Q3

2012 THIRD QUARTER REPORT

Sherritt International Corporation

For the three months ended September 30, 2012

PRESS RELEASE

Sherritt reports third-quarter 2012 results

NOT FOR DISTRIBUTION TO UNITED STATES NEWSWIRE SERVICES OR FOR DISSEMINATION IN THE UNITED STATES

IN THIS SECTION

Sherritt International Corporation Reports Third-Quarter 2012 Results

- **Production of finished nickel and cobalt commenced at Ambatovy in third-quarter 2012.** Total nickel production in the quarter, including test briquettes, was 2,370 tonnes, with an average nickel content exceeding 99.8%. The first Ambatovy cobalt briquettes were sintered in September. Total cobalt production during the quarter was 165 tonnes, including test production, with an average cobalt content exceeding 99.8%.
- Ramp-up of the Ambatovy facility continues; all five autoclaves in the Pressure Acid Leach (PAL) area were operable during the quarter. Total autoclave operating hours during third-quarter 2012 were 4,119 hours, progressing from 988 hours in July to 1,707 hours in September. During the quarter, an average ore throughput of approximately 30% of nameplate capacity was achieved in the PAL circuit. In September, ore throughput was 39% of nameplate capacity.
- An offering of **$500 million principal amount of 7.5% Senior Unsecured Debentures Series 2 due September 24, 2020** was completed during third-quarter 2012. A portion of the net proceeds of approximately $490 million was used to fund the repurchase and redemption of the outstanding principal amount of the Corporation's 8.25% Senior Unsecured Debentures Series B due October 24, 2014 (the "2014 debentures"), mainly in October 2012; the remainder is available for general corporate purposes.
- **The net loss** for third-quarter 2012 was $22.6 million ($0.08 per share, basic), compared to net earnings of $45.5 million ($0.16 per share, basic) for third-quarter 2011. Compared to the prior-year quarter, the net loss reflected lower nickel prices and volumes and lower export thermal coal volumes, partially offset by higher fertilizer revenue and the impact of a weaker Canadian dollar relative to the U.S. dollar. The third-quarter 2012 net loss included net charges of $42.8 million pre tax ($32.4 million or $0.11 per share, basic, after tax). These items related to the $27.4 million pre-tax redemption premium, and deferred cost write-off, associated with the redemption of the 2014 debentures ($20.5 million or $0.07 per share, basic, after tax), a $12.2 million pre-tax, non-cash adjustment to the environmental rehabilitation obligation in Coal ($9.1 million or $0.03 per share, basic, after tax), and a $3.2 million pre-tax, non-cash adjustment to the Ambatovy Call Option ($2.8 million or $0.01 per share, basic, after tax). The Ambatovy Call Option relates to the right of the Corporation and Sumitomo Corporation to acquire SNC-Lavalin's 5% equity interest in Ambatovy at any time over a two-year period after Ambatovy is complete. The fair value of the option is updated each quarter and can be volatile as it is derived from a mathematical model used to price derivative financial instruments that depend on estimates primarily related to future cash flows, interest rates, risk, and timing.
- **Sales volumes** for third-quarter 2012 (Sherritt's share) totaled 8.6 million pounds of finished nickel, 0.9 million pounds of finished cobalt, 8.5 million tonnes of thermal coal, 1.0 million barrels of oil and 154 GWh of electricity.
- **Cash, cash equivalents and short-term investments** were $934.2 million at September 30, 2012, including $8.9 million held by Energas S.A. (33 1/3% basis) and $53.0 million (50% basis) held by the Moa Joint Venture. Cash held by the Ambatovy Joint Venture is included in "Investment in an Associate" and was $10.8 million (40% basis) as at September 30, 2012.
- **Operating cash flow** for third-quarter 2012 was $113.8 million, compared to $95.8 million in third-quarter 2011.
- **Spending on capital and intangibles** relating to operations totaled $48.7 million for third-quarter 2012 compared to $53.6 million in third-quarter 2011. Spending on capital at the Ambatovy Joint Venture for third-quarter 2012 was US$8.6 million (100% basis) and cumulative spending on capital at Ambatovy to September 30, 2012 was US$5.3 billion (100% basis). Total capital costs for Ambatovy are expected to remain within the US$5.5 billion (100% basis) estimate.
- At September 30, 2012, **total available liquidity** was approximately $1.4 billion. **Total long-term debt** at September 30, 2012 was $2.0 billion, including approximately $0.8 billion related to non-recourse Ambatovy partner loans to Sherritt.

All amounts are Canadian dollars unless otherwise indicated.

Toronto, October 31, 2012

Sherritt International Corporation ("Sherritt" or the "Corporation") (TSX: S) today reported a third-quarter 2012 net loss of $22.6 million ($0.08 per share, basic), compared to net earnings of $45.5 million ($0.16 per share, basic) for third-quarter 2011.

Summary Data

SUMMARY FINANCIAL DATA

($ millions unless otherwise noted)	**Q3 2012**	Q3 2011	Nine months ended September 30, **2012**	2011
Revenue	**422.2**	466.4	**1,372.3**	1,441.5
EBITDA[1]	**115.9**	148.5	**401.7**	470.8
Earnings from operations and associate	**47.8**	89.7	**215.0**	311.7
Net earnings	**(22.6)**	45.5	**50.5**	169.2
Basic earnings per share ($ per share)	**(0.08)**	0.16	**0.17**	0.58
Diluted earnings per share ($ per share)	**(0.08)**	0.15	**0.17**	0.57
Net working capital balance[2]	**1,110.8**	1,031.7	**1,110.8**	1,031.7
Spending on capital and intangibles[3]	**48.7**	53.6	**152.2**	153.8
Total assets	**6,971.0**	6,497.5	**6,971.0**	6,497.5
Shareholders' equity	**3,674.0**	3,764.4	**3,674.0**	3,764.4
Long-term debt to total assets (%)	**33**	26	**33**	26
Weighted average number of shares (millions)				
Basic	**296.4**	295.2	**296.2**	295.0
Diluted	**297.0**	296.4	**296.8**	296.2

(1) For additional information see the 'Non-GAAP Measure – EBITDA' section of this release.

(2) Net working capital is calculated as total current assets less total current liabilities.

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

SUMMARY SALES DATA

($ millions unless otherwise noted)	**Q3 2012**	Q3 2011	Nine months ended September 30, **2012**	2011
Sales volumes				
Nickel (thousands of pounds, 50% basis)[1]	**8,590**	9,421	**28,060**	27,922
Cobalt (thousands of pounds, 50% basis)[1]	**949**	1,052	**3,096**	3,121
Thermal coal – Prairie Operations (millions of tonnes)	**7.6**	8.1	**22.5**	23.5
Thermal coal – Mountain Operations (millions of tonnes)	**0.9**	1.0	**2.7**	3.1
Oil (boepd, net working-interest production)	**11,408**	11,982	**11,511**	12,250
Electricity (GWh, 33 1/3% basis)	**154**	159	**466**	461
Average realized prices				
Nickel ($/lb)[1]	**7.20**	9.81	**7.94**	10.70
Cobalt ($/lb)[1]	**12.55**	15.50	**13.54**	16.42
Thermal coal – Prairie Operations ($/tonne)	**17.47**	16.20	**17.55**	16.19
Thermal coal – Mountain Operations ($/tonne)	**100.32**	102.39	**102.66**	98.03
Oil ($/boe)	**69.81**	69.62	**72.74**	66.81
Electricity ($/MWh)	**41.20**	40.66	**41.49**	40.49

(1) Sales volumes and average realized prices do not include the impact of the Ambatovy Joint Venture.

Review of Operations

METALS

($ millions unless otherwise noted)	Q3 2012	Q3 2011	Nine months ended September 30, 2012	2011
Production[1]				
Mixed sulphides (Ni+Co contained, tonnes, 50% basis)	**4,750**	4,872	**14,285**	14,647
Nickel (tonnes, 50% basis)	**3,909**	4,395	**12,693**	12,689
Cobalt (tonnes, 50% basis)	**436**	489	**1,410**	1,408
Fertilizers (tonnes)	**67,065**	58,083	**200,950**	173,249
Sales [1]				
Nickel (thousands of pounds, 50% basis)	**8,590**	9,421	**28,060**	27,922
Cobalt (thousands of pounds, 50% basis)	**949**	1,052	**3,096**	3,121
Fertilizers (tonnes)	**20,451**	15,055	**118,372**	103,400
Reference prices				
Nickel (US$/lb)	**7.40**	10.00	**8.04**	11.04
Cobalt (US$/lb)[2]	**13.06**	16.13	**13.96**	17.16
Realized prices[1]				
Nickel ($/lb)	**7.20**	9.81	**7.94**	10.70
Cobalt ($/lb)	**12.55**	15.50	**13.54**	16.42
Unit operating costs (US$/lb) [1]				
Mining, processing and refining costs	**6.48**	6.28	**6.55**	6.06
Third-party feed costs	**0.06**	0.11	**0.10**	0.17
Cobalt by-product credits	**(1.39)**	(1.76)	**(1.49)**	(1.87)
Other	**(0.02)**	(0.17)	**(0.28)**	(0.11)
Net direct cash costs of nickel[3]	**5.13**	4.46	**4.88**	4.25
Natural gas ($/GJ)	**2.27**	3.45	**2.13**	3.64
Fuel oil (US$/tonne)	**629**	658	**676**	605
Sulphur (US$/tonne)	**263**	261	**266**	235
Sulphuric acid (US$/tonne)	**184**	192	**188**	188
Revenue ($ millions)				
Nickel	**61.9**	92.4	**222.8**	298.8
Cobalt	**11.9**	16.3	**41.9**	51.2
Fertilizers, other	**14.6**	14.2	**78.7**	62.7
Total revenue	**88.4**	122.9	**343.4**	412.7
EBITDA ($ millions)[4]	**17.2**	44.4	**95.9**	164.7
Earnings from operations and associate ($ millions)	**8.6**	35.7	**68.6**	143.2
Spending on capital ($ millions)[1]	**6.3**	8.0	**18.3**	23.3

(1) Production and sales volumes, realized prices, unit operating costs and spending on capital do not include the impact of the Ambatovy Joint Venture.
(2) Average Metal Bulletin – Low Grade Cobalt published price.
(3) Net direct cash costs of nickel after cobalt and other by-product credits.
(4) For additional information see the 'Non-IFRS Measure – EBITDA' section of this release.

Mixed sulphides production for third-quarter 2012 was 2% (243 tonnes, Ni+Co contained, 100% basis) lower than third-quarter 2011, due to lower process plant throughput resulting from planned maintenance activities in third-quarter 2012. Finished nickel and cobalt production was 11% (972 tonnes of nickel and 106 tonnes of cobalt, 100% basis) lower than the prior-year period and reflects the impact of the annual maintenance turnaround at the refinery in third-quarter 2012, which was conducted in the second quarter in 2011.

Third-quarter 2012 metals sales volumes were 9% (831 lbs, 50% basis) lower for nickel and 10% (103 lbs, 50% basis) lower for cobalt, compared to third-quarter 2011, consistent with the production trend.

Average metals reference prices were substantially lower in third-quarter 2012 compared to third-quarter 2011, as the global supply of nickel and cobalt outpaced demand. Nickel reference pricing was 26% (US$2.60/lb) lower and cobalt reference pricing was 19% (US$3.07/lb) lower than the prior-year period.

The net direct cash cost of nickel for third-quarter 2012 was 15% (US$0.67/lb) higher than third-quarter 2011, and 23% (US$0.97/lb) higher than second-quarter 2012. The increase from the prior-year period was due to the impact of lower realized cobalt prices and sales volumes, higher refining costs reflecting the timing of the annual maintenance turnaround at the refinery, and the variability resulting from the timing of realized nickel prices relative to the nickel reference price. These increases were partially offset by lower input commodity costs (fuel oil and sulphuric acid) and higher realized fertilizer prices and sales volumes. The increase in the net direct cash cost of nickel in third-quarter 2012 from second-quarter 2012 was due to the impact of lower relative fertilizer sales (seasonality-related), the annual maintenance turnaround and the variability resulting from the timing of realized nickel prices relative to the nickel reference price. These increases were partially offset by lower input commodity costs (fuel oil).

Spending on capital in third-quarter 2012 for the Moa Joint Venture was 21% ($1.7 million, 50% basis) lower than third-quarter 2011, reflecting the capital spending deferral implemented earlier in 2012 and, more recently, due to delays related to the execution of capital projects.

Ambatovy

Total nickel production in the quarter, including test briquettes, was 2,370 tonnes, with an average nickel content exceeding 99.8%. The first Ambatovy cobalt briquettes were sintered in September. Total cobalt production during the quarter was 165 tonnes, including test production, with an average cobalt content exceeding 99.8%.

Ramp-up of the Ambatovy facility continues; all five autoclaves in the Pressure Acid Leach (PAL) area were operable during the quarter. Total autoclave operating hours during third-quarter 2012 were 4,119 hours, progressing from 988 hours in July to 1,707 hours in September. During the quarter, an average ore throughput of approximately 30% of nameplate capacity was achieved in the PAL circuit. In September, ore throughput was 39% of nameplate capacity. Approximately 5,980 tonnes of nickel and cobalt contained in mixed sulphides were introduced to the refinery during third-quarter 2012.

Total capital costs for Ambatovy are expected to remain within the US$5.5 billion (100% basis) estimate. Spending on capital at the Ambatovy Joint Venture for third-quarter 2012 was US$8.6 million (100% basis), 91% lower than the prior-year period, as construction has been completed. Cumulative spending on capital at Ambatovy to September 30, 2012 was US$5.3 billion (100% basis), excluding financing charges, working capital and foreign exchange.

Total project costs in third-quarter 2012 were US$170.7 million (100% basis). Cumulative total project costs to September 30, 2012 were US$6.5 billion (100% basis). Total project costs (including financing charges, working capital and foreign exchange) will vary until commercial production is declared. The most significant variability in total project costs is likely to arise from the working capital component and production revenue component (which is netted from these costs).

During third-quarter 2012, a total of US$170.0 million (100% basis) in funding was provided by the Ambatovy Joint Venture partners, 38% lower than in second-quarter 2012. Sherritt’s 40% share of the third-quarter 2012 funding (US$68.0 million) was sourced from cash on hand.

As announced on September 13, 2012, Ambatovy received a six-month authorization ("Operating Permit") to commercially operate the processing plant in Toamasina, Madagascar, which is to automatically convert to a life-of-mine Operating Permit at the end of the six-month period. The Ambatovy operations are expected to reach commercial production (defined as 70% of mixed sulphides production capacity, also referred to as ore throughput as a percentage of nameplate capacity) by early 2013. Commercial production is the point at which all operating costs, net of revenue, are expensed rather than capitalized. The date at which the project becomes cash-flow neutral is difficult to predict as it depends on several external factors, including the nickel reference price which has demonstrated significant volatility in 2012. Ambatovy is designed to produce 60,000 tonnes (100% basis) of nickel and 5,600 tonnes (100% basis) of cobalt annually at capacity.

COAL

($ millions unless otherwise noted)	Q3 2012	Q3 2011	Nine months ended September 30, 2012	2011
Production (millions of tonnes)				
Prairie Operations	**7.3**	7.7	**22.9**	22.9
Mountain Operations	**0.9**	1.0	**2.7**	3.1
Sales (millions of tonnes)				
Prairie Operations	**7.6**	8.1	**22.5**	23.5
Mountain Operations	**0.9**	1.0	**2.7**	3.1
Realized prices ($/tonne)				
Prairie Operations(1)	**17.47**	16.20	**17.55**	16.19
Mountain Operations	**100.32**	102.39	**102.66**	98.03
Unit operating costs ($/tonne)				
Prairie Operations(1)	**15.22**	14.32	**14.95**	14.19
Mountain Operations	**84.57**	83.94	**87.12**	81.44
Revenue ($ millions)				
Prairie Operations				
Mining revenue	**140.3**	136.9	**417.6**	398.9
Coal royalties	**10.1**	7.6	**30.9**	29.1
Potash royalties	**3.0**	4.8	**9.8**	14.8
Mountain Operations and other assets	**83.7**	97.9	**274.7**	304.4
Total revenue	**237.1**	247.2	**733.0**	747.2
EBITDA ($ millions)(2)				
Prairie Operations	**33.9**	27.8	**103.7**	88.0
Mountain Operations and other assets	**10.4**	15.7	**34.1**	47.2
Total EBITDA	**44.3**	43.5	**137.8**	135.2
Earnings from operations ($ millions)	**4.9**	14.0	**40.4**	56.1
Spending on capital ($ millions)				
Prairie Operations	**23.6**	21.0	**50.3**	57.4
Mountain Operations and other assets	**4.7**	5.5	**44.6**	17.8
Total spending on capital	**28.3**	26.5	**94.9**	75.2

(1) Prairie Operations realized pricing and unit operating costs exclude royalties and the results of the char and activated carbon businesses.
(2) For additional information see the ‘Non-GAAP Measure – EBITDA’ section of this release.

Third-quarter 2012 production volumes at Prairie Operations were 5% (0.4 million tonnes) lower than third-quarter 2011 mainly due to unscheduled dragline and shovel maintenance at the contract Highvale mine and the planned dragline maintenance at the Bienfait mine. Third-quarter production volumes at Mountain Operations were approximately 10% (0.1 million tonnes) lower than the prior-year quarter, mainly due to a planned reduction in production at the Obed Mountain mine in order to manage toward an optimal thermal export sales mix in a declining price environment. The reduction at the Obed Mountain mine was partially offset by higher production at the Coal Valley mine, made possible by additional loading equipment and mining activity in the Yellowhead Tower area, both of which occurred in second-quarter 2012.

Third-quarter 2012 sales volumes at Prairie Operations were 6% (0.5 million tonnes) lower than the prior-year period due to unscheduled dragline and shovel maintenance activity at the Highvale mine and the scheduled replacement of a major dragline component at the Bienfait mine. Mountain Operations sales volumes in third-quarter 2012 were approximately 10% (0.1 million tonnes) lower than the prior-year period, reflecting the production trends outlined above.

Realized pricing (excluding royalties, char and activated carbon) for third-quarter 2012 at Prairie Operations was 8% ($1.27/tonne) higher than third-quarter 2011, mainly due to higher cost recoveries at both the Highvale mine and the Genesee mine, as well as the unit impact of fixed revenue over lower sales volumes at the Paintearth, Sheerness and Poplar River mines. Realized pricing at Mountain Operations for third-quarter 2012 was 2% ($2.07/tonne) lower than the prior-year period, primarily due to weaker international export coal prices.

Third-quarter unit operating costs at Prairie Operations were 6% ($0.90/tonne) higher relative to the prior-year period, due to the impact of the fixed cost component of unit costs being distributed over lower sales volumes. Unit operating costs at Mountain Operations for third-quarter 2012 were relatively unchanged compared to the prior quarter despite the small reduction in production volumes.

The environmental rehabilitation obligation (ERO) in Coal was reviewed during third-quarter 2012 in response to new reclamation bonding requirements under the Mine Financial Security Program in Alberta. As a result of the review, the ERO obligation was revised upward by $12.2 million, reflecting updated cost and productivity assumptions for reclamation activities on the existing footprint of disturbed land in Mountain Operations.

Coal royalties for third-quarter 2012 were 33% ($2.5 million) higher than the prior-year period, due to the timing of mining activity in royalty assessable areas. Potash royalties were 38% ($1.8 million) lower in third-quarter 2012 compared to the prior-year period, due to lower potash production that has resulted from relatively weak demand and higher than normal inventories.

Spending on capital at Prairie Operations for third-quarter 2012 was 12% ($2.6 million) higher than third-quarter 2011, primarily due to the timing of equipment arrivals at the sites. Spending on capital at Mountain Operations was 15% ($0.8 million) lower for third-quarter 2012 compared to the prior-year period, reflecting the timing of equipment arrivals at the Coal Valley mine, with the majority of 2012 deliveries occurring in the second quarter.

OIL AND GAS

			Nine months ended September 30,	
($ millions unless otherwise noted)	**Q3 2012**	Q3 2011	**2012**	2011
Production (boepd)[1]				
Gross working-interest – Cuba[2, 3]	**20,557**	20,756	**20,481**	20,843
Net working-interest[4]				
Cuba – cost recovery	**2,746**	3,501	**2,907**	3,809
Cuba – profit oil	**8,015**	7,764	**7,908**	7,665
Cuba – total	**10,761**	11,265	**10,815**	11,474
Spain	**297**	354	**343**	422
Pakistan	**350**	363	**353**	354
Total net working-interest	**11,408**	11,982	**11,511**	12,250
Reference prices (US$/bbl)				
U.S. Gulf Coast Fuel Oil No.6	**97.30**	98.55	**100.97**	94.45
Brent crude	**110.14**	114.47	**112.89**	112.73
Realized prices				
Cuba ($/bbl)	**70.69**	70.36	**73.59**	67.06
Spain ($/bbl)	**110.67**	111.21	**112.42**	109.81
Pakistan ($/boe)	**7.95**	8.15	**8.10**	8.01
Weighted average ($/boe)	**69.81**	69.62	**72.74**	66.81
Unit operating costs				
Cuba ($/bbl)	**11.81**	12.65	**12.38**	11.59
Spain ($/bbl)	**52.86**	84.22	**48.49**	46.75
Pakistan ($/boe)	**3.80**	2.49	**3.56**	2.98
Weighted average ($/boe)	**12.72**	14.45	**13.29**	12.55
Revenue ($ millions)	**74.2**	78.5	**232.7**	230.5
EBITDA ($ millions)[5]	**58.6**	60.8	**182.2**	181.2
Earnings from operations ($ millions)	**42.0**	43.4	**130.3**	132.2
Spending on capital ($ millions)[6]	**11.4**	16.6	**32.3**	50.3

(1) Oil production is stated in barrels of oil per day ("bopd"). Natural gas production is stated in barrels of oil equivalent per day ("boepd"), which is converted at 6,000 cubic feet per barrel.

(2) In Cuba, Oil and Gas delivers all of its gross working-interest oil production to Union Cubapetroleo (CUPET) at the time of production. Gross working-interest oil production excludes: (i) production from wells for which commercial viability has not been established in accordance with production-sharing contracts, and (ii) working interest 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 oil 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.
(5) For additional information see the 'Non-GAAP Measure – EBITDA' section of this release.
(6) Exploration and evaluation spending incurred prior to the technical feasibility and commercial viability of extracting the resources is recorded as an intangible asset.

Gross working-interest (GWI) oil production in Cuba for third-quarter 2012 was relatively unchanged from third-quarter 2011. Net working-interest production in Cuba was 4% (504 bopd) lower for third-quarter 2012 when compared to the prior-year period, primarily due to a decrease in cost recovery expenditures. Third-quarter 2012 production in Spain was 16% (57 bopd) lower than in the prior-year period, due to the combined impact of natural reservoir declines and the temporary shut-in of Rodaballo production due to mechanical issues. Production from Rodaballo is expected to resume in 2013.

Average realized prices in third-quarter 2012 for all jurisdictions were relatively unchanged from the prior-year period, as the reduction in the reference prices was offset by the foreign exchange impact of a weaker Canadian dollar relative to the U.S. dollar.

Unit operating costs in Cuba were 7% ($0.84/bbl) lower in third-quarter 2012 compared to the prior-year period, reflecting lower treatment and transportation, insurance and input chemical costs, partly offset by higher costs for maintenance, freight and duty, and lower net production. Unit operating costs in Spain were 37% ($31.36/bbl) lower in third-quarter 2012, mainly due to lower workover costs and the foreign exchange impact of a stronger Canadian dollar relative to the Euro.

Spending on capital in third-quarter 2012 was 31% ($5.2 million) lower than third-quarter 2011, mainly due to lower equipment and inventory purchases in Cuba and lower facilities spending. During third-quarter 2012, one development well was drilled and completed, drilling commenced on another development well, and two workovers were conducted on existing wells. Based on initial rates, the completion and two workovers conducted during the quarter resulted in 820 bopd of incremental oil production.

POWER

			Nine months ended September 30,	
($ millions unless otherwise noted)	**Q3 2012**	Q3 2011	**2012**	2011
Electricity sold (GWh, 33 1/3% basis)	**154**	159	**466**	461
Realized price ($/MWh)	**41.20**	40.66	**41.49**	40.49
Unit operating cost ($/MWh) (1)				
Base	**13.78**	12.78	**14.90**	17.57
Non-base	**1.03**	7.35	**1.38**	3.69
Total unit cash operating costs	**14.81**	20.13	**16.28**	21.26
Net capacity factor (%)	**67**	68	**67**	66
Revenue ($ millions)	**18.8**	14.0	**53.0**	41.4
EBITDA ($ millions)(2)	**6.5**	6.4	**18.2**	17.7
Earnings from operations ($ millions)	**3.5**	3.7	**9.9**	9.8
Spending on capital ($ millions, 33 1/3% basis)(3)	**1.7**	2.5	**4.2**	4.7
Spending on projects ($ millions, 33 1/3% basis)(4)	**9.7**	4.3	**24.6**	13.4
Total spending on capital and projects	**11.4**	6.8	**28.8**	18.1

(1) Base unit operating costs are costs incurred at the Varadero, Boca de Jaruco and Puerto Escondido sites. Non-base unit operating costs are costs that are incurred at the Boca de Jaruco and Puerto Escondido sites that otherwise would have been capitalized if these sites were not accounted for as service concession arrangements.
(2) For additional information see the 'Non-GAAP Measure – EBITDA' section of this release.
(3) Spending on capital includes sustaining capital at the Varadero site as well as capitalized interest relating to the 150 MW Boca de Jaruco Combined Cycle Project.
(4) Sherritt provides 100% of the funding for the 150 MW Boca de Jaruco Combined Cycle Project and accounts for the Project as a "Service Concession Arrangement". As a result, two thirds of the project spending (relating to the non-Sherritt partners' share) is recorded as a loan receivable. The remaining one third of project spending (Sherritt's share) is recorded as a construction cost, and is offset by the same amount recorded as construction revenue.

Electricity production for third-quarter 2012 was consistent with the prior-year period.

Unit operating costs for the quarter were 26% ($5.32/MWh) lower than third-quarter 2011, primarily due to higher repair and maintenance costs in third-quarter 2011 relating to scheduled maintenance at the Puerto Escondido site.

Spending on capital for third-quarter 2012 was 32% ($0.8 million) lower than the prior-year period due to major capital spending in 2011 related to maintenance spending at the Varadero facility. Spending on projects for the quarter was 126% ($5.4 million) higher than the prior-year period, due to increased spending on the 150 MW Boca de Jaruco Combined Cycle Project.

150 MW Boca de Jaruco Combined Cycle Project

Project expenditures for third-quarter 2012 were $29.1 million (100% basis) and cumulative spending on the Project at September 30, 2012 was $223.8 million (100% basis). The Project is scheduled to begin production in first-half 2013. The total project cost estimate remains $271.0 million.

CASH, DEBT AND FINANCING

Cash, cash equivalents and short-term investments were $934.2 million at September 30, 2012, including $8.9 million held by Energas S.A. (33 1/3% basis) and $53.0 million (50% basis) held by the Moa Joint Venture. Cash held by the Ambatovy Joint Venture is included in “Investment in an Associate” and was $10.8 million (40% basis) as at September 30, 2012.

An offering of $500 million principal amount of 7.5% Senior Unsecured Debentures Series 2 due September 24, 2020 was completed during third-quarter 2012. A portion of the net proceeds of approximately $490 million was used to fund the repurchase and redemption of the outstanding principal amount of the Corporation’s 8.25% Senior Unsecured Debentures Series B due October 24, 2014 mainly in October 2012; the remainder is available for general corporate purposes.

Total long-term debt at September 30, 2012 was $2.0 billion, including approximately $0.8 billion related to non-recourse Ambatovy partner loans to Sherritt. At September 30, 2012, the amount of credit available under various facilities was $0.5 billion.

Outlook

Projected production volumes, royalties and spending on capital for full-year 2012 are shown below.

(units as noted)	Projected for the year ending December 31, 2012
Production volumes	
Mixed sulphides (tonnes, Ni+Co contained, 100% basis)	
Moa Joint Venture	38,000
Ambatovy Joint Venture	9,000
Total	47,000
Nickel, finished (tonnes, 100% basis)	
Moa Joint Venture	34,000
Ambatovy Joint Venture	6,400
Total	40,400
Cobalt, finished (tonnes, 100% basis)	
Moa Joint Venture	3,700
Ambatovy Joint Venture	620
Total	4,320
Coal – Prairie Operations (millions of tonnes)	31
Coal – Mountain Operations (millions of tonnes)	4
Oil – Cuba (gross working-interest, bopd)	20,000
Oil – All operations (net working-interest, boepd)	11,500
Electricity (GWh, 33 1/3% basis)	610
Royalties ($ millions)	
Coal	40
Potash	14
Spending on capital ($ millions)	
Metals – Moa Joint Venture (50% basis), Fort Site(1)	37
Coal – Prairie Operations	78
Coal – Mountain Operations	59
Oil and Gas – Cuba(2)	44
Oil and Gas – Other(2)	11
Power (33 1/3% basis)(3)	6
Spending on capital (excluding Projects and Corporate)	235
Spending on projects	
Metals – Ambatovy Joint Venture (US$ millions, 100% basis)	73
Power – 150 MW Boca de Jaruco ($ millions, 100% basis)(4)	93

(1) Spending on capital relating to the Corporation's 50% share of the Moa Joint Venture and to the Corporation's 100% interest in the fertilizer and utilities assets in Fort Saskatchewan.

(2) Exploration and evaluation spending incurred prior to the technical feasibility and commercial viability of extracting the resources is recorded as an intangible asset.

(3) 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.

(4) Sherritt provides 100% of the funding for the 150 MW Boca de Jaruco Combined Cycle Project and accounts for the Project as a "Service Concession Arrangement". As a result, two thirds of the project spending (relating to the non-Sherritt partners' share) is recorded as a loan receivable. The remaining one third of project spending (Sherritt's share) is recorded as a construction cost.

- In Metals – Moa Joint Venture, production guidance for 2012 remains relatively unchanged. The minor increase (3%, 100 tonnes) in estimated cobalt production reflects a lower nickel to cobalt ratio that has been characteristic of the feed this year. Capital spending for 2012 is 30% ($16 million, 50% basis) lower than prior guidance, reflecting the capital spending deferral implemented earlier in 2012 and, more recently, due to delays related to the execution of capital projects.

- In Metals – Ambatovy Joint Venture, 2012 production estimates for finished metal are lower than previous guidance (1,600 tonnes or 20% for nickel, 180 tonnes or 23% for cobalt). Estimates were adjusted to reflect the insights gained, and production achievements reached, during Ambatovy's first quarter of production that occurred in third-quarter 2012. Capital spending for 2012 at Ambatovy is estimated to be 14% ($9 million) higher than prior guidance, reflecting actual spending in the first three quarters of the year.
- In Metals – Sulawesi Project, exploration drilling is forecast to begin in early 2013, deferred from the earlier estimate of second-half 2012 due to delays in receiving the Forestry Borrow and Use Permit from the Ministry of Forestry and the resolution of overlapping claims within the mining concession. Work continues to advance the environmental and social baseline studies and the prefeasibility study; all remain scheduled for completion in 2013.
- In Coal – Prairie Operations, full-year 2012 production is 6% (2 million tonnes) lower than previous guidance, reflecting lower production at the Highvale mine due to reduced customer demand. Capital spending for 2012 is 4% ($3 million) lower than prior guidance, reflecting management's efforts to reduce or defer capital to maximize cash flows.
- In Coal – Mountain Operations, full-year 2012 production remains unchanged from previous guidance. Capital spending for 2012 is 5% ($3 million) lower than prior guidance, reflecting management's efforts to reduce or defer capital to maximize cash flows.
- In Oil and Gas, 2012 GWI production in Cuba and total divisional capital expenditures remain relatively unchanged from prior guidance.
- In Power, projected 2012 production is 3% (15 GWh, 33 1/3% basis) higher than prior guidance, due to the higher gas supply realized in the first three quarters and the expectation this will continue for the remainder of the year. Spending on capital for 2012 remains unchanged from previous guidance.
- In Power – 150 MW Boca de Jaruco Combined Cycle Project, spending in 2012 is relatively unchanged from prior guidance. The Project remains on schedule to be in production in first-half 2013.

Non-GAAP Measure – EBITDA

Management uses EBITDA to monitor financial performance and provide additional information to investors and analysts. EBITDA does 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 EBITDA does not have a standardized meaning, it may not be comparable to similar measures provided by other companies.

The Corporation defines EBITDA as earnings (loss) from continuing operations as reported in the IFRS financial statements, adjusted for amounts included in net earnings or net loss for income taxes, net finance expense (income), depletion, depreciation and amortization, impairment charges for property, plant and equipment, intangible assets, goodwill and investments, gain or loss on disposal of property, plant and equipment, and share of income or loss of associate.

About Sherritt

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

Forward-Looking Statements

This press release contains certain forward-looking statements. Forward-looking statements can generally be identified by the use of statements that include such words as “believe”, “expect”, “anticipate”, “intend”, “plan”, “forecast”, “likely”, “may”, “will”, “could”, “should”, “suspect”, “outlook”, “projected”, “continue” or other similar words or phrases. Specifically, forward-looking statements in this document include statements respecting certain future expectations about capital expenditures; capital project commissioning and completion dates; commodity and product prices and demand; production volumes; realized prices for production; commencement date of production; commodity prices and demand; future reserves and mine life; environmental rehabilitation provisions; availability of regulatory approvals; earnings and revenues; debt repayments; compliance with financial covenants; sufficiency of working capital and capital project funding; compliance with applicable environmental laws and regulations; and certain corporate objectives, plans or goals for 2012, including development wells in Cuba. These forward-looking statements are not based on historic facts, but rather on current expectations, assumptions and projections about future events. By their nature, forward-looking statements require the Corporation to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that those assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. The Corporation cautions readers of this press release 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 press release include, global economic conditions and business, economic and political conditions in Canada, Cuba, Madagascar, Indonesia, and the principal markets for the Corporation’s products. Other such factors include, but are not limited to, uncertainties in the development, construction, commissioning, start-up and ramp-up of large mining, processing and refining projects; risks related to the availability of capital to undertake capital initiatives; changes in capital cost estimates in respect of the Corporation’s capital initiatives; risks associated with the Corporation’s joint venture partners; future non-compliance with financial covenants; potential interruptions in transportation; political, economic and other risks of foreign operations; the Corporation’s reliance on key personnel and skilled workers; the possibility of equipment and other unexpected failures; the potential for shortages of equipment and supplies; risks associated with mining, processing and refining activities; uncertainty of gas supply for electrical generation; uncertainties in oil and gas exploration; risks related to foreign exchange controls on Cuban government enterprises to transact in foreign currency; risks associated with the United States embargo on Cuba and the Helms-Burton legislation; risks related to the Cuban government’s ability to make certain payments to the Corporation; development programs; uncertainties in reserve estimates; uncertainties in environmental rehabilitation provisions estimates; the Corporation’s reliance on significant customers; foreign exchange and pricing risks; uncertainties in commodity pricing; credit risks; competition in product markets; the Corporation’s ability to access markets; risks in obtaining insurance; uncertainties in labour relations; uncertainties in pension liabilities; the ability of the Corporation to enforce legal rights in foreign jurisdictions; the ability of the Corporation to obtain government permits; risks associated with government regulations and environmental, health and safety matters; 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 press release and in the Corporation’s other documents filed with the Canadian securities authorities.

The Corporation may, from time to time, make oral forward-looking statements. The Corporation advises that the above paragraph and the risk factors described in this press release and in the Corporation’s other documents filed with the Canadian securities authorities should be read for a description of certain factors that could cause the actual results of the Corporation to differ materially from those in the oral forward-looking statements. The Corporation disclaims any intention or obligation to update or revise any oral or written forward-looking statements whether as a result of new information, future events or otherwise, except as required by applicable law.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2012

This Management's Discussion and Analysis (MD&A) is intended to help the reader understand Sherritt International Corporation's operations, financial performance and the present and future business environment. This MD&A, which has been prepared as of October 30, 2012, should be read in conjunction with Sherritt's unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2012 and the MD&A for the year ended December 31, 2011. 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.

Key financial and operational data

$ millions , except per share amounts		For the three months ended 2012 September 30		2011 September 30	Change		For the nine months ended 2012 September 30		2011 September 30	Change
Financial highlights										
Revenue	$	**422.2**	$	466.4	(9%)	$	**1,372.3**	$	1,441.5	(5%)
EBITDA[1]		**115.9**		148.5	(22%)		**401.7**		470.8	(15%)
Earnings from operations and associate		**47.8**		89.7	(47%)		**215.0**		311.7	(31%)
Net earnings (loss) for the period		**(22.6)**		45.5	(150%)		**50.5**		169.2	(70%)
Net earnings (loss) per share, basic ($ per share)		**(0.08)**		0.16	(150%)		**0.17**		0.58	(71%)
Net earnings (loss)per share, diluted ($ per share)		**(0.08)**		0.15	(153%)		**0.17**		0.57	(70%)
Cash flow										
Cash provided by operating activities	$	**113.8**	$	95.8	19%	$	**264.4**	$	251.6	5%
Spending on capital and intangible assets[2]	$	**48.7**	$	53.6	(9%)	$	**152.2**	$	153.8	(1%)
Production volumes										
Nickel (tonnes)(50% basis)[3]		**3,909**		4,395	(11%)		**12,693**		12,689	-
Cobalt (tonnes)(50% basis)[3]		**436**		489	(11%)		**1,410**		1,408	-
Coal - Prairie Operations (millions of tonnes)		**7.3**		7.7	(5%)		**22.9**		22.9	-
Coal - Mountain Operations (millions of tonnes)		**0.9**		1.0	(10%)		**2.7**		3.1	(13%)
Oil - Cuba - net working-interest (barrels per day)		**10,761**		11,265	(4%)		**10,815**		11,474	(6%)
Electricity (gigawatt hours) (33⅓% basis)		**154**		159	(3%)		**466**		461	1%
Unit operating costs[1]										
Nickel (US$ per pound)[3][4]	$	**5.13**	$	4.46	15%	$	**4.88**	$	4.25	15%
Coal - Prairie Operations ($ per tonne)[5]		**15.22**		14.32	6%		**14.95**		14.19	5%
Coal - Mountain Operations ($ per tonne)		**84.57**		83.94	1%		**87.12**		81.44	7%
Oil - Cuba ($ per barrel)		**11.81**		12.65	(7%)		**12.38**		11.59	7%
Electricity ($ per megawatt hour)		**14.81**		20.13	(26%)		**16.28**		21.26	(23%)
Averaged-realized prices[6]										
Nickel ($ per pound)[3]	$	**7.20**	$	9.81	(27%)	$	**7.94**	$	10.70	(26%)
Cobalt ($ per pound)[3]		**12.55**		15.50	(19%)		**13.54**		16.42	(18%)
Coal - Prairie Operations ($ per tonne)[5]		**17.47**		16.20	8%		**17.55**		16.19	8%
Coal - Mountain Operations ($ per tonne)		**100.32**		102.39	(2%)		**102.66**		98.03	5%
Oil - Cuba ($ per barrel)		**70.69**		70.36	-		**73.59**		67.06	10%
Electricity ($ per megawatt hour)		**41.20**		40.66	1%		**41.49**		40.49	2%

$ millions, except as noted, as at		2012 September 30		Adjusted[7] 2012 September 30		2011 December 31	Change
Financial condition							
Current ratio		**2.88:1**		**4.06:1**		3.73:1	9%
Net working capital balance	$	**1,110.8**	$	**1,109.7**	$	1,016.7	9%
Cash, cash equivalents and short-term investments		**934.2**		**706.0**		631.4	12%
Total assets		**6,971.0**		**6,742.8**		6,497.5	4%
Total loans and borrowings		**2,220.4**		**2,017.6**		1,744.7	16%
Shareholders' equity		**3,674.0**		**3,672.9**		3,731.7	(2%)
Long-term debt to total assets[8]		**33%**		**31%**		28%	11%

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

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

(3) Production volumes, unit operating costs and average-realized prices do not include the impact of Ambatovy Joint Venture.

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

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

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

(7) Amounts at September 30, 2012 have been adjusted to exclude the balance of the 8.25% Senior Unsecured Debentures included in current liabilities and the cash received on the issue of the 7.5% Senior Unsecured Debentures used to redeem these debentures in October 2012.

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

Executive summary

Q3 2012 HIGHLIGHTS

- Sherritt completed an offering of $500.0 million principal amount of 7.5% Senior Unsecured Debentures due September 24, 2020 (2020 debentures). The net proceeds of $489.6 million (after agents' fees and the deduction of expenses) were used to fund the repurchase and redemption of the outstanding principal amount of Sherritt's 8.25% Senior Unsecured Debentures that were due for redemption in October 2014 (2014 debentures); the remainder is available for general corporate purposes. $21.1 million of the 2014 debentures were purchased and cancelled in the third quarter and the balance were redeemed in October 2012. This transaction improved Sherritt's overall debt maturity and liquidity profile.
- Revenue for the third quarter of 2012 was $422.2 million compared to $466.4 million in the same period in the prior year. Lower revenue was primarily the result of lower nickel prices and volumes and lower export thermal coal volumes. These reductions were partly offset by higher fertilizer revenue and the overall impact of a weaker Canadian dollar relative to the U.S. dollar compared to the prior year.
- EBITDA[1] for the third quarter of 2012 was $115.9 million compared to $148.5 million in the same period in the prior year. Lower EBITDA was primarily due to lower revenue discussed above.
- The net loss for the third quarter of 2012 was $22.6 million compared to net earnings of $45.5 million in the same period in the prior year. In addition to the impact of lower EBITDA described above, net earnings were lower as a result of higher net finance expense and depreciation, partly offset by lower income tax expense. Net finance expense was higher primarily due to the redemption premium on the 2014 debentures and a reduction in the fair value of the Ambatovy call option. Depreciation was higher as a result of various factors including a change in estimate for environmental rehabilitation obligations at Mountain Operations and higher property, plant and equipment balances. Income tax expense was lower as a result of lower net earnings.
- Operating cash flow for the three months ended September 30, 2012, was $113.8 million compared to $95.8 million in the same period in the prior year, primarily due to changes in non-cash working capital which more than offset the impact of lower net earnings. The net loss in the third quarter of 2012 includes significant non-cash items including the redemption premium on the 2014 debentures and higher depreciation as compared to the same period in the prior year.
- At Ambatovy, total nickel production in the quarter, including test briquettes, was 2,370 tonnes, with an average nickel content exceeding 99.8%. The first Ambatovy cobalt briquettes were sintered in September. Total cobalt production during the quarter was 165 tonnes, including test production, with an average cobalt content exceeding 99.8%.
- With respect to the ramp-up at Ambatovy, all five autoclaves in the Pressure Acid Leach (PAL) area were operable during the quarter. Total autoclave operating hours during third-quarter 2012 were 4,119 hours, progressing from 988 hours in July to 1,707 hours in September. During the quarter, an average ore throughput of approximately 30% of nameplate capacity was achieved in the PAL circuit. In September, ore throughput was 39% of nameplate capacity.
- Spending on capital at the Ambatovy Joint Venture for third-quarter 2012 was US$8.6 million (100% basis) and cumulative spending on capital at Ambatovy to September 30, 2012 was US$5.3 billion (100% basis). Total capital costs for Ambatovy are expected to remain within the US$5.5 billion (100% basis) estimate.
- At September 30, 2012, total available liquidity was approximately $1.4 billion. Total debt at September 30, 2012 was $2.2 billion, of which $2.0 billion was classified as long-term, including $802.7 million related to non-recourse Ambatovy Partner loans to Sherritt. The Corporation's liquidity profile includes a current ratio of 2.88:1, a net working capital balance of $1.1 billion, and cash, cash equivalents, and short-term investments of $934.2 million. The Corporation's long-term debt to total assets ratio was 33%. At September 30, 2012, the Corporation's cash and cash equivalents included funds received through the issue of the 2020 debentures that were subsequently used to redeem the 2014 debentures in October 2012. Excluding the balance of the 2014 debentures redeemed and the cash used to redeem them, at September 30, 2012 the Corporation had total available liquidity of approximately $1.2 billion, total debt of $2.0 billion, a net working capital balance of $1.1 billion, a current ratio of 4.06:1, cash, cash equivalents and short-term investments of $706.0 million, and a long-term debt to total assets ratio of 31%.

[1] For additional information, see the Non-GAAP measures section.

Consolidated financial results

$ millions, except per share amounts	For the three months ended 2012 September 30	2011 September 30	Change	For the nine months ended 2012 September 30	2011 September 30	Change
Revenue by segment						
Metals	$ **88.4**	$ 122.9	(28%)	$ **343.4**	$ 412.7	(17%)
Coal	**237.1**	247.2	(4%)	**733.0**	747.2	(2%)
Oil and Gas	**74.2**	78.5	(5%)	**232.7**	230.5	1%
Power	**18.8**	14.0	34%	**53.0**	41.4	28%
Corporate and other	**3.7**	3.8	(3%)	**10.2**	9.7	5%
	422.2	466.4	(9%)	**1,372.3**	1,441.5	(5%)
EBITDA(1) by segment						
Metals	$ **17.2**	$ 44.4	(61%)	$ **95.9**	$ 164.7	(42%)
Coal	**44.3**	43.5	2%	**137.8**	135.2	2%
Oil and Gas	**58.6**	60.8	(4%)	**182.2**	181.2	1%
Power	**6.5**	6.4	2%	**18.2**	17.7	3%
Corporate and other	**(10.7)**	(6.6)	62%	**(32.4)**	(28.0)	16%
	115.9	148.5	(22%)	**401.7**	470.8	(15%)
Earnings (loss) from operations and associate						
Metals	$ **8.6**	$ 35.7	(76%)	$ **68.6**	$ 143.2	(52%)
Coal	**4.9**	14.0	(65%)	**40.4**	56.1	(28%)
Oil and Gas	**42.0**	43.4	(3%)	**130.3**	132.2	(1%)
Power	**3.5**	3.7	(5%)	**9.9**	9.8	1%
Corporate and other	**(11.2)**	(7.1)	58%	**(34.2)**	(29.6)	16%
	47.8	89.7	(47%)	**215.0**	311.7	(31%)
Net finance expense	**68.8**	27.6	149%	**147.0**	71.2	106%
Income taxes	**1.6**	16.3	(90%)	**21.9**	70.4	(69%)
(Earnings) loss from discontinued operation, net of tax	**-**	0.3	(100%)	**(4.4)**	0.9	(589%)
Net earnings	$ **(22.6)**	$ 45.5	(150%)	$ **50.5**	$ 169.2	(70%)
Net earnings per share (basic)	$ **(0.08)**	$ 0.16	(150%)	$ **0.17**	$ 0.58	(71%)
Net earnings per share (diluted)	$ **(0.08)**	$ 0.15	(153%)	$ **0.17**	$ 0.57	(70%)
Effective tax rate	**(8%)**	26%	(131%)	**32%**	29%	10%

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

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

- Metals' earnings from operations and associate of $8.6 million and $68.6 million for the three and nine months ended September 30, 2012 were $27.1 million and $74.6 million lower, respectively, than in the same periods in 2011. Earnings from operations in the third quarter were lower primarily due to lower nickel and cobalt prices, partially offset by lower fuel and sulphuric acid costs. Earnings from operation for the nine month period were lower primarily due to lower nickel and cobalt prices and higher fuel and sulphur input commodity prices. Both periods benefited from higher fertilizer revenue and the impact of a weaker Canadian dollar relative to the U.S. dollar;
- Coal's earnings from operations of $4.9 million and $40.4 million for the three and nine months ended September 30, 2012 were $9.1 million and $15.7 million lower, respectively, than in the same periods in 2011, primarily due to lower export sales volume and higher depreciation as a result of a change in estimate for environmental rehabilitation obligations and increased property, plant and equipment balances in Mountain Operations, partly offset by higher margins in Prairie Operations;

- Oil and Gas' earnings from operations of $42.0 million and $130.3 million for the three and nine months ended September 30, 2012 were $1.4 million and $1.9 million lower, respectively, than in the same periods in 2011. Earnings from operations in the third quarter were relatively unchanged as the impact of lower gross working-interest production was offset by lower input costs and the impact of a weaker Canadian dollar relative to the U.S. dollar. In addition, in the third quarter of 2011, Oil and Gas' earnings included an impairment on exploration and evaluation assets. Earnings from operations for the first nine months of 2012 were also relatively unchanged as the lower cost recovery revenue due to lower recoverable capital spending, lower gross working-interest production, and retroactive adjustment for processing revenue recognized in 2011 were offset by higher average-realized prices, including the impact of a weaker Canadian dollar relative to the U.S. dollar, and the inclusion of the impairment recognized in the third quarter of 2011;
- Power's earnings from operations of $3.5 million and $9.9 million for the three and nine months ended September 30, 2012, respectively, were relatively unchanged from the same periods in the prior year;
- Net finance expense of $68.8 million and $147.0 million for the three months and nine months ended September 30, 2012 was $41.2 million and $75.8 million higher, respectively, than in the same periods in the prior year primarily due to the redemption premium of $27.0 million on the 2014 debentures in the third quarter of 2012; a reduction in the value of the Ambatovy call option of $3.2 million and $16.1 million in the third quarter and first nine months of 2012, respectively, and higher foreign exchange losses and interest expense and accretion on loans and borrowings in the current year periods. The Ambatovy call option relates to the right of the Corporation and Sumitomo Corporation to acquire SNC-Lavalin Inc.'s 5% equity interest in the Ambatovy Joint Venture at any time over a two-year period following the completion of construction and the satisfaction of certain completion tests. The fair value of the Ambatovy call option is a result of changes in various inputs used in the Black-Scholes model, including volatility, which is based on a blend of historical commodity prices and publicly traded stock prices of companies with comparable projects, and the reduced time to expiration of the option;
- The effective consolidated tax rates for the three and nine months ended September 30, 2012 were negative 8% and 32% compared to 26% and 29%, respectively, in the same periods in the prior year. The 2012 normalized effective tax rates for the three and nine months ended September 30, 2012, were 26% and 23%, respectively, after adjusting for the impact of higher non-deductible net foreign exchange losses in certain jurisdictions relative to lower taxable earnings in other jurisdictions, and for the nine month period, the recognition of the tax benefit of certain tax losses that had not previously been recognized. The difference between these normalized 2012 effective tax rates and the effective tax rates of 26% and 29% for the three and nine months ended September 30, 2011, respectively, is primarily the result of changes in the overall relative mix of earnings incurred by the divisions in different tax rate jurisdictions.

Review of operations

METALS

Financial review

$ millions	For the three months ended 2012 September 30	2011 September 30	Change	For the nine months ended 2012 September 30	2011 September 30	Change
Revenue						
Nickel	$ 61.9	$ 92.4	(33%)	$ 222.8	$ 298.8	(25%)
Cobalt	11.9	16.3	(27%)	41.9	51.2	(18%)
Fertilizers	12.2	9.5	28%	70.9	51.3	38%
Other	2.4	4.7	(49%)	7.8	11.4	(32%)
	88.4	122.9	(28%)	343.4	412.7	(17%)
Cost of sales[1]						
Mining, processing and refining	55.3	62.6	(12%)	187.2	174.7	7%
Third-party feed costs	0.5	1.1	(55%)	2.7	4.6	(41%)
Fertilizers	6.6	6.7	(1%)	34.2	39.0	(12%)
Selling costs	2.9	2.8	4%	10.3	9.3	11%
Other	4.3	4.7	(9%)	9.6	16.3	(41%)
	69.6	77.9	(11%)	244.0	243.9	-
Administrative expenses[1]	1.6	0.6	167%	3.5	4.1	(15%)
EBITDA[2]	17.2	44.4	(61%)	95.9	164.7	(42%)
Depletion, depreciation and amortization	8.5	7.2	18%	26.0	22.1	18%
Share of (earnings) loss of associate	0.1	1.5	(93%)	1.3	(0.6)	(317%)
Earnings from operations and associate	$ 8.6	$ 35.7	(76%)	$ 68.6	$ 143.2	(52%)

(1) Excluding depletion, depreciation and amortization.
(2) For additional information see the Non-GAAP measures section.

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

$ millions	For the three months ended 2012 September 30	For the nine months ended 2012 September 30
Lower realized nickel prices, denominated in U.S. dollars	$ (24.9)	$ (82.9)
Lower realized cobalt prices, denominated in U.S. dollars	(3.1)	(9.9)
Higher fertilizer prices	0.1	10.2
Higher (lower) metal sales volumes net of higher fertilizer sales volumes	(1.7)	1.6
Lower (higher) mining and processing costs net of lower third-party feed costs	0.2	(9.7)
Weaker Canadian dollar relative to the U.S. dollar	5.1	19.2
Other	(2.8)	(3.1)
Change in earnings from operations, compared to 2011	$ (27.1)	$ (74.6)

Metal prices

Prices		For the three months ended 2012 September 30	2011 September 30	Change		For the nine months ended 2012 September 30		2011 September 30	Change
Nickel - average-realized ($ per pound)	$	**7.20**	$ 9.81	(27%)	$	**7.94**	$	10.70	(26%)
Cobalt - average-realized ($ per pound)		**12.55**	15.50	(19%)		**13.54**		16.42	(18%)
Nickel - average-reference (US$ per pound)		**7.40**	10.00	(26%)		**8.04**		11.04	(27%)
Cobalt - average-reference (US$ per pound)[1]		**13.06**	16.13	(19%)		**13.96**		17.16	(19%)

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

Average reference prices for nickel and cobalt decreased in 2012 compared to the same periods in the prior year as global production outpaced global demand. The average nickel reference price decreased US$2.60 per pound in the third quarter and US$3.00 per pound in the first nine months of 2012 compared to the same periods in the prior year while the average cobalt reference price decreased US$3.07 per pound in the third quarter and US$3.20 per pound in the first nine months of 2012 compared to the same periods in the prior year. Average-realized prices in 2012 were also lower, but were positively impacted by the weaker Canadian dollar relative to the U.S. dollar.

Production and sales

Production (tonnes) (50% basis)	For the three months ended 2012 September 30	2011 September 30	Change	For the nine months ended 2012 September 30	2011 September 30	Change
Mixed sulphides	**4,750**	4,872	(2%)	**14,285**	14,647	(2%)
Finished nickel	**3,909**	4,395	(11%)	**12,693**	12,689	-
Finished cobalt	**436**	489	(11%)	**1,410**	1,408	-
Sales						
Finished nickel (thousands of pounds)(50% basis)	**8,590**	9,421	(9%)	**28,060**	27,922	-
Finished cobalt (thousands of pounds)(50% basis)	**949**	1,052	(10%)	**3,096**	3,121	(1%)
Fertilizer (tonnes)[1]	**20,451**	15,055	36%	**118,372**	103,400	14%

(1) 100% basis except Moa JV refinery by-product fertilizers included at 50%.

Production of 9,501 tonnes (100% basis) of contained nickel and cobalt in mixed sulphides in the third quarter of 2012 was 243 tonnes (100% basis) lower than in the same period in the prior year reflecting lower process plant throughput due to planned maintenance. Finished nickel production of 7,819 tonnes (100% basis) and finished cobalt production of 873 tonnes (100% basis) were lower as the annual maintenance turnaround for the refinery occurred in the third quarter of 2012 compared to the second quarter of 2011.

Finished nickel and cobalt sales in the third quarter were lower primarily due to lower finished metals production. Fertilizer sales volumes increased 5,396 tonnes in the third quarter compared to the same period in the prior year primarily due to higher production and the timing of fall season sales. Fertilizer sales volumes increased 14,972 tonnes in the first nine months of 2012 compared to the same period in the prior year reflecting poor spring weather conditions in the prior year and the timing of fall season sales.

Unit operating costs

Net direct cash cost[1]	For the three months ended 2012 September 30	2011 September 30	Change	For the nine months ended 2012 September 30	2011 September 30	Change
Mining, processing and refining costs	$ **6.48**	$ 6.28	3%	$ **6.55**	$ 6.06	8%
Third-party feed costs	**0.06**	0.11	(45%)	**0.10**	0.17	(41%)
Cobalt by-product credits	**(1.39)**	(1.76)	(21%)	**(1.49)**	(1.87)	(20%)
Other[2]	**(0.02)**	(0.17)	(88%)	**(0.28)**	(0.11)	155%
Net direct cash cost (US$ per pound of nickel)	$ **5.13**	$ 4.46	15%	$ **4.88**	$ 4.25	15%
Natural gas costs ($ per gigajoule)	**2.27**	3.45	(34%)	**2.13**	3.64	(41%)
Fuel oil (US$ per tonne)	**629**	658	(4%)	**676**	605	12%
Sulphur (US$ per tonne)	**263**	261	1%	**266**	235	13%
Sulphuric acid (US$ per tonne)	**184**	192	(4%)	**188**	188	-

(1) For additional information see the Non-GAAP measures section.
(2) Includes fertilizer profit or loss, marketing costs, discounts, and other by-product credits.

Components of mining, processing and refining costs [1]	For the three months ended 2012 September 30	2011 September 30	Change	For the nine months ended 2012 September 30	2011 September 30	Change
Fixed costs	**20%**	19%	5%	**19%**	20%	(5%)
Sulphur	**9%**	9%	-	**9%**	8%	13%
Sulphuric acid	**16%**	20%	(20%)	**17%**	20%	(15%)
Fuel oil	**18%**	19%	(5%)	**19%**	18%	6%
Maintenance	**13%**	11%	18%	**11%**	11%	-
Other variable	**24%**	22%	9%	**25%**	23%	9%
	100%	100%	-	**100%**	100%	-

(1) Approximate breakdown of mining, processing and refining costs based on a breakdown of 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$0.67 per pound in the third quarter of 2012 compared to the same period in the prior year primarily due to lower cobalt by-product credits, higher refining costs reflecting the impact of the annual maintenance turnaround, and to the variability resulting from the timing of realized nickel prices relative to the nickel reference price. These increases were partially offset by lower input commodity costs (fuel oil and sulphuric acid) and higher realized fertilizer prices and sales volumes. Net direct cash cost of nickel increased US$0.63 per pound in the first nine months of 2012 compared to the same period in the prior year primarily due to an increase in mining and processing costs and lower cobalt by-product credits, partly offset by higher fertilizer by-product credits and lower third-party feed costs. Increased mining and processing costs reflected higher fuel oil and sulphur input prices. Third-party feed costs decreased as a result of lower utilization of third-party feed.

Spending on capital[1]

$ millions	For the three months ended 2012 September 30	2011 September 30	Change	For the nine months ended 2012 September 30	2011 September 30	Change
Sustaining[2]	$ **6.1**	$ 7.0	(13%)	$ **17.0**	$ 20.4	(17%)
Expansion	**0.2**	1.0	(80%)	**1.3**	2.9	(55%)
Total	$ **6.3**	$ 8.0	(21%)	$ **18.3**	$ 23.3	(21%)

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

(2) Includes assets acquired under finance leases of $0.2 million and $1.1 million for the three and nine months ended September 30, 2012, and $2.3 million and $2.5 million for the three and nine months ended September 30, 2011, respectively.

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

Ambatovy update

- Total nickel production in the quarter, including test briquettes, was 2,370 tonnes, with an average nickel content exceeding 99.8%. The first Ambatovy cobalt briquettes were sintered in September. Total cobalt production was 165 tonnes, including test production, with an average cobalt content exceeding 99.8%.
- With respect to the ramp-up, all five autoclaves in the Pressure Acid Leach (PAL) area were operable during the quarter. Total autoclave operating hours in the third-quarter of 2012 were 4,119 hours, progressing from 988 hours in July to 1,707 hours in September. During the quarter, an average ore throughput of approximately 30% of nameplate capacity was achieved in the PAL circuit. In September, ore throughput was 39% of nameplate capacity. Approximately 5,980 tonnes of nickel and cobalt contained in mixed sulphides were introduced to the refinery during the third-quarter of 2012.
- Total capital costs for Ambatovy are expected to remain within the US$5.5 billion (100% basis) estimate. Spending on capital at the Ambatovy Joint Venture in the third-quarter of 2012 was US$8.6 million ($8.6 million) (100% basis), 91% lower than the prior-year period, as construction has been completed. Cumulative spending on capital at Ambatovy to September 30, 2012 was US$5.3 billion (100% basis), excluding financing charges, working capital and foreign exchange.
- Total project costs (including financing charges, working capital and foreign exchange) in third-quarter 2012 were US$170.7 million ($169.7 million) (100% basis). Cumulative total project costs to September 30, 2012 were US$6.5 billion (100% basis). Total project costs will vary until commercial production is declared. The most significant variability in total project costs is likely to arise from the working capital component and production revenue component (which is netted from these costs).
- In the third-quarter of 2012, a total of US$170.0 million (100% basis) in funding was provided by the Ambatovy Joint Venture partners, 38% lower than in second-quarter 2012. Sherritt's 40% share of the third-quarter 2012 funding of US$68.0 million ($67.7 million) was sourced from cash on hand.
- In September 2012, Ambatovy received a six-month authorization ("Operating Permit") to commercially operate the processing plant in Toamasina, Madagascar, which is to automatically convert to a life-of-mine Operating Permit at the end of the six-month period. The Ambatovy operations are expected to reach commercial production (defined as 70% of mixed sulphides production capacity, also referred to as ore throughput as a percentage of nameplate capacity) by early 2013. Commercial production is the point at which all operating costs, net of revenue, are expensed rather than capitalized. The date at which the project becomes cash-flow neutral is difficult to predict as it depends on several external factors, including the nickel reference price which has demonstrated significant volatility in 2012. Ambatovy is designed to produce 60,000 tonnes (100% basis) of nickel and 5,600 tonnes (100% basis) of cobalt annually at capacity.
- The Government of Madagascar has 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.

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

Outlook for 2012

Production volumes and spending on capital and project For the nine and twelve months ended	**Actual 2012 September 30**	Projected 2012 December
Production		
Mixed sulphides (tonnes, 100% basis)		
Moa Joint Venture	**28,571**	38,000
Ambatovy Joint Venture	**5,980**	9,000
	34,551	47,000
Finished nickel (tonnes, 100% basis)		
Moa Joint Venture	**25,386**	34,000
Ambatovy Joint Venture	**2,370**	6,400
	27,756	40,400
Finished cobalt (tonnes, 100% basis)		
Moa Joint Venture	**2,820**	3,700
Ambatovy Joint Venture	**165**	620
	2,985	4,320
Spending on capital ($ millions)		
Moa Joint Venture (50% basis), Fort Saskatchewan (1)	**18**	37
Project capital spending (US$ millions, 100% basis)		
Ambatovy Joint Venture	**73**	73

For the Moa Joint Venture, production guidance for 2012 remains relatively unchanged. The minor increase (3%, 100 tonnes) in estimated cobalt production reflects a lower nickel to cobalt ratio that has been characteristic of the feed this year. Capital spending for 2012 is 30% ($16 million, 50% basis) lower than prior guidance, reflecting the capital spending deferral implemented earlier in 2012 and, more recently, due to delays related to the execution of capital projects.

For the Ambatovy Joint Venture, 2012 production estimates for finished metal are lower than previous guidance (1,600 tonnes or 20% for nickel, 180 tonnes or 23% for cobalt). Estimates were adjusted to reflect the insights gained, and production achievements reached, during Ambatovy's first quarter of production that occurred in the third quarter of 2012. Capital spending for 2012 at Ambatovy is estimated to be 14% ($9 million) higher than prior guidance, reflecting actual spending in the first three quarters of the year.

COAL

Financial review

$ millions, for the three months ended September 30	Prairie Operations 2012	2011	Change	Mountain Operations and coal development assets 2012	2011	Change	Total 2012	2011	Change
Mining revenue	**$ 140.3**	$ 136.9	2%	**$ 83.7**	$ 97.9	(15%)	**$ 224.0**	$ 234.8	(5%)
Coal royalties	**10.1**	7.6	33%	**-**	-	-	**10.1**	7.6	33%
Potash royalties	**3.0**	4.8	(38%)	**-**	-	-	**3.0**	4.8	(38%)
	153.4	149.3	3%	**83.7**	97.9	(15%)	**237.1**	247.2	(4%)
Cost of sales[1]	**120.3**	119.8	-	**71.4**	80.8	(12%)	**191.7**	200.6	(4%)
Administrative expenses[1]	**(0.8)**	1.7	(147%)	**1.9**	1.4	36%	**1.1**	3.1	(65%)
EBITDA[2]	**33.9**	27.8	22%	**10.4**	15.7	(34%)	**44.3**	43.5	2%
Depletion, depreciation and amortization	**15.0**	16.9	(11%)	**24.4**	12.6	94%	**39.4**	29.5	34%
Earnings (loss) from operations	**$ 18.9**	$ 10.9	73%	**$ (14.0)**	$ 3.1	(552%)	**$ 4.9**	$ 14.0	(65%)

$ millions, for the nine months ended September 30	Prairie Operations 2012	2011	Change	Mountain Operations and coal development assets 2012	2011	Change	Total 2012	2011	Change
Mining revenue	**$ 417.6**	$ 398.9	5%	**$ 274.7**	$ 304.4	(10%)	**$ 692.3**	$ 703.3	(2%)
Coal royalties	**30.9**	29.1	6%	**-**	-	-	**30.9**	29.1	6%
Potash royalties	**9.8**	14.8	(34%)	**-**	-	-	**9.8**	14.8	(34%)
	458.3	442.8	4%	**274.7**	304.4	(10%)	**733.0**	747.2	(2%)
Cost of sales[1]	**351.0**	348.4	1%	**235.1**	253.0	(7%)	**586.1**	601.4	(3%)
Administrative expenses[1]	**3.6**	6.4	(44%)	**5.5**	4.2	31%	**9.1**	10.6	(14%)
EBITDA[2]	**103.7**	88.0	18%	**34.1**	47.2	(28%)	**137.8**	135.2	2%
Depletion, depreciation and amortization	**45.1**	43.7	3%	**52.3**	35.4	48%	**97.4**	79.1	23%
Earnings (loss) from operations	**$ 58.6**	$ 44.3	32%	**$ (18.2)**	$ 11.8	(254%)	**$ 40.4**	$ 56.1	(28%)

(1) Excluding depletion, depreciation and amortization.
(2) For additional information see the Non-GAAP measures section.

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

$ millions	For the three months ended 2012 September 30	For the nine months ended 2012 September 30
Prairie Operations		
Higher mining revenue, net of cost of sales	**$ 2.9**	**$ 16.1**
Higher coal royalties, net of lower potash royalties	**0.7**	**(3.2)**
Lower (higher) depletion, depreciation and amortization	**1.9**	**(1.4)**
Higher defined benefit pension plan recovery	**2.2**	**2.2**
Other	**0.3**	**0.6**
Change in earnings from operations, compared to 2011	**$ 8.0**	**$ 14.3**
Mountain Operations and coal development assets		
(Lower) higher export coal prices, denominated in U.S. dollars	**(3.8)**	**5.0**
Weaker Canadian dollar relative to the U.S. dollar	**1.6**	**7.8**
Lost margin on reduced sales tonnage	**(1.9)**	**(6.8)**
Higher depletion, depreciation and amortization	**(11.8)**	**(16.9)**
Higher mining costs	**(0.6)**	**(15.2)**
Other	**(0.6)**	**(3.9)**
Change in earnings from operations, compared to 2011	**$ (17.1)**	**$ (30.0)**

In Mountain Operations, higher depreciation expense for the third quarter and the first nine months of 2012 compared to the same periods in the prior year was due to higher depreciation on increased property, plant and equipment and a change in estimate for environmental rehabilitation obligations. The environmental rehabilitation obligation in Coal was reviewed during third-quarter in response to new reclamation bonding requirements under the Mine Financial Security Program in Alberta. As a result of the review, the environmental rehabilitation obligation was revised upward by $12.2 million, reflecting updated cost and productivity assumptions for reclamation activities on the existing footprint of disturbed land in Mountain Operations.

Coal prices

	For the three months ended			For the nine months ended		
	2012	2011		**2012**	2011	
Average-realized prices ($ per tonne)[1]	**September 30**	September 30	Change	**September 30**	September 30	Change
Prairie Operations	**$ 17.47**	$ 16.20	8%	**$ 17.55**	$ 16.19	8%
Mountain Operations	**100.32**	102.39	(2%)	**102.66**	98.03	5%

(1) Average-realized price is a non-GAAP measure. It is calculated by dividing revenue from the Financial review table above by the number of tonnes sold. For purposes of this calculation, for Prairie Operations, revenue excludes royalties, activated carbon, char and other of $21.1 million and $64.3 million for the three and nine months ended September 30, 2012, ($19.4 million and $64.1 million for the three and nine months ended September 30, 2011), respectively, and tonnes sold excludes activated carbon and char of 23.0 thousand tonnes and 86.6 thousand tonnes for the three and nine months ended September 30, 2012 (29.7 thousand tonnes and 93.6 thousand tonnes for the three and nine months ended September 30, 2011), respectively. Average-realized price may not calculate based on amounts presented due to rounding.

In Prairie Operations, the average-realized price increased for the third quarter and first nine months of 2012 compared to the same periods in the prior year primarily due to higher cost recoveries earned at the Highvale and Genesee mines. Additionally, average-realized prices increased for these same periods at the Paintearth, Sheerness and Poplar River mines which earned a significant portion of fixed revenue over lower sales volumes. Lower sales volumes at these mines generally reflected the timing of scheduled maintenance repairs at the associated customer's generating stations and reduced demand at the Sheerness generating station.

In Mountain Operations, the average-realized price decreased in the third quarter of 2012 compared to the same period in the prior year due to weaker international export coal prices. The average-realized price increased for the first nine months of 2012 compared to the same period in the prior year due to a weaker Canadian dollar relative to the U.S. dollar and a lower relative proportion of Obed Mountain mine sales volumes.

Royalty revenue

	For the three months ended			For the nine months ended		
	2012	2011		**2012**	2011	
$ millions	**September 30**	September 30	Change	**September 30**	September 30	Change
Prairie Operations						
Coal royalties	**$ 10.1**	$ 7.6	33%	**$ 30.9**	$ 29.1	6%
Potash royalties	**3.0**	4.8	(38%)	**9.8**	14.8	(34%)

Coal royalties for both the third quarter and first nine months of 2012 were higher compared to the same periods in the prior year due to the timing of mining activities in royalty assessable areas. Potash royalties were lower for both the third quarter and first nine months of 2012 due to lower production volumes from potash producers due to weaker market demand.

Production and sales

	For the three months ended			For the nine months ended		
	2012	2011		**2012**	2011	
Production (millions of tonnes)	**September 30**	September 30	Change	**September 30**	September 30	Change
Prairie Operations	**7.3**	7.7	(5%)	**22.9**	22.9	-
Mountain Operations	**0.9**	1.0	(10%)	**2.7**	3.1	(13%)
Sales (millions of tonnes)						
Prairie Operations	**7.6**	8.1	(6%)	**22.5**	23.5	(4%)
Mountain Operations	**0.9**	1.0	(10%)	**2.7**	3.1	(13%)

In Prairie Operations, production volumes were lower for the third quarter of 2012 compared to the same period in the prior year primarily due to dragline and shovel maintenance activity at the Highvale mine and the replacement of a major dragline component at the Bienfait mine. Record activated carbon production of 5,710 tonnes (50% basis) for the first nine months of 2012 was 967 tonnes higher than the same period in the prior year due to continued improvements in plant availability. Prairie Operations sales volumes were lower for the third quarter and first nine months of 2012 compared to the same periods in the prior year due to the factors discussed above.

In Mountain Operations, production and sales volumes were lower for the third quarter and first nine months of 2012 compared to the same periods in the prior year. Production volumes at the Obed Mountain mine were reduced in order to achieve an optimal thermal export sales mix. Production volumes at the Coal Valley mine were higher primarily due to good results from Yellowhead Tower where mining activity began in May 2012 as well as additional loading equipment that arrived in the second quarter.

Unit operating costs

	For the three months ended			For the nine months ended		
	2012	2011		**2012**	2011	
Unit operating cost[1] ($ per tonne)	**September 30**	September 30	Change	**September 30**	September 30	Change
Prairie Operations	**$ 15.22**	$ 14.32	6%	**$ 14.95**	$ 14.19	5%
Mountain Operations	**84.57**	83.94	1%	**87.12**	81.44	7%

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

Components of unit operating cost (%)	For the three months ended 2012 September 30	2011 September 30	Change	For the nine months ended 2012 September 30	2011 September 30	Change
Prairie Operations						
Labour	**41%**	38%	8%	**41%**	41%	-
Repairs and maintenance	**25%**	30%	(17%)	**27%**	29%	(7%)
Fuel	**15%**	15%	-	**15%**	15%	-
Other (1)	**19%**	17%	12%	**17%**	15%	13%
Total	**100%**	100%	-	**100%**	100%	-
Mountain Operations						
Labour	**23%**	20%	15%	**23%**	21%	10%
Repairs and maintenance	**13%**	14%	(7%)	**14%**	14%	-
Fuel	**12%**	11%	9%	**12%**	11%	9%
Rentals and contractors	**16%**	15%	7%	**16%**	14%	14%
Ex-Mine(2)	**28%**	25%	12%	**29%**	29%	-
Other (3)	**8%**	15%	(47%)	**6%**	11%	(45%)
Total	**100%**	100%	-	**100%**	100%	-

(1) Composed of rentals, subcontractors, explosives, power, taxes, tires, licenses and other miscellaneous expenses.
(2) Primarily composed of commissions, royalties, freight and port fees.
(3) Composed of tires, explosives, power, taxes, licenses and other miscellaneous expenses.

In Prairie Operations, unit operating costs increased for the third quarter and first nine months of 2012 compared to the same periods in the prior year primarily due to reduced production volumes as discussed above and higher mining costs at the Highvale and Genesee mines.

In Mountain Operations, unit operating costs increased for the third quarter and first nine months of 2012 compared to the same periods in the prior year primarily due to lower Obed Mountain mine production volumes as discussed above. At the Coal Valley mine, unit operating costs were also higher during the first nine months of 2012 due to higher rental and contractor costs on lower production volumes. Third quarter 2012 unit operating costs did however decrease $3.04 per tonne from $87.61 per tonne in the second quarter 2012 due to the operational improvements discussed above.

Spending on capital

$ millions	For the three months ended 2012 September 30	2011 September 30	Change	For the nine months ended 2012 September 30	2011 September 30	Change
Prairie Operations						
Sustaining(1)(2)	**$ 23.6**	$ 21.0	12%	**$ 50.3**	$ 57.4	(12%)
Mountain Operations						
Sustaining(3)	**4.7**	5.5	(15%)	**44.6**	17.8	151%
Total	**$ 28.3**	$ 26.5	7%	**$ 94.9**	$ 75.2	26%

(1) Includes assets acquired under finance leases of $13.2 million and $24.0 million for the three and nine months ended September 30, 2012 ($10.5 million and $30.3 million for the three and nine months ended September 30, 2011), respectively.
(2) Includes capital expenditures of $5.6 million and $13.1 million for the three and nine months ended September 30, 2012 ($9.7 million and $27.6 million for the three and nine months ended September 30, 2011), respectively, related to assets that are categorized as finance lease receivables.
(3) Includes assets acquired under finance leases of $0.8 million and $20.3 million for the three and nine months ended September 30, 2012, ($1.3 million and $8.8 million for the three and nine months ended September 30, 2011), respectively.

For the first nine months of 2012, in addition to the acquisition of $24.0 million of leased equipment, Prairie Operations spent $12.1 million for the replacement of a major dragline component at the Bienfait mine that was completed at the beginning of October. Capital spending variances for the third quarter and first nine months of 2012 mostly reflected the timing of equipment arrivals at the mines.

In Mountain Operations, in addition to the acquisition of $20.3 million of leased equipment during the first nine months of 2012, Coal Valley mine spent $9.8 million related to the purchase of loading equipment, $11.7 million related to infrastructure development for new production areas and regulatory and drilling costs related to the Robb Trend area, a future mining area for the Coal Valley mine.

Regulatory update

On September 12, 2012 the Canadian federal government released final regulations for reducing greenhouse gas emissions from coal-fired electricity generation: "Reduction of Carbon Dioxide Emissions from Coal-Fired Generation of Electricity" (the "Regulations"). The Regulations provide that an average annual emissions intensity standard of 420 tonnes of CO_2 per gigawatt hour will apply to certain Canadian coal-fired electricity generating units. This 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 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. Equivalency agreements with provinces, under which the Regulations would stand down and the provincial regime would apply, are being negotiated or discussed by the federal government with the provinces of Saskatchewan and Alberta.

In the long term, Prairie Operations production could be reduced unless certain existing units or new units are modified to achieve 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 likely vary by location and province.

Outlook for 2012

Production volumes, royalties and spending on capital For the nine and twelve months ended	**Actual 2012 September 30**	Projected 2012 December
Production		
Prairie Operations (millions of tonnes)	**23**	31
Mountain Operations (millions of tonnes)	**3**	4
Royalties ($ millions)		
Coal	**31**	40
Potash	**10**	14
Spending on capital ($ millions)		
Prairie Operations	**50**	78
Mountain Operations	**45**	59

For Prairie Operations, full-year 2012 production is 6% (2 million tonnes) lower than previous guidance, reflecting lower production at the Highvale mine due to reduced customer demand. Capital spending for 2012 is 4% ($3 million) lower than prior guidance, reflecting management's efforts to reduce or defer capital to maximize cash flows.

For Mountain Operations, full-year 2012 production remains unchanged from previous guidance. Capital spending for 2012 is 5% ($3 million) lower than prior guidance, reflecting management's efforts to reduce or defer capital to maximize cash flows.

OIL AND GAS

Financial review

	For the three months ended			For the nine months ended		
	2012	2011		**2012**	2011	
$ millions	**September 30**	September 30	Change	**September 30**	September 30	Change
Revenue						
Cuba	**$ 70.0**	$ 73.0	(4%)	**$ 218.1**	$ 210.1	4%
Spain	**3.1**	3.7	(16%)	**10.6**	12.7	(17%)
Pakistan	**0.2**	0.2	-	**0.7**	0.7	-
Processing	**0.9**	1.6	(44%)	**3.3**	7.0	(53%)
	74.2	78.5	(5%)	**232.7**	230.5	1%
Cost of sales(1)	**13.4**	18.1	(26%)	**41.8**	44.6	(6%)
Administrative expenses(1)	**2.2**	1.6	38%	**8.7**	6.7	30%
Add:						
Impairment loss on exploration and evaluation assets	**-**	(2.0)	(100%)	**-**	(2.0)	(100%)
EBITDA(2)	**58.6**	60.8	(4%)	**182.2**	181.2	1%
Depletion, depreciation and amortization	**16.6**	15.4	8%	**51.9**	47.0	10%
Less:						
Impairment loss on exploration and evaluation assets	**-**	2.0	(100%)	**-**	2.0	(100%)
Earnings from operations	**$ 42.0**	$ 43.4	(3%)	**$ 130.3**	$ 132.2	(1%)

(1) Excluding depletion, depreciation and amortization.
(2) For additional information see the Non-GAAP measures section.

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

	For the three months ended	For the nine months ended
	2012	**2012**
$ millions	**September 30**	**September 30**
(Lower) higher realized oil and gas prices	**$ (1.0)**	**$ 10.0**
Lower exploration and evaluation impairment losses	**2.0**	**2.0**
Lower gross-working interest volumes	**(1.0)**	**(3.8)**
Lower cost recovery revenue due to lower recoverable capital spending	**(2.7)**	**(5.8)**
Retroactive processing revenue adjustment in 2011 on finalization of agreement	**-**	**(3.1)**
Higher administrative costs	**(0.6)**	**(2.0)**
Higher depletion, depreciation and amortization	**(1.3)**	**(4.9)**
Weaker Canadian dollar relative to the U.S. dollar	**1.0**	**4.4**
Other	**2.2**	**1.3**
Change in earnings from operations, compared to 2011	**$ (1.4)**	**$ (1.9)**

Oil prices

Prices	For the three months ended 2012 September 30	2011 September 30	Change	For the nine months ended 2012 September 30	2011 September 30	Change
Average-realized prices						
Cuba ($ per barrel)	$ **70.69**	$ 70.36	-	$ **73.59**	$ 67.06	10%
Spain ($ per barrel)	**110.67**	111.21	-	**112.42**	109.81	2%
Pakistan ($ per boe)(1)	**7.95**	8.15	(2%)	**8.10**	8.01	1%
Reference price (US$ per barrel)						
Gulf Coast Fuel Oil No. 6	**97.30**	98.55	(1%)	**100.97**	94.45	7%
Brent	**110.14**	114.47	(4%)	**112.89**	112.73	-

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

The average-realized price for oil produced in Cuba increased by $0.33 per barrel in the third quarter and by $6.53 per barrel in the first nine months of 2012 compared to the same periods in the prior year primarily due to the impact of a weaker Canadian dollar relative to the U.S. dollar. A higher Gulf Coast Fuel Oil No. 6 oil reference price also contributed to the increase for the first nine months of 2012.

The average-realized price for oil produced in Spain decreased by $0.54 per barrel in the third quarter and increased by $2.61 per barrel in the first nine months of 2012 compared to the same periods in the prior year primarily due to changes in the Brent reference price. Average-realized prices in 2012 were positively impacted by the weaker Canadian dollar relative to the U.S. dollar.

Production and sales

Daily production volumes(1)	For the three months ended 2012 September 30	2011 September 30	Change	For the nine months ended 2012 September 30	2011 September 30	Change
Gross working-interest oil production in Cuba(2)(3)	**20,557**	20,756	(1%)	**20,481**	20,843	(2%)
Net working-interest oil production						
Cuba (heavy oil)						
Cost recovery	**2,746**	3,501	(22%)	**2,907**	3,809	(24%)
Profit oil	**8,015**	7,764	3%	**7,908**	7,665	3%
Total	**10,761**	11,265	(4%)	**10,815**	11,474	(6%)
Spain (light/medium oil)(4)	**297**	354	(16%)	**343**	422	(19%)
Pakistan (natural gas)(4)	**350**	363	(4%)	**353**	354	-
Total	**11,408**	11,982	(5%)	**11,511**	12,250	(6%)

(1) Oil production is stated in barrels of oil per day (bopd). Natural gas production is stated in barrels of oil equivalent per day (boepd), which is converted at 6,000 cubic feet per barrel.
(2) In Cuba, Oil and Gas delivered all of its gross working-interest oil production to CUPET at the time of production. Gross working-interest oil production excludes (i) production from wells for which commerciality has not been established in accordance with production-sharing contracts, and (ii) working interests of other participants in the production-sharing contracts.
(3) For further information on gross working-interest oil production in Cuba, cost recovery, and profit oil see page 43 of the 2011 annual report.
(4) For Spain and Pakistan, net working-interest production is equal to gross working-interest production.

Gross working-interest (GWI) oil production in Cuba decreased 199 bopd in the third quarter and 362 bopd in the first nine months of 2012 compared to the same periods in 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 decreased 755 bopd in the third quarter and 902 bopd in the first nine months of 2012 compared to the same periods in the prior year primarily due to higher oil prices and lower cost-recovery spending. Profit-oil production, which represents Sherritt's share of production after cost recovery volumes are deducted from GWI volumes increased by 251 bopd in the third quarter and by 243 bopd in the first nine months of 2012.

Production in Spain was lower due to natural reservoir declines and the absence of production from a well that is shut-in and is not expected to resume production until 2013. Production in Pakistan was lower due to natural reservoir declines.

Unit operating costs

	For the three months ended			For the nine months ended		
	2012	2011		**2012**	2011	
Unit operating cost[1] ($ per net boe)	**September 30**	September 30	Change	**September 30**	September 30	Change
Cuba	**$ 11.81**	$ 12.65	(7%)	**$ 12.38**	$ 11.59	7%
Spain	**52.86**	84.22	(37%)	**48.49**	46.75	4%
Pakistan	**3.80**	2.49	53%	**3.56**	2.98	19%
Weighted-average	**$ 12.72**	$ 14.45	(12%)	**$ 13.29**	$ 12.55	6%

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

	For the three months ended			For the nine months ended		
	2012	2011		**2012**	2011	
Components of unit operating cost - Cuba (%)	**September 30**	September 30	Change	**September 30**	September 30	Change
Labour	**20%**	20%	-	**23%**	22%	5%
Maintenance	**16%**	10%	60%	**13%**	11%	18%
Treatment and transportation	**20%**	18%	11%	**18%**	20%	(10%)
Freight and duty	**7%**	4%	75%	**6%**	5%	20%
Production chemicals	**9%**	12%	(25%)	**8%**	7%	14%
Fuel and electricity	**8%**	8%	-	**8%**	8%	-
Insurance	**2%**	4%	(50%)	**3%**	4%	(25%)
Other	**18%**	24%	(25%)	**21%**	23%	(9%)
	100%	100%	-	**100%**	100%	-

Unit operating cost in Cuba decreased $0.84 per barrel in the third quarter and increased $0.79 per barrel in the first nine months of 2012 compared to the same periods in the prior year. In the third quarter unit cost was lower primarily due to lower treatment and transportation, insurance and production chemical input costs. Unit cost increased in the first nine months primarily due to lower net production and higher costs for maintenance and freight and duty which were partly offset by lower treatment and transportation and insurance costs.

Unit operating cost in Spain decreased $31.36 per barrel in the third quarter and increased $1.74 in the first nine months of 2012 compared to the same periods in the prior year. Unit operating cost was positively impacted in both periods by lower well workover costs in the third quarter of 2012 and a stronger Canadian dollar relative to the Euro, partly offset by lower oil production in 2012.

Spending on capital

	For the three months ended			For the nine months ended		
	2012	2011		**2012**	2011	
$ millions	**September 30**	September 30	Change	**September 30**	September 30	Change
Development, facilities and other	**$ 10.9**	$ 16.0	(32%)	**$ 28.3**	$ 47.6	(41%)
Exploration	**0.5**	0.6	(17%)	**4.0**	2.7	48%
Total	**$ 11.4**	$ 16.6	(31%)	**$ 32.3**	$ 50.3	(36%)

In the third quarter of 2012, development and facilities capital spending was composed primarily of $8.6 million for development drilling activities and $0.7 million related to facility improvements. In the first nine months of 2012, development and facilities capital spending was composed primarily of $24.3 million for development drilling activities and $1.8 million related to facility improvements. Spending on capital was $5.2 million lower in the third quarter and $18.0 million lower in the first nine months of 2012 compared with the same periods in the prior year primarily due to reduced equipment and inventory purchases in Cuba, a decrease in facilities spending, as well as a decrease in development drilling in the first nine months of 2012.

During the third quarter of 2012, one development well was drilled and completed, drilling commenced on another development well, and two workovers were conducted on existing wells. Based on initial rates, the completed well and workovers conducted during the quarter resulted in 820 bopd of incremental oil production. In the first nine months of 2012, four development wells were drilled and completed, with the drilling of a fifth well in progress and three workovers were conducted on existing wells. Based on initial rates, the completions and workovers conducted resulted in incremental oil production of 2,461 bopd for the first nine months of 2012.

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

Outlook for 2012

Production volumes and spending on capital For the nine and twelve months ended	**Actual** **2012** **September 30**	Projected 2012 December
Production		
Gross working-interest oil (Cuba) (bopd)	**20,481**	20,000
Net working-interest production, all operations (boepd)	**11,511**	11,500
Spending on capital ($ millions)		
Cuba	**26**	44
Other	**6**	11

2012 GWI production in Cuba and total divisional capital expenditures remain relatively unchanged from prior guidance.

POWER

Financial review

	For the three months ended			For the nine months ended		
	2012	2011		**2012**	2011	
$ millions (33⅓% basis)	**September 30**	September 30	Change	**September 30**	September 30	Change
Revenue						
Electricity sales	**$ 6.3**	$ 6.5	(3%)	**$ 19.3**	$ 18.7	3%
By-products and other	**1.5**	1.9	(21%)	**5.3**	5.3	-
Fixed-price lease contracts(1)	**1.3**	1.3	-	**3.8**	4.0	(5%)
Construction activity	**9.7**	4.3	126%	**24.6**	13.4	84%
	18.8	14.0	34%	**53.0**	41.4	28%
Cost of sales(2)	**2.2**	3.3	(33%)	**7.6**	9.8	(22%)
Cost of construction	**9.7**	4.3	126%	**24.6**	13.4	84%
Administrative expenses(2)(3)	**0.4**	-	-	**2.6**	0.5	420%
EBITDA(4)	**6.5**	6.4	2%	**18.2**	17.7	3%
Depletion, depreciation and amortization	**3.0**	2.7	11%	**8.3**	7.9	5%
Earnings from operations	**$ 3.5**	$ 3.7	(5%)	**$ 9.9**	$ 9.8	1%

(1) Composed of fixed lease payments in relation to the 25 MW power plant in Madagascar.
(2) Excluding depletion, depreciation and amortization.
(3) Amounts in 2011 include higher cost recoveries compared to the current periods.
(4) For additional information see the Non-GAAP measures section.

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

	For the three months ended	For the nine months ended
	2012	**2012**
$ millions	**September 30**	**September 30**
Higher (lower) electricity volumes	**$ (0.2)**	**$ 0.2**
Lower realized by-product prices	**(0.3)**	**(0.4)**
Turbine failure in 2011	**-**	**1.0**
Higher administrative expenses	**(0.3)**	**(2.1)**
Weaker Canadian dollar relative to the U.S. dollar	**0.1**	**0.4**
Other	**0.5**	**1.0**
Change in earnings from operations, compared to 2011	**$ (0.2)**	**$ 0.1**

Electricity prices

	For the three months ended			For the nine months ended		
	2012	2011		**2012**	2011	
Price ($ per MWh)(1)	**September 30**	September 30	Change	**September 30**	September 30	Change
Average-realized price	**$ 41.20**	$ 40.66	1%	**$ 41.49**	$ 40.49	2%

(1) Megawatt hours (MWh).

The average-realized price of electricity was $0.54 per MWh higher in the third quarter of 2012 and $1.00 per MWh higher in the first nine months of 2012 as compared to the same periods in the prior year primarily due to a weaker Canadian dollar relative to the U.S. dollar.

Production and sales

Production/Sales (33⅓% basis)	For the three months ended 2012 September 30	2011 September 30	Change	For the nine months ended 2012 September 30	2011 September 30	Change
Electricity sold (GWh)[1]	**154**	159	(3%)	**466**	461	1%

(1) Gigawatt hours (GWh).

Production remained consistent compared to the prior year.

Unit operating costs[1]

Unit operating cost ($ per MWh)	For the three months ended 2012 September 30	2011 September 30	Change	For the nine months ended 2012 September 30	2011 September 30	Change
Base[2]	**$ 13.78**	$ 12.78	8%	**$ 14.90**	$ 17.57	(15%)
Non-base[2]	**1.03**	7.35	(86%)	**1.38**	3.69	(63%)
	$ 14.81	$ 20.13	(26%)	**$ 16.28**	$ 21.26	(23%)

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

(2) Base - operating costs incurred at the Varadero, Boca de Jaruco and Puerto Escondido sites. Non-base - costs incurred at the Boca de Jaruco and Puerto Escondido sites that otherwise would have been capitalized if these sites were not accounted for as service concession arrangements.

Components of unit operating cost (%)	For the three months ended 2012 September 30	2011 September 30	Change	For the nine months ended 2012 September 30	2011 September 30	Change
Labour	**37%**	26%	42%	**34%**	27%	26%
Maintenance	**21%**	42%	(50%)	**20%**	35%	(43%)
Freight and duty	**5%**	6%	(17%)	**5%**	6%	(17%)
Insurance	**10%**	7%	43%	**10%**	7%	43%
Other	**27%**	19%	42%	**31%**	25%	24%
Total	**100%**	100%	-	**100%**	100%	-

Base unit operating cost increased by $1.00 per MWh in the third quarter of 2012 and decreased by $2.67 per MWh for the first nine months of 2012 compared to the same periods in the prior year. The increase in the third quarter of 2012 is primarily due to lower net production and higher maintenance costs. The decrease in the first nine months of 2012 was primarily due to turbine failures at Varadero in the same period in 2011 which accounted for an increase in unit operating cost of $2.17 per MWh.

Non-base unit operating cost decreased by $6.32 per MWh in the third quarter of 2012 and by $2.31 per MWh for the first nine months of 2012 compared to the same periods in the prior year. These decreases were primarily a result of higher repair and maintenance costs related to scheduled maintenance at Puerto Escondido in the third quarter of 2011 which accounted for an increase in unit operating cost of $4.40 per MWh and $1.52 per MWh in the third quarter and first nine months ended of 2011, respectively.

Spending on capital and service concession arrangements

	For the three months ended			For the nine months ended		
	2012	2011		**2012**	2011	
$ millions (33⅓% basis)	**September 30**	September 30	Change	**September 30**	September 30	Change
Sustaining	**$ 0.3**	$ 1.7	(82%)	**$ 0.6**	$ 2.6	(77%)
Growth	**1.4**	0.8	75%	**3.6**	2.1	71%
Total	**$ 1.7**	$ 2.5	(32%)	**$ 4.2**	$ 4.7	(11%)

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

	For the three months ended			For the nine months ended		
	2012	2011		**2012**	2011	
$ millions (33⅓% basis)	**September 30**	September 30	Change	**September 30**	September 30	Change
Service concession arrangements	**$ 9.7**	$ 4.3	126%	**$ 24.6**	$ 13.4	84%

Service concession arrangement expenditures relate to the 150 MW Boca de Jaruco Combined Cycle project. Engineering and procurement for the project is substantially complete. All major equipment has been ordered, the majority of which is on site and is being installed. The project is scheduled to begin production in the first half of 2013. Sherritt's estimate of the total project cost remains $271.0 million.

Outlook for 2012

	Actual	Projected
Production volumes and spending on capital (33⅓% basis)	**2012**	2012
For the six and twelve months ended	**September 30**	December
Production		
Electricity (GWh)	**466**	610
Spending on capital ($ millions)		
Cuba[1]	**4**	6
Project capital spending ($ millions)		
150 MW Boca de Jaruco (100% basis)	**74**	93

Projected 2012 production is 3% (15 GWh, 33 1/3% basis) higher than prior guidance, due to the higher gas supply realized in the first three quarters and the expectation this will continue for the remainder of the year. Spending on capital for 2012 remains unchanged from previous guidance.

For the 150 MW Boca de Jaruco Combined Cycle Project, spending in 2012 is relatively unchanged from prior guidance. The Project remains on schedule to be in production in the first half of 2013.

OTHER

Technologies

Technologies continued to support the Ambatovy Joint Venture commissioning activities with rotational assignment of its personnel to site and by providing consulting support from its office in Fort Saskatchewan. Technologies also continued to support the Sulawesi Project in Indonesia and Coal's initiatives on coal gasification and coal pre-combustion beneficiation technologies.

In addition, Technologies is currently involved in the following projects for third parties: commissioning of a Brazilian gold pressure oxidation project which is essentially complete (a performance test is being considered for Q1-2013); basic engineering design for a pressure oxidation plant to treat refractory gold–bearing materials for a major South American producer; development of coal to liquid technology and detailed design and installation of a pilot plant. Work was completed for a Latin American client to test a copper pressure hydrometallurgical process in a continuous pilot plant campaign.

For the three and nine months ended September 30, 2012, Technologies generated external revenue of $3.3 million and $9.3 million, respectively compared with $3.6 million and $9.2 million for same periods in the prior year.

Sulawesi Project update

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

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

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

In anticipation of starting exploration drilling in the first quarter of 2013, the Corporation has pre-ordered the drilling exploration camp complex and continues to advance work on the project including environmental and social baseline studies and the project prefeasibility study. To September 30, 2012, the Corporation has incurred a total of US$14.2 million of qualifying expenditures or 13% of the funding requirements to obtain Sherritt's 46% economic interest in the Project.

Exploration drilling forecast to begin in early 2013 was deferred from the earlier estimate of second-half 2012 due to delays in receiving the Forestry Borrow and Use Permit from the Ministry of Forestry and the resolution of overlapping claims within the mining concession. The environmental and social baseline studies and the prefeasibility study all remain scheduled for completion in 2013.

Liquidity and capital resources

Based on the Corporation's financial position and liquidity at September 30, 2012, and projected future earnings, management expects to be able to fund its working capital and project needs, and meet its other obligations including debt repayments.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

$ millions, as at September 30, 2012	Total	Falling due within 1 year	Falling due between 1-2 years	Falling due between 2-3 years	Falling due between 3-4 years	Falling due between 4-5 years	Falling due in more than 5 years
Trade accounts payable and accrued liabilities	$ 237.7	$ 237.7	$ -	$ -	$ -	$ -	$ -
Income taxes payable	17.2	17.2	-	-	-	-	-
Advances and loans payable	132.6	12.9	11.6	10.9	10.8	10.4	76.0
Loans and borrowings(1)	3,562.6	378.2	195.1	516.6	321.2	165.4	1,986.1
Finance leases and other equipment financing	175.0	53.8	43.8	32.9	25.6	18.6	0.3
Operating leases	35.5	14.2	8.5	2.5	1.9	1.9	6.5
Capital commitments	7.9	7.9	-	-	-	-	-
Environmental rehabilitation provision	414.2	31.7	39.6	36.2	32.9	18.7	255.1
Pensions	126.2	13.8	14.0	14.3	14.3	14.3	55.5
Total	$ 4,708.9	$ 767.4	$ 312.6	$ 613.4	$ 406.7	$ 229.3	$ 2,379.5

(1) The interest and principal on the Ambatovy Joint Venture additional partner loans will be repaid solely from Sherritt's share of the 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 in the loan documents.

Loans and borrowings

In the third quarter of 2012, Sherritt completed an offering of $500.0 million principal amount of 7.5% Senior Unsecured debentures due September 24, 2020. The net proceeds of $489.6 million (after agents' fees and the deduction of expenses) were used to fund the repurchase and redemption of the outstanding principal amount of Sherritt's 2014 debentures by October 2012 and the remainder is available for general corporate purposes. In September 2012, the Corporation purchased and cancelled $21.1 million of the 2014 debentures. In October 2012, $203.9 million of the 2014 debentures were redeemed after having provided the debenture holders with the required notification. The loans and borrowings amount above includes both the 2020 debentures and $203.9 million of the 2014 debentures at September 30, 2012.

The early repurchase and redemption of the 2014 debentures required the Corporation to pay a premium to the principal amount plus accrued interest to the date of repurchase/redemption. Of the total amount of the premium, $27.0 million, $2.7 million was paid on the debentures repurchased and cancelled in September; the balance was accrued in the quarter. The unamortized deferred finance charges related to the 2014 debentures of $1.5 million was expensed as the debentures were repurchased/redeemed. The Corporation replaced the 2014 debentures with the 2020 debentures to improve its debt maturity and liquidity profile by effectively deferring the repayment date to 2020.

OTHER COMMITMENTS

The following commitments are not reflected in the table above:

Ambatovy Joint Venture

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

- Environmental rehabilitation commitments of $162.0 million, with no significant repayments due in the next four years;
- Contractual commitments for commodities of $32.6 million; and
- Ambatovy Joint Venture senior debt financing of US$840.0 million ($788.9 million), with principal repayments beginning the later of six months after financial completion or 30 months after final draw down, but not later than September 2013. On an undiscounted basis, principal and interest repayments are $924.9 million.

Sulawesi Project

The Corporation expects to fund US$30.0 million in exploration and development costs by October 1, 2013, and can elect to spend an additional US$80.0 million by June 30, 2017. The Corporation has incurred total qualifying expenditures of US$14.2 million as of September 30, 2012.

150 MW Boca de Jaruco Combined Cycle project

The Corporation expects to fund $47.3 million (100% basis) related to the remainder of its service concession arrangement commitment for the 150 MW Boca de Jaruco Combined Cycle project which is expected to be completed in the first half of 2013.

INVESTMENT LIQUIDITY

At September 30, 2012, cash and cash equivalents, and short-term and long-term investments were located in the following countries:

$ millions, as at September 30, 2012		Cash		Cash equivalents and Short-term investments		Investments		Total
Canada	$	90.0	$	817.8	$	5.7	$	913.5
Cuba		17.0		-		39.2		56.2
Other		9.5		-		-		9.5
Total	$	116.5	$	817.8	$	44.9	$	979.2

Cash and short-term investments

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

At September 30, 2012, cash equivalents included $592.4 million in Government of Canada treasury bills having original maturity dates of less than three months and short-term investments included $225.4 million in Government of Canada treasury bills having original maturity dates of greater than three months and less than one year.

Cash and cash equivalents included $228.2 million received on the issuance of the 2020 debentures which were committed by the Corporation for use in the redemption of the 2014 debentures which was completed in October 2012.

Included in cash, cash equivalents and short-term investments was $53.0 million (50% basis) held by the Moa Joint Venture which is for the exclusive use of the joint venture.

The table above does not include $10.8 million of cash held by the Ambatovy Joint Venture (which is included as part of the investment in an associate balance in the consolidated statement of financial position). The cash balances are deposited with major financial institutions rated A or higher by Standard and Poor's and are for the exclusive use of the Ambatovy Joint Venture.

Investments

As a result of the agreement in January 2009 with Oil and Gas and Power's Cuban customers, Sherritt acquired approximately US$159.1 million in certificates of deposit (CDs). These CDs were issued by a Cuban bank and bear interest at a rate of 30-day LIBOR plus 5%. In the event of default, Sherritt has the right to receive payment from the cash flows payable by the Moa Joint Venture to its Cuban beneficiaries. At September 30, 2012, the balance of the CDs was $39.2 million.

AVAILABLE CREDIT FACILITIES

At September 30, 2012, the Corporation and its divisions had borrowed $2.0 billion, excluding the 2014 debentures redeemed in October 2012, under available credit facilities. Total credit available under these facilities was $543 million.

The following table outlines the maximum amount and amounts available to the Corporation for credit facilities that have amounts available at September 30, 2012 and December 31, 2011. A detailed description of these facilities is provided in the Loans, borrowings and other liabilities note in the Corporation's unaudited interim consolidated financial statements at September 30, 2012 and its audited consolidated financial statements for the year ended December 31, 2011.

$ millions, as at		2012 September 30		2011 December 31
	Maximum	**Available**	Maximum	Available
Short-term				
Syndicated 364-day revolving-term credit facility [1]	**$ 90**	**$ 80**	$ 115	$ 109
Line of credit	**20**	**20**	20	20
Letters of credit facility [2]	**-**	**-**	64	6
Long-term				
Ambatovy Joint Venture partner loans (US$) [3]	**213**	**127**	213	127
Coal revolving credit facility [4]	**525**	**317**	-	-
Senior credit facility agreement [5]	**-**	**-**	235	159
Total Canadian equivalent	**$ 845**	**$ 543**	$ 651	$ 424
Supplementary information				
Ambatovy Project financing (US$) (40%) [6]	**$ 840**	**$ -**	$ 840	-
Finance leases [7]	**$ 190**	**$ 58**	$ 190	$ 41

(1) Available for general corporate purposes. Total available draw is based on eligible receivables and inventory. At September 30, 2012, the Corporation did not have any letters of credit outstanding on this facility.
(2) Letters of credit issued by Coal Valley Resources Inc. (CVRI) under this facility were transferred to the Coal revolving credit facility.
(3) Available to fund Sherritt's contributions to the Ambatovy Joint Venture.
(4) Available to Prairie Mines and Royalty Ltd (PMRL) and CVRI. At September 30, 2012, a total of $50.0 million has been drawn on this facility and $157.5 million of letters of credit are outstanding.
(5) Facility was replaced with the Coal revolving credit facility in June 2012.
(6) Due to the equity accounting for Ambatovy Joint Venture, this loan is not included in loans and borrowings on the Corporation's statement of financial position.
(7) Finance leases include only those that have been committed by lenders.

Covenants

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

At September 30, 2012, the Corporation and its divisions were in compliance with all of their financial covenants. The Corporation expects to remain in compliance with all of its financial covenants during the next twelve months, based on current market conditions. Other than the covenants required for the debt facilities, the Corporation is not subject to any externally imposed capital restrictions.

SOURCES AND USES OF CASH

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

	For the three months ended			For the nine months ended		
	2012	2011		**2012**	2011	
$ millions	**September 30**	September 30	Change	**September 30**	September 30	Change
Cash from operating activities						
Cash from operating activities before change in non-cash working capital	**$ 92**	$ 120	(23%)	**$ 290**	$ 353	(18%)
Change in non-cash working capital	**22**	(24)	(192%)	**(26)**	(101)	(74%)
	$ 114	$ 96	19%	**$ 264**	$ 252	5%
Cash provided by (used for) investing and financing activities						
Property, plant, equipment and intangible expenditures	**$ (36)**	$ (36)	-	**$ (102)**	$ (86)	19%
Loans to an associate	**(55)**	(56)	(2%)	**(136)**	(183)	(26%)
Net receipt (repayment) of loans borrowings and other financial liabilities	**(9)**	(31)	(71%)	**(37)**	(72)	(49%)
Issuance of 7.50% debentures, net of repayment of 8.25% debentures	**469**	-	-	**469**	-	-
Investment in an associate	**(13)**	(29)	(55%)	**(136)**	(99)	37%
Decrease in investments	**7**	47	(85%)	**21**	60	(65%)
Dividends paid on common shares	**(11)**	(12)	(8%)	**(34)**	(34)	-
Repayment of short-term loans	-	-	-	-	(14)	(100%)
Other	**(11)**	(1)	1000%	**(6)**	3	(300%)
	$ 341	$ (118)	(389%)	**$ 39**	$ (425)	(109%)
	455	(22)	(2166%)	**303**	(173)	(275%)
Cash, cash equivalents and short-term investments:						
Beginning of the period	**479**	609	(21%)	**631**	760	(17%)
End of the period	**$ 934**	$ 587	59%	**$ 934**	$ 587	59%

The significant items affecting the sources and uses of cash during the three and nine months ended September 30, 2012 are described below:

- Cash from operating activities before change in non-cash working capital for the three and nine months ended September 30, 2012 decreased compared to the same periods in the prior year primarily as a result of lower net earnings. Cash from operating activities after change in non-cash working capital increased for the three and nine months ended September 30, 2012. The changes in non-cash working capital compared to the same periods in the prior year are primarily due the changes in accounts payable and accruals, changes in deferred revenue related to fertilizer pre-sales and changes in accounts receivable primarily due to timing of receipts at Oil and Gas.
- Cash used for spending on property, plant, equipment and intangibles in the three and nine months ended September 30, 2012 was $36 million and $102 million, respectively. A discussion of these expenditures is included in the Review of operations sections for each division.
- A total of $68 million (US$68 million) and $272 million (US$270 million) was provided in cash to the Ambatovy Joint Venture as Sherritt's share of the joint venture funding requirements in the three and nine months ended September 30, 2012, respectively. Of the funding provided, $55 million and $136 million for the three and nine months ended September 30, 2012, respectively, was provided as a loan and the remaining funding was a direct contribution to Sherritt's investment in the joint venture.

- The net receipt (repayment) of cash from loans and borrowings for the three and nine month ended September 30, 2012, related primarily to the net repayment on Coal revolving credit facility and repayment on the Corporation's other credit facilities repaid in the second quarter of 2012 concurrent with the establishment of the Coal revolving credit facility.
- The Corporation issued the 2020 debentures for net proceeds of $490 million and repurchased $21 million of the 2014 debentures. $204 million of the 2014 debentures and the redemption premium thereon were redeemed subsequently in October 2012.
- The decrease in investments in each of the three and nine months ended September 30, 2012 was primarily related to amounts collected by the Corporation on the Cuban certificates of deposit.

Common shares

As at October 30, 2012, the Corporation had 296,403,635 common shares outstanding. An additional 4,244,317 common shares are issuable upon exercise of outstanding stock options granted to employees and directors pursuant to the Corporation's stock option plan.

On September 12, 2012, the Board of Directors of the Corporation approved a quarterly dividend of $0.038 per share payable on October 12, 2012 to shareholders of record at the close of business on September 28, 2012.

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 in the Corporation's MD&A for the year ended December 31, 2011 and Annual Information Form.

Accounting pronouncements

There have been no new accounting pronouncements issued in the first nine months of 2012 that are expected to impact the Corporation. For a summary of recent pronouncements, see the Recent accounting pronouncements note in the Corporation's audited financial statements for the year ended December 31, 2011.

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 December 31, 2010 to September 30 2012.

$ millions, except per share amounts, for the three months ended	2012 Sept. 30	2012 June 30	2012 Mar. 31	2011 Dec. 31	2011 Sept. 30	2011 June 30	2011 Mar. 31	2010 Dec. 31
Revenue								
Metals	**$ 88.4**	$ 140.2	$ 114.8	$ 137.7	$ 122.9	$ 149.4	$ 140.4	$ 147.0
Coal	**237.1**	250.6	245.3	303.3	247.2	254.1	245.9	260.6
Oil and Gas	**74.2**	76.3	82.2	74.4	78.5	81.5	70.5	61.9
Power	**18.8**	17.6	16.6	18.6	14.0	13.0	14.4	12.3
Corporate and other	**3.7**	3.2	3.3	2.8	3.8	2.6	3.3	3.4
	$ 422.2	$ 487.9	$ 462.2	$ 536.8	$ 466.4	$ 500.6	$ 474.5	$ 485.2
Net earnings (loss)	**(22.6)**	40.8	32.3	28.1	45.5	60.1	63.6	42.7
Net earnings (loss) per share								
Basic	**$ (0.08)**	$ 0.14	$ 0.11	$ 0.10	$ 0.16	$ 0.20	$ 0.22	$ 0.15
Diluted	**$ (0.08)**	$ 0.14	$ 0.11	$ 0.09	$ 0.15	$ 0.20	$ 0.22	$ 0.14

Net earnings (loss) for the Corporation are primarily affected by commodity prices, sales volumes and exchange rates that impact revenue and costs. The average Canadian dollar cost to purchase one U.S. dollar for the above quarters has been relatively consistent, ranging from $0.97 to $1.02. Net earnings (loss) for the quarters after September 2011 were also impacted by higher net finance expense due to higher interest expense and accretion on loans and borrowings; the inclusion in the quarters ended December 31, 2011 and September 30, 2012 of early redemption premiums on the redemption of debentures; and, the inclusion of downward adjustments in the fair value of the Ambatovy call option. The second quarter of 2012 and fourth quarter of 2010 included a gain on sale and closure costs, respectively, related to Mineral Products.

Off-balance sheet arrangements

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

Transactions with related parties

	For the three months ended		For the nine months ended	
	2012	2011	**2012**	2011
$ millions	**September 30**	September 30	**September 30**	September 30
Total value of goods and services:				
Provided to jointly controlled entities	**$ 20.5**	$ 25.4	**$ 67.2**	$ 76.8
Provided to associate	**1.0**	1.2	**3.4**	3.1
Purchased from jointly controlled entities	**9.7**	6.5	**34.0**	28.5
Net financing income from jointly controlled entities	**6.9**	6.0	**19.9**	17.9

	2012	2011
$ millions, as at	**September 30**	December 31
Accounts receivable from jointly controlled entities	**$ 3.3**	$ 4.1
Accounts receivable from associate	**45.5**	22.1
Accounts payable to jointly controlled entities	**1.2**	-
Accounts payable to associate	**0.3**	0.3
Advances and loans receivable from associate	**1,103.6**	968.9
Advances and loans receivable from Energas	**210.2**	166.9
Advances and loans receivable from certain Moa Joint Venture entities	**121.1**	142.8

Controls and procedures

DISCLOSURE CONTROLS AND PROCEDURES

The Corporation's disclosure controls and procedures are designed to ensure that all important information about Sherritt, including operating and financial activities, is communicated fully, accurately and in a timely way and that they provide Sherritt with assurance that the financial reporting is accurate.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal control over financial reporting means a process designed by or under the supervision of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) 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.

As at September 30, 2012, the Corporation's CEO and CFO have certified that the disclosure controls and procedures are effective and that during the quarter ended September 30, 2012 the Corporation did not make any material changes in the internal controls over financial reporting that materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

Supplementary information

SENSITIVITY ANALYSIS

The following table shows the approximate impact on the Corporation's net earnings and earnings per share for the third quarter of 2012 from a change in selected key variables. The impact is measured changing one variable at a time and may not necessarily be indicative of sensitivities on future results.

Factor[1]	Increase	Approximate change in Q3 net earnings ($ millions) Increase/(decrease)	Approximate change in Q3 basic EPS Increase/(decrease)
Prices			
Nickel - LME price per pound (50% basis)	US$ 0.50	3	0.01
Cobalt - Metal Bulletin price per pound (50% basis)	US$ 5.00	3	0.01
Export thermal coal - price per tonne	US$ 15.00	2	0.01
Oil -U.S. Gulf Coast Fuel Oil No. 6 price per barrel	US$ 5.00	2	0.01
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	1	-
Exchange rate			
Strengthening of the Canadian dollar relative to the U.S. dollar	US$ 0.05	(13)	(0.04)
Operating costs			
Natural gas - cost per gigajoule (Metals) (50% basis)	$ 1.00	(1)	-
Sulphuric acid - cost per tonne (Metals) (50% basis)	US$ 25.00	(1)	-
Fuel - WTI oil price (Coal)	US$ 10.00	(1)	-

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

(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 EBITDA and unit operating cost to monitor financial performance and provide additional information to investors and analysts. 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.

EBITDA

The Corporation defines EBITDA as net earnings (loss) from continuing operations as reported in the IFRS financial statements, adjusted for amounts included in net earnings or net loss for income taxes, net finance expense (income), depletion, depreciation and amortization, impairment charges for property, plant and equipment, intangible assets, goodwill and investments, gain or loss on disposal of property, plant and equipment, and share of income or loss of associate.

The table below reconciles EBITDA to net earnings from continuing operations:

$ millions, for the three months ended September 30, 2012	Metals	Coal	Oil and Gas	Power	Corporate and other	Total
Revenue	$ 88.4	$ 237.1	$ 74.2	$ 18.8	$ 3.7	$ 422.2
Cost of sales	78.0	230.9	29.8	14.9	2.0	355.6
Gross profit (loss)	10.4	6.2	44.4	3.9	1.7	66.6
Administrative expenses	1.7	1.3	2.4	0.4	12.9	18.7
Operating profit (loss)	8.7	4.9	42.0	3.5	(11.2)	47.9
Add:						
Depletion, depreciation and amortization in:						
Cost of sales	8.4	39.2	16.4	3.0	0.3	67.3
Administrative expenses	0.1	0.2	0.2	-	0.2	0.7
EBITDA	17.2	44.3	58.6	6.5	(10.7)	115.9
Less:						
Depletion, depreciation and amortization, above	(8.5)	(39.4)	(16.6)	(3.0)	(0.5)	(68.0)
Share of loss of an associate	(0.1)	-	-	-	-	(0.1)
Earnings (loss) from operations and associate	8.6	4.9	42.0	3.5	(11.2)	47.8
Net finance expense (income)	37.1	(1.7)	(16.1)	(0.9)	50.4	68.8
Income tax expense (recovery)	1.9	(2.4)	13.3	0.3	(11.5)	1.6
Net earnings (loss) from continuing operations	$ (30.4)	$ 9.0	$ 44.8	$ 4.1	$ (50.1)	$ (22.6)

$ millions, for the three months ended September 30, 2011	Metals	Coal	Oil and Gas	Power	Corporate and other	Total
Revenue	$ 122.9	$ 247.2	$ 78.5	$ 14.0	$ 3.8	$ 466.4
Cost of sales	83.3	230.5	33.4	10.3	2.5	360.0
Gross profit	39.6	16.7	45.1	3.7	1.3	106.4
Administrative expenses	2.4	2.7	1.7	-	8.4	15.2
Operating profit (loss)	37.2	14.0	43.4	3.7	(7.1)	91.2
Add:						
Depletion, depreciation and amortization in:						
Cost of sales	5.4	29.9	15.3	2.7	-	53.3
Administrative expenses	1.8	(0.4)	0.1		0.5	2.0
Impairment loss on exploration and evaluation assets	-	-	2.0	-	-	2.0
EBITDA	44.4	43.5	60.8	6.4	(6.6)	148.5
Less:						
Depletion, depreciation and amortization, above	(7.2)	(29.5)	(15.4)	(2.7)	(0.5)	(55.3)
Share of earnings of an associate	(1.5)	-	-	-	-	(1.5)
Impairment loss on exploration and evaluation assets	-	-	(2.0)	-	-	(2.0)
Earnings (loss) from operations and associate	35.7	14.0	43.4	3.7	(7.1)	89.7
Net finance expense (income)	12.3	(0.1)	22.2	(11.3)	4.5	27.6
Income tax expense (recovery)	5.0	(0.2)	12.6	0.4	(1.5)	16.3
Net earnings (loss) from continuing operations	$ 18.4	$ 14.3	$ 8.6	$ 14.6	$ (10.1)	$ 45.8

$ millions, for the nine months ended September 30, 2012	Metals	Coal	Oil and Gas	Power	Corporate and other	Total
Revenue	$ 343.4	$ 733.0	$ 232.7	$ 53.0	$ 10.2	$ 1,372.3
Cost of sales	269.9	682.2	93.3	40.5	9.7	1,095.6
Gross profit (loss)	73.5	50.8	139.4	12.5	0.5	276.7
Administrative expenses	3.6	10.4	9.1	2.6	34.7	60.4
Operating profit (loss)	69.9	40.4	130.3	9.9	(34.2)	216.3
Add:						
Depletion, depreciation and amortization in:						
Cost of sales	25.9	96.1	51.5	8.3	0.6	182.4
Administrative expenses	0.1	1.3	0.4	-	1.2	3.0
EBITDA	95.9	137.8	182.2	18.2	(32.4)	401.7
Less:						
Depletion, depreciation and amortization, above	(26.0)	(97.4)	(51.9)	(8.3)	(1.8)	(185.4)
Share of loss of an associate	(1.3)	-	-	-	-	(1.3)
Earnings (loss) from operations and associate	68.6	40.4	130.3	9.9	(34.2)	215.0
Net finance expense (income)	93.4	(0.4)	(14.2)	(10.6)	78.8	147.0
Income tax expense (recovery)	6.1	(0.3)	41.3	1.4	(26.6)	21.9
Net earnings (loss) from continuing operations	$ (30.9)	$ 41.1	$ 103.2	$ 19.1	$ (86.4)	$ 46.1

$ millions, for the nine months ended September 30, 2011	Metals	Coal	Oil and Gas	Power	Corporate and other	Total
Revenue	$ 412.7	$ 747.2	$ 230.5	$ 41.4	$ 9.7	$ 1,441.5
Cost of sales	261.0	678.6	91.1	31.1	12.8	1,074.6
Gross profit	151.7	68.6	139.4	10.3	(3.1)	366.9
Administrative expenses	9.1	12.5	7.2	0.5	26.5	55.8
Operating profit (loss)	142.6	56.1	132.2	9.8	(29.6)	311.1
Add:						
Depletion, depreciation and amortization in:						
Cost of sales	17.1	77.2	46.5	7.9	0.3	149.0
Administrative expenses	5.0	1.9	0.5	-	1.3	8.7
Impairment loss on exploration and evaluation assets	-	-	2.0	-	-	2.0
EBITDA	164.7	135.2	181.2	17.7	(28.0)	470.8
Less:						
Depletion, depreciation and amortization, above	(22.1)	(79.1)	(47.0)	(7.9)	(1.6)	(157.7)
Impairment loss on exploration and evaluation assets	-	-	(2.0)	-	-	(2.0)
Add:						
Share of earnings of an associate	0.6	-	-	-	-	0.6
Earnings (loss) from operations and associate	143.2	56.1	132.2	9.8	(29.6)	311.7
Net finance expense (income)	41.3	(1.1)	16.3	(16.3)	31.0	71.2
Income tax expense (recovery)	31.1	2.3	40.6	0.8	(4.4)	70.4
Net earnings (loss) from continuing operations	$ 70.8	$ 54.9	$ 75.3	$ 25.3	$ (56.2)	$ 170.1

Unit operating cost

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

For Metals, net direct cash costs is calculated by dividing cost of sales as reported in the IFRS financial statements less depreciation, depletion and amortization in cost of sales (adjusted for the following items: cobalt by-product, fertilizer and other revenue and other costs primarily related to the impact of opening and closing inventory values) by the number of finished nickel pounds sold in the period, translated to U.S. dollars using an average exchange rate for the respective period.

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

$ millions, except unit cost and sales volume, for the three months ended September 30, 2012

		Coal				
	Metals	**Prairie**	**Mountain**	**Total**	**Oil and Gas**	**Power**
Cost of sales per financial statements	$ **78.0**	$ **135.1**	$ **95.8**	$ **230.9**	$ **29.8**	$ **14.9**
Less:						
Depletion, depreciation and amortization in cost of sales	**(8.4)**	**(14.8)**	**(24.4)**	**(39.2)**	**(16.4)**	**(3.0)**
Service concession arrangments - Cost of construction						**(9.7)**
Cost of sales per Review of operations	**69.6**	**120.3**	**71.4**	**191.7**	**13.4**	**2.2**
Adjustments to cost of sales:						
Cobalt by-product, fertilizer and other revenue	**(26.5)**					
Net impact of non-joint venture fertilizer sales	**3.6**					
Impact of opening/closing inventory and other	**(2.8)**					
Cost of sales-royalties, activated carbon and char		(5.4)		**(5.4)**		
Other	-	0.4	(1.0)	**(0.6)**		
Cost of sales for purposes of unit cost calculation	**43.9**	**115.3**	**70.4**	**185.7**	**13.4**	**2.2**
Sales volume for the period	**8.6**	**7.6**	**0.8**		**1.1**	**154**
Volume units	**Millions of pounds**	**Millions of tonnes**	**Millions of tonnes**		**Millions of barrels**[1]	**Gigawatts**
Unit operating cost[2][3]	$ **5.11**	$ **15.22**	$ **84.57**		$ **12.72**	$ **14.81**
Unit operating cost (U.S. dollars)	$ **5.13**					

$ millions, except unit cost and sales volume, for the three months ended September 30, 2011

		Coal				
	Metals	Prairie	Mountain	Total	Oil and Gas	Power
Cost of sales per financial statements	$ 83.3	$ 136.9	$ 93.6	$ 230.5	$ 33.4	$ 10.3
Less:						
Depletion, depreciation and amortization in cost of sales	(5.4)	(17.1)	(12.8)	(29.9)	(15.3)	(2.7)
Service concession arrangments - Cost of construction						(4.3)
Cost of sales per Review of operations	77.9	119.8	80.8	200.6	18.1	3.3
Adjustments to cost of sales:						
Cobalt by-product, fertilizer and other revenue	(30.5)					
Net impact of non-joint venture fertilizer sales	2.2					
Impact of opening/closing inventory and other	(8.4)					
Cost of sales-royalties, activated carbon and char	-	(4.3)		(4.3)		
Other	-	(0.7)	(0.7)	(1.4)	(2.1)	
Cost of sales for purposes of unit cost calculation	41.2	114.8	80.1	194.9	16.0	3.3
Sales volume for the period	9.4	8.0	1.0		1.1	159
Volume units	Millions of pounds	Millions of tonnes	Millions of tonnes		Millions of barrels[1]	Gigawatts
Unit operating cost[2][3]	$ 4.37	$ 14.32	$ 83.94		$ 14.45	$ 20.13
Unit operating cost (U.S. dollars)	$ 4.46					

(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.

$ millions, except unit cost and sales volume, for the nine months ended September 30, 2012

	Metals	Coal Prairie	Coal Mountain	Coal Total	Oil and Gas	Power
Cost of sales per financial statements	**$ 269.9**	**$ 394.8**	**$ 287.4**	**$ 682.2**	**$ 93.3**	**$ 40.5**
Less:						
Depletion, depreciation and amortization in cost of sales	**(25.9)**	**(43.8)**	**(52.3)**	**(96.1)**	**(51.5)**	**(8.3)**
Service concession arrangments - Cost of construction						**(24.6)**
Cost of sales per Review of operations	**244.0**	**351.0**	**235.1**	**586.1**	**41.8**	**7.6**
Adjustments to cost of sales:						
Cobalt by-product, fertilizer and other revenue	**(120.6)**					
Net impact of non-joint venture fertilizer sales	**23.8**					
Impact of opening/closing inventory and other	**(10.0)**					
Cost of sales-royalties, activated carbon and char	-	(14.7)		**(14.7)**		
Other	-	(0.6)	(2.4)	**(3.0)**		
Cost of sales for purposes of unit cost calculation	**137.2**	**335.7**	**232.7**	**568.4**	**41.8**	**7.6**
Sales volume for the period	**28.1**	**22.5**	**2.7**		**3.2**	**466**
Volume units	**Millions of pounds**	**Millions of tonnes**	**Millions of tonnes**		**Millions of barrels(1)**	**Gigawatts**
Unit operating cost(2)(3)	**$ 4.89**	**$ 14.95**	**$ 87.12**		**$ 13.29**	**$ 16.28**
Unit operating cost (U.S. dollars)	**4.88**					

$ millions, except unit cost and sales volume, for the nine months ended September 30, 2011

	Metals	Coal Prairie	Coal Mountain	Coal Total	Oil and Gas	Power
Cost of sales per financial statements	$ 261.0	$ 390.4	$ 288.2	$ 678.6	$ 91.1	$ 31.1
Less:						
Depletion, depreciation and amortization in cost of sales	(17.1)	(42.0)	(35.2)	(77.2)	(46.5)	(7.9)
Service concession arrangments - Cost of construction						(13.4)
Cost of sales per Review of operations	243.9	348.4	253.0	601.4	44.6	9.8
Adjustments to cost of sales:						
Cobalt by-product, fertilizer and other revenue	(113.9)					
Net impact of non-joint venture fertilizer sales	8.8					
Impact of opening/closing inventory and other	(22.7)					
Cost of sales-royalties, activated carbon and char	-	(13.7)		(13.7)		
Other	-	(2.7)	(0.7)	(3.4)	(2.6)	
Cost of sales for purposes of unit cost calculation	116.1	332.0	252.3	584.3	42.0	9.8
Sales volume for the period	27.9	23.4	3.1		3.3	461
Volume units	Millions of pounds	Millions of tonnes	Millions of tonnes		Millions of barrels(1)	Gigawatts
Unit operating cost(2)(3)	$ 4.16	$ 14.19	$ 81.44		$ 12.55	$ 21.26
Unit operating cost (U.S. dollars)	4.25					

(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.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements. Forward-looking statements can generally be identified by the use of statements that include such words as "believe", "expect", "anticipate", "intend", "plan", "forecast", "likely", "may", "will", "could", "should", "suspect", "outlook", "projected", "continue" or other similar words or phrases. Specifically, forward-looking statements in this document include statements respecting certain future expectations about capital expenditures; capital project commissioning and completion dates; commencement dates of production; commodity and product prices and demand; production volumes; earnings and revenues; debt repayments; compliance with financial covenants; sufficiency of working capital and capital project funding; compliance with applicable environmental laws and regulations; the impact of regulations related to greenhouse gas emissions and credits; availability of regulatory approvals, collection of accounts receivable and certain corporate objectives, plans or goals for 2012, including development and exploratory wells and enhance oil recovery in Cuba. These forward-looking statements are not based on historic facts, but rather on current expectations, assumptions and projections about future events. By their nature, forward-looking statements require the Corporation to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that those assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. The Corporation cautions readers of this MD&A not to place undue reliance on any forward-looking statement as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

Key factors that may result in material differences between actual results and developments and those contemplated by this MD&A include global economic conditions, and business, economic and political conditions in Canada, Cuba, Madagascar, Indonesia, and the principal markets for the Corporation's products. Other such factors include, but are not limited to, uncertainties in the development, construction, start-up and ramp-up of large mining, processing and refining projects; risks related to the availability of capital to undertake capital initiatives; changes in capital cost estimates in respect of the Corporation's capital initiatives; risks associated with the Corporation's joint-venture partners; future non-compliance with financial covenants; potential interruptions in transportation; political, economic and other risks of foreign operations; the Corporation's reliance on key personnel and skilled workers; the possibility of equipment and other unexpected failures; the potential for shortages of equipment and supplies; risks associated with mining, processing and refining activities; uncertainty of gas supply for electrical generation; uncertainties in oil and gas exploration; risks related to foreign exchange controls on Cuban government enterprises to transact in foreign currency; risks associated with the United States embargo on Cuba and the Helms-Burton legislation; risks related to the Cuban government's ability to make certain payments to the Corporation; development programs; uncertainties in reserve estimates; uncertainties in environmental rehabilitation provisions estimates; the Corporation's reliance on significant customers; foreign exchange and pricing risks; uncertainties in commodity pricing; credit risks; competition in product markets; the Corporation's ability to access markets; risks in obtaining insurance; uncertainties in labour relations; uncertainties in pension liabilities; the ability of the Corporation to enforce legal rights in foreign jurisdictions; the ability of the Corporation to obtain government permits; risks associated with government regulations and environmental, health and safety matters; 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 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. Except as required by applicable securities laws, the Corporation does not intend and does not assume any obligation to update these forward-looking statements.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at and for the three and nine months ended September 30, 2012

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed consolidated statements of comprehensive income (loss)

		For the three months ended		For the nine months ended	
		2012	2011	**2012**	2011
Unaudited, Canadian $ millions, except per share amounts	Note	**September 30**	September 30	**September 30**	September 30
Revenue		**$ 422.2**	$ 466.4	**$ 1,372.3**	$ 1,441.5
Cost of sales	5	**355.6**	360.0	**1,095.6**	1,074.6
Gross profit		**66.6**	106.4	**276.7**	366.9
Administrative expenses		**18.7**	15.2	**60.4**	55.8
Operating profit		**47.9**	91.2	**216.3**	311.1
Share of earnings (loss) of an associate, net of tax	13	**(0.1)**	(1.5)	**(1.3)**	0.6
Earnings from operations and associate		**47.8**	89.7	**215.0**	311.7
Financing income	6	**(6.0)**	(5.6)	**(12.0)**	(35.7)
Financing expense	6	**74.8**	33.2	**159.0**	106.9
Net finance expense		**68.8**	27.6	**147.0**	71.2
Earnings (loss) before tax		**(21.0)**	62.1	**68.0**	240.5
Income tax expense	7	**1.6**	16.3	**21.9**	70.4
Net earnings (loss) from continuing operations		**(22.6)**	45.8	**46.1**	170.1
Earnings (loss) from discontinued operation, net of tax	8	**-**	(0.3)	**4.4**	(0.9)
Net earnings (loss) for the period		**$ (22.6)**	$ 45.5	**$ 50.5**	$ 169.2
Other comprehensive income (loss)					
Foreign currency translation differences on foreign operations		**(82.4)**	151.4	**(76.3)**	96.7
Comprehensive income (loss)		**$ (105.0)**	$ 196.9	**$ (25.8)**	$ 265.9
Net earnings (loss) from continuing operations per common share:					
Basic	9	**$ (0.08)**	$ 0.16	**$ 0.16**	$ 0.58
Diluted	9	**$ (0.08)**	$ 0.15	**$ 0.16**	$ 0.57
Net earnings (loss) per common share:					
Basic	9	**$ (0.08)**	$ 0.16	**$ 0.17**	$ 0.58
Diluted	9	**$ (0.08)**	$ 0.15	**$ 0.17**	$ 0.57

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

Condensed consolidated statements of financial position

Unaudited, Canadian $ millions, as at	Note	2012 September 30	2011 December 31
ASSETS			
Current assets			
Cash and cash equivalents	18	**$ 708.8**	$ 174.6
Restricted cash		**1.1**	1.1
Short-term investments	18	**225.4**	456.8
Investments		**26.9**	29.1
Advances, loans receivable and other financial assets	10	**59.6**	71.1
Other non-financial assets	10	**-**	0.2
Finance lease receivables	10	**25.0**	23.3
Trade accounts receivable, net	18	**385.4**	386.5
Income taxes receivable		**3.3**	19.1
Inventories	11	**243.3**	215.1
Prepaid expenses		**21.5**	12.1
		1,700.3	1,389.0
Non-current assets			
Advances, loans receivable and other financial assets	10	**1,429.1**	1,278.8
Other non-financial assets	10	**10.9**	17.1
Finance lease receivables	10	**186.7**	196.0
Property, plant and equipment	12	**1,412.0**	1,430.4
Investments		**16.5**	34.7
Investment in an associate	13	**1,098.4**	1,053.1
Goodwill		**307.9**	307.9
Intangible assets		**790.1**	786.2
Deferred income taxes		**19.1**	2.8
		5,270.7	5,107.0
Assets of discontinued operation	8	**-**	1.5
		$ 6,971.0	$ 6,497.5
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Loans and borrowings	15	**$ 212.9**	$ 56.9
Trade accounts payable and accrued liabilities		**237.7**	179.8
Income taxes payable		**17.2**	25.9
Other financial liabilities	15	**64.8**	69.8
Other non-financial liabilities	15	**25.4**	8.0
Environmental rehabilitation provisions	16	**31.5**	31.9
		589.5	372.3
Non-current liabilities			
Loans and borrowings	15	**2,007.5**	1,687.8
Other financial liabilities	15	**203.7**	205.4
Other non-financial liabilities	15	**11.5**	15.1
Intangible liability		**5.7**	9.1
Environmental rehabilitation provisions	16	**257.5**	235.8
Deferred income taxes		**221.6**	232.1
		2,707.5	2,385.3
Liabilities of discontinued operation	8	**-**	8.2
		3,297.0	2,765.8
Shareholders' equity			
Capital stock	17	**2,803.0**	2,803.1
Retained earnings		**801.5**	784.9
Reserves	17	**197.2**	195.1
Accumulated foreign currency translation reserve	17	**(127.7)**	(51.4)
		3,674.0	3,731.7
		$ 6,971.0	$ 6,497.5

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

Condensed consolidated statements of changes in Shareholders' equity

Unaudited, Canadian $ millions

	Note	Capital stock	Retained earnings	Reserves	Accumulated foreign currency translation reserve	Total
Balance as at December 31, 2010		**$ 2,787.3**	**$ 632.5**	**$ 206.6**	**$ (98.1)**	**$ 3,528.3**
Shares issued for:						
Treasury stock - restricted stock plan	17	(0.7)	-	-	-	(0.7)
Employee share purchase plan	17	2.4	-	-	-	2.4
Stock options exercised	17	0.1	-	-	-	0.1
Restricted stock plan amortization	17,21	-	-	0.7	-	0.7
Employee share purchase plan expense	17,21	-	-	0.6	-	0.6
Stock option plan expense	17,21	-	-	0.8	-	0.8
Dividends declared to common shareholders	17	-	(33.7)	-	-	(33.7)
Total comprehensive income:						
Net earnings for the period		-	169.2	-	-	169.2
Foreign currency translation differences on foreign operations	17	-	-	-	96.7	96.7
		-	169.2	-	96.7	265.9
Balance as at September 30, 2011		**$ 2,789.1**	**$ 768.0**	**$ 208.7**	**$ (1.4)**	**$ 3,764.4**
Shares issued for:						
Restricted stock plan (vested)	17	0.1	-	(0.1)	-	-
Cross-guarantee	17	13.9	-	(13.9)	-	-
Employee share purchase plan expense	17,21	-	-	0.1	-	0.1
Stock option plan expense	17,21	-	-	0.3	-	0.3
Dividends declared to common shareholders	17	-	(11.2)	-	-	(11.2)
Total comprehensive income (loss):						
Net earnings for the period		-	28.1	-	-	28.1
Foreign currency translation differences on foreign operations	17	-	-	-	(50.0)	(50.0)
		-	28.1	-	(50.0)	(21.9)
Balance as at December 31, 2011		**$ 2,803.1**	**$ 784.9**	**$ 195.1**	**$ (51.4)**	**$ 3,731.7**
Shares issued for:						
Treasury stock - restricted stock plan	17	(1.6)	-	-	-	(1.6)
Restricted stock plan (vested)	17,21	0.2	-	(0.2)	-	-
Restricted stock plan amortization	17,21	-	-	1.0	-	1.0
Employee share purchase plan expense	17,21	1.3	-	0.1	-	1.4
Stock option plan expense	17,21	-	-	1.2	-	1.2
Dividends declared to common shareholders	17	-	(33.9)	-	-	(33.9)
Total comprehensive income (loss):						
Net earnings for the period		-	50.5	-	-	50.5
Foreign currency translation differences on foreign operations	17	-	-	-	(76.3)	(76.3)
		-	50.5	-	(76.3)	(25.8)
Balance as at September 30, 2012		**$ 2,803.0**	**$ 801.5**	**$ 197.2**	**$ (127.7)**	**$ 3,674.0**

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

Condensed consolidated statements of cash flow

Unaudited, Canadian $ millions	Note	For the three months ended 2012 September 30	2011 September 30	For the nine months ended 2012 September 30	2011 September 30
Operating activities					
Net earnings (loss)		**$ (22.6)**	$ 45.5	**$ 50.5**	$ 169.2
Add (deduct)					
Depletion, depreciation and amortization	4	**68.0**	55.3	**185.4**	157.7
Accretion expense on environmental rehabiliation provisions	6	**1.2**	1.4	**3.7**	4.2
Stock-based compensation (recovery) expense, net	21	**1.5**	(2.8)	**3.1**	(4.2)
Share of loss (earnings) of an associate, net of tax	13	**0.1**	1.5	**1.3**	(0.6)
Impairment losses	5	**-**	2.2	**7.0**	2.7
Net loss (gain) on financial instruments	6	**3.2**	5.2	**16.1**	(2.5)
Current income tax expense	7	**14.5**	19.3	**47.0**	72.8
Deferred income tax recovery	7	**(12.9)**	(3.0)	**(25.1)**	(2.4)
Unrealized foreign exchange (gain) loss		**6.8**	(7.7)	**9.2**	(3.9)
Liabilities settled for environmental rehabilitation	16	**(4.5)**	(4.4)	**(16.3)**	(12.4)
Service concession arrangement		**(9.7)**	(4.3)	**(24.6)**	(13.4)
Cross-guarantee fee amortization	6	**2.9**	3.0	**8.9**	9.0
Gain on sale of discontinued operation	8	**-**	-	**(4.7)**	-
Interest income	6	**(9.2)**	(10.8)	**(28.1)**	(33.2)
Interest expense	6	**34.3**	28.8	**99.1**	85.7
Premium on debenture redemption	15	**27.0**	-	**27.0**	-
Other items		**(2.4)**	2.8	**(0.9)**	6.4
Net change in non-cash working capital	22	**21.6**	(24.1)	**(25.9)**	(101.0)
Interest received		**8.8**	8.8	**27.2**	30.0
Interest paid		**(12.8)**	(5.0)	**(56.2)**	(43.8)
Income tax paid		**(2.0)**	(15.9)	**(39.3)**	(68.7)
Cash provided by operating activities		**113.8**	95.8	**264.4**	251.6
Investing activities					
Property, plant and equipment expenditures	4	**(34.6)**	(34.8)	**(94.6)**	(80.9)
Exploration and evaluation intangible expenditures	4	**(0.5)**	(1.1)	**(4.0)**	(3.2)
Other intangible expenditures	4	**(1.3)**	(0.9)	**(3.6)**	(2.2)
Increase in advances, loans receivable and other financial assets		**(17.4)**	(11.5)	**(46.7)**	(33.5)
Repayment of advances, loans receivable and other financial assets		**5.2**	7.5	**27.2**	34.2
Investments		**6.8**	46.4	**20.5**	59.7
Loans to an associate		**(54.5)**	(55.8)	**(136.5)**	(182.7)
Investment in an associate		**(13.2)**	(28.7)	**(135.6)**	(98.8)
Restricted cash		**0.1**	-	**-**	-
Net proceeds from sale of property, plant and equipment		**0.5**	-	**2.7**	1.3
Short-term investments		**(38.9)**	(335.2)	**231.4**	30.8
Cash used for investing activities		**(147.8)**	(414.1)	**(139.2)**	(275.3)
Financing activities					
Repayment of loans and borrowings and other financial liabilities		**(67.9)**	(30.8)	**(150.2)**	(118.7)
Increase in loans and borrowings and other financial liabilities		**58.9**	-	**113.1**	46.7
Repayment of short-term loans		**-**	-	**-**	(14.2)
Issuance of 7.50% senior unsecured debentures	15	**489.6**	-	**489.6**	-
Repayment of 8.25% senior unsecured debentures	15	**(21.1)**	-	**(21.1)**	-
Increase in finance lease receivables		**(3.1)**	(6.2)	**(5.7)**	(17.2)
Repayment of finance lease receivables		**6.1**	5.2	**18.5**	16.0
Issuance of common shares	17	**1.5**	2.4	**1.5**	2.5
Treasury stock - restricted stock plan	17	**-**	-	**(1.6)**	(0.7)
Dividends paid on common shares	17	**(11.3)**	(11.3)	**(33.9)**	(33.7)
Cash provided by (used for) financing activities		**452.7**	(40.7)	**410.2**	(119.3)
Effect of exchange rate changes on cash and cash equivalents		**(2.0)**	1.3	**(1.2)**	0.6
Increase (decrease) in cash and cash equivalents		**416.7**	(357.7)	**534.2**	(142.4)
Cash and cash equivalents at beginning of the period		**292.1**	478.4	**174.6**	263.1
Cash and cash equivalents at end of the period		**$ 708.8**	$ 120.7	**$ 708.8**	$ 120.7
Cash and cash equivalents consist of:					
Cash on hand and balances with banks		**$ 116.4**	$ 66.8	**$ 116.4**	$ 66.8
Cash equivalents	18	**592.4**	53.9	**592.4**	53.9

Notes to the interim condensed consolidated financial statements

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

1 NATURE OF OPERATIONS AND CORPORATE INFORMATION

Sherritt International Corporation (the Corporation or Sherritt) is a diversified Canadian natural resource company that operates principally in Canada and Cuba and has a significant mining project under development in Madagascar (the Ambatovy Joint Venture). 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 interim consolidated financial statements were approved and authorized for issuance by the Audit Committee on behalf of the Board of Directors of Sherritt on October 30, 2012. The Corporation is listed on the Toronto Stock Exchange.

2 BASIS OF PRESENTATION

The interim condensed consolidated financial statements of the Corporation are prepared in accordance with IAS 34, "Interim Financial Reporting" (IAS 34), as issued by the International Accounting Standards Board (IASB). Accordingly, certain information and footnote disclosure normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the IASB, have been omitted or condensed. These financial statements include the financial results of the Corporation's interest in its subsidiaries, joint ventures and an associate.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of Sherritt for the year ended December 31, 2011, except for the wind up of Royal Utilities Income Fund (Royal Utilities), as described below. The disclosure contained in these interim condensed consolidated financial statements does not include all requirements in IAS 1, "Presentation of Financial Statements" (IAS 1). Accordingly, the interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2011.

Principles of Consolidation

In June 2012, the Corporation wound up Royal Utilities, 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 interim condensed consolidated financial statements. Any reference to Royal Utilities throughout the notes to the interim condensed consolidated financial statements should be understood to mean PMRL after June 2012.

4 SEGMENTED INFORMATION

Business segments

Canadian $ millions, for the three months ended September 30	Metals	Coal	Oil and Gas	Power	Corporate and Other	Total 2012
Revenue	$ 88.4	$ 237.1	$ 74.2	$ 18.8	$ 3.7	$ 422.2
Cost of sales	78.0	230.9	29.8	14.9	2.0	355.6
Gross profit	10.4	6.2	44.4	3.9	1.7	66.6
Administrative expenses	1.7	1.3	2.4	0.4	12.9	18.7
Operating profit (loss)	8.7	4.9	42.0	3.5	(11.2)	47.9
Share of loss of associate	(0.1)	-	-	-	-	(0.1)
Earnings (loss) from operations and associate	8.6	4.9	42.0	3.5	(11.2)	47.8
Financing income	3.1	(7.0)	(1.0)	(0.7)	(0.4)	(6.0)
Financing expense	34.0	5.3	(15.1)	(0.2)	50.8	74.8
Net finance expense (income)	37.1	(1.7)	(16.1)	(0.9)	50.4	68.8
Earnings (loss) before tax	(28.5)	6.6	58.1	4.4	(61.6)	(21.0)
Income tax expense (recovery)	1.9	(2.4)	13.3	0.3	(11.5)	1.6
Net earnings (loss) from continuing operations	(30.4)	9.0	44.8	4.1	(50.1)	(22.6)
Earnings from discontinued operation	-	-	-	-	-	-
Net earnings (loss) for the period	$ (30.4)	$ 9.0	$ 44.8	$ 4.1	$ (50.1)	$ (22.6)
Supplementary information						
Depletion, depreciation and amortization	$ 8.5	$ 39.4	$ 16.6	$ 3.0	$ 0.5	$ 68.0
Property, plant and equipment expenditures	5.6	16.1	11.6	0.3	1.0	34.6
Intangible asset expenditures	-	-	0.5	1.3	-	1.8

Canadian $ millions, as at September 30	Metals	Coal	Oil and Gas	Power	Corporate and Other	Total 2012
Non-current assets[1]	$ 652.0	$ 1,442.1	$ 209.5	$ 188.9	$ 17.5	$ 2,510.0
Total assets	3,133.5	1,928.5	990.7	457.2	461.1	6,971.0

Canadian $ millions, for the three months ended September 30	Metals	Coal	Oil and Gas	Power	Corporate and Other	Total 2011
Revenue	$ 122.9	$ 247.2	$ 78.5	$ 14.0	$ 3.8	$ 466.4
Cost of sales	83.3	230.5	33.4	10.3	2.5	360.0
Gross profit	39.6	16.7	45.1	3.7	1.3	106.4
Administrative expenses	2.4	2.7	1.7	-	8.4	15.2
Operating profit (loss)	37.2	14.0	43.4	3.7	(7.1)	91.2
Share of loss of associate	(1.5)	-	-	-	-	(1.5)
Earnings (loss) from operations and associate	35.7	14.0	43.4	3.7	(7.1)	89.7
Financing income	-	(4.1)	(1.6)	(0.7)	0.8	(5.6)
Financing expense	12.3	4.0	23.8	(10.6)	3.7	33.2
Net finance expense (income)	12.3	(0.1)	22.2	(11.3)	4.5	27.6
Earnings (loss) before tax	23.4	14.1	21.2	15.0	(11.6)	62.1
Income tax expense (recovery)	5.0	(0.2)	12.6	0.4	(1.5)	16.3
Net earnings (loss) from continuing operations	18.4	14.3	8.6	14.6	(10.1)	45.8
Loss from discontinued operation	-	-	-	-	(0.3)	(0.3)
Net earnings (loss) for the period	$ 18.4	$ 14.3	$ 8.6	$ 14.6	$ (10.4)	$ 45.5
Supplementary information						
Depletion, depreciation and amortization	$ 7.2	$ 29.5	$ 15.4	$ 2.7	$ 0.5	$ 55.3
Property, plant and equipment expenditures	5.6	7.0	21.9	0.3	-	34.8
Intangible asset expenditures	-	-	1.2	0.8	-	2.0

Canadian $ millions, as at December 31	Metals	Coal	Oil and Gas	Power	Corporate and Other	Total 2011
Non-current assets[1]	$ 666.7	$ 1,432.9	$ 234.9	$ 173.1	$ 16.9	$ 2,524.5
Total assets	2,926.1	1,937.2	919.0	436.5	278.7	6,497.5

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

Canadian $ millions, for the nine months ended September 30						2012
	Metals	**Coal**	**Oil and Gas**	**Power**	**Corporate and Other**	**Total**
Revenue	$ 343.4	$ 733.0	$ 232.7	$ 53.0	$ 10.2	$ 1,372.3
Cost of sales	269.9	682.2	93.3	40.5	9.7	1,095.6
Gross profit	73.5	50.8	139.4	12.5	0.5	276.7
Administrative expenses	3.6	10.4	9.1	2.6	34.7	60.4
Operating profit (loss)	69.9	40.4	130.3	9.9	(34.2)	216.3
Share of loss of associate	(1.3)	-	-	-	-	(1.3)
Earnings (loss) from operations and associate	68.6	40.4	130.3	9.9	(34.2)	215.0
Financing income	15.8	(13.1)	(3.7)	(1.8)	(9.2)	(12.0)
Financing expense	77.6	12.7	(10.5)	(8.8)	88.0	159.0
Net finance expense (income)	93.4	(0.4)	(14.2)	(10.6)	78.8	147.0
Earnings (loss) before tax	(24.8)	40.8	144.5	20.5	(113.0)	68.0
Income tax expense (recovery)	6.1	(0.3)	41.3	1.4	(26.6)	21.9
Net earnings (loss) from continuing operations	(30.9)	41.1	103.2	19.1	(86.4)	46.1
Earnings from discontinued operation	-	-	-	-	4.4	4.4
Net earnings (loss) for the period	$ (30.9)	$ 41.1	$ 103.2	$ 19.1	$ (82.0)	$ 50.5
Supplementary information						
Depletion, depreciation and amortization	$ 26.0	$ 97.4	$ 51.9	$ 8.3	$ 1.8	$ 185.4
Property, plant and equipment expenditures	19.1	42.4	30.0	0.6	2.5	94.6
Intangible asset expenditures	-	-	4.0	3.6	-	7.6

Canadian $ millions, as at September 30						2012
Non-current assets(1)	$ 652.0	$ 1,442.1	$ 209.5	$ 188.9	$ 17.5	$ 2,510.0
Total assets	3,133.5	1,928.5	990.7	457.2	461.1	6,971.0

Canadian $ millions, for the nine months ended September 30						2011
	Metals	Coal	Oil and Gas	Power	Corporate and Other	Total
Revenue	$ 412.7	$ 747.2	$ 230.5	$ 41.4	$ 9.7	$ 1,441.5
Cost of sales	261.0	678.6	91.1	31.1	12.8	1,074.6
Gross profit	151.7	68.6	139.4	10.3	(3.1)	366.9
Administrative expenses	9.1	12.5	7.2	0.5	26.5	55.8
Operating profit (loss)	142.6	56.1	132.2	9.8	(29.6)	311.1
Share of earnings of associate	0.6	-	-	-	-	0.6
Earnings (loss) from operations and associate	143.2	56.1	132.2	9.8	(29.6)	311.7
Financing income	(2.2)	(13.3)	(5.5)	(1.6)	(13.1)	(35.7)
Financing expense	43.5	12.2	21.8	(14.7)	44.1	106.9
Net finance expense (income)	41.3	(1.1)	16.3	(16.3)	31.0	71.2
Earnings (loss) before tax	101.9	57.2	115.9	26.1	(60.6)	240.5
Income tax expense (recovery)	31.1	2.3	40.6	0.8	(4.4)	70.4
Net earnings (loss) from continuing operations	70.8	54.9	75.3	25.3	(56.2)	170.1
Loss from discontinued operation	-	-	-	-	(0.9)	(0.9)
Net earnings (loss) for the period	$ 70.8	$ 54.9	$ 75.3	$ 25.3	$ (57.1)	$ 169.2
Supplementary information						
Depletion, depreciation and amortization	$ 22.1	$ 79.1	$ 47.0	$ 7.9	$ 1.6	$ 157.7
Property, plant and equipment expenditures	19.5	14.5	45.4	1.2	0.3	80.9
Intangible asset expenditures	-	-	3.3	2.1	-	5.4

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

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

Geographic segments

The Corporation carries on business in the following geographic areas:

Canadian $ millions, as at	2012 September 30 Non-current assets(1)	2012 September 30 Total assets	2011 December 31 Non-current assets(1)	2011 December 31 Total assets
Canada	$ **1,746.6**	$ **3,399.0**	$ 1,735.9	$ 3,058.4
Cuba	**738.5**	**1,254.8**	765.6	1,281.1
Madagascar	**10.7**	**2,233.7**	12.9	2,052.2
Europe	**12.7**	**50.7**	8.6	24.5
Asia	**1.5**	**8.0**	1.5	2.2
Other	**-**	**24.8**	-	79.1
	$ **2,510.0**	$ **6,971.0**	$ 2,524.5	$ 6,497.5

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

Canadian $ millions	For the three months ended 2012 September 30 Total revenue	For the three months ended 2011 September 30 Total revenue	For the nine months ended 2012 September 30 Total revenue	For the nine months ended 2011 September 30 Total revenue
Canada	$ **165.3**	$ 164.5	$ **531.8**	$ 511.6
Cuba	**89.4**	88.3	**273.2**	257.0
Madagascar	**2.1**	2.6	**7.1**	6.8
Europe	**62.6**	66.8	**223.8**	216.2
Asia	**94.4**	95.2	**215.1**	303.2
Other	**8.4**	49.0	**121.3**	146.7
	$ **422.2**	$ 466.4	$ **1,372.3**	$ 1,441.5

Revenue segments

Revenue includes the following significant categories:

Canadian $ millions	For the three months ended 2012 September 30	For the three months ended 2011 September 30	For the nine months ended 2012 September 30	For the nine months ended 2011 September 30
Commodity and electricity	$ **391.1**	$ 434.3	$ **1,281.6**	$ 1,341.0
Royalty	**13.2**	12.8	**41.1**	44.7
Other	**17.9**	19.3	**49.6**	55.8
	$ **422.2**	$ 466.4	$ **1,372.3**	$ 1,441.5

5 COST OF SALES

Cost of sales includes the following select information:

Canadian $ millions	2012 September 30	2011 September 30	2012 September 30	2011 September 30
Employee costs	$ **88.9**	$ 86.9	$ **278.2**	$ 265.7
Depletion, depreciation and amortization of property, plant and equipment and intangible assets	**67.3**	53.3	**182.4**	149.0
Exploration and evaluation expenses	**0.7**	0.9	**4.8**	7.0
Impairment losses (1)	**-**	2.2	**7.0**	2.7

(1) Impairment losses relate to a write down of inventory during the period.

The exploration and evaluation expenses incurred by the Corporation relate mainly to the Sulawesi Project in Indonesia. The Corporation expensed $0.4 million and $4.3 million relating to this project for the three and nine months ended September 30, 2012, respectively ($0.6 million and $6.2 million for the three and nine months ended September 30, 2011, respectively).

6 NET FINANCE EXPENSE

		For the three months ended		For the nine months ended	
Canadian $ millions	Note	2012 September 30	2011 September 30	2012 September 30	2011 September 30
Net (loss) gain on financial instruments	18	$ **(3.2)**	$ (5.2)	$ **(16.1)**	$ 2.5
Interest income on cash, cash equivalents and short-term investments		**1.3**	1.3	**3.5**	4.4
Interest income on investments		**1.6**	2.5	**5.2**	7.3
Interest income on advances and loans receivable		**2.0**	2.6	**6.5**	8.3
Interest income on finance leases		**4.3**	4.4	**12.9**	13.2
Total financing income		**6.0**	5.6	**12.0**	35.7
Interest expense and accretion on loans and borrowings		**30.6**	25.9	**88.3**	77.7
Interest expense on other liabilities		**1.6**	0.9	**4.4**	2.5
Interest expense on finance lease obligations		**2.1**	2.0	**6.4**	5.5
Accretion expense on environmental rehabilitation provisions	16	**1.2**	1.4	**3.7**	4.2
Foreign exchange loss		**6.0**	(4.2)	**9.7**	(1.8)
Cross-guarantee fee amortization		**2.9**	3.0	**8.9**	9.0
Premium on debenture redemption	15	**27.0**	-	**27.0**	-
Other finance charges		**3.4**	4.2	**10.6**	9.8
Total financing expense		$ **74.8**	$ 33.2	$ **159.0**	$ 106.9
Net finance expense		$ **68.8**	$ 27.6	$ **147.0**	$ 71.2

7 INCOME TAXES

	For the three months ended		For the nine months ended	
Canadian $ millions	2012 September 30	2011 September 30	2012 September 30	2011 September 30
Current income tax expense				
Current period	$ **14.5**	$ 19.3	$ **47.0**	$ 72.8
	14.5	19.3	**47.0**	72.8
Deferred income tax (recovery) expense				
Origination and reversal of temporary differences	**(11.4)**	(8.9)	**(13.7)**	(9.7)
Reduction in tax rate	**-**	0.7	**(0.4)**	-
(Recognition) non-recognition of tax assets (not) previously recognized	**(1.5)**	5.2	**(11.0)**	7.3
	(12.9)	(3.0)	**(25.1)**	(2.4)
Income tax expense	$ **1.6**	$ 16.3	$ **21.9**	$ 70.4

8 DISCONTINUED OPERATION – MINERAL PRODUCTS

In 2007, the Corporation acquired Mineral Products, which included a talc mine and plant, through the acquisition of the Dynatec Corporation (Dynatec). During 2010, the Corporation closed the talc mine and plant and classified Mineral Products as a discontinued operation.

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

Results from the discontinued operation for the periods are as follows:

	For the three months ended		For the nine months ended	
Canadian $ millions	**2012 September 30**	2011 September 30	**2012 September 30**	2011 September 30
Revenue	**$ -**	$ -	**$ -**	$ -
Expenses	**-**	0.3	**0.3**	0.9
Loss from discontinued operation, net of tax	**$ -**	$ (0.3)	**$ (0.3)**	$ (0.9)
Gain on sale of discontinued operation	**-**	-	**4.7**	-
Earnings (loss) from discontinued operation, net of tax	**$ -**	$ (0.3)	**$ 4.4**	$ (0.9)

Mineral Products is included in the Corporate and Other business segment (note 4).

9 EARNINGS (LOSS) PER SHARE

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

Net earnings (loss) per share

	For the three months ended		For the nine months ended	
Canadian $ millions, except per share amounts	**2012 September 30**	2011 September 30	**2012 September 30**	2011 September 30
Net earnings (loss) from continuing operations	**$ (22.6)**	$ 45.8	**$ 46.1**	$ 170.1
Earnings (loss) from discontinued operation	**-**	(0.3)	**4.4**	(0.9)
Net earnings (loss) - basic and diluted	**$ (22.6)**	$ 45.5	**$ 50.5**	$ 169.2
Weighted-average number of common shares - basic	**296.4**	295.2	**296.2**	295.0
Weighted-average effect of dilutive securities(1):				
Employee share purchase plan	**-**	-	**-**	-
Restricted stock plan	**0.6**	0.3	**0.6**	0.3
Cross-guarantee	**-**	0.9	**-**	0.9
Weighted-average number of common shares - diluted	**297.0**	296.4	**296.8**	296.2
Net earnings (loss) from continuing operations per common share:				
Basic	**$ (0.08)**	$ 0.16	**$ 0.16**	$ 0.58
Diluted	**$ (0.08)**	$ 0.15	**$ 0.16**	$ 0.57
Earnings (loss) from discontinued operation per common share:				
Basic	**$ -**	$ -	**$ 0.01**	$ -
Diluted	**$ -**	$ -	**$ 0.01**	$ -
Net earnings (loss) per common share:				
Basic	**$ (0.08)**	$ 0.16	**$ 0.17**	$ 0.58
Diluted	**$ (0.08)**	$ 0.15	**$ 0.17**	$ 0.57

(1) The determination of the weighted-average number of common shares - diluted excludes 4.2 million shares related to stock options that were anti-dilutive for the three and nine months ended September 30, 2012, respectively (5.4 million for the three and nine months ended September 30, 2011, respectively). There were 0.8 million shares related to the employee share purchase plan that were anti-dilutive for the three and nine months ended September 30, 2012, respectively (0.8 million for the three and nine months ended September 30, 2011, respectively).

10 ADVANCES, LOANS RECEIVABLE, OTHER ASSETS AND FINANCE LEASE RECEIVABLES

Advances, loans receivable and other financial assets

Canadian $ millions, as at	Note	2012 September 30	2011 December 31
Advances, loans receivable			
Ambatovy subordinated loans receivable	20	$ 1,103.6	$ 968.9
Energas conditional sales agreement	20	210.2	166.9
Moa Joint Venture loans receivable	20	121.1	142.8
Other		23.7	24.3
Other financial assets			
Ambatovy call option	18	21.0	38.0
Deferred reclamation recoveries		9.1	9.0
		1,488.7	1,349.9
Current portion of advances, loans receivable and other financial assets		(59.6)	(71.1)
		$ 1,429.1	$ 1,278.8

Other non-financial assets

Canadian $ millions, as at	2012 September 30	2011 December 31
Cross-guarantee fee asset	$ 2.0	$ 10.6
Pension asset	2.2	2.4
Other	6.7	4.3
	10.9	17.3
Current portion of other non-financial assets	-	(0.2)
	$ 10.9	$ 17.1

Finance lease receivables

Canadian $ millions, as at	2012 September 30			2011 December 31		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	$ 31.8	$ 6.8	$ 25.0	$ 38.3	$ 15.0	$ 23.3
Between one and five years	104.2	20.7	83.5	122.8	45.8	77.0
More than five years	123.1	19.9	103.2	149.5	30.5	119.0
	$ 259.1	$ 47.4	$ 211.7	$ 310.6	$ 91.3	$ 219.3

11 INVENTORIES

Canadian $ millions, as at	2012 September 30	2011 December 31
Uncovered coal	$ 8.1	$ 8.5
Raw materials	10.3	8.5
Materials in process	38.5	37.7
Finished products	87.7	64.8
	144.6	119.5
Spare parts and operating materials	98.7	95.6
	$ 243.3	$ 215.1

For the three and nine months ended September 30, 2012, the cost of inventories recognized as an expense and included in cost of sales was $248.3 million and $759.4 million, respectively ($254.5 million and $754.2 million for the three and nine months ended September 30, 2011, respectively).

12 PROPERTY, PLANT AND EQUIPMENT

Canadian $ millions, as at September 30				2012
	Mining properties	Oil and Gas properties	Plant, equipment and land	Total
Cost				
Balance, beginning of the period	$ 417.6	$ 1,047.0	$ 1,991.1	$ 3,455.7
Additions	15.3	23.3	94.6	133.2
Capitalized closure costs	29.2	0.5	6.6	36.3
Disposals	(0.5)	-	(21.8)	(22.3)
Capitalized interest	-	-	0.6	0.6
Effect of movements in exchange rates	(0.9)	(34.4)	(22.3)	(57.6)
Balance, end of the period	460.7	1,036.4	2,048.8	3,545.9
Depletion, depreciation and impairment losses				
Balance, beginning of the period	262.0	917.0	846.3	2,025.3
Depletion and depreciation	42.5	44.3	79.7	166.5
Disposals	(0.5)	-	(20.3)	(20.8)
Effect of movements in exchange rates	(0.7)	(31.4)	(5.0)	(37.1)
Balance, end of the period	303.3	929.9	900.7	2,133.9
Net book value	$ 157.4	$ 106.5	$ 1,148.1	$ 1,412.0

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

Canadian $ millions	Plant, equipment and land
Assets held under finance lease at net book value, included in above	
As at September 30, 2012	$ 137.1
As at December 31, 2011	120.6
Assets under construction, included in above	
As at September 30, 2012	$ 280.1
As at December 31, 2011	281.6

13 INVESTMENT IN AN ASSOCIATE

Statement of financial position

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

Canadian $ millions, Sherritt's 40% interest, as at		**2012 September 30**		2011 December 31
Assets				
Cash on hand and balances with banks	**$**	**10.8**	$	13.7
Accounts receivable		**39.4**		37.5
Inventories		**89.9**		55.7
Other current assets		**2.2**		0.9
Property, plant and equipment		**3,130.4**		3,007.7
Other assets		**1.7**		2.3
Deferred income taxes [1]		**0.2**		0.2
Liabilities				
Current liabilities		**133.8**		106.1
Long-term debt				
Ambatovy Joint Venture financing		**788.9**		838.9
Subordinated loan payable		**1,103.6**		968.9
Environmental rehabilitation provision		**35.2**		32.4
Other long-term liabilities		**0.1**		0.1
Deferred income taxes		**114.6**		118.5
Net assets	**$**	**1,098.4**	$	1,053.1

(1) As at September 30, 2012, the Ambatovy Joint Venture has earned investment tax credits of $168.8 million (December 31, 2011 - $145.7 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.

Results of operations

For the three and nine months ended September 30, 2012, the Corporation recognized net losses of $0.1 million and $1.3 million respectively, representing its 40% interest in the Ambatovy Joint Venture. The net losses were primarily composed of administrative expenses (net loss of $1.5 million and net earnings of $0.6 million for the three and nine months ended September 30, 2011, respectively, primarily composed of a tax recovery offset by financing expense). The Ambatovy Joint Venture has not yet commenced operations or generated any revenue.

Contingent liabilities

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

Operating Permit

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

14 INTEREST IN JOINT VENTURES

Jointly controlled entities

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

Canadian $ millions, as at September 30				2012
		Moa Joint Venture	Carbon Development Partnership	Energas
		50%	50%	33 1/3%
Current assets	$	170.2	$ 1.3	$ 23.4
Non-current assets		546.9	29.5	147.8
Current liabilities		83.1	1.0	11.0
Non-current liabilities		220.8	0.4	97.4
Net assets	$	413.2	$ 29.4	$ 62.8

Canadian $ millions, for the three months ended September 30				2012
		Moa Joint Venture	Carbon Development Partnership	Energas
		50%	50%	33 1/3%
Revenue	$	81.9	$ 0.1	$ 17.6
Expenses		78.7	0.3	17.4
Net earnings (loss)	$	3.2	$ (0.2)	$ 0.2

Canadian $ millions, for the nine months ended September 30				2012
		Moa Joint Venture	Carbon Development Partnership	Energas
		50%	50%	33 1/3%
Revenue	$	297.8	$ 0.4	$ 49.0
Expenses		261.4	0.9	42.6
Net earnings (loss)	$	36.4	$ (0.5)	$ 6.4

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

Canadian $ millions, for the three months ended September 30				2011
		Moa Joint Venture	Carbon Development Partnership	Energas
		50%	50%	33 1/3%
Revenue	$	114.7	$ 0.2	$ 12.7
Expenses		90.1	0.4	5.1
Net earnings (loss)	$	24.6	$ (0.2)	$ 7.6

Canadian $ millions, for the nine months ended September 30				2011
		Moa Joint Venture	Carbon Development Partnership	Energas
		50%	50%	33 1/3%
Revenue	$	374.6	$ 0.7	$ 37.3
Expenses		272.0	1.2	27.8
Net earnings (loss)	$	102.6	$ (0.5)	$ 9.5

15 LOANS, BORROWINGS AND OTHER LIABILITIES

Loans and borrowings

Canadian $ millions, as at	Note		2012 September 30		2011 December 31
Long-term loans					
8.25% senior unsecured debentures due 2014	18	**$**	**202.8**	$	223.0
7.75% senior unsecured debentures due 2015	18		**273.3**		272.9
8.00% senior unsecured debentures due 2018	18		**392.0**		391.2
7.50% senior unsecured debentures due 2020	18		**489.6**		-
Ambatovy Joint Venture additional partner loans			**712.6**		708.5
Ambatovy Joint Venture partner loans			**90.1**		92.2
Coal revolving credit facility			**50.0**		-
Syndicated 364-day revolving-term credit facility			**10.0**		-
Senior credit facility			**-**		43.0
Loan from financial institution			**-**		2.7
3-year non-revolving term loan			**-**		11.2
			2,220.4		1,744.7
Current portion of loans and borrowings			**(212.9)**		(56.9)
		$	**2,007.5**	$	1,687.8

7.50% senior unsecured debentures due 2020 and 8.25% senior unsecured debentures due 2014

In September 2012, Sherritt completed an offering of $500.0 million principal amount of 7.50% senior unsecured debentures due September 24, 2020. The net proceeds of $489.6 million (after agents' fees and the deduction of expenses) were used to fund the repurchase and redemption of the outstanding principal amount of Sherritt's 2014 debentures by October 2012 and the remainder is available for general corporate purposes. In September 2012, the Corporation purchased and cancelled $21.1 million of the 2014 debentures. Subsequent to September 30, 2012 the remaining $203.9 million in 2014 debentures was redeemed by the Corporation in October 2012. The loans and borrowings amount above includes both the 2020 debentures and $203.9 million of the 2014 debentures at September 30, 2012, net of deferred financing costs.

The early repurchase and redemption of the 2014 debentures required the Corporation to pay a premium to the principal amount plus accrued interest to the date of repurchase/redemption. Of the total amount of the $27.0 million premium, $2.7 million was paid on the debentures repurchased and cancelled in September; the balance was accrued in the quarter. The unamortized deferred finance charges related to the 2014 debentures of $1.5 million is expensed as the debentures were repurchased/redeemed.

Syndicated 364-day revolving-term credit facility

In June 2012, the Corporation amended the terms of the syndicated 364-day revolving-term credit facility. The maximum available credit under the facility is $90.0 million (December 31, 2011 - $115.0 million); however, the total available draw is based on eligible receivables and inventory. As at September 30, 2012, $10.0 million was drawn on this facility (December 31, 2011 - $nil). This facility is subject to the following financial covenants: financial debt-to-equity not exceeding 0.5:1, quarterly adjusted net financial debt-to-EBITDA not exceeding 2.5:1, and EBITDA-to-interest expense of not less than 3:1. The interest rate on the syndicated 364-day revolving-term credit facility is prime plus 1.0% per annum or bankers' acceptances plus 2.0% and the facility expires on May 6, 2013.

Coal revolving credit facility

In June 2012, the Corporation negotiated a revolving credit facility agreement for PMRL and Coal Valley Resources Inc. (CVRI) with a syndicate of financial institutions to replace the PMRL senior credit facility and the CVRI letter of credit facility. Under the new facility, PMRL and CVRI are jointly and severally liable for all amounts owing on the credit facility. The maximum funding available is $525.0 million, consisting of a $350.0 million revolving credit facility and a $175.0 million letter of credit facility. The credit facility expires on June 26, 2016. As at September 30, 2012, $50.0 million was outstanding on the revolving credit portion of the facility and $157.5 million was outstanding under the letter of credit facility as follows: $138.0 million to satisfy current regulatory requirements in connection with future reclamation, site restoration and mine closure costs and $19.5 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.

Other financial liabilities

Canadian $ millions, as at	2012 September 30	2011 December 31
Advances and loans payable	$ 93.2	$ 104.0
Finance lease obligations (a)	150.9	142.8
Other long-term financial liabilities (b)	15.1	17.2
Stock compensation liability	9.3	11.2
	268.5	275.2
Current portion of other financial liabilities	(64.8)	(69.8)
	$ 203.7	$ 205.4

a) Finance lease obligations

Canadian $ millions, as at	2012 September 30 Future minimum lease payments	Interest	Present value of minimum lease payments	2011 December 31 Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	$ 51.0	$ 6.8	$ 44.2	$ 52.1	$ 6.8	$ 45.3
Between one and five years	116.0	9.3	106.7	107.2	9.7	97.5
	$ 167.0	$ 16.1	$ 150.9	$ 159.3	$ 16.5	$ 142.8

b) Other long-term financial liabilities

Canadian $ millions, as at	2012 September 30	2011 December 31
Less than one year	$ 2.6	$ 3.7
Between one and five years	4.6	7.0
More than five years	7.9	6.5
	$ 15.1	$ 17.2

Other non-financial liabilities

Canadian $ millions, as at	2012 September 30	2011 December 31
Pension liability	$ 10.6	$ 14.1
Deferred revenue	26.3	9.0
	36.9	23.1
Current portion of other non-financial liabilities	(25.4)	(8.0)
	$ 11.5	$ 15.1

16 ENVIRONMENTAL REHABILITATION PROVISIONS AND GUARANTEES

Environmental rehabilitation provisions

Canadian $ millions	Note		For the nine months ended 2012 September 30		For the year ended 2011 December 31
Balance, beginning of the period		$	**267.7**	$	208.3
Additions			**17.1**		17.2
Change in estimates			**19.0**		55.9
Utilized during the period			**(16.3)**		(19.4)
Accretion	6		**3.7**		5.4
Foreign exchange translation			**(2.2)**		0.3
Balance, end of the period			**289.0**		267.7
Current portion			**(31.5)**		(31.9)
		$	**257.5**	$	235.8

Guarantees

Coal Valley Resources Inc.

In relation to the 3-year revolving term loan, Sherritt and its former partner had each provided a $12.5 million limited guarantee. Upon acquiring the remaining 50% interest in Coal Valley Partnership, the Corporation indemnified its former partner's guaranteed portion of the letter of credit and payments under the lease. In March 2012, the creditor released Sherritt's former partner of the $12.5 million limited guarantee thereby cancelling the Corporation's indemnification. As described in note 15, 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 15). Under the Coal revolving credit facility, the Corporation is no longer required to serve as guarantor to CVRI's letters of credit.

Prairie Mines & Royalties Limited

Royal Utilities 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, Royal Utilities 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 Royal Utilities performance guarantee. PMRL has issued letters of credit through an established Canadian banking institution in the amount of $6.0 million (December 31, 2011 - $6.2 million).

17 SHAREHOLDERS' EQUITY

Capital Stock

The Corporation's common shares have no par value and the authorized share capital is composed of an unlimited number of common shares. The changes in the Corporation's outstanding common shares were as follows:

Canadian $ millions, except share amounts	Note	For the nine months ended 2012 September 30 Number		Capital stock	For the year ended 2011 December 31 Number		Capital stock
Balance, beginning of the period		**296,390,692**	$	**2,803.1**	295,016,500	$	2,787.3
Treasury stock - restricted stock plan	21	**(287,400)**		**(1.6)**	(88,500)		(0.7)
Restricted stock plan (vested)	21	**19,848**		**0.2**	21,856		0.1
Employee share purchase plan	21	**280,495**		**1.3**	477,560		2.4
Stock options exercised	21	**-**		**-**	20,000		0.1
Cross-guarantee(1)		**-**		**-**	943,276		13.9
Balance, end of the period		**296,403,635**	**$**	**2,803.0**	296,390,692	$	2,803.1

(1) On December 30, 2011, the Corporation issued 943,276 common shares valued at $14.74 per common share as the final annual issuance in relation to the cross-guarantees provided by Sumitomo and SNC-Lavalin on the Ambatovy senior credit facility. The issuance resulted in a total of $13.9 million being reclassified from the cross-guarantee reserve to capital stock.

The following dividends were paid or were declared but unpaid:

Canadian $ millions, except share amounts	For the nine months ended 2012 September 30		For the nine months ended 2011 September 30	
	Per share	**Total**	Per share	Total
Dividends paid during the period	**$ 0.114**	**$ 33.9**	$ 0.114	$ 33.7
Dividends declared but unpaid	**0.038**	**11.3**	0.038	11.2

Reserves

Canadian $ millions	Note	**For the nine months ended 2012 September 30**	For the year ended 2011 December 31
Stated capital reserve(1)			
Balance, beginning and end of the period		**$ 190.3**	$ 190.3
Stock-based compensation reserve(2)			
Balance, beginning of the period		**4.8**	2.4
Restricted stock plan (vested)	21	**(0.2)**	(0.1)
Restricted stock plan amortization	21	**1.0**	0.7
Employee share purchase plan expense	21	**0.1**	0.7
Stock option plan expense	21	**1.2**	1.1
Balance, end of the period		**6.9**	4.8
Cross-guarantee reserve			
Balance, beginning of the period		**-**	13.9
Issuance of common shares		**-**	(13.9)
Balance, end of the period		**-**	-
Total reserves, end of the period		**$ 197.2**	$ 195.1

(1) In May 2000, the Corporation’s shareholders approved the elimination of the December 31, 1999 accumulated deficit of $6.9 million through a $200.0 million reduction in the stated value of the Corporation’s restricted voting shares and the creation of a $193.1 million stated capital reserve. Between 2000 and 2007, this reserve was reduced to $190.3 million as a result of losses on repurchase of common shares and the redemption of convertible debentures.

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

Accumulated foreign currency translation reserve

Shareholders’ equity includes a reserve pertaining to the accumulated foreign currency translation adjustment which relates to deferred exchange gains and losses arising from the translation of the financial statements of the Corporation’s foreign operations that have a functional currency that differs from that of the Corporation.

18 FINANCIAL INSTRUMENTS

Financial instrument hierarchy

Canadian $ millions, as at	Note	Hierarchy level	2012 September 30		2011 December 31	
Financial assets:						
Held for trading, measured at fair value						
Cash equivalents		1	$	**592.4**	$	64.9
Short-term investments		1		**225.4**		456.8
Ambatovy call option	10	3		**21.0**		38.0

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

Canadian $ millions, as at	Note	Hierarchy level	2012 September 30		2011 December 31	
Financial assets:						
Held for trading, measured at fair value						
Cash equivalents		1	$	**592.4**	$	64.9
Short-term investments		1		**225.4**		456.8
Ambatovy call option	10	3		**21.0**		38.0

(1) Gains and losses are recognized in net finance expense (note 6).

Ambatovy call option

During the three and nine months ended September 30, 2012, the Corporation recognized a downward fair value adjustment of $3.2 million and $16.1 million, respectively (downward fair value adjustment of $0.2 million and upward fair value adjustment of $2.0 million for the three and nine months ended September 30, 2011, respectively) in financing income on the Ambatovy call option as a result of changes in various inputs used in the Black-Scholes model, including volatility, which is based on a blend of historical commodity prices and the publicly traded stock prices of companies with comparable projects and the reduced time to 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	2012 September 30				2011 December 31			
			Carrying value		**Fair value**		Carrying value		Fair value
8.25% senior unsecured debentures due 2014	15	$	**202.8**	$	**236.6**	$	223.0	$	233.0
7.75% senior unsecured debentures due 2015	15		**273.3**		**297.4**		272.9		283.1
8.00% senior unsecured debentures due 2018	15		**392.0**		**430.9**		391.2		408.4
7.50% senior unsecured debentures due 2020	15		**489.6**		**504.9**		-		-

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

As at September 30, 2012, the carrying amounts of cash and cash equivalents, restricted cash, short-term investments, trade accounts receivable, current portion of advances and loans receivable, current portion of other financial assets, current portion of finance lease receivables, current portion of loans and borrowings, current portion of other financial liabilities, trade accounts payable and accrued liabilities are at fair value or approximate fair value due to their immediate or short terms to maturity.

The fair values of non-current loans and borrowings and other financial liabilities as noted in note 15 approximate their carrying amount, except as noted above. The fair value of a financial instrument on initial recognition is normally the transaction price, the fair value of the consideration given or received. The fair values of non-current advances and loans receivable and finance lease receivables are estimated based on discounted cash flows. Due to the use of judgment and uncertainties in the determination of the estimated fair values, these values should not be interpreted as being realizable in the immediate term.

As at September 30, 2012, the carrying amount for the Cuban certificates of deposit is approximately equal to the fair value (note 19).

As at September 30, 2012, the carrying amount of the lenders' conversion option under the Ambatovy Joint Venture additional partner loan agreements is approximately equal to the fair value.

Cash, cash equivalents and short-term investments

The Corporation's cash balances are deposited with major financial institutions rated A or higher by Standard and Poor's and with banks in Cuba that are not rated. The total cash held in Cuban bank deposit accounts was $17.0 million at September 30, 2012 (December 31, 2011 – $14.8 million).

As at September 30, 2012, $8.9 million of cash on the Corporation's interim condensed consolidated statements of financial position was held by Energas and $53.0 million by the Moa Joint Venture (December 31, 2011 – $6.6 million and $30.0 million, respectively). These funds are for the use of each joint venture, respectively.

As at September 30, 2012, the Corporation had $817.8 million in Government of Canada treasury bills with terms to maturity up to 180 days (December 31, 2011 - $521.7 million) included in cash and cash equivalents and short-term investments.

Trade accounts receivable

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

Canadian $ millions, as at	Note		2012 September 30		2011 December 31
Trade accounts receivable		$	**320.2**	$	345.0
Allowance for doubtful accounts			**(0.1)**		(0.1)
Accounts receivable from jointly controlled entities	20		**3.3**		4.1
Accounts receivable from associate	20		**45.5**		22.1
Other			**16.5**		15.4
		$	**385.4**	$	386.5

Of which are:

Canadian $ million, as at		2012 September 30		2011 December 31
Not past due	$	**322.2**	$	323.9
Past due no more than 30 days		**37.1**		33.2
Past due for more than 30 days but no more than 60 days		**8.7**		19.5
Past due for more than 60 days		**17.5**		10.0
	$	**385.5**	$	386.6

19 FINANCIAL RISK AND CAPITAL RISK MANAGEMENT

Credit risk

The Corporation has credit risk exposure related to its share of cash, accounts receivable, advances and loans, and Cuban certificate deposits, associated with its businesses located in Cuba or businesses which have Cuban joint venture partners as follows:

Canadian $ millions, as at		2012 September 30		2011 December 31
Cash	$	**17.0**	$	14.8
Trade accounts receivable, net		**196.6**		218.7
Advances and loans receivable		**561.1**		539.4
Cuban certificates of deposit		**37.8**		58.2
Total	$	**812.5**	$	831.1

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

The Corporation has credit risk exposure in Madagascar related to its share of accounts receivables from the Malagasy Government of $9.6 million associated with its Power business and $39.4 million related to the Corporations Investment in Associate.

Liquidity risk

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 September 30	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	$ 237.7	$ 237.7	$ -	$ -	$ -	$ -	$ -
Advances and loans payable	132.6	12.9	11.6	10.9	10.8	10.4	76.0
Income taxes payable	17.2	17.2	-	-	-	-	-
Loans and borrowings(1)	3,562.6	378.2	195.1	516.6	321.2	165.4	1,986.1
Finance leases and other equipment financing	175.0	53.8	43.8	32.9	25.6	18.6	0.3
Environmental rehabilitation provisions	414.2	31.7	39.6	36.2	32.9	18.7	255.1
Operating leases (2)	35.5	14.2	8.5	2.5	1.9	1.9	6.5
Total	$ 4,574.8	$ 745.7	$ 298.6	$ 599.1	$ 392.4	$ 215.0	$ 2,324.0

(1) The interest and principal on the Ambatovy Joint Venture additional partner loans will be repaid from the Corporation's share of cash distributions from the Ambatovy Joint Venture. 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 specified in the loan documents.

(2) Operating leases include $1.4 million of commitments relating to the Corporation's jointly controlled entities. These commitments of $1.4 million are disclosed separately in the Commitments for Expenditures section (note 25).

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 $162.0 million, contractual commitments for commodities of $32.6 million and senior debt financing of $924.9 million.

Market risk

Foreign exchange

Many of Sherritt's businesses transact in currencies other than the Canadian dollar. The Corporation is sensitive to foreign exchange exposure when commitments are made to deliver products quoted in foreign currencies or when the contract currency is different from the product price currency. Derivative financial instruments are not used to reduce exposure to fluctuations in foreign exchange rates. The Corporation is also sensitive to foreign exchange risk arising from the translation of the subsidiaries with a functional currency other than the Canadian dollar impacting other comprehensive income (loss).

Based on financial instrument balances as at September 30, 2012, a strengthening or weakening of $0.05 of the Canadian dollar relative to the U.S. dollar with all other variables held constant could have an unfavourable or favourable impact of approximately $5.6 million, respectively, on net earnings, and $26.6 million on other comprehensive income.

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 September 30, 2012, excluding interest capitalized to project costs, a 1% increase or decrease in the market interest rate could increase or decrease the Corporation's annual interest expense by approximately $2.0 million, respectively. The Corporation does not engage in hedging activities to mitigate its interest rate risk.

Capital risk management

In the definition of capital, the Corporation includes, as disclosed on its interim condensed consolidated statements of financial position: retained earnings, capital stock and un-drawn credit facilities.

Canadian $ millions, as at		2012 September 30		2011 December 31
Capital stock	$	**2,803.0**	$	2,803.1
Retained earnings		**801.5**		784.9
Un-drawn credit facilities		**542.9**		423.6

The Corporation and its divisions were in compliance with all of their financial covenants as at September 30, 2012. The Corporation is not subject to any externally imposed capital restrictions.

20 RELATED PARTY TRANSACTIONS

Jointly controlled entities and associate

Canadian $ millions	For the three months ended 2012 September 30		2011 September 30	For the nine months ended 2012 September 30		2011 September 30
Total value of goods and services:						
Provided to jointly controlled entities	$ **20.5**	$	25.4	$ **67.2**	$	76.8
Provided to associate	**1.0**		1.2	**3.4**		3.1
Purchased from jointly controlled entities	**9.7**		6.5	**34.0**		28.5
Net financing income from jointly controlled entities	**6.9**		6.0	**19.9**		17.9

Canadian $ millions, as at	Note		2012 September 30		2011 December 31
Accounts receivable from jointly controlled entities	18	$	**3.3**	$	4.1
Accounts receivable from associate	18		**45.5**		22.1
Accounts payable to jointly controlled entities			**1.2**		-
Accounts payable to associate			**0.3**		0.3
Advances and loans receivable from associate	10		**1,103.6**		968.9
Advances and loans receivable from Energas	10		**210.2**		166.9
Advances and loans receivable from certain Moa Joint Venture entities	10		**121.1**		142.8

21 STOCK-BASED COMPENSATION PLANS

Stock options and options with tandem stock appreciation rights

The following is a summary of stock option activity:

For the three months ended September 30	2012 Options		2012 Weighted-average exercise price	2011 Options		2011 Weighted-average exercise price
Outstanding, beginning of period	**4,244,317**	**$**	**9.49**	5,370,580	$	10.23
Forfeited	-		-	(15,000)		-
Outstanding, end of period	**4,244,317**		**9.49**	5,355,580		10.22
Options exercisable, end of period	**3,001,899**	**$**	**10.46**	3,935,461	$	11.08

For the nine months ended September 30		2012		2011
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
Outstanding, beginning of period	**4,976,817**	**$ 10.38**	4,819,146	$ 10.37
Granted	**692,500**	**6.04**	638,100	8.69
Exercised for cash	**-**	**-**	(51,666)	5.16
Exercised for shares	**-**	**-**	(20,000)	5.05
Forfeited	**(1,425,000)**	**10.92**	(30,000)	15.02
Outstanding, end of period	**4,244,317**	**9.49**	5,355,580	10.22
Options exercisable, end of period	**3,001,899**	**$ 10.46**	3,935,461	$ 11.08

The following table summarizes information on stock options outstanding and exercisable at September 30, 2012:

Range of exercise prices	**Number outstanding**	**Weighted-average remaining contractual life**	**Weighted-average exercise price**	**Exercisable number**	**Exercisable weighted-average exercise price**
$3.05 - $5.05	40,000	6.1 years	$ 3.69	40,000	$ 3.69
$5.06 - $9.77	2,545,982	7.8 years	7.01	1,303,564	6.88
$9.78 - $11.64	543,335	3.2 years	10.26	543,335	10.26
$11.65 - $15.23	1,115,000	4.9 years	14.99	1,115,000	14.99
Total	**4,244,317**	**6.4 years**	**$ 9.49**	**3,001,899**	**$ 10.46**

As at September 30, 2012, 2,984,017 options with tandem SARs (September 30, 2011 – 4,717,480) and 1,260,300 options (September 30, 2011 – 638,100) remained outstanding for which the Corporation has recognized a compensation expense of $0.3 million and a compensation recovery of $1.1 million for the three and nine months ended September 30, 2012, respectively (compensation recovery of $2.5 million and $5.3 million for the three and nine months ended September 30, 2011, respectively). The carrying amount of liabilities associated with cash-settled compensation arrangements is $3.2 million at September 30, 2012 (December 31, 2011 – $5.5 million).

Inputs for measurement of grant date fair values

The fair value at the grant date of the stock options and options with tandem SARs (described below) was measured using Black-Scholes. There were no stock options or options with tandem SARs granted for the three months ended September 30, 2012 and 2011. The following summarizes the fair value measurement factors for options granted during the nine months ended September 30, 2012 and 2011:

For the nine months ended September 30	2012	2011
Share price at grant date	**$5.96**	$6.14 - $8.95
Exercise price	**$6.04**	$6.22 - $9.10
Risk-free interest rates (based on 10-year Government of Canada bonds)	**1.95%**	3.09% - 3.33%
Expected volatility	**49.00%**	48.42% - 48.48%
Expected dividend yield	**2.55%**	1.63%-2.41%
Expected life of options	**10 years**	10 years
Weighted average fair value of options granted during the period	**$2.52**	$2.74 - $4.49

Other stock-based compensation

A summary of the Share Purchase Plan, SARs, RSUs, DSUs and RSPs outstanding as at September 30, 2012 and 2011 and changes during the period is as follows:

For the three months ended September 30					2012
	Share Purchase Plan	**SAR**	**RSU**	**DSU**	**RSP**
Outstanding, beginning of period	**582,346**	-	**2,507,730**	**427,387**	**537,926**
Issued	**495,240**	-	**45,650**	-	-
Dividends credited	-	-	**14,983**	**3,262**	-
Exercised	**(280,495)**	-	-	-	-
Forfeited	**(15,158)**	-	-	-	-
Adjustment on settlement	**62,778**	-	-	-	-
Vested	-	-	**(591,221)**	-	-
Outstanding, end of period	**844,711**	-	**1,977,142**	**430,649**	**537,926**
Units exercisable, end of the period	**n/a**	-	**n/a**	**430,649**	**n/a**
Weighted-average exercise price	**$ 6.46**		**n/a**	**n/a**	**n/a**

For the three months ended September 30					2011
	Share Purchase Plan	SAR	RSU	DSU	RSP
Outstanding, beginning of the period	894,009	-	1,689,067	330,952	292,230
Issued	424,839	-	-	-	-
Dividends credited	-	-	14,716	2,882	-
Exercised	(477,560)	-	-	-	-
Forfeited	(34,752)	-	-	-	-
Outstanding, end of the period	806,536	-	1,703,783	333,834	292,230
Units exercisable, end of the period	n/a	n/a	n/a	333,384	n/a
Weighted-average exercise price	$ 5.05	n/a	n/a	n/a	n/a

For the nine months ended September 30					2012
	Share Purchase Plan	**SAR**	**RSU**	**DSU**	**RSP**
Outstanding, beginning of period	**769,055**	-	**1,754,529**	**336,160**	**270,374**
Issued	**495,240**	-	**804,025**	**85,000**	**287,400**
Dividends credited	-	-	**51,809**	**9,489**	-
Exercised	**(280,495)**	-	-	-	-
Forfeited	**(201,867)**	-	**(42,000)**	-	-
Adjustment on settlement	**62,778**	-	-	-	-
Vested	-	-	**(591,221)**	-	**(19,848)**
Outstanding, end of period	**844,711**	-	**1,977,142**	**430,649**	**537,926**
Units exercisable, end of the period	**n/a**	-	**n/a**	**430,649**	**n/a**
Weighted-average exercise price	**$ 6.46**	-	**n/a**	**n/a**	**n/a**

For the nine months ended September 30					2011
	Share Purchase Plan	SAR	RSU	DSU	RSP
Outstanding, beginning of the period	948,652	140,000	1,531,914	283,359	203,730
Issued	424,839	-	509,605	44,000	88,500
Dividends credited	-	-	33,284	6,475	-
Exercised	(477,560)	(140,000)	(316,568)	-	-
Forfeited	(89,395)	-	(54,452)	-	-
Outstanding, end of the period	806,536	-	1,703,783	333,834	292,230
Units exercisable, end of the period	n/a	n/a	n/a	333,834	n/a
Weighted-average exercise price	$ 5.05	n/a	n/a	n/a	n/a

The Corporation recorded a compensation expense of $1.2 million and $4.2 million for the three and nine months ended September 30, 2012, respectively, for other stock-based compensation plans ($0.3 million compensation recovery and $1.1 million compensation expense for the three and nine months ended September 30, 2011, respectively). The carrying amount of liabilities associated with cash-settled compensation arrangements is $6.1 million at September 30, 2012 (December 31, 2011 - $5.7 million).

Measurement of fair values at grant date

The fair value of the Share Purchase Plan, RSUs, DSUs and RSPs are determined by reference to the market value of the shares at the time of grant. The following summarizes the fair value measurement factor for the Share Purchase Plan, RSU, DSU and RSP grants during the period:

	For the three months ended		For the nine months ended	
Canadian $	**2012 September 30**	2011 September 30	**2012 September 30**	2011 September 30
Employee Share Purchase Plan	**$ 4.90**	$ 6.14	**$ 4.90**	$ 6.14
RSU	**4.87**	-	**5.90**	8.95
DSU	**n/a**	-	**6.15**	8.95
RSP	**n/a**	-	**5.87**	$6.14-$8.95

The intrinsic value of cash-settled stock-based compensation awards vested and outstanding as at September 30, 2012 was $6.3 million (December 31, 2011 - $6.3 million).

22 NET CHANGE IN NON-CASH WORKING CAPITAL

	For the three months ended		For the nine months ended	
Canadian $ millions	**2012 September 30**	2011 September 30	**2012 September 30**	2011 September 30
Accounts receivable	**$ (8.2)**	$ 1.8	**$ (14.8)**	$ (38.5)
Inventories	**(17.7)**	(16.2)	**(36.2)**	(39.8)
Prepaid expenses	**(6.1)**	(6.1)	**(18.3)**	(14.6)
Trade accounts payable and accrued liabilities	**32.0**	(12.0)	**26.1**	3.8
Deferred revenue	**21.6**	8.4	**17.3**	(11.9)
	$ 21.6	$ (24.1)	**$ (25.9)**	$ (101.0)

23 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:

	For the three months ended		For the nine months ended	
Canadian $ millions	**2012 September 30**	2011 September 30	**2012 September 30**	2011 September 30
Acquisition of property, plant and equipment under finance leases	**$ 14.2**	$ 14.2	**$ 45.4**	$ 41.6

24 OPERATING LEASE ARRANGEMENTS

Corporation acts as a lessor

The Corporation acts as a lessor in operating leases related to the Power facilities in Madagascar and in Varadero, Cuba. The following table summarizes future minimum lease payments relating to the Madagascar operating lease receivable:

Canadian $ millions, as at	**2012 September 30**	2011 December 31
Less than one year	**$ 4.9**	$ 5.1
Between one and five years	**5.3**	9.3
	$ 10.2	$ 14.4

All operating lease payments related to the Varadero facility are contingent on power generation and therefore excluded from the table above. For the three and nine months ended September 30, 2012, contingent revenue was $3.5 million and $10.2 million, respectively ($3.6 million and $10.4 million for the three and nine months ended September 30, 2011, respectively).

Corporation acts as a lessee

Operating lease payments recognized as an expense in the consolidated statement of comprehensive income (loss) were $4.7 million and $14.4 million for the three and nine months ended September 30, 2012, respectively ($5.5 million and $17.0 million for the three and nine months ended September 30, 2011, respectively).

25 COMMITMENTS FOR EXPENDITURES

Canadian $ millions, as at September 30		2012
Property, plant and equipment commitments	$	7.9
Jointly controlled entities		
Property, plant and equipment commitments		3.7
Construction commitments relating to service concession arrangements (100% basis)		47.3
Other commitments		1.4
Jointly controlled operations		
Property, plant and equipment commitments		4.5

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