Sherritt International Corporation
2013 ANNUAL REPORT

sherritt

Sherritt is a world leader in the mining and refining of nickel from lateritic ores with operations in Canada, Cuba and Madagascar. The Corporation 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 commercial metals operations worldwide. The Corporation's common shares are listed on the Toronto Stock Exchange under the symbol "S".

FINANCIAL HIGHLIGHTS

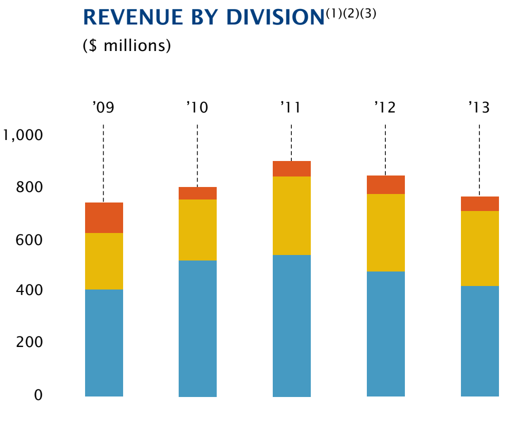
($ millions, except per share amounts, as at December 31)	2013	2012
Revenue	$ 448.50	$ 475.3
Adjusted EBITDA[1]	216.7	341.1
Net earnings (loss) from continuing operations	(158.5)	12.3
Net earnings (loss)	(660.3)	33.7
Basic earnings (loss) per share from continuing operations	(0.53)	0.04
Basic earnings (loss) per share	(2.23)	0.11
Net working capital[2]	481.8	908.4
Total assets	6,457.80	6,587.8
Weighted average number of shares (millions)		
Basic	296.7	296.3
Diluted	297.1	296.8

[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.

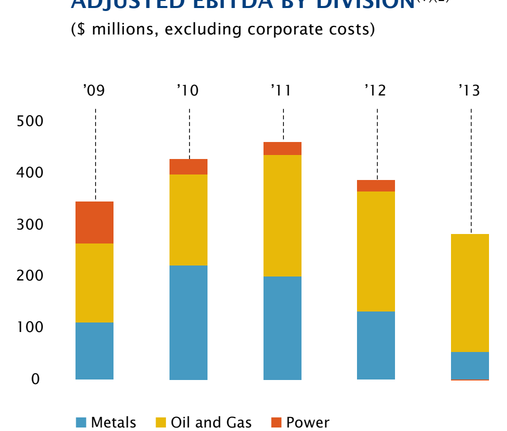
REVENUE BY DIVISION[1][2][3]

($ millions)



ADJUSTED EBITDA BY DIVISION[1][2]

($ millions, excluding corporate costs)



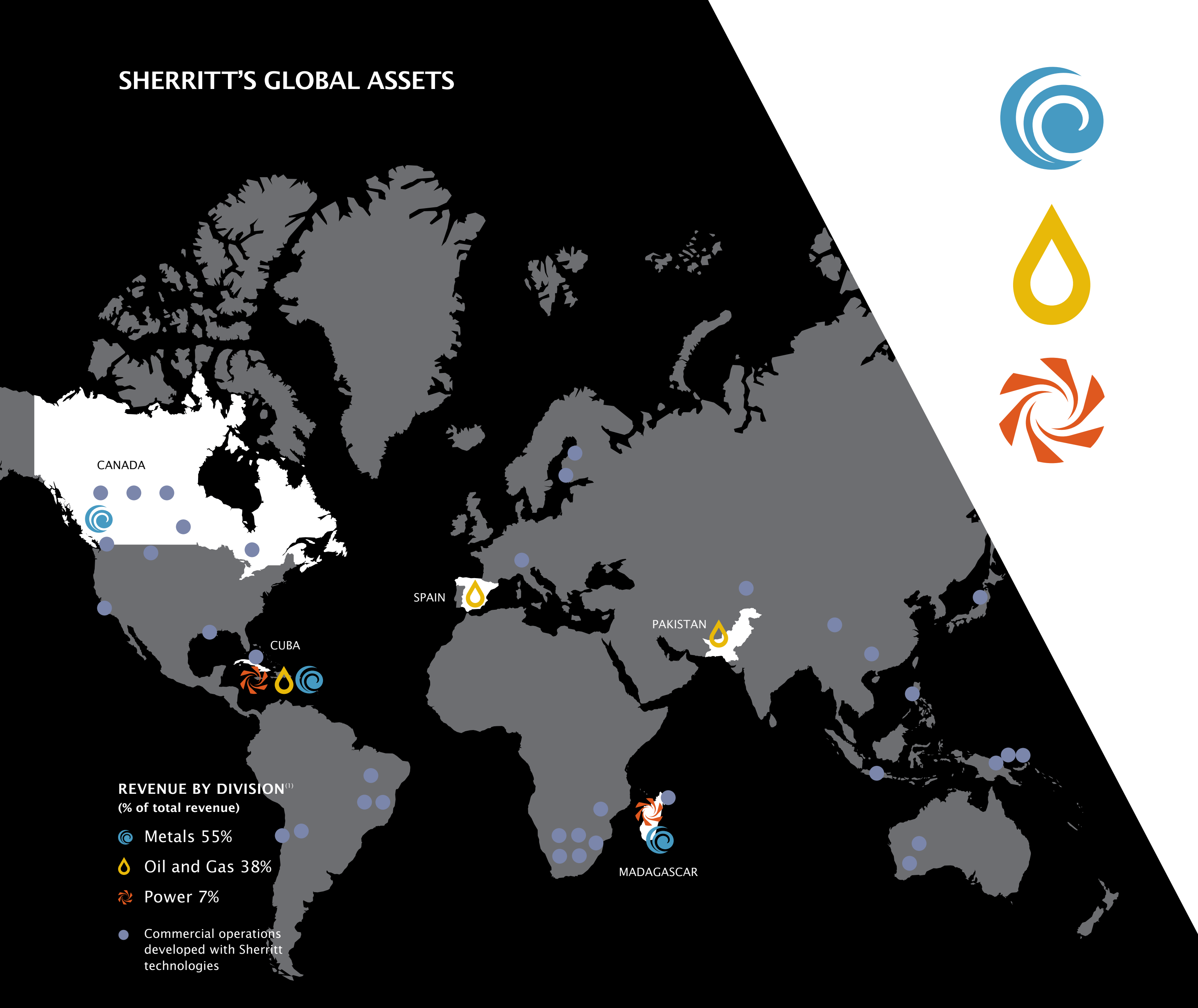
[1] The effective transition date from Canadian GAAP to IFRS was January 1, 2010. As a result, the fiscal year 2009 is stated in accordance with Canadian GAAP.

[2] The effective adoption date of IFRS 11 was January 1, 2013, resulting in accounting for the Moa Joint Venture changing from proportionate consolidation to equity accounting effective January 1, 2012. Amounts prior to January 1, 2012 have not been restated.

[3] Revenue for 2012–2013 is before adjustment for joint venture and associate revenue.

Cover image: Ambatovy plant site, Madagascar

SHERRITT'S GLOBAL ASSETS



[1] Excluding items listed as corporate and other.

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Shareholder information **(inside back cover)**

David Pathe and Harold (Hap) Stephen

CEO'S MESSAGE

In 2013, we undertook significant steps to narrow our focus to businesses where we have differentiating experience and expertise, and we are continuing our efforts to optimize performance, extend the life of our assets and reduce costs across our operations. We are advancing our base metals businesses in Madagascar and Cuba, and are currently looking to extend the life of our Cuban energy business. In narrowing our focus, we also determined areas that lie outside of our core strengths, and at year's end we announced the sale of our Canadian Coal business.

The Coal transaction is expected to bring net cash proceeds of approximately $793 million. These funds will provide us with the ability to further strengthen our balance sheet by proactively reducing our overall debt levels, maintain strong liquidity and invest where there are clear and tangible benefits.

With an annual design capacity of 60,000 tonnes of nickel and 5,600 tonnes of cobalt, our Ambatovy Joint Venture in Madagascar is the largest finished nickel and finished cobalt operation from lateritic ore in the world. In the fourth quarter of 2013, we logged record average ore throughput as a result of the improved performance of our leach autoclaves. On January 22, 2014, we reached a significant milestone as Ambatovy achieved Commercial Production, and we expect to see continued improvements in production throughout the coming year.

Sherritt remains committed to its long and successful relationship with Cuba. We have begun to mobilize resources for the construction of a 2,000 tonne per day acid plant in our Moa Joint Venture. Initial production from the facility is expected at the end of 2015, and is expected to lower costs of production by up to one dollar per pound of nickel. We are also looking to continue developing the energy business there through the extension of the term of an existing development block and the potential addition of four new exploration blocks to capitalize on proximity to the existing infrastructure.

While 2013 was certainly a challenging year, we have set the course that best positions the company for long-term success. We have focused on what we do best, divested operations outside of our core business, invested selectively where we were sure of the benefits and significantly strengthened our financial position. While the substantial drop in the nickel price last year significantly impacted our financial results, we continue to be a low-cost producer and look to improve on this further as Ambatovy comes fully on-line. As a result, Sherritt is well positioned as we look forward to 2014 and beyond.

Thank you to all of our employees, members of the Board and you, our shareholders, for remaining dedicated to Sherritt's success.

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

In 2013, we set the course that best positions the company for long-term success.

CHAIRMAN'S MESSAGE

The past year certainly brought its share of challenges, but the Board and management team took the necessary steps in 2013 to leave us well positioned for what lies ahead. As evidenced by the recently announced sale of our Canadian Coal business, our plan for the coming year is to refocus our efforts on what we do best: our base metals and Cuban oil businesses. Within our efforts to refocus the company, we will continue to streamline the business model, concentrating on our core holdings in nickel and growing the business over time through organic expansion and select acquisitions.

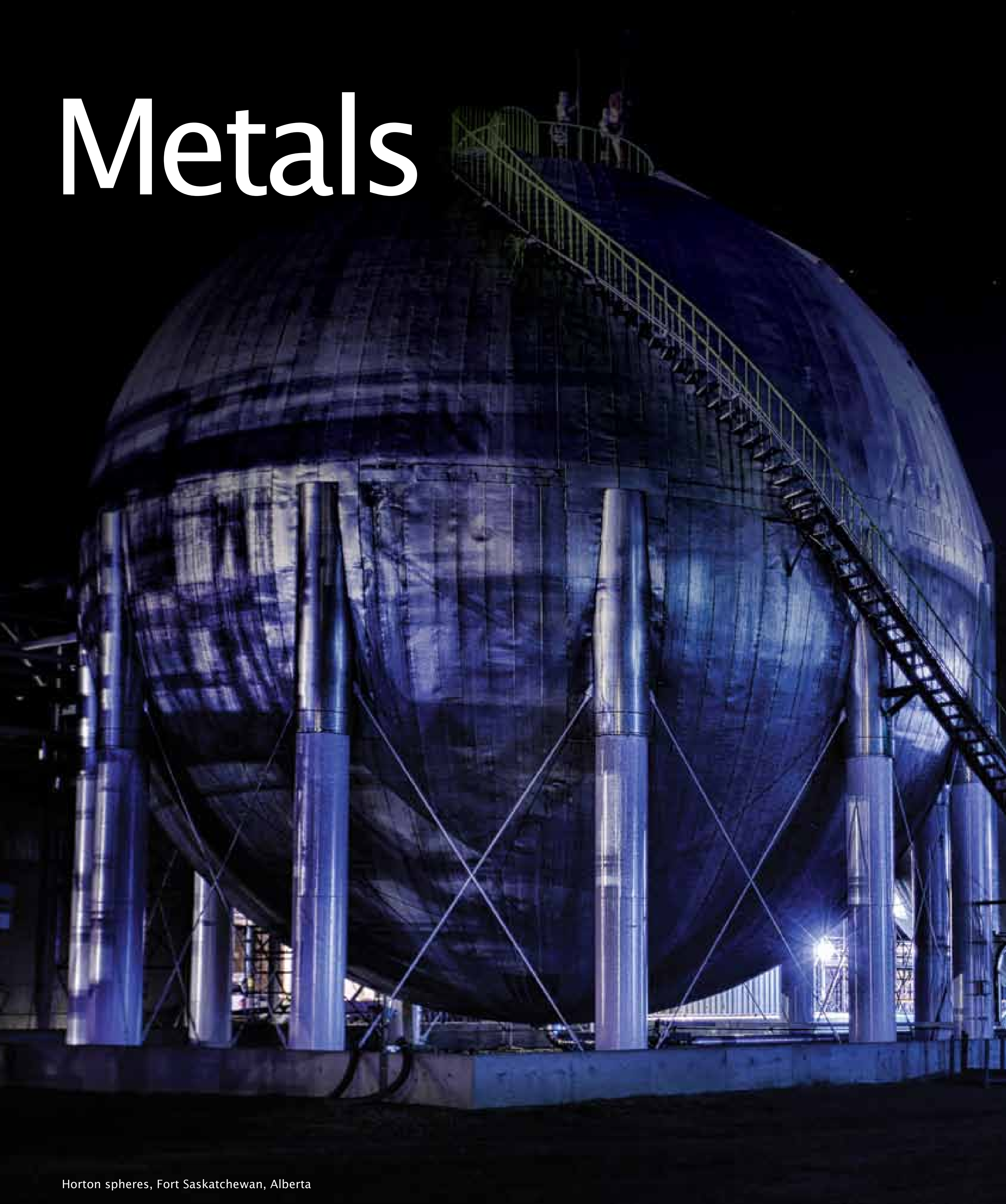
We remain steadfast in our dedication to maintaining sufficient liquidity and a strong balance sheet. These are of paramount importance and will continue to be a focus of the company in 2014.

In line with our commitment to strong governance, we were pleased to welcome new additions to your Board in 2013. This year saw the addition of Adrian Loader and Lisa Pankratz, both of whom add tremendous strength at an international level in the resource sector and capital markets – Adrian from an operations perspective and Lisa from an investors' perspective.

I would like to take this opportunity to extend my sincere appreciation to Ian Delaney, the founding Chairman of Sherritt International, and former Lead Director Marc Lalonde, both of whom retired last year from your Board after dedicating nearly two decades to the company.

HAROLD (HAP) STEPHEN
Chairman
Sherritt International Corporation

Metals



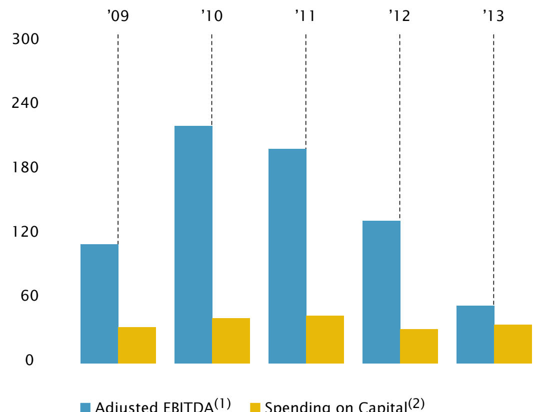
Horton spheres, Fort Saskatchewan, Alberta

Sherritt is a world leader in designing pressure leach hydrometallurgical processes as well as in operating nickel refining facilities that utilize these processes.

Nickel briquettes, Fort Saskatchewan, Alberta

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 year 2009 is 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 is a world leader in the mining and refining of nickel and cobalt from lateritic ores, with nearly 60 years of technical and operational expertise. Sherritt Metals operations consist of a 50% interest in the Moa Joint Venture and a 40% interest in the Ambatovy Joint Venture. The combined nameplate capacity of the two operations exceeds 100,000 tonnes (100% basis) of finished nickel and finished cobalt annually. Both operations utilize Sherritt's commercially proven hydrometallurgical process technologies. Sherritt's ongoing process development and metallurgical testing at its facilities provide the ability to improve operating efficiency and add value to its existing assets. In addition, 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.

Sherritt Metals achieved record production of mixed sulphides, finished nickel and finished cobalt as the production ramp-up of the Ambatovy facilities continued to progress in 2013. Full-year finished nickel production reached 58,690 tonnes (25,148 tonnes Ambatovy, 33,542 tonnes Moa, 100% basis) and finished cobalt production was 5,402 tonnes (2,083 tonnes Ambatovy, 3,319 tonnes Moa, 100% basis) in 2013.

Moa Joint Venture, Cuba

MOA JOINT VENTURE

The Moa Joint Venture is a vertically integrated nickel mining, processing, refining and marketing enterprise between subsidiaries of Sherritt and General Nickel Company S.A. (GNC) of Cuba. Sherritt Metals has been in partnership with GNC through the Moa Joint Venture since 1994. The Moa Joint Venture's operations are currently conducted among three companies, in which Sherritt and GNC each hold a 50% interest. Moa Nickel S.A. owns and operates the mining and processing facilities located in Moa, Cuba. The Cobalt Refinery Company Inc. (CRC) owns and operates the metals refinery located at Fort Saskatchewan, Alberta. International Cobalt Company Inc. acquires mixed sulphides from Moa Nickel and third parties, contracts with CRC for the refining of these materials, and markets finished nickel and cobalt internationally.

The Moa Joint Venture uses an open pit mining process to mine lateritic ore in Cuba, which is processed on site into mixed sulphides containing nickel and cobalt. The mixed sulphides are shipped to Halifax, Nova Scotia, and transported by rail to Fort Saskatchewan, Alberta, where they are refined into high-quality finished nickel and finished cobalt.

In 2013, the Moa Joint Venture produced 36,374 tonnes of contained nickel and cobalt in mixed sulphides (100% basis), comparable to prior-year production. Finished nickel production was 33,542 tonnes (100% basis) and finished cobalt production was 3,319 tonnes (100% basis), reflecting availability of mixed sulphides from Moa. Sales of finished nickel and finished cobalt in 2013 were in line with production volumes.

The first phase of a planned expansion of the Moa Joint Venture was completed in 2008, increasing annual production capacity to approximately 37,000 tonnes of nickel plus cobalt contained in mixed sulphides. Further expansion plans were deferred in late 2008 in response to weakening commodity markets.

In October 2013, the Moa Joint Venture partners agreed to complete construction of a 2,000 tonne per day sulphuric acid plant in Moa. In the fourth quarter of 2013, the Moa Joint Venture commenced mobilization of resources for construction of the acid plant. Construction is scheduled to begin in the third quarter of 2014 and initial production from the facility is expected in the fourth quarter of 2015.

Ambatovy plant site, Madagascar

The new acid plant is expected to reduce the net direct cash cost of nickel to the Moa Joint Venture by up to 20%, largely by eliminating the need for purchased sulphuric acid. It will also provide additional sulphuric acid production capacity to support future potential metals expansion plans. The possibility to expand capacity at Moa by 9,000 tonnes will be evaluated when global nickel markets improve from their current condition of oversupply. Funding for the acid plant is being provided by a Cuban financial institution. Due to current nickel market conditions, operations in the Fort Saskatchewan refinery will concentrate efforts on improving efficiency and on infrastructure initiatives in order to maintain Sherritt's low-cost production profile.

In addition to its interest in the Moa Joint Venture refining facilities at Fort Saskatchewan, Sherritt Metals also has wholly-owned fertilizer, sulphuric acid and utilities operations as well as storage facilities in Fort Saskatchewan that provide additional sources of income to the Corporation and enhance the security of certain inputs and services for the Moa Joint Venture.

AMBATOVY JOINT VENTURE

The Ambatovy Joint Venture is a vertically integrated nickel and cobalt mining, processing, refining and marketing enterprise between subsidiaries of Sherritt (40% ownership), Sumitomo (27.5%), Korea Resources (27.5%) and SNC-Lavalin (5%). Sherritt is the operator of the facilities. The design of the Ambatovy facilities 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 successfully implemented Sherritt's technology.

Ambatovy is located in Madagascar, off the southeast coast of Africa. At full production, Ambatovy will be the world's largest vertically integrated mining, processing and refining facility producing finished nickel and finished cobalt from lateritic ore. It has an annual design capacity of approximately 60,000 tonnes of finished nickel, 5,600 tonnes of finished cobalt and 210,000 tonnes of ammonium sulphate fertilizer. The estimated life of the operation is approximately 29 years.

Ambatovy includes a mining and ore preparation plant located in the immediate vicinity of the ore bodies near Moramanga in eastern central Madagascar, a pipeline approximately 220 kilometres long, in which the mined laterite ore is transported in the form of prepared slurry to the plant facilities site, and a processing plant and refinery which are located approximately 11 kilometres south of the port city of Toamasina.

5,402 tonnes

of cobalt produced in 2013 (100% basis)

Ore truck, Moa, Cuba

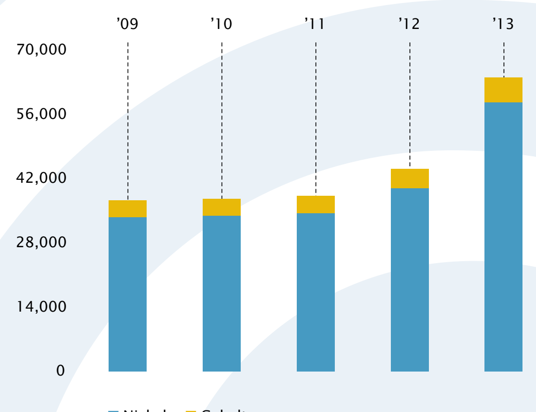
Ambatovy received a 40-year mining permit from the Government of Madagascar in 2006, and was certified under the Large Mining Investment Act (LGIM) in 2007. Construction began in 2007 and was completed in 2011. Commissioning testing commenced in 2010 and was completed in 2012. Ambatovy received its Operating Permit and commenced production of finished nickel and finished cobalt in the third quarter of 2012. The first sales of finished product also took place in 2012.

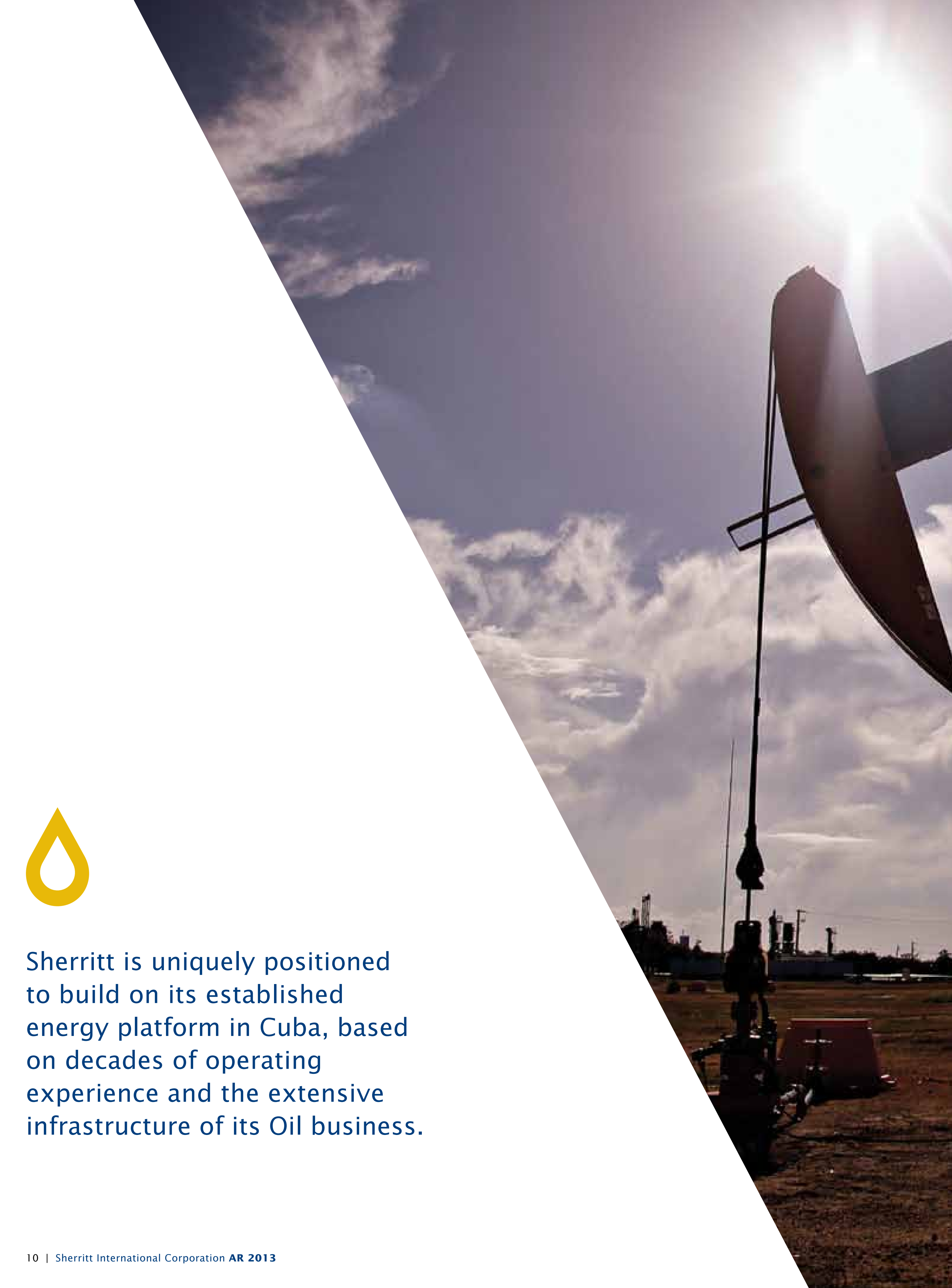
In January 2014, Ambatovy met the requirements for Commercial Production, defined as 70% of ore throughput of nameplate capacity in the pressure acid leach circuit, averaged over a 30-day period. This achievement represents an important milestone in the operational ramp-up of the Ambatovy facilities to full production capacity. Commercial Production, the point at which Ambatovy begins to recognize operating revenues and costs for accounting purposes, commenced on February 1, 2014.

During 2013, Ambatovy produced 29,248 tonnes (100% basis) of nickel and cobalt contained in mixed sulphides, 25,148 tonnes (100% basis) of finished nickel and 2,083 tonnes (100% basis) of finished cobalt. In 2013, Ambatovy sold approximately 56.2 million pounds (100% basis) of finished nickel and 4.6 million pounds (100% basis) of finished cobalt.

FINISHED METAL PRODUCTION

(tonnes, 100% basis)





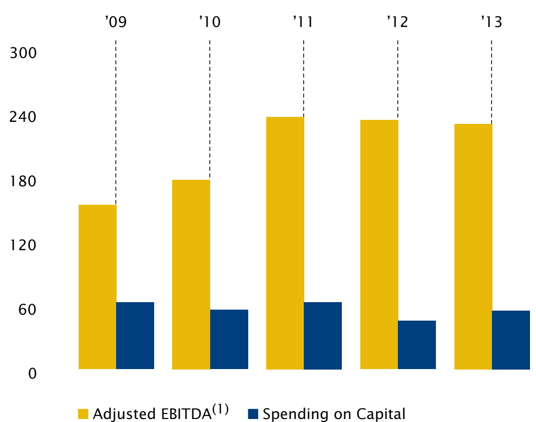
Sherritt is uniquely positioned to build on its established energy platform in Cuba, based on decades of operating experience and the extensive infrastructure of its Oil business.

Oil and Gas

Pumpjack, Varadero, Cuba

Oil and Gas workers, Yumuri, Cuba

OIL AND GAS ADJUSTED EBITDA AND SPENDING ON CAPITAL
($ millions)



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Sherritt Oil has a successful history of exploring for, developing and producing oil and natural gas around the world. Sherritt currently operates primarily in Cuba, producing wells from near-shore oil and gas reservoirs off Cuba's northern coast. In addition, Sherritt also holds working interests in oil and gas fields in Spain and Pakistan as well as exploration permits in Europe.

With more than 20 years of experience in operating oil and gas fields in Cuba, Sherritt Oil has developed a thorough geological understanding of the complex fold and thrust belts along Cuba's northern coast, where it has established a proven ability to identify new plays and trends.

Sherritt has introduced many new technologies into Cuba, including the directional drilling of horizontal wells allowing for the cost-effective exploration and development of reservoirs located off the Cuban shoreline. Currently, all of Sherritt Oil's producing wells in Cuba are directionally drilled from onshore locations between Havana and Cárdenas. These directional wells target oil reservoirs situated offshore below the adjacent seabed, which typically produce at depths ranging from 1,200 metres to 2,000 metres below sea level. Using current

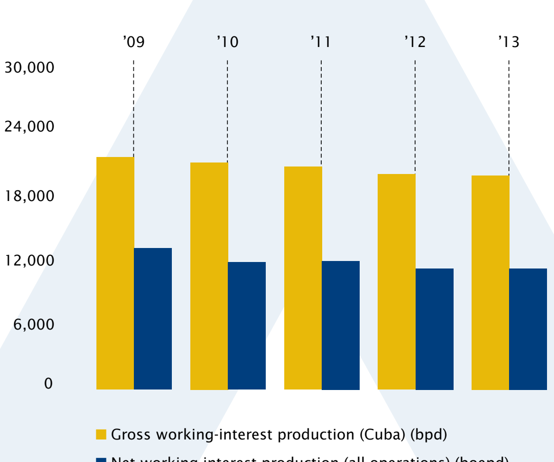
Oil and Gas workers, Yumuri, Cuba

equipment and technology, Sherritt has drilled directional wells up to 5,600 metres in length, extending laterally up to 4,700 metres from the surface location. Sherritt has also applied advanced technology to enhance oil recovery from existing wells. Since 1992, Sherritt has drilled more than 195 oil wells and produced over 196 million gross working-interest barrels of oil in Cuba.

Sherritt Oil holds its exploration and production rights in Cuba under production-sharing contracts (PSC) with Union Cubapetroleo (CUPET), an agency of the Government of Cuba. Sherritt Oil currently operates three commercial oil fields in Cuba – Puerto Escondido, Yumuri and Varadero West – under two separate PSCs along the northern coast. In 2013, all of Sherritt's oil sales in Cuba were sold to CUPET, under the terms of its two PSCs. Sherritt's net working-interest oil production in Cuba consists of an allocation from its gross working-interest production for recovery of all approved costs and a contractual percentage of the remaining production. The pricing for oil produced by Sherritt in Cuba is based on a discount from the Gulf Coast Fuel Oil Number 6 reference price.

OIL AND GAS PRODUCTION

(barrels of oil equivalent per day)



Oil and Gas pipes, Yumuri, Cuba

Sherritt is the largest independent oil producer in Cuba. In 2013, Sherritt Oil produced 20,042 gross working-interest barrels of oil per day in Cuba. This represented approximately 40% of Cuba's oil production. Approximately 94% of Sherritt's oil and gas production originated in Cuba, while the remainder came from its working interests in several oil fields off the coast of Spain in the Gulf of Valencia and from a working interest in a natural gas field located in Pakistan.

During 2013, three development wells were drilled and completed in Cuba. Two of the wells are currently producing and the third well is suspended, awaiting further evaluation. A fourth development well initiated in 2013 was completed in February 2014 and is now producing oil.

Sherritt Oil's immediate and near-term development plans relate to its principal commercial oil fields in Cuba. In 2014, two new development wells along with well optimization and remediation programs are planned for Puerto Escondido. Two new development wells are planned for Yumuri in 2014, in addition to workover operations for several existing wells in order to optimize field production there. The well optimization program for Block II (Varadero West) is planned to continue in 2014.

Sherritt Oil's longer-term plans are also focused on Cuba, where it has applied for the extension of the Puerto Escondido/Yumuri Production-Sharing Contract and for four new exploration PSCs. Sherritt has applied for an extension of the PSC covering the Puerto Escondido/Yumuri oil fields for a 10-year period to allow for further development drilling in those fields. The four new PSC applications relate to exploration prospects in Cuba. Two of the PSCs are on the north coast of Cuba, west of Havana, and two cover exploration prospects in central Cuba and in the Varadero area. Negotiations with Cuban authorities are in the final stages and approval for the extension and the four new PSCs is anticipated in first quarter 2014 and first half of 2014, respectively.

Spending on capital for 2014 is estimated at approximately $73 million. The expected increase over 2013 is due to increased equipment costs to replace aging equipment, increasing well servicing requirements in mature fields and higher drilling costs. In addition to these ongoing base capital requirements, contingent capital of approximately $28 million is under consideration, pending the finalization of the extension of the one existing PSC and the receipt of four additional ones. The contingent capital would be directed toward starting a

Pumpjack, Varadero, Cuba

94%

of Sherritt's oil and gas production originated in Cuba

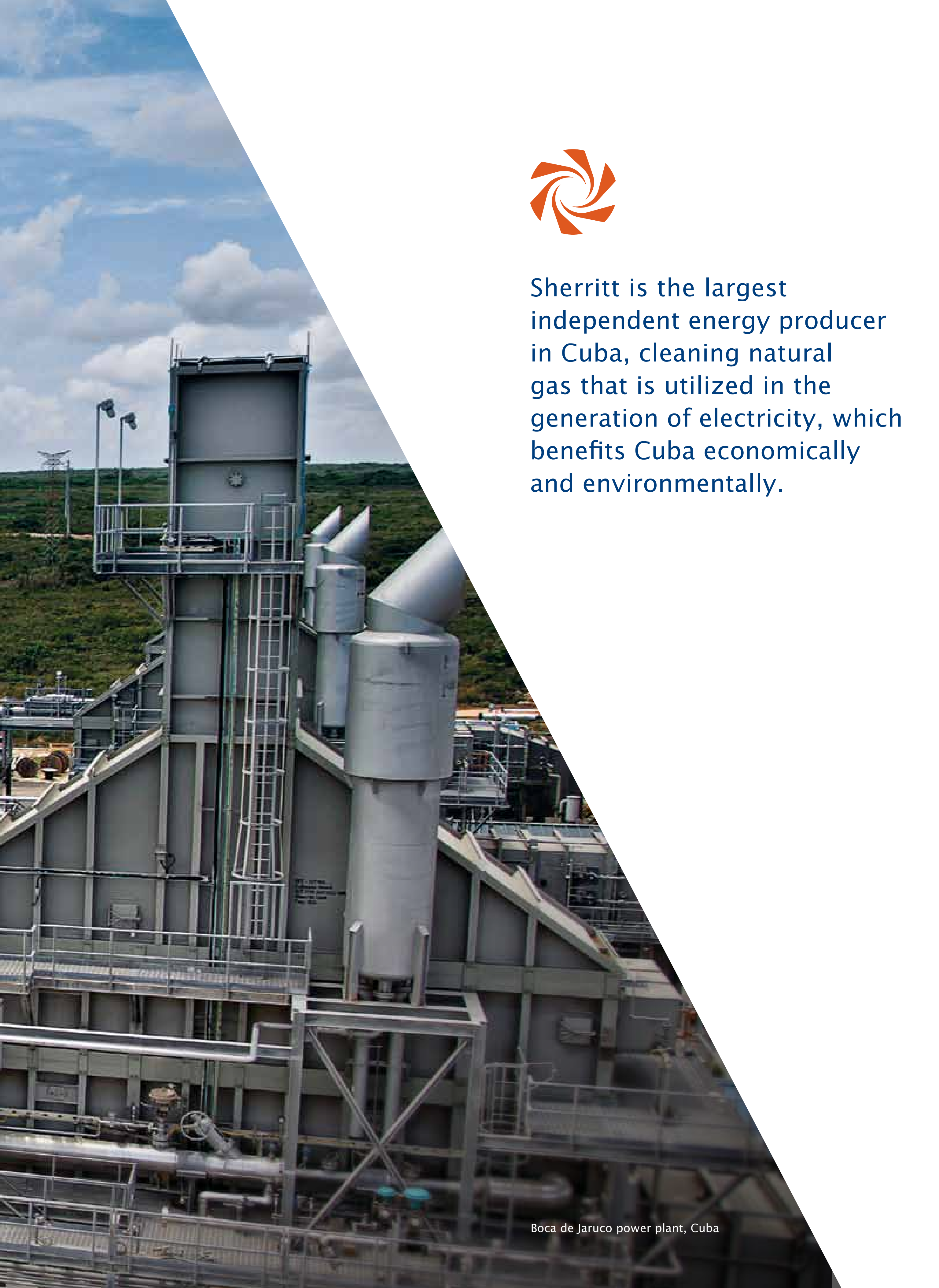
second drilling rig, shooting seismic, purchasing support equipment and making facility improvements to facilitate the development of the new PSCs. These plans will be funded by cash flows generated by Sherritt Oil's operations.

Sherritt Oil's well-established and extensive infrastructure base in Cuba will enable it to continue to operate cost-effectively. In addition, Sherritt operates in Cuba in accordance with "good oil field practice", the same standards that are in effect in Alberta, Canada, which are among the highest in the world. Sherritt Oil maintains high levels of safety in its operations through extensive safety awareness and training programs and through special safety leadership training of managers to ensure effective supervision of safe operations. Safety awareness continues to be reinforced through mandatory driver safety training, safety meetings and refresher training. The safety record of Sherritt's Cuban operations is comparable to that of its Canadian peers.

Sherritt Oil is committed to local employment in Cuba. In 2013, of a total workforce of 300 in Cuba, approximately 90% were Cuban nationals. Cuban field and yard operators working for Sherritt Oil are being trained to international standards of proficiency.

In addition to its currently producing interests, Sherritt Oil holds exploration permits in the United Kingdom North Sea and in the Alboran Sea off the southern coast of Spain. Sherritt Oil completed a seismic program in the North Sea in 2013. Processing and interpretation of the seismic data have been completed, and have satisfied the contractual obligation under the leases. Sherritt Oil will not be spending additional funds to develop the prospect area, but will instead look to farm out the lease opportunity.

Power



Sherritt is the largest independent energy producer in Cuba, cleaning natural gas that is utilized in the generation of electricity, which benefits Cuba economically and environmentally.

Boca de Jaruco power plant, Cuba

Power plant, Puerto Escondido, Cuba

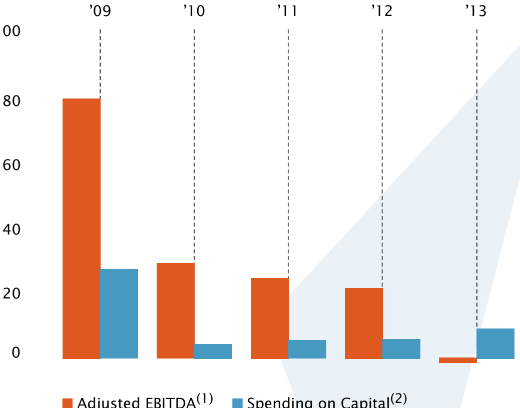
Sherritt Power operates in Cuba through its one-third interest in Energas S.A. The remaining two-thirds interest in Energas is held equally by two Cuban agencies, Union Cubapetroleo (CUPET) and Union Electrica (UNE).

Energas processes natural gas from oil fields along the northern coast of Cuba and utilizes the clean gas to generate electricity as well as to produce by-products such as condensate and liquefied petroleum gas. This method of power generation realizes the economic benefit of a valuable source of energy, correspondingly reducing Cuba's energy importation requirements and costs, while mitigating the environmental impact that occurs when natural gas high in sulphur is flared in producing oil fields.

In 2013, Energas produced 1,767 GWh of electricity, representing approximately 11% of Cuba's electricity generation capacity. The 150 MW Boca de Jaruco Combined Cycle Project was substantially completed in late 2013 and became fully operational in early February 2014, increasing Energas' electrical generating capacity to 506 MW. It is expected to run at approximately 47% of capacity until additional fuel sources are identified. Efforts continue to source additional natural gas for the Energas facilities.

POWER ADJUSTED EBITDA AND SPENDING ON CAPITAL

($ millions)

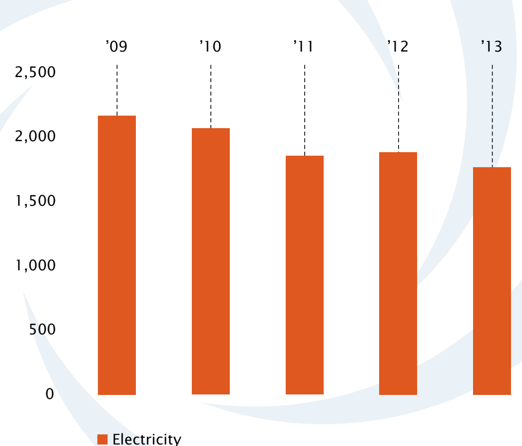


(1) The effective transition date from Canadian GAAP to IFRS was January 1, 2010. As a result, the fiscal year 2009 is stated in accordance with Canadian GAAP.

(2) Excludes amounts for the 150 MW Boca de Jaruco Combined Cycle Project.

ELECTRICITY GENERATION

(gigawatt hours, 100% basis)



Discontinued Operations – Coal

Boundary Dam coal mine, Saskatchewan

Sherritt entered the Coal business in 2001 with the acquisition of Luscar, Canada's largest coal producer. In 2013, Sherritt Coal operated seven active mines in the provinces of Alberta and Saskatchewan, supplying both domestic utilities and international companies with fuel for electricity generation.

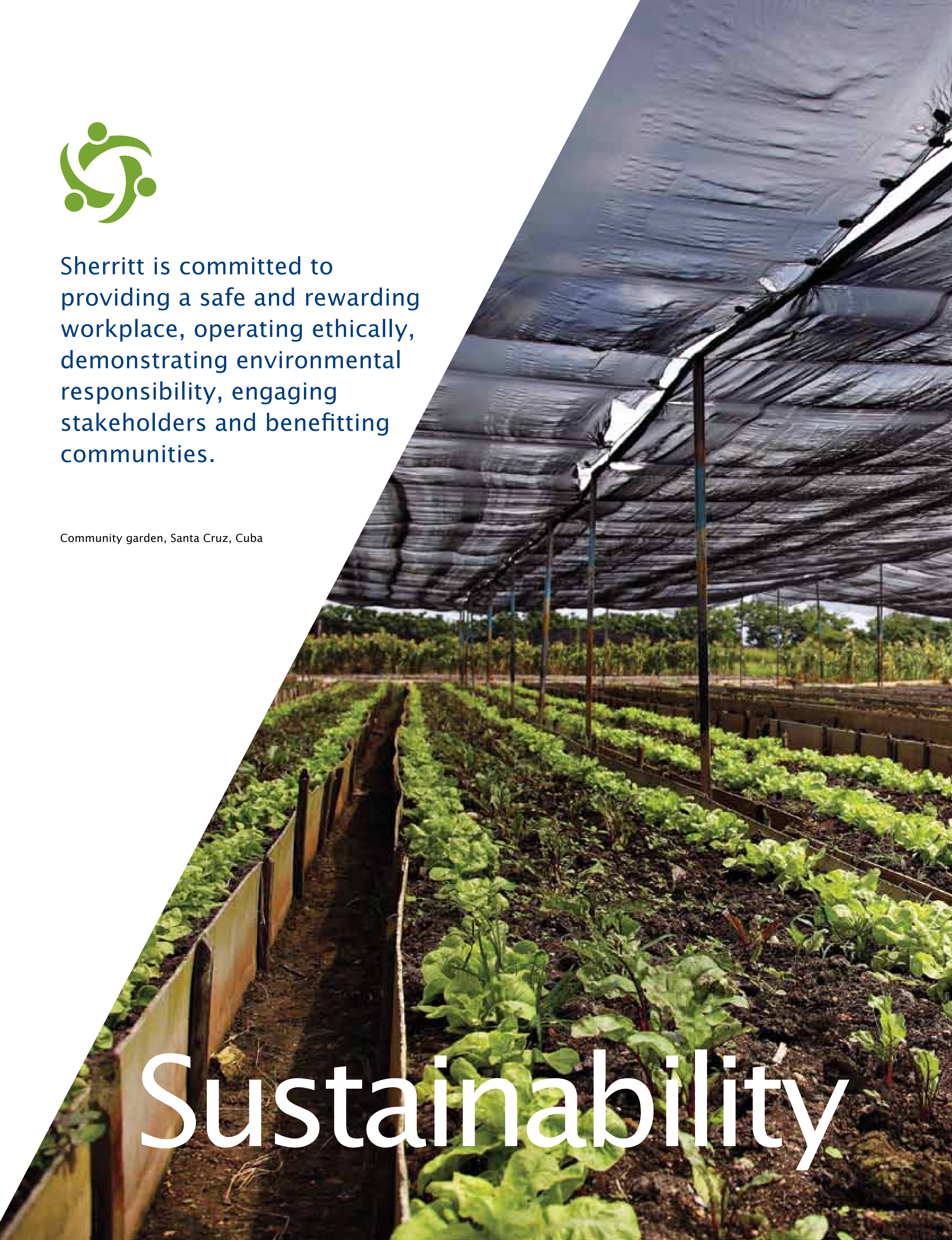
In December 2013, Sherritt announced the sale of its Coal business to two separate companies for total consideration of $946 million, including total cash consideration of $793 million and assumption of capital leases of approximately $153 million, subject to closing adjustments. Sherritt is seeking to close the Coal transaction at the end of the first quarter of 2014.

On the close of the transaction, Sherritt will retain the obligations associated with the Obed Mountain mine containment pond breach, which occurred in October 2013.

Sherritt would like to express its appreciation and gratitude to the management and employees of Sherritt Coal for their dedicated work and contributions over the last twelve years with Sherritt as well as for their special efforts towards completing the transaction successfully. They will be a valued part of their new enterprise and we wish them every success in the future.

COAL PRODUCTION

(millions of tonnes, 100% basis)



Sherritt is committed to providing a safe and rewarding workplace, operating ethically, demonstrating environmental responsibility, engaging stakeholders and benefitting communities.

Community garden, Santa Cruz, Cuba

Sustainability

Sherritt introduced its Sustainability Framework in 2013 to provide a more focused and practical approach to prioritizing, managing and measuring sustainability performance. The framework is based on a materiality assessment of those issues with significant potential business impact that are most important to our stakeholders. Sherritt will meet or exceed the standards where it operates and continuously improve performance. Please visit *www.sherritt.com/sustainability* for more information. Implementation of the framework within the Corporation began in 2013 and will continue in 2014.

WORKPLACE AND ETHICS

Sherritt is committed to providing a safe and rewarding workplace for its workforce in all of its operations. This is done through effective risk management and maintaining a culture of safety through safety training and awareness on the part of the workforce. Sherritt's goal is zero harm in the workplace throughout its operations.

The Corporation sets as targets a Lost Time Injury (LTI) index of zero and a Total Recordable Injury (TRI) index of less than 0.75. In 2013, Sherritt achieved an average LTI index of 0.11 and a TRI index of 0.36. Sherritt's safety performance improved in 2013 compared to 2012 with fewer recordable and lost time injuries. The Corporation also met its target of zero work-related fatalities in 2013.

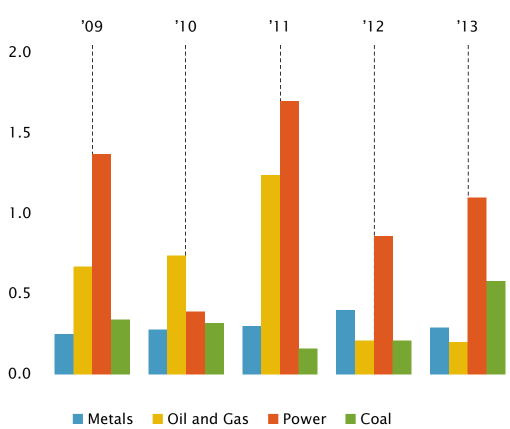
At Ambatovy, further initiatives were taken in 2013 to enhance the safety awareness of the workforce and reduce risk in the workplace. Ambatovy installed additional safety features in the workplace, further restricted access to high-risk areas, reinforced safe work practices and daily personal risk assessment capabilities, and increased specialized training. At the end of 2013, Ambatovy's 12-month process safety incident frequency rate was at the industry minimum level benchmark as set by the Centre for Chemical Process Safety. These initiatives will continue in 2014.

The Assistance Initiative for Demobilized Employees (AIDE), which was established in 2011 to assist demobilized construction workers at Ambatovy to find new vocations, was completed in 2013. Between 2011 and 2013, nearly 20,000 individuals involved in construction benefitted from monthly payments over an average period of 11 months. Training in agriculture and assistance in job searching were also provided. Approximately US$6.7 million was paid out under AIDE.

Sherritt strives to instill a culture and environment of awareness of, and adherence to, high standards of ethical conduct in all its business activities. In 2013, Sherritt completed

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

(12-month rolling average as at December 31, 2013)

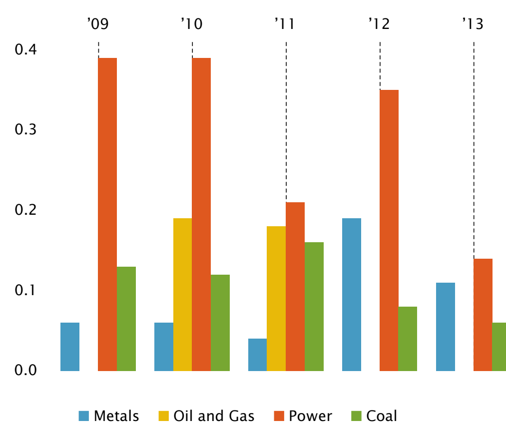


[1] The TRI index is calculated by multiplying the number of TRIs by 200,000 and then dividing by the total exposure hours. This index provides a measure that is comparable across industries and businesses of varying size.

[2] Data have been restated to include contractors throughout.

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

(12-month rolling average as at December 31, 2013)



[1] The LTI index is calculated by multiplying the number of 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.

Madagascar wildlife

a company-wide training program on the Anti-Corruption Policy that it established in 2012. Also in 2013, Sherritt began to conduct security and human rights assessments in alignment with the Voluntary Principles on Security and Human Rights at all of its operations as part of its commitment to operate in a manner that respects human rights as set forth in the Universal Declaration of Human Rights.

In 2013, Sherritt employed, directly or through a subsidiary or affiliate, a workforce of approximately 8,090 people. The 2% decrease from 2012 is primarily a result of the transfer of the operation of the Highvale coal mine to the customer/owner in January 2013.

ENVIRONMENTAL RESPONSIBILITY

Sherritt is committed to practicing responsible environmental stewardship at all of its operations and to managing natural resources responsibly in accordance with standards that meet or exceed regulations. Sherritt strives to achieve no net loss, and preferably a net gain, of biodiversity for greenfield projects and expansions of existing operations.

The focus on land reclamation is to return formerly mined land to traditional uses as outlined in operating licenses. Sherritt practices progressive reclamation as part of normal operations at all mines to minimize the adverse impact of mining activity. By the end of 2013, Sherritt Coal had completed reclamation of approximately 69% of the total area of land disturbed since mining operations began.

The Corporation retains the environmental remediation obligation associated with a breach of an on-site water containment pond that occurred at the Obed Mountain mine in Coal's Mountain Operations on October 31, 2013. The Corporation is working with Alberta Environment and Sustainable Resource Development (AESRD) and is committed to complying with the AESRD environmental protection order of November 2013.

Sherritt monitors and tracks energy usage at operation sites to understand and mitigate potential impacts of climate change. Sherritt's greenhouse gas (GHG) offset project in Cuba continues to operate at Energas S.A.'s Varadero facility. By the end of 2013, 1,383,986 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 due to delays in verification and approvals. An additional total of 868,651 tonnes is in the process of being monitored or reviewed for future issuance. At the end of 2013, a further 172,210 tonnes had been documented on a preliminary basis. The total number of credits issued and documented is slightly lower than previously reported, reflecting a recent recalculation of the monitoring results.

Ambatovy strives for a net gain in biodiversity in areas affected by its operations. In 2013, a nursery complex constructed with Ambatovy's support near the mine site became fully operational. The complex will provide a supply of endemic plants and scientific information to support the progressive restoration of the mine site, which is scheduled to commence in 2015.

STAKEHOLDERS AND COMMUNITY

Sherritt works closely with stakeholders and others in the communities located around the sites of its operations. Emphasis is placed on early engagement and regular communications with stakeholders throughout the lifecycle of corporate assets, to provide timely and accurate information on the impacts and benefits of Sherritt's operational activities.

8,090 people

employed directly or through a subsidiary or affiliate of Sherritt in 2013

Safety Supervisor, Coal Valley reclamation site, Alberta

Sherritt encourages its employees to support and participate in local community initiatives. Sherritt and its workforce raise funds and volunteer time for local United Way initiatives. In 2013, Sherritt continued to match its employees' donations to United Way. The Corporation contributed approximately $1.6 million in 2013 toward work in its communities of operation, benefitting over 100 local organizations.

With a workforce of nearly 700 people in Fort Saskatchewan, Sherritt Metals is an active contributor to numerous initiatives that benefit that community. In 2013, Sherritt made a further donation toward meeting its $500,000 commitment to the Fort Saskatchewan Community Hospital Foundation for the purchase of a state-of-the-art computed tomography (CT) scanner – the first in the community. The Health Services wing of the new hospital is now named the Sherritt Health Services Centre. The CT scanner is now operational and serving the community.

Sherritt and its employees supported their local communities in many other ways as well in 2013. Donations went to local community events, organizations and charities. In 2013, Sherritt Metals also raised over $44,000 in support of the United Way campaign, surpassing its goal of $40,000, and Sherritt Oil and Gas and Power raised $100,000 for Calgary's Children's Hospital.

In Cuba, Sherritt works with national, provincial and municipal government authorities to identify and implement key social infrastructure projects that provide materials and equipment to improve the lives of Cuban citizens who live in areas where Sherritt conducts business. Examples of social infrastructure contributions include a pump for fresh water for a community in Matanzas province. In addition, Sherritt contributed buses for public transportation in Moa, freezers to improve hygienic standards in local food distribution systems in Moa and Matanzas, lighting equipment for the Moa hospital, air conditioning equipment for the Cárdenas hospital, computing equipment for the Institute (Hospital) of Oncology and Radiobiology in Havana and materials to improve a seniors' residence in Havana.

Highlighting Ambatovy's contribution to the well-being of local communities, the United Nations and the Government of Madagascar officially recognized Ambatovy as one of the best humanitarian agents operating in the private sector in 2012–2013 at an international humanitarian event held in 2013 in Antananarivo, Madagascar's capital city. Ambatovy was commended for providing emergency and disaster relief during the cyclone season.

In 2013, construction was completed on a new library in Marozevo in eastern Madagascar with the help of Ambatovy staff. Also in 2013, four new schools of the "Eco-friendly Schools" initiative were constructed with financial assistance from Ambatovy and technical assistance from UNICEF. The schools will serve 800 students in the regions of Atsinanana and Alaotra-Mangoro. At the end of 2013, construction of Toamasina's new marketplace, undertaken by Ambatovy, was more than 60% complete and on schedule for inauguration in the first half of 2014. All construction contractors are local contractors and personnel. Ambatovy also supplied financial support for a new health clinic and school that opened in 2013 in Ampitambe, which is located near the mine site.

Ambatovy continued to build capacity among local businesses through its Ambatovy Local Business Initiative (ALBI). In 2013, Ambatovy purchased approximately 1,500,000 kilograms of fruit, vegetables and dry foods from four local purchasing centres that provide a central agency for more than 3,000 small farmers who supply the goods for sale. Local companies also produce the wooden pallets used to ship Ambatovy's products and they manufacture the uniforms that Ambatovy employees wear.

2013 FINANCIAL REVIEW

Power plant, Puerto Escondido, Cuba

2013 FINANCIAL REVIEW

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2013

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 18, 2014, should be read in conjunction with Sherritt's audited consolidated financial statements for the year ended December 31, 2013. 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.

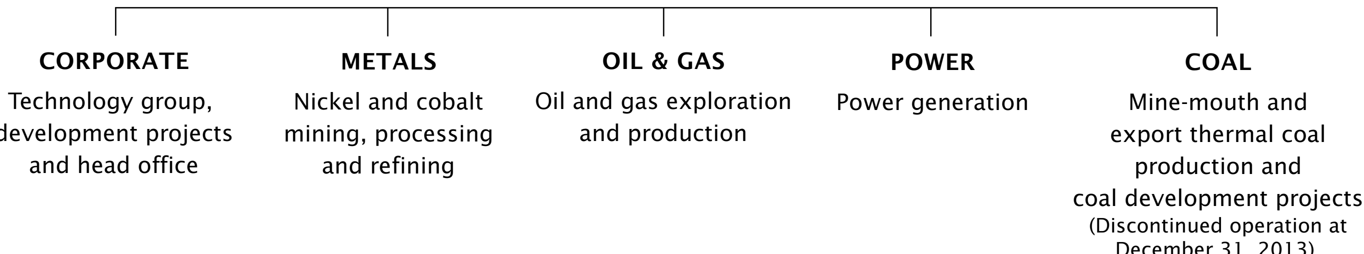
Securities regulators encourage companies to disclose forward-looking information to help investors understand a company's future prospects. This discussion contains statements about Sherritt's future financial condition, results of operations and business. See the end of this report for more information 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 and Madagascar. The Corporation 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. In December 2013, the Corporation entered into agreements to sell its Coal operations. Sherritt is seeking to close the transaction in the first quarter of 2014. 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 division level with certain strategic, financing, administration, consolidation and reporting activities managed from the head office in Toronto, Canada.

The Corporation's strategy is to focus its portfolio of assets on areas of core strength, specifically in its Metals operations where Sherritt possesses unique capabilities in mining, processing and technical solutions and its Cuba platform, where Sherritt has successfully operated for over two decades, highlighted by the Cuban oil business. To execute this strategy, the Corporation seeks to expand, extend or optimize its existing core businesses through completion of the Ambatovy ramp-up, construction of the Moa Joint Venture Acid Plant project, and extending existing, and finalization of new, Cuban oil blocks.

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.



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) and a 40% indirect interest in two companies (together the Ambatovy Joint Venture) that own a significant nickel operation in Madagascar. In addition, Sherritt has wholly-owned fertilizer, sulphuric acid, utilities and storage facilities in Fort Saskatchewan, Alberta Canada (Fort Site) that provides additional sources of income and enhances the security of supply of certain inputs and services required by the Moa Joint Venture refining operations.

The Moa Joint Venture mines, processes and refines nickel and cobalt for sale worldwide (except in the United States). The Moa Joint Venture has mining operations and associated processing facilities in Moa, Cuba; refining facilities in Fort Saskatchewan, Alberta; and an international marketing and sales organization. Continuous optimization of production facilities, combined with the implementation of innovative technologies at the Moa Joint Venture 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.

In October 2013, the Moa Joint Venture partners reached agreement to complete a third acid plant at the Moa, Cuba facilities. This new plant is expected to reduce the net direct cash cost by approximately 20%. The 2,000 tonne per day plant will enhance the efficiency of operations by providing sufficient acid production capacity to eliminate all sulphuric acid purchases at the current rate of production (38,000 tonnes per annum of mixed sulphides) and will accommodate future acid requirements for subsequent expansions (up to a total facility capacity of 46,000 tonnes per annum of mixed sulphides). The third acid plant will also reduce fuel oil consumption as it will generate steam to be used in the process. Finally, the elimination of purchased acid will allow Moa to improve nickel and cobalt extraction in the pressure acid leach as a result of having access to lower cost acid. Mobilization of resources began in the fourth quarter of 2013. Construction is scheduled to begin in the third quarter of 2014, and initial production from the facility is expected in the fourth quarter of 2015.

Expansion at Moa 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 Moa. During the fourth quarter, the expansion strategy was revised to prioritize the completion of circuits at Moa in stages to provide the greatest return. Increasing production capacity at Moa allows for lower third-party feed purchases as well as providing the opportunity for better utilization of mineral resources and longer mine life. Under the revised strategy, expansion at Fort Saskatchewan is unlikely to occur given the magnitude of the investment and limited returns. The operations at Fort Saskatchewan will continue to pursue debottlenecking initiatives and infrastructure maintenance.

Ambatovy is one of the world's largest nickel mining, processing and refining operations utilizing lateritic ore. Sherritt is the operator of this mine and refining facilities and has as its partners Sumitomo Corporation, Korea Resources Corporation and SNC-Lavalin Inc. (collectively referred to as the Ambatovy Partners). Ambatovy has two nickel deposits located near Moramanga (eastern central Madagascar) which are planned to be mined over a 20-year period. Additionally, reclamation of low-grade ore stockpiles is expected to extend project life by nine years. The ore from these deposits is initially processed at the mine site and then delivered as slurry to the processing plant and refinery located near the Port of Toamasina. Ambatovy has an estimated annual nameplate capacity of 60,000 tonnes (100% basis) of nickel and 5,600 tonnes (100% basis) of cobalt. Ambatovy began producing finished nickel and cobalt in the third quarter of 2012 and commercial production, the point at which Ambatovy begins to recognize operating revenues and costs for accounting purposes, commenced on February 1, 2014.

Oil and Gas

Sherritt explores for and produces oil and gas, primarily from fields situated in Cuba. All of Sherritt's oil sales in Cuba in 2013 were to an agency of the Government of Cuba. Under the terms of its two production-sharing contracts, Sherritt's net production is made up of an allocation from gross working-interest production (cost recovery oil) to allow recovery of all approved costs in addition to a negotiated percentage of the remaining production (profit oil). The pricing for oil produced by Sherritt in Cuba is based on a discount to 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 is negotiating terms for the extension of one existing production-sharing contract and the addition of up to four new exploration blocks in Cuba. The relevant agreements will be finalized pending authorization from the Cuban state.

In addition, Sherritt holds working-interests in several oil fields located in the Gulf of Valencia in Spain, an interest in the related production platform, 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.

Power

Sherritt's primary power generating assets are located in Cuba at Varadero, Boca de Jaruco and Puerto Escondido. These assets are held by Sherritt through its one-third interest in Energas S.A. (Energas), which is a Cuban joint arrangement established to process raw natural gas and generate electricity for sale to the Cuban national electrical grid. Cuban government agencies 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. The processing of raw natural gas produces clean natural gas, used to generate electricity, as well as by-products such as condensate and liquefied petroleum gas. All of Energas' electrical generation is purchased by UNE under long-term fixed-price contracts while the by-products are purchased by CUPET at market based prices. 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. The Boca de Jaruco Combined Cycle Project was substantially completed and synchronized to the Cuban national electrical grid late in the fourth quarter of 2013, and was fully operational in early February 2014, increasing Energas' electrical generating capacity by 150 MW to 506 MW.

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.

Corporate and Other

TECHNOLOGIES

Sherritt Technologies provides technical support to Sherritt's operating divisions and identifies opportunities for the Corporation as a result of the division's international and R&D activities. Technologies specializes in evaluating, developing and commercializing process technologies for natural resource based industries, in particular for the hydrometallurgical recovery of non-ferrous metals and the application of clean coal technologies such as coal beneficiation, coal gasification and coal to liquid. More than 35 commercial plants worldwide have adopted Technologies' non-ferrous hydrometallurgical processes.

Technologies employs approximately 65 personnel including project managers, scientists, engineers, technologies and support staff. Technologies' process development is conducted in laboratory and pilot plant facilities where new technologies are developed, tested and demonstrated.

SULAWESI NICKEL PROJECT

In 2010, Sherritt entered into an Earn-In and Shareholders' Agreement (the Sulawesi Agreement) with a subsidiary of Rio Tinto plc (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.

In January 2014, Sherritt terminated its earn-in and shareholders' agreement with a subsidiary of Rio Tinto to acquire an interest in the Sulawesi Project in accordance with the terms of that agreement. The decision to terminate the agreement was made in order to better enable Sherritt to focus on managing its core Metals and Cuban energy businesses, the view that nickel assets can be purchased on more attractive terms than they can be built, and an overall corporate focus on conserving cash. The Corporation has no further funding commitments arising from the Sulawesi Project.

Key financial and operational data

$ millions, except as otherwise noted, for the years ended December 31		2013		2012	Change
Financial highlights[1]					
Revenue	**$**	**448.5**	$	475.3	(6%)
Adjusted EBITDA[2]		**216.7**		341.7	(37%)
Earnings from operations, associate and joint venture		**34.5**		200.3	(83%)
Net (loss) earnings from continuing operations		**(158.5)**		12.3	(1389%)
(Loss) earnings from discontinued operations, net of tax		**(501.8)**		21.4	(2445%)
Net (loss) earnings for the year		**(660.3)**		33.7	(2059%)
Loss (earnings) per common share (basic and diluted) ($ per share):					
Net (loss) earnings from continuing operations		**(0.53)**		0.04	(1425%)
Net (loss) earnings		**(2.23)**		0.11	(2127%)
Cash flow[1]					
Cash provided by operating activities, continuing	**$**	**100.0**	$	111.7	(10%)
Cash provided by operating activities, total		**204.7**		223.1	(8%)
Adjusted operating cash flow per share, total ($ per share)[2]		**0.51**		0.83	(39%)
Operational data – Continuing operations:					
Spending on capital and intangible assets[3]	**$**	**101.7**	$	86.9	17%
Production volumes					
Finished nickel (tonnes)					
Moa Joint Venture (50% basis)		**16,771**		17,132	(2%)
Ambatovy Joint Venture (40% basis)		**10,059**		2,278	342%
Finished cobalt (tonnes)					
Moa Joint Venture (50% basis)		**1,660**		1,896	(12%)
Ambatovy Joint Venture (40% basis)		**833**		197	323%
Oil – Cuba – net working-interest (barrels per day)		**10,697**		10,653	–
Electricity (gigawatt hours) (33 1/3% basis)		**589**		628	(6%)
Average-realized prices[2]					
Nickel – Moa Joint Venture ($ per pound)	**$**	**6.86**	$	7.82	(12%)
Cobalt – Moa Joint Venture ($ per pound)		**12.50**		12.94	(3%)
Oil – Cuba ($ per barrel)		**69.66**		72.21	(4%)
Electricity ($ per megawatt hour)		**42.63**		41.32	3%
Unit operating costs[2]					
Nickel – Moa Joint Venture (US$ per pound)[4]	**$**	**5.52**	$	4.94	12%
Oil – Cuba ($ per barrel)		**12.76**		12.69	1%
Electricity ($ per megawatt hour)		**25.08**		16.62	51%

$ millions, except as noted, as at December 31		2013		2012	Change
Financial condition[1]					
Current ratio		**1.87:1**		4.08:1	(54%)
Net working capital balance	**$**	**481.8**	$	908.4	(47%)
Cash, cash equivalents and short-term investments		**651.8**		503.2	30%
Total assets		**6,457.8**		6,587.8	(2%)
Total loans and borrowings		**2,489.8**		2,039.8	22%
Shareholders' equity		**3,107.2**		3,645.9	(15%)
Long-term debt to total assets[5]		**39%**		32%	22%

(1) As a result of entering into agreements to sell the Coal operations in December 2013, Coal is classified as a discontinued operation. As a result, the loss for Coal is reported in (loss) earnings from discontinued operations, cash provided (used) by Coal is reported in cash provided (used) by discontinued operations for the year ended December 31, 2013, and total assets and liabilities of Coal (other than cash, cash equivalent, loans and borrowings which do not form part of net assets to be sold) are reported as assets and liabilities of discontinued operations, respectively, as at December 31, 2013. In accordance with accounting standards, for the year ended December 31, 2012, amounts previously included in the statements of comprehensive income and cash flow have been restated; amounts reported in the statement of financial position have not been restated.

(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, Coal or service concession arrangements.

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

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

Executive summary

- On December 24, 2013, the Corporation announced it had entered into agreements to sell its Coal operations for $946 million in return for total cash consideration of $793 million and assumption of capital leases of approximately $153 million, subject to closing adjustments. The sale is expected to provide the Corporation with opportunity to rationalize its asset base, enhance liquidity and provide the capacity and flexibility to pursue opportunities to develop and grow its core businesses. Management expects the transaction to close in the first quarter of 2014. For accounting purposes, the (loss) earnings for Coal is reported in (loss) earnings from discontinued operations and cash provided (used) by Coal is reported in cash provided (used) by discontinued operations for the years ended December 31, 2013 and 2012. Total assets and liabilities of Coal (other than cash, cash equivalent, loans and borrowings which do not form part of net assets to be sold) are reported as assets and liabilities of discontinued operations, respectively, as at December 31, 2013 without restatement of the prior period amounts. For additional information see the Discontinued operations – Coal section. Except as otherwise noted, financial results are provided and discussed for continuing operations, which includes the Corporation's Metals, Oil and Gas, Power and Corporate and other segments.
- On January 1, 2013, the Corporation was required to change the way it accounted for the Moa Joint Venture on adoption of IFRS 11, changing from proportionate consolidation to equity accounting. Under this accounting treatment, Sherritt is required to present the Moa Joint Venture as a single line item in the statements of financial position and its share of operating results in share of earnings (loss) of a joint venture in the statements of comprehensive income. This accounting change has significantly reduced the Corporation's assets, liabilities, revenues and expenses on a line-by-line basis with no significant change to net assets or earnings. Comparative information for 2012 has been restated to reflect this revised accounting treatment.

2013 Highlights

RESULTS

- Revenue from continuing operations for the year ended December 31, 2013 was $448.5 million compared to $475.3 million in the prior year. Lower revenue was primarily a result of lower average-realized prices for oil produced in Cuba, partly offset by a weaker Canadian dollar relative to the U.S. dollar. With the inclusion of the Moa Joint Venture, revenue for the year ended December 31, 2013 was $783.4 million compared to $870.2 million in the prior year. Moa Joint Venture revenue was lower primarily as a result of lower nickel and cobalt realized prices.
- Adjusted EBITDA[(1)] from continuing operations for the year ended December 31, 2013 was $216.7 million compared to $341.7 million in the prior year. In addition to the impact of lower revenue, the decrease in Adjusted EBITDA was impacted by higher operating cost and administrative expenses due to costs related to the sale of the Corporation's Coal operations.
- Loss from continuing operations for the year ended December 31, 2013 was $158.5 million compared to earnings of $12.3 million in the prior year. In addition to the impact of the lower Adjusted EBITDA, above, the loss from continuing operations includes an impairment of $36.7 million at Metals related to the write down of expansion project costs, and impairments at Power of $22.1 million related to the Boca de Jaruco and Puerto Escondido facilities, and $7.3 million related to Madagascar assets.
- Included in discontinued operations, Coal's Adjusted EBITDA was $91.5 million compared to $181.7 million in the prior year primarily due to lower sales volumes and realized prices in Mountain partly offset by lower mining costs. In addition, Adjusted EBITDA includes the recognition of $52.2 million of estimated response costs related to the Obed mine of which $11 million was incurred in 2013. The loss from discontinued operations related to Coal for the year ended December 31, 2013 was $501.8 million compared to earnings of $21.4 million in the prior year primarily due to impairment charges in 2013 of $518.9 million ($466.8 million, after tax) (which includes goodwill impairment of $307.9 million), partly offset by a gain on termination of the mining contract at Highvale of $22.0 million.
- Net loss for the year ended December 31, 2013 was $660.3 million compared to net earnings of $33.7 million in the prior year primarily due to the impact of impairments recognized on the classification of Coal as a discontinued operation and impairments at Metals and Power.
- Operating cash flow provided by continuing operations for the year ended December 31, 2013 was $100.0 million compared to $111.7 million in the prior year. Lower operating cash flow resulted from lower Adjusted EBITDA partly offset by the change in non-cash working capital.
- In October 2013, the Moa Joint Venture partners reached agreement to complete a third acid plant at the Moa, Cuba facilities. This new plant is expected to reduce the net direct cash cost by approximately 20%. The 2,000 tonne per day plant will enhance the efficiency of operations by providing sufficient acid production capacity to eliminate all sulphuric acid purchases at the current rate of production (38,000 tonnes per annum of mixed sulphides) and will accommodate future acid requirements for subsequent

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

expansions (up to a total facility capacity of 46,000 tonnes per annum of mixed sulphides). The third acid plant will also reduce fuel oil consumption as it will generate steam to be used in the process. Finally, the elimination of purchased acid will allow Moa to improve nickel and cobalt extraction in the pressure acid leach as a result of having access to lower cost acid. Mobilization of resources began in the fourth quarter of 2013. Construction is scheduled to begin in the third quarter of 2014, and initial production from the facility is expected in the fourth quarter of 2015.

AMBATOVY JOINT VENTURE

- On January 22, 2014, Sherritt announced that Ambatovy had met the requirements for commercial production. As such, effective February 1, 2014, Ambatovy will recognize operating revenues and costs for accounting purposes.
- During 2013, Ambatovy produced 29,248 tonnes (100% basis) of nickel and cobalt contained in mixed sulphides, 25,148 tonnes (100% basis) of finished nickel and 2,083 tonnes (100% basis) of finished cobalt, compared to 8,972 tonnes, 5,695 tonnes and 493 tonnes, respectively, in 2012. For the fourth quarter of 2013, Ambatovy produced 9,111 tonnes (100% basis) of nickel and cobalt contained in mixed sulphides, 6,725 tonnes (100% basis) of finished nickel and 515 tonnes (100% basis) of finished cobalt, compared to 4,969 tonnes, 3,403 tonnes and 334 tonnes, respectively, in the same period in 2012.

FINANCIAL POSITION

- At December 31, 2013, total available liquidity was approximately $652 million. Total debt at December 31, 2013 was $2.5 billion, including $963.6 million related to non-recourse Ambatovy Partner Loans to Sherritt and $364.7 million related to other credit facilities. The Corporation's liquidity profile includes a current ratio of 1.87:1; a net working capital balance of $481.8 million; and cash, cash equivalents and short-term investments of $651.8 million. The Corporation's long-term debt to total assets ratio was 39%. At December 31, 2013, current assets and current liabilities exclude those of Coal (other than cash and cash equivalents, and loans and borrowings which do not form part of net assets to be sold). At the close of the Coal sale transaction the Coal revolving credit facility will be terminated; the Corporation is required to repay any amounts outstanding and outstanding letters of credit will be replaced by the purchaser on or following the close.

Adoption of IFRS 11 and amendments to IAS 19

IFRS 11 – ACCOUNTING FOR THE MOA JOINT VENTURE

- As of January 1, 2013, the Corporation was required to adopt IFRS 11, "Joint arrangements" (IFRS 11) issued by the IASB in May 2011 which superseded IAS 31, "Interest in joint ventures" and SIC 13, "Jointly controlled entities – non-monetary contributions by venturers". Under IFRS 11, joint arrangements must be classified as either joint operations or joint ventures. The structure of the joint arrangement is no longer 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.
- As a result of adopting IFRS 11, the Corporation classified the Moa Joint Venture as an investment in joint venture and changed the accounting from proportionate consolidation to equity accounting. Under this accounting treatment, Sherritt was required to deconsolidate the proportionate results of the Moa Joint Venture and present this arrangement as a single line item in the statement of financial position. The Corporation's investment share of operating results in the Moa Joint Venture is included in share of earnings (loss) of a joint venture in the statement of comprehensive income.
- This accounting change significantly reduced the Corporation's assets, liabilities, revenues and expenses on a line-by-line basis with no significant change to net assets or earnings. The impact of this accounting change is reflected in the financial statements for the year ended December 31, 2013, including restatement of the 2012 results and opening statement of financial position. The change in accounting for the Moa Joint Venture did not impact shareholders' equity on adoption. See note 32 – Transition note of the audited consolidated financial statements for the year ended December 31, 2013 for a full reconciliation of the impact of this change.
- As there has been no change in the economic substance, nor business structure associated with the change in accounting policy, this MD&A continues to provide operating information and discussion related to the Corporation's share (50%) of the Moa Joint Venture in the Metals division with reconciliation to financial statement amounts where applicable consistent with note 5 – Segmented information of the audited consolidated financial statements for the year ended December 31, 2013.

IAS 19 (REVISED) – ACCOUNTING FOR EMPLOYEE BENEFITS

- As of January 1, 2013, the amended IAS 19, "Employee benefits" (IAS 19) issued by the IASB in June 2011 resulted in a change in the accounting of defined benefit obligations for the Corporation. The amendment requires the recognition of changes in defined benefit obligations and fair value of plan assets when they occur, and eliminates the use of the "corridor approach" permitted under the previous 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 to reflect the full amount of a plan's obligations or assets in the consolidated statement of financial position. The adjustments resulting from the implementation of IAS 19 primarily related to Coal. See note 32 – Transition note of the audited consolidated financial statements for the year ended December 31, 2013 for a full reconciliation of the impact of this change on 2012 results.

Consolidated financial results

$ millions, except per share amounts, for the years ended December 31	**2013**[1]	2012[1]	Change
Revenue by segment			
Metals[2]	**$ 430.7**	$ 486.8	(12%)
Oil and Gas	**291.4**	300.9	(3%)
Power	**54.8**	70.0	(22%)
Corporate and Other	**6.5**	12.5	(48%)
	783.4	870.2	(10%)
Adjust joint venture and associate revenue	**(334.9)**	(394.9)	
Financial statement revenue	**448.5**	475.3	(6%)
Adjusted EBITDA[3] by segment			
Metals[2]	**$ 53.9**	$ 133.1	(60%)
Oil and Gas	**229.2**	232.7	(2%)
Power	**(1.6)**	22.0	(107%)
Corporate and Other	**(64.8)**	(46.1)	41%
	216.7	341.7	(37%)
Earnings (loss) from operations by segment			
Metals[2]	**$ (24.3)**	$ 94.1	(126%)
Oil and Gas	**163.3**	162.1	1%
Power	**(40.9)**	11.0	(472%)
Corporate and Other	**(68.7)**	(48.5)	42%
	29.4	218.7	(87%)
Adjust earnings from joint venture and associate	**5.1**	(18.4)	
Financial statement earnings from operations, associate and joint venture	**34.5**	200.3	(83%)
Net finance expense	**121.2**	176.5	(31%)
Income tax expense	**71.8**	11.5	524%
Net (loss) earnings from continuing operations	**(158.5)**	12.3	(1389%)
(Loss) earnings from discontinued operations, net of tax	**(501.8)**	21.4	(2445%)
Net (loss) earnings	**$ (660.3)**	$ 33.7	(2059%)
Net (loss) earnings per share (basic and diluted)			
Net (loss) earnings from continuing operations	**$ (0.53)**	$ 0.04	(1425%)
Net (loss) earnings	**(2.23)**	0.11	(2127%)
Effective tax rate	**(83%)**	48%	(273%)

(1) As a result of entering into agreements to sell the Coal operations in December 2013, Coal is classified as a discontinued operation. As a result, the loss for Coal is reported in (loss) earnings from discontinued operations for the year ended December 31, 2013. For the year ended December 31, 2012, amounts previously reported have been restated.

(2) Consistent with note 5 – Segmented information of the audited consolidated financial statements for the year ended December 31, 2013, Metal's operating results in the above table include the Corporation's 50% interest in the Moa Joint Venture, 100% interest in the utility and fertilizer operations in Fort Saskatchewan, 40% interest in the Ambatovy Joint Venture, and 100% interest in a wholly-owned subsidiary established to buy, market and sell certain Ambatovy nickel production. For financial statement purposes, the Moa Joint Venture and Ambatovy are accounted for using the equity method of accounting which recognizes the Corporation's share of earnings (loss) from joint venture and associate, respectively.

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

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

- Metals' loss from operations was $24.3 million for the year ended December 31, 2013 compared to earnings of $94.1 million in the prior year primarily due to lower realized nickel prices and the recognition of an impairment on certain Moa JV and Fort Site expansion assets of $36.7 million;
- Oil and Gas' earnings from operations of $163.3 million for the year ended December 31, 2013 were relatively unchanged from the prior year as the impact of lower reference prices was offset by reduced operating and depreciation costs and the impact of a weaker Canadian dollar relative to the U.S. dollar;
- Power's loss from operations was $40.9 million for the year ended December 31, 2013 compared to earnings of $11.0 million in the prior year primarily due to the recognition of impairments of $22.1 million at the Boca de Jaruco and Puerto Escondido facilities in Cuba, $7.3 million on a electricity generation facility in Madagascar and a provision on receivables of $9.9 million related to this facility;
- Net finance expense of $121.2 million for the year ended December 31, 2013 was $55.3 million lower than in the prior year primarily due to a foreign exchange gain of $11.7 million for the year ended December 31, 2013 compared to a loss of $8.1 million in the prior year. In addition, the Corporation recognized a $1.2 million loss on the Ambatovy call option, compared to a loss of $15.8 million in the prior year. 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 satisfaction of certain completion tests. The fair value of the Ambatovy option is primarily the result of 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 comparable companies; the estimated fair value of the Ambatovy Joint Venture based on forecasted cash flows; and the time until expiration of the option. In 2012, the Corporation also paid a premium of $27.0 million on the redemption of its 2014 debentures.
- The effective tax rate for the year ended December 31, 2013 was (83)% compared to 48% in the prior year. The effective rate for the current year was impacted by a) the recognition of impairments of $22.1 million at the Boca de Jaruco and Puerto Escondido facilities in Cuba, $7.3 million on an electricity generation facility in Madagascar and a provision on receivables of $9.9 million related to this facility in 2013 all of which were not deductible for tax purposes, and b) the reversal of certain deferred tax assets that had previously been recognized. Adjusted for these items, and removing the proportionate share of losses of the Moa Joint Venture which is net of tax for accounting purposes, the normalized effective tax rate in 2013 was (186)%. The effective tax rate for 2012 was impacted by the recognition of tax benefits that had previously not been recognized. Adjusted for this item, and removing the proportionate share of earnings of the Moa Joint Venture, the normalized tax rate was (66)% for 2012. In both years, as a result of classifying Coal as a discontinued operation, earnings/losses before tax and the related tax expense/recovery do not include the results of Coal.

  In general, in addition to the specific normalizing items, the effective and normalized tax rates are a function of the relative total earnings/losses, including foreign exchange gains and losses, incurred in lower tax rate jurisdictions relative to the amount of earnings/losses generated in higher tax rate jurisdictions in each year and the inability of the Corporation to recognize tax benefits on losses in certain jurisdictions while at the same time recognizing tax expense on earnings in other jurisdictions.

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

Operating results for the year ended December 31, 2013 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.

The average reference prices for each of nickel, cobalt, thermal coal and oil were lower in 2013 compared to the prior year as a result of changing market conditions. A sensitivity analysis of 2013 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 2013 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 2013, 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 $1.03, compared to $1.00 in 2012.

For the year ended December 31, 2013, a strengthening or weakening of the Canadian dollar relative to the U.S. dollar of $0.05 would have decreased or increased 2013 annual net earnings by approximately $37 million, respectively. The majority of this decrease (increase) is related to the net impact of foreign exchange on commodity prices at the divisions. In addition, the Corporation's operating results are impacted by foreign exchange losses (gains) arising from the revaluation of U.S. dollar denominated advances and loans receivable 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	2013	2012	Change
Financial highlights[1]			
Revenue[1][2]	**$ 430.7**	$ 486.8	(12%)
Cost of sales[1][2][3]	**405.0**	344.4	18%
	25.7	142.4	(82%)
Administrative expenses[1][2][3]	**8.5**	9.3	(9%)
Add: Impairment of property, plant and equipment	**(36.7)**	–	–
Adjusted EBITDA[4]	**53.9**	133.1	(60%)
Depletion, depreciation and amortization	**41.5**	39.0	6%
Less: Impairment of property, plant and equipment	**36.7**	–	–
(Loss) earnings from operations	**(24.3)**	94.1	(126%)
Production volumes (tonnes)[1]			
Mixed Sulphides			
Moa Joint Venture (50% basis)	**18,187**	19,027	(4%)
Ambatovy (40% basis)	**11,699**	3,589	226%
	29,886	22,616	32%
Finished Nickel			
Moa Joint Venture (50% basis)	**16,771**	17,132	(2%)
Ambatovy (40% basis)	**10,059**	2,278	342%
	26,830	19,410	38%
Finished Cobalt			
Moa Joint Venture (50% basis)	**1,660**	1,896	(12%)
Ambatovy (40% basis)	**833**	197	323%
	2,493	2,093	19%
Fertilizer			
Moa Joint Venture (50% basis), Fort Site (100% basis)	**259,167**	263,918	(2%)
Ambatovy (40% basis)	**26,164**	6,329	313%
	285,331	270,247	6%
Sales volumes[1]			
Moa Joint Venture and Fort Site			
Finished nickel (thousands of pounds) (50% basis)	**36,855**	37,754	(2%)
Finished cobalt (thousands of pounds) (50% basis)	**3,683**	4,123	(11%)
Fertilizer (tonnes)	**170,092**	183,493	(7%)
Average-reference prices (US$ per pound)			
Nickel	**$ 6.81**	$ 7.95	(14%)
Cobalt[5]	**12.77**	13.48	(5%)
Average-realized prices[4] **($ per pound)**			
Moa Joint Venture			
Nickel	**$ 6.86**	$ 7.82	(12%)
Cobalt	**12.50**	12.94	(3%)
Unit operating costs[4] **(US$ per pound)**			
Moa Joint Venture			
Nickel – net direct cash cost	**$ 5.52**	$ 4.94	12%
Spending on capital			
Moa Joint Venture[1]	**$ 36.1**	$ 31.9	13%

(1) The Moa Joint Venture and Ambatovy are accounted for using the equity method of accounting for financial statement purposes which recognizes the Corporation's share of earnings (loss) in earnings (loss) from joint venture and associate, respectively. Operating results, production/sales volumes and spending on capital for the Moa Joint Venture in the above table include the Corporation's 50% interest in the Moa Joint Venture and its 100% interest in the utility and fertilizer operations in Fort Saskatchewan, as applicable. Operating results and production volumes for Ambatovy include the Corporation's 40% interest in the Ambatovy Joint Venture consistent with note 5 – Segmented information of the audited consolidated financial statements for the year ended December 31, 2013.

(2) Revenue of $28.0 million and costs of $27.0 million were recognized by a subsidiary of the Corporation established to buy, market and sell certain Ambatovy nickel production (revenue and costs for the year ended December 31, 2013 – $17.1 million). The metals marketing company is reimbursed by Ambatovy for administration and selling costs. The impact on Adjusted EBITDA and earnings from operations is immaterial.

(3) Excludes depletion, depreciation and amortization.

(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 for the joint venture and associate between 2013 and 2012 is detailed below:

$ millions, for the year ended December 31		**2013**
Lower U.S. dollar denominated realized nickel prices	**$**	**(43.8)**
Lower U.S. dollar denominated realized cobalt prices		**(3.3)**
Lower fertilizer prices		**(4.9)**
Lower sales volumes		**(9.3)**
Higher mining, processing and refining, third-party feed and fertilizer costs		**(8.8)**
Weaker Canadian dollar relative to the U.S. dollar		**(3.7)**
Impairment of property, plant and equipment		**(36.7)**
Other		**(7.9)**
Change in earnings from operations, compared to 2012	**$**	**(118.4)**

MOA JOINT VENTURE AND FORT SITE

The following operating results include the Corporation's 50% interest in the Moa Joint Venture and its 100% interest in the utility and fertilizer operations in Fort Saskatchewan (Fort Site).

Revenue is composed of the following:

$ millions, for the years ended December 31		**2013**		2012	Change
Nickel	**$**	**252.6**	$	295.4	(14%)
Cobalt		**46.1**		53.4	(14%)
Fertilizers		**90.6**		105.8	(14%)
Other		**8.4**		10.1	(17%)
	$	**397.7**	$	464.7	(14%)

Average reference prices for nickel and cobalt decreased in 2013 compared to the prior year as global nickel production remained in oversupply and there was limited producer response to the continued growth of nickel pig iron production (NPI) in China. The average-realized nickel price decreased $0.96 per pound in 2013 compared to the prior year while the average-realized cobalt price decreased $0.44 per pound in 2013 compared to the prior year. The revenue impact of lower reference prices was partly offset by the weaker Canadian dollar relative to the U.S. dollar.

Finished nickel and cobalt sales volumes were lower in 2013 compared to the prior year in line with production. Fertilizer sales volumes decreased 13,401 tonnes (100% basis) in 2013 compared to the prior year reflecting decreased fourth quarter demand and a wet spring season.

Production of 36,374 tonnes (100% basis) of contained nickel and cobalt in mixed sulphides was 1,680 tonnes (100% basis) lower than the prior year reflecting reduced mining equipment availability during the first half of the year and the loss of one of the ore thickeners at Moa due to the failure of the rake mechanism in October 2013. The ore thickener has been repaired and was put back into service at the end of January 2014. In addition, production was affected by the impact of poor leaching characteristics as new mining concessions were brought into production. Finished nickel production of 33,542 tonnes (100% basis) and finished cobalt production of 3,319 tonnes (100% basis) in 2013 was lower by 722 tonnes and 474 tonnes, respectively, than in the prior year due to decreased availability of Moa mixed sulphides. Availability of third-party nickel feeds partly compensated for lower mixed sulphides volumes.

Cost of sales[(1)] is composed of the following:

$ millions, for the years ended December 31		**2013**		2012	Change
Mining, processing and refining	**$**	**252.1**	$	250.6	1%
Third-party feed costs		**6.5**		3.7	76%
Fertilizers		**56.4**		52.2	8%
Selling costs		**16.0**		14.3	12%
Impairment of property, plant and equipment		**36.7**		–	–
Other		**7.8**		12.3	(37%)
	$	**375.5**	$	333.1	13%

(1) Excludes depletion, depreciation and amortization.

During the fourth quarter, the expansion strategy was revised. Since expansion at Fort Saskatchewan is now unlikely to occur given the magnitude of the investment and limited returns, an impairment of property, plant, and equipment of $36.7 million was recorded in cost of sales related to certain Fort Saskatchewan expansion costs that were capitalized prior to deferral of the project in 2008.

Net direct cash cost is composed of the following:

NET DIRECT CASH COST[(1)]

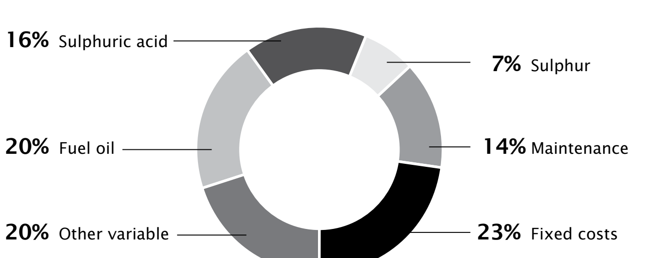
For the years ended December 31	2013	2012	Change
Mining, processing and refining costs	**$ 6.56**	$ 6.55	–
Third-party feed costs	**0.17**	0.10	70%
Cobalt by-product credits	**(1.21)**	(1.41)	(14%)
Other[(2)]	**–**	(0.30)	(100%)
Net direct cash cost (US$ per pound of nickel)	**$ 5.52**	$ 4.94	12%
Natural gas costs ($ per gigajoule)	**3.21**	2.39	34%
Fuel oil (US$ per tonne)	**623**	666	(6%)
Sulphur (US$ per tonne)	**203**	263	(23%)
Sulphuric acid (US$ per tonne)	**148**	185	(20%)

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

(2) Includes the 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:

2013
Components of mining, processing and refining costs[(1)]



2012
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$0.58 per pound primarily due to lower fertilizer and cobalt by-product credits, and higher third party feed costs. Mining, processing and refining costs were largely unchanged as lower sulphuric acid, fuel oil and sulphur input commodity prices were offset by lower production volumes, higher natural gas costs and higher maintenance costs. Higher third party feed costs primarily reflected higher utilization of third party feed.

Capital spending is composed of the following:

$ millions, for the years ended December 31	2013	2012	Change
Sustaining[(1)]	**$ 35.3**	$ 30.8	15%
Expansion	**0.8**	1.1	(27%)
Total	**$ 36.1**	$ 31.9	13%

(1) Includes assets acquired under finance leases of $0.1 million for the year ended December 31, 2013 (2012 – $1.2 million).

Capital spending for the Moa Joint Venture focused on sustaining activities and was higher as compared to prior year due to higher planned spending on the acid plant in 2013.

Mobilization of resources for the construction of the 2,000 tonne per day acid plant at Moa commenced in the fourth quarter. Project expenditures were included in expansion spending and largely related to engineering and procurement activities. The Moa Joint Venture has obtained project financing for the estimated capital cost of the plant (US$65 million) from a Cuban financial institution and completed the first draw on this facility in the fourth quarter of 2013.

AMBATOVY

Ambatovy met the requirements for commercial production, defined as 70% of ore throughput of nameplate capacity in the Pressure Acid Leach circuit on average over a thirty-day period, in January 2014. As such, effective February 1, 2014, Ambatovy will recognize operating revenues and costs for accounting purposes. In 2013, prior to declaration of commercial production, the Corporation's share of (loss) of an associate consisted primarily of its non-capitalized administrative costs and foreign exchange gains or losses. For the year ended December 31, 2013, the Corporation recognized a loss of $0.2 million compared to $2.1 million in the prior year.

During 2013, Ambatovy produced 29,248 tonnes (100% basis) of nickel and cobalt contained in mixed sulphides, 25,148 tonnes (100% basis) of finished nickel and 2,083 tonnes (100% basis) of finished cobalt, compared to 8,972 tonnes, 5,695 tonnes and 493 tonnes, respectively, in 2012. For the fourth quarter of 2013, Ambatovy produced 9,111 tonnes (100% basis) of nickel and cobalt contained in mixed sulphides, 6,725 tonnes (100% basis) of finished nickel and 515 tonnes (100% basis) of finished cobalt, compared to 4,969 tonnes, 3,403 tonnes and 334 tonnes, respectively, in the same period in 2012. Lower finished metals production volumes relative to the metal contained in mixed sulphides in the fourth quarter of 2013 was due largely to maintenance activities in the ammonium sulphate circuit that limited refinery throughput, resulting in a build-up of mixed sulphides inventory that is expected to be processed in the refinery in 2014.

During 2013, Ambatovy sold 56,236 thousand pounds (100% basis) of finished nickel and 4,557 thousand pounds (100% basis) of finished cobalt. In the fourth quarter of 2013, Ambatovy sold 15,058 thousand pounds (100% basis) of finished nickel and 1,098 thousand pounds (100% basis) of finished cobalt. In the fourth quarter and year ended December 31, 2012, Ambatovy sold, 9,857 thousand pounds of finished nickel and 833 thousand pounds (100% basis) of finished cobalt. For accounting purposes, all revenue from the sale of finished nickel and finished cobalt was capitalized.

The average ore throughput during the fourth quarter of 2013 was approximately 53% of nameplate capacity which was the highest quarterly throughput achieved since commencing start-up. The higher ore throughput was primarily due to improved autoclave mechanical availability, higher solids density and higher volumetric flows to the leach autoclaves. Autoclave operating hours during the fourth quarter of 2013 were 5,633 hours, compared to 4,808 hours in third quarter of 2013. In early October, design modifications were implemented on the ore thickener, upstream of the leach autoclaves, that resulted in improved slurry densities and improved overall ore throughput.

The external repairs to Autoclave 3 caused by the acid injection system failure in July 2013 were completed and the unit is back in service.

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, 2013 was US$5.3 billion (100% basis), excluding financing charges, working capital and foreign exchange.

Total project costs (including operating costs, financing charges, working capital and foreign exchange, and net of sales revenue) in the fourth quarter of 2013 were US$127.9 million (100% basis), compared to US$150.2 million (100% basis) for the previous quarter. Cumulative total project costs to December 31, 2013 were US$7.2 billion (100% basis). Total project costs to January 31, 2014 will include those costs that arise from the working capital requirements, operating costs and sales revenue (which are netted from these costs).

In the fourth quarter of 2013, a total of US$184.0 million (100% basis) in funding was provided by the Ambatovy Joint Venture partners. Sherritt's 40% share of funding for the fourth quarter of 2013 was US$73.6 million ($77.9 million), sourced from cash on hand.

The first round of Presidential elections in Madagascar was held on October 25, 2013 and the second round was held on December 20, 2013. According to Madagascar's Independent National Electoral Commission for Transition, Hery Rajaonarimampianina (former Finance Minister) was declared the winner with 54% of the votes. The electoral process was met with general approval from the international community, including the Southern African Development Community, European Union and African Union. Ambatovy continues to monitor the political climate in Madagascar and to engage in ongoing communication with representatives of the national, regional and local governments as well as multilateral institutions and key embassies.

OUTLOOK FOR 2014

PRODUCTION VOLUMES AND SPENDING ON CAPITAL

For the years ended December 31	**Actual 2013**	Projected 2014
Production		
Mixed sulphides (tonnes, 100% basis):		
Moa Joint Venture	**36,374**	38,000
Ambatovy Joint Venture	**29,248**	44,000–50,000
	65,622	82,000–88,000
Finished nickel (tonnes, 100% basis):		
Moa Joint Venture	**33,542**	34,000
Ambatovy Joint Venture	**25,148**	40,000–45,000
	58,690	74,000–79,000
Finished cobalt (tonnes, 100% basis):		
Moa Joint Venture	**3,319**	3,350
Ambatovy Joint Venture	**2,083**	3,300–3,800
	5,402	6,650–7,150
Spending on capital ($ millions):		
Moa Joint Venture (50% basis), Fort Site[1]	**36**	70
Ambatovy (40% basis)	**24**	34

[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) is expected to be higher in 2014 compared to 2013 due to additional production delivered from the Ambatovy ramp up, enhancing the strong, stable production profile of the Moa Joint Venture. Production at Moa is expected to be largely consistent with 2013 levels despite the impact of a change in ore characteristics first experienced in fourth-quarter 2013. Spending on capital at the Moa Joint Venture is expected to increase 94% ($34 million, Sherritt's share), reflecting spending on construction of the third acid plant beginning in third-quarter 2014.

Oil and Gas

FINANCIAL REVIEW

$ millions, except as otherwise noted, for the years ended December 31	2013	2012	Change
Financial highlights			
Revenue	**$ 291.4**	$ 300.9	(3%)
Cost of sales[1]	**54.1**	58.5	(8%)
	237.3	242.4	(2%)
Administrative expenses[1]	**8.1**	11.9	(32%)
Add: Impairment loss on exploration and evaluation assets	**–**	(2.2)	(100%)
Adjusted EBITDA[2]	**229.2**	232.7	(2%)
Depletion, depreciation and amortization	**65.9**	68.4	(4%)
Less: Impairment loss on exploration and evaluation assets	**–**	2.2	(100%)
Earnings from operations	**163.3**	162.1	1%
Production and sales[3] (net working-interest)			
Cuba (heavy oil)	**10,697**	10,653	–
Spain (light/medium oil)	**303**	332	(9%)
Pakistan (natural gas)	**331**	351	(6%)
	11,331	11,336	–
Average-reference prices (US$ per barrel)			
Gulf Coast Fuel Oil No. 6	**$ 92.99**	$ 99.31	(6%)
Brent	**109.52**	112.44	(3%)
Average-realized prices[2]			
Cuba ($ per barrel)	**$ 69.66**	$ 72.21	(4%)
Spain ($ per barrel)	**111.33**	111.42	–
Pakistan ($ per boe)[4]	**8.39**	8.09	4%
Unit operating costs[2] ($ per net boe)			
Cuba	**$ 12.76**	$ 12.69	1%
Spain	**26.21**	49.96	(48%)
Pakistan	**5.85**	3.48	68%
Weighted-average	**12.98**	13.58	(4%)
Spending on capital	**$ 54.8**	$ 45.2	21%

(1) Excludes depletion, depreciation and amortization.

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

(3) 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.

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

Oil and Gas revenue is composed of the following:

$ millions, for the years ended December 31	2013	2012	Change
Cuba	**$ 272.0**	$ 281.6	(3%)
Spain	**12.3**	13.6	(10%)
Pakistan	**1.0**	1.0	–
Processing	**6.1**	4.7	30%
	$ 291.4	$ 300.9	(3%)

The change in earnings from operations between 2013 and 2012 is detailed below:

$ millions, for the year ended December 31		2013
Lower realized oil and gas prices	$	**(15.6)**
Lower exploration and evaluation impairment losses		**2.2**
Lower gross working-interest volumes		**(3.4)**
Lower cost recovery revenue due to lower recoverable spending		**(0.6)**
Lower operating costs		**2.9**
Lower administrative costs		**3.8**
Lower depletion, depreciation and amortization		**4.5**
Weaker Canadian dollar relative to the U.S. dollar		**6.1**
Other		**1.3**
Change in earnings from operations, compared to 2012	$	**1.2**

The average-realized price for oil produced in Cuba decreased by $2.55 per barrel compared to the prior year primarily as a result of a lower Gulf Coast Fuel Oil No. 6 reference price, partly offset by a weaker Canadian dollar relative to the U.S. dollar.

The average-realized price for oil produced in Spain was consistent with the prior year primarily as a result of a lower Brent reference price, which was offset by a weaker Canadian dollar relative to the U.S. dollar.

Production and sales volumes were as follows:

DAILY PRODUCTION VOLUMES[1]

For the years ended December 31	2013	2012	Change
Gross working-interest oil production in Cuba[2][3]	**20,042**	20,164	(1%)
Net working-interest oil production			
Cuba (heavy oil)			
Cost recovery	**3,043**	2,871	6%
Profit oil	**7,654**	7,782	(2%)
Total	**10,697**	10,653	–
Spain (light/medium oil)[4]	**303**	332	(9%)
Pakistan (natural gas)[4]	**331**	351	(6%)
Total	**11,331**	11,336	–

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

(2) In Cuba, Oil and Gas delivered all of its gross working-interest oil production to CUPET at the time of production. Gross working-interest oil production excludes (i) production from wells for which commerciality 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 122 bopd in 2013 compared to the prior year 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 increased 172 bopd in 2013 compared to the prior year. The increase in 2013 was primarily due to lower oil prices, partly offset by lower recoverable spending. Profit-oil production, which represents Sherritt's share of production after cost recovery volumes are deducted from GWI volumes, decreased by 128 bopd in 2013.

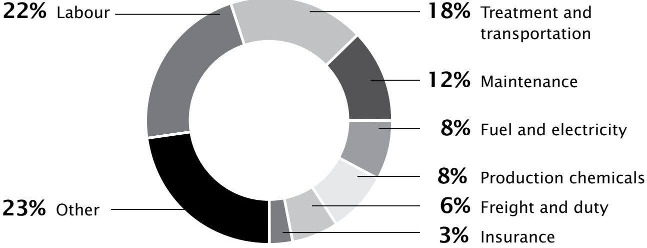
Production in Spain and Pakistan was lower due to natural reservoir declines.

Unit operating cost for Cuba is composed of the following:

2013
Components of operating costs – Cuba

22% Labour
18% Treatment and transportation
12% Maintenance
9% Fuel and electricity
8% Production chemicals
7% Freight and duty
3% Insurance
21% Other

2012
Components of operating costs – Cuba



Unit operating cost in Cuba was consistent with the prior year.

Unit operating cost in Spain decreased $23.75 per barrel in 2013 compared to the prior year, primarily due to a reduction in costs allocated to Sherritt following the addition of new third-party production to the production facility, partly offset by the effect of a weaker Canadian dollar relative to the Euro.

Spending on capital is composed of the following:

$ millions, for the years ended December 31	**2013**	2012	Change
Development, facilities and other	**$ 49.6**	$ 40.6	22%
Exploration	**5.2**	4.6	13%
Total	**$ 54.8**	$ 45.2	21%

Spending on capital was $9.6 million higher in 2013 primarily due to increased equipment and inventory purchases in Cuba, and higher facilities spending.

In 2013, development and facilities capital spending was composed primarily of $26.3 million for development drilling activities, $4.2 million related to facility improvements and $13.6 million related to equipment and inventory purchases.

During 2013, three development wells were drilled and completed in Cuba. Two of the wells are currently producing, and the third well was shut-in and is undergoing a technical review. A fourth development well initiated in 2013 was completed in February 2014 and is now producing oil.

Exploration spending in 2013 was focused in the United Kingdom North Sea prospect area. A seismic program was completed in the North Sea in July 2013. Processing and interpretation of the seismic data has been completed which has satisfied our contractual obligation under the leases. The Corporation will not be spending additional funds to develop the prospect area, but will instead look to farm-out the lease opportunity.

OUTLOOK FOR 2014

PRODUCTION VOLUMES AND SPENDING ON CAPITAL

For the years ended December 31	**Actual 2013**	Projected 2014
Production		
Gross working-interest oil (Cuba) (bopd)	**20,042**	19,000
Net working-interest production, all operations (boepd)	**11,331**	11,200
Spending on capital ($ millions)	**55**	73

Full-year 2014 GWI production in Cuba is expected to be 5% (1,042 bopd) lower than in 2013, reflecting the natural reservoir decline rates partly offset by success in the 2013 and 2014 drilling programs. Total net working-interest production for full-year 2014 is expected to follow the same trend. Spending on capital for 2014 is expected to increase in Cuba due to increased equipment costs to replace aging equipment, increasing well-servicing requirements in mature fields, and higher drilling and facility costs. In addition to this base capital estimate, contingent capital of $28 million is being contemplated. The contingent capital would be confirmed upon finalization of the extension of one existing production-sharing contract (PSC) and the receipt of four additional PSCs. The contingent

capital would be directed toward starting a second drilling rig, shooting seismic, purchasing support equipment and making facility improvements to facilitate the development of the new PSCs. Negotiations with Cuban authorities are in the final stages for the extension of one PSC and for four additional, exploration PSCs. Approval for the extension of the PSC and the four new PSCs is anticipated in first-quarter 2014 and first-half 2014, respectively.

Power

FINANCIAL REVIEW

$ millions (33⅓% basis), except as otherwise noted, for the years ended December 31	**2013**	2012	Change
Financial highlights			
Revenue	**$ 54.8**	$ 70.0	(22%)
Cost of sales[1]	**73.9**	44.6	66%
	(19.1)	25.4	(175%)
Administrative expenses[1]	**11.9**	3.4	250%
Add: Impairment of property, plant and equipment	**(29.4)**	–	–
Adjusted EBITDA[2]	**(1.6)**	22.0	(107%)
Depletion, depreciation and amortization	**9.9**	11.0	(10%)
Less: Impairment of property, plant and equipment	**29.4**	–	–
(Loss) earnings from operations	**(40.9)**	11.0	(472%)
Production and sales			
Electricity (GWh[3])	**589**	628	(6%)
Average-realized prices[2]			
Electricity (per MWh[3])	**$ 42.63**	$ 41.32	3%
Unit operating costs[2] **(per MWh)**			
Base[4]	**$ 18.96**	$ 14.51	31%
Non-base[5]	**6.12**	2.11	190%
	25.08	16.62	51%
Spending on capital and service concession arrangements			
Capital	**$ 9.4**	$ 6.1	54%
Service concession arrangements	**19.8**	32.0	(38%)
	29.2	38.1	(23%)

(1) Excludes depletion, depreciation and amortization.

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

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

(4) Excludes the impact of impairment of receivables, property, plant and equipment and intangible assets.

(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. Excludes a credit adjustment of $0.9 million related to pipeline costs incurred in 2013.

Power revenue is composed of the following:

$ millions (33⅓% basis), for the years ended December 31	**2013**	2012	Change
Electricity sales	**$ 25.1**	$ 25.9	(3%)
By-products and other	**7.3**	7.1	3%
Fixed-price lease contracts[1]	**2.6**	5.0	(48%)
Construction activity[2]	**19.8**	32.0	(38%)
	$ 54.8	$ 70.0	(22%)

(1) In relation to the 25 MW power plant in Madagascar. Lease revenue ceased to be recognized effective July 1, 2013.

(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 2013 and 2012 is detailed below:

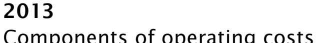
$ millions, for the year ended December 31		2013
Lower electricity volumes	$	(1.6)
Lower realized by-product prices		(0.8)
Impairment of Boca de Jaruco and Puerto Escondido assets		(22.1)
Provision on receivables and impairment related to Madagascar assets		(17.2)
Higher scheduled maintenance costs		(2.8)
Higher administrative expenses		(8.5)
Weaker Canadian dollar relative to the U.S. dollar		1.0
Other		0.1
Change in earnings from operations, compared to 2012	$	(51.9)

Due to gas supply shortages at Boca de Jaruco and Puerto Escondido, and cost over-runs and delays related to the Boca de Jaruco Combined Cycle Project, an impairment of $22.1 million was recognized during 2013. Sherritt is working with its partners in Cuba to identify additional sources of gas and to evaluate the utilization of alternate fuels such as oil, diesel, and liquefied petroleum gas in order to more fully utilize the capacity of these assets in Cuba.

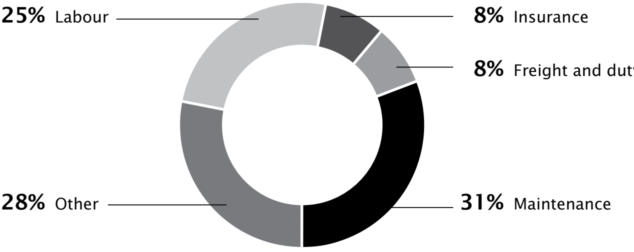
In 2013, as a result of not receiving lease payments from the power facility lessee in Madagascar, an impairment of $17.2 million was recognized in cost of sales. The impairment was composed of $7.3 million in relation to the facility assets and $9.9 million as a provision on overdue receivables. Management continues to pursue collection of the overdue receivables. Revenue ceased to be recognized on the facility in the third quarter of 2013.

Production decreased by 39 GWh in 2013 compared to the prior year primarily due to an increase in maintenance activities and a temporary decease in production due to the construction of the Boca de Jaruco Combined Cycle Project. The average-realized price of electricity was $1.31 per MWh higher in 2013 compared to the prior year primarily due to a weaker Canadian dollar relative to the U.S. dollar.

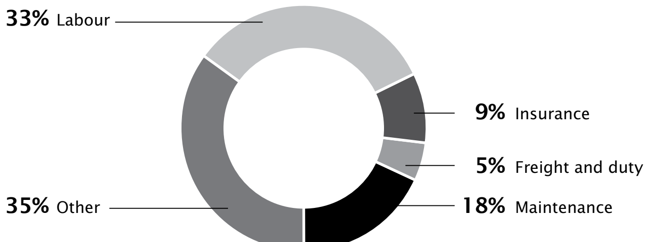
Unit operating cost is composed of the following:



2013
Components of operating costs



2012
Components of operating costs



Overall, unit operating cost increased by $8.46 per MWh in 2013 compared to the prior year. Base unit operating cost increased by $4.45 per MWh in 2013 compared to the prior year primarily due to an increase in maintenance, freight and duty costs and lower production. Non-base unit operating cost increased by $4.01 per MWh in 2013 compared to the prior year primarily due to scheduled major inspections at Boca de Jaruco which accounted for $3.29 per MWh.

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

$ millions (33⅓% basis), for the years ended December 31		2013		2012	Change
Sustaining	$	2.3	$	0.9	156%
Growth		7.1		5.2	37%
Total	$	9.4	$	6.1	54%

Sustaining capital expenditures were primarily related to facilities and the purchase of equipment. Growth spending is capitalized interest on the 150 MW Boca de Jaruco Combined Cycle Project.

$ millions (33⅓% basis), for the years ended December 31	**2013**	2012	Change
Service concession arrangements	**$ 19.8**	$ 32.0	(38%)

Service concession arrangement expenditures primarily relate to the 150 MW Boca de Jaruco Combined Cycle Project. The project was substantially completed by the end of the fourth quarter of 2013, and was fully operational in early February 2014. The project was completed for a total cost of $304.1 million and is expected to run at approximately 40% of capacity until additional fuel sources are identified.

OUTLOOK FOR 2014

PRODUCTION VOLUMES AND SPENDING ON CAPITAL (33⅓% BASIS)

For the years ended December 31	**Actual 2013**	Projected 2014
Production		
Electricity (GWh)	**589**	750
Spending on capital ($ millions)		
Cuba[1]	**9**	4

[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 2014 production is expected to be 27% (161 GWh) higher than 2013, due to the start-up of the 150 MW Boca de Jaruco Combined Cycle early February 2014. Full-year 2014 spending on capital is expected to be 56% ($5 million) lower than the prior-year due to reduced capitalized interest with the completion of the Boca de Jaruco Combined Cycle Project.

Other

TECHNOLOGIES

Technologies continued to support Ambatovy's production ramp-up both on site in Madagascar and by providing consulting support from Sherritt Technologies' office in Fort Saskatchewan. Technologies also provided technical services to other Sherritt operations as well as to the Sulawesi Project in Indonesia. The division continued to advance Sherritt's initiatives in coal pre-combustion beneficiation, coal gasification and coal to liquid technologies.

Technologies 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, Europe and Chile, and in the development and application of hydrometallurgical and associated technologies for application to other resource-based industries.

SULAWESI PROJECT UPDATE

In January 2014, Sherritt terminated its earn-in and shareholders' agreement with a subsidiary of Rio Tinto to acquire an interest in the Sulawesi Project in accordance with the terms of that agreement. The decision to terminate the agreement was made in order to better enable Sherritt to focus on managing its core Metals and Cuban energy businesses, the view that nickel assets can be purchased on more attractive terms than they can be built, and an overall corporate focus on conserving cash. The Corporation has no further funding commitments arising from the Sulawesi Project.

To December 31, 2013, the Corporation had expensed $32.0 million in exploration and evaluation costs.

Discontinued operations – Coal

On December 24, 2013, the Corporation announced that it had entered into agreements to sell its Coal operations for consideration of $946 million to two separate companies for cash consideration of $793 million and assumption of capital leases of $153 million, subject to closing adjustments. Sherritt is seeking to close the transaction in the first quarter of 2014.

As a consequence of entering into the agreements, Coal has been classified as a discontinued operation and results are reported in (loss) earnings from discontinued operations, cash provided (used) by discontinued operations and assets and liabilities of discontinued operations for the year ended and as at December 31, 2013. In accordance with accounting standards, for the year ended December 31, 2012, amounts previously included in the statements of comprehensive income and cash flows have been restated; amounts reported on the statement of financial position have not been restated. See note 32 – Transition note of the audited consolidated financial statements for the year ended December 31, 2013 for a full reconciliation of the impact of this restatement.

Upon close of the transaction, the Corporation will retain the obligations associated with the Obed containment pond breach which occurred in October 2013. The loss from discontinued operations for the year ended December 31, 2013 was $501.8 million primarily due to the recognition of impairment charges of $518.9 million ($466.8 million, after tax) which includes $307.9 million related to goodwill.

Sherritt is Canada's largest thermal coal producer, and operated eight surface mines in Alberta and Saskatchewan during 2013. 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). 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. 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 mine was the only active mine in this group during 2013. 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.

Financial review

Below is a summary of operations for Coal for the year ended December 31, 2013 compared to the prior year:

$ millions, except as otherwise noted, for the years ended December 31	2013	2012	Change
Financial highlights			
Revenue			
Prairie Operations	**$ 448.9**	$ 622.4	(28%)
Mountain Operations[1]	**288.2**	352.6	(18%)
	737.1	975.0	(24%)
Cost of sales[2]			
Prairie Operations	**$ 300.3**	$ 479.1	(37%)
Mountain Operations[1]	**325.2**	312.1	4%
	625.5	791.2	(21%)
Administrative expenses[2]			
Prairie Operations	**$ 11.8**	$ 5.2	127%
Mountain Operations[1]	**8.3**	7.8	6%
	20.1	13.0	55%
Add: Impairment included in cost of sales			
Prairie Operations	**$ –**	$ –	–
Mountain Operations[1]	**–**	(10.9)	(100%)
	–	(10.9)	(100%)
Adjusted EBITDA[3]			
Prairie Operations	**$ 136.8**	$ 138.1	(1%)
Mountain Operations[1]	**(45.3)**	43.6	(204%)
	91.5	181.7	(50%)
Depletion, depreciation and amortization			
Prairie Operations	**$ 70.0**	$ 62.3	12%
Mountain Operations[1]	**46.9**	72.7	(35%)
	116.9	135.0	(13%)
Less: Impairments, net of gain on termination of contract			
Prairie Operations	**$ 473.9**	$ –	–
Mountain Operations[1]	**23.0**	16.5	39%
	496.9	16.5	2912%
(Loss) earnings from operations			
Prairie Operations[4]	**$ (407.1)**	$ 75.8	(637%)
Mountain Operations	**(115.2)**	(45.6)	153%
	(522.3)	30.2	(1829%)
Production volumes (millions of tonnes)			
Prairie Operations	**21.2**	31.2	(32%)
Mountain Operations	**3.3**	3.7	(11%)
	24.5	34.9	(30%)
Sales volumes (millions of tonnes)			
Prairie Operations	**20.3**	30.8	(34%)
Mountain Operations	**3.3**	3.5	(6%)
	23.6	34.3	(31%)
Average-realized prices[3] ($ per tonne)			
Prairie Operations[5]	**$ 18.32**	$ 17.48	5%
Mountain Operations	**87.84**	101.65	(14%)
Unit operating costs[3] ($ per tonne)			
Prairie Operations	**$ 13.78**	$ 14.91	(8%)
Mountain Operations	**82.81**	86.48	(4%)
Spending on capital			
Prairie Operations	**$ 44.0**	$ 69.1	(36%)
Mountain Operations	**41.5**	60.2	(31%)
	85.5	129.3	(34%)

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

(2) Excludes depletion, depreciation and amortization.

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

(4) Loss for the year ended December 31, 2013 includes a $22.0 million net non-cash gain on termination of the Highvale mining contract.

(5) For Prairie Operations average-realized price, revenue excludes royalties, activated carbon, char and other of $78.7 million for year ended December 31, 2013 (2012 – $85.1 million) and tonnes sold excludes activated carbon and char of 111.6 thousand tonnes for year ended December 31, 2013 (2012 – 113.5 thousand tonnes). Average-realized price may not calculate based on amounts presented due to rounding.

PRAIRIE OPERATIONS

The change in earnings from operations between 2013 and 2012 is detailed below:

$ millions, year ended December 31	2013
Higher mining margin, net of change in sales volumes	**$ 13.4**
Lower coal and potash royalties	**(3.4)**
Higher administrative expenses	**(6.7)**
Higher depletion, depreciation and amortization	**(7.7)**
Lower mining margin at the Highvale mine	**(4.6)**
Impairment of assets	**(495.9)**
Non-cash gain on Highvale contract termination	**22.0**
Change in earnings from operations, compared to 2012	**$ (482.9)**

Prairie Operations revenue is composed of the following:

$ millions, years ended December 31	2013	2012	Change
Mining revenue	**$ 398.8**	$ 568.9	(30%)
Coal royalties	**38.9**	40.2	(3%)
Potash royalties	**11.2**	13.3	(16%)
	$ 448.9	$ 622.4	(28%)

Mining revenue decreased in 2013 by $193.5 million due to the termination of the Highvale mining contract on January 17, 2013. Excluding the contract mining business, mining revenue increased by 8% reflecting general contract price escalations and the impact of a contract extension for a new mining area at the Paintearth mine. Coal royalties were slightly lower reflecting the timing of mining activities in royalty assessable areas at the Paintearth mine. Potash royalties were lower due to weaker global pricing.

Mining margins increased in 2013 due to revenue growth and a stable operating cost profile with the exception of the unscheduled dragline maintenance required at Boundary Dam mine in the latter half of 2013. Sales volumes were 2% lower in 2013 mainly due to slightly weaker demand at the Poplar River and Boundary Dam mines due to extended outages at the customer's power generating stations. Higher administrative expenses were the result of restructuring charges incurred in the third quarter of 2013 which were required to position the business for long-term success.

Loss from operations includes impairments of assets, goodwill and intangibles of $495.9 million, before tax, as a result of the fair value adjustment of the assets on the classification of Coal as a discontinued operation. In addition, a one-time net non-cash gain of $22.0 million was recorded in the first quarter of 2013 upon transferring the defined benefit pension liability to the customer at the Highvale mine.

Unit operating cost is composed of the following:

2013
Components of operating costs

2012
Components of operating costs

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

Spending on capital is composed of the following:

$ millions, for the years ended December 31	2013	2012	Change
Sustaining			
Assets acquired under finance lease	**$ 21.0**	$ 35.4	(41%)
Cash capital	**23.0**	33.7	(32%)
	$ 44.0	$ 69.1	(36%)

Cash capital spending was lower compared to the prior year mainly due to $15.0 million spent in 2012 to replace a major dragline component at the Bienfait mine. Generally, capital spending decreased compared to the prior year due to deferrals and cost-cutting reductions aimed at maintaining a disciplined capital spending profile in light of challenging coal market conditions.

MOUNTAIN OPERATIONS

The change in earnings from operations between 2013 and 2012 is detailed below:

$ millions, year ended December 31	2013
Lower export coal prices, denominated in U.S. dollars	**$ (53.9)**
Weaker Canadian dollar relative to the U.S. dollar	**8.0**
Lower export sales volumes	**(24.0)**
Obed response costs	**(52.2)**
Lower mining costs, net of change in sales volumes	**31.5**
Higher domestic sales revenue	**5.2**
Lower depletion, depreciation and amortization	**25.8**
Higher impairment charges	**(9.7)**
Other	**(0.3)**
Change in earnings from operations, compared to 2012	**$ (69.6)**

Earnings from operations were impacted by a 19% decrease in international coal reference prices year over year because of weak Asian demand. This impact was partly offset by the weaker Canadian dollar relative to the U.S. dollar. Excluding the impact of the cost of response efforts at the Obed Mountain mine, mining costs were lower primarily as a result of the operating cost improvements achieved in 2013 that are noted below. Depreciation expense was lower in 2013 due to adjustments to environmental rehabilitation obligation estimates in the fourth quarter of 2012.

On October 31, 2013 a breach of an onsite water containment pond occurred at the Obed Mountain mine near Hinton, Alberta. The release consisted of 670,000 cubic meters of process water, containing water mixed with clay, mud, slate and coal particles. There were no injuries resulting from this incident and remedial work on the containment pond and the affected downstream area is ongoing. The costs of clean-up, assessment and remediation, including ongoing water management but excluding insurance recoveries, is estimated to be $52.2 million. This estimate considers Sherritt's prior experience in environmental investigation and remediation matters, as well as available data from, and in consultation with, our environmental specialists. Costs incurred in 2013 were $11 million.

Lower production and sales volumes for 2013 reflect the impact of an optimized mine plan at the Coal Valley mine implemented in the latter half of 2013 and the suspension of operations at the Obed Mountain mine in late 2012.

As a result of the optimized mine plan and cost reduction initiatives, Mountain operating costs were $3.67 per tonne, or 4%, lower for the year ended December 31, 2013 when compared to the prior year. Throughout 2013 operating costs at the Coal Valley mine decreased due to a cost containment plan largely focusing on lower cost -mining areas and achieving higher equipment utilization. In the fourth quarter of 2013, Mountain Operations was able to achieve lower operating costs through increased productivity resulting in a 20% improvement over the same quarter in the prior year.

Loss from operations includes impairment of assets and intangibles of $23.0 million, before tax, as a result of fair valuing the assets on the classification of Coal as a discontinued operation.

Unit operating cost is composed of the following:

2013
Components of operating costs

2012
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.

Spending on capital consists of the following:

$ millions, for the years ended December 31	2013	2012	Change
Sustaining			
Assets acquired under finance lease	**$ 20.6**	$ 28.6	(28%)
Cash capital	**20.9**	31.6	(34%)
	$ 41.5	$ 60.2	(31%)

Cash capital spending decreased by $10.7 million mainly due to $9.8 million spent on the purchase of loading equipment in the first quarter of 2012. Assets acquired under finance leases decreased due to deferrals and cost-cutting reductions aimed at maintaining a disciplined capital spending profile in light of challenging coal market conditions.

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	2013(1)	2012(1)(2)	Change
Current assets	**$ 1,036.2**	$ 1,203.8	(14%)
Current liabilities	**554.4**	295.4	88%
Working capital	**481.8**	908.4	(47%)
Current ratio	**1.87:1**	4.08:1	(54%)
Cash, cash equivalents and short-term investments	**$ 651.8**	$ 503.2	30%
Non-current advances, loans receivable and other financial assets	**1,549.2**	1,695.2	(9%)
Investment in an associate	**1,652.5**	1,089.5	52%
Investment in a joint venture	**352.0**	365.7	(4%)
Property, plant and equipment	**392.8**	908.9	(57%)
Non-current investments	**–**	4.9	(100%)
Assets of discontinued operations	**1,305.5**	–	–
Total assets	**6,457.8**	6,587.8	(2%)
Non-current loans and borrowings	**2,124.6**	2,039.8	4%
Non-current environmental rehabilitation provisions	**88.2**	228.8	(61%)
Liabilities of discontinued operations	**524.7**	–	–
Total liabilities	**3,350.6**	2,941.9	14%
Retained earnings	**40.2**	774.5	(95%)
Shareholders' equity	**3,107.2**	3,645.9	(15%)

(1) As a result of entering into agreements to sell the Coal operations in December 2013, Coal is classified as a discontinued operation. As a result total assets and liabilities of Coal are reported as assets and liabilities of discontinued operations, respectively, as at December 31, 2013; amounts reported at December 31, 2012 have not been restated.

(2) The adoption date of IFRS 11 was January 1, 2013 which resulted in the Corporation changing the accounting for the Moa Joint Venture from proportionate consolidation to equity accounting effective January 1, 2012. Comparative period figures for 2012 have been restated to comply with these requirements.

Total assets and liabilities as at December 31, 2013 include the assets and liabilities of Coal adjusted to lower of carrying value and fair value on classifying the division as a discontinued operation. The most significant impact is the reduction of property, plant and equipment and intangible assets as a result of the recognition of impairments, primarily goodwill. Cash, cash equivalents, loans and borrowings are not impacted by classification of Coal as a discontinued operation as these will be retained by the Corporation.

The significant changes to working capital from 2012 to 2013 are described below:

- Cash, cash equivalents and short-term investments increased by $148.6 million primarily due to cash generated by Oil and Gas and the drawdown of the Corporation's Coal revolving credit facility, partly offset by advances to Ambatovy;
- Accounts receivable decreased by $118.0 million primarily due to the classification of Coal receivables to assets of discontinued operations and strong receivable collections in Oil and Gas;
- Inventories decreased by $128.3 million primarily due to the classification of Coal inventories to assets of discontinued operations;
- The current portion of loans and borrowings increased by $365.2 million primarily due to borrowings drawn on the Coal revolving credit facility and the Corporation's revolving-term credit facility and line of credit.

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 assets, liabilities and shareholders' equity from 2012 to 2013 are discussed below:

Non-current assets:

- Non-current advances, loans receivable and other financial assets decreased by $146.0 million primarily due to the conversion to equity of US$400.0 million ($427.9 million) in Ambatovy subordinated loan receivable partly offset by $65.3 million of loans provided to the Ambatovy Joint Venture to meet the Corporation's funding obligations;
- Investment in an associate increased by $563.0 million primarily as a result of additional equity funding of $154.9 and conversion of Ambatovy subordinated loan receivable of US$400.0 million ($427.9 million) to equity;
- Property, plant and equipment decreased by $516.1 million primarily as a result of the classification of Coal property, plant and equipment to assets of discontinued operations. For continuing operations, a reduced level of capital spending compared to the prior year was offset by depletion, depreciation and amortization. A discussion of spending on capital is included in the Review of operations sections for each division; and

Non-current liabilities:

- Non-current environmental rehabilitation provisions, deferred income taxes, other financial and other non-financial liabilities all decreased primarily as a result the classification of Coal to liabilities of discontinued operations.

Shareholders' equity:

- Retained earnings decreased by $734.3 million reflecting net impact of losses recognized in the year including the recognition of total impairments of property, plant and equipment, intangibles and goodwill of $585.0 million ($525.5 million, after tax) in Coal (discontinued operation), Metals and Power. In addition, the Corporation paid dividends of $49.5 million during the year.

Liquidity and capital resources

Contractual obligations and commitments

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

$ millions, as at December 31, 2013	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	$ **104.7**	$ **104.7**	$ **–**	$ **–**	$ **–**	$ **–**	$ **–**
Income taxes payable	**15.8**	**15.8**	**–**	**–**	**–**	**–**	**–**
Loans and borrowings[(1)]	**3,478.5**	**460.6**	**367.6**	**130.2**	**200.9**	**630.2**	**1,689.0**
Provisions	**198.0**	**36.9**	**4.8**	**0.4**	**0.2**	**0.1**	**155.6**
Operating leases	**13.6**	**1.9**	**1.9**	**1.9**	**1.9**	**2.0**	**4.0**
Capital commitments	**8.9**	**4.2**	**4.7**	**–**	**–**	**–**	**–**
Total	**$ 3,819.5**	**$ 624.1**	**$ 379.0**	**$ 132.5**	**$ 203.0**	**$ 632.3**	**$ 1,848.6**

(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. The maturity analysis table includes an estimate of interest repayments.

Other commitments

The following commitments are not reflected in the table above:

MOA JOINT VENTURE

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

- Environmental rehabilitation commitments of $68.6 million, with no significant repayments due in the next four years;
- Advances and loans payable of $132.7 million; and
- Other commitments of $5.9 million.

AMBATOVY JOINT VENTURE

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

- Environmental rehabilitation commitments of $166.7 million, with no significant repayments due in the next four years;
- Other contractual commitments of $32.3 million; and
- Ambatovy Joint Venture senior debt financing of US$791.2 million ($841.5 million), with principal repayments which began in June 2013. On an undiscounted basis, principal and interest repayments are $950.3 million.

Investment liquidity

At December 31, 2013, cash and cash equivalents and investments were located in the following countries:

$ millions, as at December 31, 2013	Cash[1]	Cash equivalents[1] and short-term investments	Investments	Total
Canada	$ **35.4**	$ **600.1**	$ **–**	$ **635.5**
Cuba	**8.0**	**–**	**6.0**	**14.0**
Other	**8.3**	**–**	**–**	**8.3**
Total	$ **51.7**	$ **600.1**	$ **6.0**	$ **657.8**

[1] Cash and cash equivalents include amounts at Coal as these did not form part of the assets to be sold as part of the Coal sale transaction.

CASH AND SHORT-TERM INVESTMENTS

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

At December 31, 2013, cash equivalents included $272.5 million in Government of Canada treasury bills having original maturity dates of less than three months and short-term investments included $327.6 million in Government of Canada treasury bills having original maturity dates of greater than three months and less than one year.

The table above does not include cash and cash equivalents of $62.9 million (100% basis) held by the Moa Joint Venture, nor $36.6 million (100% basis) held by the Ambatovy Joint Venture. The Corporation's share is included as part of the investment in a joint venture and associate balances 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.

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, 2013, the balance of the CDs was $6.0 million. These investments are expected to be fully repaid in the first quarter of 2014.

Capital structure

$ millions, except share amounts, as at December 31	**2013**	2012	Change
Current portion of loans and borrowings[1]	**$ 365.2**	$ –	–
Non-current loans and borrowings[1]	**2,124.6**	2,039.8	4%
Other financial and non-financial liabilities[2]	**7.2**	228.3	(97%)
Total debt	**$ 2,497.0**	$ 2,268.1	10%
Shareholders' equity	**3,107.2**	3,645.9	(15%)
Total debt-to-capital[3]	**45%**	38%	16%
Common shares outstanding	**296,939,426**	296,490,635	–
Stock options outstanding	**4,868,249**	4,244,317	15%
Dividend payout ratio[4]	**(8%)**	138%	(106%)

(1) Loans and borrowings include amounts at Coal as these did not form part of the liabilities to be sold as part of the Coal sale transaction.

(2) Excludes deferred revenue.

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

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

Available credit facilities

At December 31, 2013, the Corporation and its divisions had borrowed $2.5 billion under available credit facilities and through the issuance of debentures.

At December 31, 2013, as a result of the Corporation having exceeded the limitation on Funded Indebtedness as defined under the bond Indentures, primarily as a result of accounting for Coal as a discontinued operation, the Corporation is restricted from incurring any new financial indebtedness until the ratio falls below 40% of total assets.

The Corporation expects to be back in compliance with these financial tests after the sale of the Coal operations is complete and the revolving-term credit facility, line of credit and Coal revolving credit facilities are repaid. For additional information see the Covenants section.

The following table outlines the maximum amounts undrawn/available to the Corporation for credit facilities that had amounts undrawn at December 31, 2013 and December 31, 2012. 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, 2013.

$ millions, as at December 31		**2013**		2012	
	Maximum	**Undrawn**	**Available**	Maximum	Undrawn/ Available
Short-term					
Syndicated 364-day revolving-term credit facility[1]	**$ 90**	**$ 9**	**$ –**	$ 90	$ 90
Line of credit	**20**	**–**	**–**	20	20
Long-term					
Ambatovy Joint Venture partner loans (US$)[2]	**213**	**127**	**–**	213	127
Coal revolving credit facility[3]	**525**	**66**	**–**	525	325
Total Canadian equivalent	**$ 862**	**$ 211**	**$ –**	$ 847	$ 562
Supplementary information					
Ambatovy Project financing (US$) (40%)[4]	**$ 791**	**$ –**	**$ –**	$ 840	$ –
Finance leases[5]	**169**	**49**	**–**	191	56

(1) Established for general corporate purposes. Total available draw is based on eligible receivables and inventory. At December 31, 2013, the Corporation had $36.4 million of letters of credit outstanding on this facility.

(2) Establishes to fund Sherritt's contributions to the Ambatovy Joint Venture.

(3) Established for Prairie Mines & Royalty Ltd. (PMRL) and CVRI. At December 31, 2013, a total of $300.0 million has been drawn on this facility and $159.1 million of letters of credit are outstanding.

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

(5) Finance leases include only those that have been committed by lenders. These leases are to be sold as part of the Coal sale transaction.

COAL SALE TRANSACTION

On the close of the Coal sale transaction, which is expected to occur in the first quarter of 2014, the Corporation expects to receive cash of $793 million, subject to closing adjustments. At the close of the transaction the Coal revolving credit facility will be terminated. The Corporation is required to repay any amounts outstanding at the close, and outstanding letters of credit will be replaced by the purchaser at or following the close.

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 $963.6 million in two loans provided by the Ambatovy Joint Venture partners to finance Sherritt's portion of funding requirements of the joint venture bearing interest of six-month LIBOR plus a margin of 7.0% and 1.125%, respectively. During the year, the Corporate drew down an additional $257.0 million on its Coal revolving credit facility and a total of $65.0 million on the revolving-term credit and line of credit. The following is a summary of significant changes in the Corporation's credit facilities during 2013.

Syndicated 364-day revolving-term credit facility

In November 2013, the Corporation amended the terms of the syndicated 364-day revolving-term credit facility to extend the maturity date to November 28, 2014, increase the quarterly adjusted net financial debt-to-EBITDA covenant from 3.5:1 to 3.75:1 and increase the financial debt-to-equity covenant from 0.5:1 to 0.55:1. The facility is also subject to an EBITDA-to-interest expense covenant of not less than 3:1. The maximum credit available under the facility is $90.0 million and the total available draw is based on eligible receivables and inventory. The interest rate on the syndicated 364-day revolving-term credit facility is prime plus 1.75% per annum or bankers' acceptances plus 2.75%. As at December 31, 2013, $45.0 million was drawn on this facility (December 31, 2012 – $nil) and the Corporation had $36.4 million of letters of credit outstanding on this facility.

Line of credit

In November 2013, the Corporation extended the maturity date of the $20.0 million line of credit to November 28, 2014. This facility is subject to the same financial covenants as the syndicated 364-day revolving-term credit facility. As at December 31, 2013, $20.0 million was drawn on this facility (December 31, 2012 – $nil).

Covenants

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

At December 31, 2013, the Corporation breached the financial debt-to-equity covenant of the Syndicated 364-day revolving-term credit facility and line of credit as a result of asset write-downs recorded after entering into agreements to sell the Coal operations and other charges against equity. The Corporation has received a waiver for this covenant for periods ending December 31, 2013 to June 30, 2014 inclusive. Additionally, the Corporation has exceeded the limitation on Funded Indebtedness as defined under the bond Indentures. This restricts the Corporation from incurring any new financial indebtedness until the ratio falls below 40% of total assets. Funded Indebtedness is defined as total loans and borrowings plus finance leases divided by total assets, excluding goodwill.

The Corporation expects to be back in compliance with these financial tests after the sale of the Coal operations is complete and the revolving-term credit facility, line of credit and Coal revolving credit facilities are repaid, however if current market conditions persist, the Corporation may exceed the Funded Indebtedness limitation in the second half of 2014.

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, as at December 31		**2013**[1]		2012[1]	Change
Cash provided by operating activities					
Cash provided by continuing operating activities before change in non-cash working capital	**$**	**47**	$	133	(65%)
Change in non-cash working capital		**53**		(21)	(352%)
Cash provided by discontinued operations		**105**		111	(6%)
	$	**205**	$	223	(8%)
Cash provided by (used by) investing and financing activities					
Property, plant, equipment and intangible expenditures	**$**	**(80)**	$	(68)	18%
Net increase of loans, borrowings and other financial liabilities		**322**		(16)	(2113%)
Issuance of 7.5% debentures, net of repayment of 8.25% debentures		**–**		265	(100%)
Loans to an associate		**(65)**		(260)	(75%)
Investment in an associate		**(155)**		(136)	14%
Decrease in investments		**28**		27	4%
Dividends paid on common shares		**(50)**		(45)	11%
Cash used by discontinued operations		**(53)**		(85)	(38%)
Other		**(3)**		(3)	–
	$	**(56)**	$	(321)	(83%)
		149		(98)	(252%)
Cash, cash equivalents and short-term investments:					
Beginning of the year		**503**		601	(16%)
End of the year	**$**	**652**	$	503	30%

(1) As a result of entering into agreements to sell the Coal operations in December 2013, Coal is classified as a discontinued operation. As a result, cash provided (used) by Coal is reported in cash provided (used) by discontinued operations for the year ended December 31, 2013. Amounts for the year ended December 31, 2012 have been restated.

The significant items affecting the sources and uses of cash during the year ended December 31, 2013 are described below:

- Cash from continuing operating activities before change in non-cash working capital for the year ended December 31, 2013 was $86 million lower than the prior year primarily due to the change in Adjusted EBITDA. The year ended December 31, 2013 also reflects the impact of higher interest paid;
- The change in non-cash working capital in the year ended December 31, 2013 is favorable compared to the prior year primarily due to strong receivable collections at Oil and Gas;
- The net increase of loans and borrowings for the year ended December 31, 2013 related primarily to borrowings drawn on the Coal revolving credit facility and the Corporation's revolving-term credit facility and line of credit;
- A total of $220 million (US$212 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, 2013. Of the funding provided, $155 million was provided as a direct contribution to Sherritt's investment in the joint venture. The remaining funding of $65 million was provided as a loan;
- The decrease in investments was related to amounts collected by the Corporation on the Cuban certificates of deposit.

Common shares

As at February 18, 2014, the Corporation had 296,939,426 common shares outstanding. An additional 4,355,652 common shares are issuable upon exercise of outstanding stock options granted to employees pursuant to the Corporation's stock option plan.

On November 13, 2013, the Corporation's Board of Directors approved a quarterly dividend of $0.043 per common share which was paid on January 14, 2014 to shareholders of record as of the close of business on December 31, 2013.

On February 18, 2014, the Corporation's Board of Directors approved a quarterly dividend of $0.01 per common share, payable April 14, 2014 to shareholders of record as of the close of business on March 31, 2014.

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

In recent years, 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 further reductions in commodity prices or sustained low commodity prices could have a material adverse effect on the Corporation's business, results of operations and financial performance.

Sherritt's current businesses are dependent upon commodity inputs such as natural gas, sulphur, sulphuric acid, coal, 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

In recent years, 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.

Risk related to the closing of the Coal sale transaction

On December 24, 2013, the Corporation announced that it had reached an agreement to divest its Coal business, with the coal operations and royalty portfolio to be acquired by two separate purchasers. Although the parties are seeking to close the transaction in the first quarter of 2014, there is a risk that it may not close by then, or at all. If the transaction does not close, or if the closing date significantly extended beyond the first quarter of 2014, the Corporation will continue to be responsible for the operational and financial commitments of the Coal business and, as such, will be required to amend its operating strategy and business plans. The requirement to continue to operate the Coal business 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.

Project development

GENERALLY

Sherritt's business includes the development and construction of large mining, metals refining projects and electrical generation projects. 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; community protests; difficulties in obtaining necessary services; delays in obtaining regulatory permits; local government issues; political events; regulatory changes; investigations involving various authorities; adverse weather conditions; unanticipated increases in equipment, material and labour costs; unfavourable currency fluctuations; access to financing; 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; 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 production ramp-up towards full capacity.

Reaching full capacity will primarily depend on the ramp-up schedule; 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. 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 unknown 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.

Reaching full capacity may also be impacted by the government permitting process. In September 2012, Ambatovy received the Operating Permit to commercially operate the processing plant in Toamasina, Madagascar, which was 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 of Madagascar, which officially continues in office until the newly elected government is formed, advised that it is continuing its review of the operations 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. Although the Corporation has not received any further communication from the Transitional Government of Madagascar regarding its review of the Ambatovy Joint Venture, on March 12, 2013, the Minister of Mines confirmed the Ambatovy Joint Venture's right to continue operating its processing plant in Toamasina in accordance with its Operating Permit. This review or other government actions could impact eligibility benefits under the Large Mining Investment Act (LGIM), and as a consequence, the Ambatovy Joint Venture may face delays in achieving its ramp up to full production rates.

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 joint venture debt financing until the joint venture passes certain completion tests. Once the joint venture passes the completion tests,

the deadline for which is September 30, 2015, all the joint venture debt becomes non-recourse to the Ambatovy Partners and Sherritt. Failure to pass the completion tests would be an event of default under the financing agreements. There is no assurance that the joint venture will pass all completion tests.

MOA JOINT VENTURE EXPANSION

The Moa Joint Venture expansion was funded equally by the Corporation and GNC, its Cuban joint venture partner, in accordance with funding agreements with companies within the Moa Joint Venture. In addition, the Corporation agreed to separately finance US$75.0 million towards the cost of the 2,000 tonne per day sulphuric acid plant in Moa, with any excess financing required being funded equally by the Corporation and GNC, as part of the joint venture expansion financing. Repayment of the $75.0 million acid plant financing and repayment of the Fort Saskatchewan expansion financing occurred in 2012. US$177.8 million funding related to the expansion in Moa Nickel remained outstanding as at December 31, 2013. The Moa Nickel loan is repaid from incremental cash flows attributable to the expansion and is currently due on December 31, 2015. There is no assurance that the Corporation and GNC will be able to extend the repayment period under the same terms, including the favourable tax treatment applicable to incremental earnings attributable to expansion before the Moa Nickel loan becomes due.

The Corporation and GNC have agreed on the terms to complete the unfinished 2,000 tonne per day acid plant at Moa and mobilization of resources has commenced. Agreement was reached with a Cuban financial institution to fund the estimated US$65.0 million required to complete this project and initial funding occurred in 2013. There is risk that funding may be interrupted or that project completion costs exceed US$65.0 million, for which funding may not be available.

While the Corporation and GNC are in broad agreement with respect to the expansion strategy, a definitive agreement on timing and funding has yet to be negotiated. There is a risk that a definitive agreement may not be reached and that financing may not be available, either of which could prevent expansion from proceeding.

Restrictions in debt instruments

Sherritt is a party to certain agreements in connection with its credit facilities (the Credit Agreements) and trust indentures governing its 7.75% senior unsubordinated debentures Series C due October 15, 2015, its 8.00% senior unsecured debentures Series 1 due November 15, 2018 and its 7.50% senior unsecured debentures Series 2 due September 24, 2020 (collectively, the Indentures), and Sherritt and the Ambatovy Joint Venture Companies are party to various agreements relating to the $2.1 billion Ambatovy Joint Venture financing (the Ambatovy Financing Agreements). Sherritt also entered into the Initial Partner Loans and the Additional Partner Loans (collectively, the Ambatovy Partner Loans) with its Ambatovy Joint Venture partners to fund Sherritt's contributions to the Ambatovy Joint Venture. 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, due to the limited number of local skilled workers in Madagascar. This challenge is further intensified by high expectations, from both the Malagasy government and the local community, for Sherritt to provide local employment.

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 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, social unrest, 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 optimizes 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, or unit operating costs prove to be higher than expected, 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 by other land users and First Nations, 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 that 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 provision for costs incurred due to the October 31, 2013 breach at the Obed Mountain mine is subject to uncertainties caused by the dynamic nature of response effort, the range of remediation alternatives available and the corresponding costs of various clean-up methodologies. It is likely that adjustments to this liability estimate may be necessary as further information and circumstances develop. Sherritt is currently awaiting approval from regulatory agencies regarding certain portions of the remediation plan which will determine the nature of the remaining remediation efforts. The outcome of the regulatory agencies' review, along with various other factors such as adverse weather and temperature changes, could escalate total costs.

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 bank guarantees, 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 or termination of oil and gas field operations 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, to continue to fund such projects or operations, 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, Spain, the United Kingdom and Madagascar through one or more wholly owned intermediary holding companies located in jurisdictions outside Canada, including the Bahamas, British Virgin Islands, Barbados, Cuba, the United Kingdom, Spain and the Netherlands. Certain payments, including 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 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 or permits, currency fluctuations and devaluations, unfavourable tax enforcement, changing political conditions, political unrest, civil strife, uncertainty regarding the interpretation and/or application of applicable laws in foreign jurisdictions, and changes in governmental regulations or policies with respect to, among other things, 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 of, 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 2002, the government of Madagascar passed the LGIM, which is legislation to manage large-scale mining projects. The Ambatovy Joint Venture is the first project to be developed under the LGIM's terms and provisions, which have been largely untested. 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 2009, Madagascar experienced an unexpected change of government and the Transitional Government of Madagascar took control of the country. On December 20, 2013, Madagascar held a presidential run-off election that was recognized by the international observers as being free, fair and valid. Madagascar's special electoral court officially announced that Mr. Hery Rajaonarimampianina is the newly elected President of the Republic of Madagascar. The new government, likely to be recognized by the international community, will be formed in 2014 with the appointment of a new Prime Minister and the assembly of a newly elected legislature.

The new president was supported by the President of the Transitional Government of Madagascar and the amount of influence that the former President of the Transitional Government of Madagascar might still retain in the new government is unknown. This change in government may continue to have direct or indirect impact on the Ambatovy Joint Venture, and may adversely affect the Corporation's business. 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 the Government of Madagascar regulations with respect to production, price controls, export controls, income taxes or investment tax credits, tax reimbursements, royalties and fees, expropriation of property, environmental legislation, land use, water use and mine and plant safety or changes to the LGIM.

In August 2012, the Transitional Government of Madagascar advised that it was conducting an audit of the economic and environmental impact of the mining sector. Ambatovy management undertook to cooperate with the government's audit in accordance with Madagascar law. It is not yet known whether the newly elected government will re-engage the Ambatovy Joint Venture in this regard. Such a review or other government actions could impact the eligibility for benefits under the LGIM, and as a consequence, the Ambatovy Joint Venture may face delays in achieving its ramp up to full production rates. On March 12, 2013, the Minister of Mines confirmed the Ambatovy Joint Venture's right to continue operating its processing plant in Toamasina in accordance with its Operating Permit.

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 maintains comprehensive disaster plans and its 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 and civil society to mitigate social risk, maintain its social license, and facilitate operational activities.

Agencies of the Malagasy government have significant payment obligations to the Corporation in connection with the Ambatovy Joint Venture. 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 and Energas have been the subject of criminal prosecutions and 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 two decades, 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 or foreign exchange 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 for successive periods of up to six months. Pursuant to this authority, the President has suspended the right of claimants for successive six-month periods since 1996; the latest suspension extends to July 31, 2014. 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 Ambatovy Joint Venture has entered into long-term nickel offtake agreements with two companies (the Ambatovy Offtakers). The Ambatovy Offtakers have each agreed to purchase 50% of nickel production up to the stated refined nickel capacity (60,000 tonnes per year) on open account terms net 30 days after shipment, for re-sale in global markets. Due to the exclusive nature of these arrangements, should either of the Ambatovy Offtakers default under the terms of their respective agreements, the Ambatovy Joint Venture could have difficulty selling its full production of nickel in a timely manner and at the same price.

The Moa Joint Venture derives a material amount of revenue from certain 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 or 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 negotiated 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 Moa Joint Venture 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 and 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 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 worldwide operations are subject to extensive environment, health and safety (EH&S) laws 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 cleanup of regulated materials, including wastes; and the reclamation and restoration of mining properties after mining is completed. The Corporation's operations are regulated by a variety of federal, provincial or state legislation and local by-laws. A breach of EH&S laws may result in the temporary suspension of operations, the imposition of fines, other penalties (including administrative penalties and regulatory prosecution), and government orders, which could potentially have a material adverse effect on operations.

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 its 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 or as a result of other adverse environmental occurrences. 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 must 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. EH&S laws restrict the amount of pollutants that the Corporation's facilities can discharge into receiving bodies of water, such as groundwater, 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.

In addition, 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 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 Corporation is subject to legal requirements governing the health and safety of the workforce. The Corporation believes that safe operations are essential for a productive and engaged workforce and sustainable growth. The Corporation is committed to workplace incident prevention and makes expenditures towards the necessary human and financial resources and site-specific systems to ensure compliance with its health and safety policies. Any injuries that may occur are investigated to determine root cause and to establish necessary controls with the goal of preventing recurrence. While the Corporation has implemented extensive health and safety initiatives to ensure the safety of its employees, contactor and surrounding communities, there can be no assurance that such measures will eliminate the occurrence of accidents or other incidences which could result in personal injury or property damage or result in regulatory fines or civil suits.

New or amended EH&S laws may further require the protection and enhancement of the environment, and, as a consequence, mining activities may be even more closely regulated. Such legislation and changes to legislation, as well as future interpretations of laws and increased enforcement, may require substantial increases in mining equipment and operating costs and delays, interruptions or a termination of operations, the extent of which cannot be predicted.

The potential impact of evolving regulations, including on product demand and methods of production and distribution, is not possible to predict. However, the Corporation closely monitors developments and evaluates 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

The federal 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 July 1, 2015, to achieve 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.

Community relations and social license to grow and operate

The Corporation's relationship with the communities in which it operates is critical to ensure the future success of its existing operations and the further development of its projects. There is an increasing level of public concern relating to the perceived effect of mining activities on the environment and on communities impacted by such activities. Certain organizations and individuals are vocal critics of the resource industries and their practices. Adverse publicity generated by such organizations or individuals related to extractive industries generally, or to the Corporation's operations specifically, could have an adverse effect on the Corporation's reputation or financial condition and may impact its relationship with the communities in which it operates. While the Corporation is committed to sustainable practices and has implemented certain initiatives with respect thereto, there is no guarantee that the Corporation's efforts in this respect will mitigate this potential 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. There are also 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 (see Risks Related to Sherritt's Operations in Cuba). Additionally, there are credit risks that arise due to the fact that there are currently value-added tax receivables and receivables related to the Corporation's Power business that are outstanding from the Malagasy government (see Risks Related to Sherritt's Operations in Madagascar). 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.

Aboriginal rights

Canadian courts have recognized that aboriginal peoples may continue to have rights at law in respect of land used or occupied by their ancestors where treaties have not been concluded to deal with those rights. These rights may vary from limited rights of use for traditional purposes to a right of aboriginal title and will depend upon, among other things, the nature and extent of prior aboriginal use and occupation. Aboriginal peoples may also have rights under applicable treaties for harvesting and ceremonial purposes on Crown lands, or lands to which they have a right of access. The provincial governments of Alberta and Saskatchewan, as well as the federal government, are required to consult with aboriginal peoples with respect to the granting of mineral rights and the issuance or amendment of project authorizations, including approvals, permits and licenses. Such consultation, as well as other rights of aboriginal people, may require the Corporation to make certain accommodations, including with respect to employment, and impact and benefit agreements. This may affect the Corporation's ability to acquire effective mineral titles in these jurisdictions within a reasonable timeframe, and may affect the development schedule and costs of mineral properties. Additionally, the risk of unforeseen aboriginal title claims could affect some or all of the Corporation's existing operations, as well future acquisitions. The foregoing requirements may affect the Corporation's ability to expand or transfer existing operations, or to develop new projects.

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, 2013, filed on SEDAR, were prepared using accounting policies and methods prescribed by International Financial Reporting Standards (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.

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. 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.

Critical accounting judgments

INTERESTS IN OTHER ENTITIES

As part of its process in determining the classification of its interests in other entities, the Corporation applies judgment in interpreting these interests such as (i) the determination of the level of control or significant influence held by the Corporation, (ii) the standard's applicability to the operations, (iii) the legal structure and contractual terms of the arrangement, (iv) concluding whether the Corporation has rights to assets and liabilities or to net assets of the arrangement, and (v) when relevant, other facts and circumstances. The Corporation determined that Energas S.A., Carbon Development Partnership, and Bienfait Activated Carbon Joint Venture represent joint operations while the Moa Joint Venture represents a joint venture as described in IFRS 11, "Joint Arrangements". The Corporation concluded that the Ambatovy Joint Venture represents an investment in associate as described in IAS 28 "Investments in Associates and Joint Ventures".

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.

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

The Corporation accounts for its interest in the Ambatovy using the equity method. The Corporation assesses the carrying amount of its investment at each reporting date to determine whether there are any indicators that the carrying amount of the investment may be impaired.

For purposes of determining fair value of its interest in the Ambatovy Joint Venture, management assesses the recoverable amount of its interest using Monte Carlo simulations. Projections of future cash flows are based on factors relevant to Ambatovy's operations and could include estimated recoverable production, commodity or contracted prices, foreign exchange rates, production levels, cash costs of production, capital and reclamation costs. Projections inherently require assumptions and judgments to be made about each of the factors affecting future cash flows. The determination of fair value involves a detailed review of Ambatovy's life of mine model and the determination of a weighted average cost of capital among and other critical factors.

Changes in any of these assumptions or judgments could result in a significant difference between the carrying amount and fair value of this asset. 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 (loss) income.

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

Adoption of new and amended accounting pronouncements

IFRS 7 – FINANCIAL INSTRUMENTS: DISCLOSURES

IFRS 7, "Financial instruments: disclosures" (IFRS 7) was amended by the IASB in December 2011. The amendments contain 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 disclosure requirements enable users of the financial statements to better compare financial statements prepared in accordance with IFRS and US GAAP. The Corporation adopted the amended standards effective January 1, 2013. The amendments did not have a significant impact on the Corporation's consolidated financial statements.

IFRS 10 – CONSOLIDATED FINANCIAL STATEMENTS

IFRS 10, "Consolidated financial statements" (IFRS 10) replaced SIC 12, "Consolidation – Special purpose entities" and parts of IAS 27, "Consolidated and separate financial statements". 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. The Corporation adopted the standard effective January 1, 2013. The standard did not have a significant impact on the Corporation's consolidated financial statements.

IFRS 11 – JOINT ARRANGEMENTS

IFRS 11, "Joint arrangements" (IFRS 11) supersedes IAS 31, "Interest in joint ventures" and SIC 13, "Jointly controlled entities – non-monetary contributions by venturers". IFRS 11 requires joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement is no longer the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. The standard removed the option to account for joint ventures using proportionate consolidation and requires equity accounting. The Corporation adopted the standard effective January 1, 2013 and it was applied retrospectively. The Corporation classified the Moa Joint Venture as an investment in joint venture and is presented using equity accounting. Under this accounting treatment, Sherritt deconsolidated the proportionate results of the Moa Joint Venture and presented this arrangement as a single line item on the consolidated financial statements. This accounting change significantly reduced the Corporation's assets and liabilities on a line-by-line basis further as described in note 32 of the audited consolidated financial statements for the year ended December 31, 2013.

IFRS 12 – DISCLOSURE OF INTERESTS IN OTHER ENTITIES

IFRS 12, "Disclosure of interests in other entities" (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. The Corporation adopted the standard effective January 1, 2013 and has included these enhanced disclosures within the Corporation's consolidated financial statements.

IFRS 13 – FAIR VALUE MEASUREMENT

IFRS 13, "Fair value measurement" (IFRS 13) 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. The Corporation adopted the standard effective January 1, 2013. The adoption did not 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) 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 Corporation adopted the standard effective January 1, 2013. The amendments did not have a significant impact on the Corporation's consolidated financial statements.

IAS 19 – EMPLOYEE BENEFITS

An amendment to IAS 19, "Employee benefits" (IAS 19) 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 Corporation adopted the amended standard effective January 1, 2013. Refer to note 32 of the audited consolidated financial statements for the year ended December 31, 2013 for the quantitative impact of adoption.

IAS 27 – SEPARATE FINANCIAL STATEMENTS

IAS 27, "Separate financial statements" (IAS 27) prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. Consolidation guidance is now included in IFRS 10. 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) 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 applies to all entities that have an ownership interest with joint control of, or significant influence over, an investee. The Corporation adopted the standard effective January 1, 2013. The adoption did not have a significant impact on the Corporation's consolidated financial statements.

IFRIC 20 – STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE

International Financial Reporting Interpretations Committee (IFRIC) 20, "Stripping costs in the production phase of a surface mine" (IFRIC 20) 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 Corporation adopted the standard effective January 1, 2013. The adoption did not have a significant impact on the Corporation's consolidated financial statements.

Accounting pronouncements issued but not yet effective

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 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. In November 2013, the IASB issued amendments to IFRS 9 deferring the mandatory effective date until the IFRS 9 project is closer to completion. 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 amended by the IASB in October 2012. The amendments introduce an exception for investment entities to the principle that all subsidiaries are consolidated. The amendments define an investment entity and require an investment entity to measure subsidiaries at fair value through profit or loss in accordance with IFRS 9, "Financial instruments" or IAS 39, "Financial instruments: recognition and measurement". The amendments to IFRS 10 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard is not expected to have a significant impact on the Corporation's financial statements.

IFRS 12 – DISCLOSURE OF INTERESTS IN OTHER ENTITIES

IFRS 12, "Disclosure of interests in other entities" (IFRS 12) was amended by the IASB in October 2012. The amendments add disclosure requirements for investment entities as defined in IFRS 10, "Consolidated financial statements". The amendments to IFRS 12 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard is not expected to have a significant impact on the Corporation's financial statements.

IAS 27 – SEPARATE FINANCIAL STATEMENTS

IAS 27, "Separate financial statements" (IAS 27) was amended by the IASB in October 2012. The amendments require an investment entity to measure its investments in subsidiaries at fair value through profit or loss when it presents separate financial statements. The amendments to IAS 27 are effective for annual periods beginning on or after January 1, 2014. The Corporation determined that this standard is not applicable to the 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.

IAS 36 – IMPAIRMENT OF ASSETS

IAS 36, "Impairment of assets" (IAS 36) was amended by the IASB in May 2013. The amendments require the disclosure of the recoverable amount of impaired assets when an impairment loss has been recognized or reversed during the period and additional disclosures about the measurement of the recoverable amount of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard is not expected to have a significant impact on the Corporation's financial statements.

IAS 39 – FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

IAS 39, "Financial instruments: recognition and measurement" (IAS 39) was amended by the IASB in June 2013. The amendments clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting. The amendments to IAS 39 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard is not expected to have a significant impact on the Corporation's financial statements.

IFRIC 21 – LEVIES

IFRIC 21, "Levies" (IFRIC 21) was amended by the IASB in June 2013. IFRIC 21 provides guidance on the accounting for levies within the scope of IAS 37, "Provisions, contingent liabilities and contingent assets". The main features of IFRIC 21 are: (i) the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation, and (ii) the liability to pay a levy is recognized progressively if the obligating event occurs over a period of time. IFRIC 21 is 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.

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	**2013**(1)	2012(1)(2)	2011(1)(2)
Revenue	**$ 448.5**	$ 475.3	$ 1,978.3
Adjusted EBITDA(3)	**216.7**	341.7	643.2
(Loss) earnings from operations, associate and joint venture	**34.5**	200.3	410.7
Net (loss) earnings from continuing operations	**(158.5)**	12.3	198.5
(Loss) earnings from discontinued operations, net of tax	**(501.8)**	21.4	(1.2)
Net (loss) earnings	**(660.3)**	33.7	197.3
Net (loss) earnings per share from continuing operations (basic and diluted)	**$ (0.53)**	$ 0.04	$ 0.67
Net (loss) earnings per share (basic and diluted)	**(2.23)**	0.11	0.67
Dividend rate per share	**0.172**	0.152	0.152
Total assets	**$ 6,457.8**	$ 6,587.8	$ 6,497.5
Total loans and borrowings	**2,489.8**	2,039.8	1,744.7
Operating data – Continuing operations:			
Production volumes			
Finished nickel (tonnes)			
Moa Joint Venture (50% basis)	**16,771**	17,132	17,286
Ambatovy Joint Venture (40% basis)	**10,059**	2,278	–
Finished cobalt (tonnes)			
Moa Joint Venture (50% basis)	**1,660**	1,896	1,927
Ambatovy Joint Venture (40% basis)	**833**	197	–
Oil – Cuba – net working-interest production (barrels per day)	**10,697**	10,653	11,286
Electricity (gigawatt hours) (33⅓% basis)	**589**	628	618

(1) As a result of entering into agreements to sell the Coal operations in December 2013, Coal is classified as a discontinued operation. As a result, the loss for Coal is reported in (loss) earnings from discontinued operations for the year ended December 31, 2013, and total assets and liabilities of Coal (other than cash and cash equivalent, and loans and borrowings which do not form part of net assets to be sold) are reported as assets and liabilities of discontinued operations, respectively, as at December 31, 2013. For the year ended December 31, 2012, amounts previously included in the statements of comprehensive income have been restated; amounts reported in the statements of financial position have not been restated. Amounts for 2011 have not been restated.

(2) The adoption date of IFRS 11 was January 1, 2013 which resulted in the Corporation changing the accounting for the Moa Joint Venture from proportionate consolidation to equity accounting effective January 1, 2012. Comparative period figures for 2012 have been restated to comply with these requirements. The 2011 period figures have not been restated to reflect the impact of adoption of this IFRS.

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

In 2013 and 2012, the Corporation's revenue, Adjusted EBITDA and net earnings from operations and associate were lower as a result of the classification of the Coal operations as discontinued operations. In addition, the Corporation's revenue was also lower in 2013 and 2012 due to the change in accounting treatment for the Moa Joint Venture. For Metals the reductions in Adjusted EBITDA and earnings are primarily due to lower nickel and cobalt prices and sales volumes. Production at Oil and Gas in 2013 and 2012 was lower than in 2011 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 Metals while costs at Oil and Gas are relatively unchanged. Unit costs at Power are significantly influenced by maintenance costs and the (non-base) maintenance costs at Boca de Jaruco and Puerto Escondido.

In 2013, (loss) earnings from continuing operations was negatively impacted by $36.7 million of impairments in Metals as a result of change in expansion strategy and in Power as a result of a $22.1 million impairment at the Boca de Jaruco and Puerto Escondido facilities in Cuba, a $7.3 million impairment at an electricity generation facility in Madagascar and a $9.9 million provision on receivables related to this facility.

In addition to the above, lower net earnings in 2013 is partly offset by lower net financing costs as the prior periods include the higher net finance expenses including 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, $1.00 and $0.99 for the years ended December 31, 2011 to 2013, respectively. Generally, a weaker Canadian dollar relative to the U.S. dollar has a net favourable impact on operations.

2013 Fourth quarter results

The following table and discussion compares the fourth quarter of 2013 to the fourth quarter of 2012:

$ millions, for the three months ended December 31	2013[1]	2012[1]	Change
Financial highlights			
Revenue by segment			
Metals[2]	**$ 101.6**	$ 139.9	(27%)
Oil and Gas	**74.9**	68.2	10%
Power	**10.6**	17.0	(38%)
Corporate and Other	**2.0**	2.3	(13%)
	189.1	227.4	(17%)
Adjust joint venture and associate revenue	**(80.5)**	(97.1)	
Financial statement revenue	**$ 108.6**	$ 130.3	(17%)
Adjusted EBITDA[3] by segment			
Metals	**$ 10.8**	$ 39.0	(72%)
Oil and Gas	**57.7**	50.5	14%
Power	**(3.3)**	3.8	(187%)
Corporate and Other	**(22.4)**	(13.8)	62%
	$ 42.8	$ 79.5	(46%)
Earnings (loss) from operations by segment			
Metals[2]	**$ (37.3)**	$ 26.0	(243%)
Oil and Gas	**43.2**	31.8	36%
Power	**(27.7)**	1.1	(2618%)
Corporate and Other	**(23.6)**	(14.4)	64%
	$ (45.4)	$ 44.5	(202%)
Adjust earnings from joint venture and associate	**7.7**	(7.5)	
Financial statement earnings from operations, associate and joint venture	**$ (37.7)**	$ 37.0	(202%)
Net (loss) earnings from continuing operations	**(136.8)**	7.2	(2000%)
(Loss) earnings from discontinued operations, net of tax	**(537.0)**	(24.1)	2128%
Net (loss) earnings	**$ (673.8)**	$ (16.9)	3887%
Net (loss) earnings per share, basic and diluted ($ per share)			
Net (loss) earnings from continuing operations	**$ (0.46)**	$ 0.02	(2400%)
Net (loss) earnings	**(2.27)**	(0.06)	3683%
Operating data – Continuing operations:			
Spending on capital and intangible assets[4]	**$ 34.6**	$ 29.6	17%
Production volumes			
Finished nickel (tonnes)			
Moa Joint Venture (50% basis)	**4,428**	4,439	–
Ambatovy Joint Venture (40% basis)	**2,690**	1,361	98%
Finished cobalt (tonnes)			
Moa Joint Venture (50% basis)	**435**	486	(10%)
Ambatovy Joint Venture (40% basis)	**206**	133	55%
Oil – Cuba – net working-interest production (barrels per day)	**10,931**	10,169	7%
Electricity (gigawatt hours) (33$^1/_3$% basis)	**146**	162	(10%)

(1) As a result of entering into agreements to sell the Coal operations in December 2013, Coal is classified as a discontinued operation. As a result, the loss for Coal is reported in (loss) earnings from discontinued operations, cash provided (used) by Coal is reported in cash provided (used) by discontinued operations for the year ended December 31, 2013. Amounts previously reported for the year ended December 31, 2012, have been restated.

(2) Metal's operating results in the above table include the Corporation's 50% interest in the Moa Joint Venture, 100% interest in the utility and fertilizer operations in Fort Saskatchewan, 40% interest in the Ambatovy Joint Venture, and 100% interest in a wholly-owned subsidiary established to buy, market and sell certain Ambatovy nickel production. For financial statement purposes, the Moa Joint Venture and Ambatovy are accounted for using the equity method of accounting which recognizes the Corporation's share of earnings (loss) from joint venture and associate, respectively.

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

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

The significant changes to working capital from 2012 to 2013 are described below:

- The Corporation's loss from operations, associate and joint venture for the fourth quarter of 2013 was $37.7 million compared to earnings of $37.0 million in the prior year. The change is primarily related to the recognition of $58.8 million of impairments in Metals and Power and lower average-realized prices and volumes in Metals;
- Adjusted EBITDA for the fourth quarter of 2013 was $42.8 million compared to $79.5 million in the prior year. Lower Adjusted EBITDA was primarily a result of lower revenue as well as higher operating costs primarily in the Metals division;
- The Corporation's net loss in the fourth quarter of 2013 of $673.8 million compared to $16.9 million in the prior year is primarily due to the impairments of $518.2 million, after tax ($577.7 million before tax) in Coal (discontinued operation), Metals and Power.

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, 2012 to December 31, 2013.

$ millions, except per share amounts, for the three months ended	**2013[(1)(2)] Dec. 31**	**2013[(1)(2)] Sept. 30**	**2013[(1)(2)] June 30**	**2013[(1)(2)] March 31**	2012[(1)(2)] Dec. 31	2012[(1)(2)] Sept. 30	2012[(1)(2)] June 30	2012[(1)(2)] March 31
Revenue								
Metals	**$ 101.6**	**$ 104.8**	**$ 120.6**	**$ 103.7**	$ 138.4	$ 89.6	$ 141.2	$ 116.1
Oil and Gas	**74.9**	**74.2**	**71.2**	**71.1**	68.2	74.2	76.3	82.2
Power	**10.6**	**14.7**	**13.5**	**16.0**	17.0	18.8	17.6	16.6
Corporate and Other	**2.0**	**1.6**	**1.7**	**1.2**	2.3	3.7	3.2	3.3
	$ 189.1	**$ 195.3**	**$ 207.0**	**$ 192.0**	$ 225.9	$ 186.3	$ 238.3	$ 218.2
Adjust joint venture and associate revenue	**(80.5)**	**(84.1)**	**(85.3)**	**(85.0)**	(95.6)	(81.9)	(111.8)	(104.1)
Financial statement revenue	**$ 108.6**	**$ 111.2**	**$ 121.7**	**$ 107.0**	$ 130.3	$ 104.4	$ 126.5	$ 114.1
Net (loss) earnings from continuing operations	**(136.8)**	**(0.1)**	**(17.1)**	**(4.5)**	7.2	(31.6)	27.6	9.1
(Loss) earnings from discontinued operations, net of tax	**(537.0)**	**1.2**	**6.4**	**27.6**	(24.1)	9.0	13.2	23.3
Net (loss) earnings	**$ (673.8)**	**$ 1.1**	**$ (10.7)**	**$ 23.1**	$ (16.9)	$ (22.6)	$ 40.8	$ 32.4
Net (loss) earnings per share, basic and diluted ($ per share)								
Net (loss) earnings from continuing operations	**$ (0.46)**	**$ –**	**$ (0.06)**	**$ (0.02)**	$ 0.02	$ (0.11)	$ 0.09	$ 0.03
Net (loss) earnings	**(2.27)**	**–**	**(0.04)**	**0.08**	(0.06)	(0.08)	0.14	0.11

(1) As a result of entering into agreements to sell the Coal operations in December 2013, Coal is classified as a discontinued operation. As a result, the loss for Coal is reported in earnings (loss) from discontinued operations for the year ended December 31, 2013. For the 2012 quarters, amounts previously reported have been restated.

(2) The adoption date of IFRS 11 was January 1, 2013 which resulted in the Corporation changing the accounting for the Moa Joint Venture from proportionate consolidation to equity accounting effective January 1, 2012. Comparative period figures for 2012 have been restated to comply with these requirements.

In general, net (loss) earnings 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 $0.99 to $1.05. In addition to the impact of commodity prices, sales volumes and exchange rates, net (loss) earnings were impacted by the following significant items (pre-tax):

- the fourth quarter of 2013 included total impairments of $577.7 million recognized in Coal (discontinued operation), Metals and Power. Net finance expense includes a $13.6 million non-cash downward adjustment in the fair value of the Ambatovy call option;
- the third quarter of 2013 included a $12.4 million non-cash upward adjustment in the fair value of the Ambatovy call option;
- the second quarter of 2013 included a non-cash provision on accounts receivable and impairment on Madagascar assets of $17.2 million;
- the first quarter of 2013 included a non-cash gain on termination of the Highvale mining contract of $22.0 million (in (loss) earnings of discontinued operations);
- the fourth quarter of 2012 included the recognition of total impairments of $18.7 million;
- the quarters ended September 30, 2012 and December 31, 2011 each included early redemption premiums on the redemption/repurchase of debentures; and
- the quarter ended March 31, 2012 included an $11.8 million downward adjustment in the fair value of the Ambatovy call option.

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 and the Corporation's revolving-term credit facility.

Transactions with related parties

The Corporation and subsidiaries provide goods, labour, advisory and other administrative services to joint operations 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 joint operations and an associate in the Metals business.

$ millions, for the years ended December 31	**2013**	2012
Total value of goods and services:		
Provided to joint operations	**$ 26.1**	$ 27.6
Provided to joint venture	**165.5**	130.6
Provided to associate	**5.7**	4.5
Purchased from joint operations	**3.7**	–
Purchased from joint venture	**100.3**	96.3
Purchased from associate	**26.4**	17.1
Net financing income from joint operations	**23.5**	19.1
Net financing income from joint venture	**7.0**	8.0

$ millions, as at December 31	**2013**	2012
Accounts receivable from joint operations	**$ 0.2**	$ –
Accounts receivable from joint venture	**23.2**	5.8
Accounts receivable from associate	**36.2**	31.1
Accounts payable to joint operations	**1.9**	–
Accounts payable to joint venture	**–**	0.9
Accounts payable to associate	**4.5**	11.8
Advances and loans receivable from associate	**1,106.9**	1,279.1
Advances and loans receivable from joint operations	**251.7**	223.9
Advances and loans receivable from joint venture entities	**241.7**	235.6

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, 2013, 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 2013 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, 2013, 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, 2013.

Supplementary information

Sensitivity analysis

The following table shows the approximate annual impact on the Corporation's net earnings and earnings per share for 2013 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	11	0.04
Export thermal coal – price per tonne	US$	15.00	9	0.03
Oil – U.S. Gulf Coast Fuel Oil No. 6 price per barrel	US$	5.00	10	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	(37)	(0.12)
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	(4)	(0.01)
Fuel – WTI oil price (Coal)	US$	10.00	(3)	(0.01)

(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, average-realized price, unit operating cost, and adjusted operating cash flow per share to monitor the financial performance of the Corporation and its operating divisions and believes these measures enable investors and analysts to compare the Corporation's financial performance with its competitors and 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

As a result of the change in accounting for the Moa Joint Venture under IFRS 11, the Corporation revised its definition of Adjusted EBITDA in the first quarter of 2013 to include the results of the Corporation's earnings or loss in joint venture and associate to provide a measure that is reasonably consistent with historical measures. All comparative amounts have been restated to reflect the revised definition.

The Corporation defines Adjusted EBITDA as earnings (loss) from operations, associate and joint venture as reported in the financial statements for the period adjusted for depletion, depreciation and amortization; impairment charges for property, plant and equipment, intangible assets, goodwill and investments; and gain or loss on disposal of property, plant and equipment of the Corporation, associate and joint venture. The table below reconciles Adjusted EBITDA to net earnings (loss) from operations, associate and joint venture:

$ millions, for the three months ended December 31, 2013	**Metals**	**Oil and Gas**	**Power**	**Corporate and Other**	**Adjustment for Joint Venture and Associate**	**Total**
Earnings (loss) from operations, associate and joint venture per financial statements	**$ (37.3)**	**$ 43.2**	**$ (27.7)**	**$ (23.6)**	**$ 7.7**	**$ (37.7)**
Add (deduct):						
Depletion, depreciation and amortization	**2.4**	**14.5**	**2.3**	**1.2**	**–**	**20.4**
Impairment of property, plant and equipment	**36.7**	**–**	**22.1**	**–**	**–**	**58.8**
Adjustments for share of associate and joint venture:						
Associate						
Depletion, depreciation and amortization	**0.8**	**–**	**–**	**–**	**–**	**0.8**
Net finance income	**–**	**–**	**–**	**–**	**(1.2)**	**(1.2)**
Income tax expense	**–**	**–**	**–**	**–**	**0.2**	**0.2**
Joint venture						
Depletion, depreciation and amortization	**8.2**	**–**	**–**	**–**	**–**	**8.2**
Net finance expense	**–**	**–**	**–**	**–**	**2.4**	**2.4**
Income tax recovery	**–**	**–**	**–**	**–**	**(9.1)**	**(9.1)**
Adjusted EBITDA	**$ 10.8**	**$ 57.7**	**$ (3.3)**	**$ (22.4)**	**$ –**	**$ 42.8**

$ millions, for the three months ended December 31, 2012	Metals	Oil and Gas	Power	Corporate and Other	Adjustment for Joint Venture and Associate	Total
Earnings (loss) from operations, associate and joint venture per financial statements	$ 26.0	$ 31.8	$ 1.1	$ (14.4)	$ (7.5)	$ 37.0
Add:						
Depletion, depreciation and amortization	2.8	16.5	2.7	0.6	–	22.6
Impairment of property, plant and equipment	–	2.2	–	–	–	2.2
Adjustments for share of associate and joint venture:						
Associate						
Depletion, depreciation and amortization	2.2	–	–	–	–	2.2
Net finance expense	–	–	–	–	6.6	6.6
Income tax recovery	–	–	–	–	0.4	0.4
Joint venture						
Depletion, depreciation and amortization	8.0	–	–	–	–	8.0
Net finance expense	–	–	–	–	2.6	2.6
Income tax expense	–	–	–	–	(2.1)	(2.1)
Adjusted EBITDA	$ 39.0	$ 50.5	$ 3.8	$ (13.8)	$ –	$ 79.5

$ millions, for the year ended December 31, 2013	Metals	Oil and Gas	Power	Corporate and Other	Adjustment for Joint Venture and Associate	Total
Earnings (loss) from operations, associate and joint venture per financial statements (note 5)	**$ (24.3)**	**$ 163.3**	**$ (40.9)**	**$ (68.7)**	**$ 5.1**	**$ 34.5**
Add (deduct):						
Depletion, depreciation and amortization	**9.4**	**65.9**	**9.9**	**3.9**	**–**	**89.1**
Impairment of property, plant and equipment	**36.7**	**–**	**29.4**	**–**	**–**	**66.1**
Adjustments for share of associate and joint venture:						
Associate						
Depletion, depreciation and amortization	**3.2**	**–**	**–**	**–**	**–**	**3.2**
Net finance expense	**–**	**–**	**–**	**–**	**(0.6)**	**(0.6)**
Income tax recovery	**–**	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Joint venture						
Depletion, depreciation and amortization	**28.9**	**–**	**–**	**–**	**–**	**28.9**
Net finance expense	**–**	**–**	**–**	**–**	**10.6**	**10.6**
Income tax recovery	**–**	**–**	**–**	**–**	**(14.9)**	**(14.9)**
Adjusted EBITDA	**$ 53.9**	**$ 229.2**	**$ (1.6)**	**$ (64.8)**	**$ –**	**$ 216.7**

$ millions, for the year ended December 31, 2012	Metals	Oil and Gas	Power	Corporate and Other	Adjustment for Joint Venture and Associate	Total
Earnings (loss) from operations, associate and joint venture per financial statements (note 5)	$ 94.1	$ 162.1	$ 11.0	$ (48.5)	$ (18.4)	$ 200.3
Add:						
Depletion, depreciation and amortization	9.4	68.4	11.0	2.4	–	91.2
Impairment of property, plant and equipment	–	2.2	–	–	–	2.2
Adjustments for share of associate and joint venture:						
Associate						
Depletion, depreciation and amortization	2.2	–	–	–	–	2.2
Net finance income	–	–	–	–	6.2	6.2
Income tax recovery	–	–	–	–	0.3	0.3
Joint venture						
Depletion, depreciation and amortization	27.4	–	–	–	–	27.4
Net finance expense	–	–	–	–	7.9	7.9
Income tax expense	–	–	–	–	4.0	4.0
Adjusted EBITDA	$ 133.1	$ 232.7	$ 22.0	$ (46.1)	$ –	$ 341.7

AVERAGE-REALIZED PRICE

Average-realized price is calculated by dividing revenue by sales volume for the given product. For Metals, the average-realized price calculation does not include revenue of the metals marketing company.

For Coal's Prairie Operations, average-realized price excludes the impact related to royalties, activated carbon and char activities.

UNIT OPERATING COST

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.

The Moa Joint Venture's net direct cash cost is calculated by dividing its cost of sales adjusted for the following: amortization in cost of sales; cobalt by-product, fertilizer and other revenue; and other costs primarily related to the impact of opening and closing inventory values, by the number of finished nickel pounds sold in the period, translated to U.S. dollars using an average exchange rate for the respective period.

For Coal's Prairie Operations, the unit operating cost excludes the impact related to royalties, activated carbon and char activities.

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

$ millions, except unit cost and sales volume, for the three months ended December 31			**2013**
	Metals	**Oil and Gas**	**Power**
Cost of sales per financial statements	**$ 136.8**	**$ 29.7**	**$ 30.1**
Less:			
Depletion, depreciation and amortization in cost of sales	**(11.4)**	**(14.4)**	**(2.3)**
Cost of sales per review of operations	**125.4**	**15.3**	**27.8**
Adjustments to cost of sales:			
Cobalt by-product, fertilizer and other revenue	**(32.1)**	**–**	**–**
Net impact of non-joint venture fertilizer sales	**4.4**	**–**	**–**
Impact of opening/closing inventory and other	**(0.2)**	**–**	**–**
Cost of sales – Ambatovy, metal marketing company and other	**(6.9)**	**–**	**–**
Impairment costs related to Fort Saskatchewan assets	**(36.7)**	**–**	**–**
Service concession arrangements – Cost of construction	**–**	**–**	**(2.0)**
Impairment costs related to Boca de Jaruco and Puerto Escondido assets	**–**	**–**	**(22.1)**
Cost of sales for purposes of unit cost calculation	**53.9**	**15.3**	**3.7**
Sales volume for the period	**9.6**	**1.1**	**146**
Volume units	**Millions of pounds**	**Millions of barrels[1]**	**Gigawatts**
Unit operating cost[2][3][4]	**$ 5.66**	**$ 13.85**	**$ 25.42**
Unit operating cost (U.S. dollars)	**$ 5.42**		

$ millions, except unit cost and sales volume, for the three months ended December 31			2012
	Metals	Oil and Gas	Power
Cost of sales per financial statements	$ 109.8	$ 33.1	$ 15.0
Less:			
Depletion, depreciation and amortization in cost of sales	(12.9)	(16.4)	(2.6)
Cost of sales per review of operations	96.9	16.7	12.4
Adjustments to cost of sales:			
Cobalt by-product, fertilizer and other revenue	(48.7)	–	–
Net impact of non-joint venture fertilizer sales	12.6	–	–
Impact of opening/closing inventory and other	(3.7)	–	–
Cost of sales – Ambatovy, metal marketing company and other	(7.8)	–	–
Service concession arrangements – Cost of construction	–	–	(7.4)
Other	–	(2.2)	(2.2)
Cost of sales for purposes of unit cost calculation	49.3	14.5	2.8
Sales volume for the period	9.7	1.0	162
Volume units	Millions of pounds	Millions of barrels[1]	Gigawatts
Unit operating cost[2][3][4]	$ 5.09	$ 14.52	$ 17.61
Unit operating cost (U.S. dollars)	$ 5.20		

[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			**2013**
	Metals	**Oil and Gas**	**Power**
Cost of sales per financial statements (note 5)	**$ 446.4**	**$ 119.6**	**$ 83.7**
Less:			
Depletion, depreciation and amortization in cost of sales	**(41.4)**	**(65.5)**	**(9.8)**
Cost of sales per review of operations	**405.0**	**54.1**	**73.9**
Adjustments to cost of sales:			
Cobalt by-product, fertilizer and other revenue	**(145.1)**	**–**	**–**
Net impact of non-joint venture fertilizer sales	**25.4**	**–**	**–**
Impact of opening/closing inventory and other	**(9.6)**	**–**	**–**
Cost of sales – Ambatovy, metal marketing company and other	**(29.5)**	**–**	**–**
Impairment costs related to Fort Saskatchewan assets	**(36.7)**		
Service concession arrangements – Cost of construction	**–**	**–**	**(19.8)**
Impairment costs related to Madagascar assets	**–**	**–**	**(17.2)**
Impairment costs related to Boca de Jaruco and Puerto Escondido assets	**–**	**–**	**(22.1)**
Cost of sales for purposes of unit cost calculation	**209.5**	**54.1**	**14.8**
Sales volume for the period	**36.9**	**4.1**	**589**
Volume units	**Millions of pounds**	**Millions of barrels[1]**	**Gigawatts**
Unit operating cost[2][3][4]	**$ 5.68**	**$ 12.98**	**$ 25.08**
Unit operating cost (U.S. dollars)	**$ 5.52**		

$ millions, except unit cost and sales volume, for the year ended December 31			2012
	Metals	Oil and Gas	Power
Cost of sales per financial statements (note 5)	$ 383.2	$ 126.4	$ 55.5
Less:			
Depletion, depreciation and amortization in cost of sales	(38.8)	(67.9)	(10.9)
Cost of sales per review of operations	344.4	58.5	44.6
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 – Ambatovy, metal marketing company and other	(11.3)	–	–
Service concession arrangements – Cost of construction	–	–	(32.0)
Other	–	(2.2)	(2.2)
Cost of sales for purposes of unit cost calculation	186.5	56.3	10.4
Sales volume for the period	37.8	4.2	628
Volume units	Millions of pounds	Millions of barrels[1]	Gigawatts
Unit operating cost[2][3][4]	$ 4.94	$ 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

ADJUSTED OPERATING CASH FLOW PER SHARE

The Corporation defines adjusted operating cash flow per share as cash provided by operating activities before net change in non-cash working capital as provided in the financial statements for the period divided by the weighted average number of outstanding shares during the period.

The table below reconciles adjusted operating cash flow per share to cash provided by operating activities:

$ millions, except weighted average shares outstanding and per share amounts, for the three months ended December 31	**2013**	2012
Cash provided by operating activities	**$ 30.4**	$ 20.4
Adjust: net change in non-cash working capital	**(72.1)**	31.0
Adjusted operating cash flow	**$ (41.7)**	$ 51.4
Weighted-average number of common shares – basic	**296.9**	296.5
Adjusted operating cash flow per share, total	**$ (0.14)**	$ 0.17

$ millions, except weighted average shares outstanding and per share amounts, for the years ended December 31	**2013**	2012
Cash provided by operating activities	**$ 204.7**	$ 223.1
Adjust: net change in non-cash working capital	**(53.3)**	21.4
Adjusted operating cash flow	**$ 151.4**	$ 244.5
Weighted-average number of common shares – basic	**296.7**	296.3
Adjusted operating cash flow per share, total	**$ 0.51**	$ 0.83

DISCONTINUED OPERATIONS – COAL

Adjusted EBITDA

$ millions, for the three months ended December 31	**2013**	2012
Loss from operations per financial statements	**$ (556.9)**	$ (10.2)
Add (deduct):		
Depletion, depreciation and amortization	**32.6**	37.6
Impairment of assets	**518.9**	16.5
Adjusted EBITDA	**$ (5.4)**	$ 43.9

$ millions, for the years ended December 31	**2013**	2012
(Loss) earnings from operations per financial statements (note 11)	**$ (522.3)**	$ 30.2
Add (deduct):		
Depletion, depreciation and amortization	**116.9**	135.0
Gain on termination of contract	**(22.0)**	–
Impairment of assets	**518.9**	16.5
Adjusted EBITDA	**$ 91.5**	$ 181.7

Unit operating cost

$ millions, except unit cost and sales volume, for the three months ended December 31	**2013**			2012		
	Prairie	**Mountain**	**Total**	Prairie	Mountain	Total
Cost of sales per financial statements	**$ 84.2**	**$ 115.3**	**$ 199.5**	$ 145.2	$ 97.4	$ 242.6
Less:						
Depletion, depreciation and amortization in cost of sales	**(18.9)**	**(13.5)**	**(32.4)**	(17.1)	(20.4)	(37.5)
Cost of sales per discontinued operations – Coal	**65.3**	**101.8**	**167.1**	128.1	77.0	205.1
Adjustments to cost of sales:						
Cost of sales – royalties, activated carbon and char	**(3.5)**	**–**	**(3.5)**	(4.7)	–	(4.7)
Other	**1.9**	**(56.0)**	**(54.1)**	(0.8)	(10.3)	(11.1)
Cost of sales for purposes of unit cost calculation	**63.7**	**45.8**	**109.5**	122.6	66.7	189.3
Sales volume for the period	**4.8**	**0.7**		8.2	0.8	
Volume units	**Millions of tonnes**	**Millions of tonnes**		Millions of tonnes	Millions of tonnes	
Unit operating cost[1]	**$ 13.15**	**$ 67.30**		$ 14.80	$ 84.31	

$ millions, except unit cost and sales volume, for the years ended December 31	**2013**			2012		
	Prairie	**Mountain**	**Total**	Prairie	Mountain	Total
Cost of sales per financial statements (note 11)	**$ 369.6**	**$ 372.1**	**$ 741.7**	$ 540.0	$ 384.8	$ 924.8
Less:						
Depletion, depreciation and amortization in cost of sales	**(69.3)**	**(46.9)**	**(116.2)**	(60.9)	(72.7)	(133.6)
Cost of sales per discontinued operations – Coal	**300.3**	**325.2**	**625.5**	479.1	312.1	791.2
Adjustments to cost of sales:						
Cost of sales – royalties, activated carbon and char	**(21.0)**	**–**	**(21.0)**	(19.4)	–	(19.4)
Other	**0.6**	**(54.3)**	**(53.7)**	(1.4)	(12.7)	(14.1)
Cost of sales for purposes of unit cost calculation	**279.9**	**270.9**	**550.8**	458.3	299.4	757.7
Sales volume for the period	**20.3**	**3.3**		30.7	3.5	
Volume units	**Millions of tonnes**	**Millions of tonnes**		Millions of tonnes	Millions of tonnes	
Unit operating cost[1]	**$ 13.78**	**$ 82.81**		$ 14.91	$ 86.48	

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

Five-year financial and operating summary

$ millions, except per share amounts, for the years ended December 31	**2013**(1)	2012(1)(2)	2011(2)	2010(2)	2009(2)(3)
Consolidated statements of comprehensive income (loss)					
Revenue	**$ 448.5**	$ 475.3	$ 1,978.3	$ 1,670.6	$ 1,474.9
(Loss) earnings from operations, associate and joint venture					
Metals	**(24.3)**	94.1	166.3	185.0	82.3
Coal(1)	**–**	–	104.5	81.2	80.9
Oil and Gas	**163.3**	162.1	170.0	101.2	63.6
Power	**(40.9)**	11.0	14.5	18.7	49.7
Corporate and Other	**(68.7)**	(48.5)	(44.6)	(43.4)	(42.6)
Adjust earnings from joint venture and associate	**5.1**	(18.4)	–	–	–
	34.5	200.3	410.7	342.7	233.9
Non-controlling interests	**–**	–	–	–	20.4
Net (loss) earnings from continuing operations	**(158.5)**	12.3	198.5	159.5	88.5
(Loss) earnings from discontinued operations, net of tax	**(501.8)**	21.4	(1.2)	(14.7)	(2.8)
Net (loss) earnings for the year	**(660.3)**	33.7	197.3	144.8	85.7
Loss) earnings per common share (basic and diluted)					
Net (loss) earnings from continuing operations	**$ (0.53)**	$ 0.04	$ 0.67	$ 0.54	$ 0.30
Net (loss) earnings	**$ (2.23)**	0.11	$ 0.67	$ 0.49	$ 0.29
Consolidated statements of financial position					
Net working capital balance	**$ 481.8**	$ 908.4	$ 1,016.7	$ 1,112.6	$ 1,027.3
Cash, cash equivalents and short-term investments	**651.8**	503.2	631.4	759.8	870.6
Total assets	**6,457.8**	6,587.8	6,497.5	6,068.2	9,908.4
Total loans and borrowings	**2,489.8**	2,039.8	1,744.7	1,563.6	2,993.9
Non-controlling interests	**–**	–	–	–	2,110.9
Shareholders' equity	**3,107.2**	3,645.9	3,731.7	3,528.3	1,021.8
Consolidated statements of cash flow					
Cash provided by operating activities	**$ 204.7**	$ 223.1	$ 354.8	$ 413.8	$ 433.7
Capital expenditures	**79.6**	68.2	129.0	146.3	1,567.5
Increase (decrease) in net cash	**177.1**	2.5	(88.5)	98.4	(51.0)
Sales volumes					
Finished nickel (thousands of pounds)					
Moa Joint Venture (50% basis)	**36,855**	37,754	38,088	37,253	37,365
Finished cobalt (thousands of pounds)					
Moa Joint Venture (50% basis)	**3,683**	4,123	4,249	4,086	4,095
Fertilizer (thousands of tonnes)					
Moa Joint Venture (50% basis)	**170**	183	165	196	158
Oil (net barrels per day)	**11,331**	11,336	12,057	11,956	13,214
Electricity (GWh) (33 1/3% basis)	**589**	628	618	689	722
Coal (thousands of tonnes)					
Prairie Operations(3)	**20,309**	30,845	31,993	34,460	34,482
Mountain Operations(3)	**3,271**	3,462	4,368	3,327	1,860
Average-realized prices					
Nickel ($ per pound)					
Moa Joint Venture	**$ 6.86**	$ 7.82	$ 10.14	$ 10.11	$ 7.46
Cobalt ($ per pound)					
Moa Joint Venture	**12.50**	12.94	15.82	18.68	17.54
Oil-Cuba ($ per barrel)	**69.66**	72.21	68.47	52.24	45.38
Electricity ($ per megawatt hour)	**42.63**	41.32	41.00	42.42	46.79
Coal ($ per tonne)					
Prairie Operations	**18.54**	17.48	16.31	14.18	14.56
Mountain Operations	**84.84**	101.65	101.61	84.21	79.04
Common shares					
High	**$ 6.18**	$ 6.60	$ 9.90	$ 9.05	$ 8.44
Low	**$ 3.02**	$ 4.21	$ 3.86	$ 5.72	$ 1.69
Shares outstanding at December 31 (thousands)	**296,939**	296,491	296,391	295,017	293,981

(1) As a result of entering into agreements to sell the Coal operations in December 2013, Coal is classified as a discontinued operation. As a result, the loss for Coal is reported in (loss) earnings from discontinued operations, cash provided (used) by Coal is reported in cash provided (used) by discontinued operations for the year ended December 31, 2013, and total assets and liabilities of Coal (other than cash, cash equivalent, loans and borrowings which do not form part of net assets to be sold) are reported as assets and liabilities of discontinued operations, respectively, as at December 31, 2013. For the year ended December 31, 2012, amounts previously included in the statements of comprehensive income and cash flows have been restated; amounts reported in the statements of financial position have not been restated. For periods prior to 2012, the Coal segment results includes the following: Prairie Operations – full consolidation; 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.

(2) The adoption date of IFRS 11 was January 1, 2013 which resulted in the Corporation changing the accounting for the Moa Joint Venture from proportionate consolidation to equity accounting effective January 1, 2012. Comparative period figures for 2012 have been restated to comply with these requirements. For period prior to 2012, amounts have not been restated to reflect the impact of adoption of this IFRS.

(3) The effective transition date to IFRS was January 1, 2010. Results for 2009 have not been restated to IFRS. For this year, (loss) earnings from operations, associate and joint venture 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.

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, but are not limited to, statements set out in the "Outlook" sections of this MD&A and those respecting certain expectations regarding the closing of the Coal sale transaction; future and total capital expenditures; capital project commissioning and completion dates; expectations of the timing of financial completion at Ambatovy; production and sales volumes; revenue, costs, and earnings; compliance with financial covenants; ability to remedy financial covenant breaches; sufficiency of working capital and capital project funding, including new exploration and development activities.

Forward-looking statements are not based on historic facts, but rather on current expectations, assumptions and projections about future events, including commodity and product prices and demand; realized prices for production; earnings and revenues; development and exploratory wells and enhanced oil recovery in Cuba; environmental rehabilitation provisions; availability of regulatory approvals; compliance with applicable environmental laws and regulations; the impact of regulations related to greenhouse gas emissions and credits; debt repayments; collection of accounts receivable; and certain corporate objectives, goals and plans for 2014. 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, and the principal markets for the Corporation's products. Other such factors include, but are not limited to, uncertainties in the development, construction, ramp-up and operation of large mining, processing and refining projects; risks relating to the closing of the Coal sale transaction; 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; risk of 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; risks related to exploration and development programs; uncertainties in reserve estimates; risks associated with access to reserves and resources; uncertainties in environmental rehabilitation provisions estimates; risks relating to the Corporation's reliance on partners and 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; uncertainty in the ability of the Corporation to enforce legal rights in foreign jurisdictions; uncertainty regarding the interpretation and/or application of the applicable laws in foreign jurisdictions; risks associated with future acquisitions; uncertainty in the ability of the Corporation to obtain government permits; risks associated with governmental regulations regarding greenhouse gas emissions; risks associated with government regulations and environmental, health and safety matters; uncertainties in growth management; interest rate risk; risks related to political or social unrest or change and those in respect of aboriginal and community relations; risks associated with rights and title claims; and other factors listed from time to time in the Corporation's continuous disclosure documents. Readers are cautioned that the foregoing list of factors is not exhaustive and should be considered in conjunction with the risk factors described in this MD&A and the Corporation's other documents filed with 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 including, but not limited to, the Corporation's Annual Information Form for the year ended December 31, 2013 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 18, 2014

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, 2013, December 31, 2012 and January 1, 2012, and the consolidated statements of comprehensive (loss) income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flow for the years ended December 31, 2013 and December 31, 2012, 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, 2013, December 31, 2012 and January 1, 2012, and its financial performance and its cash flows for the years ended December 31, 2013 and December 31, 2012 in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
February 18, 2014
Toronto, Canada

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

Canadian $ millions, except per share amounts, for the years ended December 31	Note	2013	2012
			(note 32)
Revenue		**$ 448.5**	$ 475.3
Cost of sales	6	**311.9**	260.0
Gross profit		**136.6**	215.3
Administrative expenses		**77.9**	65.7
Operating profit		**58.7**	149.6
Share of loss of an associate, net of tax	7	**(0.2)**	(2.1)
Share of (loss) earnings of a joint venture, net of tax	8	**(24.0)**	52.8
Earnings from operations, associate and joint venture		**34.5**	200.3
Financing income	9	**(12.9)**	(3.4)
Financing expense	9	**134.1**	179.9
Net finance expense		**121.2**	176.5
(Loss) earnings before tax		**(86.7)**	23.8
Income tax expense	10	**71.8**	11.5
Net (loss) earnings from continuing operations		**(158.5)**	12.3
(Loss) earnings from discontinued operations, net of tax	11	**(501.8)**	21.4
Net (loss) earnings for the year		**$ (660.3)**	$ 33.7
Other comprehensive income (loss)			
Items that may be subsequently reclassified to profit or loss:			
Foreign currency translation differences on foreign operations	22	**164.2**	(49.8)
Items that will not be subsequently reclassified to profit or loss:			
Actuarial gains (losses) on pension plans, net of tax			
Continuing operations	22	**0.9**	(0.5)
Discontinued operations	22	**3.6**	(6.2)
Other comprehensive income (loss)		**168.7**	(56.5)
Total comprehensive loss		**$ (491.6)**	$ (22.8)
Net (loss) earnings from continuing operations per common share, basic and diluted	12	**$ (0.53)**	$ 0.04
Net (loss) earnings per common share:			
Basic	12	**$ (2.23)**	$ 0.11
Diluted	12	**$ (2.22)**	$ 0.11

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Canadian $ millions, as at	Note	**2013 December 31**	2012 December 31	2012 January 1
			(note 32)	(note 32)
ASSETS				
Current Assets				
Cash and cash equivalents	13	**$ 324.2**	$ 147.1	$ 144.6
Restricted cash		**1.0**	1.1	1.1
Short-term investments	13	**327.6**	356.1	456.8
Investments	14	**6.0**	26.8	29.1
Advances, loans receivable and other financial assets	15	**76.7**	93.7	121.5
Other non-financial assets	15	**–**	0.8	0.2
Finance lease receivables	15	**–**	24.8	23.3
Trade accounts receivable, net	13	**253.9**	371.9	348.1
Income taxes receivable		**1.2**	5.0	19.1
Inventories	16	**35.5**	163.8	129.0
Prepaid expenses		**10.1**	12.7	11.1
		1,036.2	1,203.8	1,283.9
Non-current assets				
Advances, loans receivable and other financial assets	15	**1,549.2**	1,695.2	1,367.8
Other non-financial assets	15	**2.2**	10.8	20.5
Finance lease receivables	15	**–**	182.2	196.0
Property, plant and equipment	17	**392.8**	908.9	906.3
Investments	14	**–**	4.9	34.7
Investment in an associate	7	**1,652.5**	1,089.5	1,053.1
Investment in a joint venture	8	**352.0**	365.8	357.5
Goodwill	18	**–**	307.9	307.9
Intangible assets	19	**163.7**	790.1	786.2
Deferred income taxes	10	**3.7**	28.7	3.3
		4,116.1	5,384.0	5,033.3
Assets of discontinued operations	11	**1,305.5**	–	1.5
Total Assets		**$ 6,457.8**	$ 6,587.8	$ 6,318.7
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Loans and borrowings	20	**$ 365.2**	$ –	$ 56.9
Trade accounts payable and accrued liabilities		**104.7**	171.4	158.1
Income taxes payable		**15.8**	16.8	25.5
Other financial liabilities	20	**4.4**	56.8	55.4
Other non-financial liabilities	20	**27.6**	16.0	8.1
Provisions	21	**36.7**	34.4	31.9
		554.4	295.4	335.9
Non-current liabilities				
Loans and borrowings	20	**2,124.6**	2,039.8	1,687.8
Other financial liabilities	20	**2.8**	122.6	107.7
Other non-financial liabilities	20	**4.2**	49.7	46.2
Intangible liability		**–**	4.6	9.1
Provisions	21	**88.2**	228.8	203.4
Deferred income taxes	10	**51.7**	201.0	209.3
		2,271.5	2,646.5	2,263.5
Liabilities of discontinued operations	11	**524.7**	–	8.2
Total liabilities		**3,350.6**	2,941.9	2,607.6
Shareholders' equity				
Capital stock	22	**2,808.5**	2,806.1	2,803.1
Retained earnings		**40.2**	774.5	786.0
Reserves	22	**196.5**	194.9	195.1
Accumulated other comprehensive income (loss)	22	**62.0**	(129.6)	(73.1)
		3,107.2	3,645.9	3,711.1
Total liabilities and shareholders' equity		**$ 6,457.8**	$ 6,587.8	$ 6,318.7

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	2013	2012 (note 32)
Operating activities			
Net (loss) earnings from continuing operations		**$ (158.5)**	$ 12.3
Add (deduct):			
Depletion, depreciation and amortization		**89.1**	91.2
Share of loss of an associate, net of tax	7	**0.2**	2.1
Share of loss (earnings) of a joint venture, net of tax	8	**24.0**	(52.8)
Loss on impairment of assets	6	**46.9**	2.3
Finance costs (less accretion expenses)	9	**119.3**	175.3
Income tax expense	10	**71.8**	11.5
(Gain) loss on settlement of environmental rehabilitation provisions		**(0.2)**	0.8
Service concession arrangement		**(19.8)**	(32.0)
Net change in non-cash working capital	24	**53.3**	(21.4)
Interest received		**17.2**	25.2
Interest paid		**(88.4)**	(69.5)
Income tax paid		**(58.5)**	(42.7)
Dividends received from joint venture		**2.3**	29.6
Liabilities settled for environmental rehabilitation provisions		**0.2**	(0.8)
Other operating items	24	**1.1**	(19.4)
Cash provided by continuing operations		**100.0**	111.7
Cash provided by discontinued operations	11	**104.7**	111.4
Cash provided by operating activities		**204.7**	223.1
Investing activities			
Property, plant and equipment expenditures	5	**(67.3)**	(58.4)
Intangible expenditures	5	**(12.3)**	(9.8)
Increase in advances, loans receivable and other financial assets		**(39.5)**	(63.8)
Repayment of advances, loans receivable and other financial assets		**33.7**	61.3
Investments		**28.0**	27.2
Loans to an associate		**(65.3)**	(260.4)
Investment in an associate		**(154.9)**	(135.6)
Net proceeds from sale of property, plant and equipment		**(0.2)**	0.2
Short-term investments		**28.5**	100.7
Cash used by continuing operations		**(249.3)**	(338.6)
Cash used by discontinued operations	11	**(31.6)**	(54.2)
Cash used by investing activities		**(280.9)**	(392.8)
Financing activities			
Repayment of loans and borrowings and other financial liabilities		**(63.0)**	(106.9)
Increase in loans and borrowings and other financial liabilities		**384.6**	90.6
Issuance of senior unsecured debentures, net of financing costs		**–**	489.6
Repayment of senior unsecured debentures		**–**	(225.0)
Issuance of common shares		**1.4**	1.3
Treasury stock – restricted stock plan		**–**	(1.6)
Dividends paid on common shares	22	**(49.5)**	(45.2)
Cash provided by continuing operations		**273.5**	202.8
Cash used by discontinued operations	11	**(21.8)**	(30.3)
Cash provided by financing activities		**251.7**	172.5
Effect of exchange rate changes on cash and cash equivalents		**1.6**	(0.3)
Increase in cash and cash equivalents		**177.1**	2.5
Cash and cash equivalents at beginning of the year		**147.1**	144.6
Cash and cash equivalents at end of the year		**$ 324.2**	$ 147.1

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Canadian $ millions	Note	Capital stock	Retained earnings	Reserves	Accumulated other comprehensive income (loss)	Total
		(notes 22, 32)	(note 32)	(notes 22, 32)	(notes 22, 32)	
Balance as at January 1, 2012		**$ 2,803.1**	**$ 786.0**	**$ 195.1**	**$ (73.1)**	**$ 3,711.1**
Total comprehensive (loss) income:						
Net earnings for the year		–	33.7	–	–	33.7
Foreign currency translation differences on foreign operations	22	–	–	–	(49.8)	(49.8)
Actuarial losses on defined benefit obligation, net of tax	22	–	–	–	(6.7)	(6.7)
		–	33.7	–	(56.5)	(22.8)
Shares issued for:						
Treasury stock – restricted stock plan	22	(1.6)	–	–	–	(1.6)
Restricted stock plan (vested)	22	0.9	–	(0.9)	–	–
Employee share purchase plan (vested)	22	2.4	–	(2.4)	–	–
Restricted stock plan expense	23	–	–	1.3	–	1.3
Employee share purchase plan expense	23	1.3	–	0.2	–	1.5
Stock option plan expense	23	–	–	1.6	–	1.6
Dividends declared to common shareholders		–	(45.2)	–	–	(45.2)
Balance as at December 31, 2012		**$ 2,806.1**	**$ 774.5**	**$ 194.9**	**$ (129.6)**	**$ 3,645.9**
Total comprehensive (loss) income:						
Net loss for the year		–	(660.3)	–	–	(660.3)
Foreign currency translation differences on foreign operations	22	–	–	–	164.2	164.2
Reclassification on settlement of pension obligation		–	(22.9)	–	22.9	–
Actuarial gains on defined benefit obligation, net of tax	22	–	–	–	4.5	4.5
		–	(683.2)	–	191.6	(491.6)
Shares issued for:						
Restricted stock plan (vested)	22	0.8	–	(0.8)	–	–
Employee share purchase plan	22	1.6	–	(0.2)	–	1.4
Restricted stock plan expense	23	–	–	0.6	–	0.6
Employee share purchase plan expense	23	–	–	0.4	–	0.4
Stock option plan expense	23	–	–	1.6	–	1.6
Dividends declared to common shareholders		–	(51.1)	–	–	(51.1)
		2.4	(51.1)	1.6	–	(47.1)
Balance as at December 31, 2013		**$ 2,808.5**	**$ 40.2**	**$ 196.5**	**$ 62.0**	**$ 3,107.2**

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, Cuba and Madagascar. 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 18, 2014. The Corporation is listed on the Toronto Stock Exchange.

Note 2 Basis of presentation

2.1 Basis of presentation

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

As further discussed in note 11, the Corporation announced the divestiture of its Coal operations on December 24, 2013. As a result of this agreement the Coal operations have been classified as discontinued operations. The assets of the Coal operations are presented in the statement of financial position as assets of discontinued operations, and the liabilities are presented as liabilities of discontinued operations as at December 31, 2013. The results of operations for the Coal operations are presented as (loss) earnings from discontinued operations, net of tax, for the years ended December 31, 2013 and 2012. The cash flows of the Coal operations are presented as cash provided (used) by discontinued operations for the years ended December 31, 2013 and 2012.

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, its interest in a joint venture, and its share of assets, liabilities, revenues and expenses related to its interests in joint operations. Intercompany balances, transactions, income and expenses, profits and losses, including unrealized gains and losses relating to subsidiaries and joint operations 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	Joint venture		50%	Equity method
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[1]				
Prairie Mines & Royalty Limited[2]	Subsidiary	Canada	100%	Full consolidation[3]
Coal Valley Resources Inc.	Subsidiary	Canada	100%	Full consolidation[3]
Carbon Development Partnership	Joint operation	Canada	50%	Economic interest recognized[3]
Bienfait Activated Carbon	Joint operation	Canada	50%	Economic interest recognized[3]
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)	Joint operation	Cuba	33⅓%	Economic interest recognized

(1) On December 24, 2013 the Corporation announced it was divesting its Coal operations and as a result the Coal operations, were classified as discontinued operations (note 11).

(2) 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.

(3) These Coal subsidiaries and joint operations are classified as discontinued operations at December 31, 2013.

SUBSIDIARIES

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

JOINT ARRANGEMENTS

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

(i) Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control and whereby each party has rights to the net assets of the arrangement. Interests in joint ventures are recognized as an investment and accounted for using the equity method of accounting.

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

(ii) Joint operations

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

ASSOCIATE

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

- The Corporation recognizes its share of earnings (loss) net of tax in the consolidated statements of comprehensive (loss) income 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
- Prior to Commercial Production, interest revenue on a loan receivable from an associate is fully eliminated. Subsequent to commercial production, interest revenue on a loan receivable from an associate is recognized to the extent of Sherritt's economic interest.

2.3 Held for sale and 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, if the following criteria are met:

- The assets (or disposal groups) must be available for immediate sale, in their present condition, subject to terms that are usual and customary of such assets (or disposal groups); and
- The sale is highly probable.

Individual non-current assets or disposal groups are classified, and presented, as discontinued operations if the assets or disposal groups are disposed of or classified as held for sale and if the first and second or third of the following criteria are met:

- The assets or disposal groups represent a separate major line of business or geographical area of operations;
- The assets or disposal groups are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- The assets or disposal groups are 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 the consolidated statements of comprehensive (loss) income 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 discontinued operations are shown separately in the consolidated statements of comprehensive (loss) income and cash flow, 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

When determining its reportable segments, the Corporation considers qualitative factors, such as operations that offer distinct products and services and are considered to be significant by the Chief Operating Decision 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. Operating segments that share similar economic characteristics are aggregated to form a single reportable segment. The reportable segments' financial results are reviewed by senior management.

The Corporation's reportable segments are based on operations that offer distinct products and services.

- The Metals segment comprises of all mining, processing and marketing activities of nickel and cobalt and includes the production and sale of agricultural fertilizers. The Corporation aggregates the operating segments of the Ambatovy Joint Venture including a wholly-owned subsidiary established to buy, market and sell certain Ambatovy nickel production, and the Moa Joint Venture including operations in Fort Saskatchewan.
- The Oil and Gas segment includes the oil and gas operations in Cuba as well as the exploration and development of oil and gas in Cuba, Spain, Pakistan and the United Kingdom.
- The Power segment includes the operations in Cuba which construct and operate electricity generating plants that provide electricity in Cuba and includes an electricity generating plant in Madagascar.
- The Corporate and Other segment is comprised of the metallurgical technology business, management of cash and short-term investments, and general corporate activities.
- 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 Coal segment has been reclassified as discontinued operations.

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.

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 lease arrangements, whereby the Corporation is the lessor. All operating lease revenue related to the Varadero facility is contingent on the amount of electricity produced or services 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.

COAL

Due to the classification of the Coal operations as a discontinued operation all its results of operations are included in earnings (loss) from discontinued operations in the statements of comprehensive (loss) income.

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 agreement at the Genesee mine includes management and other fees and reimbursement of direct operating costs. The Corporation is the principal in this agreement 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.

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

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

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. 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 42 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 at producing mines, referred to as stripping costs, are accounted for as variable production costs to be included in the cost of inventory, unless overburden removal creates economic benefit 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 contracts	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 takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use of the asset. To achieve this, the recoverable amount is the higher of value in use (being the net present value of expected pre-tax future cash flows of the relevant asset) and fair value less costs to sell the asset(s).

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

At each reporting date, the Corporation assesses whether there is any indication that the carrying amount of the Corporation's investment in an associate and investment in a joint venture, 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 (loss) income.

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), 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 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 issued prior to 2013 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. For RSUs issued with performance requirements, the fair value at the date of grant and at each subsequent reporting date until settlement is based on performance metrics which are defined at the time of issuance and the liability is expressed over the vesting period. Adjustments recorded are amortized over the remaining vesting period.

The fair value of DSUs at the date of grant and at each subsequent reporting date until settlement is based on the market value of the shares with the liability expensed over the vesting period. Movements in the liability between reporting dates are recognized as an adjustment to the liability and an offsetting expense or recovery. The adjustment amount is amortized over the remaining vesting period.

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 (loss) income 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. When the calculation results in a benefit to the Corporation, the recognized asset is limited to 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 unit credit 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 (loss) income 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 corporate bonds 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 return on plan assets. Net interest on plan assets is calculated using the discount rate used to measure the defined benefit obligations and is recognized in the consolidated statements of comprehensive (loss) income.

Past service costs are recognized immediately at the earlier of recognizing termination benefits, restructuring charges, or when a plan amendment or curtailment occurs. Actuarial gains and losses are recognized immediately through other comprehensive (loss) income.

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.

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 (loss) income 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 unadjusted quoted prices in active markets for identical assets and liabilities that the entity can access at the measurement date;
Level 2: valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly; and
Level 3: valuations using inputs that are not based on observable market data.

The Corporation's financial assets subject to the measurement hierarchy are provided in note 13.

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 (loss) income 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 (loss) income 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. 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.

3.2 Critical accounting judgments

INTERESTS IN OTHER ENTITIES

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

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 investment in a joint venture, 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.

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

The Corporation accounts for its interest in the Ambatovy using the equity method. The Corporation assesses the carrying amount of its investment at each reporting date to determine whether there are any indicators that the carrying amount of the investment may be impaired.

For purposes of determining fair value of its interest in Ambatovy Joint Venture, management assesses the recoverable amount of its interest using Monte Carlo simulations. Projections of future cash flows are based on factors relevant to Ambatovy's operations and could include estimated recoverable production, commodity or contracted prices, foreign exchange rates, production levels, cash costs of production, capital and reclamation costs. Projections inherently require assumptions and judgments to be made about each of the factors affecting future cash flows. The determination of fair value involves a detailed review of Ambatovy's life of mine model and the determination of a weighted average cost of capital among and other critical factors.

Changes in any of these assumptions or judgments could result in a significant difference between the carrying amount and fair value of this asset. 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 (loss) income.

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

4.1 Adoption of new and amended accounting pronouncements

IFRS 7 – FINANCIAL INSTRUMENTS: DISCLOSURES

IFRS 7, "Financial instruments: disclosures" (IFRS 7) was amended by the IASB in December 2011. The amendments contain 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 disclosure requirements enable users of the financial statements to better compare financial statements prepared in accordance with IFRS and US GAAP. The Corporation adopted the amended standards effective January 1, 2013. The amendments did not have a significant impact on the Corporation's consolidated financial statements.

IFRS 10 – CONSOLIDATED FINANCIAL STATEMENTS

IFRS 10, "Consolidated financial statements" (IFRS 10) replaced SIC 12, "Consolidation – Special purpose entities" and parts of IAS 27, "Consolidated and separate financial statements". 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. The Corporation adopted the standard effective January 1, 2013. The standard did not have a significant impact on the Corporation's consolidated financial statements.

IFRS 11 – JOINT ARRANGEMENTS

IFRS 11, "Joint arrangements" (IFRS 11) supersedes IAS 31, "Interest in joint ventures" and SIC 13, "Jointly controlled entities – non-monetary contributions by venturers". IFRS 11 requires joint arrangements to be classified as either joint operations or joint ventures. The structure of the joint arrangement is no longer the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. The standard removed the option to account for joint ventures using proportionate consolidation and requires equity accounting. The Corporation adopted the standard effective January 1, 2013, it was applied retrospectively. The Corporation classified the Moa Joint Venture as an investment in joint venture and is presented using equity accounting. Under this accounting treatment, Sherritt deconsolidated the proportionate results of the Moa Joint Venture and presented this arrangement as a single line item on the consolidated financial statements. This accounting change significantly reduced the Corporation's assets and liabilities on a line-by-line basis as further described in note 32.

IFRS 12 – DISCLOSURE OF INTERESTS IN OTHER ENTITIES

IFRS 12, "Disclosure of interests in other entities" (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. The Corporation adopted the standard effective January 1, 2013 and has included these enhanced disclosures within the Corporation's consolidated financial statements.

IFRS 13 – FAIR VALUE MEASUREMENT

IFRS 13, "Fair value measurement" (IFRS 13) 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. The Corporation adopted the standard effective January 1, 2013. The adoption did not 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) 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 Corporation adopted the standard effective January 1, 2013. The amendments did not have a significant impact on the Corporation's consolidated financial statements.

IAS 19 – EMPLOYEE BENEFITS

An amendment to IAS 19, "Employee benefits" (IAS 19) 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 Corporation adopted the amended standard effective January 1, 2013. Refer to note 32 for the quantitative impact of adoption.

IAS 27 – SEPARATE FINANCIAL STATEMENTS

IAS 27, "Separate financial statements" (IAS 27) prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. Consolidation guidance is now included in IFRS 10. 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) 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 applies to all entities that have an ownership interest with joint control of, or significant influence over, an investee. The Corporation adopted the standard effective January 1, 2013. The adoption did not have a significant impact on the Corporation's consolidated financial statements.

IFRIC 20 – STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE

International Financial Reporting Interpretations Committee (IFRIC) 20, "Stripping costs in the production phase of a surface mine" (IFRIC 20) 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 Corporation adopted the standard effective January 1, 2013. The adoption did not have a significant impact on the Corporation's consolidated financial statements.

4.2 Accounting pronouncements issued but not yet effective

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 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. In November 2013, the IASB issued amendments to IFRS 9 deferring the mandatory effective date until the IFRS 9 project is closer to completion. 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 amended by the IASB in October 2012. The amendments introduce an exception for investment entities to the principle that all subsidiaries are consolidated. The amendments define an investment entity and require an investment entity to measure subsidiaries at fair value through profit or loss in accordance with IFRS 9, "Financial instruments" or IAS 39, "Financial instruments: recognition and measurement". The amendments to IFRS 10 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard is not expected to have a significant impact on the Corporation's financial statements.

IFRS 12 – DISCLOSURE OF INTERESTS IN OTHER ENTITIES

IFRS 12, "Disclosure of interests in other entities" (IFRS 12) was amended by the IASB in October 2012. The amendments add disclosure requirements for investment entities as defined in IFRS 10, "Consolidated financial statements". The amendments to IFRS 12 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard is not expected to have a significant impact on the Corporation's financial statements.

IAS 27 – SEPARATE FINANCIAL STATEMENTS

IAS 27, "Separate financial statements" (IAS 27) was amended by the IASB in October 2012. The amendments require an investment entity to measure its investments in subsidiaries at fair value through profit or loss when it presents separate financial statements. The amendments to IAS 27 are effective for annual periods beginning on or after January 1, 2014. The Corporation determined that this standard is not applicable to the 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.

IAS 36 – IMPAIRMENT OF ASSETS

IAS 36, "Impairment of assets" (IAS 36) was amended by the IASB in May 2013. The amendments require the disclosure of the recoverable amount of impaired assets when an impairment loss has been recognized or reversed during the period and additional disclosures about the measurement of the recoverable amount of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard is not expected to have a significant impact on the Corporation's financial statements.

IAS 39 – FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

IAS 39, "Financial instruments: recognition and measurement" (IAS 39) was amended by the IASB in June 2013. The amendments clarify that novation of a hedging derivative to a clearing counterparty as a consequence of laws or regulations or the introduction of laws or regulations does not terminate hedge accounting. The amendments to IAS 39 are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard is not expected to have a significant impact on the Corporation's financial statements.

IFRIC 21 – LEVIES

IFRIC 21, "Levies" (IFRIC 21) was amended by the IASB in June 2013. IFRIC 21 provides guidance on the accounting for levies within the scope of IAS 37, "Provisions, contingent liabilities and contingent assets". The main features of IFRIC 21are: (i) the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation, and (ii) the liability to pay a levy is recognized progressively if the obligating event occurs over a period of time. IFRIC 21 is 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.

Note 5 Segmented information

Business segments

Canadian $ millions, for the year ended December 31							2013
	Metals[1]	Oil and Gas	Power	Corporate and Other[4]	Discontinued operations (note 11)	Adjustments for Joint Venture and Associate[2]	Total
Revenue	$ 430.7	$ 291.4	$ 54.8	$ 6.5	$ –	$ (334.9)	$ 448.5
Cost of sales	446.4	119.6	83.7	23.1	–	(360.9)	311.9
Gross (loss) profit	(15.7)	171.8	(28.9)	(16.6)	–	26.0	136.6
Administrative expenses	8.6	8.5	12.0	52.1	–	(3.3)	77.9
Operating (loss) profit	(24.3)	163.3	(40.9)	(68.7)	–	29.3	58.7
Share of loss of associate, net of tax	–	–	–	–	–	(0.2)	(0.2)
Share of loss of a joint venture, net of tax	–	–	–	–	–	(24.0)	(24.0)
(Loss) earnings from operations, associate and joint venture	(24.3)	163.3	(40.9)	(68.7)	–	5.1	34.5
Financing income	0.9	(2.0)	(1.2)	(10.9)	–	0.3	(12.9)
Financing expense	38.6	50.7	(34.4)	89.4	–	(10.2)	134.1
Net finance expense (income)	39.5	48.7	(35.6)	78.5	–	(9.9)	121.2
(Loss) earnings before tax	(63.8)	114.6	(5.3)	(147.2)	–	15.0	(86.7)
Income tax (recovery) expense	(15.0)	48.6	2.0	21.2	–	15.0	71.8
Net (loss) earnings from continuing operations	(48.8)	66.0	(7.3)	(168.4)	–	–	(158.5)
Loss from discontinued operations, net of tax	–	–	–	–	(501.8)	–	(501.8)
Net (loss) earnings for the year	$ (48.8)	$ 66.0	$ (7.3)	$ (168.4)	$ (501.8)	$ –	$ (660.3)
Supplementary information							
Depletion, depreciation and amortization	$ 41.5	$ 65.9	$ 9.9	$ 3.9	$ –	$ (32.1)	$ 89.1
Property, plant and equipment expenditures	52.9	49.4	2.3	1.4	–	(38.7)	67.3
Intangible asset expenditures	–	5.2	7.1	–	–	–	12.3

Canadian $ millions, as at December 31							2013
Non-current assets[3]	$ 4,293.0	$ 206.8	$ 199.6	$ 15.9	$ –	$(4,158.8)	$ 556.5
Total assets	5,896.6	1,148.6	449.2	170.3	1,305.5	(2,512.4)	6,457.8

(1) Included in the Metals segment are the operations of the Corporation's 50% interest in the Moa Joint Venture, its 100% interest in the utility and fertilizer operations in Fort Saskatchewan and its 40% interest in the Ambatovy Joint Venture. Also included in the Metals segment are revenues of $28.0 million and costs of $27.0 million for the year ended December 31, 2013 (revenues and costs for the year ended December 31, 2012 – $17.1 million) recognized by a wholly-owned subsidiary of the Corporation established to buy, market and sell certain of Ambatovy's nickel production.

(2) The adjustments for Joint Venture and Associate reflect the adjustments for equity-accounted investments in the Moa and Ambatovy Joint Ventures that are included within the Metals segment.

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

(4) Revenues from Corporate and Other primarily relate to sales from the Corporation's metallurgical technologies business.

Canadian $ millions, for the year ended December 31							2012
	Metals[1]	Oil and Gas	Power	Corporate and Other[4]	Discon-tinued operations (note 11)	Adjustments for Joint Venture and Associate[2]	Total
Revenue	$ 486.8	$ 300.9	$ 70.0	$ 12.5	$ –	$ (394.9)	$ 475.3
Cost of sales	383.2	126.4	55.5	13.2	–	(318.3)	260.0
Gross profit (loss)	103.6	174.5	14.5	(0.7)	–	(76.6)	215.3
Administrative expenses	9.5	12.4	3.5	47.8	–	(7.5)	65.7
Operating profit (loss)	94.1	162.1	11.0	(48.5)	–	(69.1)	149.6
Share of loss of associate, net of tax	–	–	–	–	–	(2.1)	(2.1)
Share of earnings of a joint venture, net of tax	–	–	–	–	–	52.8	52.8
Earnings (loss) from operations, associate and joint venture	94.1	162.1	11.0	(48.5)	–	(18.4)	200.3
Financing income	15.4	(4.7)	(2.3)	(12.2)	–	0.4	(3.4)
Financing expense	100.7	(3.6)	(16.5)	113.8	–	(14.5)	179.9
Net finance expense (income)	116.1	(8.3)	(18.8)	101.6	–	(14.1)	176.5
(Loss) earnings before tax	(22.0)	170.4	29.8	(150.1)	–	(4.3)	23.8
Income tax expense (recovery)	4.3	57.3	1.5	(47.3)	–	(4.3)	11.5
Net (loss) earnings from continuing operations	(26.3)	113.1	28.3	(102.8)	–	–	12.3
Earnings from discontinued operations	–	–	–	–	21.4	–	21.4
Net (loss) earnings for the year	$ (26.3)	$ 113.1	$ 28.3	$ (102.8)	$ 21.4	$ –	$ 33.7
Supplementary information							
Depletion, depreciation and amortization	$ 39.0	$ 68.4	$ 11.0	$ 2.4	$ –	$ (29.6)	$ 91.2
Property, plant and equipment expenditures	53.9	41.9	0.9	3.7	–	(42.0)	58.4
Intangible asset expenditures	–	4.6	5.2	–	–	–	9.8

Canadian $ millions, as at December 31							2012
Non-current assets[3]	$ 3,892.5	$ 203.9	$ 197.0	$ 18.3	$1,436.9	$(3,741.7)	$2,006.9
Total assets	5,638.4	1,007.7	462.3	221.5	1,911.6	(2,653.7)	6,587.8

(1) Included in the Metals segment are the operations of the Corporation's 50% interest in the Moa Joint Venture, its 100% interest in the utility and fertilizer operations in Fort Saskatchewan and its 40% interest in the Ambatovy Joint Venture. Also included in the Metals segment are revenues of $28.0 million and costs of $27.0 million for the year ended December 31, 2013 (revenues and costs for the year ended December 31, 2012 – $17.1 million) recognized by a wholly-owned subsidiary of the Corporation established to buy, market and sell certain of Ambatovy's nickel production.

(2) The adjustments for Joint Venture and Associate reflect the adjustments for equity-accounted investments in the Moa and Ambatovy Joint Ventures that are included within the Metals segment.

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

(4) Revenues from Corporate and Other primarily relate to sales from the Corporation's metallurgical technologies business.

Geographic segments

Canadian $ millions, as at	2013 December 31		2012 December 31	
	Non-current assets[1]	**Total assets[2]**	Non-current assets[1]	Total assets[2]
Canada	**$ 160.0**	**$ 2,613.1**	$ 1,617.1	$ 3,060.1
Cuba	**370.7**	**1,023.9**	368.9	1,077.2
Madagascar	**2.0**	**2,764.7**	10.0	2,387.0
Europe	**23.5**	**32.4**	9.6	33.5
Asia	**0.3**	**1.7**	1.3	2.3
Other	**–**	**22.0**	–	27.7
	$ 556.5	**$ 6,457.8**	$ 2,006.9	$ 6,587.8

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

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

Canadian $ millions, for the years ended December 31	2013	2012
	Total revenue[1]	Total revenue[1]
Canada	**$ 70.1**	$ 76.5
Cuba	**330.0**	351.4
Madagascar	**4.6**	9.4
Europe	**12.5**	13.6
Asia	**1.4**	2.3
Other	**29.9**	22.1
	$ 448.5	$ 475.3

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

Revenue segments

Revenue includes the following significant categories:

Canadian $ millions, for the years ended December 31	2013	2012
Commodity and electricity	**$ 411.3**	$ 422.7
Other	**37.2**	52.6
	$ 448.5	$ 475.3

Significant customers

Oil and Gas derived $277.9 million of its revenue for the year ended December 31, 2013 ($286.3 million for the year ended December 31, 2012) directly and indirectly from agencies of the Government of Cuba.

No other single customer contributed 10% or more to the Corporation's revenue for both 2013 and 2012.

Note 6 Cost of sales

Cost of sales includes the following select information:

Canadian $ millions, for the years ended December 31		**2013**		2012
Employee costs	**$**	**62.8**	$	57.8
Depletion, depreciation and amortization of property, plant and equipment and intangible assets		**86.1**		88.9
Exploration and evaluation expenses		**18.2**		6.0
Impairment losses[1]		**46.9**		2.3

[1] In 2013, impairment losses are primarily comprised of provisions on overdue receivables of $10.0 million, an impairment of Fort Site property, plant and equipment expansion assets of $7.0 million (note 17), an impairment of an electricity generation facility leased to the local electricity utility in Madagascar of $7.3 million (note 17) and an impairment to the Boca Combined Cycle Project in Cuba of $22.1 million (note 19). For the year ended December 31, 2012 impairment losses are primarily comprised of $2.2 million impairment in exploration and evaluation (note 19).

The exploration and evaluation expenses incurred by the Corporation relate mainly to the Sulawesi Project in Indonesia. The Corporation expensed $18.2 relating to this project for the year ended December 31, 2013 ($6.0 million for the year ended December 31, 2012).

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 a processing plant and refinery located near the Port of Toamasina. Ambatovy began producing finished nickel and cobalt in the third quarter of 2012 and commercial production, the point at which Ambatovy begins to recognize operating revenues and costs for accounting purposes, commenced on February 1, 2014.

In December 2013, US$1.0 billion of Ambatovy subordinated loan payable was converted to equity which resulted in a US$400.0 million (Sherritt's 40% share) increase in the Corporation's Investment in associate balance.

Statement of financial position

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

Canadian $ millions, 100% basis, as at	**2013 December 31**	2012 December 31	2012 January 1
Assets			
Cash and cash equivalents[1]	**$ 36.6**	$ 51.5	$ 34.3
Short-term investments[1]	**–**	79.5	–
Other current assets	**21.4**	13.5	15.5
Trade accounts receivable, net	**109.0**	119.3	80.5
Inventories	**333.9**	265.3	139.3
Other non-current assets[2]	**5.3**	4.8	6.0
Property, plant and equipment	**9,174.5**	8,079.3	7,519.3
Total assets	**9,680.7**	8,613.2	7,794.9
Liabilities			
Trade accounts payable and accrued liabilities	**286.3**	227.8	248.8
Other financial liabilities	**6.4**	20.0	16.3
Current portion of loans and borrowings[3]	**200.4**	121.5	–
Loans and borrowings			
Ambatovy revolving credit facility[4]	**28.5**	8.8	–
Ambatovy Joint Venture financing[3]	**1,871.6**	1,935.5	2,097.3
Ambatovy Subordinated loan payable[5]	**2,767.3**	3,197.8	2,422.3
Environmental rehabilitation provision	**78.2**	87.0	81.0
Other long-term liabilities	**0.3**	0.3	0.3
Deferred income taxes	**310.5**	290.8	296.2
Total liabilities	**5,549.5**	5,889.5	5,162.2
Net assets[6]	**$ 4,131.2**	$ 2,723.7	$ 2,632.7
Investment in associate carrying value (40%)	**$ 1,652.5**	$ 1,089.5	$ 1,053.1

(1) In accordance with *La loi établissant un régime special pour les grands investissements dans le secteur minier Malagasay* (LGIM), Madagascar's large scale mining investment act, the Ambatovy Joint Venture is required to (a) maintain foreign currency in local bank accounts sufficient to pay 90 days of local expenses or (b) repatriate all revenue from export sales of mining products, less authorized debt service costs, to local bank accounts within 90 days. The Ambatovy joint venture is currently electing to repatriate revenue from export sales, less authorized debt service costs, in compliance with the requirements of the LGIM.

(2) As at December 31, 2013, the Ambatovy Joint Venture has earned investment tax credits of $532.0 million (December 31, 2012 – $432.8 million) for which a deferred income tax asset has not been recognized. 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 is limited recourse project financing with a group of international lenders that matures June 15, 2024. For the year ended December 31, 2013, total repayments were US$122.1 million. The project financing is guaranteed by the partners 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. During the year, the financial completion date was extended from September 30, 2013 to September 30, 2015. 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, 2013, the Ambatovy Joint Venture had borrowed US$1,977.9 million (December 31, 2012 – US$2,100.0 million) under the project financing.

(4) The Ambatovy revolving credit facility is comprised of an approximate US$32.0 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 19, 2014. The facilities are subordinated to the Ambatovy Joint Venture financing. As at December 31, 2013, US$26.8 million and US$nil were drawn on the revolving and overdraft credit facilities (December 31, 2012 – US$8.8 million and US$nil).

(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, other financial assets and finance lease receivables (note 15).

(6) Net assets include the elimination of certain items, the most significant of which is the capitalization of interest relating to the subordinated loans payable to the Ambatovy Joint Venture partners. As at December 31, 2013 $698.7 million of capitalized interest was eliminated (December 31, 2012 – $432.8 million; January 1, 2012 – $256.9 million).

Results of operations

For the year ended December 31, 2013, the Corporation recognized a net loss of $0.5 million ($0.2 million – 40% basis) ($5.3 million ($2.1 million – 40% basis) for the year ended December 31, 2012). The Ambatovy Joint Venture generated pre-commercial production revenue of $444.8 million ($177.9 million – 40% basis) for the year ended December 31, 2013 ($84.8 million ($33.9 million – 40% basis) for the year ended December 31, 2012). The operating revenue and expenses are capitalized until commercial production is declared. Commercial production, defined as achieving 70% of ore throughput of nameplate capacity in the Pressure Acid Leach circuits, on average, over a thirty-day period, was declared in January 2014.

Note 8 Joint arrangements

Investment in a joint venture

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

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

STATEMENT OF FINANCIAL POSITION

Canadian $ millions, 100% basis, as at	**2013 December 31**	2012 December 31	2012 January 1
Assets			
Cash and cash equivalents	**$ 62.9**	$ 47.1	$ 60.0
Other current assets	**2.4**	8.8	4.2
Trade accounts receivable, net	**61.7**	74.6	84.5
Inventories	**175.9**	169.0	172.3
Other non-current assets	**11.2**	10.6	6.3
Property, plant and equipment	**975.3**	1,017.3	1,048.2
Deferred income taxes	**12.5**	–	–
Total assets	**1,301.9**	1,327.4	1,375.5
Liabilities			
Trade accounts payable and accrued liabilities	**74.6**	57.3	51.1
Other current financial liabilities	**70.9**	98.0	130.4
Other current liabilities	**–**	3.0	0.8
Loans and borrowings	**1.4**	–	–
Environmental rehabilitation provision	**51.0**	66.0	64.8
Other long-term financial liabilities	**380.6**	338.4	380.9
Deferred income taxes	**19.4**	33.1	32.5
Total liabilities	**597.9**	595.8	660.5
Net assets[1]	**$ 704.0**	$ 731.6	$ 715.0
Investment in Joint Venture carrying value (50%)	**$ 352.0**	$ 365.8	$ 357.5

(1) Net assets include the elimination of certain items, the most significant of which is the capitalization of interest relating to advances and loans payable due to the Moa Joint Venture partners. As at December 31, 2013, $79.9 million of capitalized interest was eliminated (December 31, 2012 – $75.8 million; January 1, 2012 – $77.0 million).

RESULTS OF OPERATIONS

Canadian $ millions, 100% basis, for the years ended December 31	2013	2012
Revenue	**$ 669.7**	$ 789.7
Cost of sales[1]	**719.2**	652.4
Gross profit	**(49.5)**	137.3
Administrative expenses[1]	**7.1**	8.0
Operating (loss) profit	**(56.6)**	129.3
Financing income	**(0.5)**	(0.8)
Financing expense	**21.6**	16.5
Net finance expense	**21.1**	15.7
(Loss) earnings before tax	**(77.7)**	113.6
Income tax (recovery) expense	**(29.7)**	8.0
Net (loss) earnings for the year[2]	**$ (48.0)**	$ 105.6
Share of (loss) earnings of a joint venture, net of tax (50% basis)	**$ (24.0)**	$ 52.8
Other comprehensive income (loss)		
Foreign currency translation differences on foreign operations	**44.3**	(15.3)
Total comprehensive (loss) income	**$ (3.7)**	$ 90.3

(1) Included in Cost of Sales for the year ended December 31, 2013 is depreciation and amortization of $56.7 million (for the year ended December 31, 2012 – $53.4 million).

(2) Net (loss) earnings includes the elimination of certain items the most significant of which is interest expense relating to advances and loans payable due to the Moa Joint Venture partners. For the year ended December 31, 2013, $15.1 million of interest expense was eliminated ($15.7 million for the year ended December 31, 2012).

For the year ended December 31, 2013, the Corporation recognized a net loss of $48.0 million ($24.0 million – 50% basis), (net earnings of $105.6 million ($52.8 million – 50% basis) for the year ended December 31, 2012). Cost of sales includes a $59.4 million ($29.7 million – 50% basis) impairment expense related to the joint ventures expansion projects which are no longer being pursued.

For the year ended December 31, 2013, the Moa Joint Venture (50% basis) paid $2.3 million of dividends ($29.6 million for the year ended December 31, 2012).

Joint operations

The following is a summary of the Corporation's economic interests in joint operations, all of which have a December 31 reporting date:

As at		**2013 December 31**	2012 December 31	2012 January 1
Entity	Principal activities		Economic Interest	
Carbon Development Partnership	Coal recovery and coal gasification project	**50%**	50%	50%
Energas	Power generation	**33 1/3%**	33 1/3%	33 1/3%
Bienfait Activated Carbon	Operator of activated carbon plant facilities	**50%**	50%	50%

As a result, the Corporation recognizes all applicable assets, liabilities, revenues and expenses relating to its interest in the above noted joint operations in accordance with IFRS. As a result of the Coal operations being classified as a discontinued operation the results of operations of Bienfait Activated Carbon and Carbon Development Partnership are included in discontinued operations (note 11).

The following table is a summary of the Corporation's interests in its joint operations:

Canadian $ millions, as at December 31			**2013**
	Bienfait Activated Carbon[1]	**Carbon Development Partnership**[1]	**Energas**
	50%	**50%**	**33⅓%**
Current assets	**$ 5.0**	**$ 0.9**	**$ 18.5**
Non-current assets	**32.7**	**12.8**	**166.4**
Current liabilities	**24.4**	**1.1**	**12.7**
Non-current liabilities	**0.7**	**0.4**	**118.0**
Net assets	**$ 12.6**	**$ 12.2**	**$ 54.2**

(1) As a result of the Coal operations being classified as a discontinued operation the assets/liabilities related to Bienfait Activated Carbon and Carbon Development Partnership are included in the assets/liabilities of discontinued operations.

Canadian $ millions, as at December 31			2012
	Bienfait Activated Carbon	Carbon Development Partnership	Energas
	50%	50%	33⅓%
Current assets	$ 5.3	$ 1.1	$ 24.4
Non-current assets	34.2	12.9	156.3
Current liabilities	29.2	1.0	11.4
Non-current liabilities	0.8	0.4	104.2
Net assets	$ 9.5	$ 12.6	$ 65.1

Canadian $ millions, as at January 1			2012
	Bienfait Activated Carbon	Carbon Development Partnership	Energas
	50%	50%	33⅓%
Current assets	$ 5.1	$ 0.9	$ 21.2
Non-current assets	35.2	29.6	131.2
Current liabilities	36.2	1.1	11.4
Non-current liabilities	0.8	0.5	75.4
Net assets	$ 3.3	$ 28.9	$ 65.6

Canadian $ millions, for the year ended December 31			**2013**
	Bienfait Activated Carbon[1]	**Carbon Development Partnership**[1]	**Energas**
	50%	**50%**	**33⅓%**
Revenue	**$ 12.4**	**$ 0.8**	**$ 51.7**
Expense	**9.1**	**1.2**	**59.3**
Net earnings (loss)	**$ 3.3**	**$ (0.4)**	**$ (7.6)**

(1) As a result of the Coal operations being classified as a discontinued operation the results of operations of Bienfait Activated Carbon and Carbon Development Partnership are included in (loss) earnings from discontinued operations (note 11).

Canadian $ millions, for the year ended December 31			2012
	Bienfait Activated Carbon[1]	Carbon Development Partnership[1]	Energas
	50%	50%	33⅓%
Revenue	$ 16.2	$ 0.6	$ 64.8
Expense	10.0	18.0	54.9
Net earnings (loss)	$ 6.2	$ (17.4)	$ 9.9

(1) As a result of the Coal operations being classified as a discontinued operation the results of operations of Bienfait Activated Carbon and Carbon Development Partnership are included in (loss) earnings from discontinued operations (note 11).

Note 9 Net finance expense

Canadian $ millions, for the years ended December 31	Note	**2013**	2012
Net unrealized loss on financial instruments	13	**$ (1.2)**	$ (15.8)
Interest income on cash, cash equivalents and short-term investments		**3.8**	4.5
Interest income on investments		**2.9**	6.6
Interest income on advances and loans receivable		**7.4**	8.1
Total financing income		**12.9**	3.4
Interest expense and accretion on loans and borrowings		**132.2**	121.9
Unrealized foreign exchange (gain) loss		**(11.7)**	8.1
Realized foreign exchange loss (gain)		**0.1**	(0.4)
Cross-guarantee fee amortization		**–**	10.8
Premium on debenture redemption		**–**	27.0
Other finance charges		**11.6**	11.3
Accretion expense on environmental rehabilitation provisions	24	**1.9**	1.2
Total financing expense		**134.1**	179.9
Net finance expense		**$ 121.2**	$ 176.5

Note 10 Income taxes

Canadian $ millions, for the years ended December 31	**2013**	2012
Current income tax expense		
Current period	**$ 55.6**	$ 61.7
Deferred income tax (recovery) expense		
Origination and reversal of temporary differences	**(38.7)**	(45.0)
Reduction in tax rate	**–**	–
Initial recognition of tax assets	**–**	–
Non-recognition/(recognition) of tax assets (not) previously recognized	**54.9**	(5.2)
	16.2	(50.2)
Income tax expense	**$ 71.8**	$ 11.5

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	**2013**	2012
(Loss) earnings before tax from continuing operations	**$ (86.7)**	$ 23.8
Add share of loss (earnings) of equity accounted investments	**24.2**	(50.7)
Parent companies and subsidiaries loss before tax	**(62.5)**	(26.9)
Income tax recovery at the combined basic rate of 25.23% (2012-25.22%)	**(15.8)**	(6.8)
Increase (decrease) in taxes resulting from:		
Difference between Canadian and foreign tax rates	**1.6**	21.3
Reduction in deferred income tax rates	**–**	–
Tax rate differential on temporary difference movements	**0.8**	–
Non-deductible (non-taxable) losses and write-downs (income)	**32.2**	0.9
Non-recognition/(recognition) of tax assets (not) previously recognized	**54.9**	(5.2)
Other items	**(1.9)**	1.3
	$ 71.8	$ 11.5

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

Canadian $ millions, for the year ended December 31, 2013	Opening balance	Recognized in net earnings	Recognized in other comprehensive (loss) income	Liabilities associated with assets of discontinued operations	Closing balance
Deferred tax assets					
Tax loss carryforwards	**$ 75.1**	**$ (47.8)**	**$ –**	**$ (27.3)**	**$ –**
Environmental rehabilitation obligations	**57.6**	**(39.2)**	**–**	**(17.6)**	**0.8**
Finance lease obligations	**39.8**	**(18.0)**	**–**	**(21.8)**	**–**
Pension and other benefit plans and reserves	**16.0**	**(13.8)**	**(1.1)**	**(1.1)**	**–**
Property, plant and equipment	**31.5**	**(14.8)**	**0.8**	**(5.5)**	**12.0**
Deferred financing costs	**7.1**	**(7.1)**	**–**	**–**	**–**
Other	**–**	**0.3**	**–**	**(0.3)**	**–**
	227.1	**(140.4)**	**(0.3)**	**(73.6)**	**12.8**
Set off of deferred tax liabilities	**(198.4)**	**–**	**–**	**–**	**(9.1)**
Net deferred tax assets	**$ 28.7**	**$ (140.4)**	**$ (0.3)**	**$ (73.6)**	**$ 3.7**
Deferred tax liabilities					
Property, plant and equipment	**$ (360.6)**	**$ 139.7**	**$ (2.6)**	**$ 187.6**	**$ (35.9)**
Cuban tax contingency reserve	**(17.5)**	**(1.1)**	**(1.2)**	**–**	**(19.8)**
Foreign currency denominated loans	**(6.4)**	**6.4**	**–**	**–**	**–**
Pension and other benefit plans and reserves	**(4.2)**	**(1.3)**	**(0.4)**	**0.8**	**(5.1)**
Ambatovy call option	**(0.8)**	**0.8**	**–**	**–**	**–**
Deferred financing costs	**(2.0)**	**0.3**	**–**	**1.7**	**–**
Environmental rehabilitation obligation	**(3.9)**	**(0.1)**	**–**	**4.0**	**–**
Other	**(4.0)**	**4.0**	**–**	**–**	**–**
	(399.4)	**148.7**	**(4.2)**	**194.1**	**(60.8)**
Set off of deferred tax assets	**198.4**	**–**	**–**	**–**	**9.1**
Net deferred tax liabilities	**(201.0)**	**148.7**	**(4.2)**	**194.1**	**(51.7)**
Net deferred tax (liabilities) assets	**$ (172.3)**	**$ 8.3**	**$ (4.5)**	**$ 120.5**	**$ (48.0)**
Expense recognized in discontinued operations		**$ (24.5)**			
Recovery recognized in continuing operations		**$ (16.2)**			

Canadian $ millions, for the year ended December 31, 2012	Opening balance	Recognized in net earnings	Recognized in other comprehensive (loss) income	Recognized in equity	Closing balance
Deferred tax assets					
Tax loss carryforwards	$ 65.6	$ 8.6	$ –	$ 0.9	$ 75.1
Environmental rehabilitation obligations	52.9	4.7	–	–	57.6
Finance lease obligations	35.6	4.2	–	–	39.8
Pension and other benefit plans and reserves	13.6	(0.2)	2.6	–	16.0
Property, plant and equipment	26.3	5.4	(0.2)	–	31.5
Deferred financing costs	4.1	3.9	–	(0.9)	7.1
	198.1	26.6	2.4	–	227.1
Set off of deferred tax liabilities	(194.8)	–	–	–	(198.4)
Net deferred tax assets	$ 3.3	$ 26.6	$ 2.4	$ –	$ 28.7
Deferred tax liabilities					
Property, plant and equipment	$ (361.5)	$ –	$ 0.9	$ –	$ (360.6)
Cuban tax contingency reserve	(15.1)	(2.7)	0.3	–	(17.5)
Foreign currency denominated loans	(5.3)	(1.1)	–	–	(6.4)
Pension and other benefit plans and reserves	(4.2)	–	–	–	(4.2)
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)	4.3	–	–	(4.0)
	(404.1)	3.5	1.2	–	(399.4)
Set off of deferred tax assets	194.8				198.4
Net deferred tax liabilities	(209.3)				(201.0)
Net deferred tax (liabilities) assets	$ (206.0)	$ 30.1	$ 3.6	$ –	$ (172.3)
Recovery recognized in discontinued operations		$ 20.1			
Expense recognized in continuing operations		$ 50.2			

As at December 31, 2013, the Corporation had temporary differences of $945.9 million (December 31, 2012 – $922.3 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, 2013, the Corporation had non-capital losses of $221.0 million (December 31, 2012 – $308.1 million which includes $176.9 million related to discontinued operations) and capital losses of $141.5 million (December 31, 2012 – $141.4 million) which may be used to reduce future taxable income. The Corporation has not recognized a deferred income tax asset on $221.0 million of non-capital losses, $141.5 million of capital losses and $38.4 million of other deductible temporary differences since the realization of any related tax benefit through future taxable profits is not probable. The capital losses have no expiry dates and the other deductible temporary differences do not expire under current tax legislation. The non-capital losses are located in Canada and expire as follows:

Canadian $ millions, for the year ended December 31, 2013	Unrecognized losses
Expiration Date	
2014	$ 0.1
2015	0.1
2026	0.1
2027	2.0
2028	2.6
2029	1.0
2030	9.2
2031	46.5
2032	69.8
2033	89.6
Total	**$ 221.0**

Note 11 Discontinued operations

11.1 Disposition of Coal

On December 24, 2013, the Corporation announced it had entered into agreements to sell its Coal operations. The Corporation's Coal operations are Canada's largest thermal coal producer and operated eight surface mines in Alberta and Saskatchewan in 2013. The transaction is expected to provide the Corporation with the opportunity to enhance liquidity and develop and grow its core businesses. The transaction is expected to be completed in the first quarter of 2014 and is subject to customary closing conditions and consents, including applicable Competition Bureau, Investment Canada Act and court approvals.

As at December 31, 2013, (loss) earnings from Coal is reported in (loss) earnings from discontinued operations and cash provided (used) by in Coal is reported in cash provided (used) by discontinued operations for the year ended December 31, 2013 and 2012. Total assets and liabilities of Coal (excluding cash and cash equivalents and loans and borrowings which do not form part of the net assets being sold) are reported as assets and liabilities of discontinued operations, respectively, as at December 31, 2013 without restatement of the prior period amounts.

The (loss) earnings from Coal for the year ended December 31, 2013 and 2012 are as follows:

Canadian $ millions, for the years ended December 31	2013	2012
Revenue	**$ 737.1**	$ 975.0
Cost of sales	**741.7**	924.8
Gross (loss) profit	**(4.6)**	50.2
Administrative expenses	**20.8**	14.4
Operating (loss) profit	**(25.4)**	35.8
Gain on termination of contract	**22.0**	–
Impairment of assets	**(518.9)**	–
Impairment of available for sale investment	**–**	(5.6)
(Loss) earnings from operations	**(522.3)**	30.2
Financing income	**(14.3)**	(17.4)
Financing expense	**18.4**	16.1
Net finance expense (income)	**4.1**	(1.3)
(Loss) earnings before tax	**(526.4)**	31.5
Income tax (recovery) expense	**(24.6)**	14.5
Net (loss) earnings for the year	**$ (501.8)**	$ 17.0

Impairment of Coal assets

In classifying the Coal operations as a discontinued operation, the Corporation is required to measure the disposal groups at the lower of the carrying amount and fair value less costs to sell. The expected purchase consideration was used as the basis for determining the fair value and an estimate of the disposal costs was used as the basis for the costs to sell. In performing this assessment, the Corporation concluded that the expected fair value less cost to sell of the Coal mining operations was lower than the carrying value. As a result, the Corporation recognized an impairment loss of $518.9 million for the year ended December 31, 2013. This impairment includes $307.9 million of goodwill, $180.4 million of intangibles, ($188.8 million less other adjustments of $8.4 million) and $30.6 million of property, plant and equipment.

Gain on termination of contract

On January 17, 2013, the Corporation and its customer, the owner of the Highvale mine, agreed to transfer the mine operations to the customer and terminate the Highvale mining contract. The termination resulted in a non-cash gain of $22.0 million recognized in the first quarter of 2013 relating to the transfer of the defined benefit pension obligation to the customer of $39.3 million which was partially offset by a non-cash write-off of $17.3 million for intangible assets associated with the mining contract.

The major classes of assets and liabilities of the Coal segment are as follows:

Canadian $ millions, for the year ended December 31		**2013**
ASSETS		
Current assets		
Advances, loans receivable and other financial assets	**$**	**3.7**
Other non-financial assets		**0.7**
Finance lease receivable		**15.9**
Trade accounts receivable, net		**68.0**
Income taxes receivable		**1.6**
Inventories		**149.7**
Prepaid expenses		**3.1**
		242.7
Non-current assets		
Advances, loans receivable and other financial assets		**24.6**
Other non-financial assets		**4.3**
Finance lease receivable		**159.0**
Property, plant and equipment		**457.6**
Intangible assets		**417.3**
		1,062.8
Assets of discontinued operation	**$**	**1,305.5**
LIABILITIES		
Current liabilities		
Trade accounts payable and accrued liabilities	**$**	**84.4**
Other financial liabilities		**41.3**
Other non-financial liabilities		**2.1**
Environmental rehabilitation provisions		**19.8**
		147.6
Non-current liabilities		
Other financial liabilities		**106.7**
Other non-financial liabilities		**3.8**
Environmental rehabilitation provisions		**146.1**
Deferred income taxes		**120.5**
		377.1
Liabilities of discontinued operation	**$**	**524.7**
Net assets of discontinued operation	**$**	**780.8**

The following table provides details of the operating, investing and financing activities of the Coal operations for the year ended December 31, 2013. Details of the Coal operations cash flows from operating, investing and financing activities for the year ended December 31, 2012 can be found in note 32.

Unaudited, Canadian $ millions	2013
Operating activities	
Net loss from operations	$ **(501.8)**
Add (deduct):	
Depletion, depreciation and amortization	**116.9**
Gain on termination of contract	**(22.0)**
Loss on impairment of assets	**518.9**
Finance costs (less accretion expenses)	**1.5**
Income tax recovery	**(24.6)**
Loss on settlement of environmental rehabilitation provisions	**4.8**
Increase in provision	**41.3**
Net change in non-cash working capital	**(4.4)**
Interest received	**14.4**
Interest paid	**(9.8)**
Income tax received	**2.7**
Liabilities settled for environmental rehabilitation provisions	**(22.3)**
Other operating items	**(10.9)**
Cash provided by operating activities	**104.7**
Investing activities	
Property, plant and equipment expenditures	**(36.0)**
Increase in advances, loans receivable and other financial assets	**(2.6)**
Repayment of advances, loans receivable and other financial assets	**3.9**
Net proceeds from sale of property, plant and equipment	**3.1**
Cash used by investing activities	**(31.6)**
Financing activities	
Repayment of loans and borrowings and other financial liabilities	**(59.0)**
Increase in finance lease receivables	**(6.9)**
Repayment of finance lease receivables	**44.1**
Cash used by financing activities	**(21.8)**
Increase in cash and cash equivalents	**51.3**

Supplementary Segment information

Canadian $ millions, for the years ended December 31	2013	2012
Depletion, depreciation and amortization[1]	$ **116.9**	$ 135.0
Property, plant and equipment expenditures	**36.0**	58.2

[1] Depletion, depreciation and amortization relates to Coal operations prior to reclassification as a discontinued operation.

11.2 Disposition of 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. As at June 30, 2012, the remaining net assets with respect to the talc mine were reclassified into continuing operations.

Canadian $ millions, for the years ended December 31	2013	2012
Revenue	**$ –**	$ –
Expenses	–	0.3
Loss from discontinued operation, net of tax	–	(0.3)
Gain on sale of discontinued operation[1]	–	4.7
Earnings from discontinued operation, net of tax[2]	**$ –**	$ 4.4

[1] The Corporation recorded a gain of $4.7 million as a result of transferring the reclamation liability to the purchaser.

[2] The tax impact for the years ended December 31, 2013 and 2012 are nominal.

Note 12 (Loss) earnings per share

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

Canadian $ millions, except per share amounts, for the years ended December 31	2013	2012
Net (loss) earnings from continuing operations	**$ (158.5)**	$ 12.3
(Loss) earnings from discontinued operations, net of tax	**(501.8)**	21.4
Net (loss) earnings – basic and diluted	**$ (660.3)**	$ 33.7
Weighted-average number of common shares – basic	**296.7**	296.3
Weighted-average effect of dilutive securities[1]:		
Restricted stock plan	**0.4**	0.5
Weighted-average number of common shares – diluted	**297.1**	296.8
Net (loss) earnings from continuing operations per common share:		
Basic and diluted	**$ (0.53)**	$ 0.04
Loss) earnings from discontinued operation per common share:		
Basic	**$ (1.70)**	$ 0.07
Diluted	**$ (1.69)**	$ 0.07
Net (loss) earnings per common share:		
Basic	**$ (2.23)**	$ 0.11
Diluted	**$ (2.22)**	$ 0.11

[1] The determination of the weighted-average number of common shares – diluted excludes 4.9 million shares related to stock options that were anti-dilutive for the year ended December 31, 2013 (4.2 million for the year ended December 31, 2012). There were 0.8 million shares related to the employee share purchase plan that were anti-dilutive for the year ended December 31, 2013 (0.8 million shares for the year ended December 31, 2012).

Note 13 Financial instruments

Financial instrument hierarchy

Canadian $ millions, as at	Note	Hierarchy level	**2013 December 31**	2012 December 31	2012 January 1
Recurring financial assets held for trading, measured at fair value:					
Cash equivalents		1	**$ 272.5**	$ 108.3	$ 54.9
Short-term investments		1	**327.6**	356.1	456.8
Ambatovy call option	15	3	**22.1**	21.5	38.0

The following is a reconciliation of the beginning to ending balance for the Ambatovy call option included in Level 3:

Canadian $ millions, for the year ended December 31	**2013**	2012
	Ambatovy call option	Ambatovy call option
Balance, beginning of the year	**$ 21.5**	$ 38.0
Total loss in net earnings[1]	**(1.2)**	(15.8)
Effect of movements in exchange rates	**1.8**	(0.7)
Balance, end of the year	**$ 22.1**	$ 21.5

[1] Gains and losses are recognized in net finance expense (note 9).

During the year ended December 31, 2013, the Corporation recognized downward fair value adjustments of $1.2 million (downward fair value adjustments of $15.8 million for the year ended December 31, 2012) 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 companies with comparable projects, the estimated fair value of the Ambatovy project based on forecasted cash flows, and the time until expiration of the option.

Fair values

Financial instruments with carrying amounts different from their fair values include the following[1]:

Canadian $ millions, as at	Note		**2013 December 31**		2012 December 31		2012 January 1	
		Hierarchy level	**Carrying value**	**Fair value**	Carrying value	Fair value	Carrying value	Fair value
8.25% senior unsecured debentures due 2014	20	1	**$ –**	**$ –**	$ –	$ –	$ 223.0	$ 233.0
7.75% senior unsecured debentures due 2015	20	1	**273.9**	**283.3**	273.4	295.6	272.9	283.1
8.00% senior unsecured debentures due 2018	20	1	**393.3**	**393.0**	392.2	426.0	391.2	408.4
7.50% senior unsecured debentures due 2020	20	1	**490.8**	**463.8**	489.8	517.5	–	–
Ambatovy Joint Venture Additional Partner loans[2]	20	2	**863.5**	**780.0**	749.3	865.4	708.5	797.4
Ambatovy Joint Venture Partner loans[2]	20	2	**100.1**	**76.9**	92.1	77.5	92.2	71.5

[1] The carrying values are net of financing costs. 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 8.44% and 8.96%, respectively. These rates are based on market rates adjusted for the Corporation's credit quality for instruments with similar maturity horizons.

As at December 31, 2013, 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 in the above table. 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 approximate their carrying amount based on their time horizon to maturity, and current market rates. 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.

As at December 31, 2013, the carrying amount of the lenders' conversion option under the Ambatovy Joint Venture additional partner loan agreements is approximately equal to its fair value.

Cash, cash equivalents and short-term investments

Cash and cash equivalents consist of:

Canadian $ millions, as at	**2013 December 31**	2012 December 31	2012 January 1
Cash equivalents	**$ 272.5**	$ 108.3	$ 54.9
Cash on hand and balances with banks	**51.7**	38.8	89.7
	$ 324.2	$ 147.1	$ 144.6

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 $8.0 million at December 31, 2013 (December 31, 2012 – $20.1 million).

As at December 31, 2013, $3.5 million of cash on the Corporation's consolidated statements of financial position was held by Energas (December 31, 2012 – $8.6 million). These funds are for the use of the joint operation.

The Corporation's cash equivalents consist of Government of Canada treasury bills with maturities of 90 days or less. As at December 31, 2013, the Corporation had $600.1 million in Government of Canada treasury bills (December 31, 2012 – $464.4 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	**2013 December 31**	2012 December 31	2012 January 1
Trade accounts receivable		**$ 189.0**	$ 322.4	$ 303.8
Allowance for doubtful accounts		**(12.9)**	(2.3)	(0.1)
Accounts receivable from joint operations	26	**0.2**	–	0.1
Accounts receivable from joint venture	26	**23.2**	5.8	7.8
Accounts receivable from associate	26	**36.2**	31.1	22.1
Other		**18.2**	14.9	14.4
		$ 253.9	$ 371.9	$ 348.1

Aging of receivables not impaired:

Canadian $ millions, as at	**2013 December 31**	2012 December 31	2012 January 1
Not past due	**$ 245.6**	$ 290.0	$ 285.5
Past due no more than 30 days	**1.8**	31.6	33.2
Past due for more than 30 days but no more than 60 days	**0.2**	19.0	19.5
Past due for more than 60 days	**6.3**	31.3	9.9
	$ 253.9	$ 371.9	$ 348.1

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 14 Investments

Canadian $ millions, as at	Note	**2013 December 31**	2012 December 31	2012 January 1
Cuban certificates of deposit	25	**$ 6.0**	$ 31.7	$ 58.2
Bow City Power Ltd.		**–**	–	5.6
		6.0	31.7	63.8
Current portion of investments		**(6.0)**	(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. The final repayment will be received in March 2014. 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.

In 2012, 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 did not support near term development of the project. This impairment is included in (loss) earnings from discontinued operations.

Note 15 Advances, loans receivable, other financial assets and finance lease receivables

Advances, loans receivable and other financial assets

Canadian $ millions, as at	Note	**2013 December 31**	2012 December 31	2012 January 1
Advances, loans receivable				
Ambatovy subordinated loans receivable	26	**$ 1,106.9**	$ 1,279.1	$ 968.9
Energas conditional sales agreement	26	**251.7**	223.9	166.9
Moa Joint Venture loans receivable	26	**241.7**	235.6	285.6
Other		**3.5**	19.8	20.9
Other financial assets				
Ambatovy call option	13	**22.1**	21.5	38.0
Deferred reclamation recoveries		**–**	9.0	9.0
		1,625.9	1,788.9	1,489.3
Current portion of advances, loan receivable and other financial assets		**(76.7)**	(93.7)	(121.5)
		$ 1,549.2	$ 1,695.2	$ 1,367.8

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 Ambatovy debt finance agreements being satisfied. Unpaid interest is accrued monthly and capitalized to the principal balance semi-annually. In December 2013, US$1.0 billion of Ambatovy subordinated loans were converted to equity which, at Corporation's 40% share, resulted in a US$400.0 million ($427.9 million) decrease in Ambatovy subordinated loans receivable.

ENERGAS CONDITIONAL SALES AGREEMENT

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

MOA JOINT VENTURE 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 include one loan bearing a fixed interest rate of 6.5% which has advances outstanding as at December 31, 2013 of $189.2 million (December 31, 2012 – $183.0 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 $52.6 million (December 31, 2012 – $52.6 million). The working capital facility bears interest at prime plus 1.75% per annum or bankers' acceptance rates plus an applicable margin of 2.75% and is up for renewal in November 2014.

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 $18.5 million included in assets of discontinued operation (December 31, 2012 – $19.8 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, 2013 the interest rate was 7.76% (December 31, 2012 – 8.27%).

AMBATOVY CALL OPTION

The Corporation has a put/call option arrangement whereby 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. As at December 31, 2013 the deferred reclamation recoveries are included in assets of discontinued operations.

Other non-financial assets

Canadian $ millions, as at	Note	**2013 December 31**	2012 December 31	2012 January 1
Cross-guarantee fee asset		**$ –**	$ –	$ 10.6
Pension receivable	27	**0.7**	5.3	5.8
Other		**1.5**	6.3	4.3
		2.2	11.6	20.7
Current portion of other non-financial assets		**–**	(0.8)	(0.2)
		$ 2.2	$ 10.8	$ 20.5

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. As the shares were issued, the cross-guarantee reserve was reduced accordingly. The amortization of the cross-guarantee fee asset is included in net finance expense (note 9).

Finance lease receivables

Canadian $ millions, as at			**2013 December 31**			2012 December 31			2012 January 1
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	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. As at December 31, 2013 finance lease receivables of $174.9 million are included in assets of discontinued operation and are therefore presented as $nil in the above table. Lease payments consist of blended monthly payments of principal and interest. The interest rates implicit in the leases as at December 31, 2013 are between 6.0% and 7.8% (December 31, 2012 – 5.4% and 8.3%). The Corporation has both fixed and variable rate leasing arrangements.

Note 16 Inventories

Canadian $ millions, as at	**2013 December 31**	2012 December 31	2012 January 1
Uncovered coal	**$ –**	$ 8.3	$ 8.5
Raw materials	**–**	6.6	2.7
Materials in process	**0.1**	0.1	0.2
Finished products	**16.8**	77.5	51.0
	16.9	92.5	62.4
Spare parts and operating materials	**18.6**	71.3	66.6
	$ 35.5	$ 163.8	$ 129.0

For the year ended December 31, 2013, the cost of inventories included in cost of sales was $57.5 million ($40.6 million for the year ended December 31, 2012).

Note 17 Property, plant and equipment

Canadian $ millions, for the year ended December 31					**2013**
	Note	**Mining properties**	**Oil and Gas properties**	**Plant, equipment and land**	**Total**
Cost					
Balance, beginning of the year		**$ 439.5**	**$ 1,056.9**	**$ 1,310.6**	**$ 2,807.0**
Additions		**20.9**	**34.7**	**93.0**	**148.6**
Capitalized closure costs		**23.4**	**5.9**	**(18.3)**	**11.0**
Disposals and derecognition		**–**	**–**	**(13.5)**	**(13.5)**
Effect of movements in exchange rates		**–**	**78.5**	**19.6**	**98.1**
Reclassified to assets of discontinued operations	11	**(483.8)**	**–**	**(809.5)**	**(1,293.3)**
Balance, end of the year		**$ –**	**$ 1,176.0**	**$ 581.9**	**$ 1,757.9**
Depletion, depreciation and impairment losses					
Balance, beginning of the year		**$ 298.4**	**$ 957.7**	**$ 642.0**	**$ 1,898.1**
Depletion and depreciation		**39.7**	**59.9**	**85.0**	**184.6**
Impairments		**30.6**	**–**	**7.3**	**37.9**
Disposals and derecognition		**(0.1)**	**–**	**(4.0)**	**(4.1)**
Effect of movements in exchange rates		**–**	**74.0**	**10.3**	**84.3**
Reclassified to assets of discontinued operations	11	**(368.6)**	**–**	**(467.1)**	**(835.7)**
Balance, end of the year		**–**	**1,091.6**	**273.5**	**1,365.1**
Net book value		**$ –**	**$ 84.4**	**$ 308.4**	**$ 392.8**

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	$ 389.7	$ 1,047.0	$ 1,294.3	$ 2,731.0
Additions	21.1	30.5	122.7	174.3
Capitalized closure costs (recoveries)	41.9	(1.4)	5.2	45.7
Disposals and derecognition	(13.2)	–	(105.0)	(118.2)
Capitalized interest	–	–	–	–
Effect of movements in exchange rates	–	(19.2)	(6.6)	(25.8)
Balance, end of the year	$ 439.5	$ 1,056.9	$ 1,310.6	$ 2,807.0
Depletion, depreciation and impairment losses				
Balance, beginning of the year	$ 241.0	$ 917.0	$ 666.7	$ 1,824.7
Depletion and depreciation	59.6	57.9	82.7	200.2
Impairments	10.9	–	–	10.9
Disposals and derecognition	(13.1)	–	(103.7)	(116.8)
Effect of movements in exchange rates	–	(17.2)	(3.7)	(20.9)
Balance, end of the year	298.4	957.7	642.0	1,898.1
Net book value	$ 141.1	$ 99.2	$ 668.6	$ 908.9

Canadian $ millions	Plant, equipment and land
Assets held under finance lease at net book value, included in above	
As at December 31, 2013[1]	**$ –**
As at December 31, 2012	142.8
As at January 1, 2012	115.6
Assets under construction, included in above	
As at December 31, 2013[1]	**$ 15.6**
As at December 31, 2012	24.7
As at January 1, 2012	28.8

(1) As at December 31, 2013, $144.6 million of assets held under finance lease at net book value and $0.1 million of assets under construction are included in assets of discontinued operations not included in the above December 31, 2013 totals.

Coal operations

As a result of the Coal operations being classified as discontinued operations, and the related assessment of carrying value and fair value less cost to sell, the Corporation determined that an impairment was required as further described in note 11. The impairment was first applied to goodwill and intangibles, with the remainder of $30.6 million allocated to mining properties.

Power facility

In 2013, as a result of not receiving lease payments from the lessee of the Corporation's electricity generating facility in Madagascar, the Corporation has recognized an impairment in cost of sales of $7.3 million in relation to the facility assets. The Corporation ceased recognizing revenue on the facility in the third quarter of 2013.

Fort Site expansion

During the fourth quarter of 2013, the Corporation identified impairment indicators at its Fort Site operations when a decision to curtail the expansion strategy was made. As a result of the magnitude of the investment required, the expansion at Fort Site is now unlikely to occur and the Corporation recognized an impairment charge of $7.0 million in cost of sales related to certain Fort Site expansion costs that were capitalized prior to deferral of the expansion plans. As the assets were not yet being depreciated, the impairment is included in disposals and derecognition in the above table.

Dodds-Roundhill

In 2012, the Corporation identified impairment indicators in the Carbon Development Partnership relating to the Dodds-Roundhill Coal Gasification Project. This project has been focused on developing Canada's first commercial application of coal gasification technology. As a result of depressed North American natural gas prices, the Corporation recognized an impairment charge of $10.9 million for the year ended December 31, 2012. This amount represents the entire value of the Corporation's 50% interest in the mining properties.

Sulawesi project update

In 2010, the Corporation entered into an Earn-In and Shareholders' Agreement (the Sulawesi Agreement) with a subsidiary of Rio Tinto plc (Rio Tinto) pursuant to which the Corporation could acquire a 57.5% interest in the holding company that owns the Sulawesi Nickel Project (Sulawesi Project) in Indonesia.

In January 2014, the Corporation terminated the Sulawesi Agreement in accordance with the terms of that agreement. The decision to terminate the agreement was made in order to better enable Sherritt to focus on managing its core Metals and Cuban energy businesses, the view that nickel assets can be purchased on more attractive terms than they can be built, and an overall corporate focus on conserving cash.

Note 18 Goodwill

Goodwill 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.

As a result of the Coal operations (which includes PMRL) being classified as discontinued operations at December 31, 2013, the Coal operations are required to be measured at the lower of carrying value and fair value less cost to sell. Fair value less cost to sell was estimated in reference to the sales proceeds agreed with the purchaser. As a result of this assessment an impairment of $518.9 million was identified which was first applied to goodwill. This resulted in a goodwill impairment of $307.9 million which represented the full goodwill amount as further disclosed in note 11.

Note 19 Intangible assets

Canadian $ millions, for the year ended December 31								**2013**
	Note	**Royalty agreements**	**Mining contracts**	**Contractual arrange-ments**	**Exploration and evaluation**	**Service concession arrange-ments**	**Other**	**Total**
Cost								
Balance, beginning of the year		**$ 479.0**	**$ 236.0**	**$ 27.0**	**$ 5.6**	**$ 141.1**	**$ 23.1**	**$ 911.8**
Additions through internal development		**–**	**–**	**–**	**5.2**	**28.0**	**–**	**33.2**
Disposals		**–**	**(7.0)**	**–**	**–**	**–**	**(14.0)**	**(21.0)**
Effect of movements in exchange rates		**–**	**–**	**–**	**1.1**	**10.4**	**–**	**11.5**
Reclassified to assets of discontinued operations	11	**(479.0)**	**(229.0)**	**–**	**–**	**–**	**–**	**(708.0)**
Balance, end of the year		**$ –**	**$ –**	**$ 27.0**	**$ 11.9**	**$ 179.5**	**$ 9.1**	**$ 227.5**
Amortization and impairment losses								
Balance, beginning of the year		**$ 50.8**	**$ 34.7**	**$ 17.6**	**$ –**	**$ 11.3**	**$ 7.3**	**$ 121.7**
Amortization		**10.9**	**7.0**	**1.8**	**–**	**4.0**	**0.9**	**24.6**
Disposals		**–**	**(1.5)**	**–**	**–**	**–**	**(2.2)**	**(3.7)**
Impairments		**–**	**188.8**	**–**	**–**	**22.1**	**–**	**210.9**
Effect of movements in exchange rates		**–**	**–**	**–**	**–**	**1.0**	**–**	**1.0**
Reclassified to assets of discontinued operations	11	**(61.7)**	**(229.0)**	**–**	**–**	**–**	**–**	**(290.7)**
Balance, end of the year		**$ –**	**$ –**	**$ 19.4**	**$ –**	**$ 38.4**	**$ 6.0**	**$ 63.8**
Net book value		**$ –**	**$ –**	**$ 7.6**	**$ 11.9**	**$ 141.1**	**$ 3.1**	**$ 163.7**

Canadian $ millions, for the year ended December 31							2012
	Royalty agreements	Mining contracts	Contractual arrange-ments	Exploration and evaluation	Service concession arrange-ments	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	$ –	$ 11.3	$ 7.3	$ 121.7
Net book value	$ 428.2	$ 201.3	$ 9.4	$ 5.6	$ 129.8	$ 15.8	$ 790.1

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. As at December 31, 2013, the royalty agreements are included in assets of discontinued operations.

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. For the year ended December 31, 2013, the Corporation recognized an impairment of $188.8 million related to impairment of Coal operations upon classification as discontinued operations (note 11). As at December 31, 2013, the mining contracts are included in assets of discontinued operations.

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.

Service concession arrangements

Construction at the Energas Boca de Jaruco facility was substantially completed in December 2013. Construction revenue and expense relating to the construction activity for the year ended December 31, 2013 is $19.8 million (December 31, 2012 – $32.0 million). Expenses incurred in relation to the construction activity are included in cost of sales on the consolidated statements of comprehensive (loss) income. The amount of interest expense capitalized was $7.0 million as at December 31, 2013 (December 31, 2012 – $5.2 million) at a weighted-average capitalization rate of 7.7 %.

For the year ended December 2013, the Corporation recognized an impairment of $22.1 million. The impairment was due to gas supply shortages at Boca de Jaruco and Puerto Escondido, and cost overruns and delays related to the Boca de Jaruco Combined Cycle Project.

Other

In 2008, in connection with the acquisition of PMRL, the Corporation acquired long-term customer relationships which were expected to generate significant benefit over the life of the current agreements and any expected extensions to existing agreements. As at December 31, 2013, the net book value was $nil which is included in assets of discontinued operations (December 31, 2012 – $11.8 million, January 1, 2012 – $12.1 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, 2013, the net book value was $3.2 million (December 31, 2012 – $4.0 million, January 1, 2012 – $5.0 million).

Note 20 Loans, borrowings and other liabilities

Loans and borrowings

Canadian $ millions, as at	Note	**2013 December 31**	2012 December 31	2012 January 1
Long-term loans				
8.25% senior unsecured debentures due 2014	13	**$ –**	$ –	$ 223.0
7.75% senior unsecured debentures due 2015	13	**273.9**	273.4	272.9
8.00% senior unsecured debentures due 2018	13	**393.3**	392.2	391.2
7.50% senior unsecured debentures due 2020	13	**490.8**	489.8	–
Ambatovy Joint Venture Additional Partner loans	13	**863.5**	749.3	708.5
Ambatovy Joint Venture Partner loans	13	**100.1**	92.1	92.2
Coal revolving credit facility		**299.7**	43.0	–
Syndicated 364-day revolving-term credit facility		**45.0**	–	–
Line of credit		**20.0**	–	–
Senior credit facility		**–**	–	43.0
3-year non-revolving term loan		**–**	–	11.2
Loan from financial institution		**–**	–	2.7
Vendor financing		**3.5**	–	–
		2,489.8	2,039.8	1,744.7
Current portion of loans and borrowings		**(365.2)**	–	(56.9)
		$ 2,124.6	$ 2,039.8	$ 1,687.8

7.75% SENIOR UNSECURED DEBENTURES DUE 2015

The 7.75% senior unsecured debentures, due 2015, are net of financing costs of $1.1 million at December 31, 2013 (December 31, 2012 – $1.6 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 8.00% senior unsecured debentures, due 2018, are net of financing costs of $6.7 million at December 31, 2013 (December 31, 2012 – $7.8 million). These debentures are subject to the following financial covenant: funded indebtedness-to-total assets ratio of less than 0.4:1.

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 of $10.4 million) 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 7.50% senior unsecured debentures are net of financing costs of $9.2 million at December 31, 2013 (December 2012 – $10.2 million).

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.

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, 2013, 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, 2013 was $863.5 million, including accrued interest (December 31, 2012 – $749.3 million). This amount is net of financing costs of $2.7 million at December 31, 2013 (December 31, 2012 – $3.0 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, 2013 was $100.1 million, including accrued interest (December 31, 2012 – $92.1 million). This amount is net of financing costs of $0.7 million at December 31, 2013 (December 31, 2012 – $0.8 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 this 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, 2013, $299.7 million was outstanding on the revolving credit portion of the facility and $159.1 million was outstanding under the letter of credit facility as follows: $143.5 million to satisfy current regulatory requirements in connection with future reclamation, site restoration and mine closure costs and $15.6 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. This facility has been classified as a current liability as at December 31, 2013, as the Corporation is required to repay the facility at close of the Coal transaction which is expected in the first quarter of 2014.

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 January 1, 2012, 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.

Concurrent with the establishment of the June 2012 Coal revolving credit 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 Coal revolving credit facility.

SYNDICATED 364-DAY REVOLVING-TERM CREDIT FACILITY

In November 2013, the Corporation amended the terms of the syndicated 364-day revolving-term credit facility to extend the maturity date to November 28, 2014, increase the quarterly adjusted net financial debt-to-EBITDA covenant from 3.5:1 to 3.75:1 and increase the financial debt-to-equity covenant from 0.5:1 to 0.55:1. The facility is also subject to an EBITDA-to-interest expense covenant of not less than 3:1. The maximum credit available under the facility is $90.0 million and the total available draw is based on eligible receivables and inventory. The interest rate on the syndicated 364-day revolving-term credit facility is prime plus 1.75% per annum or bankers' acceptances plus 2.75%. As at December 31, 2013, $45.0 million was drawn on this facility (December 31, 2012 – $nil) and the Corporation had $36.4 million of letters of credit outstanding on this facility.

LINE OF CREDIT

In November 2013, the Corporation extended the maturity date of the $20.0 million line of credit to November 28, 2014. This facility is subject to the same financial covenants as the syndicated 364-day revolving-term credit facility. As at December 31, 2013 $20.0 million was drawn on this line of credit (December 31, 2012 – $nil).

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 $nil carrying value as at December 31, 2013 (December 31, 2012 – $nil).

INTEREST AND ACCRETION

Interest and accretion expense on loans and borrowings was $132.2 million for the year ended December 31, 2013 ($121.9 million for the year ended December 31, 2012).

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 $7.0 million for the year ended December 31, 2013 (December 31, 2012 – $5.2 million) at a weighted-average capitalization rate of 8.0% (December 31, 2012 – 8.0%).

COVENANTS

At December 31, 2013, the Corporation breached the financial debt to equity covenant of the Syndicated 364-day revolving-term credit facility and line of credit as a result of asset write-downs recorded after entering into agreements to sell the Coal operations and other charges against equity. The Corporation has received a waiver for this covenant for periods ending December 31, 2013 to June 30, 2014 inclusive. Additionally, the Corporation has exceeded the limitation on Funded Indebtedness as defined under the bond Indentures. This breach restricts the Corporation from incurring any new financial indebtedness until the ratio falls below 40% of total assets. Funded Indebtedness ratio is defined as total loans and borrowings plus finance leases divided by total assets, excluding goodwill.

The Corporation expects to be back in compliance with these financial tests after the sale of the Coal operations is complete and the revolving-term credit facility, line of credit and Coal revolving credit facilities are repaid; however, if current market conditions persist, the Corporation may exceed the funded indebtedness limitation in the second half of 2014.

Other financial liabilities

Canadian $ millions, as at	Note	**2013 December 31**	2012 December 31	2012 January 1
Finance lease obligations[1]		**$ –**	$ 155.1	$ 139.5
Other long-term financial liabilities		**0.7**	12.4	12.4
Stock compensation liability	23	**6.5**	11.9	11.2
		7.2	179.4	163.1
Current portion of other financial liabilities		**(4.4)**	(56.8)	(55.4)
		$ 2.8	$ 122.6	$ 107.7

[1] As at December 31, 2013 $142.2 million of finance lease obligations are included in liabilities of discontinued operations and not included in the above December 31, 2013 totals (note 11).

Finance lease obligations

Finance lease obligations of $142.2 million bear interest at rates ranging from 4.0% to 7.7% with a weighted-average interest rate of 4.9% and are included in liabilities of discontinued operations. These finance leases mature between 2014 and 2018 and are repayable by blended monthly payments of principal and interest as summarized in the table below.

Canadian $ millions, as at	**2013 December 31**			2012 December 31			2012 January 1		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	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[1]	**$ –**	**$ –**	**$ –**	$ 51.8	$ 7.0	$ 44.8	$ 49.4	$ 6.5	$ 42.9
Between one and five years[1]	**–**	**–**	**–**	119.7	9.4	110.3	105.8	9.2	96.6
	$ –	**$ –**	**$ –**	$ 171.5	$ 16.4	$ 155.1	$ 155.2	$ 15.7	$ 139.5

[1] As at December 31, 2013 $142.2 million of finance lease obligations are included in liabilities of discontinued operations and not included in the December 31, 2013 totals above (note 11).

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 $5.4 million (December 31, 2012 – $7.7 million) is included in liabilities of discontinued operations. These liabilities bear interest at rates ranging from 4.0% to 6.1% with a weighted-average interest rate of 5.2%, and mature between 2015 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	**2013 December 31**	2012 December 31	2012 January 1
Less than one year	**$ 0.1**	$ 2.4	$ 3.7
Between one and five years	**0.1**	5.6	7.0
More than five years	**0.5**	4.4	1.7
	$ 0.7	$ 12.4	$ 12.4

As at December 31, 2013, $5.4 million of other long-term financial liabilities is included in liabilities of discontinued operations and not included in the December 31, 2013 totals above (note 11).

Other non-financial liabilities

Canadian $ millions, as at	Note	**2013 December 31**	2012 December 31	2012 January 1
Pension liability	27	**$ –**	$ 48.9	$ 45.2
Deferred revenue		**31.8**	16.8	9.1
		31.8	65.7	54.3
Current portion of other non-financial liabilities		**(27.6)**	(16.0)	(8.1)
		$ 4.2	$ 49.7	$ 46.2

As at December 31, 2013, $3.0 million of pension liability and $2.9 million of deferred revenue is included in liabilities of discontinued operations and not included in the December 2013 totals above (note 11).

Note 21 Provisions, contingencies and guarantees

Canadian $ millions, as at	**2013 December 31**	2012 December 31	2012 January 1
Environmental rehabilitation provisions	**$ 83.6**	$ 263.2	$ 235.3
Provisions	**41.3**	–	–
	$ 124.9	$ 263.2	$ 235.3
Current portion of provisions	**(36.7)**	(34.4)	(31.9)
	$ 88.2	$ 228.8	$ 203.4

Environmental rehabilitation provisions

Provisions for environmental rehabilitation were recognized in respect of the mining operations of Coal, Power, and Oil and Gas including associated infrastructure and buildings. Also, obligations were recorded for 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 Coal related environmental rehabilitation provision was reclassified to liabilities of discontinued operations at December 31, 2013.

The following is a reconciliation of the environmental rehabilitation provision:

Canadian $ millions, for the years ended December 31	Note	**2013**	2012
Balance, beginning of the year		**$ 263.2**	$ 235.3
Additions		**15.0**	23.3
Change in estimates		**(19.9)**	22.6
Utilized during the year		**(17.6)**	(21.2)
Accretion	9	**4.5**	3.5
Foreign exchange translation		**4.3**	(0.3)
Reclassified to liabilities of discontinued operations	11	**(165.9)**	–
Balance, end of the year		**83.6**	263.2

The 2013 additions, noted in the table above, primarily relate to new disturbance activity at Coal's operations which were subsequently reclassified to liabilities of discontinued operations. The 2013 change in estimates is primarily the result of discount rates increasing by approximately 0.7% during the year due to higher government bond yields. The 2013 utilization during the year primarily relates to land reclamation at Coal's operations.

The Corporation has estimated that it will require approximately $365.0 million in undiscounted cash flows to settle these obligations, including those obligations of Coal's operations reclassified to liabilities of discontinued operation. 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 2.9% to 6.2% were applied to expected future cash flows to determine the carrying value of the environmental rehabilitation provision.

Provisions

On October 31, 2013 a breach of an onsite water containment pond occurred at the Obed Mountain mine near Hinton, Alberta. The release consisted of 670,000 cubic meters of process water, containing water mixed with clay, mud, slate and coal particles. There were no injuries resulting from this incident and remedial work on the containment pond and the affected downstream area is ongoing. Management recognized a provision of $52.2 million related to this incident.

The following is a reconciliation of provisions:

Canadian $ millions, for the year ended December 31	**2013**
Balance, beginning of the year	$ –
Additions	**52.2**
Utilized during the year	**(10.9)**
Balance, end of the year	**41.3**

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.

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.

On June 4, 2013 Coal Valley Resources Inc. ("CVRI") received a favourable ruling in the first phase of an arbitration process for a contract dispute with a port operator. CVRI will now proceed to the final phase of arbitration where a settlement amount will be determined. At December 31, 2013 management could not reasonably estimate the financial impact of this settlement. CVRI is classified as part of discontinued operations, however the settlement amount will remain with the Corporation.

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. (CLASSIFIED AS DISCONTINUED OPERATIONS)

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 from the $12.5 million limited guarantee thereby cancelling the Corporation's indemnification. As described in, 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 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 (CLASSIFIED AS DISCONTINUED OPERATIONS)

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 related to this performance guarantee through an established Canadian banking institution in the amount of $6.5 million (December 31, 2012 – $6.1 million).

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 per share amounts, for the years ended December 31		**2013**		2012	
	Note	**Number**	**Capital stock**	Number	Capital stock
Balance, beginning of the year		**296,490,635**	**$ 2,806.1**	296,390,692	$ 2,803.1
Treasury stock – restricted stock plan	23	**–**	**–**	(287,400)	(1.6)
Restricted stock plan (vested)	23	**90,026**	**0.8**	106,848	0.9
Employee share purchase plan	23	**358,765**	**1.6**	280,495	3.7
Balance, end of the year		**296,939,426**	**$ 2,808.5**	296,490,635	$ 2,806.1

The following dividends were paid or were declared but unpaid:

Canadian $ millions, except per share amounts, for the years ended December 31	**2013**		2012	
	Per share	**Total**	Per share	Total
Dividends paid during the year	**$ 0.167**	**$ 49.5**	$ 0.152	$ 45.2
Dividends declared but unpaid	**0.043**	**12.9**	0.038	11.3

On February 18, 2014 the Corporation's Board of Directors approved a quarterly dividend of $0.01 per common share, payable April 14, 2014 to shareholders of record as of the close of business on March 31, 2014.

Reserves

Canadian $ millions, for the years ended December 31	Note	**2013**	2012
Stated capital reserve			
Balance, beginning and end of the year		**$ 190.3**	$ 190.3
Stock-based compensation reserve[(1)]			
Balance, beginning of the year		**$ 4.6**	$ 4.8
Restricted stock plan (vested)	23	**(0.8)**	(0.9)
Restricted stock plan amortization	23	**0.6**	1.3
Employee share purchase plan (vested)	23	**(0.2)**	(2.4)
Employee share purchase plan expense	23	**0.4**	0.2
Stock option plan expense	23	**1.6**	1.6
Balance, end of the year		**6.2**	4.6
Total reserves, end of the year		**$ 196.5**	$ 194.9

(1) Stock-based compensation reserve relates to equity-settled compensation plans issued by the Corporation to its directors, officers and employees.

Accumulated other comprehensive income (loss)

FOREIGN CURRENCY TRANSLATION RESERVE

Canadian $ millions, for the years ended December 31	Note	2013	2012
Balance, beginning of the year		**$ (101.2)**	$ (51.4)
Foreign currency translation differences on foreign operations		**164.2**	(49.8)
Balance, end of the year		**$ 63.0**	$ (101.2)
Actuarial gains (losses) on defined benefit obligation			
Balance, beginning of the year		**$ (28.4)**	$ (21.7)
Reclassification due to settlement of pension obligation	11	**22.9**	–
Actuarial gains (losses) on defined benefit obligation, net of tax			
Continuing operations	27	**0.9**	(0.5)
Discontinued operations	27	**3.6**	(6.2)
Balance, end of the year		**$ (1.0)**	$ (28.4)
Total accumulated other comprehensive income (loss)		**$ 62.0**	$ (129.6)

ACCUMULATED FOREIGN CURRENCY TRANSLATION RESERVE

Accumulated other comprehensive income (loss) 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.

ACCUMULATED ACTUARIAL GAINS AND LOSSES ON DEFINED BENEFIT OBLIGATIONS RESERVE

Accumulated other comprehensive income (loss) also includes a reserve relating to changes in defined benefit obligations and plan assets.

The Corporation has elected to reclassify actuarial losses, included in accumulated other comprehensive income (loss), to retained earnings upon settlement of a pension obligation.

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. Options with Tandem SARs have not been issued since March 2010.

The maximum number of stock options issuable is 17,500,000. The remaining number of options which may be issued under the stock option plan is 6,441,755 as at December 31, 2013. Under the stock option plan, the exercise price of each option equals the volume-weighted average trading price over the five days prior to the date the option is granted. An option's maximum term is 10 years. Options vest on such terms as the Committee determines, generally in three equal instalments on the annual anniversary date of the grant of the options. When options with or without Tandem SARs are exercised, the related options are cancelled and the shares underlying such options are cancelled and are no longer available for issuance under the stock option plan.

The following is a summary of stock option activity:

Canadian $ millions, for the years ended December 31	2013		2012	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
Outstanding, beginning of the year	**4,244,317**	**$ 9.49**	4,976,817	$ 10.38
Granted	**888,300**	**5.14**	692,500	6.04
Forfeited	**(192,700)**	**7.96**	(1,425,000)	10.92
Expired	**(71,668)**	**13.46**	–	–
Outstanding, end of the year	**4,868,249**	**$ 8.70**	4,244,317	$ 9.49
Options exercisable, end of the year	**3,425,280**	**$ 9.93**	3,001,899	$ 10.46

The following table summarizes information on stock options outstanding and exercisable at December 31, 2013:

Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Exercisable number	Exercisable weighted-average exercise price
$3.05–5.05	**40,000**	**4.9**	**$ 3.69**	**40,000**	**$ 3.69**
$5.06–9.77	**3,281,582**	**7.2**	**6.54**	**1,838,613**	**7.14**
$9.78–11.64	**521,667**	**2.0**	**10.27**	**521,667**	**10.27**
$11.65–15.23	**1,025,000**	**3.7**	**14.99**	**1,025,000**	**14.99**
Total	**4,868,249**	**5.9**	**$ 8.70**	**3,425,280**	**$ 9.93**

As at December 31, 2013, 2,872,349 options with Tandem SARs (December 31, 2012 – 2,984,017) and 1,995,900 options (December 31, 2012 – 1,260,300) remained outstanding for which the Corporation has recognized a compensation recovery of $1.4 million for the year ended December 31, 2013 of which $nil is included in (loss) earnings of discontinued operations (compensation expense of $0.3 million for the year ended December 31, 2012 of which $0.3 million recovery is included in (loss) earnings of discontinued operations). The carrying amount of liabilities associated with cash-settled compensation arrangements is $1.3 million at December 31, 2013, of which $nil is included in liabilities of discontinued operations (December 31, 2012 – $4.2 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 was measured using Black-Scholes. The following summarizes the fair value measurement factors for options granted during the year:

Canadian $, for the years ended December 31	2013	2012
Share price at grant date	**$ 5.22**	$ 5.96
Exercise price	**$ 5.14**	$ 6.04
Risk-free interest rates (based on 10-year Government of Canada bonds)	**1.94%**	1.95%
Expected volatility	**48.81%**	49.00%
Expected dividend yield	**2.91%**	2.55%
Expected life of options	**10 years**	10 years
Weighted-average fair value of options granted during the year	**$ 2.11**	$ 2.52

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

RESTRICTED SHARE UNITS (RSUs)

Under the terms of the Executive Share Unit Plan, the RSUs are available to be granted to executives and employees. The RSUs represent a right to receive a cash amount payable by the Corporation to a participant at the end of the vesting period for RSUs determined by reference to the market price of the common shares multiplied by the number of RSUs held by the participant as adjusted for dividend equivalents credited. RSUs are issued subject to vesting conditions, including performance criteria, if any, which are set by the Committee. The RSUs vest at the sole discretion of the Committee. RSUs vest not later than the earlier of (a) the earlier of: (i) December 31 of the third calendar year following the calendar year in respect of which the RSUs were granted 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.

Beginning in 2013, the Corporation began issuing performance based RSUs to certain employees, which vest at the end of three years. Under the plan, each unit awarded is equivalent to a common share. A liability is accrued related to the units awarded and a compensation expense is recognized in the consolidated statement of comprehensive (loss) income over the service period required for employees to become fully entitled to the award. At the maturity date, the participant receives cash representing the value of the units. The final number of units that vest will vary from 80% to 120% of the number of outstanding units on the vesting date (initial number awarded plus additional units for dividend equivalents) based on the Corporation's total shareholder return relative to a benchmark index comprised of mining and oil and gas companies.

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 vesting conditions attached to the DSUs are satisfied. DSUs generally vest on the grant date. DSUs are redeemed by the Corporation at the election of the participant by filing a notice of redemption not earlier than the participant's termination date and not later than December 1st of the calendar year following the termination date.

RESTRICTED STOCK PLAN (RSP)

The Corporation has a Restricted Stock Plan intended for senior executives, under which the Committee may grant restricted shares to employees of the Corporation. Under the terms of the plan, shares that are issued are subject to vesting conditions, which are set by the Committee for each grant of restricted stock. The shares granted under this plan are purchased on the open market by a trustee and held in each participant's custodial account until the vesting conditions have been met, or the shares are forfeited. The participant owns the restricted shares but cannot dispose or otherwise transfer ownership of them until the restrictions and performance conditions, if any, specified by the Committee at the time of grant have been satisfied.

For accounting purposes, these shares are excluded from the number of outstanding common shares of the Corporation and reduce the capital stock of the Corporation. As the shares vest, the shares are included in the number of outstanding common shares of the Corporation and the capital stock of the Corporation is increased accordingly. The Corporation purchased nil common shares during the year ended December 31, 2013 (for the year ended December 31, 2012 the Corporation purchased 287,400 common shares for 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 358,765 common shares to employees during the year ended December 31, 2013 (December 31, 2012 – 280,495) under the Share Purchase Plan for total consideration of $1.4 million (December 31, 2012 – $1.3 million) and has, since its inception in 1996, issued an aggregate of 2,156,040 common shares to employees.

A summary of the Share Purchase Plan units, RSUs, DSUs and RSP units outstanding as at December 31, 2013 and 2012 and changes during the year is as follows:

For the year ended December 31				**2013**
	Share Purchase Plan	**RSU**	**DSU**	**RSP**
Outstanding, beginning of the year	**822,491**	**1,934,701**	**430,649**	**450,926**
Issued	**405,390**	**1,556,240**	**120,900**	**–**
Dividends credited	**–**	**100,298**	**20,034**	**–**
Exercised	**(358,765)**	**–**	**(148,622)**	**–**
Forfeited	**(248,763)**	**(142,585)**	**–**	**–**
Adjusted on settlement	**154,207**	**–**	**–**	**–**
Vested	**–**	**(610,457)**	**–**	**(90,026)**
Outstanding, end of the year	**774,560**	**2,838,197**	**422,961**	**360,900**
Units exercisable, end of the year	**n/a**	**n/a**	**422,961**	**n/a**
Weighted-average exercise price	**$ 7.03**	**n/a**	**n/a**	**n/a**

For the year ended December 31				2012
	Share Purchase Plan	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)	–	–
Adjusted 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

For other stock-based compensation plans the Corporation recorded a compensation expense of $2.9 million for the year ended December 31, 2013 of which $0.3 million is included in (loss) earnings of discontinued operations, (compensation expense of $6.3 million for the year ended December 31, 2012, of which $0.6 million is included in (loss) earnings of discontinued operations). The carrying amount of liabilities associated with cash-settled compensation arrangements is $5.8 million at December 31, 2013, of which $0.6 million is included in liabilities of discontinued operations (December 31, 2012 – $7.7 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 and performance conditions, as applicable, of the shares at the time of grant.

The number of units subject to the RSU performance condition outstanding at December 31, 2013 was 1,551,405 (December 31, 2012 – nil).

The following summarizes the fair value measurement factor for the Share Purchase Plan, RSU, DSU and RSP grants during the year:

Canadian $, for the years ended December 31	**2013**	2012
Employee Share Purchase Plan	**$ 3.90**	$ 4.90
RSU	**3.96**	5.87
DSU	**5.91**	6.15
RSP	**–**	5.87

The intrinsic value of cash-settled stock-based compensation awards vested and outstanding as at December 31, 2013 was $6.2 million (December 31, 2012 – $8.2 million).

Note 24 Cash flows

Other operating items

Canadian $ millions, for the years ended December 31	Note	**2013**	2012
Add (deduct) non-cash items:			
Accretion expense on environmental rehabilitation provisions	9, 21	**$ 1.9**	$ 1.2
Stock-based compensation expense, net	23	**1.2**	6.3
Other items		**9.4**	10.9
Premium on redemption of debenture		**–**	(27.0)
Cash flow arising from changes in:			
Other finance charges		**(11.3)**	(11.2)
Realized foreign exchange (gain) loss		**(0.1)**	0.4
		$ 1.1	$ (19.4)

Net change in non-cash working capital

Canadian $ millions, for the years ended December 31	**2013**	2012
Trade accounts receivable	**$ 59.4**	$ (33.9)
Inventories	**(8.6)**	(3.2)
Prepaid expenses	**(10.7)**	(12.2)
Trade accounts payable and accrued liabilities	**1.7**	20.0
Deferred revenue	**11.5**	7.9
	$ 53.3	$ (21.4)

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.

CUBA

The Corporation has credit risk exposure related to its share (50% basis) 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	Note	**2013 December 31**	2012 December 31	2012 January 1
Cash		**$ 12.5**	$ 22.2	$ 14.8
Trade accounts receivable, net		**159.4**	216.1	218.7
Advances and loans receivable		**619.5**	574.9	539.4
Cuban certificates of deposit	14	**6.0**	31.7	58.2
Total		**$ 797.4**	$ 844.9	$ 831.1

The table above reflects the Corporation's maximum credit exposure to Cuban counterparties which may differ from balances in the consolidated results due to eliminations in accordance with accounting principles for subsidiaries and joint ventures.

MADAGASCAR

The Corporation has credit risk exposure in Madagascar related to its share (40% basis) of cash and cash equivalents of $14.6 million and net accounts receivable of $43.6 million associated with the Ambatovy Joint Venture including value added tax (VAT) receivables of $31.3 million from the government of Madagascar. A provision on VAT receivables of $40.4 million (40% basis) for year ended December 31, 2013 ($5.8 for the year ended December 31, 2012) was recognized during the year to reflect expected delays in the receipt of these amounts. Total overdue accounts receivable including VAT (net of provision) for the Ambatovy Joint Venture amount to $21.9 million.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its obligations associated with financial liabilities. Liquidity risk arises from the Corporation's financial obligations and in the management of its assets, liabilities and capital structure. The Corporation manages this risk by regularly evaluating its liquid financial resources to fund current and long-term obligations and to meet its capital commitments in a cost-effective manner.

The main factors that affect liquidity include realized sales prices, production levels, cash production costs, working capital requirements, capital-expenditure requirements, scheduled repayments of long-term loans and borrowing obligations, credit capacity and debt and equity capital market conditions.

The Corporation's liquidity requirements are met through a variety of sources, including cash and cash equivalents, cash generated from operations, existing credit facilities, leases, and debt and equity capital markets.

At December 31, 2013, considering the Corporation's financial position, 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, 2013, 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 15).

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, 2013	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	$ 104.7	$ 104.7	$ –	$ –	$ –	$ –	$ –
Income taxes payable	15.8	15.8	–	–	–	–	–
Loans and borrowings[(1)]	3,478.5	460.6	367.6	130.2	200.9	630.2	1,689.0
Provisions	198.0	36.9	4.8	0.4	0.2	0.1	155.6
Operating leases[(2)]	13.6	1.9	1.9	1.9	1.9	2.0	4.0
Total	**$ 3,810.6**	**$ 619.9**	**$ 374.3**	**$ 132.5**	**$ 203.0**	**$ 632.3**	**$1,848.6**

(1) Loans and borrowings is composed primarily of $1,158.0 million in three public issues of senior unsecured debentures having interest rates of between 7.5% and 8.0% and maturities in 2015, 2018 and 2020, and $863.5 million and $100.1 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 LIBOR plus a margin of 7.0% and 1.125%, respectively. These partner loans are to be repaid from the Corporation's share of cash distributions from the Ambatovy Joint Venture (note 20). The amounts above are based on management's best estimate of future cash flows including estimating assumptions such as commodity prices, production levels, cash costs of production, capital and reclamation costs. These loans are non-recourse to Sherritt unless there is a direct breach of certain restrictions stipulated in the loan documents. The maturity analysis table includes an estimate of interest repayments.

(2) Operating lease payments recognized as an expense in the consolidated statement of comprehensive (loss) income were $2.0 million for the year ended December 31, 2013 ($2.8 million for the year ended December 31, 2012).

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 $166.7 million, other contractual commitments of $32.3 million and senior debt financing of $950.3 million.

As a result of the Corporation's 50% interest in the Moa Joint Venture, its proportionate share of significant undiscounted commitments of the Joint Venture include advances and loans payable of $132.7 million, environmental rehabilitation commitments of $68.6 million and other commitments of $5.9 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 (loss) income.

Based on financial instrument balances as at December 31, 2013, 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 $16.9 million, respectively, on net earnings, and $31.0 million on other comprehensive (loss) income.

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, 2013, 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 $6.5 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, 2013, 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 $2.0 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	**2013 December 31**	2012 December 31	2012 January 1
Capital stock	**$ 2,808.5**	$ 2,806.1	$ 2,803.1
Retained earnings	**40.2**	774.5	786.0
Un-drawn credit facilities	**210.4**	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 liabilities. The Corporation monitors its covenants on an ongoing basis and reports on its compliance with the covenants to its lenders on a quarterly basis.

Refer to note 20 for the Corporation's compliance with financial covenants as at December 31, 2013.

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 8, respectively.

Canadian $ millions, for the years ended December 31	**2013**	2012
Total value of goods and services:		
Provided to joint operations	**$ 26.1**	$ 27.6
Provided to joint venture	**165.5**	130.6
Provided to associate	**5.7**	4.5
Purchased from joint operations	**3.7**	–
Purchased from joint venture	**100.3**	96.3
Purchased from associate	**26.4**	17.1
Net financing income from joint operations	**23.5**	19.1
Net financing income from joint venture	**7.0**	8.0

Canadian $ millions, as at	Note	**2013 December 31**	2012 December 31	2012 January 1
Accounts receivable from joint operations	13	**$ 0.2**	$ –	$ 0.1
Accounts receivable from joint venture	13	**23.2**	5.8	7.8
Accounts receivable from associate	13	**36.2**	31.1	22.1
Accounts payable to joint operations		**1.9**	–	–
Accounts payable to joint venture		**–**	0.9	–
Accounts payable to associate		**4.5**	11.8	0.3
Advances and loans receivable from associate	15	**1,106.9**	1,279.1	968.9
Advances and loans receivable from joint operations	15	**251.7**	223.9	166.9
Advances and loans receivable from joint venture entities	15	**241.7**	235.6	285.6

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 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	**2013**	2012
Short-term benefits(1)	**$ 8.5**	$ 10.6
Post-employment benefits(2)	**2.7**	3.8
Share-based payments	**5.4**	5.5
	$ 16.6	$ 19.9

(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 year 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 $0.4 million for the year ended December 31, 2013 ($0.5 million for the year ended December 31, 2012). The total pension expense that is attributable to key management personnel was $0.3 million for the year ended December 31, 2013 ($0.7 million for the year ended December 31, 2012).

Note 27 Post-employment benefits

The Corporation maintains defined benefit plans for qualifying employees. These defined benefit plans are administered by Trusts that are legally separated from the Corporation. Under the plans, employees are entitled to benefits based on a percentage of the employee's average salary over the pensionable service period.

The Corporation's defined benefit plans expose the Corporation to actuarial risks such as: investment risk, compensation risk, and longevity risk.

Investment risk – The present value of the defined benefit plans are calculated using a discount rate determined by reference to high quality fixed income investments with cash flows that match expected payments.

Compensation risk – The present value of the defined benefit plans liability is calculated by reference to the future salaries of plan participants. As such, an increase in the compensation of the plan participants or number of participants will increase the plan's liability.

Longevity risk – The present value of the defined benefit plans liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

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	**2013**	2012
Significant Actuarial Assumptions		
Discount rate	**4.7%**	4.0%
Rate of compensation increases	**3.5%**	3.5%
Inflation rate	**2.5%**	2.5%
Expected long-term rate of return on plan assets	**4.7%**	4.0%–4.6%
Average longevity (years)	**6.5–17.0**	6.9–19.0

Actuarial reports and updates are prepared by independent actuaries for funding and accounting purposes. Net pension plan expense recognized in total comprehensive income was:

Canadian $ millions, for the years ended December 31	**2013**	2012
Current service cost:		
Defined benefit	**$ 0.5**	$ 0.8
Defined contribution	**4.3**	4.3
Net pension plan expense	**$ 4.8**	$ 5.1

Canadian $ millions, for the years ended December 31	Note	**2013**	2012
Amounts recognized in other comprehensive (loss) income			
Actuarial losses, beginning of the year	22	**$ (28.4)**	$ (21.7)
Actuarial gains (losses) on pension plans, net of tax			
Continuing operations	22	**0.9**	(0.5)
Discontinued operations	22	**3.6**	(6.2)
Settlement gain	22	**22.9**	–
Actuarial losses, end of the year		**$ (1.0)**	$ (28.4)

Information on defined benefit plans, in aggregate, is set out below:

Canadian $ millions, for the years ended December 31	Note	**2013**	2012
Accrued benefit obligations			
Balance, beginning of the year		**$ 174.5**	$ 157.5
Current service cost		**1.8**	6.7
Interest cost		**2.3**	7.3
Benefits paid		**(5.9)**	(11.2)
Actuarial (loss) gain		**(1.0)**	14.2
Settlement gain	11	**(111.2)**	–
Reclassified to liabilities of discontinued operations		**(39.9)**	–
Balance, end of the year		**$ 20.6**	$ 174.5

Canadian $ millions, for the years ended December 31	Note	**2013**	2012
Plan assets			
Fair value, beginning of the year		**$ 125.6**	$ 112.8
Employer contributions		**4.0**	13.7
Interest on assets		**1.2**	5.4
Benefits paid		**(5.9)**	(11.2)
Administrative costs		**–**	(0.1)
Actuarial gain		**5.2**	5.0
Settlement decrease	11	**(71.9)**	–
Reclassified to liabilities of discontinued operations		**(36.9)**	–
Fair value, end of the year		**$ 21.3**	$ 125.6

Canadian $ millions, as at	**2013 December 31**	2012 December 31	2012 January 1
Accrued benefit obligations	**$ (20.6)**	$ (174.5)	$ (157.5)
Fair value of plan assets	**21.3**	125.6	112.8
Net asset (liability)	**$ 0.7**	$ (48.9)	$ (44.7)

Total cash payments for post-retirement benefits for the year ended December 31, 2013, consisting of contributions to defined benefit and defined contribution pension plans, were $4.9 million ($29.0 million for the year ended December 31, 2012). Total cash contributions to be paid to the plan for the year ending December 31, 2014 are estimated to be $0.6 million.

As at December 31, 2013 for pension plans with an accrued benefit obligation in excess of plan assets, the accrued benefit obligation was $10.8 million (December 31, 2012 – $160.1 million) and the fair value of the plan assets was $10.3 million (December 31, 2012 – $108.5 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. Actuarial valuations are performed every three years.

Approximate asset allocations, by asset category, of the Corporation's defined benefit pension plans were as follows:

As at	**2013 December 31**	2012 December 31
Equity securities	**39%**	55%
Debt securities	**34%**	39%
Deposits	**27%**	6%

The average duration of the benefit obligation at December 31, 2013 is 8.9 years (December 2012 – 9.2 years). This number can be analyzed as follows:

- active members 8.1 years (December 31, 2012 – 8.5 years)
- retired members 9.7 years (December 31, 2012 – 9.9 years)

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected compensation increase and longevity. The sensitivity analyses below have determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 1% lower, the defined benefit obligation would increase by $9.1 million.
- If the expected compensation increases by 1%, the defined benefit obligation would increase by $1.6 million.
- If the longevity decreases by 10%, the defined benefit obligation would increase by $1.1 million.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Note 28 Government grants

For the year ended December 31, 2013, the Corporation recognized government grants relating to Energas re-investment credits of $0.8 million ($1.6 million for the year ended December 31, 2012). 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	**2013**	2012
Acquisition of property, plant and equipment under finance leases[1]	**$ 41.7**	$ 64.0

[1] For the year ended December 31, 2013 $41.6 million of property, plant and equipment was acquired under finance lease and is included in assets of discontinued operations ($64.0 million for the year ended December 31, 2012).

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	**2013 December 31**[1]	2012 December 31	2012 January 1
Less than one year	**$ –**	$ 5.1	$ 5.1
Between one and five years	**–**	4.2	9.3
	$ –	$ 9.3	$ 14.4

[1] During 2013, the Corporation recorded an impairment related to its electricity generating facility located in Madagascar. Accordingly, the future minimum lease payments have been determined to be $nil.

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, 2013, contingent revenue was $12.8 million ($13.7 million for the year ended December 31, 2012).

Corporation acts as a lessee

Operating lease payments recognized as an expense in the consolidated statement of comprehensive (loss) income for the year ended December 31, 2013 were $2.0 million ($2.8 million for the year ended December 31, 2012).

Note 31 Commitments for expenditures

Canadian $ millions, for the year ended December 31		**2013**
Property, plant and equipment commitments	$	**8.9**
Joint venture		
Property, plant and equipment commitments		**4.1**
Other commitments		**0.5**
Joint operations		
Construction commitments relating to service concession arrangements (100% basis)		**1.3**

Note 32 Transition note

Effective January 1, 2013, the Corporation adopted IFRS 11, "Interests in Joint Ventures" ("IFRS 11") which replaces IAS 31, "Interests in Joint Ventures" and SIC 13, "Jointly controlled entities – non-monetary contributions by venturers". The most significant result from the adoption is the change in the method of accounting for the Corporation's investment in the Moa Joint Venture. Under the previous standards, the Moa Joint Venture was proportionately consolidated whereas under IFRS 11, the Corporation is required to account for the investment using the equity method of accounting. In accordance with the transition requirements, the initial equity investment is measured as the aggregate of the carrying amount of the assets and liabilities that the entity had previously proportionately consolidated as at the beginning of the immediately preceding period, that is, January 1, 2012.

Effective January 1, 2013, the Corporation also adopted amendments to IAS 19, "Employee Benefits". The adoption results in all actuarial gains and losses being immediately recognized in other comprehensive income rather than net earnings. The amendments eliminate the use of the "corridor method" which allowed the deferral and amortization of actuarial gains and losses. The adoption of this amendment has been applied retrospectively to the Corporation's consolidated financial statements, effective from January 1, 2012.

In order for users of the consolidated financial statements to better understand the impact of the adoption of these new standards, the corporation's consolidated statements of financial position, statements of comprehensive (loss) income, and statements of cash flow have been reconciled to reflect the new standards and amendments. The following reconciliations have been provided:

i. Reconciliation of consolidated statements of financial position as at:

- January 1, 2012; and
- December 31, 2012.

ii. Reconciliation of the change in consolidated shareholders' equity as at:

- January 1, 2012; and
- December 31, 2012.

iii. Reconciliation of consolidated statement of comprehensive (loss) income for:

- The year ended December 31, 2012

iv. Reconciliation of consolidated statement of cash flow for:

- The year ended December 31, 2012

During 2013 the Corporation classified the Coal division as a discontinued operation and the impact has been included in select transition note statements.

Reconciliation of consolidated statement of financial position as at January 1, 2012

Canadian $ millions, as at January 1, 2012	As Reported	IFRS 11 Adjustment	IAS 19 Adjustment	As Adjusted
ASSETS				
Current Assets				
Cash and cash equivalents	$ 174.6	$ (30.0)	$ –	$ 144.6
Restricted cash	1.1	–	–	1.1
Short-term investments	456.8	–	–	456.8
Investments	29.1	–	–	29.1
Advances, loans receivable and other financial assets	71.1	50.4	–	121.5
Other non-financial assets	0.2	–	–	0.2
Finance lease receivables	23.3	–	–	23.3
Trade accounts receivable, net	386.5	(38.4)	–	348.1
Income taxes receivable	19.1	–	–	19.1
Inventories	215.1	(86.1)	–	129.0
Prepaid expenses	12.1	(1.0)	–	11.1
	1,389.0	(105.1)	–	1,283.9
Non-current assets				
Advances, loans receivable and other financial assets	1,278.8	89.0	–	1,367.8
Other non-financial assets	17.1	–	3.4	20.5
Finance lease receivables	196.0	–	–	196.0
Property, plant and equipment	1,430.4	(524.1)	–	906.3
Investments	34.7	–	–	34.7
Investment in an associate	1,053.1	–	–	1,053.1
Investment in a joint venture	–	357.5	–	357.5
Goodwill	307.9	–	–	307.9
Intangible assets	786.2	–	–	786.2
Deferred income taxes	2.8	–	0.5	3.3
	5,107.0	(77.6)	3.9	5,033.3
Assets of discontinued operation	1.5	–	–	1.5
Total Assets	$ 6,497.5	$ (182.7)	$ 3.9	$ 6,318.7
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Loans and borrowings	$ 56.9	$ –	$ –	$ 56.9
Trade accounts payable and accrued liabilities	179.8	(21.7)	–	158.1
Income taxes payable	25.9	(0.4)	–	25.5
Other financial liabilities	69.8	(14.4)	–	55.4
Other non-financial liabilities	8.0	0.1	–	8.1
Environmental rehabilitation provisions	31.9	–	–	31.9
	372.3	(36.4)	–	335.9
Non-current liabilities				
Loans and borrowings	1,687.8	–	–	1,687.8
Other financial liabilities	205.4	(97.7)	–	107.7
Other non-financial liabilities	15.1	–	31.1	46.2
Intangible liability	9.1	–	–	9.1
Environmental rehabilitation provisions	235.8	(32.4)	–	203.4
Deferred income taxes	232.1	(16.2)	(6.6)	209.3
	2,385.3	(146.3)	24.5	2,263.5
Liabilities of discontinued operation	8.2	–	–	8.2
Total liabilities	2,765.8	(182.7)	24.5	2,607.6
Shareholders' equity				
Capital stock	2,803.1	–	–	2,803.1
Retained earnings	784.9	–	1.1	786.0
Reserves	195.1	–	–	195.1
Accumulated other comprehensive loss	(51.4)	–	(21.7)	(73.1)
	3,731.7	–	(20.6)	3,711.1
Total liabilities and shareholders' equity	$ 6,497.5	$ (182.7)	$ 3.9	$ 6,318.7

Reconciliation of change in consolidated shareholders' equity as at January 1, 2012

Canadian $ millions, as at January 1, 2012	
Shareholders' equity reported	$ 3,731.7
Post-employment benefits	(20.6)
Total shareholders' equity adjusted	$ 3,711.1

Reconciliation of consolidated statement of financial position as at December 31, 2012

Canadian $ millions, as at December 31, 2012	As Reported	IFRS 11 Adjustments	IAS 19 Adjustments	As Adjusted
ASSETS				
Current Assets				
Cash and cash equivalents	$ 170.7	$ (23.6)	$ –	$ 147.1
Restricted cash	1.1	–	–	1.1
Short-term investments	356.1	–	–	356.1
Investments	26.8	–	–	26.8
Advances, loans receivable and other financial assets	57.8	35.9	–	93.7
Other non-financial assets	0.8	–	–	0.8
Finance lease receivables	24.8	–	–	24.8
Trade accounts receivable, net	405.9	(34.0)	–	371.9
Income taxes receivable	7.7	(2.7)	–	5.0
Inventories	248.2	(84.4)	–	163.8
Prepaid expenses	14.1	(1.4)	–	12.7
	1,314.0	(110.2)	–	1,203.8
Non-current assets				
Advances, loans receivable and other financial assets	1,616.8	78.4	–	1,695.2
Other non-financial assets	7.2	–	3.6	10.8
Finance lease receivables	182.2	–	–	182.2
Property, plant and equipment	1,417.5	(508.6)	–	908.9
Investments	4.9	–	–	4.9
Investment in an associate	1,089.5	–	–	1,089.5
Investment in a joint venture	–	365.8	–	365.8
Goodwill	307.9	–	–	307.9
Intangible assets	790.1	–	–	790.1
Deferred income taxes	28.2	–	0.5	28.7
	5,444.3	(64.4)	4.1	5,384.0
Total assets	$ 6,758.3	$ (174.6)	$ 4.1	$ 6,587.8
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Trade accounts payable and accrued liabilities	$ 196.6	$ (25.2)	$ –	$ 171.4
Income taxes payable	18.3	(1.5)	–	16.8
Other financial liabilities	69.7	(12.9)	–	56.8
Other non-financial liabilities	15.9	0.1	–	16.0
Environmental rehabilitation provisions	34.4	–	–	34.4
	334.9	(39.5)	–	295.4
Non-current liabilities				
Loans and borrowings	2,039.8	–	–	2,039.8
Other financial liabilities	208.1	(85.5)	–	122.6
Other non-financial liabilities	9.9	–	39.8	49.7
Intangible liability	4.6	–	–	4.6
Environmental rehabilitation provisions	261.8	(33.0)	–	228.8
Deferred income taxes	226.5	(16.6)	(8.9)	201.0
	2,750.7	(135.1)	30.9	2,646.5
Total liabilities	3,085.6	(174.6)	30.9	2,941.9
Shareholders' equity				
Capital stock	2,806.1	–	–	2,806.1
Retained earnings	772.9	–	1.6	774.5
Reserves	194.9	–	–	194.9
Accumulated other comprehensive loss	(101.2)	–	(28.4)	(129.6)
	3,672.7	–	(26.8)	3,645.9
Total liabilities and shareholders' equity	$ 6,758.3	$ (174.6)	$ 4.1	$ 6,587.8

Reconciliation of change in consolidated shareholders' equity as at December 31, 2012

Canadian $ millions, as at December 31, 2012	
Shareholders' equity reported	$ 3,672.7
Post-employment benefits	(26.8)
Total shareholders' equity adjusted	$ 3,645.9

Reconciliation of consolidated statement of comprehensive income (loss) for the year ended December 31, 2012

Canadian $ millions, except per share amounts, for the year ended December 31, 2012		As Reported		IFRS 11 Adjustments		IAS 19 Adjustments		Reclassified to Discontinued Operations		As Adjusted
								(note 11)		
Revenue	$	1,840.2	$	(389.9)	$	–	$	(975.0)	$	475.3
Cost of sales		1,506.0		(321.2)		–		(924.8)		260.0
Gross profit (loss)		334.2		(68.7)		–		(50.2)		215.3
Administrative expenses		84.7		(4.0)		(0.6)		(14.4)		65.7
Operating profit (loss)		249.5		(64.7)		0.6		(35.8)		149.6
Loss on impairment of investment		(5.6)		–		–		5.6		–
Share of loss of an associate, net of tax		(2.1)		–		–		–		(2.1)
Share of earnings of a joint venture, net of tax		–		52.8		–		–		52.8
Earnings (loss) from operations, associate and joint venture		241.8		(11.9)		0.6		(30.2)		200.3
Financing income		(21.2)		0.4		–		17.4		(3.4)
Financing expense		204.3		(8.3)		–		(16.1)		179.9
Net finance expense (income)		183.1		(7.9)		–		1.3		176.5
Earnings (loss) before tax		58.7		(4.0)		0.6		(31.5)		23.8
Income tax expense (recovery)		29.9		(4.0)		0.1		(14.5)		11.5
Net earnings (loss) from continuing operations		28.8		–		0.5		(17.0)		12.3
Earnings from discontinued operations, net of tax		4.4		–		–		17.0		21.4
Net earnings for the year	$	33.2	$	–	$	0.5	$	–	$	33.7
Other comprehensive loss										
Items that may be subsequently reclassified to profit or loss:										
Foreign currency translation differences on foreign operations		(49.8)		–		–		–		(49.8)
Items that will not be subsequently reclassified to profit or loss:										
Actuarial losses on pension plans, net of tax										
Continuing operations		–		–		(0.5)		–		(0.5)
Discontinued operations		–		–		(6.2)		–		(6.2)
Other comprehensive loss		(49.8)		–		(6.7)		–		(56.5)
Total comprehensive loss	$	(16.6)	$	–	$	(6.2)	$	–	$	(22.8)
Net earnings (loss) from continuing operations per common share, basic and diluted	$	0.10	$	–	$	–	$	(0.06)	$	0.04
Net earnings per common share, basic and diluted	$	0.11	$	–	$	–	$	–	$	0.11

Reconciliation of consolidated statement of cash flow for the year ended December 31, 2012

Canadian $ millions, for the year ended December 31, 2012	As Reported	IFRS 11 Adjustments	IAS 19 Adjustments	Coal Discontinued Operations	Corporate Discontinued Operations	As Adjusted
Operating activities						
Net earnings for the year from continuing operations	$ 33.2	$ –	$ 0.5	$ (17.0)	$ (4.4)	$ 12.3
Add (deduct):						
Depletion, depreciation and amortization	252.9	(26.7)	–	(135.0)	–	91.2
Share of loss of an associate, net of tax	2.1	–	–	–	–	2.1
Share of earnings of a joint venture, net of tax	–	(52.8)	–	–	–	(52.8)
Loss on impairment of assets	20.3	(0.2)	–	(17.8)	–	2.3
Loss on impairment of investments	5.6	–	–	(5.6)	–	–
Finance costs (less accretion expenses)	178.6	(6.9)	–	3.6	–	175.3
Income tax expense	29.9	(4.0)	0.1	(14.5)	–	11.5
Loss on settlement of environmental rehabilitation provisions	4.6	(0.5)	–	(3.3)	–	0.8
Service concession arrangement	(32.0)	–	–	–	–	(32.0)
Net change in non-cash working capital	(59.9)	(6.7)	–	45.2	–	(21.4)
Interest received	34.0	8.9	–	(17.7)	–	25.2
Interest paid	(86.3)	6.6	–	10.2	–	(69.5)
Income tax paid	(55.4)	5.2	–	7.5	–	(42.7)
Dividends received from joint venture	–	29.6	–	–	–	29.6
Liabilities settled for environmental rehabilitation provisions	(26.0)	0.7	–	24.5	–	(0.8)
Other operating items	(31.7)	–	(0.6)	8.5	4.4	(19.4)
Cash provided by continuing operations	269.9	(46.8)	–	(111.4)	–	111.7
Cash provided by discontinued operations	–	–	–	111.4	–	111.4
Cash provided by operating activities	269.9	(46.8)	–	–	–	223.1
Investing activities						
Property, plant and equipment expenditures	(137.5)	20.9	–	58.2	–	(58.4)
Intangible expenditures	(9.8)	–	–	–	–	(9.8)
Increase in advances, loans receivable and other financial assets	(66.5)	–	–	2.7	–	(63.8)
Repayment of advances, loans receivable and other financial assets	36.4	28.7	–	(3.8)	–	61.3
Investments	27.2	–	–	–	–	27.2
Loans to an associate	(260.4)	–	–	–	–	(260.4)
Investment in an associate	(135.6)	–	–	–	–	(135.6)
Net proceeds from sale of property, plant and equipment	3.3	(0.2)	–	(2.9)	–	0.2
Short-term investments	100.7	–	–	–	–	100.7
Cash used by continuing operations	(442.2)	49.4	–	54.2	–	(338.6)
Cash used by discontinued operations	–	–	–	(54.2)	–	(54.2)
Cash used for investing activities	(442.2)	49.4	–	–	–	(392.8)
Financing activities						
Repayment of loans and borrowings and other financial liabilities	(158.4)	2.6	–	48.9	–	(106.9)
Increase in loans and borrowings and other financial liabilities	90.6	–	–	–	–	90.6
Issuance of senior unsecured debentures, net of financing costs	489.6	–	–	–	–	489.6
Repayment of senior unsecured debentures	(225.0)	–	–	–	–	(225.0)
Increase in finance lease receivables	(6.9)	–	–	6.9	.	–
Repayment of finance lease receivables	25.5	–	–	(25.5)	–	–
Issuance of common shares	1.3	–	–	–	–	1.3
Treasury stock – restricted stock plan	(1.6)	–	–	–	–	(1.6)
Dividends paid on common shares	(45.2)	–	–	–	–	(45.2)
Cash provided by continuing operations	169.9	2.6	–	30.3	–	202.8
Cash used by discontinued operations	–	–	–	(30.3)	–	(30.3)
Cash provided by financing activities	169.9	2.6	–	–	–	172.5
Effect of exchange rate changes on cash and cash equivalents	(1.5)	1.2	–	–	–	(0.3)
Increase (decrease) in cash and cash equivalents	(3.9)	6.4	–	–	–	2.5
Cash and cash equivalents at beginning of the year	174.6	(30.0)	–	–	–	144.6
Cash and cash equivalents at end of the year	$ 170.7	$ (23.6)	$ –	$ –	$ –	$ 147.1

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, all of the directors are independent, except for one, and each of the following Board committees consists entirely of independent directors (and, in the case of the Audit Committee, financially literate): the Audit Committee, the Nominating and Corporate Governance Committee, the Human Resources Committee, the Reserves and Projects Committee, and the Environment, Health, Safety and Sustainability Committee.

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

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London, England

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Toronto, Canada

LISA PANKRATZ[1, 3, 4]
Corporate Director
Vancouver, 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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Local: 416.682.3860
Fax: 1.888.249.6189
Email: inquiries@canstockta.com

AUDITORS

Deloitte LLP, Toronto

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Common shares – S

CORPORATE STRUCTURE[1]

Sherritt International Corporation

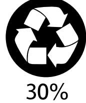
100% Ownership — **METALS**: Nickel and cobalt mining, processing and refining
- **MOA JOINT VENTURE** — 50% Ownership
- **AMBATOVY JOINT VENTURE** — 40% Ownership

100% Ownership — **OIL & GAS**: Oil and gas exploration and production

TECHNOLOGIES — 100% Ownership

33% Ownership — **POWER**: Power generation

[1] Does not include entities associated with the Coal operations, which are classified as discontinued operations.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