobilization of contractors and construction workers at any project, including the Ambatovy Joint Venture's plant and mine site; labour negotiations; unanticipated costs related to commencing operations, ramping up and/or sustaining production; changes in government regulation (including regulations regarding prices, cost of consumables, royalties, duties, taxes, permitting and restrictions on production quotas or exportation of the Corporation's products); and unanticipated changes in commodity input costs and quantities.

AMBATOVY JOINT VENTURE

The Ambatovy Joint Venture continues to progress towards commercial production (defined as 70% of ore throughput of nameplate capacity in the PAL circuit). Commercial production is a significant milestone as it defines the point at which all operating costs, net of revenue, are expensed rather than capitalized.

Total project costs may vary until commercial production and will primarily depend on changes to the ramp-up schedule and fluctuations in the market price for nickel and cobalt. Variability in the ramp-up schedule is most likely to arise from three categories of potential risk:

- Parts and equipment. There remains an inherent risk that parts and equipment may fail or fail to perform in accordance with design due to mechanical or engineering issues during early operation. Given the location and associated logistics, replacement components may not be immediately available;
- Construction quality risk. Programs were implemented to rectify all known quality deficiencies, but latent issues may still exist that may affect metal recoveries and operations; and

- Operational risk. The pace of the production ramp-up is directly affected by the performance of core operators and maintenance teams. Supplementary operators and maintenance personnel, experienced in steady-state operations, have been mobilized to assist further in the training and early operations to mitigate the short-term risks. In addition, a system has been instituted that will monitor the qualifications and performance of this group and mitigate issues over the medium and long term.

Total project costs may also be impacted by the government permitting process. In September 2012, Ambatovy received a six-month authorization (Operating Permit) to commercially operate the processing plant in Toamasina, Madagascar, which is to automatically convert to a life-of-mine Operating Permit at the end of the six-month period. Ambatovy had already received the required permits needed to conduct mining activities and to bring the project through the commissioning and testing phase. The issuance of the Operating Permit is based on compliance with technical, health and safety, and environmental protection requirements. The Ambatovy Joint Venture believes that it has satisfied all of the requirements established to date for the Operating Permit. However, the transitional government in Madagascar advised that it is continuing its review of the project and announced that it will be conducting an audit of the economic and environmental impact of the mining sector. Ambatovy management has undertaken to cooperate with the government's audit in accordance with Madagascar law. This review or other government actions could impact the status of the life-of-mine Operating Permit, and as a consequence, the Ambatovy Joint Venture may face delays in achieving commercial production.

Ambatovy Minerals S.A. and Dynatec Madagascar S.A. (the Ambatovy Joint Venture Companies), the Ambatovy Partners and Sherritt are parties to financing agreements pursuant to which the Ambatovy Partners are guaranteeing their pro rata share of the project debt financing until the project passes certain completion tests. Once the project passes the completion tests, the deadline for which is September 28, 2013, all the project debt becomes non-recourse to the Ambatovy Partners and Sherritt. The Ambatovy Partners have requested an extension of the deadline. This request is under consideration by the lenders. Failure to pass the completion tests would be an event of default under the financing agreements. There is no assurance that the completion test deadline will be extended or that the project will pass all completion tests.

MOA JOINT VENTURE EXPANSION

The Moa Joint Venture expansion is funded equally by the Corporation and GNC, its Cuban joint venture partner. In December 2005, the Corporation and GNC entered into funding agreements with companies within the Moa Joint Venture to finance the Moa Joint Venture expansion. Under these agreements, the projected capital cost is to be funded equally by the Corporation and GNC. Additionally, a 2,000 tonne per day sulphuric acid plant was under construction at Moa to coincide with the completion of the expansion. Construction was largely being financed by the Corporation. The expansion also requires certain utility upgrades to be completed at the Fort Saskatchewan site. It is expected that the cost of these upgrades will be funded by the Corporation and recovered from the Moa Joint Venture over future periods. The Moa Joint Venture expansion, sulphuric acid plant construction at Moa and utility upgrades at the Fort Saskatchewan site were temporarily suspended in the fourth quarter of 2008 in response to weakening commodity markets. In the second half of 2009, Sherritt and GNC began reviewing alternative strategies for the completion of future expansion activities and final costs and timelines.

The Moa Joint Venture expansion is based on a commitment by GNC to ensure that a competent Cuban governmental authority grants mineral concessions of economic limonite reserves in the Moa area sufficient to permit Moa Nickel to operate at expanded capacity for a period of not less than 25 years. Since some reserves may not be fully defined prior to the completion of construction of the expansion and since ores are variable in quality, there is a risk that sufficient quantities may not be available and that operating costs and sustaining capital costs may vary from the initial estimates relating to the Moa Joint Venture expansion project.

Restrictions in debt instruments

Sherritt is a party to certain agreements in connection with its credit facilities (the Credit Agreements) and trust indentures governing the senior unsecured debentures (collectively, the Indentures), and Sherritt and the Ambatovy Joint Venture Companies are party to various agreements relating to the $2.1 billion Ambatovy Financing (the Ambatovy Financing Agreements). Sherritt also entered into loan agreements with its Ambatovy Joint Venture partners to fund Sherritt's contributions to the Ambatovy Joint Venture (the Ambatovy Partner Loans). These debt instruments 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 or the Ambatovy Joint Venture Companies, as the case may be, to comply with the covenants contained in the Indentures, the Credit Agreements, the Ambatovy Financing Agreements, the Ambatovy Partner Loans or any future debt instruments or credit agreements, could materially adversely affect the Corporation's business, results of operations and financial performance.

Access to additional capital

The continued development of the Corporation's various projects, which may entail expenditures above what has been anticipated by the Corporation, and the implementation of some of its strategic plans may require substantial additional financing. Failure to obtain financing may result in a delay or indefinite postponement of development of the Corporation's projects and certain of its strategic plans. Additional financing may not be available when required or, if available, the terms may not be favourable to the Corporation and might involve substantial dilution to existing shareholders. Failure to raise capital when required may have a material adverse effect on the Corporation's business, results of operations and financial performance.

Reliance on key personnel and skilled workers

Sherritt's operations require employees and contractors with a high degree of specialized technical, management and professional skills, such as engineers, trades people and plant and equipment operators. In some geographic areas, the Corporation competes with other local industries for these skilled workers. For example, in its Cuba operations, the Corporation is dependent on the government for the provision of skilled workers. In its Madagascar operations, the Corporation is required to recruit many skilled workers internationally and train locally. In the future, if Sherritt is unable to find an adequate supply of skilled workers, a decrease in productivity or an increase in costs may result which could have a material adverse effect on the Corporation's business, results of operations and financial performance.

The success of Sherritt's operations and activities is dependent to a significant extent on the efforts and abilities of its senior management team, as well as outside contractors, experts and its partners. The loss of one or more members of senior management, key employees, contractors or partners, if not effectively replaced in a timely manner, could have a material adverse effect on the Corporation's business, results of operations and financial performance.

Exploration and development risks

OIL AND GAS

Sherritt's Oil and Gas profitability is significantly affected by the costs and results of its exploration and development programs. As oil and gas reservoirs have limited lives based on proved and probable reserves, Sherritt actively seeks to replace and/or expand its reserve base. Exploration for, and development of, oil and gas reserves involves many risks, is subject to compliance with many laws and regulations, and is often unsuccessful. In the event that new oil and gas reserves are not discovered or cannot be developed on an economic basis, Sherritt may not be able to sustain production beyond the current reserve life, based on current production rates.

METALS

The business of exploring for minerals involves a high degree of risk. There can be no assurance that Sherritt's exploration efforts in Sulawesi, Indonesia or elsewhere will result in the identification of significant nickel mineralization or that any mineralization identified will result in an increase to Sherritt's proven or probable reserves. Not all properties that are explored are ultimately developed into producing mines. In exploring and developing mineral deposits, Sherritt will be subjected to an array of complex economic factors and technical considerations. Delays in obtaining governmental approvals, conflicting mineral rights claims and other factors could cause delays in exploring and developing properties. Unusual or unexpected geological formations, labour disruptions, flooding, landslides, environmental hazards, and the inability to obtain suitable or adequate machinery, equipment or labour are other risks involved in the conduct of exploration and development programs.

Uncertainty of gas supply to Energas

Energas does not own the gas reserves contained in the oil fields located in the vicinity of the Energas plant sites, nor does it control the rate or manner in which such gas reserves are produced. CUPET reserves the right to produce crude oil from such fields at such rates as the Government of Cuba may deem necessary in the national interest, which may affect the future supply of gas to Energas. Although the Corporation believes that generation of electricity will remain a key priority of the Government of Cuba and that the fields will be operated in a manner which ensures sufficient gas production, there can be no certainty that sufficient quantities of gas will be available to operate the Energas facilities at maximum or economic capacity for the duration of the term of the Energas joint venture. Adequate future supplies of gas may depend, in part, upon the successful development of new oil fields as the existing fields are being depleted and the introduction of production practices designed to optimize the recovery of oil and gas reserves. No independent reserve report has been prepared with respect to gas reserves in Cuba, due to a lack of available technical information from CUPET.

Uncertainty of reserve estimates and resources

Sherritt has reserves of thermal coal, nickel, cobalt, oil and gas. Reserve estimates are imprecise and depend partly on statistical inferences drawn from drilling, which may prove to be unreliable. Future production could differ dramatically from reserve estimates for the following reasons:

- mineralization or formations could be different from those predicted by drilling, sampling and similar examinations;
- declines in the market price of thermal coal, nickel, cobalt, oil and gas or increases in operating costs and processing costs may render the production of some or all of Sherritt's reserves uneconomic;
- the grade of mineral reserves may vary significantly from time to time and there is no assurance that any particular level of thermal coal, nickel, cobalt, oil or gas may be recovered from the reserves; and
- legislative changes and other political changes in jurisdictions in which Sherritt operates may result in changes to Sherritt's ability to exploit reserves.

Any of these or other factors may require Sherritt to reduce its reserve estimates, reduce its production rates or increase its costs. Should the market price of any of the above commodities fall, Sherritt could be required to materially write down its investment in its resource properties or delay or discontinue production or the development of projects.

Access to coal reserves and resources

The Corporation's ability to supply coal to its customers depends on its ability to retain and economically exploit its coal reserves and those which it has the exclusive right to exploit. While management believes it has all the necessary rights to access and mine its coal reserves, there is no guarantee that such rights will not be challenged and found to be defective. Such defects could adversely affect the Corporation's ability to access and mine its reserves and to supply its customers. In addition, new surface access rights may need to be obtained from third parties from time to time by the Corporation or its customers. There is no guarantee such rights will be obtained at a reasonable cost or at all, and a failure to do so could prevent the Corporation from accessing a particular reserve and could have a material adverse effect on the Corporation's business, results of operations and financial performance.

Environmental rehabilitation provisions

Sherritt has estimated environmental rehabilitation provisions, which management believes will meet current regulatory requirements. These future provisions are estimated by management using closure plans and other similar plans which outline the requirements that are expected to be carried out to meet the provisions. The provisions are dependent on legislative and regulatory requirements which could change in the future. Because the estimate of provisions is based on future expectations, a number of assumptions and judgments are made by management in the determination of these provisions which may prove to be incorrect. As a result, estimates may change from time to time and actual payments to settle the provisions may differ from those estimated and such differences may be material.

The Corporation has an obligation under applicable mining, oil and gas and environmental legislation to reclaim certain lands that it disturbs during mining, oil and gas production or other industrial activities. The Corporation is required to provide financial security to certain government authorities for future reclamation costs. Currently, the Corporation provides this reclamation security by way of corporate guarantees and irrevocable letters of credit issued under its senior credit facilities. The Corporation may be unable to obtain adequate financial security in the future or may be required to replace its existing security with more expensive forms of security, including cash deposits, which would reduce cash available for operations. In addition, any increase in costs associated with reclamation and mine closure resulting from changes in the applicable legislation (including any additional bonding requirements) could have a material adverse effect on the Corporation's business, results of operations and financial performance.

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 or a breakdown in relations with its partners could have a material adverse effect on the Corporation's business, results of operations and financial performance.

Risks related to Sherritt's corporate structure

The Corporation holds its interest in certain operating companies, joint ventures or partnerships in Canada, Cuba, Indonesia and Madagascar through one or more wholly-owned intermediary holding companies located in jurisdictions outside Canada, including the Bahamas, British Virgin Islands, Barbados and Cuba. The payment of dividends or other distributions by these subsidiaries to the Corporation is subject to statutory regimes applicable to those entities. There can be no assurance that the applicable Canadian government, or some or all of the holding company jurisdictions will not adopt law and/or regulations more restrictive than those currently in effect which could have a material adverse effect on the Corporation's financial performance. While these jurisdictions have experienced political stability for some time, we continue to regularly monitor changes to applicable laws and regulations.

Political, economic and other risks of foreign operations

Sherritt has operations located in Cuba, Madagascar, Spain, Pakistan, Indonesia and the United Kingdom. As such, Sherritt is subject to political, economic and social risks relating to operating in foreign jurisdictions. These risks include nationalization, expropriation of assets or property with or without compensation, forced modification or cancellation of existing contracts, currency fluctuations and devaluations, unfavourable tax enforcement, changing political conditions, political unrest, civil strife, and changes in governmental regulations or policies with respect to currency, production, price controls, profit repatriation, export controls, labour, taxation, trade, and environmental, health and safety matters or the personnel administering those regulations or policies. Any of these risks could have a material adverse effect on the Corporation's business, results of operations and financial performance.

Risks related to Sherritt's operations in Madagascar

The Corporation is the operator, and indirectly holds significant interests in the Ambatovy Joint Venture in Madagascar. Sherritt is subject to political, economic and social risks related to operating in Madagascar. In particular, in 2009, Madagascar experienced an unexpected change of government and the ongoing political instability in the country could have direct or indirect impacts on the Ambatovy Joint Venture. 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 government of Madagascar regulations with respect to production, price controls, export controls, income taxes or investment tax credits, royalties, expropriation of property, environmental legislation, land use, water use and mine and plant safety. In addition, the Corporation faces exposure to the Madagascar government in respect of amounts owing to the Ambatovy Joint Venture from time to time.

In 2002, the government of Madagascar passed the Large Mining Investment Act (LGIM). The LGIM has been largely untested and the Ambatovy Joint Venture is the first project to be developed under its terms and provisions. Although the Ambatovy Joint Venture has received its eligibility certification under the LGIM, it is possible that the LGIM could be interpreted in a manner that has a material adverse effect on the Ambatovy Joint Venture.

In addition, shortly after coming to power in 2009, members of the Malagasy Transitional Authority made public statements about revising the LGIM. In early 2010, the Minister of Mines publicly stated that the government did not intend to revise the LGIM. There have been no additional statements or actions by the government indicating that the government may be planning changes to the LGIM, although the President of the Malagasy Transitional Authority has recently made public statements regarding his concerns about the low royalty rate received by the government. Such a development could have a material adverse effect on the Ambatovy Joint Venture.

The Malagasy Transitional Authority continues to progress the "Roadmap", which was designed by the Southern African Development Community to facilitate Madagascar's return to democratic rule, although several key milestones are outstanding. The Ambatovy Joint Venture continues to regularly monitor the political climate in Madagascar and continues to engage in ongoing communication with representatives of the national, regional and local government as well as multilateral institutions and key embassies. The Ambatovy Joint Venture continues to foster active working relations with relevant Malagasy ministries to facilitate operational activities.

It is currently anticipated that the Malagasy Transitional Authority will hold presidential elections in May 2013. A change in government may continue to have direct or indirect impacts on the Ambatovy Joint Venture, and, as stated above, may adversely affect the Corporation's business.

The transitional government in Madagascar has advised that it is conducting an audit of the economic and environmental impact of the mining sector. Ambatovy management has undertaken to cooperate with the government's audit in accordance with Madagascar law. This review or other government actions could impact the status of the life-of-mine Operating Permit or other eligibility for benefits under the LGIM, and as a consequence, the Ambatovy Joint Venture may face delays achieving commercial production.

Operations in Madagascar may also be affected by the fact that Madagascar's location potentially exposes it to cyclones 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 Ambatovy Joint Venture maintain comprehensive disaster plans and the Ambatovy Joint Venture's 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 Ambatovy Joint Venture relied extensively on local construction personnel in building the Ambatovy Joint Venture. The Ambatovy Joint Venture has demobilized its construction personnel following completion of the construction phase of the Ambatovy Joint Venture. While the Ambatovy Joint Venture has established programs to assist demobilized workers, including in acquiring marketable skills, the increased rate of unemployment could have a negative effect on the local population's relationship with the Ambatovy Joint Venture.

Madagascar is one of the poorest countries in the world, with low levels of economic activity and high levels of unemployment. These conditions are conducive to social unrest and instability that could, under certain circumstances, have an impact on the Ambatovy Joint Venture's ability to produce and export its products. The Ambatovy Joint Venture continues to foster active working relations with relevant Malagasy authorities to mitigate social risk and facilitate operational activities.

Agencies of the Malagasy government have significant payment obligations to the Corporation in connection with the Corporation's Metals operation. This exposure to the Malagasy government and its potential inability to fully pay such amounts could have an adverse effect on the Corporation's financial condition and results of operations.

Risk related to Sherritt's investments in Cuba

The Corporation directly or indirectly holds very 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 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, price controls, 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.

Sherritt's activities in Cuba derive the majority of their labour requirements from individuals employed by agencies of the Cuban government and appointed by the Cuban government. Certain individuals employed by such agencies in connection with the business of the Moa Joint Venture have been the subject of criminal prosecutions and, in August 2012, convictions under Cuban law. No criminal allegations have been made by the Cuban government against the Corporation, its employees or the Moa Joint Venture. Sherritt has no information indicating that Cuban authorities may seek to cancel or modify any of Sherritt's contracts with Cuban agencies, or expropriate any of Sherritt's assets or property located in Cuba, in connection with these proceedings or otherwise. Any such events could have a material adverse effect on the Corporation's business, results of operations and financial performance.

The Cuban government has allowed, for more than a decade, foreign entities to repatriate profits out of Cuba. However, there can be no assurance that this attitude of 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 restrictions. Such changes are beyond the control of Sherritt and the effect of any such changes cannot be accurately predicted.

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 fully pay such amounts could have a material adverse effect on the Corporation's financial condition and results of operations.

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.

THE U.S. EMBARGO

In its current form, apart from the Helms-Burton Act, the embargo applies to almost all transactions involving Cuba or Cuban enterprises, and it bars all "U.S. Persons" from participating in such transactions unless such persons obtain specific licenses from the U.S. Department of the Treasury (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 extends to entities deemed to be owned or controlled by Cuba (specially designated nationals or SDNs). The three entities constituting the Moa Joint Venture in which Sherritt holds an indirect 50% interest have been deemed SDNs by Treasury. Sherritt 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, U.S.-originated technology, U.S.-originated goods, and many goods produced from U.S.-originated components or with U.S.-originated technology cannot under U.S. law be transferred to Cuba or used in the Corporation's operations in Cuba. 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. In addition, Sherritt conducts its Cuba-related operations so as not to require U.S. Persons to violate the U.S. embargo. The general embargo limits Sherritt's access to U.S. capital, financing sources, customers and suppliers.

THE HELMS-BURTON ACT

Separately from the general embargo, the Helms-Burton Act authorizes sanctions on 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 indefinitely, for 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; the latest suspension extends through to July 31, 2013. The Corporation has nevertheless received letters from U.S. nationals claiming ownership of certain Cuban properties or rights in which the Corporation has an indirect interest. 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. The amendments 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 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 corporation incorporated under the laws of Canada or a province.

The Government of Canada has 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 discourages some potential investors, lenders, suppliers and customers from doing business with Sherritt.

Under the Helms-Burton Act, if the Corporation were considered to be "trafficking", then investors in the Corporation might be considered to be "profiting from" or "participating in" trafficking. However, the Helms-Burton Act explicitly excludes from the definition of trafficking "the trading or holding of securities publicly traded or held", unless the trading is with an SDN. Sherritt is not an SDN. The securities of Sherritt are publicly traded and held. Accordingly, management believes that anyone purchasing, holding or trading such securities should not be subject to Helms-Burton Act liability so long as the securities were not traded with or by someone who is an SDN. Management believes that the foregoing interpretation of the exception in the Helms-Burton Act definition of "trafficking" is a reasonable one; however, in the absence of any judicial interpretations of the Helms-Burton Act, any construction of the law is subject to doubt. Accordingly, potential investors should consider the threat of Helms-Burton Act litigation before investing in securities of the Corporation.

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 directors or 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 on the SDN List".

The general embargo has been, and may in the future be, amended from time to time, as may 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.

Significant customers

The Moa Joint Venture derives a material amount of revenue from two customers in Asia and Europe. Payment is made by way of an irrevocable letter of credit in a form acceptable to the lenders of the senior credit facility through open account terms that are secured by accounts receivable insurance or by payment upon presentation of documents at the time of shipment. Any cancellation of shipments would result in nickel being placed with other customers through the spot markets; however, prices realized could vary from those set with the customer.

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. 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.

Sherritt's coal business derives a material amount of revenue from utility customers. Although the coal supply contracts are long-term, they do provide for customers to terminate such contracts under certain circumstances. There is also no guarantee that such contracts will be renewed at expiration. The loss of one or more of these customers could result in the closure of the relevant mine or mines, the loss of the mining contract or, in some cases, the sale of the relevant mine to the customer.

Foreign exchange and pricing risks

Many of Sherritt's businesses operate in currencies other than Canadian dollars and their products may be sold at prices other than prevailing spot prices at the time of sale. Sherritt is also sensitive to foreign exchange exposures when commitments are made to deliver products quoted in foreign currencies or when the contract currency is different from the product-pricing currency. The Metals division derives the majority of its revenue from nickel and cobalt sales that are typically based on U.S. dollar reference prices over a defined period of time and collected in currencies other than U.S. or Canadian dollars in accordance with sales terms that may vary by customer and sales contract. Similarly, Oil and Gas, Power and the Mountain Operations of Coal derive substantially all of their revenues from sales in U.S. dollars. Additionally, input commodities for Metals and other operating and costs for Metals and the Corporation's other operations are denominated in U.S. dollars. Accordingly, fluctuations in Canadian dollar exchange rates and price movements between the date of sale and final settlement may have a material adverse effect on the Corporation's business, results of operations and financial performance.

Environment, health and safety

The Corporation's activities are also subject to extensive laws governing the protection of the environment and worker health and safety. These EH&S laws require the Corporation to obtain certain operating licenses and impose certain standards and controls on the Corporation's activities and on the Corporation's distribution and marketing of nickel, cobalt and other metals products. Compliance with EH&S laws and operating licenses can require significant expenditures, including expenditures for clean-up costs and damages arising out of contaminated properties. There can be no assurance that the costs to ensure future or current compliance with EH&S laws would not materially affect the Corporation's business, results of operations or financial performance.

The Corporation assesses environmental impacts before initiating major new projects and before undertaking significant changes to existing operations. The approval process can entail public hearings and may be delayed or not achieved, reducing the ability of the Corporation to continue portions of its business at expanded or even existing levels. Furthermore, the Corporation's existing approvals could potentially be suspended, or future required approvals denied, which would reduce the ability of the Corporation to meet project schedules or cost objectives and to continue portions of its business at expanded or even existing levels.

The operations of the Ambatovy Joint Venture in Madagascar are conducted in environmentally sensitive areas. In particular, the mine footprint is partly on first growth forest and portions of the pipeline traverse environmentally sensitive areas. Although the Ambatovy Joint Venture believes it is currently in material compliance with applicable laws, there can be no guarantee that it will remain in compliance or that applicable laws or regulations will remain the same.

The Corporation must also comply with a variety of EH&S laws that restrict air emissions. Because many of the Corporation's mining, drilling and processing activities generate air emissions from various sources, compliance with EH&S laws requires the Corporation to make investments in pollution control equipment and to report to the relevant government authorities if any emissions limits are exceeded. The Corporation is also required to comply with a similar regime with respect to its wastewater.

These EH&S laws restrict the amount of pollutants that the Corporation's facilities can discharge into receiving bodies of water, such as ground water, rivers, lakes and oceans, and into municipal sanitary and storm sewers. Other EH&S laws regulate the generation, storage, transport and disposal of hazardous wastes and generally require that such waste be transported by an approved hauler and delivered to an approved recycler or waste disposal site. Regulatory authorities can enforce these and other EH&S laws through administrative orders to control, prevent or stop a certain activity; administrative penalties for violating certain EH&S laws; and regulatory proceedings.

The potential impact of evolving regulations, including on product demand and methods of production and distribution, is not possible to predict. However, the Corporation does closely monitor developments and evaluate the impact such changes may have on the Corporation's financial condition, product demand and methods of production and distribution. Independently and through involvement in various associations, the Corporation responds to potential changes to EH&S laws by participating, as appropriate, in the public review process, thus ensuring the Corporation's position is understood and considered in the decision-making process. The Corporation seeks to anticipate and prepare for public and regulatory concerns well in advance of such projects. Communication with regulators and the public is considered a key tool in gaining acceptance and approval for new projects.

Climate change/greenhouse gas emissions

See Environment, health and safety section for more information related to this risk.

Credit risk

Sherritt's sales of nickel, cobalt, oil, gas, electricity and coal 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. Also see "Risks Related to Sherritt's Operations in Cuba" and "Risks Related to Sherritt's Operations in Madagascar".

Legal contingencies

Sherritt may become party to legal claims arising in the ordinary course of business, including as a result of activities of joint ventures in which it has an interest. There can be no assurance that unforeseen circumstances resulting in legal claims will not result in significant costs.

Accounting policies

The Corporation's audited consolidated financial statements for the year ended December 31, 2012, filed on SEDAR, were prepared using accounting policies and methods prescribed by IFRS as issued by the International Accounting Standards Board. Significant accounting policies under IFRS are described in more detail in the notes to the audited consolidated financial statements.

Sherritt has internal controls over financial reporting. These controls are designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. These controls cannot provide absolute assurance with respect to the reliability of financial reporting and financial statement preparation.

Risks associated with future acquisitions

Sherritt continually seeks 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. 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. These risks and difficulties, if they materialize, could disrupt the Corporation's ongoing business, distract management, result in the loss of key personnel, increase expenses and otherwise have a material adverse effect on the Corporation's business, results of operations and financial performance.

Government permits

Government approvals and permits are currently required in connection with a number of the Corporation's activities and further approvals and permits may be required in the future. The duration and success of the Corporation's efforts to obtain permits are contingent upon many variables outside of the Corporation's control. Obtaining government permits may increase costs and cause delays depending on the nature of the activity to be permitted and the interpretation of applicable requirements implemented by the permitting authority. There can be no assurance that all necessary permits will be obtained and, if obtained, that the costs involved will not exceed the Corporation's estimates or that the Corporation will be able to maintain such permits. To the extent such approvals are not obtained or maintained, the Corporation may be prohibited from proceeding with planned drilling, exploration, development or operation of properties which could have a material adverse effect on the Corporation's business, results of operations and financial performance.

Government regulation

The Corporation's activities are subject to various laws governing exploration, development, production, environment, taxes, labour standards and occupational health, mine safety, toxic substances and other matters. Mining, drilling and exploration activities are also subject to various laws and regulations relating to the protection of the environment. Although the Corporation believes that its activities are currently carried out in all material respects in accordance with applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner that could limit or curtail production or development of the Corporation's properties or otherwise have a material adverse effect on the Corporation's business, results of operations and financial performance.

Environment, health and safety

Sherritt continually demonstrates its commitment to ensuring the health and safety of people affected by its operations and products and the protection of the environment. In implementing its policies, Sherritt provides the benefits of strong EH&S management systems to a wide range of stakeholders in Canada and abroad. Stakeholders include all employees and the communities where Sherritt operates, along with customers, investors, partners and service providers. This commitment extends throughout the entire Corporation at every level, starting with the Board of Directors.

The EH&S committee of the Corporation's Board of Directors meets on a regular basis to review and oversee Sherritt's EH&S policies and programs as well as to review the EH&S performance of each division. The committee also oversees the Corporation's compliance with applicable EH&S laws and regulations and monitors trends, issues and events which could have a significant impact on the Corporation.

Sherritt continually monitors changes in both EH&S technologies and regulations both directly and through its involvement with various industry associations. Sherritt responds to impending regulatory changes by participating in the public-review process through industry associations thus ensuring the company's position is understood and considered in this process.

Sherritt believes that safe and environmentally protective operations are essential for a productive and engaged workforce and sustainable growth. Sherritt is committed to incident prevention and makes expenditures towards the necessary human and financial resources and site-specific systems to ensure compliance with its environmental health, and safety policies. Any incidents that may occur are investigated to determine root cause and to establish corrective and preventive actions.

In 2012, the Corporation's Total Recordable Injury (TRI) and Lost Time Injury (LTI) indices were 0.38 and 0.17 respectively. This performance continues to be industry and peer leading. These indices are calculated by multiplying the number of total recordable injuries by 200,000 and then by dividing that number by total exposure hours. These indices provide a measure that is comparable across different industries and business sizes.

Metals

Our Metals division continually works to improve EH&S management systems at its operations in Western Canada, Cuba and Madagascar. Programs support a strong corporate commitment to meet both community expectations and regulatory requirements.

MOA JOINT VENTURE

The environmental program at Metals' Fort Saskatchewan operations includes active monitoring of soil, groundwater, effluent and air. Staff at the Fort Saskatchewan site continue to work with provincial regulators on the development of a multi-phased site-specific environmental management plan for soil and groundwater. The first phase involving a site human-health risk assessment for nickel was submitted to the regulators in May 2008. The second phase to model on-site soil and groundwater was completed in 2010. Enhancements to the model continue in an effort to develop a more accurate estimate of the environmental rehabilitation provision for the site and improve environmental project planning including enhancements to the existing groundwater seepage collection systems. One seepage collection system was replaced in 2012 with another one in the design phase.

Metals' Fort Saskatchewan site operations are located in Alberta's Industrial Heartland, the most heavily industrialized area in the province. The Fort Saskatchewan site works co-operatively with other industries in the region through the Northeast Capital Industrial Association (NCIA), an association that promotes sustainable industrial growth and high quality of life through environmental and socio-economic principles. Participation by Metals' personnel on the NCIA Board and technical sub-committees allows for input into provincial environmental policy development and dialogue with the regulators.

Provincial legislation setting greenhouse gas targets applicable to the Fort Saskatchewan site was introduced in 2007, followed by the completion of a third-party audit in 2008. The Fort Saskatchewan site remains in compliance with provincial greenhouse gas legislation including the requirement for the completion of annual third-party audits. Fort Saskatchewan site management continue to evaluate internal and external options for meeting its greenhouse gas targets.

In 2012, discussions with Alberta Environment continued on a variety of environmental issues primarily related to Cumulative Effects Management in the Industrial Heartland. The Fort Saskatchewan site continues to actively participate in the development of Provincial Air and Water Management Frameworks for the Industrial Heartland.

Throughout 2012, the program of auditing workplace practices or Safety System Inspections (SSIs) was actively pursued to reinforce the required safe behaviours and adherence to site safety policies necessary to improve overall safety performance. The Fort Saskatchewan site is focused on ensuring that all elements of a safety system including those related to hazard identification and control, safe work permits, incident reporting and analysis, safe work procedures and personal protective equipment are in continuous compliance through continuous communication, coaching and on-the-job instruction. Annual auditing of core safety elements remains an important verification activity to ensure safety systems are being enhanced where applicable and continuous improvement activities are implemented.

During 2012, the Fort Saskatchewan site continued a program to improve training and development processes and better define standards of performance, improve teaching and training techniques and structures, and enhance accountability for learning and evaluation. The program is improving the effectiveness of training provided to site personnel in safe work practices and safety management systems. Employees engaged in operations and maintenance activities continue to receive safety training related to the work they perform, such as Safe Work Permit Understanding, Control of Hazardous Energy, Confined Space Entry, Mobile Equipment Operation, Workplace Hazardous Materials Information System and Transportation of Dangerous Goods. Employees in leadership roles continue to participate in skills training to increase their understanding of safety management concepts and best practices to improve stewardship of safe work practices. To ensure continuous improvement, the focus will continue to be placed on site systems and leadership activities that drive and promote worker behaviour, competency and understanding.

The environmental program implemented by Metals at the Moa site, which includes active monitoring of soil, surface water, groundwater, process effluents and air, continued throughout 2012. This program is consistent with corporate targets and ensures that the Moa site meets both community expectations and local regulatory requirements. Various initiatives to reduce emissions and effluent discharge have been successfully implemented on the plant site. At the Moa site, an erosion and sediment control plan has been designed and implemented. Since 2007, the cumulative amount of reforested hectares has exceeded the number of areas that have been impacted by mining operations.

The Moa site continued to focus on training and development of its employees as it relates to safety practices, in 2012. Continuous safety training has resulted in more extensive documentation of safety meetings and topics in all key areas of the plant site as well as the reduction of potentially unsafe conditions by resolving outstanding safety issues and concerns. During the year a review of start-up and shutdown procedures for plant operating units was carried out, as well as a review of interlocks.

AMBATOVY JOINT VENTURE

Operations at Ambatovy are subject to certain laws regulating the impact of mining operations on the environment and worker health and safety. For example, Madagascar's LGIM sets out the conditions for both exploration and exploitation permits, which must be applied for sequentially. The exploitation permit is similar to a Canadian mining permit and requires an environmental assessment. The LGIM guarantees that the terms of a permit will not be changed after it has been granted and provides investment incentives for qualifying projects.

In addition, Ambatovy was required to complete a comprehensive social and environmental assessment in order to design an environmental management program. This program was designed in accordance with the Equator Principles and the International Finance Corporation (IFC) Performance Standards. Terms of reference for the assessment were developed in consultation with the Malagasy government and included both environmental and social issues. The assessment also reflected input received through extensive consultation with local communities and non-governmental organizations in Madagascar.

All facilities have been built and are being operated in accordance with applicable Malagasy laws and regulations, World Bank guidelines, the Equator Principles and the IFC Performance Standards. For example, the mine site is located within a forest zone which is recognized as natural habitat important for biodiversity. Extensive work was undertaken to evaluate potential impacts and develop suitable mitigation and compensation measures, including biodiversity offsetting. More specifically, these measures involve a commitment to maintaining a forest buffer zone around the mining area, forest de-fragmentation work through targeted reforestation as well as a plan to ensure the conservation of an offset area of similar ecological value elsewhere in the eastern forest of Madagascar. The offset area is being implemented as a pilot project of the Business and Biodiversity Offsets Programme.

Ambatovy has also designed a comprehensive water management plan for the mine site. The plan consists of a system of sediment collection ponds allowing settlement of suspended solids in order to discharge water that meets the environmental criteria stipulated in the environmental permit and to ensure maintenance of regional water quality to protect downstream aquatic ecosystems.

Safety management continues to be a high priority for Ambatovy. Management is working closely with employees and contractors to ensure compliance with safety standards. The Ambatovy Joint Venture safety program is designed and implemented following OHSAS 18001 standards. Continued focus on safety has resulted in operations recordable injury rates below industry norms.

Coal

Coal has a comprehensive EH&S management program that consists of policies and practices that integrate operating procedures, employee training and emergency response, and is designed to protect the health and safety of employees and fulfill the Corporation's responsibilities as stewards of the environment.

In Canada, the coal mining industry is subject to extensive regulation by federal, provincial and local authorities on various matters including: employee health and safety; air quality; water quality and availability; the protection and enhancement of the environment (including the protection of plants and wildlife); land-use zoning; development approvals; the generation, handling, use, storage, transportation, release, disposal and clean-up of regulated materials, including wastes; and the reclamation and restoration of mining properties after mining is completed. Mining operations are regulated primarily by provincial legislation, although the Corporation's coal interests must also comply with applicable federal legislation and local by-laws.

In order to preserve the quality of water and air leaving the mine sites, Coal manages surface and ground water, dust and both hazardous and non-hazardous waste. A comprehensive reclamation program is also in place that is designed to return land that has been mined to a condition suitable for other uses. Coal's reclamation efforts are focused on reclaiming mined land to productive farmland, commercial forestry, native prairie, wetlands, and wildlife habitat to meet or exceed regulatory standards.

In order to support the development of new mining areas and new projects, Coal provides monitoring, advice and leadership in the areas of regulatory changes and trends. Mining inherently involves the disturbance of large tracts of land. This activity has significant but short-term impacts to existing and adjacent landowners; therefore, impact assessments and mitigation proposals are completed in all cases. In 2012, Coal continued the regulatory and consultative process involved in authorizing the continued access to available mining areas. During 2012, this mostly involved the Coal Valley mine where required documentation was completed to expand the current mining area. The Genesee mine was also engaged in the regulatory process of obtaining mine permit extensions.

Coal is actively engaged with the Alberta and Saskatchewan regulators in the development of new regulations and the amendment of existing regulations. Recently Coal has provided input into initiatives including the Federal government's Mine Metal Effluent Regulation 10-year review and the Coal Fired Greenhouse Gas Regulation, Alberta's Regulatory Enhancement Project and Saskatchewan's Results Based Regulations. The long operational history of Sherritt's mines allows Coal to provide valuable context for regulatory initiatives.

Mining and processing operations have inherent risks, but due largely to the EH&S policies and procedures that have been developed within Coal, coupled with the strong safety culture at each site, Coal has successfully mitigated or controlled those risks. In 2012, several mines celebrated safety milestones with no lost time incidents: 2 years for Poplar River and Coal Valley mines, 3 years for Paintearth mine, 4 years for Obed Mountain mine, 8 years for Boundary Dam mine, 17 years for Sheerness mine and 24 years for Genesee mine. Additionally, the Paintearth mine received the John T. Ryan Award for 2011 for outstanding safety performance for coal mines in Canada.

In the event of an injury or an environmental incident, there are well-defined reactive measures that are instituted to control the situation, assess ongoing risk and take appropriate measures. These incident investigation systems also assist in the potential for learning from each incident by providing timely and clear incident reports outlining root causes and preventative measures.

Oil and Gas

The Corporation's oil and gas operations are subject to extensive EH&S laws. These laws generally require the Corporation to mitigate, remove or remedy the effect of its activities on the environment at current and former operating sites, and can require the Corporation to dismantle production facilities and remediate damage caused by the use or release of specified substances.

Oil and Gas has maintained its commitment to ensuring a safe and environmentally sound workplace. Groundwater and air quality monitoring processes have been maintained in Cuba by Sherritt and overseen by approved Cuban environmental agencies. Oil and Gas remains in material compliance with all regulatory requirements in Cuba. Work to reduce emissions continues on one of the of oil production batteries through improvements and updates to the operating equipment that is currently in place. Finally, training of all employees and contractors continues, ensuring that EH&S as well as safe work practices are understood and continue to be a critical component of daily operational activities.

Oil and Gas strives to conduct its Cuban operations according to safety standards and practices complementary to those established by Canadian authorities. In addition to regular safety training, the employees also receive specialized training on hazardous tasks such as confined space entry and when working in areas with the presence of hydrogen sulphide gas. A full-time EH&S manager is in place in Cuba to make recommendations for the implementation of EH&S standards in day-to-day operations and to provide assurance that all applicable environmental and regulatory standards are met. Contingency plans are in place for a timely response in case of a hurricane, oil spill or other environmental event.

Power

Power's groundwater monitoring program is being carried out in conjunction with approved Cuban environmental agencies specializing in geographical and environmental solutions, to ensure that operating personnel understand the quantity and quality of existing fresh water supplies and that current operations do not create any negative impact to those supplies.

A Cuban environmental agency conducts groundwater and air quality surveys on an annual basis at the Varadero, Boca de Jaruco and Puerto Escondido plant sites in order to monitor compliance with emission standards under Cuban environmental laws. To date, compliance with such emission standards has been maintained at all three plant sites.

The Varadero, Boca de Jaruco and Puerto Escondido plant sites are subject to regulation under Cuban environmental laws. The area in the vicinity of these sites has been used for the development and production of petroleum and natural gas and other industrial activity for many years. Baseline environmental surveys conducted prior to the commencement of operations have confirmed the presence of pre-existing groundwater contamination at each of the Varadero, Boca de Jaruco and Puerto Escondido plant sites. The Corporation believes, however, that Energas has no liability under Cuban law for any pre-existing contamination at these sites.

Safety continues to be a major focus of Power. Hydrogen sulphide courses are provided through a facility in Cuba, using Sherritt equipment to better familiarize the employees with the breathing equipment available. The development of a first aid training program in conjunction with the local health authorities has seen a number of Sherritt's employees trained to respond to injury situations both at work and at home.

The introduction and use of the Operations Integrity Management System by all employees ensure quality business practices throughout Power. These policies have been translated into Spanish to increase the understanding and compliance by the Cuban employees and contractors.

Power also continues to support technical and operator training of expatriates and Cuban staff. This includes recognized apprenticeship and journeyman programs offered through educational institutions in Canada.

A full-time EH&S manager is located in Cuba to make recommendations for the implementation of EH&S standards in the day-to-day operations of the sites, and to provide assurance that all applicable environmental and regulatory standards are being met. Contingency plans are in place for a timely response in the event of a hurricane or other environmental event.

Climate change and greenhouse gas emissions

The federal Conservative government has repeatedly announced its intention to implement a regulatory framework that would require significant reductions of GHG emissions by Canada's largest industrial sectors. This includes the industrial sectors to which the Corporation provides its products, the majority of the facilities in Canada from which the Corporation ultimately obtains power, and some of the Corporation's facilities.

On September 12, 2012 the Canadian federal government released final regulations for reducing GHG emissions from coal-fired electricity generation: "Reduction of Carbon Dioxide Emissions from Coal-Fired Generation of Electricity" (the "Regulations"). The Regulations will require certain Canadian coal-fired electricity generating units, effective as of July 1, 2015, to an average annual emissions intensity performance standard of 420 tonnes of CO_2 per gigawatt hour. This performance standard represents approximately one-half of the annual average CO_2 emissions intensity of the generating assets currently served by the Corporation's Prairie Coal operations. The performance standard will apply to new units commissioned after July 1, 2015 and to units that are considered to have reached the end of their useful life, generally between 45 and 50 years from the unit's commissioning date. New and end-of-life units that incorporate technology for carbon capture and storage may apply for a temporary exemption from the performance standard that would remain in effect until 2025, provided that certain implementation milestones are met. Provincial equivalency agreements, under which the Regulations would stand down, are being negotiated or discussed with the provinces of Saskatchewan and Alberta.

The Corporation's Prairie Coal production in the long-term could be reduced unless certain existing units or new units are equipped with carbon capture and storage or other technology that achieves the prescribed performance standard, the impact of the Regulations is altered by equivalency agreements, or the Regulations are changed to lower the performance standard. The impact of the Regulations on existing units will vary by location and province.

In addition, various Canadian provincial governments and other regional initiatives are moving ahead with GHG reduction and other initiatives designed to address climate change.

Given the present uncertainty around the practical application of specific provisions in the Regulations and the impact of other provincial or regional initiatives, it is not yet possible to estimate with specificity the impact to the Corporation's operations. However, the Corporation's Canadian operations are large facilities, so the establishment of emissions regulations (whether in the manner described above or otherwise) may well affect them and may have a material adverse effect on the Corporation's business, results of operations and financial performance. In addition, the Corporation's operations require large quantities of power and future taxes on or regulation of power producers or the production of coal, oil and gas or other products may also add to the Corporation's operating costs.

Critical accounting estimates and judgments

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

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 MINING AND OIL AND GAS PROPERTIES

Reserves are estimates of the amount of product that can be economically and legally extracted from the Corporation's mining and 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 impairment analysis.

In calculating reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, production decline rates, recovery rates, production costs, commodity demand, 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.

Nickel, cobalt, thermal and metallurgical coal, and potash estimates are based on information compiled by or under supervision of a qualified person as defined under National Instrument 43-101, Standards of Disclosure for Mineral Projects within Canada. Substantially all of the oil and gas reserves have been evaluated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities.

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 units-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 assets 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.

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 income 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 income 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.

MEASUREMENT OF UNQUOTED FINANCIAL INSTRUMENTS

The Corporation has estimated the fair value of the Ambatovy call option and the MAV notes. The fair value of the Ambatovy call option is determined by applying the Black-Scholes model, which requires estimates and assumptions such as future commodity prices, equity volatilities and interest rates. The fair values of the MAV notes that were not widely traded were determined based on estimates of future cash flows, assumptions about the timing of settlement, interest rates, credit risk, and by incorporating other assumptions made by market participants.

MEASURING THE FAIR VALUE OF THE CORPORATION'S INTEREST IN THE AMBATOVY JOINT VENTURE

The Corporation measured its remaining interest in the Ambatovy Joint Venture at fair value on the date Sherritt entered the additional loan agreements. This formed the cost basis of the investment in an associate balance. Calculating the fair value required estimates and assumptions to be made regarding future cash flows, including estimated commodity prices, interest rates, input prices and other factors. The investment is accounted for using the equity method.

Critical accounting judgments

PROPERTY, PLANT AND EQUIPMENT

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.

ASSET IMPAIRMENT

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. Goodwill is tested for impairment annually. 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.

OVERBURDEN REMOVAL COSTS

Overburden removal costs are capitalized and depreciated over the useful lives when the overburden removal activity can be shown to create value beyond providing access to the underlying reserve. In many cases, this determination is a matter of judgment.

EXPLORATION AND EVALUATION

Management must make estimates and assumptions 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 estimates and assumptions as to future events and circumstances, in particular whether an economically viable operation can be established. Any such estimates and assumptions 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).

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.

ARRANGEMENTS CONTAINING A LEASE

The Corporation determined that certain property, plant and equipment at Coal are subject to finance lease arrangements, and that the Power facilities in Varadero, Cuba and Madagascar 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.

Accounting pronouncements

IFRS 7 – Financial instruments: disclosures

IFRS 7, "Financial instruments: disclosure" (IFRS 7) was amended by the IASB in December 2011. The amendment contains new disclosure requirements for financial assets and financial liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. These new disclosure requirements will enable users of the financial statements to better compare financial statements prepared in accordance with IFRS and US GAAP. IFRS 7 is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

IFRS 9 – Financial instruments

IFRS 9, "Financial instruments" (IFRS 9) was issued by the IASB in November 2009 and will replace IAS 39, "Financial Instruments: Recognition and Measurement" (IAS 39). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. This standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

In December 2011, the IASB issued amendments to IFRS 9 that defer the mandatory effective date to annual periods beginning on or after January 1, 2015. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9 which was originally limited to companies that chose to apply IFRS 9 prior to 2012. Alternatively, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments. The Corporation is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

IFRS 10 – Consolidated financial statements

IFRS 10, "Consolidated financial statements" (IFRS 10) was issued by the IASB in May 2011 and will replace SIC 12, "Consolidation – Special purpose entities" and parts of IAS 27, "Consolidated and separate financial statements". Under the existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires an entity that controls one or more other entities to present consolidated financial statements; (ii) defines the principle of control and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

IFRS 11 – Joint arrangements

IFRS 11, "Joint arrangements" (IFRS 11) was issued by the IASB in May 2011 and will supersede IAS 31, "Interest in joint ventures" and SIC 13, "Jointly controlled entities – non-monetary contributions by venturers". IFRS 11 will require joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement will no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. The standard removes the option to account for joint ventures using proportionate consolidation and requires equity accounting. Venturers will transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item on their financial statements. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The Corporation currently expects the Moa Joint Venture to be classified as an Investment in Joint Venture which would be presented using equity accounting. Under this accounting treatment, Sherritt would deconsolidate the proportionate results of the Moa Joint Venture and present this arrangement as a single line item on the consolidated financial statements. This accounting change will significantly reduce the Corporation's assets and liabilities on a line-by-line basis.

IFRS 12 – Disclosure of interests in other entities

IFRS 12, "Disclosure of interests in other entities" (IFRS 12) was issued by the IASB in May 2011. IFRS 12 requires enhanced disclosure of information about involvement with consolidated and unconsolidated entities, including structured entities commonly referred to as special purpose vehicles or variable interest entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Sherritt will include these enhanced disclosures within the Corporation's first quarter 2013 consolidated financial statements.

IFRS 13 – Fair value measurement

IFRS 13, "Fair value measurement" (IFRS 13) was issued by the IASB in May 2011. This standard clarifies the definition of fair value, requires disclosures for fair value measurement, and sets out a single framework for measuring fair value. IFRS 13 provides guidance on fair value in a single standard, replacing the existing guidance on measuring and disclosing fair value which is dispersed among several standards. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard is not currently expected to have a significant impact on the Corporation's consolidated financial statements.

IAS 1 – Presentation of financial statements

An amendment to IAS 1, "Presentation of financial statements" (IAS 1) was issued by the IASB in June 2011. The amendment requires separate presentation for items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met, from those that would never be reclassified to profit or loss. The effective date is for annual periods beginning on or after July 1, 2012. The adoption of this standard is not currently expected to have a significant impact on the Corporation's consolidated financial statements.

IAS 19 – Employee benefits

An amendment to IAS 19, "Employee benefits" (IAS 19) was issued by the IASB in June 2011. The amendment requires the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminates the "corridor approach" permitted under the current version of IAS 19. The amendment also requires the Corporation's actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit. The amended standard is effective for annual periods beginning on or after January 1, 2013.

IAS 27 – Separate financial statements

IAS 27, "Separate financial statements" (IAS 27) was re-issued by the IASB in May 2011 to only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The consolidation guidance will now be included in IFRS 10. The amendments to IAS 27 are effective for annual periods beginning on or after January 1, 2013. The Corporation has determined that this standard is not applicable to the consolidated financial statements.

IAS 28 – Investments in associates and joint ventures

IAS 28, "Investments in associates and joint ventures" (IAS 28) was re-issued by the IASB in May 2011. IAS 28 continues to prescribe the accounting for investments in associates but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that have an ownership interest with joint control of, or significant influence over, an investee. The amendments to IAS 28 are effective for annual periods beginning on or after January 1, 2013. The adoption of this standard is not currently expected to have a significant impact on the Corporation's consolidated financial statements.

IAS 32 – Financial instruments: presentation

IAS 32, "Financial instruments: presentation" (IAS 32) was amended by the IASB in December 2011. The amendment clarifies that an entity has a legally enforceable right to offset financial assets and financial liabilities if that right is not contingent on a future event and it is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. The Corporation is currently evaluating the impact of the amendments on its consolidated financial statements.

IFRIC 20 – Stripping costs in the production phase of a surface mine

IFRIC 20, "Stripping costs in the production phase of a surface mine" (IFRIC 20) was issued by the IASB in October 2011. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013. The standard requires stripping costs incurred during the production phase of a surface mine to be capitalized as part of an asset, if certain criteria are met, and depreciated on a units-of-production basis unless another method is more appropriate. The adoption of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

Three-year trend analysis

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	**2012**[1]	2011[1]	2010[1]
Revenue[2]	**$ 1,840.2**	$ 1,978.3	$ 1,670.6
Adjusted EBITDA[2][3]	**515.5**	643.2	546.0
Earnings from operations and associate	**241.8**	410.7	342.7
Net earnings from continuing operations	**28.8**	198.5	159.5
Net earnings	**33.2**	197.3	144.8
Net earnings per share from continuing operations (basic and diluted)	**$ 0.10**	$ 0.67	$ 0.54
Net earnings per share (basic and diluted)	**0.11**	0.67	0.49
Dividend rate per share	**0.152**	0.152	0.146
Total assets	**$ 6,758.3**	$ 6,497.5	$ 6,068.2
Total loans and borrowings	**2,039.8**	1,744.7	1,563.6
Production volumes			
Finished nickel (tonnes)			
Moa Joint Venture (50% basis)	**17,132**	17,286	16,986
Ambatovy Joint Venture (40% basis)	**2,278**	–	–
Finished cobalt (tonnes)			
Moa Joint Venture (50% basis)	**1,896**	1,927	1,853
Ambatovy Joint Venture (40% basis)	**197**	–	–
Coal (millions of tonnes)			
Prairie Operations	**31.2**	32.7	34.4
Mountain Operations[1]	**3.7**	4.4	3.3
Oil – Cuba – net working-interest production (barrels per day)	**10,653**	11,286	11,128
Electricity (gigawatt hours) ($33^1/_3$% basis)	**628**	618	689

(1) Includes the Corporation's 100% interest in Mountain Operations from July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest.

(2) Ambatovy is accounted for using the equity method of accounting which recognizes the Corporation's share of earnings (loss) of associate. Revenue and Adjusted EBITDA do not include the results of Ambatovy.

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

The positive trend in revenue, Adjusted EBITDA and net earnings from 2010 to 2011 reflected the Corporation's gradual recovery from the global economic downturn in 2008 and the impact of higher commodity prices. In 2012, the Corporation's revenue, Adjusted EBITDA and net earnings from operations and associate were lower primarily due to lower nickel and cobalt prices and lower production volumes at Coal. Production at Oil and Gas in 2012 is lower than prior years primarily due to natural reservoir declines. Production at Power has been lower over the most recent two years primarily as a result of periodic gas supply shortages. Unit costs have trended higher over the three-year period at all divisions, primarily as a result of higher input commodity prices and other operating costs.

In 2012, net earnings and earnings from operations and associate were negatively impacted by the impairments in Coal on its Dodds-Roundhill and Bow City Power projects. Net earnings in 2012 and 2011 were impacted by higher net financing expenses as a result of higher loan balances and the payment of early redemption premiums on the redemption/repurchase of debentures in each of these years. The average annual Canadian dollar cost to purchase one U.S. dollar was $1.03, $0.99 and $1.00 for the years ended December 31, 2010 to 2012, respectively. Generally, a weaker Canadian dollar relative to the U.S. dollar has a net favourable impact on operations.

2012 Fourth quarter results

The following table and discussion compares the fourth quarter 2012 to the fourth quarter 2011:

$ millions, for the three months ended December 31	**2012**	2011	Change
Financial highlights(1)			
Revenue by segment			
Metals	**$ 138.4**	$ 137.7	1%
Coal	**242.0**	303.3	(20%)
Oil and Gas	**68.2**	74.4	(8%)
Power	**17.0**	18.6	(9%)
Corporate and other	**2.3**	2.8	(18%)
	$ 467.9	$ 536.8	(13%)
Adjusted EBITDA(2) **by segment**			
Metals	**$ 29.9**	$ 35.7	(16%)
Coal	**44.0**	89.0	(51%)
Oil and Gas	**50.5**	54.7	(8%)
Power	**3.8**	7.4	(49%)
Corporate and other	**(14.4)**	(14.4)	–
	$ 113.8	$ 172.4	(34%)
Earnings (loss) from operations and associate by segment			
Metals	**$ 19.0**	$ 23.1	(18%)
Coal	**(10.1)**	48.4	(121%)
Oil and Gas	**31.8**	37.8	(16%)
Power	**1.1**	4.7	(77%)
Corporate and other	**(15.0)**	(15.0)	–
	$ 26.8	$ 99.0	(73%)
Net (loss) earnings	**$ (17.3)**	$ 28.1	(162%)
Net (loss) earnings per share, diluted ($ per share)	**$ (0.06)**	$ 0.09	(167%)
Cash flow			
Cash provided by operating activities	**$ 5.5**	$ 103.2	(95%)
Spending on capital and intangible assets(3)	**$ 64.0**	$ 81.8	(22%)
Production volumes			
Finished nickel (tonnes)			
Moa Joint Venture (50% basis)	**4,439**	4,597	(3%)
Ambatovy Joint Venture (40% basis)	**1,361**	–	–
Finished cobalt (tonnes)			
Moa Joint Venture (50% basis)	**486**	519	(6%)
Ambatovy Joint Venture (40% basis)	**134**	–	–
Coal (millions of tonnes)			
Prairie Operations	**8.3**	9.8	(15%)
Mountain Operations	**1.0**	1.2	(17%)
Oil – Cuba – net working-interest production (barrels per day)	**10,169**	10,729	(5%)
Electricity (gigawatt hours) (33$^1/_3$% basis)	**162**	157	3%

(1) Ambatovy is accounted for using the equity method of accounting which recognizes the Corporation's share of earnings (loss) of associate. Except as specifically provided, operating results do not include the results of Ambatovy. Operating results for Moa Joint Venture include the Corporation's 50% interest in the Moa Joint Venture and 100% interest in Fort Saskatchewan.

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

(3) Spending on capital and intangible assets includes accruals and does not include spending on the Ambatovy Joint Venture or service concession arrangements.

- The Corporation's earnings from operations and associate for the three months ended December 31, 2012 were $26.8 million compared to $99.0 million in the prior year;
- Revenue for the fourth quarter of 2012 was $467.9 million compared to $536.8 million in the prior year. Lower revenue was primarily a result of lower average-realized prices and volumes for each of nickel, cobalt, coal and oil;
- Adjusted EBITDA for the fourth quarter of 2012 was $113.8 million compared to $172.4 million in the prior year. Lower Adjusted EBITDA was primarily a result of lower revenue as discussed above as well as higher operating costs primarily in the Metals and Coal divisions;

- The Corporation had a net loss in the fourth quarter of 2012 of $17.3 million compared to net earnings of $28.1 million in the prior year. In addition to the impact of lower revenue and higher operating costs, net earnings were also impacted by the Corporation's recognition of a total of $18.7 million in impairments in the fourth quarter of 2012 compared to a total of $0.8 million in impairments in the same period in the prior year. Net finance expense was lower in the fourth quarter of 2012 compared to the same period in the prior year which includes the early redemption premium paid on the redemption of the 2012 Debentures which more than offset the higher interest expense and accretion the fourth quarter of 2012.

Summary of quarterly results

The following table presents a summary of the segment revenue and consolidated operating results for each of the eight quarters ended March 31, 2011 to December 31, 2012.

$ millions, except per share amounts, for the three months ended	**2012 Dec. 31**	**2012 Sept. 30**	**2012 June 30**	**2012 March 31**	2011 Dec. 31	2011 Sept. 30	2011 June 30	2011 March 31
Revenue								
Metals	**$ 138.4**	**$ 88.4**	**$ 140.2**	**$ 114.8**	$ 137.7	$ 122.9	$ 149.4	$ 140.4
Coal	**242.0**	**237.1**	**250.6**	**245.3**	303.3	247.2	254.1	245.9
Oil and Gas	**68.2**	**74.2**	**76.3**	**82.2**	74.4	78.5	81.5	70.5
Power	**17.0**	**18.8**	**17.6**	**16.6**	18.6	14.0	13.0	14.4
Corporate and other	**2.3**	**3.7**	**3.2**	**3.3**	2.8	3.8	2.6	3.3
	$ 467.9	**$ 422.2**	**$ 487.9**	**$ 462.2**	$ 536.8	$ 466.4	$ 500.6	$ 474.5
Net earnings (loss)	**$ (17.3)**	**$ (22.6)**	**$ 40.8**	**$ 32.3**	$ 28.1	$ 45.5	$ 60.1	$ 63.6
Net earnings (loss) per share								
Basic	**$ (0.06)**	**$ (0.08)**	**$ 0.14**	**$ 0.11**	$ 0.10	$ 0.16	$ 0.20	$ 0.22
Diluted	**$ (0.06)**	**$ (0.08)**	**$ 0.14**	**$ 0.11**	$ 0.09	$ 0.15	$ 0.20	$ 0.22

Net earnings (loss) for the Corporation are primarily affected by commodity prices, sales volumes and exchange rates that impact revenue and costs. The average Canadian dollar cost to purchase one U.S. dollar for the above quarters has been relatively consistent, ranging from $0.97 to $1.02. The net loss in the fourth quarter of 2012 was impacted by the factors discussed above in the 2012 Fourth quarter results section. Net earnings (loss) for the quarters after September 2011 were also impacted by higher net finance expense due to higher interest expense and accretion on loans and borrowings; the inclusion in the quarters ended December 31, 2011 and September 30, 2012 of early redemption premiums on the redemption/repurchase of debentures; and the inclusion of downward adjustments in the fair value of the Ambatovy call option, particularly in the quarter ended March 31, 2012. The second quarter of 2012 included a gain on sale related to Mineral Products.

Off-balance sheet arrangements

The Corporation has no foreign exchange or commodity options, futures or forward contracts. The Corporation has made a completion guarantee to the Ambatovy Joint Venture lenders and has letters of credit issued under the Coal revolving credit facility.

Transactions with related parties

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.

$ millions, for the years ended December 31	**2012**	2011
Total value of goods and services:		
Provided to jointly controlled entities	**$ 92.8**	$ 105.9
Provided to associate	**4.5**	4.4
Purchased from jointly controlled entities	**48.2**	40.4
Purchased from associate	**17.1**	–
Net financing income from jointly controlled entities	**27.1**	24.2

$ millions, as at December 31	**2012**	2011
Accounts receivable from jointly controlled entities	**$ 2.9**	$ 4.1
Accounts receivable from associate	**31.1**	22.1
Accounts payable to jointly controlled entities	**0.3**	–
Accounts payable to associate	**11.8**	0.3
Advances and loans receivable from associate	**1,279.1**	968.9
Advances and loans receivable from Energas	**223.9**	166.9
Advances and loans receivable from certain Moa Joint Venture entities	**117.8**	142.8

All transactions between related parties are 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 year for bad debts in respect of amounts owed by related parties.

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, 2012, 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 2012 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, 2012, using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. Based on this evaluation, the CEO and CFO have concluded that the internal controls over financial reporting were effective as of December 31, 2012.

Supplementary information

Sensitivity analysis

The following table shows the approximate impact on the Corporation's net earnings and earnings per share for the year ended December 31, 2012 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[1]	Increase	Approximate change in annual net earnings ($ millions) increase/(decrease)	Approximate change in annual basic EPS increase/(decrease)
Prices			
Nickel – LME price per pound (50% basis)	US$0.50	12	0.04
Cobalt – Metal Bulletin price per pound (50% basis)	US$5.00	12	0.04
Export thermal coal – price per tonne	US$15.00	5	0.02
Oil – U.S. Gulf Coast Fuel Oil No. 6 price per barrel	US$5.00	9	0.03
Volume			
Nickel – tonnes (50% basis)[2]	1,000	1	–
Cobalt – tonnes (50% basis)[2]	250	2	0.01
Oil – gross working-interest barrels per day	1,000	5	0.02
Exchange rate			
Strengthening of the Canadian dollar relative to the U.S. dollar	US$0.05	(43)	(0.15)
Operating costs			
Natural gas – cost per gigajoule (Metals) (50% basis)	$1.00	(4)	(0.01)
Sulphuric acid – cost per tonne (Metals) (50% basis)	US$25.00	(3)	(0.01)
Fuel – WTI oil price (Coal)	US$10.00	(6)	(0.02)

(1) Changes in factors/net earnings do not include the impact related to Ambatovy.

(2) Reflects volume increase on 100% basis for an approximate change in net earnings and basic EPS on a 50% basis.

Non-GAAP measures

Management uses Adjusted EBITDA and unit operating cost to monitor the Corporation's financial performance and believes these measures enable investors and analysts to compare the Corporation's financial performance with its competitors and evaluate the results of its underlying business. These 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.

ADJUSTED EBITDA

The Corporation defines Adjusted EBITDA as net earnings (loss) from operations and associate as reported in the financial statements, adjusted for amounts included in net earnings or net loss during the period for depletion, depreciation and amortization; impairment charges for property, plant and equipment, intangible assets, goodwill and investments; gain or loss on disposal of property, plant and equipment; and the Corporation's share of earnings or loss of associate.

The table below reconciles Adjusted EBITDA to net earnings (loss) from operations and associate:

$ millions, for the three months ended December 31, 2012	**Metals**	**Coal**	**Oil and Gas**	**Power**	**Corporate and other**	**Total**
Earnings (loss) from operations and associate	**$ 19.0**	**$ (10.1)**	**$ 31.8**	**$ 1.1**	**$ (15.0)**	**$ 26.8**
Add:						
Depletion, depreciation and amortization in:						
Cost of sales	**10.0**	**37.5**	**16.4**	**2.6**	**0.1**	**66.6**
Administrative expenses	**0.1**	**0.1**	**0.1**	**0.1**	**0.5**	**0.9**
Share of loss of an associate	**0.8**	**–**	**–**	**–**	**–**	**0.8**
Impairment loss on exploration and evaluation assets, property, plant and equipment, and investment	**–**	**16.5**	**2.2**	**–**	**–**	**18.7**
Adjusted EBITDA	**$ 29.9**	**$ 44.0**	**$ 50.5**	**$ 3.8**	**$ (14.4)**	**$ 113.8**

$ millions, for the three months ended December 31, 2011	Metals	Coal	Oil and Gas	Power	Corporate and other	Total
Earnings (loss) from operations and associate	$ 23.1	$ 48.4	$ 37.8	$ 4.7	$ (15.0)	$ 99.0
Add:						
Depletion, depreciation and amortization in:						
Cost of sales	5.8	40.0	14.0	2.6	0.4	62.8
Administrative expenses	2.7	0.6	0.1	0.1	0.2	3.7
Share of loss of an associate	4.1	–	–	–	–	4.1
Impairment loss on exploration and evaluation assets, and property, plant and equipment	–	–	2.8	–	–	2.8
Adjusted EBITDA	$ 35.7	$ 89.0	$ 54.7	$ 7.4	$ (14.4)	$ 172.4

$ millions, for the year ended December 31, 2012	**Metals**	**Coal**	**Oil and Gas**	**Power**	**Corporate and other**	**Total**
Earnings (loss) from operations and associate	**$ 87.6**	**$ 30.3**	**$ 162.1**	**$ 11.0**	**$ (49.2)**	**$ 241.8**
Add:						
Depletion, depreciation and amortization in:						
Cost of sales	**35.9**	**133.6**	**67.9**	**10.9**	**0.7**	**249.0**
Administrative expenses	**0.2**	**1.4**	**0.5**	**0.1**	**1.7**	**3.9**
Share of loss of an associate	**2.1**	**–**	**–**	**–**	**–**	**2.1**
Impairment loss on exploration and evaluation assets, property, plant and equipment, and investment	**–**	**16.5**	**2.2**	**–**		**18.7**
Adjusted EBITDA	**$ 125.8**	**$ 181.8**	**$ 232.7**	**$ 22.0**	**$ (46.8)**	**$ 515.5**

$ millions, for the year ended December 31, 2011	Metals	Coal	Oil and Gas	Power	Corporate and other	Total
Earnings (loss) from operations and associate	$ 166.3	$ 104.5	$ 170.0	$ 14.5	$ (44.6)	$ 410.7
Add:						
Depletion, depreciation and amortization in:						
Cost of sales	22.9	117.2	60.5	10.5	0.7	211.8
Administrative expenses	7.7	2.5	0.6	0.1	1.5	12.4
Share of loss of an associate	3.5	–	–	–	–	3.5
Impairment loss on exploration and evaluation assets, and property, plant and equipment	–	–	4.8	–	–	4.8
Adjusted EBITDA	$ 200.4	$ 224.2	$ 235.9	$ 25.1	$ (42.4)	$ 643.2

UNIT OPERATING COST

Management uses unit operating cost to monitor the performance of the Corporation's operating divisions. With the exception of Metals, which uses net direct cash cost, unit operating cost is generally calculated by dividing cost of sales as reported in the IFRS financial statements, less depreciation, depletion and amortization in cost of sales and certain non-production related costs by the number of units sold. For Coal's Prairie Operations, the unit operating cost excludes the impact related to royalties, activated carbon and char activities.

For Metals, net direct cash cost is calculated by dividing cost of sales as reported in the IFRS financial statements less cost of sales of the Metals Marketing Company, cost of sales and depreciation, depletion and amortization in cost of sales (adjusted for the following items: 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, translated to U.S. dollars using an average exchange rate for the respective period.

The table below reconciles unit operating cost to cost of sales per the financial statements:

$ millions, except unit cost and sales volume, for the year ended December 31, 2012	Metals	Coal Prairie	Coal Mountain	Coal Total	Oil and Gas	Power
Cost of sales per financial statements	$ 386.1	$ 540.0	$ 384.8	$ 924.8	$ 126.4	$ 55.5
Less:						
Depletion, depreciation and amortization in cost of sales	(35.9)	(60.9)	(72.7)	(133.6)	(67.9)	(10.9)
Metals Marketing Company cost of sales	(17.1)					
Service concession arrangements – Cost of construction						(32.0)
	333.1	479.1	312.1	791.2	58.5	12.6
Adjustments to cost of sales:						
Cobalt by-product, fertilizer and other revenue	(169.3)					
Net impact of non-joint venture fertilizer sales	36.4					
Impact of opening/closing inventory and other	(13.7)					
Cost of sales-royalties, activated carbon and char		(19.4)		(19.4)		
Other		(1.4)	(12.7)	(14.1)	(2.2)	(2.2)
Cost of sales for purposes of unit cost calculation	186.5	458.3	299.4	757.7	56.3	10.4
Sales volume for the period	37.8	30.7	3.5		4.2	628
Volume units	Millions of pounds	Millions of tonnes	Millions of tonnes		Millions of barrels[1]	Gigawatts
Unit operating cost[2][3][4]	$ 4.94	$ 14.91	$ 86.48		$ 13.58	$ 16.62
Unit operating cost (U.S. dollars)	$ 4.94					

(1) Net working-interest oil production.

(2) Metals: Net direct cash cost, inclusive of by-product credits and third-party feed costs. Sales volume based on pounds of finished nickel.

(3) Unit operating costs may not calculate based on amounts presented due to rounding.

(4) Power, unit operating cost per MWh.

$ millions, except unit cost and sales volume, for the year ended December 31, 2011	Metals	Coal Prairie	Coal Mountain	Coal Total	Oil and Gas	Power
Cost of sales per financial statements	$ 366.2	$ 525.8	$ 404.3	$ 930.1	$ 123.9	$ 44.6
Less:						
Depletion, depreciation and amortization in cost of sales	(22.9)	(61.9)	(55.3)	(117.2)	(60.5)	(10.5)
Service concession arrangements – Cost of construction						(21.7)
	343.3	463.9	349.0	812.9	63.4	12.4
Adjustments to cost of sales:						
Cobalt by-product, fertilizer and other revenue	(164.2)					
Net impact of non-joint venture fertilizer sales	14.9					
Impact of opening/closing inventory and other	(30.4)					
Cost of sales-royalties, activated carbon and char		(19.0)		(19.0)		
Other		(3.0)	(1.3)	(4.3)	(6.1)	
Cost of sales for purposes of unit cost calculation	163.6	441.9	347.7	789.6	57.3	12.4
Sales volume for the period	38.1	31.9	4.4		4.4	618
Volume units	Millions of pounds	Millions of tonnes	Millions of tonnes		Millions of barrels[1]	Gigawatts
Unit operating cost[2][3][4]	$ 4.30	$ 13.87	$ 79.61		$ 13.01	$ 20.05
Unit operating cost (U.S. dollars)	$ 4.35					

[1] Net working-interest oil production.

[2] Metals: Net direct cash cost, inclusive of by-product credits and third-party feed costs. Sales volume based on pounds of finished nickel.

[3] Unit operating costs may not calculate based on amounts presented due to rounding.

[4] Power, unit operating cost per MWh.

Five-year financial and operating summary

$ millions, except per share amounts, for the years ended December 31	**2012**	2011	2010	2009[1]	2008[1]
Consolidated statements of comprehensive income (loss)[1]					
Revenue	**$ 1,840.2**	$ 1,978.3	$ 1,670.6	$ 1,474.9	$ 1,611.6
Earnings (loss) from operations and associate					
Metals	**87.6**	166.3	185.0	82.3	120.7
Coal[2]	**30.3**	104.5	81.2	80.9	73.9
Oil and Gas	**162.1**	170.0	101.2	63.6	93.7
Power	**11.0**	14.5	18.7	49.7	57.8
Corporate and other	**(49.2)**	(44.6)	(43.4)	(42.6)	(29.2)
	241.8	410.7	342.7	233.9	316.9
Non-controlling interests	**–**	–	–	20.4	26.1
Net earnings (loss) from continuing operations	**28.8**	198.5	159.5	88.5	(286.2)
Earnings (loss) from discontinued operations, net of tax	**4.4**	(1.2)	(14.7)	(2.8)	(3.5)
Net earnings (loss) for the year	**33.2**	197.3	144.8	85.7	(289.7)
Earnings (loss) per common share (basic and diluted)					
Net earnings from continuing operations	**$ 0.10**	$ 0.67	$ 0.54	$ 0.30	$ (1.04)
Net earnings	**$ 0.11**	$ 0.67	$ 0.49	$ 0.29	$ (1.05)
Consolidated statements of financial position[1]					
Net working capital balance	**$ 979.1**	$ 1,016.7	$ 1,112.6	$ 1,027.3	$ 554.3
Cash, cash equivalents and short-term investments	**526.8**	631.4	759.8	870.6	607.4
Total assets	**6,758.3**	6,497.5	6,068.2	9,908.4	9,547.2
Total loans and borrowings	**2,039.8**	1,744.7	1,563.6	2,993.9	2,255.9
Non-controlling interests	**–**	–	–	2,110.9	1,668.4
Shareholders' equity	**3,672.7**	3,731.7	3,528.3	1,021.8	3,727.1
Consolidated statements of cash flow[1]					
Cash provided by operating activities	**$ 269.9**	$ 354.8	$ 413.8	$ 433.7	$ 495.1
Capital expenditures	**147.3**	129.0	146.3	1,567.5	2,208.8
Increase (decrease) in net cash	**(3.9)**	(88.5)	98.4	(51.0)	145.1
Sales volumes					
Finished nickel (thousands of pounds)					
Moa Joint Venture (50% basis)	**37,754**	38,088	37,253	37,365	35,782
Finished cobalt (thousands of pounds)					
Moa Joint Venture (50% basis)	**4,123**	4,249	4,086	4,095	3,811
Fertilizer (thousands of tonnes)					
Moa Joint Venture (50% basis)	**183**	165	196	158	150
Coal (thousands of tonnes)					
Prairie Operations[3]	**30,845**	31,993	34,460	34,482	34,921
Mountain Operations[3]	**3,462**	4,368	3,327	1,860	1,775
Oil (net barrels per day)	**11,336**	12,057	11,956	13,214	16,826
Electricity (GWh) (33 1/3% basis)[3]	**628**	618	689	722	773
Average-realized prices					
Nickel ($ per pound)					
Moa Joint Venture	**$ 7.82**	$ 10.14	$ 10.11	$ 7.46	$ 9.93
Cobalt ($ per pound)					
Moa Joint Venture	**12.94**	15.82	18.68	17.54	36.67
Coal ($ per tonne)					
Prairie Operations	**17.48**	16.31	14.18	14.56	14.55
Mountain Operations	**101.65**	101.61	84.21	79.04	87.51
Oil – Cuba ($ per barrel)	**72.21**	68.47	52.24	45.05	55.99
Electricity ($ per megawatt hour)	**41.32**	41.00	42.42	46.79	43.12
Common shares					
High	**$ 6.60**	$ 9.90	$ 9.05	$ 8.44	$ 17.35
Low	**$ 4.21**	$ 3.86	$ 5.72	$ 1.69	$ 1.75
Shares outstanding at December 31 (thousands)	**296,491**	296,391	295,017	293,981	293,051

(1) The effective transition date to IFRS was January 1, 2010. Results for 2008 and 2009 have not been restated to IFRS. For those periods, earnings from operations and associate is derived using the previous Canadian GAAP amounts as: revenue less operating, selling, general and administrative expenses; depletion, amortization and accretion; and impairment of property, plant and equipment; plus share of earnings of equity accounted investments. As a result of the conversion to IFRS, the change in accounting for Ambatovy to equity accounting and Energas to proportionate accounting resulted in a significant change in most accounts in the statement of financial position compared to the previous Canadian GAAP. Ambatovy earnings or losses are recognized in the Corporation's share of earnings (loss) of an associate.

(2) The Coal segment results includes the following: Prairie Operations – full consolidation from May 2, 2008, the date of acquisition of Royal Utilities Income Fund, and the Corporation's 50% share of equity earnings prior to May 1, 2008; Mountain Operations – full consolidation from July 1, 2010 and 50% proportionate consolidation to June 30, 2010; and 50% proportionate consolidation of coal development assets for all periods.

(3) Sales volume amounts are presented as follows: Prairie Operations – 100% basis for each period; Mountain Operations – 100% basis from July 1, 2010, 50% prior to July 1, 2010. Power – 33 1/3% for all periods, consistent with IFRS.

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", "projected", "continue" or other similar words or phrases. Specifically, forward-looking statements in this document include statements respecting certain future expectations about capital expenditures; capital project commissioning and completion dates; commodity and product prices and demand; production volumes; realized prices for production; future reserves and mine life; environmental rehabilitation provisions; availability of regulatory approvals; earnings and revenues; compliance with applicable environmental laws and regulations; debt repayments; compliance with financial covenants; sufficiency of working capital and capital project funding; the impact of regulations related to greenhouse gas emissions and credits; collection of accounts receivable; and certain corporate objectives, plans or goals for 2013, including development and exploratory wells and enhanced oil recovery in Cuba. These forward-looking statements are not based on historic facts, but rather on current expectations, assumptions and projections about future events. 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.

Key factors that may result in material differences between actual results and developments and those contemplated by this MD&A include global economic conditions, and business, economic and political conditions in Canada, Cuba, Madagascar, Indonesia, and the principal markets for the Corporation's products. Other such factors include, but are not limited to, uncertainties in the development, construction and ramp-up of large mining, processing and refining projects; risks related to the availability of capital to undertake capital initiatives; changes in capital cost estimates in respect of the Corporation's capital initiatives; risks associated with the Corporation's joint-venture partners; future non-compliance with financial covenants; potential interruptions in transportation; political, economic and other risks of foreign operations; the Corporation's reliance on key personnel and skilled workers; the possibility of equipment and other unexpected failures; the potential for shortages of equipment and supplies; risks associated with mining, processing and refining activities; uncertainty of gas supply for electrical generation; uncertainties in oil and gas exploration; risks related to foreign exchange controls on Cuban government enterprises to transact in foreign currency; risks associated with the United States embargo on Cuba and the Helms-Burton legislation; risks related to the Cuban government's ability to make certain payments to the Corporation; drilling and development programs; uncertainties in reserve estimates; risks associated with access to reserves and resources; uncertainties in environmental rehabilitation provisions estimates; the Corporation's reliance on significant customers; risks related to the Corporation's corporate structure; foreign exchange and pricing risks; uncertainties in commodity pricing; credit risks; competition in product markets; the Corporation's ability to access markets; risks in obtaining insurance; uncertainties in labour relations; uncertainties in pension liabilities; the ability of the Corporation to enforce legal rights in foreign jurisdictions; risks associated with future acquisitions; the ability of the Corporation to obtain government permits; risks associated with government regulations and environmental, health and safety matters; uncertainties in growth management and other factors listed from time to time in the Corporation's continuous disclosure documents. Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve assessments based on certain estimates or assumptions. 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 MD&A and in the Corporation's other documents filed with the Canadian securities authorities.

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.

Management's report

Management is responsible for the preparation of the accompanying consolidated financial statements of the Corporation in accordance with International Financial Reporting Standards, and for its discussion and analysis of results and financial condition, which includes information that is consistent with the consolidated financial statements. Systems of internal control are maintained by the Corporation to provide reasonable assurance of the completeness and accuracy of the financial information. These systems include the delegation of authority and segregation of responsibilities among qualified personnel in accordance with operating and financial policies and procedures. The Board of Directors appoints an Audit Committee, which meets with representatives of the Corporation's financial personnel and the Corporation's independent auditor. The Audit Committee reviews the Corporation's accounting policies and the scope and the results of the independent auditor's examination of the Corporation's consolidated financial statements. The Corporation also 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. The independent auditor, that is appointed by the shareholders, examines and reports on the consolidated financial statements of the Corporation in accordance with Canadian generally accepted auditing standards. The independent auditor's report to the shareholders of the Corporation is set out on the next page. The accompanying consolidated financial statements have been reviewed and approved by the Board of Directors and the Audit Committee.

David V. Pathe
President and Chief Executive Officer

Dean Chambers
Executive Vice President and
Chief Financial Officer

February 26, 2013

Independent auditor's report

To the Shareholders of Sherritt International Corporation

We have audited the accompanying consolidated financial statements of Sherritt International Corporation, which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, and the consolidated statements of comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flow for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sherritt International Corporation as at December 31, 2012 and December 31, 2011, and its financial performance and its cash flow for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
Licensed Public Accountants
February 26, 2013
Toronto, Canada

Consolidated statements of comprehensive income (loss)

Canadian $ millions, for the years ended December 31	Note	**2012**	2011
Revenue		**$ 1,840.2**	$ 1,978.3
Cost of sales	6	**1,506.0**	1,481.7
Gross profit		**334.2**	496.6
Administrative expenses		**84.7**	82.4
Operating profit		**249.5**	414.2
Loss on impairment of investment	13	**(5.6)**	–
Share of loss of an associate, net of tax	7	**(2.1)**	(3.5)
Earnings from operations and associate		**241.8**	410.7
Financing income	8	**(21.2)**	(47.5)
Financing expense	8	**204.3**	170.5
Net finance expense		**183.1**	123.0
Earnings before tax		**58.7**	287.7
Income tax expense	9	**29.9**	89.2
Net earnings from continuing operations		**28.8**	198.5
Earnings (loss) from discontinued operation, net of tax	10	**4.4**	(1.2)
Net earnings for the year		**$ 33.2**	$ 197.3
Other comprehensive income (loss)			
Foreign currency translation differences on foreign operations		**(49.8)**	46.7
Comprehensive income (loss)		**$ (16.6)**	$ 244.0
Net earnings from continuing operations per common share:			
Basic	11	**$ 0.10**	$ 0.67
Diluted	11	**$ 0.10**	$ 0.67
Net earnings per common share:			
Basic	11	**$ 0.11**	$ 0.67
Diluted	11	**$ 0.11**	$ 0.67

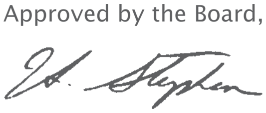
The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of financial position

Canadian $ millions, as at	Note	**2012 December 31**	2011 December 31
ASSETS			
Current assets			
Cash and cash equivalents	12	**$ 170.7**	$ 174.6
Restricted cash		**1.1**	1.1
Short-term investments	12	**356.1**	456.8
Investments	13	**26.8**	29.1
Advances, loans receivable and other financial assets	14	**57.8**	71.1
Other non-financial assets	14	**0.8**	0.2
Finance lease receivables	14	**24.8**	23.3
Trade accounts receivable, net	12	**405.9**	386.5
Income taxes receivable		**7.7**	19.1
Inventories	15	**248.2**	215.1
Prepaid expenses		**14.1**	12.1
		1,314.0	1,389.0
Non-current assets			
Advances, loans receivable and other financial assets	14	**1,616.8**	1,278.8
Other non-financial assets	14	**7.2**	17.1
Finance lease receivables	14	**182.2**	196.0
Property, plant and equipment	16	**1,417.5**	1,430.4
Investments	13	**4.9**	34.7
Investment in an associate	7	**1,089.5**	1,053.1
Goodwill	17	**307.9**	307.9
Intangible assets	18	**790.1**	786.2
Deferred income taxes		**28.2**	2.8
		5,444.3	5,107.0
Assets of discontinued operation	10	**–**	1.5
		$ 6,758.3	$ 6,497.5
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Loans and borrowings	20	**$ –**	$ 56.9
Trade accounts payable and accrued liabilities		**196.6**	179.8
Income taxes payable		**18.3**	25.9
Other financial liabilities	20	**69.7**	69.8
Other non-financial liabilities	20	**15.9**	8.0
Environmental rehabilitation provisions	21	**34.4**	31.9
		334.9	372.3
Non-current liabilities			
Loans and borrowings	20	**2,039.8**	1,687.8
Other financial liabilities	20	**208.1**	205.4
Other non-financial liabilities	20	**9.9**	15.1
Intangible liability		**4.6**	9.1
Environmental rehabilitation provisions	21	**261.8**	235.8
Deferred income taxes		**226.5**	232.1
		2,750.7	2,385.3
Liabilities of discontinued operation	10	**–**	8.2
		3,085.6	2,765.8
Shareholders' equity			
Capital stock	22, 23	**2,806.1**	2,803.1
Retained earnings		**772.9**	784.9
Reserves	22	**194.9**	195.1
Accumulated foreign currency translation reserve	22	**(101.2)**	(51.4)
		3,672.7	3,731.7
		$ 6,758.3	$ 6,497.5

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

Approved by the Board,



Harold (Hap) Stephen
Director

David V. Pathe
Director

Consolidated statements of cash flow

Canadian $ millions, for the years ended December 31	Note	**2012**	2011
Operating activities			
Net earnings for the year		**$ 33.2**	$ 197.3
Add (deduct):			
Depletion, depreciation and amortization	5	**252.9**	224.2
Accretion expense on environmental rehabilitation provisions	21	**4.5**	5.4
Stock-based compensation expense (recovery)	23	**6.6**	(0.6)
Share of loss of an associate, net of tax	7	**2.1**	3.5
Loss on impairment of assets	6	**20.3**	5.6
Loss on impairment of investment	13	**5.6**	–
Net loss (gain) on financial instruments	8	**15.8**	(3.2)
Current income tax expense	9	**59.7**	94.3
Deferred income tax recovery	9	**(29.8)**	(5.1)
Unrealized foreign exchange loss (gain)		**9.1**	(0.1)
Loss on settlement of environmental rehabilitation provisions		**4.6**	5.8
Service concession arrangement	18	**(32.0)**	(21.7)
Cross-guarantee fee amortization	8	**10.6**	12.0
Gain on sale of discontinued operation	10	**(4.7)**	–
Interest income	8	**(37.0)**	(44.3)
Interest expense	8	**138.4**	119.6
Other items		**3.6**	(0.2)
Net change in non-cash working capital	24	**(59.9)**	(88.5)
Interest received		**34.0**	39.1
Interest paid		**(86.3)**	(75.9)
Income tax paid		**(55.4)**	(87.2)
Liabilities settled for environmental rehabilitation provisions	21	**(26.0)**	(25.2)
Cash provided by operating activities		**269.9**	354.8
Investing activities			
Property, plant and equipment expenditures	5	**(137.5)**	(122.3)
Exploration and evaluation intangible expenditures	5	**(4.6)**	(3.7)
Other intangible expenditures	5	**(5.2)**	(3.0)
Increase in advances, loans receivable and other financial assets		**(66.5)**	(46.5)
Repayment of advances, loans receivable and other financial assets		**36.4**	43.4
Investments		**27.2**	26.9
Net proceeds from sale of Master Asset Vehicle note	12	**–**	39.8
Loans to an associate		**(260.4)**	(277.1)
Investment in an associate		**(135.6)**	(149.8)
Net proceeds from sale of property, plant and equipment		**3.3**	2.9
Short-term investments		**100.7**	39.9
Cash used for investing activities		**(442.2)**	(449.5)
Financing activities			
Repayment of loans and borrowings and other financial liabilities		**(158.4)**	(100.0)
Increase in loans and borrowings and other financial liabilities		**90.6**	46.7
Repayment of short-term loans		**–**	(14.2)
Issuance of senior unsecured debentures, net of financing cost	20	**489.6**	391.1
Repayment of senior unsecured debentures	20	**(225.0)**	(273.5)
Increase in finance lease receivables		**(6.9)**	(23.0)
Repayment of finance lease receivables		**25.5**	23.5
Issuance of common shares	22	**1.3**	2.4
Treasury stock – restricted stock plan	22	**(1.6)**	(0.7)
Dividends paid on common shares	22	**(45.2)**	(44.9)
Cash provided by financing activities		**169.9**	7.4
Effect of exchange rate changes on cash and cash equivalents		**(1.5)**	(1.2)
Decrease in cash and cash equivalents		**(3.9)**	(88.5)
Cash and cash equivalents at beginning of the year		**174.6**	263.1
Cash and cash equivalents at end of the year		**$ 170.7**	$ 174.6
Cash and cash equivalents consist of:			
Cash on hand and balances with banks		**$ 48.4**	$ 109.7
Cash equivalents	12	**122.3**	64.9

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

Consolidated statements of changes in shareholders' equity

Canadian $ millions	Capital stock	Retained earnings	Reserves	Accumulated foreign currency translation reserve	Total
	(note 22 and 23)		(note 22)	(note 22)	
Balance as at December 31, 2010	**$ 2,787.3**	**$ 632.5**	**$ 206.6**	**$ (98.1)**	**$ 3,528.3**
Shares issued for:					
Treasury stock – restricted stock plan	(0.7)	–	–	–	(0.7)
Restricted stock plan (vested)	0.1	–	(0.1)	–	–
Employee share purchase plan	2.4	–	–	–	2.4
Stock options exercised	0.1	–	–	–	0.1
Cross-guarantee	13.9	–	(13.9)	–	–
Restricted stock plan amortization	–	–	0.7	–	0.7
Employee share purchase plan expense	–	–	0.7	–	0.7
Stock option plan expense	–	–	1.1	–	1.1
Dividends declared to common shareholders	–	(44.9)	–	–	(44.9)
Total comprehensive income:					
Net earnings for the year	–	197.3	–	–	197.3
Foreign currency translation differences on foreign operations	–	–	–	46.7	46.7
	–	197.3	–	46.7	244.0
Balance as at December 31, 2011	**$ 2,803.1**	**$ 784.9**	**$ 195.1**	**$ (51.4)**	**$ 3,731.7**
Shares issued for:					
Treasury stock – restricted stock plan	(1.6)	–	–	–	(1.6)
Restricted stock plan (vested)	0.9	–	(0.9)	–	–
Employee share purchase plan	3.7	–	(2.4)	–	1.3
Restricted stock plan amortization	–	–	1.3	–	1.3
Employee share purchase plan expense	–	–	0.2	–	0.2
Stock option plan expense	–	–	1.6	–	1.6
Dividends declared to common shareholders	–	(45.2)	–	–	(45.2)
Total comprehensive income:					
Net earnings for the year	–	33.2	–	–	33.2
Foreign currency translation differences on foreign operations	–	–	–	(49.8)	(49.8)
	–	33.2	–	(49.8)	(16.6)
Balance as at December 31, 2012	**$ 2,806.1**	**$ 772.9**	**$ 194.9**	**$ (101.2)**	**$ 3,672.7**

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 per share amounts)

Note 1 Nature of operations and corporate information

Sherritt International Corporation (the Corporation or Sherritt) is a diversified Canadian natural resource company that operates principally in Canada and Cuba and has a significant mining project in Madagascar (Ambatovy Joint Venture) that has recently commenced production. The Corporation, either directly or through its subsidiaries, has significant interests in nickel and cobalt mining, processing and refining; thermal coal technology and production; oil and gas exploration, development and production; and electricity generation. The Corporation also licenses its proprietary technologies to other mining companies.

The Corporation is domiciled in Ontario, Canada and its registered office is 1133 Yonge Street, Toronto, Ontario, M4T 2Y7. These consolidated financial statements were approved and authorized for issuance by the Board of Directors of Sherritt on February 26, 2013. The Corporation is listed on the Toronto Stock Exchange.

Note 2 Summary of significant accounting policies

2.1 Basis of Presentation

The consolidated financial statements of the Corporation, the parent company, are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). These financial statements include the accounts of the Corporation's interest in its subsidiaries, joint ventures and an associate.

The consolidated financial statements are prepared on a going concern basis, under the historical cost convention except for certain financial assets which are presented at fair value in Canadian dollars, the Corporation's reporting currency. All financial information is presented in Canadian dollars rounded to the nearest hundred thousand, except as otherwise noted.

The significant accounting policies described below are consistently applied to all the periods presented.

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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

2.2 Principles of Consolidation

These consolidated financial statements include the financial position, results of operations and cash flows of the Corporation, its subsidiaries, its interest in an associate, and its proportionate interest in joint ventures. Intercompany balances, transactions, income and expenses, profits and losses, including unrealized gains and losses relating to subsidiaries and joint ventures, have been eliminated on consolidation.

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

	Relationship	Geographic location	Economic interest	Basis of accounting
Metals				
Moa Joint Venture	Jointly controlled entity		50%	Proportionate consolidation
Composed of the following operating companies:				
International Cobalt Company Inc.		Bahamas	50%	
Moa Nickel S.A.		Cuba	50%	
The Cobalt Refinery Company Inc.		Canada	50%	
Ambatovy Joint Venture	Associate		40%	Equity method
Composed of the following operating companies:				
Ambatovy Minerals S.A.		Madagascar	40%	
Dynatec Madagascar S.A.		Madagascar	40%	
Coal				
Prairie Mines & Royalty Limited(1)	Subsidiary	Canada	100%	Full consolidation
Coal Valley Resources Inc.(2)	Subsidiary	Canada	100%	Full consolidation
Carbon Development Partnership	Jointly controlled entity	Canada	50%	Proportionate consolidation
Oil and Gas				
Sherritt International (Cuba) Oil and Gas Ltd.	Subsidiary	Cuba	100%	Full consolidation
Sherritt International Oil and Gas Ltd.	Subsidiary	Canada	100%	Full consolidation
Power				
Energas S.A. (Energas)	Jointly controlled entity	Cuba	$33\frac{1}{3}$%	Proportionate consolidation

(1) In June 2012, the Corporation wound up Royal Utilities Income Fund, transferring its ownership interest in Prairie Mines & Royalty Limited (PMRL) to a wholly owned subsidiary of the Corporation. The wind up and transfer of ownership had no impact on the consolidated financial statements. Any reference to PMRL throughout the notes to the consolidated financial statements should be understood to mean Royal Utilities prior to June 2012.

(2) In November 2011, Sherritt dissolved Coal Valley Partnership (CVP), transferred its ownership interest in Coal Valley Resources Inc. (CVRI) to a wholly-owned subsidiary of Sherritt, and amalgamated the wholly-owned subsidiary of Sherritt with CVRI. Any reference to CVP throughout the notes to the consolidated financial statements should be understood to mean CVRI after November 2011.

SUBSIDIARIES

Subsidiaries are entities over which the Corporation has control, where control is defined as the power to govern financial and operating policies to obtain benefits from its activities. Control is presumed to exist where the Corporation has a shareholding of more than one half of the voting rights in its subsidiaries. The potential impact of voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Corporation and are de-consolidated from the date control ceases.

INTERESTS IN JOINT VENTURES

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the sharing of control under contractual agreement, such that significant operating and financing decisions require the unanimous consent of the parties sharing control. The Corporation has two types of joint ventures:

(i) Jointly controlled entities

A jointly controlled entity involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. It operates in the same way as other entities: controlling the assets of the joint venture, earning its own income and incurring its own liabilities and expenses. Interests in jointly controlled entities are accounted for using proportionate consolidation.

(ii) Jointly controlled operations

Alternatively, the Corporation has entered into certain contractual arrangements with other participants to engage in joint activities without establishing a separate entity. Each venturer uses its own assets, incurs its own expenses and liabilities and funds its own participation in the operation.

These consolidated financial statements include the Corporation's share of the assets in such jointly controlled entities and jointly controlled operations, together with the liabilities, revenue and expenses arising jointly, or otherwise, from them. These amounts are measured in accordance with the terms of each arrangement, which are usually in proportion to the Corporation's interest in each.

ASSOCIATE

An associate is an entity over which the Corporation has significant influence but does not have the power to control the financial and operating policies of the entity.

- 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 the 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;
- Unrealized gains and losses on transactions between the Corporation and its associate are eliminated to the extent of the Corporation's interest in this entity. Unrealized 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 eliminated.

2.3 Discontinued operations

Individual non-current assets or disposal groups (i.e. groups of assets and liabilities to be disposed of, by sale or otherwise) are classified as held for sale, and presented as discontinued operations if the first and second or third of the following criteria are met:

- The disposal group represents a separate major line of business or geographical area of operations;
- The disposal group is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- The disposal group is a subsidiary acquired solely for the purpose of resale.

Assets or disposal groups that meet these criteria are measured at the lower of carrying amount and fair value less costs to sell. The assets and liabilities of the disposal group are presented separately on the face of the consolidated statements of financial position as a single asset and a single liability, respectively. The comparative period consolidated statements of financial position are not restated.

When the fair value less costs to sell of a disposal group is lower than the carrying amount at the time of classification as held for sale, the resulting impairment is recognized in cost of sales or administrative expenses, depending on the assets, in the consolidated statements of comprehensive income (loss) in that period. A gain for any subsequent increase in fair value less costs to sell of a disposal group is recognized, but not in excess of the cumulative impairment loss.

Non-current assets held for sale are not depreciated or amortized. Interest and other expenses attributable to the liabilities of a disposal group are recognized.

The results of such discontinued operations are shown separately in the consolidated statements of comprehensive income (loss), and comparative figures are restated. When the sale is expected to occur beyond one year, the costs to sell are measured at their present value. Any increase in the present value of the costs to sell arising from the passage of time is presented as a financing expense.

2.4 Statements of cash flow

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 and dividends received are presented as an operating activity on the consolidated statements of cash flow. The Corporation presents the consolidated statements of cash flow using the indirect method.

2.5 Basis of segmented disclosure

The Corporation's reportable segments are business units that offer distinct products and services.

- The Metals segment mainly comprises the mining, processing and marketing of commodity nickel and cobalt and includes the production and sale of agricultural fertilizers.
- The Coal segment mines and sells thermal coal primarily for use as fuel to generate electricity and holds a portfolio of royalty assets. It also leases equipment to certain customers and operates a contract mine and a 50%-owned mine.
- The Oil and Gas segment includes exploration and development of oil and gas in Cuba, Spain, Pakistan and the United Kingdom.

- The Power segment constructs and operates electricity generating plants that provide electricity in Cuba and owns an electricity generating plant in Madagascar.
- The Corporate and Other segment is comprised of the metallurgical technology business, mineral products division, management of cash and short-term investments, and general corporate activities.

When determining its reportable segments, the Corporation considers qualitative factors, such as operations which are considered to be significant by the Chief Operating Decision Makers (senior management). 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. The reportable segments' financial results are reviewed by senior management.

2.6 Revenue recognition

Revenue from the sale of goods and services is recognized when the Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods, the Corporation retains neither continuing managerial involvement nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Corporation, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

METALS

In Metals, these criteria are generally met when the transfer of ownership, as specified in the sales contract, is fulfilled, which is upon shipment or delivery to destination.

Certain Metals product sales 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 marked-to-market based on a forecast of reference prices at that time. The adjustment to accounts receivable is recorded as an adjustment to sales 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.

COAL

In Coal's Prairie Operations, which consist of the operations of PMRL, these criteria are generally met for coal sales to utility customers when the coal is delivered to the generating station; for coal and char sales to other customers, this occurs when the coal is loaded for transportation at the mine; for activated carbon sales, this generally occurs when the product is delivered to the customer's specified facilities.

The agreements at the Highvale and Genesee mines include management and other fees and reimbursement of direct operating costs. The Corporation is the principal in these agreements and records revenues and expenses on a gross basis. Management and other fees are recorded as revenue when the contractual conditions for reimbursement are met, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Corporation, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Royalty revenue is recognized when the underlying commodity is extracted.

Finance lease income is recorded in financing income, and realized over the term of the lease, which is the useful life of the leased equipment based on a constant periodic rate of return determined at the inception of the arrangement on the Corporation's net investment in the finance lease.

In Coal's Mountain Operations, revenue from export thermal coal is recognized when the coal has been loaded onto marine vessels at terminal locations. For domestic coal sales to utility customers, revenue recognition occurs when the coal is loaded for transportation at the mine.

OIL AND GAS

In Oil and Gas, these criteria are met at the time of production based on the Corporation's working interest. In Cuba, all oil production is sold to the Cuban government and, accordingly, 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 and gas 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, ranging generally between 50% and 60% of total production. Revenue from profit oil represents the Corporation's share of oil production after cost recovery oil production is deducted. 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.

POWER

Substantially all of Power's revenue is from agencies of the Government of Cuba, with the revenue recognition criteria met at the time electricity is delivered or services are performed.

The facilities located in Boca de Jaruco and Puerto Escondido Cuba operate under a service concession arrangement. In accordance with the accounting guidance for service concession arrangements, Power revenue on operational facilities is recognized at the time electricity is delivered or services are performed, and construction revenue is recorded during periods of new construction, enhancement or upgrade activities. The construction revenue relates to the exchange transaction whereby the Corporation provides design, construction and operating services at Boca de Jaruco or Puerto Escondido in return for the right to charge the Government of Cuba for the future supply of electricity.

The facilities located in Varadero Cuba and in Madagascar operate under a lease arrangement, 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 rendered and is recognized as lease payments become due. Operating lease revenue related to the Madagascar facility provides for a fixed return based on the original construction costs of that facility, and is denominated in Euros.

INTEREST AND ROYALTIES

Interest revenue is recognized using the effective interest method; royalties are recognized on an accrual basis in accordance with the substance of the relevant agreement.

2.7 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 ventures and associate is the currency of the primary economic environment in which it operates. Operations with foreign functional currencies are translated into Canadian dollars 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; and
- Exchange gains and losses that result from translation are recognized as a foreign currency translation adjustment in accumulated foreign currency translation reserve.

TRANSLATION OF TRANSACTIONS AND BALANCES

Operations with Canadian dollar functional currencies translate transactions in foreign currencies at rates of exchange at the time of such transactions as follows:

- Monetary assets and liabilities are translated at current rates of exchange with the resulting gains or losses recognized within financing income or 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 net financing income (expense) in the consolidated statements of comprehensive income (loss).

2.8 Property, plant and equipment

Property, plant and equipment include capitalized development and pre-production expenditures that are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Also included in the cost of property, plant and equipment are borrowing costs on qualifying capital projects. These are incurred while construction is in progress and before the commencement of commercial production. Once construction of an asset is substantially complete and the asset is ready for its intended use, the costs are depreciated.

PLANT, EQUIPMENT AND LAND

Plant, equipment and land includes 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, equipment and land when the parts and equipment are significant and are expected to be used over a period greater than a year, or when the parts and equipment can be used only in connection with an item of plant, equipment and land. Major inspections and overhauls required at regular intervals over the useful life of an item of plant, equipment and land 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	5 to 50 years
Office equipment	3 to 35 years
Fixtures and fittings	3 to 35 years
Assets under construction	not depreciated during development period

MINING PROPERTIES

Mining properties include acquisition costs and development costs related to mines in production, properties under development and properties held for future development. Ongoing pre-development costs relating to properties held for future development are expensed as incurred, including property carrying costs, drilling and other exploration costs. Once a project is determined to be commercially viable, development costs are capitalized. 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.

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, including exploration costs. 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.

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.

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.

2.9 Leases

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 LESSOR

The finance lease receivable is measured at the present value of the future lease payments at the inception of the arrangement. Lease payments received are composed of a repayment of principal and finance income. Finance income is recognized based on the interest rate implicit in the finance lease. The Corporation recognizes finance income over a period of between 1 and 43 years, which reflects a constant periodic return on the lessor's net investment in the finance lease. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognized over the lease term.

Assets subject to operating leases are recognized and classified according to the nature of the asset. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and expensed over the lease term on the same basis as the lease income. The depreciation policy for leased assets is consistent with the Corporation's depreciation policy for similar assets.

CORPORATION AS A LESSEE

Finance leases are capitalized 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.

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.

2.10 Overburden removal costs

The costs of removing overburden to access mineral reserves, referred to as stripping costs, are accounted for as variable production costs to be included in the cost of inventory, unless overburden removal creates value beyond providing access to the underlying reserve, in which case these costs are capitalized and depreciated using the units-of-production basis to cost of sales over the life of the related mineral reserves.

2.11 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. Intangible assets are also recognized when acquired individually or with a group of other assets. Intangible assets are initially recorded at their estimated fair value. 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. They are reviewed for impairment at least annually. 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 coal and mineral deposits are recognized in cost of sales as incurred until it is established that the mineral property has development potential, which generally occurs once the mineral deposit is classified as a proven and probable reserve.

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:

Royalty agreements	42 to 53 years
Mining contracts	over life of mine
Customer relationships	53 years
Contractual arrangements	15 years
Customer contract	2 years
Technical knowledge	10 years
Service concession arrangements	12 years
Exploration and evaluation	not amortized during development period

2.12 Goodwill

Goodwill represents the excess purchase price over the fair value of the net assets acquired, including tangible and identifiable intangible assets. Goodwill resulting from the acquisition of a business is not amortized but tested for impairment annually or more frequently if circumstances indicate a potential impairment.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2.13 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 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. The Corporation tests goodwill for impairment annually.

An impairment loss is the amount equal to the excess of the carrying amount over the recoverable amount. 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). The best evidence of fair value is a quoted price in an active market or a binding sale agreement for the same or similar asset(s). Where neither exists, fair value is based on the best information available to estimate the amount the Corporation could obtain from the sale of the asset(s) in an arm’s length transaction. This is often accomplished by using a discounted cash flow technique.

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. The carrying amounts of assets of the corporate head office that have not been allocated to a CGU are compared to their recoverable amounts to determine if there is any impairment loss.

For CGUs with goodwill associated with them, an impairment loss is allocated first to any goodwill and then pro-rata to other assets within that group.

If, after the Corporation has previously recognized an impairment loss, circumstances indicate that the fair value of the impaired assets is greater than the carrying amount, the Corporation reverses the impairment loss by the amount the revised fair value 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 cost of sales, or administrative expense, depending on the nature of the asset. Impairment of goodwill is not reversed.

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.

GOODWILL

Goodwill recognized on acquisition of a business is typically allocated to the CGUs of the acquired business for the purpose of impairment testing. However, allocation of goodwill is based on the lowest level at which management monitors it (not exceeding the level of an operating segment). The Corporation allocated the goodwill arising from the acquisition of PMRL to Coal's Prairie Operations. Recoverable amount for the purposes of impairment testing is based on fair value less cost to sell, where fair value is estimated based on an estimate of discounted future cash flows. The Corporation has elected to perform its annual impairment test as at October 1 each fiscal year.

2.14 Impairment of financial assets

At each reporting date, the Corporation assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Financial assets include advances, loans receivable, investments and the investment in an associate. A financial asset or a group of financial assets is impaired if there is objective evidence that the estimated future cash flows of the financial asset or the group of financial assets have been negatively impacted. Evidence of impairment may include indications that debtors are experiencing financial difficulty, default or delinquency in interest or principal payments, or other observable data which indicates that there is a measurable decrease in the estimated future cash flows.

IMPAIRMENT OF ADVANCES, LOANS RECEIVABLE AND INVESTMENTS

If an impairment loss has occurred, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the loss is recognized in financing expense. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of financing income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Corporation.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If an impairment is later recovered, the recovery is credited to financing income.

IMPAIRMENT OF THE INVESTMENT IN AN ASSOCIATE

At each reporting date, the Corporation assesses whether there is any indication that the carrying amount of the Corporation's investment in an associate, including related mineral rights, may be impaired. Significant changes in commodity prices 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 an associate over the recoverable amount (higher of value in use and fair value less costs to sell). The fair value less costs to sell is based on estimated future recoverable production, expected commodity or contracted prices (considering current and historical prices, price trends and related factors), 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.

2.15 Provisions

In general, 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, the 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 if 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 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.

2.16 Income taxes

The income tax expense or benefit 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 by 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 associated with goodwill;

- 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 where they relate to income taxes levied by the same taxation authority on the same taxable entity and where 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).

2.17 Stock-based compensation

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, the Restricted Stock Plan (RSP) and Employee Share Purchase Plan (Share Purchase Plan). RSP obligations are settled by the purchase of shares on the open market. Equity-settled stock options and Share Purchase Plan obligations are settled by the issuance of shares from treasury. The fair value of the share plans is recognized as an expense over the expected vesting period with a corresponding entry to shareholders’ equity. 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 grants issued under the stock options plan and Share Purchase 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 Corporation’s cash-settled share plans, including stock options with tandem stock appreciation rights (Options with Tandem SARs), stock appreciation rights (SARs), Restricted Share Units (RSUs) 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 and SARs is determined based on the application of the Black-Scholes option valuation model at the date granted and expensed over the vesting period of the awards based on 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. No adjustment is made after the vesting date even if the awards are forfeited or not exercised. 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 RSUs and 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.

2.18 Post-employment benefits

Post-retirement benefits, primarily relating to the pension plans, are presented in these consolidated financial statements in accordance with IAS 19, “Employee Benefits”. The Corporation has both defined benefit and defined contribution plans.

A defined contribution plan is a post-employment benefit plan under which the Corporation pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in cost of sales and administrative expenses in the consolidated statements of comprehensive income (loss) in the periods during which services are rendered by employees.

Certain employees are covered under defined benefit pension plans, which provide pensions based on length of service and final average earnings. The asset or liability recognized in the consolidated statements of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date, less the fair value of plan assets, together with adjustments for unrecognized past service costs. When the calculation results in a benefit to the Corporation, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. An economic benefit is available to the Corporation if it is realizable during the life of the plan, or on settlement of the plan liabilities.

The defined benefit pension liability and expense are measured actuarially using the projected benefit method. Obligations for contributions to defined benefit pension plans are recognized as an employee benefit expense in cost of sales and administrative expenses in the consolidated statements of comprehensive income (loss) in the periods during which services are rendered by employees. Defined benefit pension costs are based on management's best estimate of expected plan investment performance, discount rate, salary escalation and retirement age of employees. The discount rate used to determine the accrued benefit obligation is based on market interest rates, as at the measurement date, for high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. Plan assets are valued at fair value for the purpose of calculating the expected return on plan assets.

Vested past service costs are recognized immediately. Unvested past service costs are recognized over the vesting period. Net actuarial gains (losses) over 10% of the greater of the benefit obligation and the fair value of plan assets are amortized on a straight-line basis over the average remaining service life of active employees (the Corridor approach).

2.19 Financial instruments

Management determines the classification of financial assets and financial liabilities at initial recognition and, except in very limited circumstances, the classification is not changed subsequent to initial recognition. The classification depends on the purpose for which the financial instruments were acquired, their characteristics and/or management's intent. Transaction costs with respect to instruments not classified as held for trading are recognized as an adjustment to the cost of the underlying instruments and amortized using the effective interest method.

The Corporation's financial instruments were classified in the following categories:

FINANCIAL ASSETS

Financial assets at fair value through profit or loss – Held for trading:

- Restricted cash; cash equivalents; short-term investments; Ambatovy call option.

Financial assets at fair value through profit or loss – Fair value option:

- Master asset vehicle notes (MAV notes).

Loans and receivables, measured at amortized cost:

- Cash on hand and balances at bank; advances and loans receivable; other financial assets; trade accounts receivable; Cuban certificates of deposit; finance lease receivable.

FINANCIAL LIABILITIES

Other financial liabilities, measured at amortized cost:

- Trade accounts payable and accrued liabilities; advances and loans payable; loans and borrowings; finance leases and other equipment financing; other financial liabilities.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

An instrument is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term or if so designated by management. Financial instruments included in this category are initially recognized at fair value and transaction costs are taken directly to earnings along with gains and losses arising from changes in fair value.

TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are initially recognized at fair value including direct and incremental transaction costs and are subsequently measured at amortized cost reduced for any impairment losses. A provision for impairment of trade accounts receivable is established when there is objective evidence that an amount will not be collectible or, in the case of long-term receivables, if there is evidence that the amount will not be collectible in accordance with payment terms.

TRADE ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Trade accounts payable and accrued liabilities are initially recognized at fair value including direct and incremental transaction costs and are subsequently measured at amortized cost using the effective interest method.

LOANS AND BORROWINGS

Loans and borrowings include short-term loans and long-term loans. These liabilities are initially recognized at fair value net of transaction costs and are subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recorded in financing expense or financing income in the consolidated statements of comprehensive income (loss) over the period of the borrowings using the effective interest method.

Loans and borrowings are classified as a current liability unless the Corporation has an unconditional right to defer settlement for at least 12 months after the consolidated statements of financial position date.

OTHER FINANCIAL ASSETS AND LIABILITIES

Other financial assets include primarily other loans and receivables. Other financial liabilities include primarily other loans and payables. Other financial assets are initially recognized at fair value net of transaction costs and are subsequently measured at amortized cost. Other financial liabilities are initially recognized at fair value net of transaction costs and are subsequently measured at amortized cost using the effective interest method.

DERIVATIVE INSTRUMENTS

Derivative instruments, including embedded derivatives, are recorded at fair value unless exempted from derivative treatment as normal purchase and sale. All changes in their fair value are recorded in net earnings.

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.

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 quoted prices in active markets for identical assets and liabilities;
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.

The Corporation's financial assets subject to the measurement hierarchy are provided in note 12.

2.20 Inventories

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.

Uncovered coal and finished products at Coal are valued at the lower of average production cost and net realizable value, with cost determined on a standard cost basis under which it applies a standard inventory rate per tonne to its ending inventory. The standard cost is set annually based on budgeted costs for the annual period and includes labour, repairs and maintenance, fixed and variable operating costs, as well as an allocation of capital expenditures. Coal compares the standard cost to actual production costs on a quarterly basis. In the event that there is a discrepancy, Coal investigates to determine the factors causing the variance, and adjust appropriately if the differences are caused by other than temporary fluctuations.

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.

2.21 Government grants

Government grants are not recognized until there is reasonable assurance that the Corporation has complied with the conditions required to receive the grant.

Government grants that are contingent on the Corporation purchasing, constructing or otherwise acquiring non-current assets are recognized as a reduction in the carrying amount of the assets and recognized as a reduction of depreciation within cost of sales or administrative expenses, depending on the nature of the asset, in the consolidated statements of comprehensive income (loss) on a rational basis over the useful lives of the related assets.

Other government grants are recognized as a reduction in the related expense over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred, or for the purpose of giving immediate financial support to the Corporation with no future related costs, are recognized in the consolidated statements of comprehensive income (loss) in the period in which they become receivable.

Note 3 Critical accounting estimates and judgments

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.

3.1 Critical accounting estimates

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 MINING AND OIL AND GAS PROPERTIES

Reserves are estimates of the amount of product that can be economically and legally extracted from the Corporation's mining and 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 impairment analysis.

In calculating reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, production decline rates, recovery rates, production costs, commodity demand, 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.

Nickel, cobalt, thermal and metallurgical coal, and potash estimates are based on information compiled by or under supervision of a qualified person as defined under National Instrument 43-101, Standards of Disclosure for Mineral Projects within Canada. Substantially all of the oil and gas reserves have been evaluated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities.

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 units-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 assets 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.

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 income 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 income 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.

MEASUREMENT OF UNQUOTED FINANCIAL INSTRUMENTS

The Corporation has estimated the fair value of the Ambatovy call option and the MAV notes. The fair value of the Ambatovy call option is determined by applying the Black-Scholes model, which requires estimates and assumptions such as future commodity prices, equity volatilities and interest rates. The fair values of the MAV notes that were not widely traded were determined based on estimates of future cash flows, assumptions about the timing of settlement, interest rates, credit risk, and by incorporating other assumptions made by market participants.

MEASURING THE FAIR VALUE OF THE CORPORATION'S INTEREST IN THE AMBATOVY JOINT VENTURE

The Corporation measured its remaining interest in the Ambatovy Joint Venture at fair value on the date Sherritt entered the additional loan agreements. This formed the cost basis of the investment in an associate balance. Calculating the fair value required estimates and assumptions to be made regarding future cash flows, including estimated commodity prices, interest rates, input prices and other factors. The investment is accounted for using the equity method.

3.2 Critical accounting judgments

PROPERTY, PLANT AND EQUIPMENT

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.

ASSET IMPAIRMENT

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. Goodwill is tested for impairment annually. 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.

OVERBURDEN REMOVAL COSTS

Overburden removal costs are capitalized and depreciated over the useful lives when the overburden removal activity can be shown to create value beyond providing access to the underlying reserve. In many cases, this determination is a matter of judgment.

EXPLORATION AND EVALUATION

Management must make estimates and assumptions 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 estimates and assumptions as to future events and circumstances, in particular whether an economically viable operation can be established. Any such estimates and assumptions 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).

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.

ARRANGEMENTS CONTAINING A LEASE

The Corporation determined that certain property, plant and equipment at Coal are subject to finance lease arrangements, and that the Power facilities in Varadero, Cuba and Madagascar 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.

Note 4 Accounting pronouncements

IFRS 7 – Financial instruments: disclosures

IFRS 7, “Financial instruments: disclosure” (IFRS 7) was amended by the IASB in December 2011. The amendment contains new disclosure requirements for financial assets and financial liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. These new disclosure requirements will enable users of the financial statements to better compare financial statements prepared in accordance with IFRS and US GAAP. IFRS 7 is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have a significant impact on the Corporation’s consolidated financial statements.

IFRS 9 – Financial instruments

IFRS 9, “Financial instruments” (IFRS 9) was issued by the IASB in November 2009 and will replace IAS 39, “Financial Instruments: Recognition and Measurement” (IAS 39). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. This standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

In December 2011, the IASB issued amendments to IFRS 9 that defer the mandatory effective date to annual periods beginning on or after January 1, 2015. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9 which was originally limited to companies that chose to apply IFRS 9 prior to 2012. Alternatively, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments. The Corporation is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

IFRS 10 – Consolidated financial statements

IFRS 10, "Consolidated financial statements" (IFRS 10) was issued by the IASB in May 2011 and will replace SIC 12, "Consolidation – Special purpose entities" and parts of IAS 27, "Consolidated and separate financial statements". Under the existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires an entity that controls one or more other entities to present consolidated financial statements; (ii) defines the principle of control and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

IFRS 11 – Joint arrangements

IFRS 11, "Joint arrangements" (IFRS 11) was issued by the IASB in May 2011 and will supersede IAS 31, "Interest in joint ventures" and SIC 13, "Jointly controlled entities – non-monetary contributions by venturers". IFRS 11 will require joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement will no longer be the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. The standard removes the option to account for joint ventures using proportionate consolidation and requires equity accounting. Venturers will transition the accounting for joint ventures from the proportionate consolidation method to the equity method by aggregating the carrying values of the proportionately consolidated assets and liabilities into a single line item on their financial statements. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The Corporation currently expects the Moa Joint Venture to be classified as an Investment in Joint Venture which would be presented using equity accounting. Under this accounting treatment, Sherritt would deconsolidate the proportionate results of the Moa Joint Venture and present this arrangement as a single line item on the consolidated financial statements. This accounting change will significantly reduce the Corporation's assets and liabilities on a line-by-line basis.

IFRS 12 – Disclosure of interests in other entities

IFRS 12, "Disclosure of interests in other entities" (IFRS 12) was issued by the IASB in May 2011. IFRS 12 requires enhanced disclosure of information about involvement with consolidated and unconsolidated entities, including structured entities commonly referred to as special purpose vehicles or variable interest entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Sherritt will include these enhanced disclosures within the Corporation's first quarter 2013 consolidated financial statements.

IFRS 13 – Fair value measurement

IFRS 13, "Fair value measurement" (IFRS 13) was issued by the IASB in May 2011. This standard clarifies the definition of fair value, requires disclosures for fair value measurement, and sets out a single framework for measuring fair value. IFRS 13 provides guidance on fair value in a single standard, replacing the existing guidance on measuring and disclosing fair value which is dispersed among several standards. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The adoption of this standard is not currently expected to have a significant impact on the Corporation's consolidated financial statements.

IAS 1 – Presentation of financial statements

An amendment to IAS 1, "Presentation of financial statements" (IAS 1) was issued by the IASB in June 2011. The amendment requires separate presentation for items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met, from those that would never be reclassified to profit or loss. The effective date is for annual periods beginning on or after July 1, 2012. The adoption of this standard is not currently expected to have a significant impact on the Corporation's consolidated financial statements.

IAS 19 – Employee benefits

An amendment to IAS 19, "Employee benefits" (IAS 19) was issued by the IASB in June 2011. The amendment requires the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminates the "corridor approach" permitted under the current version of IAS 19. The amendment also requires the Corporation's actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit. The amended standard is effective for annual periods beginning on or after January 1, 2013.

IAS 27 – Separate financial statements

IAS 27, "Separate financial statements" (IAS 27) was re-issued by the IASB in May 2011 to only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The consolidation guidance will now be included in IFRS 10. The amendments to IAS 27 are effective for annual periods beginning on or after January 1, 2013. The Corporation has determined that this standard is not applicable to the consolidated financial statements.

IAS 28 – Investments in associates and joint ventures

IAS 28, "Investments in associates and joint ventures" (IAS 28) was re-issued by the IASB in May 2011. IAS 28 continues to prescribe the accounting for investments in associates but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that have an ownership interest with joint control of, or significant influence over, an investee. The amendments to IAS 28 are effective for annual periods beginning on or after January 1, 2013. The adoption of this standard is not currently expected to have a significant impact on the Corporation's consolidated financial statements.

IAS 32 – Financial instruments: presentation

IAS 32, "Financial instruments: presentation" (IAS 32) was amended by the IASB in December 2011. The amendment clarifies that an entity has a legally enforceable right to offset financial assets and financial liabilities if that right is not contingent on a future event and it is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014. The Corporation is currently evaluating the impact of the amendments on its consolidated financial statements.

IFRIC 20 – Stripping costs in the production phase of a surface mine

IFRIC 20, "Stripping costs in the production phase of a surface mine" (IFRIC 20) was issued by the IASB in October 2011. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013. The standard requires stripping costs incurred during the production phase of a surface mine to be capitalized as part of an asset, if certain criteria are met, and depreciated on a units-of-production basis unless another method is more appropriate. The adoption of this standard is not expected to have a significant impact on the Corporation's consolidated financial statements.

Note 5 Segmented information

Business segments

Canadian $ millions, for the year ended December 31						**2012**
	Metals[1]	**Coal**	**Oil and Gas**	**Power**	**Corporate and Other**	**Total**
Revenue	$ 481.8	$ 975.0	$ 300.9	$ 70.0	$ 12.5	$ 1,840.2
Cost of sales	386.1	924.8	126.4	55.5	13.2	1,506.0
Gross profit (loss)	95.7	50.2	174.5	14.5	(0.7)	334.2
Administrative expenses	6.0	14.3	12.4	3.5	48.5	84.7
Operating profit (loss)	89.7	35.9	162.1	11.0	(49.2)	249.5
Loss on impairment of investment	–	(5.6)	–	–	–	(5.6)
Share of loss of associate	(2.1)	–	–	–	–	(2.1)
Earnings (loss) from operations and associate	87.6	30.3	162.1	11.0	(49.2)	241.8
Financing income	15.4	(17.4)	(4.7)	(2.3)	(12.2)	(21.2)
Financing expense	94.5	16.1	(3.6)	(16.5)	113.8	204.3
Net finance expense (income)	109.9	(1.3)	(8.3)	(18.8)	101.6	183.1
Earnings (loss) before tax	(22.3)	31.6	170.4	29.8	(150.8)	58.7
Income tax expense (recovery)	4.0	(0.7)	57.3	1.5	(32.2)	29.9
Net earnings (loss) from continuing operations	(26.3)	32.3	113.1	28.3	(118.6)	28.8
Earnings from discontinued operation	–	–	–	–	4.4	4.4
Net earnings (loss) for the year	$ (26.3)	$ 32.3	$ 113.1	$ 28.3	$ (114.2)	$ 33.2
Supplementary information						
Depletion, depreciation and amortization	$ 36.1	$ 135.0	$ 68.4	$ 11.0	$ 2.4	$ 252.9
Property, plant and equipment expenditures	32.8	58.2	41.9	0.9	3.7	137.5
Intangible asset expenditures	–	–	4.6	5.2	–	9.8

Canadian $ millions, as at December 31						**2012**
Non-current assets[2]	$ 659.4	$ 1,436.9	$ 203.9	$ 197.0	$ 18.3	$ 2,515.5
Total assets	$ 3,277.1	$ 1,906.3	$ 1,007.7	$ 462.3	$ 104.9	$ 6,758.3

(1) Included in the Metals segment are revenues and cost of sales of $17.1 million recognized by a subsidiary of the Corporation established to buy, market and sell certain of Ambatovy's nickel production.

(2) Non-current assets are composed of property, plant and equipment, goodwill and intangible assets.

Canadian $ millions, for the year ended December 31						2011
	Metals	Coal	Oil and Gas	Power	Corporate and Other	Total
Revenue	$ 550.4	$ 1,050.5	$ 304.9	$ 60.0	$ 12.5	$ 1,978.3
Cost of sales	366.2	930.0	123.8	44.6	17.1	1,481.7
Gross profit (loss)	184.2	120.5	181.1	15.4	(4.6)	496.6
Administrative expenses	14.4	16.0	11.1	0.9	40.0	82.4
Operating profit (loss)	169.8	104.5	170.0	14.5	(44.6)	414.2
Share of loss of associate	(3.5)	–	–	–	–	(3.5)
Earnings (loss) from operations and associate	166.3	104.5	170.0	14.5	(44.6)	410.7
Financing income	(2.9)	(18.5)	(7.1)	(2.3)	(16.7)	(47.5)
Financing expense	71.1	16.0	14.5	(15.7)	84.6	170.5
Net finance expense (income)	68.2	(2.5)	7.4	(18.0)	67.9	123.0
Earnings (loss) before tax	98.1	107.0	162.6	32.5	(112.5)	287.7
Income tax expense (recovery)	31.4	11.7	57.0	1.1	(12.0)	89.2
Net earnings (loss) from continuing operations	66.7	95.3	105.6	31.4	(100.5)	198.5
Loss from discontinued operation	–	–	–	–	(1.2)	(1.2)
Net earnings (loss) for the year	$ 66.7	$ 95.3	$ 105.6	$ 31.4	$ (101.7)	$ 197.3
Supplementary information						
Depletion, depreciation and amortization	$ 30.6	$ 119.7	$ 61.1	$ 10.6	$ 2.2	$ 224.2
Property, plant and equipment expenditures	37.2	22.3	59.3	2.7	0.8	122.3
Intangible asset expenditures	–	–	3.7	3.0	–	6.7

Canadian $ millions, as at December 31						2011
Non-current assets[1]	$ 666.7	$ 1,432.9	$ 234.9	$ 173.1	$ 16.9	$ 2,524.5
Total assets	$ 2,926.1	$ 1,937.2	$ 919.0	$ 436.5	$ 278.7	$ 6,497.5

[1] Non-current assets are composed of property, plant and equipment, goodwill and intangible assets.

Geographic segments

For its geographic segments, the Corporation has allocated assets based on their physical location.

Canadian $ millions, as at		**2012 December 31**		2011 December 31
	Non-current assets[1]	**Total assets**	Non-current assets[1]	Total assets
Canada	**$ 1,744.5**	**$ 2,984.0**	$ 1,735.9	$ 3,058.4
Cuba	**750.1**	**1,304.7**	765.6	1,281.1
Madagascar	**10.0**	**2,387.0**	12.9	2,052.2
Europe	**9.6**	**33.5**	8.6	24.5
Asia	**1.3**	**2.3**	1.5	2.2
Other	**–**	**46.8**	–	79.1
	$ 2,515.5	**$ 6,758.3**	$ 2,524.5	$ 6,497.5

[1] Non-current assets are composed of property, plant and equipment, goodwill and intangible assets.

For its geographic segments, the Corporation has allocated revenue based on the location of the customer.

Canadian $ millions, for the years ended December 31	**2012**	2011
	Total revenue	Total revenue
Canada	**$ 729.1**	$ 705.3
Cuba	**354.4**	344.5
Madagascar	**9.4**	10.0
Europe	**295.3**	280.4
Asia	**280.6**	480.3
Other	**171.4**	157.8
	$ 1,840.2	$ 1,978.3

Revenue segments

Revenue includes the following significant categories:

Canadian $ millions, for the years ended December 31	**2012**	2011
Commodity and electricity	**$ 1,730.2**	$ 1,845.6
Royalty	**54.2**	59.2
Other	**55.8**	73.5
	$ 1,840.2	$ 1,978.3

Significant customers

In Coal's Prairie Operations, one customer located in Canada accounted for $213.8 million of revenue for the year ended December 31, 2012 ($198.0 million for the year ended December 31, 2011).

Oil and Gas derived $286.3 million of its revenue for the year ended December 31, 2012 ($287.1 million for the year ended December 31, 2011) directly and indirectly from agencies of the Government of Cuba.

Note 6 Cost of sales

Cost of sales includes the following select information:

Canadian $ millions, for the years ended December 31	Note	**2012**	2011
Employee costs		**$ 371.7**	$ 358.0
Depletion, depreciation and amortization of property, plant and equipment and intangible assets		**249.0**	211.8
Exploration and evaluation expenses	16	**6.7**	8.7
Impairment losses(1)		**20.3**	5.6

(1) For the year ended December 31, 2012 impairment losses are comprised of $7.2 million impairment in inventory, $10.9 million impairment in property, plant and equipment (note 16) and $2.2 million impairment in exploration and evaluation (note 18). For the year ended December 31, 2011 impairment losses are comprised of $0.8 million impairment in inventory, $2.0 million impairment in property plant equipment (note 16) and $2.8 million impairment in exploration and evaluation (note 18).

The exploration and evaluation expenses incurred by the Corporation relate mainly to the Sulawesi Project in Indonesia. The Corporation expensed $6.0 million relating to this project for the year ended December 31, 2012 ($7.8 million the year ended December 31, 2011).

Note 7 Investment in an associate

The Corporation indirectly holds a 40% 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), Korea Resources Corporation (Kores) and SNC-Lavalin Inc. (SNC-Lavalin). The Ambatovy Joint Venture has two nickel deposits located near Moramanga, Madagascar. The ore from these deposits is delivered via pipeline to the processing plant and refinery located near the Port of Toamasina. The Ambatovy Joint Venture has an annual reporting date of December 31. The Ambatovy Joint Venture commenced nickel and cobalt production in the third quarter of 2012.

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

Statement of financial position

Canadian $ millions, Sherritt's 40% interest, as at	**2012 December 31**	2011 December 31
Assets		
Cash and cash equivalents(1)	**$ 20.6**	$ 13.7
Short-term investments(1)	**31.8**	–
Other current assets	**5.4**	6.2
Trade accounts receivable, net	**47.7**	32.2
Inventories	**106.1**	55.7
Other non-current assets(2)	**1.9**	2.4
Property, plant and equipment	**3,231.7**	3,007.7
Liabilities		
Trade accounts payable and accrued liabilities	**91.1**	99.5
Other financial liabilities	**8.0**	6.5
Current portion of loans and borrowings(3)	**48.6**	–
Loans and borrowings		
Ambatovy revolving credit facility(4)	**3.5**	–
Ambatovy Joint-Venture financing(3)	**774.2**	838.9
Ambatovy Subordinated loan payable(5)	**1,279.1**	968.9
Environmental rehabilitation provision	**34.8**	32.4
Other long-term liabilities	**0.1**	0.1
Deferred income taxes	**116.3**	118.5
Net assets	**$ 1,089.5**	$ 1,053.1

(1) In accordance with Article 44 of La loi pour les grands investissements dans le secteur minier Malagasay (LGIM), Madagascar's large scale mining investment act, the Ambatovy Joint Venture is required to maintain, in local bank accounts, sufficient funds to pay 90 days of operating expenses. Those funds are comprised of cash and short-term investments.

(2) As at December 31, 2012, the Ambatovy Joint Venture has earned investment tax credits for which a deferred income tax asset has not been recognized of which Sherritt's 40% interest is $173.1 million (2011 – $145.7 million). 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.

(3) The Ambatovy Joint Venture financing totalling US$2,100.0 million (100% basis) is limited recourse project financing with a group of international lenders that matures June 15, 2024. The first repayment will be at the latest of six months after financial completion or 30 months after the final draw down, but in no case later than June 2013. The project financing is guaranteed by the project sponsors until the project passes certain completion tests at which point the project financing is secured by the project assets. Failure to pass such completion tests would be an event of default. Interest is payable based on LIBOR rates plus applicable margins, depending on the lenders. Interest is currently payable based on LIBOR rates plus applicable margins of approximately 1.4%. As part of the project financing, Sherritt is required to demonstrate its financial capacity to fund its share of the project. Sherritt is required to have available cash or un-drawn partner loans equal to three months of its shareholder contributions. If Sherritt's net tangible assets fall below $1,600.0 million or the ratio of debt-to-total-capitalization on a three-year rolling average basis is equal to or greater than 0.55:1, Sherritt will be required to set aside its remaining shareholder contributions. At December 31, 2012, the Ambatovy Joint Venture had borrowed US$2,100.0 million (December 31, 2011 – US$2,100.0 million) under the project financing.

(4) In December 2012, Ambatovy entered into a US$35.0 million revolving and US$9.0 million overdraft credit facility agreement with local financial institutions. The facilities bear interest rates between 9.00% and 11.85% and expire on December 6, 2013. The facilities are subordinated to the Ambatovy Joint Venture financing. As at December 31, 2012, US$8.8 million and $nil were drawn on the revolving and overdraft credit facilities.

(5) The subordinated loan 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. Interest expense capitalized to property, plant and equipment is eliminated on consolidation. The Corporation has recorded its share of subordinated loan receivable in advances, loans receivable and other assets (note 14).

Results of operations

For the year ended December 31, 2012, the Corporation recognized a net loss of $2.1 million (net loss of $3.5 million for the year ended December 31, 2011), representing its 40% interest in the Ambatovy Joint Venture. The net loss was primarily composed of administrative and financing expenses offset by a tax recovery. The Ambatovy Joint Venture has commenced operations and generated nickel revenue of $33.9 million for the year ended December 31, 2012 ($nil for the year ended December 31, 2011). The operating revenue and expenses are capitalized until commercial production is declared. Commercial production is the point at which all operating costs are expensed rather than capitalized. For the Ambatovy Joint Venture commercial production is defined as achieving 70% of ore throughput of nameplate capacity in the Pressure Acid Leach circuit.

Contingent liabilities

In April 2012, a request for arbitration was received by Ambatovy Minerals S.A., one of the Ambatovy Joint Venture's operating companies. The request for arbitration was submitted by one of the Ambatovy Joint Venture's contractors to the International Court of Arbitration of the International Chamber of Commerce (ICC). The contractor was responsible for constructing a 220 km long slurry pipeline. Among other things, the contractor is alleging that design changes, physical conditions and other events caused delays in completing the pipeline which resulted in damages to the contractor for which the Ambatovy Joint Venture is liable. The Ambatovy Joint Venture is disputing these allegations and has filed a counterclaim against the contractor.

Operating Permit

In September 2012, the Ambatovy Joint Venture received a six-month authorization (known as an Operating Permit) to commercially operate the processing plant in Toamasina, Madagascar. At the end of the six-month period, the authorization is to convert to a life-of-mine Operating Permit.

Note 8 Net finance expense

Canadian $ millions, for the years ended December 31	Note	**2012**	2011
Net (loss) gain on financial instruments	12	**$ (15.8)**	$ 3.2
Interest income on cash, cash equivalents and short-term investments		**5.2**	5.7
Interest income on investments		**6.6**	9.5
Interest income on advances and loans receivable		**8.1**	11.4
Interest income on finance leases		**17.1**	17.7
Total financing income		**$ 21.2**	$ 47.5
Interest expense and accretion on loans and borrowings		**123.7**	108.7
Interest expense on other liabilities		**6.0**	3.4
Interest expense on finance lease obligations		**8.7**	7.5
Accretion expense on environmental rehabilitation provisions	21	**4.5**	5.4
Foreign exchange loss		**9.8**	3.8
Cross-guarantee fee amortization	14	**10.6**	12.0
Premium on debenture redemption	20	**27.0**	16.3
Other finance charges		**14.0**	13.4
Total financing expense		**$ 204.3**	$ 170.5
Net finance expense		**$ 183.1**	$ 123.0

Note 9 Income taxes

Canadian $ millions, for the years ended December 31		**2012**		2011
Current income tax expense				
Current period	**$**	**59.7**	$	94.3
		59.7		94.3
Deferred income tax (recovery) expense				
Origination and reversal of temporary differences		**(30.8)**		(9.8)
Reduction in tax rate		**2.2**		(0.7)
Non-recognition/(recognition) of tax assets previously recognized		**(1.2)**		5.4
	$	**(29.8)**	$	(5.1)
Income tax expense	**$**	**29.9**	$	89.2

The following table reconciles income taxes calculated at a combined Canadian federal/provincial income tax rate with the income tax expense in the consolidated financial statements for the years ended December 31:

Canadian $ millions, for the years ended December 31		**2012**		2011
Earnings before tax	**$**	**58.7**	$	287.7
Income tax expense at the combined basic rate of 25.22% (2011 – 26.74%)		**14.8**		76.9
Increase (decrease) in taxes resulting from:				
Difference between Canadian and foreign tax rates		**14.8**		18.1
Reduction in deferred income tax rates		**2.2**		(0.7)
Tax rate differential on temporary difference movements		**0.1**		(1.8)
Non-deductible (non-taxable) losses and write-downs (income)		**(1.6)**		(7.5)
Non-recognition (recognition) of tax assets		**(1.2)**		5.4
Other items		**0.8**		(1.2)
	$	**29.9**	$	89.2

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

Canadian $ millions, for the year ended December 31, 2012		**Opening balance**		**Recognized in net earnings**		**Recognized in other comprehensive income**		**Recognized in equity**		**Closing balance**
Deferred tax assets										
Tax loss carryforwards	**$**	**65.6**	**$**	**8.6**	**$**	**–**	**$**	**0.9**	**$**	**75.1**
Environmental rehabilitation obligations		**56.5**		**4.8**		**–**		**–**		**61.3**
Finance lease obligations		**35.8**		**4.2**		**–**		**–**		**40.0**
Pension and other benefit plans and reserves		**7.7**		**(0.2)**		**–**		**–**		**7.5**
Property, plant and equipment		**26.3**		**5.7**		**(0.2)**		**–**		**31.8**
Deferred financing costs		**4.1**		**3.9**		**–**		**(0.9)**		**7.1**
		196.0		**27.0**		**(0.2)**		**–**		**222.8**
Set off of deferred tax liabilities		**(193.2)**								**(194.6)**
Net deferred tax assets	**$**	**2.8**							**$**	**28.2**
Deferred tax liabilities										
Property, plant and equipment	**$**	**(378.4)**	**$**	**(0.8)**	**$**	**0.9**	**$**	**–**	**$**	**(378.3)**
Cuban tax contingency reserve		**(18.4)**		**(2.6)**		**0.3**		**–**		**(20.7)**
Foreign currency denominated loans		**(5.4)**		**(1.1)**		**–**		**–**		**(6.5)**
Pension and other benefit plans and reserves		**(5.1)**		**0.1**		**0.2**		**–**		**(4.8)**
Ambatovy call option		**(3.8)**		**3.0**		**–**		**–**		**(0.8)**
Deferred financing costs		**(2.0)**		**–**		**–**		**–**		**(2.0)**
Environmental rehabilitation obligation		**(3.9)**		**–**		**–**		**–**		**(3.9)**
Other		**(8.3)**		**4.2**		**–**		**–**		**(4.1)**
		(425.3)		**2.8**		**1.4**		**–**		**(421.1)**
Set off of deferred tax assets		**193.2**								**194.6**
Net deferred tax liabilities		**(232.1)**								**(226.5)**
Net deferred tax (liabilities) assets	**$**	**(229.3)**	**$**	**29.8**	**$**	**1.2**	**$**	**–**	**$**	**(198.3)**

Canadian $ millions, for the year ended December 31, 2011	Opening balance	Recognized in net earnings	Recognized in other comprehensive income	Recognized in equity	Closing balance
Deferred tax assets					
Tax loss carryforwards	$ 47.9	$ 16.7	$ –	$ 1.0	$ 65.6
Environmental rehabilitation obligations	41.0	15.7	(0.2)	–	56.5
Finance lease obligations	27.3	8.5	–	–	35.8
Pension and other benefit plans and reserves	7.9	(0.2)	–	–	7.7
Property, plant and equipment	7.3	19.0	–	–	26.3
MAV note impairment	3.1	(3.1)	–	–	–
Deferred financing costs	–	5.1	–	(1.0)	4.1
	134.5	61.7	(0.2)	–	196.0
Set off of deferred tax liabilities	(133.1)				(193.2)
Net deferred tax assets	$ 1.4				$ 2.8
Deferred tax liabilities					
Property, plant and equipment	$ (329.2)	$ (48.4)	$ (0.8)	$ –	$ (378.4)
Cuban tax contingency reserve	(15.1)	(3.1)	(0.2)	–	(18.4)
Foreign currency denominated loans	(6.1)	0.7	–	–	(5.4)
Pension and other benefit plans and reserves	(4.3)	(0.8)	–	–	(5.1)
Ambatovy call option	(4.2)	0.4	–	–	(3.8)
Deferred financing costs	(2.1)	0.1	–	–	(2.0)
Environmental rehabilitation obligation	–	(3.9)	–	–	(3.9)
Other	(6.6)	(1.6)	(0.1)	–	(8.3)
	(367.6)	(56.6)	(1.1)	–	(425.3)
Set off of deferred tax assets	133.1				193.2
Net deferred tax liabilities	(234.5)				(232.1)
Net deferred tax (liabilities) assets	$ (233.1)	$ 5.1	$ (1.3)	$ –	$ (229.3)

As at December 31, 2012 the Corporation had temporary differences of $922.3 million (December 31, 2011 – $1,085.0 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, 2012, the Corporation had non-capital losses of $308.1 million (December 31, 2011 – $262.7 million) and capital losses of $141.6 million (December 31, 2011 – $140.8 million) which may be used to reduce future taxable income. The Corporation has not recognized a deferred income tax asset on $8.5 million of non-capital losses, $108.5 million of capital losses and $32.1 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 Canada and expire as follows:

Canadian $ millions, for the years ended December 31, 2012	Recognized losses	Unrecognized losses	Total
Expiration date			
2014	$ –	$ 0.1	$ 0.1
2015	–	0.1	0.1
2026	31.5	0.1	31.6
2027	18.7	2.0	20.7
2028	36.6	2.6	39.2
2029	32.8	1.0	33.8
2030	57.0	0.8	57.8
2031	44.9	1.5	46.4
2032	78.1	0.3	78.4
Total	$ 299.6	$ 8.5	$ 308.1

The Corporation reviews all available positive and negative evidence to evaluate the recoverability of the deferred income tax assets associated with these losses and other deductible temporary differences. This includes a review of (i) the carry forward periods of the losses, (ii) the timing of future reversals of taxable temporary differences, (iii) projected taxable income in future years and (iv) prudent and feasible tax planning that could be implemented. Based on this review, the Corporation concluded that it is probable that the benefits of the deferred income tax assets associated with these losses and other deductible temporary differences for which such benefits have been recognized will be realized prior to their expiration.

Note 10 Discontinued operation – Mineral Products

In 2007, the Corporation acquired Mineral Products, which included a talc mine and plant, through the acquisition of the Dynatec Corporation (Dynatec). During 2010, the Corporation closed the talc mine and plant and classified Mineral Products as a discontinued operation. Mineral Products is included in the Corporate and Other business segment (note 5).

In the second quarter of 2012, the Corporation closed the sale of its talc plant to a third party. The Corporation recorded a gain of $4.7 million primarily as a result of transferring the reclamation liability to the purchaser. As at April 30, 2012, remaining net assets with respect to the talc mine were reclassified into continuing operations.

Results from the discontinued operation are as follows:

Canadian $ millions, for the years ended December 31	**2012**	2011
Revenue	**$ –**	$ –
Expenses	**0.3**	1.2
Loss from discontinued operation, net of tax	**(0.3)**	(1.2)
Gain on sale of discontinued operation	**4.7**	–
Earnings (loss) from discontinued operation, net of tax[1][2]	**$ 4.4**	$ (1.2)

[1] The impact of these gains (losses) on earnings per share is disclosed in note 11.

[2] The tax impact for the years ended December 31, 2012 and 2011 are nominal.

Note 11 Earnings per share

The following table presents the calculation of basic and diluted earnings per common share:

Canadian $ millions, except per share amounts, for the years ended December 31	**2012**	2011
Net earnings from continuing operations	**$ 28.8**	$ 198.5
Earnings (loss) from discontinued operation, net of tax	**4.4**	(1.2)
Net earnings – basic and diluted	**$ 33.2**	$ 197.3
Weighted-average number of common shares – basic	**296.3**	295.1
Weighted-average effect of dilutive securities[1]:		
Restricted stock plan	**0.5**	0.3
Cross-guarantee	**–**	0.9
Weighted-average number of common shares – diluted	**296.8**	296.3
Net earnings from continuing operations per common share:		
Basic	**$ 0.10**	$ 0.67
Diluted	**$ 0.10**	$ 0.67
Earnings from discontinued operation per common share:		
Basic	**$ 0.01**	$ –
Diluted	**$ 0.01**	$ –
Net earnings per common share:		
Basic	**$ 0.11**	$ 0.67
Diluted	**$ 0.11**	$ 0.67

[1] The determination of the weighted-average number of common shares – diluted excludes 4.2 million shares related to stock options that were anti-dilutive for the year ended December 31, 2012 (5.0 million for the year ended December 31, 2011). There were 0.8 million shares related to the employee share purchase plan that were anti-dilutive for the year ended December 31, 2012 (0.8 million shares for the year ended December 31, 2011).

Note 12 Financial instruments

Financial instrument hierarchy

Financial instruments measured at fair value have been ranked using a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The following table identifies the hierarchy levels and values:

Canadian $ millions, as at	Note	Hierarchy level	**2012 December 31**	2011 December 31
Financial assets held for trading, measured at fair value:				
Cash equivalents		1	**$ 122.3**	$ 64.9
Short-term investments		1	**356.1**	456.8
Ambatovy call option	14	3	**21.5**	38.0

The following assets have been ranked level 1 as their market value is readily observable:

CASH EQUIVALENTS

Cash equivalents are liquid Canadian government treasury bills having original maturity dates of three months or less.

SHORT-TERM INVESTMENTS

Short-term investments are liquid Canadian government treasury bills having original maturity dates greater than three months but less than one year.

The following asset has been ranked level 3 as their market value is not readily observable:

AMBATOVY CALL OPTION

The fair value of the call option is determined by applying the Black-Scholes option pricing model. The Black-Scholes model requires several inputs: exercise price of the option; fair value of the Ambatovy Joint Venture; risk-free interest rate; estimated date that certain project milestones will be met; and volatility, which is based on a blend of historical commodity prices and the publicly traded stock prices of companies with comparable projects.

During the year ended December 31, 2012, the Corporation recognized a downward fair value adjustment of $15.8 million (upward fair value adjustment of $2.7 million for the year ended December 31, 2011) in financing income on the Ambatovy call option primarily as a result of changes in various inputs in the Black-Scholes model, including volatility, which is based on a blend of historical commodity prices and publicly traded stock prices of comparable companies, the reduced time of expiration of the option and the fair value of the Ambatovy Joint Venture.

MASTER ASSET VEHICLE (MAV) NOTES

In September 2011, the Corporation sold the MAV notes for proceeds of $39.8 million. The MAV notes were designated as fair value through profit or loss using the fair value option. In determining the fair value, the Corporation historically used credit spreads based on the current market bids available for A1, A2, B, C and Class 15 tracking and non-tracking notes. The remaining notes held by the Corporation were not widely traded and the fair value was determined using discounted cash flows; the interest rate used was based on management's estimate of credit and other risk factors. During the year ended December 31, 2011, the Corporation recognized an upward fair value adjustment of $0.5 million in financing income on its MAV notes primarily due to a decrease in credit spreads.

The following is a reconciliation of the beginning to ending balance for financial instruments included in Level 3:

Canadian $ millions, for the year ended December 31		**2012**
	Ambatovy call option	**Total**
Balance, beginning of the year	**$ 38.0**	**$ 38.0**
Total loss in net earnings(1)	**(15.8)**	**(15.8)**
Effect of movements in exchange rates	**(0.7)**	**(0.7)**
Balance, end of the year	**$ 21.5**	**$ 21.5**

Canadian $ millions, for the year ended December 31			2011
	MAV notes	Ambatovy call option	Total
Balance, beginning of the year	$ 39.3	$ 34.5	$ 73.8
Total gains in net earnings(1)	0.5	2.7	3.2
Effect of movements in exchange rates	–	0.8	0.8
Derecognition on sale	(39.8)	–	(39.8)
Balance, end of the year	$ –	$ 38.0	$ 38.0

(1) Gains/losses are recognized in net finance expense (note 8).

Fair values

Financial instruments with carrying amounts different from their fair values include the following(1):

Canadian $ millions, as at			**2012 December 31**		2011 December 31
	Note	**Carrying value**	**Fair value**	Carrying value	Fair value
8.25% senior unsecured debentures due 2014	20	**$ –**	**$ –**	$ 223.0	$ 233.0
7.75% senior unsecured debentures due 2015	20	**273.4**	**295.6**	272.9	283.1
8.00% senior unsecured debentures due 2018	20	**392.2**	**426.0**	391.2	408.4
7.50% senior unsecured debentures due 2020	20	**489.8**	**517.5**	–	–
Ambatovy Joint Venture Partner loans(2)	20	**92.1**	**77.5**	92.2	71.5
Ambatovy Joint Venture Additional Partner loans(2)	20	**749.3**	**865.4**	708.5	797.4

(1) The carrying values are net of financing costs (note 20). Fair values exclude financing costs and are based on market closing prices.

(2) The fair value for the Ambatovy Partner loans and Ambatovy Additional Partner loans is calculated by discounting future cash flows by 6.8% and 7.1%, respectively. These rates are based on market rates adjusted for the Corporation's credit quality for instruments with similar maturity horizons.

At December 31, 2012, the carrying amounts of cash and cash equivalents, restricted cash, short-term investments, trade accounts receivable, current portion of advances and loans receivable, current portion of other financial assets, current portion of finance lease receivables, 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 financial liabilities approximate their carrying amount except as indicated above. The fair value of a financial instrument on initial recognition is normally the transaction price, the fair value of the consideration given or received. The fair values of non-current advances and loans receivable and finance lease receivables are estimated based on discounted cash flows. 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.

At December 31, 2012, the carrying amount for the Cuban certificates of deposit is approximately equal to the fair value (note 13).

At December 31, 2012, the carrying amount of the lenders' conversion option under the Ambatovy Joint Venture additional partner loan agreements is approximately equal to the fair value (note 20).

Cash, cash equivalents and short-term investments

The Corporation's cash balances are deposited with major financial institutions rated A or higher by Standard and Poor's and with banks in Cuba that are not rated. The total cash held in Cuban bank deposit accounts was $22.2 million at December 31, 2012 (December 31, 2011 – $14.8 million).

As at December 31, 2012, $8.6 million of cash on the Corporation's consolidated statements of financial position was held by Energas and $23.6 million by the Moa Joint Venture (December 31, 2011 – $6.6 million and $30.0 million, respectively). These funds are for the use of each joint venture, respectively.

As at December 31, 2012, the Corporation had $478.4 million in Government of Canada treasury bills (December 31, 2011 – $521.7 million) included in cash and cash equivalents and short-term investments.

Trade accounts receivable

The Corporation's trade accounts receivable are composed of the following:

Canadian $ millions, as at	Note	**2012 December 31**	2011 December 31
Trade accounts receivable		**$ 357.7**	$ 345.0
Allowance for doubtful accounts		**(2.3)**	(0.1)
Accounts receivable from jointly controlled entities	26	**2.9**	4.1
Accounts receivable from associate	26	**31.1**	22.1
Other		**16.5**	15.4
		$ 405.9	$ 386.5

Aging of receivables:

Canadian $ millions, as at	**2012 December 31**	2011 December 31
Not past due	**$ 324.0**	$ 323.9
Past due no more than 30 days	**31.6**	33.2
Past due for more than 30 days but no more than 60 days	**19.0**	19.5
Past due for more than 60 days	**33.6**	10.0
	$ 408.2	$ 386.6

Current payment terms for oil sales to an agency of the Cuban government are based on West Texas Intermediate (WTI) reference prices. As the WTI price exceeds US$29.50, payment terms are 180 days from the date of invoice.

Payment terms for electricity and by-product sales to Cuban state enterprises are 60 days from the date of invoice.

Note 13 Investments

Canadian $ millions, as at	Note	**2012 December 31**	2011 December 31
Cuban certificates of deposit	25	**$ 31.7**	$ 58.2
Bow City Power Ltd.		**–**	5.6
		31.7	63.8
Current portion of investments		**(26.8)**	(29.1)
		$ 4.9	$ 34.7

Cuban certificates of deposit (CDs)

In 2009, a payment agreement was finalized with respect to the overdue 2008 Oil and Gas and Power receivables in Cuba. Subsequently, as required by the payment agreement, Sherritt purchased two Cuban CDs upon which principal and interest are required to be paid weekly over five years. These CDs were issued by a Cuban bank and bear interest at a rate of 30-day LIBOR plus 5.0%. In the event of default, Sherritt holds the right to receive payment from cash flows payable by the Moa Joint Venture to its Cuban beneficiaries.

Bow City Power Ltd.

The Corporation identified impairment indicators in the Carbon Development Partnership relating to its investment in Bow City Power Ltd. (BCPL). The nature of the investment was for BCPL to develop a coal power generating plant in Bow City, Alberta. The Corporation recognized an impairment charge of $5.6 million during the year ended December 31, 2012 as the current economic climate does not support near term development of the project.

Note 14 Advances, loans receivable, other financial assets and finance lease receivables

Advances, loans receivable and other financial assets

Canadian $ millions, as at	Note	**2012 December 31**	2011 December 31
Advances, loans receivable			
Ambatovy subordinated loans receivable	26	**$ 1,279.1**	$ 968.9
Energas conditional sales agreement	26	**223.9**	166.9
Moa Joint Venture loans receivable	26	**117.8**	142.8
Other		**23.3**	24.3
Other financial assets			
Ambatovy call option	12	**21.5**	38.0
Deferred reclamation recoveries		**9.0**	9.0
		1,674.6	1,349.9
Current portion of advances, loan receivable and other financial assets		**(57.8)**	(71.1)
		$ 1,616.8	$ 1,278.8

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 finance agreements being satisfied. Unpaid interest is accrued monthly and capitalized to the principal balance semi-annually.

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 33$^1/_3$% proportionately consolidated intercompany balances.

MOA JOINT VENTURE LOANS RECEIVABLE

A funding agreement was entered into by the Corporation with certain Moa Joint Venture entities within the Metals segment to finance expansion. Advances and loans receivable included two loans bearing fixed interest rates of 6.5% and 10.5% of which the first loan is fully repaid as of December 31, 2012 (December 31, 2011 – $14.3 million). The second loan has advances outstanding as at December 31, 2012 of $91.5 million (December 31, 2011 – $102.2 million) and is due on December 31, 2015. Repayments are being made from available distributable cash flows from the Moa Joint Venture.

Also included in the Moa Joint Venture loans receivable is a 364-day working capital facility provided to certain Moa Joint Venture entities within the Metals segment totalling $26.3 million (December 31, 2011 – $26.3 million). The working capital facility bears interest at prime plus 1.625% per annum or bankers' acceptance rates plus an applicable margin of 2.625% and is up for renewal in May 2013.

The amount of advances and loans receivable from the Moa Joint Venture are presented net of the elimination of the 50% proportionately consolidated intercompany balances.

OTHER ADVANCES AND LOANS RECEIVABLE

The Corporation has a loan receivable from a domestic customer for reimbursement of operating expenses at a Coal mine site totalling $19.8 million (December 31, 2011 – $20.9 million). The interest rate implicit in the loan varies annually based on 8 to 10-year term Government of Canada bonds, and for the year ended December 31, 2012 the interest rate was 8.27% (December 31, 2011 – 8.64%).

AMBATOVY CALL OPTION

The Corporation has a put/call option arrangement whereby, following completion of the Ambatovy Joint Venture, Sherritt and Sumitomo can acquire SNC-Lavalin's interest or SNC-Lavalin can divest of its interest to Sherritt and Sumitomo following the completion of construction and the satisfaction of certain completion tests. Sumitomo has the option, with Sherritt's approval, to exercise the call right for the full amount of SNC-Lavalin's investment. Should SNC-Lavalin exercise its put right, the Corporation has the right to require Sumitomo to acquire the Corporation's share of SNC-Lavalin's interest and therefore the put option has been assigned a value of $nil. The value assigned to the asset relates to the call option.

DEFERRED RECLAMATION RECOVERIES

Deferred reclamation recoveries relate to future recoveries of reclamation expenditures from domestic customers of Coal.

Other non-financial assets

Canadian $ millions, as at	Note	**2012 December 31**	2011 December 31
Cross-guarantee fee asset		**$ –**	$ 10.6
Pension asset	27	**1.7**	2.4
Other		**6.3**	4.3
		8.0	17.3
Current portion of other non-financial assets		**(0.8)**	(0.2)
		$ 7.2	$ 17.1

CROSS-GUARANTEE FEE ASSET

In 2007, Sherritt entered into cross-guarantee fee letters with Sumitomo and SNC-Lavalin in which Sherritt agreed to issue to Sumitomo and SNC-Lavalin 3,773,107 common shares in four annual instalments beginning on December 31, 2008, as consideration for providing US$324.0 million of a total of US$598.0 million of cross-guarantees in connection with the Ambatovy Joint Venture. Upon initial disbursement of the Ambatovy Joint Venture financing, the Corporation recorded a cross-guarantee fee asset of $55.6 million which was amortized over the life of the guarantee with a corresponding increase in the cross-guarantee reserve. On December 30, 2011, Sherritt issued the final instalment of 943,276 common shares to Sumitomo and SNC-Lavalin for a total issue amount of $13.9 million (note 22). As the shares were issued, the cross-guarantee reserve was reduced accordingly (note 22). The amortization of the cross-guarantee fee asset is included in net finance expense (note 8).

Finance lease receivables

Canadian $ millions, as at			**2012 December 31**			2011 December 31
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	**$ 38.5**	**$ 13.7**	**$ 24.8**	$ 38.3	$ 15.0	$ 23.3
Between one and five years	**120.6**	**39.6**	**81.0**	122.8	45.8	77.0
More than five years	**127.8**	**26.6**	**101.2**	149.5	30.5	119.0
	$ 286.9	**$ 79.9**	**$ 207.0**	$ 310.6	$ 91.3	$ 219.3

Finance lease receivables relate to arrangements within Coal's Prairie Operations. Lease payments consist of blended monthly payments of principal and interest. The interest rates implicit in the leases as at December 31, 2012 are between 5.4% and 8.3% (December 31, 2011 – 4.5% and 8.6%). The Corporation has both fixed and variable rate leasing arrangements.

Note 15 Inventories

Canadian $ millions, as at	**2012 December 31**	2011 December 31
Uncovered coal	**$ 8.3**	$ 8.5
Raw materials	**11.1**	8.5
Materials in process	**36.6**	37.7
Finished products	**91.4**	64.8
	147.4	119.5
Spare parts and operating materials	**100.8**	95.6
	$ 248.2	$ 215.1

For the year ended December 31, 2012, the cost of inventories recognized as an expense and included in cost of sales was $1,001.5 million ($1,034.7 million for the year ended December 31, 2011).

Note 16 Property, plant and equipment

Canadian $ millions, for the year ended December 31				**2012**
	Mining properties	**Oil and Gas properties**	**Plant, equipment and land**	**Total**
Cost				
Balance, beginning of the year	**$ 417.6**	**$ 1,047.0**	**$ 1,991.1**	**$ 3,455.7**
Additions	**21.1**	**30.5**	**142.1**	**193.7**
Capitalized closure costs	**41.9**	**(1.4)**	**5.5**	**46.0**
Disposals and derecognition	**(13.2)**	**–**	**(109.9)**	**(123.1)**
Capitalized interest	**–**	**–**	**0.6**	**0.6**
Effect of movements in exchange rates	**(0.6)**	**(19.2)**	**(17.3)**	**(37.1)**
Balance, end of the year	**$ 466.8**	**$ 1,056.9**	**$ 2,012.1**	**$ 3,535.8**
Depletion, depreciation and impairment losses				
Balance, beginning of the year	**$ 262.0**	**$ 917.0**	**$ 846.3**	**$ 2,025.3**
Depletion and depreciation	**60.1**	**57.9**	**108.8**	**226.8**
Impairment	**10.9**	**–**	**–**	**10.9**
Disposals and derecognition	**(13.1)**	**–**	**(108.2)**	**(121.3)**
Effect of movements in exchange rates	**(0.4)**	**(17.2)**	**(5.8)**	**(23.4)**
Balance, end of the year	**$ 319.5**	**$ 957.7**	**$ 841.1**	**$ 2,118.3**
Net book value	**$ 147.3**	**$ 99.2**	**$ 1,171.0**	**$ 1,417.5**

Canadian $ millions, for the year ended December 31				2011
	Mining properties	Oil and Gas properties	Plant, equipment and land	Total
Cost				
Balance, beginning of the year	$ 367.4	$ 984.8	$ 1,809.4	$ 3,161.6
Additions	12.1	45.2	134.4	191.7
Capitalized closure costs	37.3	0.5	42.1	79.9
Disposals and derecognition	–	–	(27.9)	(27.9)
Capitalized interest	–	–	3.6	3.6
Effect of movements in exchange rates	0.8	16.5	29.5	46.8
Balance, end of the year	$ 417.6	$ 1,047.0	$ 1,991.1	$ 3,455.7
Depletion, depreciation and impairment losses				
Balance, beginning of the year	$ 208.5	$ 851.2	$ 761.2	$ 1,820.9
Depletion and depreciation	52.8	50.9	90.4	194.1
Impairments	–	–	2.0	2.0
Disposals and derecognition	–	–	(23.0)	(23.0)
Effect of movements in exchange rates	0.7	14.9	15.7	31.3
Balance, end of the year	$ 262.0	$ 917.0	$ 846.3	$ 2,025.3
Net book value	$ 155.6	$ 130.0	$ 1,144.8	$ 1,430.4

Canadian $ millions	Plant, equipment and land
Assets held under finance lease at net book value, included in above	
As at December 31, 2012	**$ 147.4**
As at December 31, 2011	120.6
Assets under construction, included in above	
As at December 31, 2012	**$ 267.5**
As at December 31, 2011	281.6

Dodds-Roundhill

The Corporation identified impairment indicators in the Carbon Development Partnership relating to the Dodds-Roundhill Coal Gasification Project. The Corporation recognized an impairment charge of $10.9 million during the year ended December 31, 2012 as the current economic climate does not support near term development of the project. This amount represents the entire value of the Corporation's 50% interest in the mining properties.

Mineral properties

On November 30, 2010, the Corporation entered into an earn-in and shareholder's agreement with a subsidiary of Rio Tinto Limited (Rio Tinto) regarding the Sulawesi Nickel Project (Sulawesi Project). The Sulawesi Project is a large, high-grade undeveloped lateritic nickel deposit on the Indonesian island of Sulawesi. Sherritt has been appointed operator and will license its commercially proven proprietary technology to the project.

Due to permitting delays in 2011, this agreement was subsequently amended as of January 23, 2012. Pursuant to the terms of the amended agreement, the Corporation may elect to acquire a 57.5% interest in a holding company that owns the Sulawesi Nickel Project in Indonesia upon funding US$30.0 million and meeting certain other conditions by October 1, 2013. Rio Tinto would then own the remaining 42.5% in the holding company. In compliance with Indonesian mining law, local Indonesian interests are expected to acquire a 20% interest in the Sulawesi Project after which Sherritt and Rio Tinto's economic interest will be 46% and 34%, respectively.

If the Corporation acquires its 57.5% interest, the amended agreement also provides that the Corporation can elect to spend an additional US$80.0 million by June 30, 2017 towards producing a feasibility study from which a development decision will be made. If the additional US$80.0 million is not spent, the Corporation's interest in the Sulawesi Project will be forfeited.

Exploration and evaluation expenditures related to mineral deposits are recognized in cost of sales as incurred until it is established that the mineral property has development potential. The Corporation expensed $6.0 million relating to this project for the year ended December 31, 2012 ($7.8 million for the year ended December 31, 2011) (note 6).

Note 17 Goodwill

The goodwill of $307.9 million arose on the acquisition of PMRL in 2008. PMRL is comprised of several Prairie coal-mining operations, each determined to be a CGU. In addition, PMRL maintains a portfolio of mining royalties which is determined to be a single CGU. Collectively PMRL's mining operations and royalties portfolio CGUs are aggregated for the purposes of the goodwill impairment test, as this is the lowest level at which goodwill is monitored. Impairment testing is performed annually as at October 1 by comparing the recoverable amount of PMRL to its carrying amount including goodwill. The annual impairment review as at October 1, 2012 resulted in no impairment charge.

Fair value was measured at the acquisition date using a discounted cash flow valuation model (valuation model). The Corporation determined the recoverable amount of PMRL by reference to its fair value less cost to sell using this valuation model.

Key assumptions in the valuation model include cash flows, growth opportunities and the discount rate. The details of how these assumptions were updated are described below.

Cash flows

Cash flows are projected over a 48-year period and are based on production and growth plans, internal forecasts and risk assessments that take into account the unique operations of each mine site. Revenue and expenses were projected over a 10-year period based on internal long range plans. Revenue beyond this period was extrapolated using growth rates between 0.0% and 4.1% based on the average forecasted growth of each mine site. Expenses beyond this period were extrapolated using growth rates between 0.8% and 5.5% based on the average forecasted growth of each mine site. Cash flows are generated by royalties and mine sites that supply coal to utility customers under long-term supply agreements in Alberta and Saskatchewan. These cash flows require assumptions on certain inputs such as prices, future production levels, operating and reclamation expenses and capital spending including environmental rehabilitation.

Growth opportunities

Cash flows from growth opportunities are probability-weighted and relate to initiatives management expects to progress on in the medium to long term. These cash flows require assumptions to be made regarding the likelihood of projects progressing and the future economics of those projects.

Discount rate

A blended discount rate of 6.5% was used to discount cash flows for mine site operations and for royalty revenue in the valuation model, which resulted in an excess of fair value less costs to sell over the carrying amount of approximately $113.4 million as at October 1, 2012. The valuation of PMRL is sensitive to changes in the discount rate. All other things being equal, an increase of 0.8% in the discount rate would result in the carrying amount approximately equaling the fair value less costs to sell. The discount rate is based on current market information at the date of valuation.

Note 18 Intangible assets

Canadian $ millions, for the year ended December 31							**2012**
	Royalty agreements	**Mining contracts**	**Contractual arrange-ments**	**Exploration and evaluation**	**Service concession arrange-ment**	**Other**	**Total**
Cost							
Balance, beginning of the year	**$ 479.0**	**$ 236.0**	**$ 27.0**	**$ 14.8**	**$ 106.3**	**$ 44.1**	**$ 907.2**
Additions through internal development	**–**	**–**	**–**	**4.6**	**37.2**	**–**	**41.8**
Disposals	**–**	**–**	**–**	**(13.9)**	**–**	**(21.0)**	**(34.9)**
Effect of movements in exchange rates	**–**	**–**	**–**	**0.1**	**(2.4)**	**–**	**(2.3)**
Balance, end of the year	**$ 479.0**	**$ 236.0**	**$ 27.0**	**$ 5.6**	**$ 141.1**	**$ 23.1**	**$ 911.8**
Amortization and impairment losses							
Balance, beginning of the year	**$ 39.9**	**$ 27.1**	**$ 15.8**	**$ 11.8**	**$ 7.7**	**$ 18.7**	**$ 121.0**
Amortization	**10.9**	**7.6**	**1.8**	**–**	**3.8**	**9.6**	**33.7**
Disposals	**–**	**–**	**–**	**(13.9)**	**–**	**(21.0)**	**(34.9)**
Impairments	**–**	**–**	**–**	**2.2**	**–**	**–**	**2.2**
Effect of movements in exchange rates	**–**	**–**	**–**	**(0.1)**	**(0.2)**	**–**	**(0.3)**
Balance, end of the year	**$ 50.8**	**$ 34.7**	**$ 17.6**	**$ (0.0)**	**$ 11.3**	**$ 7.3**	**$ 121.7**
Net book value	**$ 428.2**	**$ 201.3**	**$ 9.4**	**$ 5.6**	**$ 129.8**	**$ 15.8**	**$ 790.1**

Canadian $ millions, for the year ended December 31							2011
	Royalty agreements	Mining contracts	Contractual arrange-ments	Exploration and evaluation	Service concession arrange-ment	Other	Total
Cost							
Balance, beginning of the year	$ 479.0	$ 236.0	$ 27.0	$ 11.5	$ 79.4	$ 44.1	$ 877.0
Additions through internal development	–	–	–	3.2	24.7	–	27.9
Effect of movements in exchange rates	–	–	–	0.1	2.2	–	2.3
Balance, end of the year	$ 479.0	$ 236.0	$ 27.0	$ 14.8	$ 106.3	$ 44.1	$ 907.2
Amortization and impairment losses							
Balance, beginning of the year	$ 29.0	$ 19.7	$ 13.9	$ 8.9	$ 3.8	$ 8.8	$ 84.1
Amortization	10.9	7.4	1.9	–	3.8	9.9	33.9
Impairments	–	–	–	2.8	–	–	2.8
Effect of movements in exchange rates	–	–	–	0.1	0.1	–	0.2
Balance, end of the year	$ 39.9	$ 27.1	$ 15.8	$ 11.8	$ 7.7	$ 18.7	$ 121.0
Net book value	$ 439.1	$ 208.9	$ 11.2	$ 3.0	$ 98.6	$ 25.4	$ 786.2

Royalty agreements

In 2008, in connection with the acquisition of PMRL, the Corporation acquired a portfolio of mineral rights that earn royalties based on the amount of coal and potash mined from properties in Alberta and Saskatchewan, Canada.

Mining contracts

In 2008, in connection with the acquisition of PMRL, the Corporation acquired mining agreements with various customers where it holds exclusive rights to mine the dedicated reserves at the mine site.

Contractual arrangements

In 2003, in connection with the acquisition of outside interests in Sherritt Power Corporation, the Corporation acquired significant long-term contractual arrangements.

Exploration and evaluation

Exploration and evaluation assets are composed of the Corporation's exploration projects in the Oil and Gas reporting segment pending the determination of proven and/or probable reserves. For the year ended December 31, 2012, the Corporation recognized an impairment of $2.2 million as a result of the relinquishment of licenses related to exploration in the North Sea. For the year ended December 31, 2011, the Corporation recognized an impairment of $2.0 million as a result of a decision to discontinue exploration in the Cuban Block 8 prospect area and an impairment of $0.8 million due to the expiry of a Cuban production-sharing agreement related to an enhanced oil recovery project.

Service concession arrangements

Construction at the Energas Boca de Jaruco facility is currently underway and is scheduled for completion in 2013. Construction revenue and expense relating to the new construction activity for the year ended December 31, 2012 is $32.0 million (December 31, 2011 – $21.7 million).

Expenses incurred in relation to the new construction activity are included in cost of sales on the consolidated statements of comprehensive income (loss). The amount of interest expense capitalized was $5.2 million as at December 31, 2012 (December 31, 2011 – $3.0 million) at a weighted-average capitalization rate of 7.7%.

Other

In 2008, in connection with the acquisition of PMRL, the Corporation acquired long-term customer relationships which are expected to generate significant benefit over the life of the current agreements and any expected extensions to existing agreements. As at December 31, 2012, the net book value was $11.8 million (December 31, 2011 – $12.0 million).

In June 2010, in connection with the purchase of the remaining 50% interest in CVP, the Corporation acquired a customer contract asset that was entered into at a fixed price above the forecast market price for a period of 2.5 years. As at December 31, 2012, the net book value was $nil (December 31, 2011 – $8.4 million).

In 2007, the Corporation acquired scientific and technical knowledge related primarily to hydrometallurgical technologies for the treatment and recovery of non-ferrous metals. As at December 31, 2012, the net book value was $4.0 million (December 31, 2011 – $5.0 million).

Note 19 Interest in joint ventures

Jointly controlled entities

The Corporation accounts for its interest in its jointly controlled entities using proportionate consolidation. The following is a summary of the Corporation's economic interests in these entities, all of which have a December 31 reporting date:

As at		**2012 December 31**	2011 December 31
Entity	Principal activities	Economic interest	
Moa Joint Venture	Nickel and cobalt mining, processing and refining	**50%**	50%
Carbon Development Partnership	Coal recovery and coal gasification project	**50%**	50%
Coal Valley Partnership[1]	Thermal coal mining	**100%**	100%
Energas	Power generation	**33 1/3%**	33 1/3%

[1] In November 2011, Sherritt dissolved CVP, transferred its ownership interest in CVRI to a wholly-owned subsidiary of Sherritt, and amalgamated the wholly-owned subsidiary of Sherritt with CVRI (note 2.2).

The following table is a summary of the Corporation's proportionate interest in its jointly controlled entities:

Canadian $ millions, as at December 31			**2012**
	Moa Joint Venture	**Carbon Development Partnership**	**Energas**
	50%	**50%**	**33 1/3%**
Current assets	**$ 149.8**	**$ 1.1**	**$ 24.4**
Non-current assets	**551.8**	**12.9**	**156.3**
Current liabilities	**79.2**	**1.0**	**11.4**
Non-current liabilities	**218.7**	**0.4**	**104.2**
Net assets	**$ 403.7**	**$ 12.6**	**$ 65.1**

Canadian $ millions, for the year ended December 31				**2012**
		Moa Joint Venture	**Carbon Development Partnership**	**Energas**
		50%	**50%**	**33 1/3%**
Revenue		**$ 394.9**	**$ 0.6**	**$ 64.8**
Expense		**350.0**	**18.0**	**54.9**
Net earnings (loss)		**$ 44.9**	**$ (17.4)**	**$ 9.9**

Canadian $ millions, as at December 31	Moa Joint Venture	Carbon Development Partnership	Energas 2011
	50%	50%	33 1/3%
Current assets	$ 160.6	$ 0.9	$ 21.2
Non-current assets	565.7	29.6	131.2
Current liabilities	91.2	1.1	11.4
Non-current liabilities	239.1	0.5	75.4
Net assets	$ 396.0	$ 28.9	$ 65.6

Canadian $ millions, for the year ended December 31	Moa Joint Venture	Carbon Development Partnership	Energas 2011
	50%	50%	33 1/3%
Revenue	$ 490.5	$ 1.0	$ 54.1
Expense	369.0	1.9	42.4
Net earnings (loss)	$ 121.5	$ (0.9)	$ 11.7

The Corporation recognized a $5.6 million impairment and a $10.9 million impairment on Carbon Development Partnership's investment in Bow City Power Ltd. and the Dodds-Roundhill coal gasification project as described in note 13 and note 16, respectively, during the year ended December 31, 2012.

Jointly controlled operations

PRODUCTION-SHARING CONTRACTS

The Corporation conducts its Cuban oil and gas operations under the terms of production-sharing contracts which it considers jointly controlled operations. The Corporation's earnings under these contracts are determined according to an agreed upon cost recovery and profit formula based on the number of barrels of oil produced and the price of oil.

BIENFAIT ACTIVATED CARBON JOINT VENTURE

The Corporation has a contractual arrangement with another company for the production and sale of activated carbon to coal fired utility plants. Coal acts as operator of the plant facilities, while the other company conducts marketing activities. The assets of the operation are jointly owned by the Corporation and the other company based on their respective 50% ownership interests (December 31, 2011 – 50%).

Note 20 Loans, borrowings and other liabilities

Loans and borrowings

Canadian $ millions, as at	Note	**2012 December 31**	2011 December 31
Long-term loans			
8.25% senior unsecured debentures due 2014	12	**$ –**	$ 223.0
7.50% senior unsecured debentures due 2020	12	**489.8**	–
7.75% senior unsecured debentures due 2015	12	**273.4**	272.9
8.00% senior unsecured debentures due 2018	12	**392.2**	391.2
Ambatovy Joint Venture additional partner loans		**749.3**	708.5
Ambatovy Joint Venture partner loans		**92.1**	92.2
Coal revolving credit facility		**43.0**	–
Senior credit facility		**–**	43.0
3-year non-revolving term loan		**–**	11.2
Loan from financial institution		**–**	2.7
		$ 2,039.8	$ 1,744.7
Current portion of loans and borrowings		**–**	(56.9)
		$ 2,039.8	$ 1,687.8

7.50% SENIOR UNSECURED DEBENTURES DUE 2020 AND 8.25% SENIOR UNSECURED DEBENTURES DUE 2014

In September 2012, Sherritt completed an offering of $500.0 million principal amount of 7.50% senior unsecured debentures due September 24, 2020. The net proceeds of $489.6 million (after agents' fees and the deduction of expenses) were used to fund the repurchase and redemption of the outstanding principal amount of Sherritt's 2014 debentures and the remainder is available for general corporate purposes. In September and October 2012, the Corporation purchased and cancelled $21.1 million and $203.9 million, respectively, of the 2014 debentures.

The early repurchase and redemption of the 2014 debentures required the Corporation to pay a $27.0 million premium to the principal amount plus accrued interest to the date of repurchase/redemption. The unamortized deferred finance charges related to the 2014 debentures of $1.5 million was expensed as the debentures were repurchased/redeemed.

7.75% SENIOR UNSECURED DEBENTURES DUE 2015

The 7.75% senior unsecured debentures, due 2015, are net of financing costs of $1.6 million at December 31, 2012 (December 31, 2011 – $2.1 million). These debentures are subject to the following financial covenant: funded indebtedness-to-total assets ratio of less than 0.4:1.

8.00% SENIOR UNSECURED DEBENTURES DUE 2018

In November 2011, the Corporation issued $400.0 million of 8.00% senior unsecured debentures due November 15, 2018 for net cash proceeds of $391.1 million after financing costs of $8.9 million. The proceeds were used to redeem and purchase for cancellation the $273.5 million principal amount of the 7.875% senior unsecured debentures plus $10.7 million of accrued interest, a $16.3 million premium on the redemption of the 7.875% senior unsecured debentures, and for general corporate purposes.

The 8.00% senior unsecured debentures, due 2018, are net of financing costs of $7.8 million at December 31, 2012 (December 31, 2011 – $8.8 million). These debentures are subject to the following financial covenant: funded indebtedness-to-total assets ratio of less than 0.4:1.

AMBATOVY JOINT VENTURE ADDITIONAL PARTNER LOANS

Sherritt has arrangements with its Ambatovy Joint Venture partners, Sumitomo, Kores and SNC-Lavalin, for a mechanism through which the joint venture partners would finance the Corporation's pro-rata share of shareholder funding requirements for the Ambatovy Joint Venture up to US$600.9 million plus accrued interest.

These loans, which are fully drawn, are non-recourse to the Corporation except in circumstances where there is a direct breach by the Corporation of restrictions in the loan documents, which limit the activities of certain subsidiaries and the use of proceeds from the loans to the development of the Ambatovy mine.

Interest and principal on these loans will be repaid solely through the Corporation's share of the distributions from the Ambatovy Joint Venture. However, the Corporation has the right to prepay some or all of the loans at its option. Until the Ambatovy Joint Venture additional partner loans and the Ambatovy Joint Venture partner loans, as described below, are fully repaid, 45% of the Corporation's share of distributions will be applied to repay the Ambatovy Joint Venture additional partner loans, 25% will be applied to repay the Ambatovy Joint Venture partner loans and the remaining 30% will be payable to the Corporation. When one loan has been repaid in full, 70% of such distributions will be applied to repay the loan that remains outstanding and the Corporation will receive the balance of the distributions until such time as both loans have been repaid in full and the Corporation will be entitled to receive all of its distributions.

Each lender individually has the right to exchange some or all of its Ambatovy Joint Venture additional partner loan for up to a maximum 15% equity interest, in aggregate, at any time. Exercise of these rights in full would reduce Sherritt's interest in the Ambatovy Joint Venture to 25%. This right is subject to senior project lender consent and Sherritt's right to repay all three such loans on a pro-rata basis and avoid the reduction in its equity interest. As the capital costs of the Ambatovy Joint Venture have exceeded US$4.52 billion if Sherritt does not provide its pro-rata share of funding for additional cost overruns, the partners may dilute Sherritt's interest in the Ambatovy Joint Venture below the 25% threshold. There are no other penalties to Sherritt for a failure to fund its pro-rata share of shareholder funding. As at December 31, 2012, the Corporation has provided its full pro-rata share of funding for the capital cost in excess of US$4.52 billion.

The lenders' conversion option incorporated in these loan agreements is an embedded derivative. The lenders' conversion option has been bifurcated from the loan and ascribed a nominal value. These loans carry interest at a rate of six-month LIBOR plus 7.0% per annum.

The principal amount outstanding under this facility at December 31, 2012 was $749.3 million, including accrued interest (December 31, 2011 – $708.5 million). This amount is net of financing costs of $3.0 million at December 31, 2012 (December 31, 2011 – $3.2 million).

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. Should such distributions be insufficient to repay the loans in full, the Corporation will have the option to repay any outstanding balance in either cash or its common shares.

As a condition for providing funding under the Ambatovy Joint Venture additional partner loan agreements (described above), the Corporation was required to repay from the proceeds of these loans US$50.0 million of the existing Ambatovy Joint Venture partner loans such that the principal amount of the original loans is US$85.4 million. The principal amount outstanding under this facility at December 31, 2012 was $92.1 million, including accrued interest (December 31, 2011 – $92.2 million). The advances continue to bear interest at a rate of LIBOR plus 1.125%. Additional advances on these loans are subject to interest at a rate of LIBOR plus 10% per annum.

COAL REVOLVING CREDIT FACILITY, SENIOR CREDIT FACILITY, AND 3-YEAR NON-REVOLVING TERM LOANS

In June 2012, the Corporation negotiated a revolving credit facility agreement for PMRL and Coal Valley Resources Inc. (CVRI) with a syndicate of financial institutions to replace the PMRL senior credit facility and the CVRI letter of credit facility. Under the new facility, PMRL and CVRI are jointly and severally liable for all amounts owing on the credit facility. The maximum funding available is $525.0 million, consisting of a $350.0 million revolving credit facility and a $175.0 million letter of credit facility. The credit facility expires on June 26, 2016. As at December 31, 2012, $43.0 million was outstanding on the revolving credit portion of the facility and $157.1 million was outstanding under the letter of credit facility as follows: $138.3 million to satisfy current regulatory requirements in connection with future reclamation, site restoration and mine closure costs and $18.8 million related to performance-based letters of credit. The interest rates on the revolving credit facility are based on prime lending rates, bankers' acceptances, Canadian base rates, and/or LIBOR rates plus applicable margins ranging from 0.25% to 2.50% depending on PMRL's and CVRI's combined ratio of total debt-to-earnings before interest, taxes, depreciation and amortization. This facility is subject to covenants based on the combined financial position of PMRL and CVRI as follows: EBITDA-to-interest expense ratio of not less than 4:1; and total debt-to-EBITDA ratio of no more than 3:1.

Prior to June 2012, PMRL had a $235.2 million senior credit facility agreement with a syndicate of financial institutions in which the interest rates payable on advances under the facility was based on prime lending rates, bankers' acceptance rates, U.S.-based rates and/or LIBOR rates plus applicable margins ranging from 0% to 1.457% depending on PMRL's ratio of debt-to-operating earnings before interest, taxes, depreciation and amortization. As at December 31, 2011, the outstanding balance was $43.0 million. In addition, PMRL had issued and outstanding letters of credit of $33.2 million to satisfy environmental regulatory requirements and to secure lease obligations.

Prior to June 2012, CVRI had a non-revolving term letter of credit facility with a Canadian financial institution to finance the purchase of certain equipment and to provide working capital in relation to the start-up of the Obed Mountain mine. The facility consisted of two loans totaling $38.0 million and was subject to fixed interest rates. At December 31, 2011, the principal amount outstanding under this facility was $11.2 million at an average interest rate of 6.08% per annum.

SYNDICATED 364-DAY REVOLVING-TERM CREDIT FACILITY

In June 2012, the Corporation amended the terms of the syndicated 364-day revolving-term credit facility. The maximum available credit under the facility is $90.0 million (December 31, 2011 – $115.0 million); however, the total available draw is based on eligible receivables and inventory. As at December 31, 2012, $nil was drawn on this facility (December 31, 2011 – $nil). This facility is subject to the following financial covenants: financial debt-to-equity not exceeding 0.5:1, quarterly adjusted net financial debt-to-EBITDA not exceeding 2.5:1, and EBITDA-to-interest expense of not less than 3:1. The interest rate on the syndicated 364-day revolving-term credit facility is prime plus 1.0% per annum or bankers' acceptances plus 2.0% and the facility expires on May 6, 2013.

LOAN FROM FINANCIAL INSTITUTION

In 2007, the Corporation entered into a separate loan agreement which matured March 2012, to fund a portion of expansion projects in Power. The loan agreement had no carrying value as at December 31, 2012 (December 31, 2011 – $2.7 million).

LINE OF CREDIT

In August 2012, the Corporation amended the $20.0 million line of credit to extend the expiry date to May 3, 2013. This facility is subject to the same financial covenants as the syndicated 364-day revolving-term credit facility. There were no amounts drawn on this facility as at December 31, 2012 (December 31, 2011 – $nil).

INTEREST AND ACCRETION

Interest and accretion expense on loans and borrowings was $123.7 million for the year ended December 31, 2012 ($108.7 million for the year ended December 31, 2011).

Interest has been capitalized at the rate of interest applicable to the specific borrowings financing the assets under construction, exploration and evaluation efforts and the service concession agreement. Where these assets have been financed through general borrowings, interest has been capitalized at a rate representing the average interest rate on such borrowings. The amount of interest expense capitalized was $5.8 million for the year ended December 31, 2012 (December 31, 2011 – $6.6 million) at a weighted-average capitalization rate of 8.0% (December 31, 2011 – 7.5%).

COVENANTS

The Corporation and its divisions were in compliance with all of their financial covenants as at December 31, 2012.

Other financial liabilities

Canadian $ millions, as at	Note	**2012 December 31**	2011 December 31
Advances and loans payable		**$ 93.4**	$ 104.0
Finance lease obligations		**156.6**	142.8
Other long-term financial liabilities		**15.9**	17.2
Stock compensation liability	23	**11.9**	11.2
		277.8	275.2
Current portion of other financial liabilities		**(69.7)**	(69.8)
		$ 208.1	$ 205.4

ADVANCES AND LOANS PAYABLE

Advances and loans payable are due to the Cuban Moa Joint Venture partner and are used to finance expansion activities. These loans bear interest at 6.5% and are repayable commencing the month following commissioning of the expansion assets. Repayments are being made from available distributable cash flows from the Moa Joint Venture with the full balance due by December 31, 2015. The amount of advances and loans payable by the Moa Joint Venture are presented net of the elimination of the 50% proportionately consolidated intercompany balances.

FINANCE LEASE OBLIGATIONS

Finance lease obligations of $156.6 million bear interest at rates ranging from 0.9% to 9.0% with a weighted-average interest rate of 5.5%. These finance leases mature between 2013 and 2018 and are repayable by blended monthly payments of principal and interest as summarized in the table below.

Canadian $ millions, as at			**2012 December 31**			2011 December 31
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	**$ 52.9**	**$ 7.1**	**$ 45.8**	$ 52.1	$ 6.8	$ 45.3
Between one and five years	**120.2**	**9.4**	**110.8**	107.2	9.7	97.5
	$ 173.1	**$ 16.5**	**$ 156.6**	$ 159.3	$ 16.5	$ 142.8

OTHER LONG-TERM FINANCIAL LIABILITIES

The other long-term liabilities are composed of other equipment financing arrangements and deferred recoveries. Other equipment financing arrangements for the Coal segment of $7.7 million (December 31, 2011 – $8.8 million) bear interest at rates ranging from 5.30% to 6.31% with a weighted-average interest rate of 6.14%, and mature between 2013 and 2018. Other long-term financial liabilities are repayable by blended monthly payments of principal and interest as summarized in the table below.

Canadian $ millions, as at	**2012 December 31**	2011 December 31
Less than one year	**$ 2.4**	$ 3.7
Between one and five years	**5.6**	7.0
More than five years	**7.9**	6.5
	$ 15.9	$ 17.2

Other non-financial liabilities

Canadian $ millions, as at	Note	2012 December 31	2011 December 31
Pension liability	27	**$ 9.1**	$ 14.1
Deferred revenue		**16.7**	9.0
		25.8	23.1
Current portion of other non-financial liabilities		**(15.9)**	(8.0)
		$ 9.9	$ 15.1

Note 21 Environmental rehabilitation provisions, contingencies and guarantees

Environmental rehabilitation provisions

Provisions for environmental rehabilitation were recognized in respect of the mining operations of Metals, Coal, and Oil and Gas including associated infrastructure and buildings. Also, obligations were recorded for nickel and cobalt refining facilities, fertilizers and utilities facilities and oil and gas production facilities. Retirement of refinery, fertilizer and utilities facilities, oil and gas production facilities, infrastructure and buildings normally takes place at the end of the asset's useful life. Reclamation of coal mining operations is typically carried out on a continuous basis over the life of each mine and is dependent on the rate that mining progresses over the area to be mined.

The following is a reconciliation of the environmental rehabilitation provision:

Canadian $ millions, for the years ended December 31	2012	2011
Balance, beginning of year	**$ 267.7**	$ 208.3
Additions	**23.7**	17.2
Change in estimates	**22.7**	55.9
Utilized during the year	**(21.4)**	(19.4)
Accretion	**4.5**	5.4
Foreign exchange translation	**(1.0)**	0.3
Balance, end of year	**296.2**	267.7
Current portion	**(34.4)**	(31.9)
	$ 261.8	$ 235.8

In 2012, the Corporation increased its provision by $28.5 million (December 31, 2011 – $59.4 million). The increase primarily relates to updated cost and productivity assumptions for reclamation activities in response to the new reclamation bonding requirements under the Financial Security Program in Alberta, increased leveling cost assumptions in the Mountain Operations and a change in discount rates. In 2011, $55.9 million primarily related to a reduction in the discount rates during the year and also as a result of re-assessing factors affecting soil contamination and their potential impact on Sherritt's obligations for rehabilitating the Moa Joint Venture Fort Saskatchewan site. The rehabilitation of the Fort Saskatchewan site is the responsibility of both Sherritt and predecessor companies that were located on the site.

The Corporation has estimated that it will require approximately $426.5 million in undiscounted cash flows to settle these obligations. These obligations are expected to be settled over the next several decades as some of its mines plan to be operational to 2060. The payments are expected to be funded by cash generated from operations. Discount rates from 1.1% to 11.3% were applied to expected future cash flows to determine the carrying value of the environmental rehabilitation provision.

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.

Guarantees

AMBATOVY JOINT VENTURE

Sherritt has provided guarantees of up to US$840.0 million as its pro-rata share of completion guarantees under the Ambatovy Joint Venture financing. The other joint venture partners have cross-guaranteed US$598.0 million and have also agreed to provide letters of credit up to US$242.0 million to the senior lenders. These guarantees are released once the Ambatovy Joint Venture has satisfied certain required completion tests (note 7).

COAL VALLEY RESOURCES INC.

In relation to the 3-year revolving term loan, Sherritt and its former partner had each provided a $12.5 million limited guarantee. Upon acquiring the remaining 50% interest in Coal Valley Partnership, the Corporation indemnified its former partner's guaranteed portion of the letter of credit and payments under the lease. In March 2012, the creditor released Sherritt's former partner of the $12.5 million limited guarantee thereby cancelling the Corporation's indemnification. As described in note 20, the Corporation replaced the 3-year non-revolving term loan in June 2012 and has therefore been released from the associated guarantee.

The Corporation also had guaranteed letters of credit issued on behalf of CVRI to a maximum of $64.0 million. In June 2012, the letters of credit were transferred to the Coal revolving credit facility (note 20). Under the Coal revolving credit facility (note 20) the Corporation is no longer required to serve as guarantor to CVRI's letters of credit.

Prior to June 2012, the Corporation and its former partner each had also guaranteed the payments under a lease of equipment contract entered into by CVP, each up to a maximum amount equal to the lesser of 25% of the amount owing by CVP and $27.5 million. In November 2011, Sherritt amended the arrangement to replace its former partner as a guarantor. As a consequence, Sherritt guaranteed a maximum amount equal to the lesser of 50% of the amount owing by CVP and $55.0 million. In October 2012, the Corporation's guarantee for payments under lease of equipment was replaced by a cross-guarantee between PMRL and CVRI.

PRAIRIE MINES & ROYALTIES LIMITED

PMRL had provided a performance guarantee to a customer on behalf of the Bienfait Activated Carbon Joint Venture. In the event the Joint Venture failed to meet its obligations under the supply agreement, PMRL was exposed to a maximum potential liability of $31.0 million. In July 2012, management renegotiated the terms of the agreement with this customer and no longer has a PMRL performance guarantee. PMRL has issued letters of credit through an established Canadian banking institution in the amount of $6.1 million (December 31, 2011 – $6.2 million).

OTHER

In respect of various divestitures, environmental, tax and other indemnities have been provided to the purchasers. The indemnities generally extend for an unlimited period of time and the maximum potential liability cannot be determined at this time. No amounts have been accrued with respect to these indemnities.

In respect of certain work being performed on behalf of the Corporation, indemnities have been provided to certain contractors and consultants for any claims, costs, losses or expenses arising out of the performance of work performed by the contractor or consultant. The indemnities extend for an unlimited period of time and the maximum potential liability, if any, cannot be determined at this time. No amounts have been accrued with respect to these indemnities.

In connection with the issuance of common shares, debt instruments and other corporate finance transactions, indemnities have been given to the underwriters. Indemnities have also been given to financial advisors in connection with transactions undertaken by the Corporation. The indemnities extend for an unlimited period of time and the maximum potential liability, if any, cannot be determined at this time. No amounts have been accrued with respect to these indemnities.

Note 22 Shareholders' equity

Capital stock

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		**2012**		2011	
	Note	**Number**	**Capital stock**	Number	Capital stock
Balance, beginning of the year		**296,390,692**	**$ 2,803.1**	295,016,500	$ 2,787.3
Treasury stock – restricted stock plan	23	**(287,400)**	**(1.6)**	(88,500)	(0.7)
Restricted stock plan (vested)	23	**106,848**	**0.9**	21,856	0.1
Employee share purchase plan	23	**280,495**	**3.7**	477,560	2.4
Stock options exercised	23	**–**	**–**	20,000	0.1
Cross-guarantee		**–**	**–**	943,276	13.9
Balance, end of the year		**296,490,635**	**$ 2,806.1**	296,390,692	$ 2,803.1

The following dividends were paid or were declared but unpaid:

Canadian $ millions, except per share amounts, for the years ended December 31	**2012**		2011	
	Per share	**Total**	Per share	Total
Dividends paid during the year	**$ 0.152**	**$ 45.2**	$ 0.152	$ 44.9
Dividends declared but unpaid	**0.038**	**11.3**	0.038	11.3

On February 26, 2013 the Corporation's Board of Directors approved a quarterly dividend of $0.043 per common share, payable April 12, 2013 to shareholders of record as of the close of business on March 29, 2013.

Reserves

Canadian $ millions, for the years ended December 31	Note	**2012**	2011
Stated capital reserve[(1)]			
Balance, beginning and end of the year		**$ 190.3**	$ 190.3
Stock-based compensation reserve[(2)]			
Balance, beginning of the year		**4.8**	2.4
Restricted stock plan (vested)	23	**(0.9)**	(0.1)
Restricted stock plan amortization	23	**1.3**	0.7
Employee share purchase plan (vested)	23	**(2.4)**	–
Employee share purchase plan expense	23	**0.2**	0.7
Stock option plan expense	23	**1.6**	1.1
Balance, end of the year		**4.6**	4.8
Cross-guarantee reserve[(3)]			
Balance, beginning of the year		**–**	13.9
Issuance of common shares		**–**	(13.9)
Balance, end of the year		**–**	–
Total reserves, end of the year		**$ 194.9**	$ 195.1

(1) In May 2000, the Corporation's shareholders approved the elimination of the December 31, 1999 accumulated deficit of $6.9 million through a $200.0 million reduction in the stated value of the Corporation's restricted voting shares and the creation of a $193.1 million stated capital reserve. Between 2000 and 2007, this reserve was reduced to $190.3 million as a result of losses on repurchase of common shares and the redemption of convertible debentures.

(2) Stock-based compensation reserve relates to equity-settled compensation plans issued by the Corporation to its directors, officers and employees.

(3) On December 30, 2011, the Corporation issued 943,276 common shares valued at $14.74 per common share as the final annual issuance in relation to the cross-guarantees provided by Sumitomo and SNC-Lavalin on the Ambatovy senior credit facility. The issuance resulted in a total of $13.9 million being reclassified from the cross-guarantee reserve to capital stock (note 14).

Accumulated foreign currency translation reserve

Shareholders' equity includes a reserve pertaining to the accumulated foreign currency translation adjustment which relates to deferred exchange gains and losses arising from the translation of the financial statements of the Corporation's foreign operations which have a foreign dollar functional currency.

Note 23 Stock-based compensation plans

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.

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 7,040,687 as at December 31, 2012. 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 or five equal instalments on the annual anniversary date of the grant of the options. When Options with Tandem SARs are exercised, the related options are cancelled and the shares underlying such options are cancelled and are no longer available for issuance under the stock option plan.

The following is a summary of stock option activity:

For the years ended December 31		**2012**		2011
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
Outstanding, beginning of the year	**4,976,817**	**$ 10.38**	4,819,146	$ 10.37
Granted	**692,500**	**6.04**	638,100	8.69
Exercised for cash	–	–	(154,999)	5.16
Exercised for shares	–	–	(20,000)	5.05
Forfeited	**(1,425,000)**	**10.92**	(255,430)	8.69
Expired	–	–	(50,000)	15.02
Outstanding, end of the year	**4,244,317**	**$ 9.49**	4,976,817	$ 10.38
Options exercisable, end of the year	**3,001,899**	**$ 10.46**	3,801,760	$ 11.14

The following table summarizes information on stock options outstanding and exercisable at December 31, 2012:

Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Exercisable number	Exercisable weighted-average exercise price
$3.05–5.05	40,000	5.9	$ 3.69	40,000	$ 3.69
$5.06–9.77	2,545,982	7.5	7.01	1,303,564	6.88
$9.78–11.64	543,335	2.9	10.26	543,335	10.26
$11.65–15.23	1,115,000	4.6	14.99	1,115,000	14.99
Total	4,244,317	6.2	$ 9.49	3,001,899	$ 10.46

As at December 31, 2012, 2,984,017 options with Tandem SARs (December 31, 2011 – 4,409,017) and 1,260,300 options (December 31, 2011 – 567,800) remained outstanding for which the Corporation has recognized a compensation expense of $0.3 million for the year ended December 31, 2012 (compensation recovery of $3.6 million for the year ended December 31, 2011). The carrying amount of liabilities associated with cash-settled compensation arrangements is $4.2 million at December 31, 2012 (December 31, 2011 – $5.5 million).

INPUTS FOR MEASUREMENT OF GRANT DATE FAIR VALUES

The fair value at the grant date of the stock options and Options with Tandem SARs (described below) was measured using Black-Scholes. The following summarizes the fair value measurement factors for options granted during the year:

For the years ended December 31	**2012**	2011
Share price at grant date	**$ 5.96**	$6.14–$8.95
Exercise price	**$ 6.04**	$6.22–$9.10
Risk-free interest rates (based on 10-year Government of Canada bonds)	**1.95%**	3.09%–3.33%
Expected volatility	**49.00%**	48.42%–48.48%
Expected dividend yield	**2.55%**	1.63%–2.41%
Expected life of options	**10 years**	10 years
Weighted-average fair value of options granted during the year	**$ 2.52**	$ 4.24

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 total dividends paid during the preceding 12 months to the share price at grant date.

Other stock-based compensation

SHARE APPRECIATION RIGHTS (SARS)

SARs were issued to non-executive directors, executives and other employees. The SARs represent a right to receive a cash amount from the Corporation equivalent to the amount by which the market price of the Corporation's common shares at the time of exercise exceeds the market price of such shares at the time of the grant. The Corporation does not have SARs outstanding as of December 31, 2012 and no longer issues this type of 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. Provided a participant remains employed by the Corporation, 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 and (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.

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 and (b) the date that any terms of conditions vesting 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 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 287,400 common shares during the year for total consideration of $1.6 million. These shares are excluded from the calculation of weighted-average number of common shares used for the purposes of calculating basic earnings per share.

EMPLOYEE SHARE PURCHASE PLAN

The Employee Share Purchase Plan (Share Purchase Plan) is intended to allow eligible employees of the Corporation to purchase shares of the Corporation by means of automatic payroll deductions. Employees of the Corporation are typically eligible to participate in the Share Purchase Plan after one year of continuous service. Under the terms of the Share Purchase Plan, participating employees may purchase shares by electing to have an amount (up to 5% of their previous year's earnings) withheld by payroll deduction over a two-year period (Purchase Period). The purchase price of the shares is the lower of the share price at the beginning of the two-year Purchase Period and the share price at the end of the Purchase Period.

The Corporation is authorized to issue up to 3,300,000 shares under the Share Purchase Plan. The Corporation issued 280,495 common shares to employees during the year ended December 31, 2012 (December 31, 2011 – 447,560) under the Share Purchase Plan for total consideration of $1.3 million and has, since its inception in 1996, issued an aggregate of 1,797,275 common shares to employees.

A summary of the Share Purchase Plan, SARs, RSUs, DSUs and RSPs outstanding as at December 31, 2012 and 2011 and changes during the year is as follows:

Number of shares and units, for the year ended December 31 **2012**

	Share Purchase Plan	**SAR**	**RSU**	**DSU**	**RSP**
Outstanding, beginning of the year	**769,055**	**–**	**1,754,529**	**336,160**	**270,374**
Issued	**495,240**	**–**	**826,185**	**85,000**	**287,400**
Dividends credited	**–**	**–**	**51,809**	**9,489**	**–**
Exercised	**(280,495)**	**–**	**–**	**–**	**–**
Forfeited	**(224,087)**	**–**	**(106,601)**	**–**	**–**
Adjustment on settlement	**62,778**	**–**	**–**	**–**	**–**
Vested	**–**	**–**	**(591,221)**	**–**	**(106,848)**
Outstanding, end of the year	**822,491**	**–**	**1,934,701**	**430,649**	**450,926**
Units exercisable, end of the year	**n/a**	**–**	**n/a**	**430,649**	**n/a**
Weighted-average exercise price	**6.46**	**–**	**n/a**	**n/a**	**n/a**

Number of shares and units, for the year ended December 31 2011

	Share Purchase Plan	SAR	RSU	DSU	RSP
Outstanding, beginning of the year	948,652	140,000	1,531,914	283,359	203,730
Issued	424,839	–	548,240	44,000	88,500
Dividends credited	–	–	45,395	8,801	–
Exercised	(477,560)	(140,000)	(316,568)	–	–
Forfeited	(126,876)	–	(54,452)	–	–
Vested	–	–	–	–	(21,856)
Outstanding, end of the year	769,055	–	1,754,529	336,160	270,374
Units exercisable, end of the year	n/a	n/a	n/a	336,160	n/a
Weighted-average exercise price	5.05	n/a	n/a	n/a	n/a

The Corporation recorded a compensation expense of $6.3 million for the year ended December 31, 2012 for other stock-based compensation plans (December 31, 2011 – $3.0 million compensation expense). The carrying amount of liabilities associated with cash-settled compensation arrangements is $7.7 million at December 31, 2012 (December 31, 2011 – $5.7 million).

MEASUREMENT OF FAIR VALUES AT GRANT DATE

The fair value of the Share Purchase Plan, RSUs, DSUs and RSPs are determined by reference to the market value of the shares at the time of grant. The following summarizes the fair value measurement factor for the Share Purchase Plan, RSU, DSU and RSP grants during the year:

Canadian $, weighted-average share price at grant date, for the years ended December 31	**2012**	2011
Employee Share Purchase Plan	**$ 4.90**	$ 6.14
RSU	**5.87**	8.84
DSU	**6.15**	8.95
RSP	**5.87**	8.27

The intrinsic value of cash-settled stock-based compensation awards vested and outstanding as at December 31, 2012 was $8.2 million (December 31, 2011 – $6.3 million).

Note 24 Net change in non-cash working capital

Canadian $ millions, for the years ended December 31	**2012**	2011
Accounts receivable	**$ (33.2)**	$ (57.9)
Inventories	**(40.5)**	(22.9)
Prepaid expenses	**(13.3)**	(9.3)
Trade accounts payable and accrued liabilities	**19.3**	17.1
Deferred revenue	**7.8**	(15.5)
	$ (59.9)	$ (88.5)

Note 25 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, electricity and coal 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.

The Corporation has credit risk exposure related to its share of cash, accounts receivable, advances and loans receivable and certificates of deposit associated with its businesses located in Cuba or businesses which have Cuban joint venture partners as follows:

Canadian $ millions, as at	**2012 December 31**	2011 December 31
Cash	**$ 22.2**	$ 14.8
Trade accounts receivable, net	**216.1**	218.7
Advances and loans receivable	**574.9**	539.4
Cuban certificates of deposit	**31.7**	58.2
Total	**$ 844.9**	$ 831.1

The table above reflects the Corporation's maximum credit exposure to Cuban counterparties which may differ from loan balances in the consolidated results due to eliminations in accordance with accounting principles for subsidiaries and joint ventures.

The Corporation has credit risk exposure in Madagascar related to its share of cash and cash equivalents of $20.6 million, short-term investments of $31.8 million, and accounts receivable of $47.7 million associated with the Ambatovy Joint Venture. The Corporation also has accounts receivable from the Malagasy Government of $8.7 million associated with its Power business.

Liquidity risk

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.

At December 31, 2012, considering the Corporation's financial position and available credit facilities, the Corporation currently does not need to access public debt and equity capital markets for financing over the next 12 months. However, the Corporation may access these markets.

Based on management's assessment of its financial position and liquidity profile at December 31, 2012, the Corporation will be able to satisfy its current and long-term obligations as they come due.

In respect of the Ambatovy Joint Venture financing, Sherritt has a completion guarantee of US$840.0 million, all of which is cross-guaranteed or covered by letters of credit to be provided by its partners (note 14).

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 on its financial liabilities are presented in the following table:

Canadian $ millions, as at December 31, 2012	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	$ 196.6	$ 196.6	$ –	$ –	$ –	$ –	$ –
Advances and loans payable	133.7	10.2	11.8	10.8	11.0	10.3	79.6
Income taxes payable	18.3	18.3	–	–	–	–	–
Loans and borrowings[(1)]	3,308.9	92.0	92.0	412.2	229.7	69.5	2,413.5
Finance leases and other equipment financing	181.6	55.6	41.9	36.2	31.4	16.3	0.2
Environmental rehabilitation provisions	426.5	32.2	33.1	29.7	26.8	25.1	279.6
Operating leases[(2)]	31.1	13.6	5.5	2.2	1.9	1.9	6.0
Total	$4,296.7	$ 418.5	$ 184.3	$ 491.1	$ 300.8	$ 123.1	$2,778.9

(1) Loans and borrowings is composed primarily of $1,155.4 million in three public issues of senior unsecured debentures having interest rates of between 7.50% and 8.00% and maturities in 2015, 2018 and 2020, and $749.3 million and $92.1 million in loans provided by the Ambatovy Joint Venture partners to finance Sherritt's portion of the funding requirements of the Joint Venture bearing interest of six-month LIBOR plus a margin of 7.0% and 1.125%, respectively. The interest and principal on the Ambatovy Joint Venture Partner Loans and Ambatovy Joint Venture Additional Partner Loans will be repaid from the Corporation's share of the distributions from the Ambatovy Joint Venture (note 20). Amounts 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. These loans are non-recourse to Sherritt unless there is a direct breach of certain restrictions stipulated in the loan documents.

(2) Operating lease payments recognized as an expense in the consolidated statement of comprehensive income were $18.8 million for the year ended December 31, 2012 ($21.9 million for the year ended December 31, 2011).

As a result of the Corporation's 40% interest in the Ambatovy Joint Venture, its proportionate share of significant undiscounted commitments of the Joint Venture include environmental rehabilitation commitments of $152.5 million, contractual commitments for commodities of $33.6 million and senior debt financing of $928.0 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 subsidiaries with a functional currency other than the Canadian dollar impacting other comprehensive income (loss).

Based on financial instrument balances as at December 31, 2012, a strengthening or weakening of $0.05 of the Canadian dollar to the U.S. dollar with all other variables held constant could have an unfavourable or favourable impact of approximately $17.5 million, respectively, on net earnings, and $26.7 million 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, oil and export-destined coal 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 and future and forward contracts, but generally does not enter into such arrangements. 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.

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, 2012, excluding interest capitalized to project costs, a 1.0% increase or decrease in the market interest rate could increase or decrease the Corporation's annual interest expense by approximately $3.3 million, respectively. The Corporation does not engage in hedging activities to mitigate its interest rate risk.

STOCK-BASED COMPENSATION COST 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, 2012, a strengthening or weakening of $1.00 in the price of the Corporation's common shares would have had an unfavourable or favourable impact of approximately $2.6 million on annual net earnings, respectively.

Capital risk management

In the definition of capital, the Corporation includes, as disclosed on its consolidated statements of financial position and notes to the financial statements: capital stock, retained earnings and un-drawn credit facilities.

Canadian $ millions, as at	**2012 December 31**	2011 December 31
Capital stock	**$ 2,806.1**	$ 2,803.1
Retained earnings	**772.9**	784.9
Un-drawn credit facilities	**562.1**	423.6

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. The Corporation monitors its covenants on an ongoing basis and reports on its compliance with the covenants to its lenders on a quarterly basis.

The Corporation and its divisions were in compliance with all of their financial covenants as at December 31, 2012. The Corporation is not subject to any externally imposed capital restrictions.

Note 26 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, under principles of consolidation.

A description of the Corporation's interest in an associate and jointly controlled entities are included in notes 7 and 19, respectively.

Jointly controlled entities and associate

Canadian $ millions, for the years ended December 31	**2012**	2011
Total value of goods and services:		
Provided to jointly controlled entities	**$ 92.8**	$ 105.9
Provided to associate	**4.5**	4.4
Purchased from jointly controlled entities	**48.2**	40.4
Purchased from associate	**17.1**	–
Net financing income from jointly controlled entities	**27.1**	24.2

Canadian $ millions, as at December 31	Note	**2012**	2011
Accounts receivable from jointly controlled entities	12	**$ 2.9**	$ 4.1
Accounts receivable from associate	12	**31.1**	22.1
Accounts payable to jointly controlled entities		**0.3**	–
Accounts payable to associate		**11.8**	0.3
Advances and loans receivable from associate	14	**1,279.1**	968.9
Advances and loans receivable from Energas	14	**223.9**	166.9
Advances and loans receivable from certain Moa Joint Venture entities	14	**117.8**	142.8

All transactions between related parties are 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 year for bad debts in respect of amounts owed by related parties.

Key management personnel

Key management personnel is composed of the Board of Directors, Chief Executive Officer, Chief Financial Officer, Chief Operating 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	**2012**	2011
Short-term benefits(1)	**$ 10.6**	$ 11.3
Post-employment benefits(2)	**3.8**	1.1
Share-based payments	**5.5**	3.7
	$ 19.9	$ 16.1

(1) Short-term benefits include the value of RSUs as at the grant date and exclude $0.3 million paid to key management personnel in relation to their 2009 RSUs, which vested in the period ended December 31, 2012.

(2) Post-employment benefits include a non-registered defined contribution executive supplemental pension plan. The total cash pension contribution for key management personnel was $0.5 million for the year ended December 31, 2012 ($0.9 million for the year ended December 31, 2011). The total pension expense that is attributable to key management personnel was $1.2 million for the year ended December 31, 2012 ($1.0 million for the year ended December 31, 2011).

Note 27 Post-employment benefits

The Corporation sponsors defined benefit and defined contribution pension arrangements covering substantially all employees. The following table summarizes the significant actuarial assumptions used to calculate the pension expense and obligations under the defined benefit pension plans:

As at December 31	**2012**	2011
Accrued benefit obligation		
Discount rate	**4.0%**	4.6%
Rate of compensation increases	**3.5%**	3.5%
Inflation rate	**2.5%**	2.5%
Average remaining service period of active employees	**0–14 years**	0–14 years
Benefit costs		
Expected long-term rate of return on plan assets	**3.1–6.3%**	3.1–6.3%
Discount rate	**4.0%**	5.6%
Plan assets		
Expected return on plan assets	**3.1–6.3%**	3.1–6.3%

Actuarial reports and updates are prepared by independent actuaries for funding and accounting purposes. Net pension plan expense was:

Canadian $ millions, for the years ended December 31	**2012**	2011
Current service cost:		
Defined benefit	**$ 6.7**	$ 4.7
Defined contribution	**16.1**	14.9
Interest cost	**7.3**	7.3
Expected loss on plan assets	**(6.7)**	(6.6)
Actuarial loss	**10.7**	29.8
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	**$ 34.1**	$ 50.1
Adjustments to recognize the long-term nature of employee future benefit costs:		
Difference between expected return and actuarial return on plan assets	**3.5**	(6.6)
Deferral of actuarial loss	**(13.7)**	(22.8)
Amortization of net actuarial loss	**1.5**	–
	25.4	20.7
Valuation allowance provided against the accrued benefit asset	**–**	(0.5)
Net pension plan expense	**$ 25.4**	$ 20.2

Information on defined benefit pension plans, in aggregate, is set out below:

Canadian $ millions, for the years ended December 31	**2012**	2011
Accrued benefit obligation		
Balance, beginning of the year	**$ 157.6**	$ 128.1
Current service cost	**6.7**	4.7
Interest cost	**7.3**	7.3
Benefits paid	**(11.2)**	(5.6)
Actuarial loss	**14.2**	23.1
Balance, end of the year	**$ 174.6**	$ 157.6

Canadian $ millions, for the years ended December 31	**2012**	2011
Plan assets		
Fair value, beginning of the year	**$ 112.9**	$ 109.7
Expected return on plan assets	**6.7**	6.6
Actuarial gain (loss)	**3.5**	(6.7)
Employer contributions	**13.7**	8.9
Benefits paid	**(11.2)**	(5.6)
Fair value, end of the year	**$ 125.6**	$ 112.9
Funded status – deficit	**$ (48.9)**	$ (44.7)
Unamortized net actuarial losses	**41.5**	33.0
Valuation allowance	**–**	–
Net pension liability	**$ (7.4)**	$ (11.7)

Canadian $ millions, as at December 31	Note	**2012**	2011
Pension asset	14	**$ 1.7**	$ 2.4
Pension liability	20	**(9.1)**	(14.1)
		$ (7.4)	$ (11.7)

Total cash payments for post-retirement benefits for the year ended December 31, 2012, consisting of contributions to defined benefit and defined contribution pension plans, were $29.9 million (December 31, 2011 – $23.8 million). Total cash contributions to be paid to the plan for the year ending December 31, 2013 are estimated to be $13.7 million.

As at December 31, 2012 for pension plans with an accrued benefit obligation in excess of plan assets, the accrued benefit obligation was $160.1 million (December 31, 2011 – $142.5 million) and the fair value of the plan assets was $108.5 million (December 31, 2011 – $94.4 million).

The measurement date for the plan assets and the accrued benefit obligations for the Corporation's defined benefit pension plans is December 31. Actuarial valuations are performed at least every three years and rendered to date using current salary levels to determine the actuarial present value of the accrued benefit obligation. An actuarial valuation was performed on certain plans as at December 31, 2010. The next required actuarial valuation for funding purposes for certain plans will be December 31, 2013.

The following table summarizes the history and experience adjustments of the plan obligations and plan assets:

Canadian $ millions, as at	**2012 December 31**	2011 December 31
Present value of plan obligations	**$ (174.6)**	$ (157.6)
Fair value of plan assets	**125.6**	112.9
Deficit	**$ (49.0)**	$ (44.7)

Canadian $ millions, for the years ended December 31	**2012**	2011
Experience losses on plan obligations	**$ (14.2)**	$ (23.1)
Experience gains (losses) on plan assets	**3.5**	(6.7)

Approximate asset allocations, by asset category, of the Corporation's defined benefit pension plans were as follows:

As at December 31	**2012**	2011
Equity securities	**55%**	53%
Debt securities	**39%**	41%
Other	**6%**	6%

Note 28 Government grants

For the year ended December 31, 2012, the Corporation recognized government grants relating to Energas re-investment credits of $1.6 million ($1.3 million for the year ended December 31, 2011). Re-investment credits are earned as a result of providing financing for construction projects approved by the Cuban government. Receipt of these credits is contingent on Energas generating taxable income, and therefore re-investment credits are included in income only as Energas accrues income tax.

Note 29 Non-cash transactions

The Corporation entered into the following non-cash investing and financing activities which are not reflected in the consolidated statements of cash flow:

Canadian $ millions, for the years ended December 31	**2012**	2011
Acquisition of property, plant and equipment under finance leases	**$ 64.0**	$ 74.1

Note 30 Operating lease arrangements

Corporation acts as a lessor

The Corporation acts as a lessor in operating leases related to the Power facilities in Madagascar and in Varadero, Cuba. The following table summarizes future minimum lease payments relating to the Madagascar operating lease receivable:

Canadian $ millions, as at	**2012 December 31**	2011 December 31
Less than one year	**$ 5.1**	$ 5.1
Between one and five years	**4.2**	9.3
	$ 9.3	$ 14.4

All operating lease payments related to the Varadero facility are contingent on power generation and therefore excluded from the table above. The term of the lease is 20 years ending in February, 2018. At the end of the lease term, the leased assets will be sold at fair market value with the Corporation retaining its share of the net proceeds. For the year ended December 31, 2012, contingent revenue was $13.7 million ($14.0 million for the year ended December 31, 2011).

Corporation acts as a lessee

Operating lease payments recognized as an expense in the consolidated statement of comprehensive income (loss) for the year ended December 31, 2012 were $18.8 million ($21.9 million for the year ended December 31, 2011).

Note 31 Commitments for expenditures

Canadian $ millions, as at December 31	**2012**
Property, plant and equipment commitments	**$ 9.5**
Jointly controlled entities:	
Property, plant and equipment commitments	**4.8**
Construction commitments relating to service concession arrangements (100% basis)	**25.0**
Other commitments	**1.0**
Jointly controlled operations:	
Property, plant and equipment commitments	**4.5**

Note 32 Subsequent events

On January 10, 2013, Coal's Prairie Operations and its customer, the owner of the Highvale mine, agreed to transfer operations to the customer and terminate the Highvale mining contract. On January 17, 2013 the customer assumed responsibility for direct mining activities with a transition process expected to be completed over the next six months. For the year ended December 31, 2012 the mining contract contributed $6 million to the Corporation's net earnings.

As part of the transition agreement the Corporation will receive an estimated $12 million in cash from the customer upon transfer of mobile equipment at net-book-value following payment of the associated finance lease obligations. No accounting gain or loss will result from this net tangible asset transfer. In addition, a non-cash gain will be recognized upon transfer of the defined benefit pension obligation to the customer which will be partly offset by a non-cash write-off of approximately $17 million for intangible assets associated with this mining contract. Measurement of this gain will be based on the actuarial valuation of the plan at the time of transfer. Based on the December 31, 2012 actuarial valuation performed in accordance with IAS 19 (2011), which is to be adopted by the Corporation on January 1, 2013, this defined pension obligation gain was estimated to be $40 million.

Corporate governance

Demonstrating leadership

The Board of Directors (the “Board”) believes that sound corporate governance practices are essential to the well-being of Sherritt International Corporation (the “Corporation”) and the promotion and protection of its shareholders’ interests.

The Board oversees the Corporation’s governance system, in part through the work of the Nominating and Corporate Governance Committee. The mandate of the Nominating and Corporate Governance Committee is to assist the Board in fulfilling its oversight responsibilities in relation to all matters relating to corporate governance.

The fundamental responsibility of the Board is to oversee the management of the business and affairs of the Corporation in accordance with lawful and ethical standards, and the best interests of the Corporation. The Board promotes fair reporting, including financial reporting, to shareholders of the Corporation and other interested persons, as well as ethical and legal corporate conduct, through an appropriate system of corporate governance, internal controls and disclosure controls.

Reflecting the Corporation’s commitment to the highest standards of corporate governance and the importance of independent management oversight, a majority of the Board’s directors are independent and the Audit Committee consists entirely of independent and financially literate directors. In addition, all of the directors on the Nominating and Corporate Governance Committee, the Human Resources Committee, the Reserves and Projects Committee, and the Environment, Health, Safety and Sustainability Committee are independent.

The Nominating and Corporate Governance Committee reviews the Board and Committee mandates annually (or more often if required) and makes recommendations to the Board with respect to each mandate. The Board and Committee mandates are available at www.sherritt.com. Additional information on the Board’s corporate governance practices can be found in the Corporation’s annual management information circulars, which are available at www.sherritt.com or www.sedar.com.

Board of Directors

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Chairman
Sherritt International Corporation
Toronto, Canada

DAVID V. PATHE
President and Chief Executive Officer
Sherritt International Corporation
Toronto, Canada

R. PETER GILLIN[1, 2, 3, 4]
Corporate Director
Toronto, Canada

THE HONOURABLE MARC LALONDE[1, 2, 4]
(Lead Director)
Lawyer
Montreal, Canada

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Canmore, Canada

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Toronto, Canada

HAROLD (HAP) STEPHEN[1, 2, 4]
Corporate Director
Mississauga, Canada

1 Audit Committee.
2 Human Resources Committee.
3 Environment, Health, Safety and Sustainability Committee.
4 Nominating and Corporate Governance Committee.
5 Reserves and Projects Committee.

Shareholder information

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AUDITORS

Deloitte LLP, Toronto

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Common shares – S

Corporate structure

SHERRITT INTERNATIONAL CORPORATION

- 100% Ownership — **METALS**: Nickel and cobalt mining, processing and refining
- 100% Ownership — **COAL**: Mine-mouth and export thermal coal production
- 100% Ownership — **OIL & GAS**: Oil and gas exploration and production
- 33% Ownership — **POWER**: Power generation

- **MOA JOINT VENTURE** — 50% Ownership
- **AMBATOVY JOINT VENTURE** — 40% Ownership
- **CARBON DEVELOPMENT PARTNERSHIP** — 50% Ownership
- **TECHNOLOGIES** — 100% Ownership

100%

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