90
sherritt
1927-2017

Nickel • Cobalt

2016

Oil • Power • Technologies

MESSAGE FROM THE **PRESIDENT & CEO**

From a commodity price perspective, 2016 was another challenging year for Sherritt and the products we make. The 2016 average reference price for nickel was US$4.36/lb, representing a year-over-year decline of 19%. This weakening in the price of nickel, our primary product, is even more dramatic in light of the 30% decline we saw in 2015 over 2014. The 2016 average reference price for cobalt, a by-product of our nickel mining, was US$11.77/lb, down 9% year-over-year and the 2016 average price of Gulf Coast Fuel Oil 6, the reference price used for our Cuban oil operations, was down 21% year-over-year.

In 2016, we took proactive measures to advance our three strategic priorities: upholding our global operations leadership in finished nickel laterite production, extending the life of our Cuban energy business and preserving liquidity and building balance sheet strength.

We are a low-cost nickel producer, and our assets and our technology have made us a leader in the mining, processing and refining of lateritic nickel. At last year's average reference price, approximately 27% of the world's nickel production was underwater on a cash margin basis whereas our Net Direct Cash Cost (NDCC) of nickel was US$3.42/lb and US$4.27/lb at our Moa JV in Cuba and our Ambatovy JV in Madagascar, respectively. While our cash costs in these operations puts us in the second lowest quartile, our goal is to achieve the additional reductions needed to put us in the lowest quartile of global nickel producers.

We took a significant step in reducing our production costs at our Moa JV as our new sulphuric acid plant fulfilled all performance tests and was fully commissioned in October, coming in on time and under budget. We expect to realize cost benefits in 2017 and beyond, as the new acid plant combined with output from our existing two acid plants eliminates the need to import sulphuric acid.

Last year, our Cuban energy business was a prime contributor of operating cash flow, generating $84.4 million for fiscal 2016. Our unit operating costs for oil in Cuba remain competitive at $9.75/barrel for the full year. We allocated capital to our drilling program and commenced drilling on Block 10 in the second half of the year to extend the life of our oil business. Our Cuban power generation business contributed $29.5 million in Adjusted EBITDA to Sherritt for the year, and on December 15, 2016, we received approval from the Cuban Executive Committee to extend the contract terms of our Varadero power facilities by five years, to 2023.

In the second half of 2016, we negotiated extensions of the maturity dates of the three senior unsecured debentures, totalling $720 million in principal value, by three years to 2021, 2023 and 2025, and the deferral of six semi-annual principal payments for the Ambatovy JV project financing, totalling US$565.1 million, on a 100% basis. The deferred principal payments are now due in 2021 or earlier, if certain cash generation criteria are met. Over the course of the year we used $65.7 million to repay loans and borrowings, and had $309.6 million in cash, cash equivalents and short-term investments at fiscal year-end.

Continued on page 2

Continued from page 1

We continue our discussions on capital structure with our partners in the Ambatovy JV, Sumitomo Corporation and Korea Resources Corporation, regarding our late 2015 decision to cease funding the project due to current structure of the cash flows. Under the current "40 for 12" model, 70% of Sherritt's share of future distributions from the Ambatovy JV, of which we own 40%, go towards repayment of non-recourse loans. This sharing mechanism leaves us with only the remaining 30% of the distributions owed to us, or effectively a 12% economic interest in the Ambatovy JV. Sherritt provided no funding to Ambatovy in 2016. We will keep you updated as these discussions progress.

As we celebrate our 90th anniversary, we are taking the time to reflect on our roots in nickel and base metals, and our long-held belief that a strong base of assets, dedication to financial discipline and engendering the loyalty of great employees, partners and shareholders is the secret to successful operations in the resources sector, beyond the volatility of living cycle to cycle. I would like to thank our Board of Directors for their ongoing support and you, our shareholders, for your continued belief in Sherritt.

David V. Pathe
President and Chief Executive Officer
Sherritt International Corporation

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

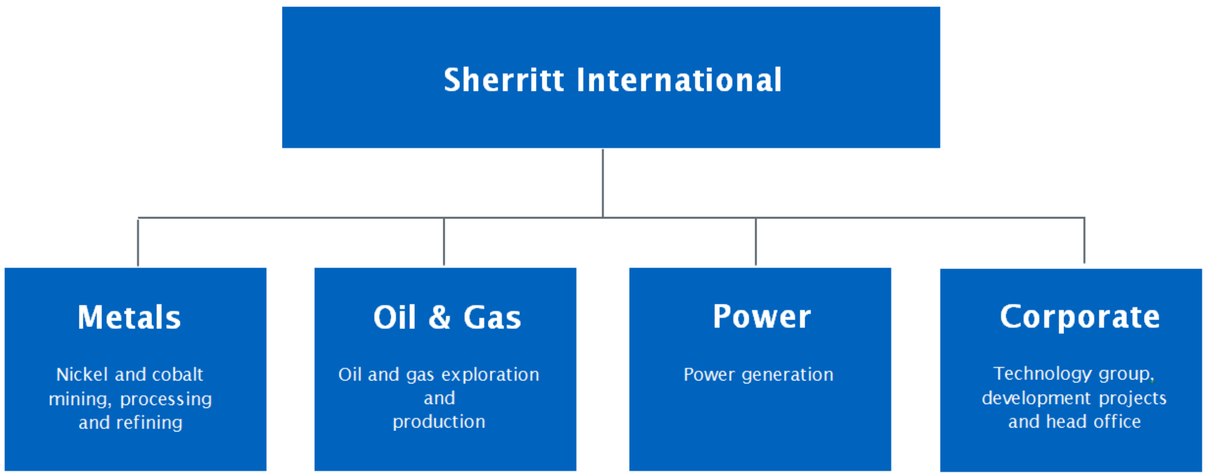
This Management's Discussion and Analysis (MD&A) is intended to help the reader understand Sherritt International Corporation's operations, financial performance and the present and future business environment. This MD&A, which has been prepared as of February 16, 2017, should be read in conjunction with Sherritt's audited consolidated financial statements for the year ended December 31, 2016. Additional information related to the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at www.sedar.com or on the Corporation's website at www.sherritt.com.

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

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

Overview of the business

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



METALS

Sherritt is an industry leader in the mining, processing and refining of nickel and cobalt from lateritic ore bodies. Sherritt has a 50/50 partnership with General Nickel Company S.A. (GNC) of Cuba (the Moa Joint Venture) and a 40% interest in the Ambatovy Joint Venture that owns a significant nickel operation in Madagascar. In addition, Sherritt has wholly-owned fertilizer, sulphuric acid, utilities and storage facilities in Fort Saskatchewan, Alberta, Canada (Fort Site) that provides additional sources of income.

The Moa Joint Venture is a vertically-integrated joint venture that mines lateritic ore by open pit methods and processes it at its facilities at Moa into mixed sulphides containing nickel and cobalt. The mixed sulphides are transported to Fort Site for refining. The resulting nickel and cobalt products are sold to various markets, primarily in Europe, Japan and China. Pursuant to the March 2005 Expansion Agreement the Cuban state granted Moa Joint Venture resource concessions ensuring 25 years of production post expansion. At current depletion rates the concessions of the Moa Joint Venture will reach their limit in 2033.

The refinery facilities at Fort Site provides inputs (ammonia, sulphuric acid and utilities) for the metals refinery, produces agricultural fertilizer for sale in Western Canada and provides storage facilities. The refinery has capacity of approximately 35,000 (100% basis) tonnes of nickel and approximately 3,800 (100% basis) tonnes of cobalt.

The Ambatovy Joint Venture is one of the world's largest, vertically integrated, nickel mining, processing and refining operations utilizing lateritic ore. Sherritt is the operator of the mine and refining facilities and has as its partners Sumitomo Corporation (Sumitomo) and Korea Resources Corporation (KORES) (collectively, the Ambatovy Partners). The Ambatovy Joint Venture has two nickel deposits located near Moramanga (eastern-central Madagascar) which are planned to be mined over an 18-year period. Addition reclamation of low-grade ore stockpiles is expected to extend project life by nine years.

The Ambatovy Joint Venture has an annual design capacity of 60,000 tonnes (100% basis) of nickel and 5,600 tonnes (100% basis) of cobalt.

OIL AND GAS

Sherritt' Oil and Gas division explores for and produces oil and gas primarily from reservoirs located offshore, but in close proximity to the coastline along the north coast of Cuba. Sherritt has developed expertise in the exploration and development of fold-and-thrust geological plays along the north coast of Cuba. Specialized long reach directional drilling methods have been developed to economically exploit theses reserves from land-based drilling locations.

Under the terms of its production-sharing contracts, Sherritt's net production is made up of an allocation from gross working-interest production (cost recovery oil) to allow recovery of all approved costs in addition to a negotiated percentage of the remaining production (profit oil). The pricing for oil produced by Sherritt in Cuba is based on a discount to Gulf Coast Fuel Oil Number 6 (GCF6) reference prices.

Sherritt is currently in various stages of exploration and development of two new blocks under production sharing agreements with the Cuban government.

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

POWER

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

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

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

CORPORATE AND OTHER

Technologies

Sherritt Technologies provides a wide range of technical services to Sherritt's business units and external clients. It is comprised of project managers, research scientists, engineers, technologists and support staff focused on the development and commercial application of hydrometallurgical technologies and the use of high pressure autoclave technologies in support of the Corporation's business units as well as existing and emerging external producers. The group also identifies and executes research and development activities opportunities for the Corporation.

ACCOUNTING PRESENTATION

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

	Relationship for accounting purposes	Economic interest	Basis of accounting
Metals			
Moa Joint Venture	Joint venture	50%	Equity method
Ambatovy Joint Venture	Associate	40%	Equity method
Oil and Gas	Subsidiary	100%	Consolidation
Power	Joint operation	33 1/3%	Share of assets, liabilities revenues and expenses
Technologies	Subsidiary	100%	Consolidation

The Financial results and review of operations sections in this MD&A present amounts by reporting segment, based on the Corporation's economic interest. For financial statement purposes, the Moa Joint Venture and Ambatovy Joint Venture are accounted for using the equity method of accounting which recognizes the Corporation's share of earnings (loss) from the joint venture and associate, respectively. Metal's operating results include the Corporation's 50% interest in the Moa Joint Venture, 100% interest in the utility and fertilizer operations at Fort Site, 40% interest in the Ambatovy Joint Venture, and 100% interests in wholly-owned subsidiaries established to buy, market and sell certain Ambatovy and Moa Joint Venture nickel and cobalt production. The financial statements and review of operations in this MD&A include the Corporation's 100% interest in its Oil and Gas business, 33 1/3% interest in its Power businesses and 100% interest in the Technologies business.

Amounts presented in this MD&A can be reconciled to note 4 of the audited consolidated financial statements for the year ended December 31, 2016.

Strategic Priorities

2016 REVIEW OF STRATEGIC PRIORITIES

The table below lists Sherritt's strategic priorities for 2016 and summarizes how the Corporation performed against those priorities in 2016.

Strategic Priorities	2016 Targets	Status
UPHOLD GLOBAL OPERATIONAL LEADERSHIP IN FINISHED NICKEL LATERITE PRODUCTION **1**	Complete and commission the acid plant at Moa in the second half of 2016	Acid plant construction completed on time and under budget, and now in operation
	Further reduce NDCC costs at the Moa JV and Ambatovy JV towards the goal of being in the lowest quartile	Full year 2016 NDCC of US$3.42/lb at Moa, and US$4.27/lb at Ambatovy represent reductions at both operations In Q4, NDCC at Ambatovy was US$3.10/lb, falling in the low end of the second quartile of global nickel cash costs
	Increase Ambatovy production over 2015, despite the major maintenance work scheduled for Q3	Production was down from 2015 due mainly to unplanned events including the tailings pipe blockage; Q4 production of 12,778 tonnes (100%) represents 85% of design capacity
	Maintain peer leading performance in environmental, health, safety and sustainability	Performance improved over 2015 for Ambatovy, which recorded a one year anniversary of zero Lost-Time Injuries in September; Moa's tragic accident in 2016 caused four fatalities
EXTEND THE LIFE OF OUR CUBAN ENERGY BUSINESS **2**	Allocate capital to new drilling on Block 10, with future drilling to be contingent on results from 2016 activity	Drilling started in mid-August and continued through year-end. Results from the first well in Block 10 will dictate next steps
PRESERVE LIQUIDITY AND BUILD BALANCE SHEET STRENGTH **3**	Protect Sherritt's balance sheet and preserve cash	Three year extension of the maturity on all outstanding debentures and deferral of six Ambatovy principal payments on project facility
	Establish clarity on long-term funding of Ambatovy	Ceased funding Ambatovy cash calls due to the "40 for 12" issue; agreement on no defaulting shareholder status extended through March 10, 2017
	Run business units to be free cash flow neutral, and continue to optimize administrative costs	Although the Oil and Gas and Power operations were free cash flow positive, significant declines in nickel and GCF6 reference prices from 2015 resulted in negative free cash flow of $38.6 million

2017 STRATEGIC PRIORITIES

The table below lists Sherritt's Strategic Priorities for 2017. The 2017 Strategic Priorities reflect the continuing cautious commodity price outlook and the Corporation's responsibility to preserve liquidity, continue to drive down costs, improve organizational effectiveness and execute rational capital allocation plans. Sherritt's purpose, originally communicated in 2014, continues to be ***a low-cost nickel producer that creates sustainable prosperity for our employees, investors and communities***.

Strategic Priorities	2017 Targets
UPHOLD GLOBAL OPERATIONAL LEADERSHIP IN FINISHED NICKEL PRODUCTION FROM LATERITES **1**	Further reduce NDCC at Moa and Ambatovy towards the goal of achieving or remaining in the lowest quartile of global nickel cash costs Increase Ambatovy production and predictability over 2017 Achieve peer leading performance in environmental, health, safety and sustainability
OPTIMIZE OPPORTUNITIES IN CUBAN ENERGY BUSINESS **2**	Determine future capital allocation based on results from first two wells to be drilled on Block 10
PRESERVE LIQUIDITY AND BUILD BALANCE SHEET STRENGTH **3**	Finalize long-term Ambatovy equity and funding structure Optimize working capital and receivables collection Operate Metals and Power businesses to be free cash flow neutral or better

Highlights

METALS OPERATIONS UPDATE

The Metals operations produced 33,306 tonnes of finished nickel (Sherritt's share) in the year ended December 31, 2016. Compared to the prior year, production was lower at both the Ambatovy Joint Venture and the Moa Joint Venture. The decrease in the Ambatovy Joint Venture's production was primarily due to a tailings pipe blockage in June 2016 and a subsequent plant maintenance shutdown in June and July 2016. At the Moa Joint Venture, the decrease in production was primarily due to lower mixed sulphide availability as a result of lower ore quality and a controlled shutdown of operations ahead of Hurricane Matthew in October 2016. Hurricane Matthew also caused a bridge collapse in November which impacted haulage time and distances as a result of using secondary access roads.

Production at Ambatovy increased in the fourth quarter of 2016 compared to the same period in the prior year due to improved equipment reliability as a result of maintenance work completed during the plant maintenance shutdown.

Despite lower production during the year, the Metals operations achieved a net direct cash cost (NDCC) of US$3.85/lb for the year ended December 31, 2016, a 12% reduction from the prior year, primarily due to lower input commodity costs and continued cost discipline. An NDCC of US$3.41/lb for the three months ended December 31, 2016, a 3% reduction compared to the prior-year period, is primarily due to higher sales volume and lower mining, processing and refining costs at the Ambatovy Joint Venture partly offset by lower sales volume and fertilizer credits at the Moa Joint Venture.

CASH UPDATE

Cash, cash equivalents and short-term investments at December 31, 2016 were $309.6 million, a decrease of $35.6 million from September 30, 2016 and $125.8 million from December 31, 2015.

The decrease of $35.6 million in the fourth quarter of 2016 was primarily a result of lower payments received on Cuban energy receivables, payment of interest on debentures and capital spending. During the fourth quarter US$18.3 million of Cuban energy payments were received in the Oil and Gas operations compared to US$59.6 million in the third quarter. These payments resulted in a reduction in overdue receivables from US$31.6 million at September 30, 2016 to US$28.3 million at December 31, 2016. No interest or principal was received on the Energas conditional sales agreement (CSA) during the fourth quarter of 2016.

During 2016, the balance of cash, cash equivalents and short-term investments decreased $125.8 million primarily due to $65.7 million used to repurchase debt and pay down credit facilities, $40.2 million in capital expenditures and $14.8 million in transaction fees relating to the debenture maturity extension.

In Oil and Gas and Power, total energy receipts from the Cuban operations were US$129.6 million in 2016 compared to US$232.2 million in 2015, with Cuban overdue receivables of US$74.6 million at the end of 2016 compared to US$53.8 million at the end of 2015. Discussions continue to address the timing of ongoing Cuban payments.

AMBATOVY FUNDING

Sherritt is in continuing discussions with its Ambatovy Partners regarding partnership structure and future funding arrangements to better reflect Sherritt's economic interest.

Total post-financial completion cash funding provided by Sumitomo and KORES to December 31, 2016 was US$173.0 million pursuant to total post-financial completion cash calls of US$288.3 million, with cash funding of US$20.0 million and US$143.0 million provided during the three months and year ended December 31, 2016, respectively. Sherritt has not funded any portion of these cash calls, and continues not to fund. Sherritt's unfunded amounts remain payable. These amounts will be subtracted from future Ambatovy Joint Venture distributions, or may be set off against other amounts owed to Sherritt.

By agreement amongst the partners, Sherritt is not considered to be a defaulting shareholder under the Shareholders Agreement for amounts not funded through March 10, 2017 while discussions continue regarding the partnership structure and future funding arrangements. As part of this agreement, shareholder funding contributed from and including December 15, 2015, will accrue interest at a rate of LIBOR plus 8.0% and will be paid in priority to the subordinated loans payable. Repayments of principal and interest will not be made prior to certain conditions being satisfied. Unpaid interest is accrued monthly and capitalized to the principal balance semi-annually.

VARADERO POWER FACILITY EXTENSION

In December 2016, Power received approval from the Cuban Executive Committee to extend the operating term of the Varadero power facilities from 2018 to 2023.

DEFERRAL OF PRINCIPAL REPAYMENT ON THE AMBATOVY JOINT VENTURE FINANCING

In August 2016, the Ambatovy Joint Venture financing lenders agreed to up to six principal payment deferrals totaling US$565.1 million (100% basis), which are to be repaid on a schedule starting in June 2021, or earlier subject to cash flow generation. Until June 2019, the Ambatovy Joint Venture will pay semi-annual interest payments only (approximately US$56.0 million per year) and will not make semi-annual principal payments unless there is sufficient free cash flow after required deductions. Deferred principal is subject to an additional 2% accrued interest calculated from the date of each deferral.

DEBENTURE MATURITY EXTENSION

In July 2016, the maturity dates of each of the Corporation's outstanding senior unsecured debentures (the "Notes") were extended by three years from 2018, 2020 and 2022 to 2021, 2023 and 2025, respectively (the "Extension"). The applicable interest rates and existing covenants for the Notes were unchanged. Noteholders that voted in favour of the Extension received, at the option of the Noteholder, either:

- cash consent consideration equal to 2% of the principal amount of the debentures; or,
- 73.25 warrants for each $1,000 of principal amount of debentures held. Warrants are exercisable at any time at an exercise price of $0.74 per share and have a term of 5 years. They are not listed on any exchange.

Cash consent consideration paid to Noteholders that voted in favour of the extension and other transaction fees totalled $14.8 million. In addition, 19.1 million warrants with a fair value of $0.43 per warrant were granted to the Noteholders that elected for this option. These warrants had a total value of $8.2 million.

In June 2016, the Corporation repurchased $30.0 million aggregate principal amount of its 8.00% senior unsecured debentures due 2021 for $17.4 million. A gain of $12.6 million was recognized on this repurchase.

THE MOA JOINT VENTURE ACID PLANT

In October 2016, construction of the third acid plant at the Moa Joint Venture was completed and fully commissioned. The acid plant is now producing sufficient acid to support production needs. The Moa Joint Venture is in the process of finalizing project costs; it is expected that the total construction cost will be approximately US$10 million (100% basis) under budget with a total cost of US$55 million (100% basis).

OIL AND GAS IMPAIRMENT

In the third quarter of 2016, the Corporation recognized an impairment loss of $8.5 million ($6.6 million net of tax) for the write-down of the Puerto Escondido/Yumuri extension ("PE/YU extension") cash-generating unit ("CGU"), within the Oil and Gas segment, to its recoverable amount. This impairment was the result of a decrease in internally forecasted oil reserves at the PE/YU extension due to two oil wells being shut-in as a result of low oil production. Its recoverable amount was determined to be negligible based on a value in use analysis at September 30, 2016.

Financial results

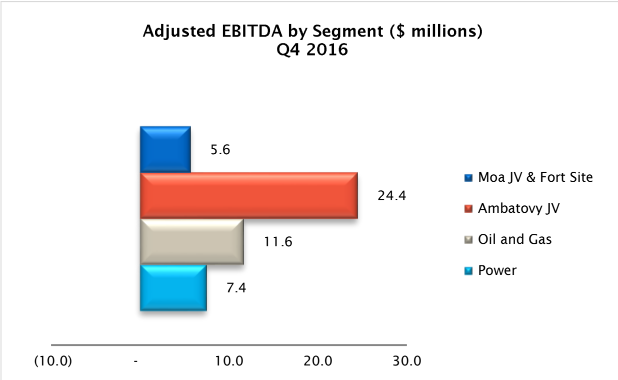
$ millions, except as otherwise noted		For the three months ended 2016 December 31		2015 December 31	Change		For the years ended 2016 December 31		2015 December 31	Change
FINANCIAL HIGHLIGHTS										
Revenue	**$**	**70.5**	$	76.5	(8%)	**$**	**262.3**	$	335.9	(22%)
Combined revenue[(1)]		**240.3**		229.5	5%		**820.2**		1,022.7	(20%)
Adjusted EBITDA[(1)]		**37.4**		6.1	513%		**40.0**		113.1	(65%)
Loss from operations, associate and joint venture		**(52.2)**		(1,721.9)	97%		**(320.8)**		(1,978.6)	84%
Loss from continuing operations		**(109.6)**		(1,757.3)	94%		**(381.8)**		(2,071.7)	82%
Earnings (loss) from discontinued operations, net of tax		**2.9**		-	-		**2.9**		(5.0)	158%
Net loss for the period		**(106.7)**		(1,757.3)	94%		**(378.9)**		(2,076.7)	82%
Adjusted loss from continuing operations[(1)]		**(81.3)**		(113.8)	29%		**(427.9)**		(351.3)	(22%)
Loss per share (basic and diluted)($ per share)										
Net loss from continuing operations		**(0.37)**		(5.99)	94%		**(1.30)**		(7.05)	82%
Net loss for the period		**(0.36)**		(5.99)	94%		**(1.29)**		(7.07)	82%
CASH FLOW										
Cash provided by continuing operating activities	**$**	**(22.6)**	$	10.8	(309%)	**$**	**1.6**	$	64.5	(98%)
Combined free cash flow[(1)]		**(45.5)**		(24.8)	(83%)		**(111.9)**		(98.8)	(13%)
Combined adjusted operating cash flow[(1)]		**8.2**		(29.5)	128%		**(46.8)**		63.1	(174%)
Combined adjusted operating cash flow per share ($ per share)[(1)]		**0.03**		(0.09)	133%		**(0.15)**		0.21	(171%)
OPERATIONAL DATA										
SPENDING ON CAPITAL AND INTANGIBLE ASSETS[(2)]	**$**	**30.2**	$	26.9	12%	**$**	**93.0**	$	150.1	(38%)
PRODUCTION VOLUMES										
Finished nickel (tonnes)										
Moa Joint Venture (50% basis)		**3,782**		4,098	(8%)		**16,464**		16,853	(2%)
Ambatovy Joint Venture (40% basis)		**5,111**		4,885	5%		**16,842**		18,908	(11%)
Finished cobalt (tonnes)										
Moa Joint Venture (50% basis)		**382**		521	(27%)		**1,847**		1,867	(1%)
Ambatovy Joint Venture (40% basis)		**404**		386	5%		**1,309**		1,386	(6%)
Oil (boepd, NWI production)[(3)]		**8,163**		10,727	(24%)		**9,483**		11,158	(15%)
Electricity (gigawatt hours) (33 1/3% basis)		**224**		226	(1%)		**894**		902	(1%)
AVERAGE EXCHANGE RATE (CAD/USD)		**1.334**		1.335	-		**1.325**		1.278	4%
AVERAGE-REALIZED PRICES[(1)]										
Nickel ($ per pound)	**$**	**6.45**	$	5.54	16%	**$**	**5.65**	$	6.68	(15%)
Cobalt ($ per pound)		**17.68**		12.91	37%		**15.33**		15.20	1%
Oil ($ per boe, NWI)[(3)]		**38.98**		29.53	32%		**29.98**		38.73	(23%)
Electricity ($ per megawatt hour)		**56.24**		56.53	(1%)		**56.10**		54.26	3%
UNIT OPERATING COSTS[(1)]										
Nickel (US$ per pound)										
Moa Joint Venture	**$**	**3.80**	$	2.90	31%	**$**	**3.42**	$	3.88	(12%)
Ambatovy Joint Venture		**3.10**		4.07	(24%)		**4.27**		4.83	(12%)
Oil ($ per boe, GWI)[(3)]		**11.68**		11.64	-		**10.58**		10.69	(1%)
Electricity ($ per megawatt hour)		**24.73**		33.88	(27%)		**22.94**		21.00	9%

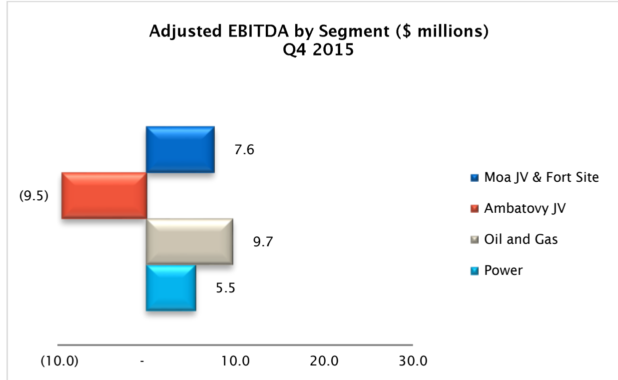
(1) For additional information see the Non-GAAP measures section.

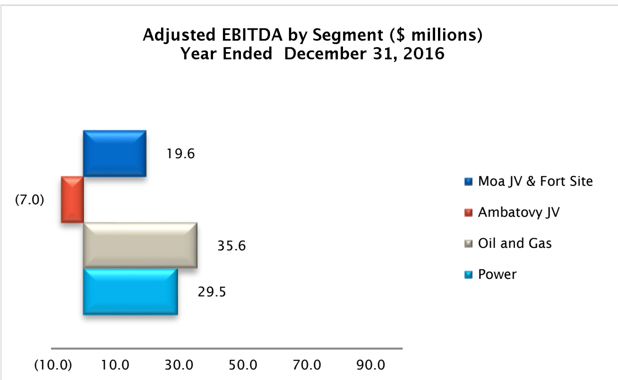
(2) Spending on capital and intangible assets includes accruals and does not include spending on service concession arrangements.

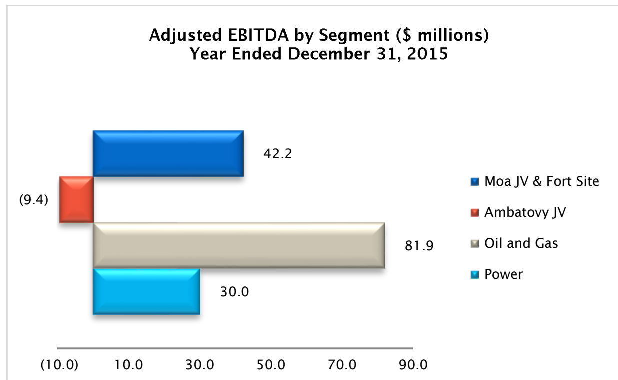
(3) Net working-interest (NWI); gross working-interest (GWI); barrels of oil equivalent per day (boepd); barrels of oil equivalent (boe).

ADJUSTED EBITDA









In the fourth quarter of 2016, Sherritt returned to positive adjusted EBITDA at each of its operating divisions.

REVENUE

	For the three months ended			For the years ended		
	2016	2015		**2016**	2015	
$ millions	**December 31**	December 31	Change	**December 31**	December 31	Change
Revenue by segment						
Metals	**$ 195.6**	$ 183.8	6%	**$ 652.1**	$ 805.1	(19%)
Oil and Gas	**30.6**	30.5	-	**108.6**	162.6	(33%)
Power	**13.7**	13.7	-	**58.6**	52.7	11%
Corporate and Other	**0.4**	1.5	(73%)	**0.9**	2.3	(61%)
Combined revenue(1)	**240.3**	229.5	5%	**820.2**	1,022.7	(20%)
Adjust joint venture and associate	**(169.8)**	(153.0)		**(557.9)**	(686.8)	
Financial statement revenue	**70.5**	76.5	(8%)	**262.3**	335.9	(22%)

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

Combined revenue for the three months ended December 31, 2016 was higher compared to the same period in the prior year primarily due to higher realized prices for nickel and oil. Sales volumes at Ambatovy were also higher, reflecting improved equipment availability. Sales volumes at the Moa Joint Venture were lower primarily as a result of the controlled shutdown in advance of Hurricane Matthew and the subsequent bridge collapse which disrupted access to the port.

Combined revenue for the year ended December 31, 2016 was lower compared to the prior year primarily due to lower average nickel and oil prices and lower sales volumes at the Moa Joint Venture and Ambatovy. Sales volumes at Ambatovy for the year ended December 31, 2016 was primarily impacted by a tailings pipe blockage and the planned plant maintenance shut down in the second quarter. Sales volumes at the Moa Joint Venture were primarily impacted by Hurricane Matthew in the fourth quarter and lower ore quality during the year.

Revenue at Oil and Gas for the three months and year ended December 31, 2016 was impacted by lower gross working-interest oil production in Cuba due to natural reservoir decline and the absence of new development drilling in 2016.

COST OF SALES

$ millions	For the three months ended 2016 December 31	2015 December 31	Change	For the years ended 2016 December 31	2015 December 31	Change
Cost of sales by segment						
Metals	**$ 210.7**	$ 284.9	(26%)	**$ 800.9**	$ 1,028.1	(22%)
Oil and Gas	**25.0**	30.2	(17%)	**105.7**	146.9	(28%)
Power	**14.1**	16.7	(16%)	**59.7**	52.6	13%
Corporate and other	**3.8**	1.2	217%	**10.7**	5.2	106%
Combined cost of sales(1)	**253.6**	333.0	(24%)	**977.0**	1,232.8	(21%)
Adjust joint venture and associate	**(184.7)**	(257.9)		**(713.6)**	(914.7)	
Financial statement cost of sales	**68.9**	75.1	(8%)	**263.4**	318.1	(17%)

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

Combined cost of sales for the three months and year ended December 31, 2016 in Metals was lower compared to the same periods in the prior year.

At Ambatovy, sales volume was higher in the fourth quarter of 2016 compared to the same period in the prior year; however, continued cost discipline and lower input commodity prices resulted in lower costs of sales. In addition, in the fourth quarter of 2015 Ambatovy recognized an inventory impairment of $36.4 million. For the Moa Joint Venture, lower cost of sales in the fourth quarter of 2016 is primarily due to lower sales volume and lower input commodity prices.

For the year ended December 31, 2016, lower cost of sales reflects lower production and sales volumes at both the Moa Joint Venture and Ambatovy in addition to the impact of lower input commodity prices and cost discipline.

A weaker Canadian dollar relative to the U.S. dollar had an overall negative impact on cost of sales for the year ended December 31, 2016 at all divisions.

Depletion, depreciation and amortization expense was lower in 2016 at Ambatovy and Oil and Gas as a result of lower asset carrying values as a result of impairments recognized in 2015.

ADMINISTRATIVE EXPENSES

$ millions	For the three months ended 2016 December 31	2015 December 31	Change	For the years ended 2016 December 31	2015 December 31	Change
Administrative expenses by segment						
Metals	**$ 7.3**	$ 8.7	(16%)	**$ 29.7**	$ 31.9	(7%)
Oil and Gas	**2.8**	1.5	87%	**10.7**	6.7	60%
Power	**0.9**	0.3	200%	**4.2**	3.8	11%
Corporate and other	**9.2**	8.2	12%	**33.0**	32.1	3%
Combined administrative expenses(1)	**20.2**	18.7	8%	**77.6**	74.5	4%
Adjust joint venture and associate	**(5.4)**	(7.7)		**(23.1)**	(28.1)	
Financial statement administrative expenses	**14.8**	11.0	35%	**54.5**	46.4	17%

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

Combined administrative expenses for the three months and year ended December 31, 2016 were higher compared to the same periods in the prior year primarily due to higher stock-based compensation expense as a result of an increase in the Corporation's stock price during the year.

NET FINANCE EXPENSE(1)

$ millions	For the three months ended 2016 December 31	2015 December 31	Change	For the years ended 2016 December 31	2015 December 31	Change
Financial statement net finance expense (income)	**53.3**	35.4	51%	**54.5**	129.0	(58%)
Moa Joint Venture net finance expense	**4.3**	1.6	169%	**10.5**	11.2	(6%)
Ambatovy Joint Venture net finance expense	**14.8**	28.2	(48%)	**59.6**	74.3	(20%)
Combined net finance expense (income)(2)	**72.4**	65.2	11%	**124.6**	214.5	(42%)

(1) Net of intercompany interest.

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

The change in combined net finance expense in each period was primarily related to unrealized exchange gains/losses which are determined by the change in period-end exchange rates and the balance of the Corporation's U.S. denominated net liabilities.

For the three months ended December 31, 2016, combined net finance expense was higher primarily due to a weakening of the period-end Canadian dollar relative to the U.S. dollar. For the year ended December 31, 2016, net financing expense was lower primarily due to a strengthening of the period-end Canadian dollar relative to the U.S. dollar and an increase in the balance of U.S. denominated net liabilities compared to 2015.

In addition, for the year ended December 31, 2016, the Corporation recognized a $12.6 million gain on the repurchase of $30.0 million of senior unsecured debentures in 2016. In 2015, the Corporation had recognized a $13.7 million loss on the expiry of its Ambatovy call option.

INCOME TAXES

	For the three months ended			For the years ended		
	2016	2015		**2016**	2015	
$ millions	**December 31**	December 31	Change	**December 31**	December 31	Change
Income taxes by segment						
Metals	**$ (0.4)**	$ (113.2)	100%	**$ 7.8**	$ (136.1)	106%
Oil and Gas	**4.5**	0.3	1,400%	**7.6**	(35.0)	122%
Power	**(0.2)**	(0.3)	33%	**(0.9)**	(0.9)	-
Corporate and other	**(0.2)**	-	-	**(0.2)**	-	-
Combined income taxes[1]	**3.7**	(113.2)	103%	**14.3**	(172.0)	108%
Adjust joint venture and associate	**0.4**	113.2		**(7.8)**	136.1	
Financial statement income taxes	**4.1**	-	-	**6.5**	(35.9)	118%

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

Combined income taxes for the three months and year ended December 31, 2016 were higher than the prior year periods primarily due to a deferred income tax recovery recognized at Ambatovy on the impairment recorded in December 2015.

For the year ended December 31, 2016, combined income taxes were also higher than the prior year period due to an income tax recovery recognized in the prior year related to the reduction in Cuban tax rates which impacted Oil and Gas and the Moa Joint Venture. In addition, in June 2016, it was determined that the realization of tax losses at one of the Moa Joint Venture companies was not probable, which resulted in a $7.7 million expense related to the derecognition of a deferred tax asset.

CHANGE IN NET LOSS

For the three months and year ended December 31, 2016 the change in net loss from continuing operations between 2016 and 2015 is detailed below:

	For the three months ended			For the years ended		
	2016	2015		**2016**	2015	
$ millions	**December 31**	December 31	Change	**December 31**	December 31	Change
Net loss from continuing operations	**$ (109.6)**	$ (1,757.3)	94%	**$ (381.8)**	$ (2,071.7)	82%
Net loss from continuing operations ($ per share)	**(0.37)**	(5.99)	94%	**(1.30)**	(7.05)	82%

$ millions	For the three months ended **2016 December 31**	For the year ended **2016 December 31**
Higher (lower) U.S. dollar denominated nickel and cobalt prices	**$ 23.9**	**$ (104.7)**
Higher (lower) oil and gas prices	**6.6**	**(22.8)**
Lower fertilizer prices	**(2.7)**	**(7.1)**
Change in total metals and fertilizer sales volumes	**(9.7)**	**(2.2)**
Lower Cuba oil and gas gross working-interest volumes	**(3.1)**	**(17.4)**
Lower Spain oil and gas volumes	**0.1**	**(3.1)**
Lower electricity volumes	**(0.2)**	**(0.5)**
Lower mining, processing and refining, third-party feed and fertilizer unit costs	**21.0**	**90.4**
Lower Oil and Gas cost recovery revenue	**(3.7)**	**(13.1)**
Lower Oil and Gas cost of sales	**3.0**	**14.3**
Lower depletion, depreciation and amortization	**18.7**	**97.6**
Impairment of Oil assets	**–**	**72.2**
Impairment of Ambatovy assets	**1,722.5**	**1,722.5**
Tax impact on impairment of Ambatovy assets	**(102.9)**	**(102.9)**
Higher administrative expenses	**(1.5)**	**(3.1)**
Foreign exchange impact on operations	**(1.2)**	**(9.0)**
(Higher) lower combined net finance expense, excluding gain on debentures and loss on call option	**(7.3)**	**63.6**
Higher combined tax	**(14.0)**	**(75.7)**
Gain on repurchase of debentures	**–**	**12.6**
Gain on sale of Corporate assets in 2015	**–**	**(19.1)**
Moa JV deferred tax asset write-off	**–**	**(7.7)**
Power major inspection costs	**–**	**(1.7)**
Loss on expiry of Ambatovy call option in 2015	**–**	**13.7**
Other	**(1.8)**	**(6.9)**
Change in net loss from continuing operations, compared to 2015	**$ 1,647.7**	**$ 1,689.9**

CONSOLIDATED FINANCIAL POSITION

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

$ millions, except as otherwise noted, as at December 31	2016	2015	Change
Current assets	$ 720.9	$ 820.4	(12%)
Current liabilities	226.0	212.1	7%
Working capital	494.9	608.3	(19%)
Current ratio	3.19:1	3.87:1	136%
Cash, cash equivalents and short-term investments	$ 309.6	$ 435.4	(29%)
Non-current advances, loans receivable and other financial assets	1,542.7	1,600.5	(4%)
Investment in an associate	767.9	757.3	1%
Investment in a joint venture	336.8	404.2	(17%)
Property, plant and equipment	286.4	351.1	(18%)
Total assets	3,806.9	4,090.0	(7%)
Non-recourse loans and borrowings	1,367.5	1,303.2	(34%)
Other loans and borrowings	860.7	959.9	(88%)
Provisions	114.6	126.6	(9%)
Total liabilities	2,709.0	2,532.9	7%
Deficit	(2,721.5)	(2,342.6)	(16%)
Shareholders' equity	1,097.9	1,557.1	(29%)

At December 31, 2016, total available liquidity was $309.6 million, including available credit facilities. Total debt at December 31, 2016, was $2.2 billion, including $1.4 billion related to non-recourse Ambatovy Partner Loans. Current assets decreased by $99.5 million primarily due to a reduction in cash and short-term investments partly offset by an increase in trade receivables.

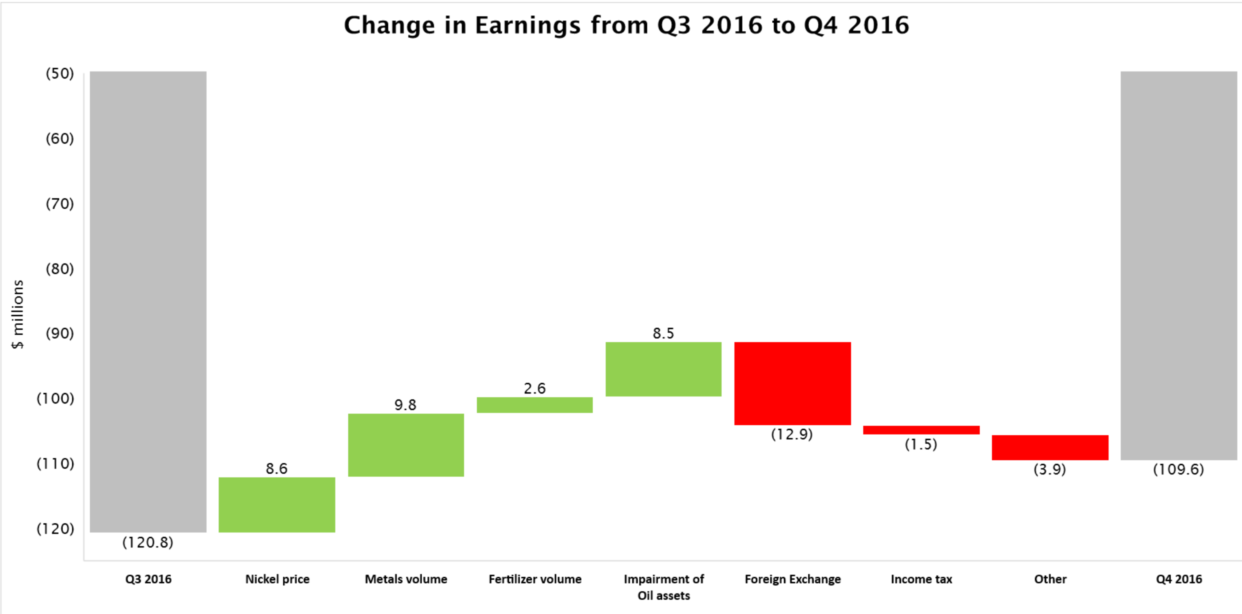
The significant changes in other assets, liabilities are discussed below:

- Non-current advances, loans receivable and other financial assets decreased by $57.8 million primarily due to a $284.1 million decrease in the Ambatovy subordinated loan receivable, due to a conversion from loan receivable to equity, partly offset by $154.9 million of receivables from the Ambatovy Joint Venture on the Corporation's unfunded amounts, foreign exchange adjustments and accrued interest receivable related to the Ambatovy subordinated loan;
- Property, plant and equipment decreased by $64.7 million primarily due to depreciation, foreign exchange adjustments, and the recording of impairment in Oil and Gas in the third quarter, offset by normal course capital spending. A discussion of spending on capital is included in the Review of operations sections for each segment;
- Total non-recourse and other loans and borrowings decreased by $34.9 million primarily due to paydowns on the line of credit and revolving term credit facilities as well as the repurchase of $30 million of debentures, partly offset by a net increase in the Ambatovy Joint Venture additional partner loans related to capitalized accrued interest and foreign exchange adjustments.

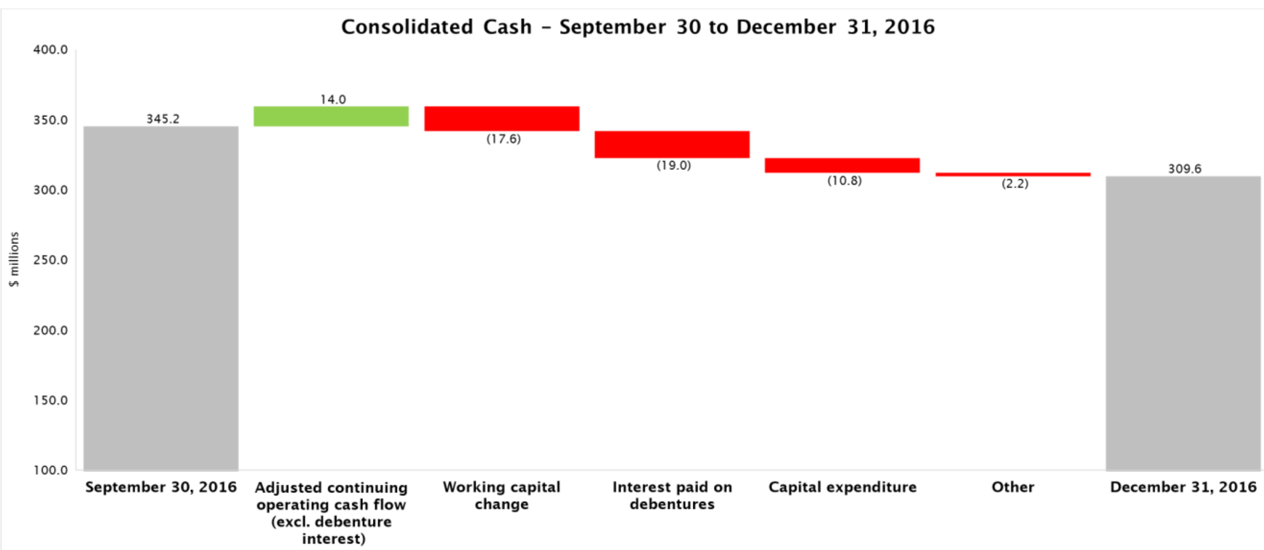
For additional information see the Liquidity and capital resources - sources and uses of cash section.

SUMMARY OF CHANGES COMPARED TO THIRD QUARTER OF 2016

The change in net loss from continuing operations from the third quarter of 2016 to the fourth quarter of 2016 is shown below:



The change in consolidated cash, cash equivalents and short-term investments from September 30, 2016 to December 31, 2016 is shown below:



Cash, cash equivalents and short-term investments at December 31, 2016 were $309.6 million, a decrease of $35.6 million from September 30, 2016. This was a result of lower collections on Sherritt's Cuban energy receivables following significant collections in the third quarter, semi-annual interest paid on debentures and Block 10 exploration drilling spending.

Outlook

2017 PRODUCTION, OPERATING COST AND CAPITAL SPENDING GUIDANCE

In 2016, Sherritt made certain modifications to how guidance is presented, showing capital spending estimates in U.S. dollars, as well as their Canadian dollar equivalent. In the quarterly reporting, actual capital spending is presented in Canadian dollars consistent with Sherritt's reporting currency, but estimates and forward looking information continues to be provided in U.S. dollars. This change in presentation is intended to align with Sherritt's capital budgeting practices, and to mitigate the change to capital spending that arises from translation to the Canadian dollar reporting currency. Capital projects in the Metals business are generally U.S. dollar expenditures, while in Oil and Gas, the expenditures are roughly 50% Canadian dollar denominated and 50% U.S. dollar denominated.

For 2017, Sherritt added unit operating cost guidance.

Production volumes, unit operating costs and spending on capital	2016 guidance	Actual 2016 December 31	2017 guidance
Production volumes			
Nickel, finished (tonnes, 100% basis)			
Moa Joint Venture	32,500-33,000	32,928	33,000-34,000
Ambatovy Joint Venture	40,000-42,000	42,105	48,000-52,000
Total	72,500-75,000	75,033	81,000-86,000
Cobalt, finished (tonnes, 100% basis)			
Moa Joint Venture	3,300-3,800	3,694	3,500-3,800
Ambatovy Joint Venture	2,900-3,300	3,273	3,800-4,100
Total	6,200-7,100	6,967	7,300-7,900
Oil – Cuba (gross working-interest, bopd)	15,000	15,452	11,500-12,500
Oil and Gas – All operations (net working-interest, boepd)	9,200	9,483	6,400-7,000
Electricity (GWh, 33 1/3% basis)	860	894	850-900
Unit operating costs			
NDCC (US$ per pound)			
Moa Joint Venture	-	3.42	3.20-3.70
Ambatovy Joint Venture	-	4.27	3.10-3.70
Total	-	3.85	3.14-3.70
Oil and Gas – Cuba (unit operating costs, $ per barrel)	-	9.75	11.00-12.00
Electricity (unit operating costs, $ per MWh)	-	22.94	18.75-19.50
Spending on capital (US$ millions)			
Metals – Moa Joint Venture (50% basis), Fort Site (100% basis) (1)	US$38	US$25 (33)	US$28 (38)
Metals – Ambatovy Joint Venture (40% basis)	US$25	US$25 (33)	US$45 (61)
Oil and Gas	US$27	US$20 (26)	US$55 (73)
Power (33 1/3% basis)	US$1	US$1 (1)	US$1 (2)
Power (33 1/3% basis) Pipeline Construction on Service Concession	US$4	US$4 (5)	-
Spending on capital (excluding Corporate)	US$95	US$75 (98)	US$129 (174)

(1) Spending is 50% of US$ expenditures for Moa JV and 100% expenditures for Fort Site fertilizer and utilities.

PRODUCTION VOLUMES

Nickel production is forecasted to increase in 2017, especially in the Ambatovy Joint Venture where full year production rates are expected to be in line with fourth quarter 2016 performance.

Cuba GWI oil production guidance for 2017 reflects the impact of natural reservoir declines. The guidance does not include any production from Block 10 wells. Drilling and testing of the first Block 10 well is scheduled to be completed in the first quarter of 2017, followed by the drilling and testing of the second well in the second half of 2017. Test results from these two wells will determine whether or not Sherritt will proceed with commercialization of the Block. If results are successful, the revenue associated with the 2017 production will be accounted for only when commercialization of Block 10 is approved which is expected in the first quarter 2018.

UNIT OPERATING COSTS

2017 unit operating cost (NDCC) guidance for the Moa Joint Venture is US$3.20- US$3.70. The cost benefit of the newly commissioned acid plant is expected in 2017; however, this benefit is partly offset by higher forecasted energy prices and higher planned maintenance spending, including a biannual acid plant shutdown and a return to a regular duration for the annual refinery shutdown. In addition, increased haulage distance, ore grade and deleterious element content has a negative impact on 2017 NDCC guidance.

2017 NDCC guidance for Ambatovy is US$3.10-US$3.70, reflecting an increase in expected production volumes.

2017 unit operating cost guidance for Oil and Gas Cuba is $11.00-$12.00, reflecting lower expected production volumes.

2017 unit operating cost guidance for Power is $18.75-$19.50, reflecting lower expected gas turbine maintenance costs.

Unit operating cost guidance figures are based on by-product and input commodity price assumptions for 2017, which are subject to change during the year, as cobalt, fertilizers, sulphur, West Texas Intermediate crude and fuel oil prices fluctuate.

CAPITAL SPENDING

Spending on capital for 2017 is anticipated to be higher than actual spending in 2016, primarily as a result of increased capital spending at Oil and Gas. Capital spending at Oil and Gas in 2017 consists of (i) completion of the first Block 10 well and the drilling of a second well (US$25 million), (ii) acquisition of equipment to support drilling in Block 10 (US$18 million) and (iii) review and collection of seismic data, as well as collection of geochemistry samples, on Block 8A (US$7 million). Forecasted expenditures for Block 10 drilling and testing activities will account for approximately 75% of the expected capital spending this year for Oil and Gas.

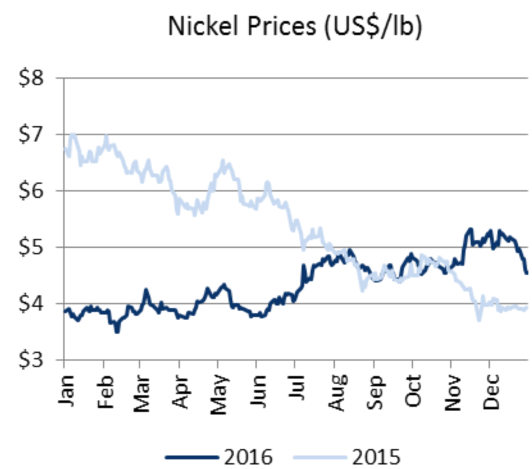
In addition, spending on capital for 2017 includes higher capital spending at the Ambatovy Joint Venture for additional mining fleet equipment and mine development work, and lower capital spending at the Moa Joint Venture as a result of the completion and commissioning of the third acid plant in 2016.

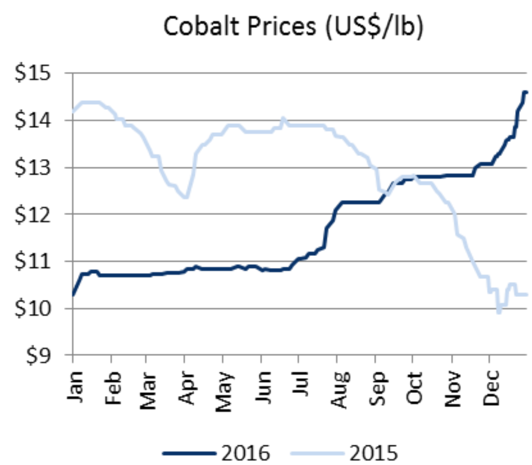
Significant factors influencing operations

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

COMMODITY PRICES

Operating results for the year ended December 31, 2016, were significantly impacted by market-driven commodity prices for nickel, cobalt and oil and gas. Electricity prices are established at the beginning of a negotiated supply contract period and are, therefore, less susceptible to commodity price fluctuations during the term of the agreement.

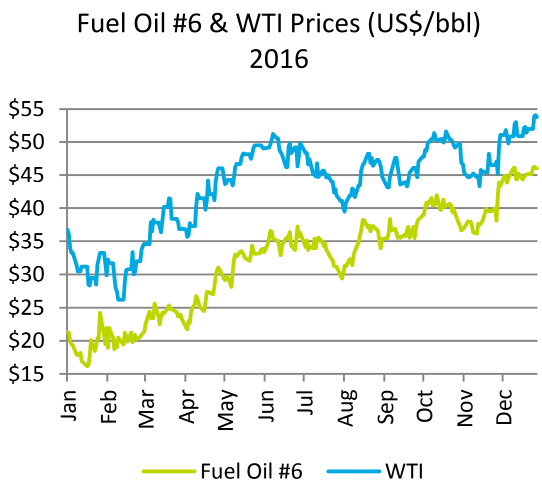


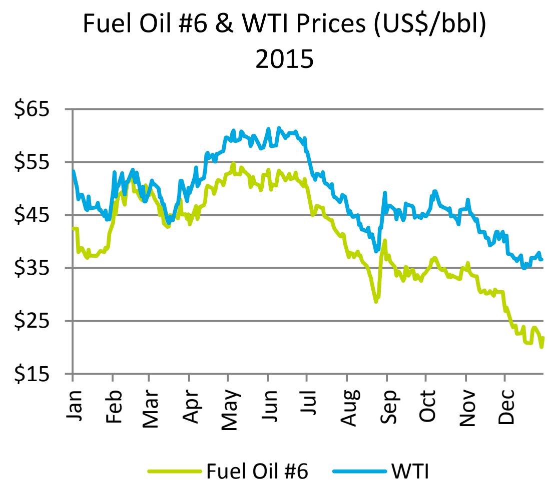


On a year-over-year basis, the 2016 nickel average reference price of US$4.36/lb declined by 19% over the 2015 average, with roughly 27% of global production remaining underwater on a cash margin basis at this price. Despite the negative margins experienced by many producers, more significant supply cuts have been slow to materialize, and global inventory levels remain high.

In the second half of 2016, prices recovered significantly from the lows of US$3.50/lb reached in the first quarter of 2016 and remained generally above US$4.50/lb through the fourth quarter of 2016. Recent market activity remains bullish on a fundamental basis, as market analysts continue to reinforce projected deficits and forecast stronger prices carrying over from 2016 into 2017. Fundamental supply challenges that have emerged with the Philippines ongoing environmental audits on all mining operations in the country, closures of uneconomic operations, and healthy stainless steel results from North America and Europe have helped propel LME prices to levels previously reached in 2015. After peaking at 470,000 tonnes in June 2015, nickel inventories held in London Metals Exchange warehouses have declined by close to 100,000 tonnes but the year end balance of 372,000 tonnes remains high compared to historical levels. The announced mine closures in the Philippines coupled with improved stainless steel demand are both seen as near-term catalysts for continued strength in the nickel market, although this is being tempered by the ramp up of Nickel Pig Iron (NPI) operations in Indonesia and the announced easing of the ban on ore exports allowing quotas of low grade nickel containing ore to be exported by Indonesian miners who meet criteria which has not yet been fully articulated.

The average reference price for cobalt in 2016 was US$11.77/lb or down only 9% from its 2015 comparable, with the outlook remaining positive. The cobalt price recovery from the lows early in 2016 has been more significant than nickel, moving from lows in the first quarter to end the year at approximately US$14.92/lb. While nickel prices experienced a correction in the month of December and since, cobalt prices have gone on to make new highs in January 2017. Refined cobalt supply contracted in 2016 with the suspension of production from Votorantim (Tocantins) in Brazil and Queensland Nickel in Australia. Indications are that the market is approaching balance or slight deficit. Overall cobalt demand is supported by the longer-term outlook for cobalt in rechargeable batteries, a market that utilizes refined forms of cobalt with purity being an important factor in customer demand, and environmental and sustainability concerns from African sourced mines becoming increasingly important. These concerns received media attention after an Amnesty International report in January 2016 which focused on human rights abuses in Democratic Republic of Congo (DRC) cobalt mining operations. Because the DRC is the world's largest producer of cobalt, cobalt customers have responded by requiring more stringent certification of origin procedures, to restrict or prohibit buying cobalt sourced from the DRC. Superalloy demand also remains strong, along with other applications such as magnets, diamond cutting tools, soaps and paint driers which continue to provide strong demand for cobalt. As a result of the positive medium term outlook for cobalt, and the knowledge that most cobalt supply comes as a by-product of copper and nickel production, speculative interest has picked up.





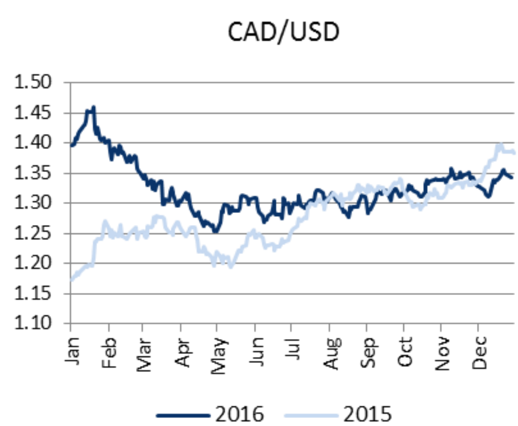
The average reference price of GCF6 in 2016 was down 21% from its 2015 comparable level, which is similar to the price decline in nickel over the same period. The recovery in WTI and fuel oil prices over the course of 2016 has been more significant, with fourth quarter 2016 GCF6 prices being up 38% over their comparable quarter in 2015. GCF6 prices have climbed steadily since their lows in the first quarter of 2016, and the spread between GCF6 and WTI prices has narrowed. GCF6 prices averaged 84% of WTI prices in the fourth quarter, compared to only 63% in the first quarter of 2016.

A sensitivity analysis for the year ended December 31, 2016 earnings to changes in significant commodity prices is provided in the supplementary information – sensitivity analysis section.

FOREIGN EXCHANGE RATE

As Sherritt reports its results in Canadian dollars, the fluctuation in foreign exchange rates has the potential to cause significant volatility in those results. Most commodity prices are quoted in U.S. dollars, and a significant portion of operating expenses are U.S. dollar denominated. Therefore operating earnings are generally positively impacted by a weaker Canadian dollar as the uplift on revenue exceeds the negative impact on operating expenses. However, in a period of operating losses, where U.S. denominated expenses exceed U.S. denominated revenue, the foreign exchange impact is negative. The Canadian dollar was marginally stronger relative to the U.S dollar (average) for the three months ended December 31, 2016 and was weaker relative to the U.S dollar (average) for the year ended December 31, 2016 compared to the same periods in the prior year.

In addition, many of Sherritt's trade accounts receivable, accounts payable, loans receivable and loans payable are denominated in U.S. dollars. These financial assets and liabilities are translated at the period-end rate. The Canadian dollar was stronger relative to the U.S. dollar at December 31, 2016 compared to December 31, 2015. Since the U.S. dollar based financial liabilities exceed the U.S. dollar based financial assets the strengthening of the Canadian dollar resulted in a positive translation gain of approximately $35 million in 2016.



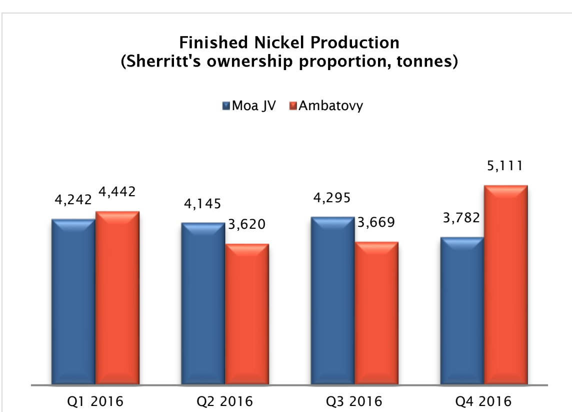
Review of operations

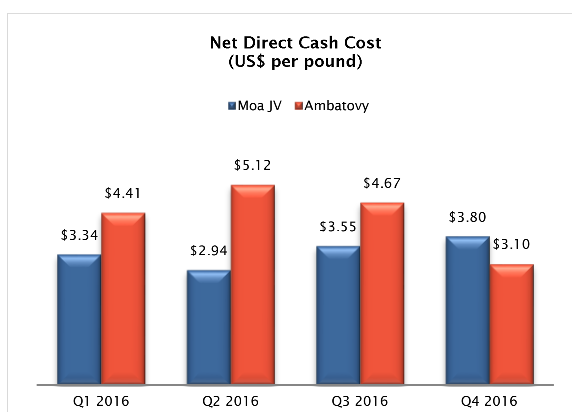
METALS

Financial Review

$ millions, except as otherwise noted, for the three months ended December 31	2016				2015				
	Moa JV and Fort Site	**Ambatovy JV**	**Other**	**Total**	Moa JV and Fort Site	Ambatovy JV	Other	Total	Change
FINANCIAL HIGHLIGHTS									
Revenue	**$ 92.5**	**$ 88.2**	**$ 14.9**	**$ 195.6**	$ 101.1	$ 69.9	$ 12.8	$ 183.8	6%
(Loss) earnings from operations	**(7.6)**	**(15.0)**	**0.2**	**(22.4)**	(6.8)	(1,785.5)	(0.6)	(1,792.9)	99%
Adjusted EBITDA[1]	**5.6**	**24.4**	**0.2**	**30.2**	7.6	(9.5)	-	(1.9)	1,689%
Cash provided (used) by operations	**(6.1)**	**(0.8)**	**3.3**	**(3.6)**	21.1	(22.3)	1.4	0.2	(1,900%)
Free cash flow[1]	**(9.8)**	**(10.6)**	**3.3**	**(17.1)**	1.3	(26.6)	1.4	(23.9)	28%
PRODUCTION VOLUMES (tonnes)									
Mixed Sulphides	**3,674**	**6,036**	**–**	**9,710**	4,336	5,042	-	9,378	4%
Finished Nickel	**3,782**	**5,111**	**–**	**8,893**	4,098	4,885	-	8,983	(1%)
Finished Cobalt	**382**	**404**	**–**	**786**	521	386	-	907	(13%)
Fertilizer	**61,460**	**16,650**	**–**	**78,110**	69,741	15,169	-	84,910	(8%)
NICKEL RECOVERY (%)	**85%**	**87%**			89%	86%			
SALES VOLUMES (tonnes)									
Finished Nickel	**3,975**	**4,935**	**–**	**8,910**	4,237	4,665	-	8,902	-
Finished Cobalt	**487**	**360**	**–**	**847**	559	411	-	970	(13%)
Fertilizer	**45,698**	**15,485**	**–**	**61,183**	60,461	14,814	-	75,275	(19%)
AVERAGE REFERENCE PRICES (US$ per pound)									
Nickel				**$ 4.90**				$ 4.27	15%
Cobalt[2]				**13.51**				11.34	19%
AVERAGE-REALIZED PRICES[1]									
Nickel ($ per pound)	**$ 6.39**	**$ 6.50**	**–**	**$ 6.45**	$ 5.57	$ 5.52	-	$ 5.54	16%
Cobalt ($ per pound)	**16.85**	**18.73**	**–**	**17.68**	14.08	11.31	-	12.91	37%
Fertilizer ($ per tonne)	**326**	**160**	**–**	**284**	413	197	-	371	(23%)
UNIT OPERATING COSTS[1] (US$ per pound)									
Nickel - net direct cash cost	**$ 3.80**	**$ 3.10**	**–**	**3.41**	$ 2.90	$ 4.07	-	3.51	(3%)
SPENDING ON CAPITAL									
Sustaining	**$ 4.7**	**$ 19.0**	**$ –**	**$ 23.7**	$ 13.8	$ 4.9	$ -	$ 18.7	27%
Expansion	**(2.1)**	**–**	**–**	**(2.1)**	6.7	-	-	6.7	(131%)
	$ 2.6	**$ 19.0**	**$ –**	**$ 21.6**	$ 20.5	$ 4.9	$ -	$ 25.4	(15%)

(1) For additional information see the Non-GAAP measures section.
(2) Average low-grade cobalt published price per Metals Bulletin.





$ millions, except as otherwise noted, for the years ended December 31				2016				2015	
	Moa JV and Fort Site	**Ambatovy JV**	**Other**	**Total**	Moa JV and Fort Site	Ambatovy JV	Other	Total	Change
FINANCIAL HIGHLIGHTS									
Revenue	$ 339.3	$ 264.8	$ 48.0	$ 652.1	$ 412.6	$ 332.0	$ 60.5	$ 805.1	(19%)
(Loss) earnings from operations	(28.4)	(150.9)	0.8	(178.5)	(4.4)	(1,934.1)	0.5	(1,938.0)	91%
Adjusted EBITDA[1]	19.6	(7.0)	0.8	13.4	42.2	(9.4)	0.5	33.3	(60%)
Cash provided (used) by operations	(2.7)	(34.6)	3.1	(34.2)	53.4	(24.3)	4.1	33.2	(203%)
Free cash flow[1]	(33.9)	(55.9)	3.1	(86.7)	(9.0)	(60.4)	4.1	(65.3)	(33%)
PRODUCTION VOLUMES (tonnes)									
Mixed Sulphides	16,923	18,271	–	35,194	18,510	19,598	-	38,108	(8%)
Finished Nickel	16,464	16,842	–	33,306	16,853	18,908	-	35,761	(7%)
Finished Cobalt	1,847	1,309	–	3,156	1,867	1,386	-	3,253	(3%)
Fertilizer	256,812	53,908	–	310,720	255,991	54,930	-	310,921	-
NICKEL RECOVERY (%)	87%	86%			89%	86%			
SALES VOLUMES (tonnes)									
Finished Nickel	16,402	16,844	–	33,246	16,980	18,857	-	35,837	(7%)
Finished Cobalt	1,846	1,281	–	3,127	1,885	1,362	-	3,247	(4%)
Fertilizer	167,525	52,482	–	220,007	182,065	56,033	-	238,098	(8%)
AVERAGE REFERENCE PRICES (US$ per pound)									
Nickel				$ 4.36				$ 5.37	(19%)
Cobalt[2]				11.77				12.99	(9%)
AVERAGE-REALIZED PRICES[1]									
Nickel ($ per pound)	$ 5.63	$ 5.66	–	$ 5.65	$ 6.72	$ 6.64	-	$ 6.68	(15%)
Cobalt ($ per pound)	14.82	16.08	–	15.33	15.69	14.50	-	15.20	1%
Fertilizer ($ per tonne)	377	164	–	326	425	196	-	371	(12%)
UNIT OPERATING COSTS[1] (US$ per pound)									
Nickel - net direct cash cost	$ 3.42	$ 4.27	–	3.85	$ 3.88	$ 4.83	-	4.38	(12%)
SPENDING ON CAPITAL[3]									
Sustaining	$ 22.6	$ 33.1	$ –	$ 55.7	$ 47.4	$ 23.8	$ -	$ 71.2	(22%)
Expansion	10.3	–	–	10.3	16.7	-	-	16.7	(38%)
	$ 32.9	$ 33.1	$ –	$ 66.0	$ 64.1	$ 23.8	$ -	$ 87.9	(25%)

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

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

(3) Ambatovy JV spending excludes payments made on arbitration settlements for the year ended December 31, 2015.

Moa Joint Venture and Fort Site

Revenue is composed of the following:

$ millions	For the three months ended 2016 December 31	2015 December 31	Change	For the years ended 2016 December 31	2015 December 31	Change
Nickel	**$ 56.0**	$ 54.8	2%	**$ 203.5**	$ 254.5	(20%)
Cobalt	**18.1**	17.4	4%	**60.3**	65.2	(8%)
Fertilizers	**14.9**	25.0	(40%)	**63.2**	77.4	(18%)
Other	**3.5**	3.9	(10%)	**12.3**	15.5	(21%)
	$ 92.5	$ 101.1	(9%)	**$ 339.3**	$ 412.6	(18%)

The change in earnings from operations between 2016 and 2015 is detailed below:

$ millions	For the three months ended 2016 December 31	For the year ended 2016 December 31
Higher (lower) U.S. dollar denominated realized nickel prices	**$ 3.7**	**$ (51.8)**
Higher (lower) U.S. dollar denominated realized cobalt prices	**2.9**	**(5.4)**
Lower fertilizer prices	**(2.7)**	**(7.1)**
Impact of lower cobalt and nickel sales volumes	**(1.2)**	**(0.4)**
Lower fertilizer sales volumes	**(3.2)**	**(3.1)**
Lower mining, processing and refining, third-party feed and fertilizer unit costs	**2.6**	**46.3**
Foreign exchange impact on operations	**(2.0)**	**(1.4)**
Other	**(0.9)**	**(1.1)**
Change in earnings from operations, compared to 2015	**$ (0.8)**	**$ (24.0)**

Realized prices for nickel and cobalt were higher for the three months ended December 31, 2016 compared to the same period in the prior year reflecting higher reference prices. For the year ended December 31, 2016, lower realized nickel and cobalt prices reflect the impact of lower reference prices partly offset by a weakening of the Canadian dollar relative to the U.S. dollar.

Production of contained mixed sulphides for the three months ended December 31, 2016 was lower compared to the same period in the prior year primarily due to the impact of Hurricane Matthew. In accordance with Moa Nickel's standard operating procedures, gradual shutdown measures were implemented ahead of the hurricane and operations subsequently resumed in a staged process. Hurricane Matthew also caused a bridge collapse in November which impacted haulage time and distances as a result of using secondary access roads. Production of contained mixed sulphides for the year ended December 31, 2016 was also negatively impacted by higher levels of deleterious elements in the ore from new mining concessions.

Finished nickel and cobalt production for the three months ended December 31, 2016 was lower compared to the same period in the prior year primarily due to the impact of lower mixed sulphides production. The impact of lower mixed sulphides production for the year ended December 31, 2016 was partly offset by third party feed usage and a higher drawdown of mixed sulphides inventory. The available third party feed used in 2016 was cobalt rich, resulting in relatively stable cobalt production for the year ended December 31, 2016.

Fertilizer's contributions to operating earnings for the three months ended December 31, 2016 were lower compared to the same period in the prior year due to lower sales volume as a result of early winter weather and lower realized prices. Fertilizer's contributions to operating earnings for the year ended December 31, 2016 were lower compared to 2015 reflecting similar trends, partly offset by lower maintenance and energy costs.

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

$ millions		For the three months ended 2016 December 31	2015 December 31	Change		For the years ended 2016 December 31	2015 December 31	Change
Mining, processing and refining	$	**56.7**	$ 61.3	(8%)	$	**221.2**	$ 254.1	(13%)
Third-party feed costs		**4.9**	4.7	4%		**12.9**	13.9	(7%)
Fertilizers		**12.4**	16.4	(24%)		**42.7**	57.6	(26%)
Selling costs		**4.5**	4.7	(4%)		**16.4**	16.6	(1%)
Other		**5.5**	6.2	(11%)		**16.3**	23.6	(31%)
	$	**84.0**	$ 93.3	(10%)	$	**309.5**	$ 365.8	(15%)

(1) Excludes depletion, depreciation and amortization

Net direct cash cost[1] is composed of the following:

		For the three months ended 2016 December 31	2015 December 31	Change		For the years ended 2016 December 31	2015 December 31	Change
Mining, processing and refining costs	$	**4.93**	$ 4.60	7%	$	**4.63**	$ 5.15	(10%)
Third-party feed costs		**0.42**	0.38	11%		**0.27**	0.29	(7%)
Cobalt by-product credits		**(1.55)**	(1.39)	(12%)		**(1.26)**	(1.36)	7%
Other[2]		**–**	(0.69)	100%		**(0.22)**	(0.20)	(10%)
Net direct cash cost (US$ per pound of nickel)	$	**3.80**	$ 2.90	31%	$	**3.42**	$ 3.88	(12%)

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

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

Net direct cash cost of nickel for the three months ended December 31, 2016 was higher compared to the same period in the prior year primarily due to lower production volumes and lower fertilizer by-product credits, partly offset by higher cobalt by-product credits. The impact of lower production volumes on mining and processing costs was partly offset by the benefits of the new acid plant at Moa Nickel, which reduced the requirements for purchased sulphuric acid and fuel oil. The benefits of the new acid plant are expected to be fully realized in 2017.

Net direct cash cost of nickel for the year ended December 31, 2016 was lower compared to 2015 primarily due to lower energy prices, lower purchased sulphuric acid costs and lower maintenance costs which were partly offset by lower cobalt by-product credits. Cobalt by-product credits were impacted by lower average reference prices for the year ended December 31, 2016.

Sustaining capital spending was lower in the three months and year ended December 31, 2016 compared to the same periods in the prior year reflecting lower planned spending.

Construction of the third acid plant at the Moa Joint Venture was completed in the second quarter of 2016, with commissioning activities and performance testing undertaken throughout the third quarter of 2016. The project was substantially complete and commissioned on October 1, 2016 and is now producing sulphuric acid. Negative expansion capital spending for the three months ended December 31, 2016 primarily reflects transfers of spare parts to inventory. The Moa Joint Venture is in the process of finalizing project costs; it is expected that the total construction cost will be approximately US$10 million (100% basis) under budget.

Ambatovy

Revenue is composed of the following:

	For the three months ended			For the years ended		
	2016	2015		**2016**	2015	
$ millions	**December 31**	December 31	Change	**December 31**	December 31	Change
Nickel	$ **70.7**	$ 56.8	24%	$ **210.1**	$ 276.3	(24%)
Cobalt	**14.9**	10.2	46%	**45.4**	43.6	4%
Fertilizers	**2.5**	2.9	(14%)	**8.6**	11.0	(22%)
Other	**0.1**	-	-	**0.7**	1.1	(36%)
	$ **88.2**	$ 69.9	26%	$ **264.8**	$ 332.0	(20%)

The change in earnings from operations between 2016 and 2015 is detailed below:

$ millions	For the three months ended **2016** **December 31**	For the year ended **2016** **December 31**
Higher (lower) US dollar denominated realized nickel prices	$ **11.0**	$ **(50.5)**
Higher US dollar denominated realized cobalt prices	**6.3**	**3.0**
Impact of change in metals sales volumes	**(5.4)**	**1.9**
Higher (lower) fertilizer sales volumes	**0.1**	**(0.6)**
Lower mining, processing and refining, selling and fertilizer unit costs	**18.4**	**44.1**
Lower depreciation expense	**16.8**	**73.5**
Foreign exchange impact on operations	**(0.6)**	**(13.8)**
Lower impairment of assets	**1,722.5**	**1,722.5**
Other	**1.4**	**3.1**
Change in earnings from operations, compared to 2015	$ **1,770.5**	$ **1,783.2**

Realized prices for nickel and cobalt were higher for the three months ended December 31, 2016 compared to the same period in the prior year reflecting higher reference prices and, for cobalt, mark-to-market adjustments on provisionally priced sales. For the year ended December 31, 2016, the lower realized price of nickel reflects a lower average reference price. Average realized price for cobalt was higher than the average reference price for the year primarily due to the impact of mark-to market adjustments. Realized prices for both nickel and cobalt for year ended December 31, 2016 were positively impacted by a weakening of the Canadian dollar relative to the U.S. dollar.

In June, Ambatovy experienced a blockage in the tailings pipeline. As a result of the blockage, the plant shutdown initially planned for August was brought forward to June and successfully completed in July. The blockage was cleared during the shutdown and preventive measures were put in place to reduce the risk of reoccurrence. During the shutdown, required work on the air separation and hydrogen plant was performed, including triennial inspections of pressure vessels in accordance with statutory engineering codes. During the restart in the third quarter, the Corporation addressed a number of equipment reliability issues that were experienced in the first half of 2016.

Production of nickel was higher in the fourth quarter of 2016 and lower for the year ended December 31, 2016 compared to the same periods in the prior year. The fourth quarter 2016 production reflects improved equipment reliability and availability as a result of the maintenance work completed during the plant shutdown. Production for the year ended December 31, 2016 reflects the impact of the plant shutdown and a slower than anticipated restart in the third quarter. Finished nickel production for the three months and year ended December 31, 2016 represents 85% and 70% of design capacity, respectively.

Nickel sales volumes were consistent with production volume for the three months and year ended December 31, 2016. Sales of cobalt in the fourth quarter of 2016 were lower than production as one shipment was delayed to the new year.

Depletion, depreciation, and amortization expense for the three months and year ended December 31, 2016 was lower compared to the same periods in the prior year primarily as a result of the lower asset carrying value due to the impairment recognized in the fourth quarter of 2015.

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

$ millions	For the three months ended 2016 December 31	2015 December 31	Change	For the years ended 2016 December 31	2015 December 31[2]	Change
Mining, processing and refining	$ **54.7**	$ 68.4	(20%)	$ **236.1**	$ 296.1	(20%)
Selling costs	**3.7**	3.5	6%	**14.2**	14.5	(2%)
Impairment of inventory	**–**	36.4	(100%)	**–**	36.4	(100%)
Other	**1.4**	3.9	(64%)	**3.5**	9.7	(64%)
	$ **59.8**	$ 112.2	5%	$ **253.8**	$ 356.7	(29%)

(1) Excludes depletion, depreciation and amortization.

Net direct cash cost[1] is composed of the following:

	For the three months ended 2016 December 31	2015 December 31	Change	For the years ended 2016 December 31	2015 December 31	Change
Mining, processing and refining costs	$ **3.97**	$ 4.78	(17%)	$ **4.89**	$ 5.49	(11%)
Cobalt by-product credits	**(0.97)**	(0.90)	8%	**(0.82)**	(0.87)	(6%)
Other[2]	**0.10**	0.19	(47%)	**0.20**	0.21	(5%)
Net direct cash cost (US$ per pound of nickel)	**3.10**	4.07	(24%)	**4.27**	4.83	(12%)

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

Net direct cash cost of nickel decreased for both the three months and year ended December 31, 2016 compared to the same periods in the prior year. For the three months ended December 31, 2016, NDCC was impacted by higher sales volumes as a result of increased production stability and equipment availability as well as lower commodity input prices. For the year ended December 31, 2016, NDCC decreased, despite lower production, due to operational efficiencies and lower overall input commodity prices partly offset by maintenance shutdown costs.

Spending on capital increased in the three months and year ended December 31, 2016, reflecting timing of planned spending. Capital spending for Ambatovy is focused on sustaining capital for mining and production equipment, specifically the purchase of an excavator and articulated dump trucks in the fourth quarter as well as spending for the tailings facility.

Deferral of principal repayment on the Ambatovy Joint Venture financing

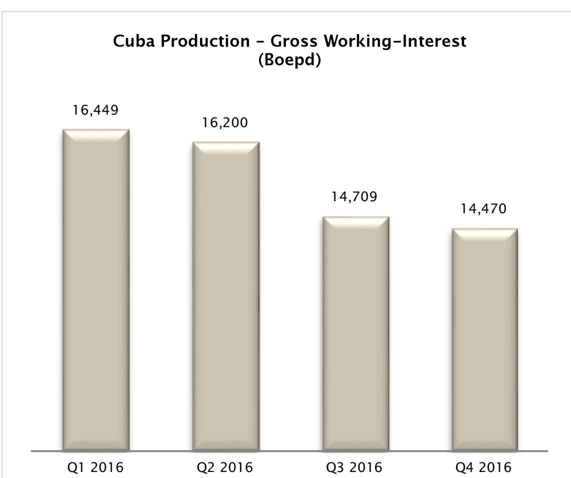
In August 2016, the Ambatovy Joint Venture financing lenders agreed to up to six principal payment deferrals totaling US$565.1 million (100% basis), which are to be repaid on a schedule starting in June 2021, or earlier subject to cash flow generation. Until June 2019, the Ambatovy Joint Venture will pay semi-annual interest payments only (approximately US$56.0 million per year) and will not make semi-annual principal payments unless there is sufficient free cash flow after required deductions. Deferred principal is subject to an additional 2% accrued interest calculated from the date of each deferral. From June 2019 to June 2021, semi-annual payments of approximately US$28.0 million interest and US$94.0 million principal will be payable, and from June 2021 to the end of term in 2024, semi-annual amortized deferred principal and accrued interest repayments will be payable together with the regular semi-annual principal and interest payments.

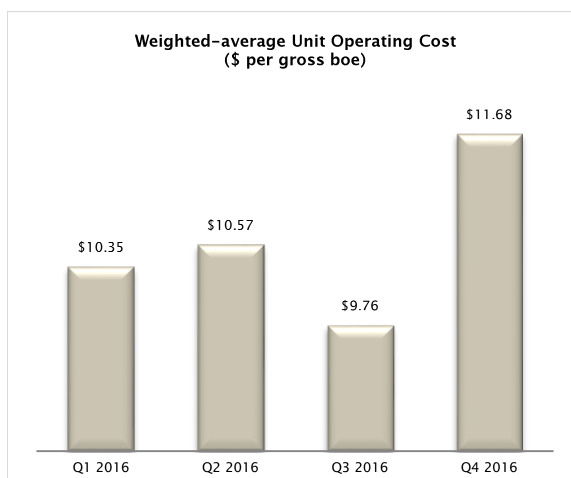
OIL AND GAS

Financial review

$ millions, except as otherwise noted	For the three months ended 2016 December 31	2015 December 31	Change	For the years ended 2016 December 31	2015 December 31	Change
FINANCIAL HIGHLIGHTS						
Revenue	**$ 30.6**	$ 30.5	-	**$ 108.6**	$ 162.6	(33%)
Loss from operations	**2.8**	(1.2)	333%	**(16.3)**	(71.6)	77%
Adjusted EBITDA[1]	**11.6**	9.7	20%	**35.6**	81.9	(57%)
Cash provided by operations	**11.4**	30.2	(62%)	**76.4**	80.7	(5%)
Free cash flow[1]	**3.3**	23.3	(86%)	**50.4**	21.4	136%
PRODUCTION AND SALES[2]						
Gross working-interest (GWI) - Cuba	**14,470**	17,045	(15%)	**15,452**	18,257	(15%)
Total net working-interest (NWI)	**8,163**	10,727	(24%)	**9,483**	11,158	(15%)
AVERAGE REFERENCE PRICES (US$ per barrel)						
West Texas Intermediate (WTI)	**$ 49.21**	$ 42.05	17%	**$ 43.37**	$ 48.69	(11%)
Gulf Coast Fuel Oil No. 6	**41.12**	29.86	38%	**32.13**	40.68	(21%)
Brent	**48.53**	43.45	12%	**43.31**	52.08	(17%)
AVERAGE-REALIZED PRICES[1] (per NWI)						
Cuba ($ per barrel)	**$ 39.75**	$ 29.38	35%	**$ 29.93**	$ 38.35	(22%)
Spain ($ per barrel)	**63.27**	53.39	19%	**56.33**	67.37	(16%)
Pakistan ($ per boe)[2]	**10.99**	11.00	-	**10.71**	10.63	1%
Weighted-average ($ per boe)	**38.98**	29.53	32%	**29.98**	38.73	(23%)
UNIT OPERATING COSTS[1][2][3] (per GWI)						
Cuba	**$ 10.95**	$ 10.82	1%	**$ 9.75**	$ 9.53	2%
Spain	**60.75**	60.40	1%	**54.51**	61.12	(11%)
Pakistan	**4.81**	9.87	(51%)	**7.26**	8.56	(15%)
Weighted-average ($ per boepd)	**11.68**	11.64	-	**10.58**	10.69	(1%)
SPENDING ON CAPITAL						
Development, facilities and other	**$ 0.4**	$ (1.2)	133%	**$ 8.9**	$ 53.1	(83%)
Exploration	**7.8**	0.5	1460%	**17.0**	1.4	1114%
	$ 8.2	$ (0.7)	1271%	**$ 25.9**	$ 54.5	(52%)

(1) For additional information see the Non-GAAP measures section.
(2) Oil production is stated in barrels of oil per day (bopd). Natural gas production is stated in barrels of oil equivalent per day (boepd), which is converted at 6,000 cubic feet per barrel. Collectively, oil and natural gas production are stated in barrels of oil equivalent per day (boepd).
(3) Excludes the impact of impairment of property, plant and equipment.





Oil and Gas revenue is composed of the following:

	For the three months ended			For the years ended		
	2016	2015		**2016**	2015	
$ millions	**December 31**	December 31	Change	**December 31**	December 31	Change
Cuba	**$ 27.2**	$ 27.4	(1%)	**$ 96.6**	$ 146.1	(34%)
Spain	**1.5**	1.5	-	**5.9**	10.5	(44%)
Pakistan	**0.5**	0.2	150%	**1.5**	1.1	36%
Processing	**1.4**	1.4	-	**4.6**	4.9	(6%)
	$ 30.6	$ 30.5	-	**$ 108.6**	$ 162.6	(33%)

The change in earnings from operations between 2016 and 2015 is detailed below:

$ millions	For the three months ended **2016 December 31**	For the year ended **2016 December 31**
Higher (lower) realized oil and gas prices, denominated in U.S. dollars	**$ 6.6**	**$ (22.8)**
Lower Cuba gross working-interest volumes	**(3.1)**	**(17.4)**
Lower Spain volumes	**0.1**	**(3.1)**
Lower cost recovery revenue	**(3.7)**	**(13.1)**
Lower depletion, depreciation and amortization	**1.1**	**24.2**
Foreign exchange impact on operations	**1.0**	**5.8**
Lower impairment of Oil assets	**–**	**72.2**
Lower operating costs	**3.0**	**14.3**
Other	**(1.0)**	**(4.8)**
Change in earnings from operations, compared to 2015	**$ 4.0**	**$ 55.3**

Average reference price was higher in the three months ended December 31, 2016 but lower for the year ended December 31, 2016 compared to the same periods in the prior year. As a result, realized prices were higher in the fourth quarter of 2016 and lower for the year. The average-realized prices for the year ended December 31, 2016 also benefited from the impact of a weaker Canadian dollar relative to the U.S. dollar.

In the third quarter of 2016, the Corporation recognized an impairment loss of $8.5 million ($6.6 million net of tax) for the write-down of the Puerto Escondido/Yumuri extension cash-generating unit, within the Oil and Gas segment, to its recoverable amount. This impairment was the result of a decrease in internally forecasted oil reserves at the PE/YU extension due to two oil wells being shut-in as a result of low oil production. Its recoverable amount was determined to be negligible based on a value in use analysis at September 30, 2016.

Production and sales volumes were as follows:

	For the three months ended			For the years ended		
	2016	2015		**2016**	2015	
Daily production volumes(1)	**December 31**	December 31	Change	**December 31**	December 31	Change
Gross working-interest oil production in Cuba	**14,470**	17,045	(15%)	**15,452**	18,257	(15%)
Net working-interest oil production						
Cuba (heavy oil)						
Cost recovery	**1,710**	4,580	(63%)	**3,381**	4,059	(17%)
Profit oil	**5,742**	5,565	3%	**5,443**	6,378	(15%)
Total	**7,452**	10,145	(27%)	**8,824**	10,437	(15%)
Spain (light oil)	**271**	292	(7%)	**289**	426	(32%)
Pakistan (natural gas)	**440**	290	52%	**370**	295	25%
	8,163	10,727	(24%)	**9,483**	11,158	(15%)

(1) Refer to Oil and Gas production and sales volume on page 53 for further detail.

Gross working-interest oil production in Cuba decreased for the three months and year ended December 31, 2016 compared to the same periods in the prior year primarily due to natural reservoir declines and the absence of new development drilling in 2016.

Cost-recovery oil production in Cuba for the three months decreased compared to the same period in the prior year as a result of lower cost-recovery spending and the impact of higher oil prices in the fourth quarter. For the year ended December 31, 2016 lower cost-recovery oil production in Cuba was due to lower cost-recovery spending partly offset by lower oil prices. The allocation of cost recovery barrels in any particular period is limited to a fixed percentage of GWI volumes within each cost pool. Expenditures that exceed this limit are carried forward and are eligible for a future allocation of cost recovery barrels.

Profit oil production, which represents Sherritt's share of production after cost recovery volumes are deducted from GWI volumes, was marginally higher in the three months ended December 31, 2016 and lower in year ended December 31, 2016 as a result of a reduction in GWI volumes.

In Spain, oil production was lower in the three months and year ended December 31, 2016 compared to the same periods in the prior year mainly as a result of production normalizing in the Rodaballo field since the major workover was completed in the first quarter of 2015 and natural reservoir declines.

Unit operating cost in Cuba was relatively unchanged in the three months and year ended December 31, 2016 compared to the same periods in the prior year. For the three months ended December 31, 2016, the negative impact of lower production volumes was largely offset by lower labour costs. For the year ended December 31, 2016 lower production volumes and a weaker Canadian dollar relative to the U.S. dollar were largely offset by lower workover costs.

Unit operating cost in Spain was relatively unchanged in the three months ended December 31, 2016 compared to the same period in the prior year. For the twelve months ended December 31, 2016 unit operating costs were lower than the prior year primarily due to lower workover costs in 2016, partly offset by lower production volumes.

Spending on capital was higher in the three months ended December 31, 2016 compared to the same period in the prior year as the Corporation continued its drilling program on Block 10 in Cuba. Overall capital spending was substantially lower in the year ended December 31, 2016 compared to the prior year primarily due to the limited drilling activities in 2016 except for the Block 10 exploration drilling which began in the third quarter of 2016.

POWER

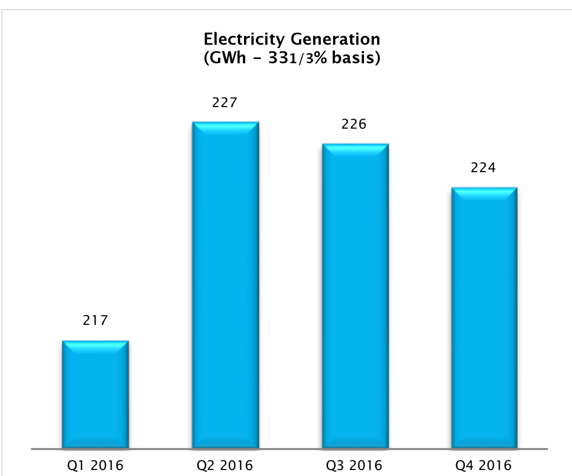
Financial review

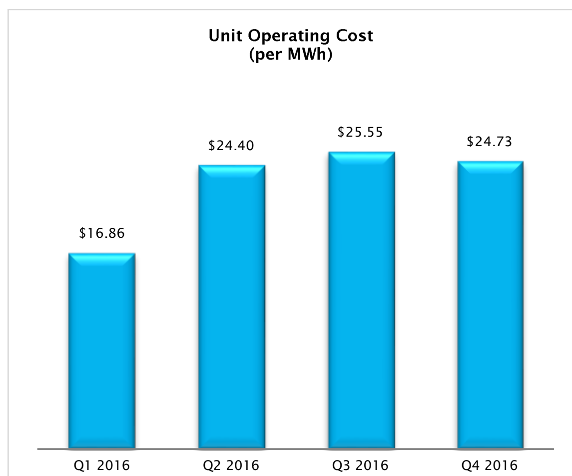
$ millions (33 1/3% basis), except as otherwise noted	For the three months ended 2016 December 31	2015 December 31	Change	For the years ended 2016 December 31	2015 December 31	Change
FINANCIAL HIGHLIGHTS						
Revenue	**$ 13.7**	$ 13.7	-	**$ 58.6**	$ 52.7	11%
(Loss) earnings from operations	**(1.3)**	(3.3)	61%	**(5.3)**	(3.7)	(43%)
Adjusted EBITDA[1]	**7.4**	5.5	35%	**29.5**	30.0	(2%)
Cash provided by operations	**(3.3)**	6.5	(151%)	**8.0**	61.4	(87%)
Free cash flow[1]	**(3.7)**	4.4	(184%)	**7.0**	57.0	(88%)
PRODUCTION AND SALES						
Electricity (GWh[2])	**224**	226	(1%)	**894**	902	(1%)
AVERAGE-REALIZED PRICES[1]						
Electricity (per MWh[2])	**$ 56.24**	$ 56.53	(1%)	**$ 56.10**	$ 54.26	3%
UNIT OPERATING COSTS[1] (per MWh)						
Base	**$ 22.39**	$ 23.77	(6%)	**$ 17.70**	$ 17.57	1%
Non-base[3]	**2.34**	10.11	(77%)	**5.24**	3.43	53%
	24.73	33.88	(27%)	**22.94**	21.00	9%
SPENDING ON CAPITAL AND SERVICE CONCESSION ARRANGEMENTS						
Sustaining	**$ 0.4**	2.2	(82%)	**$ 1.0**	$ 4.4	(77%)
Service concession arrangements	**0.1**	(0.2)	150%	**4.6**	(0.3)	1,633%
	$ 0.5	2.0	(75%)	**$ 5.6**	$ 4.1	37%

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

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

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





Power revenue is composed of the following:

$ millions (33 1/3% basis)	For the three months ended 2016 December 31	2015 December 31	Change	For the years ended 2016 December 31	2015 December 31	Change
Electricity sales	$ **12.6**	$ 12.9	(2%)	$ **50.2**	$ 49.0	2%
By-products and other	**1.0**	1.0	-	**3.8**	4.0	(5%)
Construction activity(1)	**0.1**	(0.2)	150%	**4.6**	(0.3)	1633%
	$ **13.7**	$ 13.7	-	$ **58.6**	$ 52.7	11%

(1) Value of construction, enhancement or upgrading activity of the Boca de Jaruco and Puerto Escondido facilities. The contractual arrangements related to the activities of these facilities are treated as service concession arrangements for accounting purposes. Construction activity revenue is offset equally by construction activity expenses recorded in cost of goods sold.

The change in earnings from operations between 2016 and 2015 is detailed below:

$ millions (33 1/3% basis)	For the three months ended 2016 December 31	For the year ended 2016 December 31
Lower electricity volumes	$ **(0.2)**	$ **(0.5)**
Lower U.S. dollar denominated realized by-product prices	**(0.2)**	**(0.2)**
Higher depletion, depreciation and amortization	**0.8**	**(0.1)**
Foreign exchange impact on operations	**0.4**	**0.4**
Major inspection costs	**–**	**(1.7)**
Other	**1.2**	**0.5**
Change in earnings from operations, compared to 2015	$ **2.0**	$ **(1.6)**

Production of electricity was relatively unchanged for the three months and year ended December 31, 2016 compared to the same periods in the prior year. The slight decrease for 2016 is primarily related to maintenance activities performed. Construction revenue relates to the construction of the Puerto Escondido/Yumuri pipeline which is accounted for as a service concession arrangement.

The price of electricity is covered under long-term contracts. Therefore, the change in realized price is generally a function of the change in the Canadian Dollar relative to the U.S. dollar. As such, the average-realized price of electricity was relatively unchanged for the three months ended December 31, 2016 and increased for the year ended December 31, 2016 compared to the same periods in the prior year where the Canadian dollar weakened relative to the U.S. dollar.

Unit operating cost decreased for the three months ended December 31, 2016 compared to the same period in the prior year due to reduced maintenance costs. The increase in the year ended December 31, 2016 was primarily due to a planned major inspection of a gas turbine at Boca de Jaruco, as well as the impact of a weaker Canadian dollar relative to the U.S. dollar.

During the third quarter, the Puerto Escondido/Yumuri pipeline was completed and became operational. The pipeline will conserve gas currently being flared at Yumuri and transfer the gas for processing at the Puerto Escondido facility. The pipeline is expected to increase total electricity generation by 8% on a go forward basis.

On December 15, 2016, Power received approval from the Cuban Executive Committee to extend the operating term of the Varadero power facilities from 2018 to 2023.

Investment in Ambatovy

AMBATOVY JOINT VENTURE FUNDING AND SHAREHOLDERS AGREEMENT

Sherritt continues not to fund further cash calls due to the structure of the Ambatovy partner loans, which, at current nickel prices, effectively reduces Sherritt's 40% interest in Ambatovy to a 12% economic interest[1]. Sherritt continues to serve as operator. The outcome of ongoing partner discussions is not certain – for additional information see the Managing Risks - *"Ambatovy Liquidity and Funding Risks"* and *"Restrictions in Debt Instruments, Debt Covenants and Mandatory Repayments"* in this MD&A.

As at December 31, 2016, total post-financial completion cash funding provided by Sumitomo and KORES was US$173.0 million pursuant to total post-financial completion cash calls of US$288.3 million, with cash funding of US$20.0 million and US$143.0 million provided during the three months and year ended December 31, 2016, respectively. Sherritt has not funded any portion of these cash calls, and continues not to fund. Sherritt's unfunded amounts remain payable. These amounts will be subtracted from future Ambatovy Joint Venture distributions, or may be set off against other amounts owed to Sherritt.

By agreement amongst the partners, Sherritt is not considered to be a defaulting shareholder under the Shareholders Agreement for amounts not funded through March 10, 2017 while discussions continue regarding the partnership structure and future funding arrangements. As part of this agreement, shareholder funding contributed from and including December 15, 2015, will accrue interest at a rate of LIBOR plus 8.0% and will be paid in priority to the subordinated loans payable. Repayments of principal and interest will not be made prior to certain conditions being satisfied.

(1) 70% of Sherritt's distributable cash flow from Ambatovy (after opex, capex and project debt service) goes to Partner Loan repayment, leaving Sherritt with 30%; 30% of Sherritt's 40% ownership = 12%.

NET INVESTMENT IN AMBATOVY

Management reviews its investment in Ambatovy (Net Investment) on a net basis as management believes this more accurately reflects its exposure to and potential returns from Ambatovy. The Corporation defines its Net Investment in Ambatovy as its Investment in Associate plus Ambatovy subordinated loans receivable less the Corporation's non-recourse Ambatovy Joint Venture Additional Partner Loans as reported in the financial statements. For additional information see the Non-GAAP measures section.

The Ambatovy Joint Venture additional partner loans were used to fund a portion of Sherritt's contributions to the Ambatovy Joint Venture. These loans are non-recourse to the Corporation. Interest and principal on these loans will be repaid solely through the Corporation's share of the distributions from the Ambatovy Joint Venture. The Corporation categorizes recourse and non-recourse debt differently because lenders of non-recourse debt do not have access to the Company's assets and repayment is solely from distributions of the Ambatovy Joint Venture, resulting in a significantly different debt to capital structure as shown in the table below.

The table below reconciles the Net Investment in Ambatovy to the consolidated statement of financial position:

Unaudited, Canadian $ millions, as at	**2016 December 31**	Investment in Associate	Ambatovy Subordinated Loan Receivable	Non-recourse Ambatovy JV Partner Loans	**Adjusted 2016 December 31**	Adjusted 2015 December 31[1]
ASSETS						
Current assets	$ 720.9 $	- $	- $	- $	720.9 $	820.4
Non-current assets						
Advances, loans receivable and other financial	1,542.7	-	(943.4)	-	599.3	413.3
Investment in an associate	767.9	(767.9)	-	-	-	-
Net investment in Ambatovy	-	767.9	943.4	(1,367.5)	343.8	641.3
Other non-current assets	775.4	-	-	-	775.4	911.8
Total assets	$ 3,806.9 $	- $	- $	(1,367.5)$	2,439.4 $	2,786.8
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities	$ 226.0 $	- $	- $	- $	226.0 $	212.1
Non-current liabilities						
Non-recourse loans and borrowings	1,367.5	-	-	(1,367.5)	-	-
Loans and borrowings	817.7	-	-	-	817.7	868.7
Other non-current liabilities	297.8	-	-	-	297.8	148.9
Total liabilities	2,709.0	-	-	(1,367.5)	1,341.5	1,229.7
Shareholders' equity	1,097.9	-	-	-	1,097.9	1,557.1
Total liabilities and shareholders' equity	$ 3,806.9 $	- $	- $	(1,367.5)$	2,439.4 $	2,786.8
Total debt-to-capital [2]	69%				48%	38%

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

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

Liquidity and capital resources

Total available liquidity at December 31, 2016 was $309.6 million which is composed of available cash, cash equivalents and short term investments. The Corporation's syndicated revolving-term credit facility is fully drawn.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

Canadian $ millions, as at December 31, 2016	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	$ 148.3	$ 148.3	$ -	$ -	$ -	$ -	$ -
Income taxes payable	4.4	4.4	-	-	-	-	-
Senior unsecured debentures	1,116.3	56.0	56.0	56.0	56.0	276.0	616.3
Ambatovy Joint Venture Additional Partner loans (non-recourse)(1)	3,236.3	-	-	-	-	-	3,236.3
Ambatovy Joint Venture Partner loans(1)	160.0	-	-	-	-	-	160.0
Syndicated revolving-term credit facility	44.9	44.9	-	-	-	-	-
Provisions	154.3	16.3	5.1	-	-	-	132.9
Operating leases	17.0	2.9	3.0	3.0	3.0	1.0	4.1
Capital commitments	10.3	10.3	-	-	-	-	-
Other	0.9	-	-	-	-	-	0.9
Total	$ 4,892.7	$ 283.1	$ 64.1	$ 59.0	$ 59.0	$ 277.0	$ 4,150.5

(1) The interest and principal on the loans from the Ambatovy Joint Venture partners will be repaid from the Corporation's share of distributions from the Ambatovy Joint Venture. Amounts are based on management's best estimate of future cash flows including estimating assumptions such as commodity prices, production levels, cash costs of production, capital and reclamation costs. The Ambatovy Joint Venture additional partner loans are non-recourse to Sherritt unless there is a direct breach of certain restrictions stipulated in the loan documents. The maturity analysis table includes an estimate of interest repayments.

OTHER COMMITMENTS

The following commitments are not reflected in the table above:

Moa Joint Venture

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

- Environmental rehabilitation commitments of $92.7 million, with no significant payments due in the next five years;
- Advances and loans payable of $272.5 million included within advances and loans payable is the loan related to the construction of the acid plant of $24.1 million. Interest accrues at 10% per annum and is payable monthly. The loan is expected to be repaid in full by January 2019.

Ambatovy Joint Venture

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

- Environmental rehabilitation commitments of $241.9 million, with no significant payments due in the next five years;
- Other contractual commitments of $34.8 million;
- Ambatovy revolving credit facility of $20.2 million. The facility bears interest rates between 9.00% and 11.85% and matures on July 31, 2017; and

- The Ambatovy Joint Venture senior debt financing of US$640.4 million ($847.5 million) which is non-recourse to the Joint Venture partners. Interest is payable based on LIBOR plus a weighted-average margin of 2.5%. Deferred principal will be subject to an additional 2% accrued interest calculated from the date of each deferral. On an undiscounted basis, principal and interest repayments are $1.1 billion.

INVESTMENT LIQUIDITY

At December 31, 2016, cash and cash equivalents and investments were located in the following countries:

$ millions, as at December 31, 2016		Cash		Cash equivalents and short-term investments		Total
Canada	$	70.2	$	202.9	$	273.1
Cuba		26.8		-		26.8
Other		9.7		-		9.7
	$	106.7	$	202.9	$	309.6

Cash and short-term investments

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

The Corporation's cash equivalents consist of Government of Canada treasury bills, term deposits with maturities of 90 days or less and demand deposits redeemable upon 31 days request. The term deposits and demand deposits are with major financial institutions. As at December 31, 2016, the Corporation had $122.9 million in Government of Canada treasury bills, $25.0 million in term deposits and $15.0 million in demand deposits (December 31, 2015 - $93.9 million, $25.0 million and nil, respectively) included in cash and cash equivalents and $40.0 million in Government of Canada treasury bills included in short-term investments (December 31, 2015 - $204.8 million).

The table above does not include cash and cash equivalents of $7.0 million held by the Moa Joint Venture, or $30.7 million held by the Ambatovy Joint Venture. The Corporation's share is included as part of the investment in a joint venture and associate balances in the consolidated statement of financial position.

Non-recourse Loans and Borrowings

$1.4 billion in loans provided by the Ambatovy Joint Venture partners to finance Sherritt's portion of funding requirements of the Joint Venture bearing interest of six-month LIBOR plus a margin of 7.0%. These loans are non-recourse to the Corporation. Interest and principal on these loans will be repaid solely through the Corporation's share of the distributions from the Ambatovy Joint Venture.

Other Loans and Borrowings

Other Loans and borrowings are composed primarily of:

- $720.0 million in unsecured debentures and notes having interest rates between 7.50% and 8.00% having maturities in 2021, 2023 and 2025.
- $133.3 million in loans provided by the Ambatovy Joint Venture partners to finance Sherritt's portion of funding requirements of the Joint Venture bearing interest of six-month LIBOR plus a margin 1.125%,
- $43.0 million in the syndicated revolving-term credit facility bearing interest at prime plus 2.50% per annum or bankers' acceptances plus 3.50%.

The following is a summary of significant changes in the Corporation's credit facilities during 2016.

Unsecured debentures:

In July, the Corporation completed a plan of arrangement which extended the maturities of its unsecured debentures to 2021, 2023 and 2025 and at the same time repurchased $30 million of debentures at a discount resulting in a gain on repurchase of $12.6 million.

The applicable interest rates and existing covenants for the Notes remain unchanged. The Noteholders that voted in favour of the Extension received, at the option of the Noteholder, either:

- cash consent consideration equal to 2% of the principal amount of the debentures; or,
- 73.25 warrants for each $1,000 of principal amount of debentures held. Warrants have a term of 5 years, are not listed on any exchange and have an exercise price of $0.74 per share.

As a result, 19.1 million warrants were granted to the Noteholders that elected for this option with a fair value of $0.43 per warrant which totalled $8.2 million. The fair value of the warrants was determined using the Black-Scholes option valuation model and was recognized in Reserves. Cash consent fees paid to Noteholders that voted in favour of the extension and other transaction fees totalled $14.8 million.

Syndicated revolving-term credit facility

During the year, the terms of the syndicated revolving-term credit facility were amended to update the financial covenants. The maximum credit available was reduced from $115 million to $90 million with the total available draw based on eligible receivables and inventory. The interest rates increased from prime plus 2.25% or bankers' acceptance plus 3.25% to prime plus 2.50% or bankers' acceptance plus 3.50%. The facility was subject to the following financial covenants as at December 31, 2016: net financial debt-to-EBITDA covenant of 4.25:1, net financial debt-to-equity covenant of 0.55:1 and EBITDA-to-interest expense covenant of not less than 1.75:1. If net financial debt-to-EBITDA is greater than 3.75:1, unrestricted cash must be greater than 50% of the lower of the borrowing base amount and facility amount.

On January 31, 2017, the syndicated revolving-term credit facility was renewed with a maximum credit available of $90.0 million, $13.7 million of which matures on April 21, 2017 and the remaining $76.3 million matures on January 30, 2018. The maximum credit available will further decrease by 4.167% quarterly beginning April 28, 2017. Collectively, these reductions in available credit will result in outstanding credit of $63.6 million at January 30, 2018. The interest rates increased from prime plus 2.50% or bankers' acceptance plus 3.50% to prime plus 3.50% or bankers' acceptance plus 4.50%. The facility is subject to the following financial covenants and restrictions:

- Net financial debt-to-EBITDA covenant of 4.25:1, increasing to 4.75:1 by maturity;
- EBITDA-to-interest expense covenant of not less than 1.75:1; and
- Limits on capital expenditures, funding of the Ambatovy Joint Venture and Moa Joint Venture, and maintenance of a minimum balance of $180.0 million of cash and cash equivalents and short-term investments held by the Corporation's wholly-owned subsidiaries.

Line of credit

In February 2016, the Corporation terminated the line of credit and repaid the $35.0 million outstanding balance.

CAPITAL STRUCTURE

$ millions, except as otherwise noted		**2016 December 31**	2015 December 31	Change
Non-recourse loans and borrowings	$	**1,367.5** $	1,303.2	5%
Other loans and borrowings		**860.7**	959.9	(10%)
Other financial liabilities		**168.0**	3.4	4841%
Total debt	$	**2,396.2** $	2,266.5	6%
Shareholders' equity		**1,097.9**	1,557.1	(29%)
Total debt-to-capital (1)		**69%**	59%	16%
Common shares outstanding		**294,174,923**	293,853,001	-
Stock options outstanding		**9,598,416**	6,149,349	56%
Warrants outstanding		**18,800,918**	-	-

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

As part of the consideration provided to Noteholders who voted in favour of the debenture extension had the option to acquire warrants. As a result 19.1 million warrants with a fair value of $0.43 per warrant were granted to the Noteholders that elected for this option. These warrants had a total value of $8.2 million. Warrants are exercisable at any time at an exercise price of $0.74 per share and have a term of 5 years. They are not listed on any exchange. During 2016, 321,922 warrants were exercised.

Covenants

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

As at December 31, 2016, there are no events of default on the Corporation's borrowings or debentures.

SOURCES AND USES OF CASH

The Corporation's cash flows from operating, investing and financing activities are summarized in the following table as derived from Sherritt's consolidated statements of cash flow[1].

$ millions	For the three months ended 2016 December 31	2015 December 31	Change	For the years ended 2016 December 31	2015 December 31	Change
Cash provided (used) by operating activities						
Oil and Gas operating cash flow	$ **11.4**	$ 30.2	(62%)	$ **76.4**	$ 80.7	(5%)
Power operating cash flow (excluding interest received on Energas CSA loan)	**(3.3)**	3.7	(189%)	**4.1**	23.5	(83%)
Fort Site operating cash flow	**(6.0)**	1.2	(600%)	**(3.5)**	14.3	(124%)
Dividends received from the Moa Joint Venture	**–**	-	-	**–**	12.5	(100%)
Interest received on the Moa Joint Venture loans	**0.6**	0.6	-	**2.7**	9.1	(70%)
Interest received on Energas CSA loan	**–**	2.8	(100%)	**3.9**	37.9	(90%)
Interest paid on debentures	**(19.0)**	(20.4)	7%	**(59.8)**	(58.9)	(2%)
Corporate and other operating cash flow	**(6.3)**	(7.3)	14%	**(22.2)**	(54.6)	59%
Cash provided by continuing operations	**(22.6)**	10.8	(309%)	**1.6**	64.5	(98%)
Cash used by discontinued operations	**(0.6)**	(12.3)	95%	**(7.4)**	(16.0)	54%
	$ **(23.2)**	$ (1.5)	(1447%)	$ **(5.8)**	$ 48.5	(112%)
Cash provided (used) by investing and financing						
Property, plant, equipment and intangible expenditures	$ **(10.8)**	$ (11.2)	4%	$ **(40.2)**	$ (80.4)	50%
Receipts of advances, loans receivable and other financial assets	**–**	8.3	(100%)	**1.3**	38.5	(97%)
Increase in advances, loans receivable and other financial assets	**–**	-	-	**–**	(17.1)	100%
Increase of loans, borrowings and other financial liabilities	**–**	65.0	(100%)	**–**	90.0	(100%)
Repayment of other loans and borrowings	**(2.0)**	(0.4)	(400%)	**(65.7)**	(1.6)	(4006%)
Loans to the Ambatovy Joint Venture	**–**	-	-	**–**	(135.7)	100%
Net proceeds from sale of Corporate assets	**–**	-	-	**–**	21.2	(100%)
Dividends paid on common shares	**–**	-	-	**–**	(9.0)	100%
Issuance of common shares	**0.2**	-	-	**0.2**	0.7	(71%)
Fees paid on debenture extension	**(0.2)**	-	-	**(14.8)**	-	-
Other	**0.4**	0.4	-	**(0.8)**	3.1	(126%)
	$ **(12.4)**	$ 62.1	(120%)	$ **(120.0)**	$ (90.3)	(33%)
	(35.6)	60.6	(159%)	**(125.8)**	(41.8)	(201%)
Cash, cash equivalents and short-term investments:						
Beginning of the period	**345.2**	374.8	(8%)	**435.4**	477.2	(9%)
End of the period	$ **309.6**	$ 435.4	(29%)	$ **309.6**	$ 435.4	(29%)

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

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

Cash from continuing operations was lower during the three months and year ended December 31, 2016 compared to the prior year periods:

- cash from operating activities at Oil and Gas was lower for the three months and year ended December 31, 2016 primarily due to lower collections of receivables;
- interest received on the Energas CSA loan was $nil million and $3.9 million for the three months and year ended December 31, 2016 compared to $2.8 million and $37.9 million for prior year periods;
- cash from operating activities at Fort Site is lower for the three months and year ended December 31, 2016 primarily relate to the timing of collection and realization of fertilizer sales. During 2016, fertilizer revenue was lower as a result of lower volume and market prices;

- cash used by Corporate and for other operating activities was lower for year ended December 31, 2016 lower due to timing of working capital payments.

Included in investing and financing activities:

- expenditures on property, plant and equipment were significantly lower in the year ended December 31, 2016 compared to the prior year as the Corporation limited its expenditures to sustaining activities and Block 10 exploration drilling spending;
- fees paid on debenture extension in the year ended December 31, 2016 are consent fees and other transaction fees on the extension of the Corporation's debentures;
- included within the $65.7 million repayment of loans and borrowings in the year ended December 31, 2016 is the repurchase of debentures of $17.4 million, repayment and termination of the $35.0 million line of credit and a $12.0 million repayment on the revolving-term credit facility.

CASH FLOW SUMMARY

The Corporation's cash flow from operations, combined adjusted operating cash flow[1] and free cash flow[1] are summarized in the following table as derived from Sherritt's consolidated statements of cash flow.

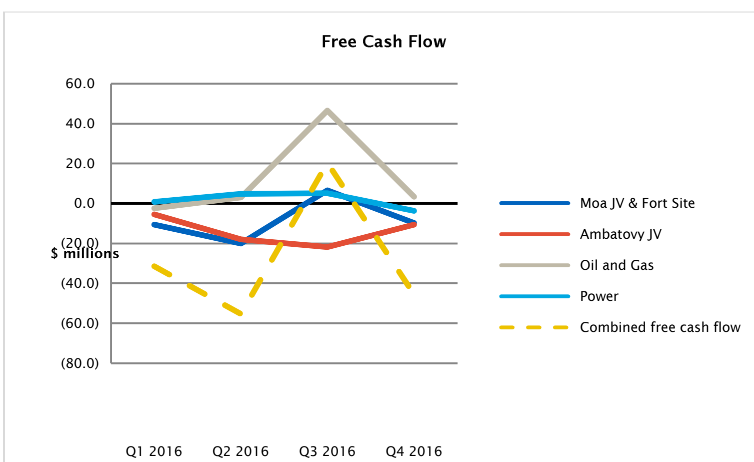
	For the three months ended			For the years ended		
	2016	2015		**2016**	2015	
$ millions	**December 31**	December 31	Change	**December 31**	December 31	Change
Cash provided by continuing operations	$ **(22.6)**	$ 10.8	(309%)	$ **1.6**	$ 64.5	(98%)
Combined adjusted operating cash flow	**8.2**	(29.5)	128%	**(46.8)**	63.1	(174%)
Combined free cash flow	**(45.5)**	(24.8)	(83%)	**(111.9)**	(98.8)	(13%)

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

During the three months ended December 31, 2016 combined adjusted operating cash flow, which excludes changes in working capital, was higher compared to the same period in the prior year primarily as a result of higher adjusted operating cash flow at Ambatovy as a result of lower operating losses.

For the year ended December 31, 2016 combined adjusted operating cash flow was lower compared to the prior year primarily as a result of lower operating earnings at each of the divisions and the absence of interest and dividend payments from Energas and the Moa Joint Venture.

During the three months and year ended December 31, 2016, combined free cash flow was lower compared to the same periods in the prior year primarily due lower cash from operations at each of the divisions, except Ambatovy in the fourth quarter, partly offset by lower combined capital expenditures. In the fourth quarter of 2016, Ambatovy used less cash from operations and had higher capital expenditures than in the same period in the prior year.



COMMON SHARES

As at February 16, 2017, the Corporation had 294,275,599 common shares outstanding. An additional 9,598,416 common shares are issuable upon exercise of outstanding stock options granted to employees and directors pursuant to the Corporation's stock option plan. During the year, 19,122,840 million warrants were granted to Noteholders that voted in favour of the debenture extension. As at February 16, 2017, 18,727,241 warrants were outstanding.

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.

During 2016, certain risks have changed for the Corporation:

- Liquidity and access to capital
- Ambatovy liquidity and funding risks
- Restrictions in debt instruments, debt covenants and mandatory repayments
- Reliance on partners
- Depletion of reserves
- Risks related to Sherritt's operations in Madagascar
- Risks related to U.S. Government policy towards Cuba
- Risks to information technologies systems

Below is an update of these significant risks since the filing of the Corporation's 2015 Annual Information Form (AIF). A complete list of risks included in the Corporation's 2015 AIF is included following these updates.

LIQUIDITY AND ACCESS TO CAPITAL

Sherritt's ability to fund its capital and operating expenses and to meet its financial obligations depend on its ability to generate sufficient cash flow from its operations and its ability to obtain additional financing and/or refinance its existing credit facilities and loans on terms that are acceptable to the Corporation. Sherritt's earnings and financial condition are highly dependent upon the market prices for nickel, cobalt, oil, gas and other commodities, which are highly volatile in nature. Should the current negative trend in commodity prices continue, Sherritt may find itself unable to access sufficient capital to fund its operations in the manner required for the long-term viability of the business and/or remain in compliance with its debt covenants. Failure to adequately fund its operations or meet its financial obligations could have a material adverse effect on Sherritt's business, results of operations and financial performance.

Sherritt's current financing includes, among other things, a $90 million syndicated revolving-term credit facility. The total available draw under the Corporation's syndicated revolving-term credit facility is based on eligible receivables and inventory, and the facility is currently fully drawn. If commodity prices remain at similar levels or continue to decline this could result in materially fewer funds being available to Sherritt under the syndicated revolving-term credit facility. Certain debt covenants under the syndicated revolving-term credit facility are based on ratios involving the Corporation's EBITDA and/or equity and other covenants that require the maintenance of minimum cash balances. These would also be negatively affected by decreased commodity prices.

There is also no guarantee that the Corporation will be able to refinance its Debentures, as they come due, on terms and conditions that would be acceptable to the Corporation. Similarly, there is a risk that Sherritt will not be able to raise funds in the equity capital markets on terms that are acceptable to the Corporation.

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

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

AMBATOVY LIQUIDITY AND FUNDING RISKS

The Ambatovy Joint Venture borrowed US$2.1 billion (US$1.6 billion as at December 31, 2016) under the Ambatovy Financing Agreements and all of the Ambatovy Joint Venture's assets and the interests of its shareholders in the Ambatovy Joint Venture have been pledged as security for the financing. If the Ambatovy Joint Venture is unable to make semi-annual interest payments or is unable to recommence semi-annual principal repayments in 2019, the Ambatovy Senior Lenders could realize upon their security and seize all of the Ambatovy Joint Venture's assets and all of Sherritt's interest therein. This would have a material adverse effect on Sherritt's investment in the Ambatovy Joint Venture, and on the Corporation's business, results of operations and financial performance.

Due to the current nickel pricing environment, the Ambatovy Joint Venture may require ongoing financing in order to support debt service interest payments and continued operations through 2018, as well as debt service principal repayments that commence in 2019. While the Ambatovy Joint Venture has secured funding commitments from Korea Resources Corporation and Sumitomo Corporation that are expected to cover debt service requirements and continued operations through 2018, such commitments may not be sufficient. Although the Ambatovy Joint Venture has successfully secured sufficient financing from its shareholders and third party lenders in the past, there can be no assurance that it will be successful in securing additional financing or creditor concessions when required or on favourable terms. If the Ambatovy Joint Venture is unable to continue operations, this would have a material adverse effect on Sherritt's investment in the Ambatovy Joint Venture, and on the Corporation's business, results of operations and financial performance. Please see *"Liquidity and Access to Capital",* above, *and "Restrictions in Debt Instruments, Debt Covenants and Mandatory Repayments" and "Reliance on Partners"*, below, for additional information.

Total cash calls of US$288.3 million were due to the Ambatovy Joint Venture after the achievement of financial completion, and Sherritt did not fund its 40% pro rata share (US$115.3 million). By agreement amongst the Ambatovy Partners, Sherritt is not considered to be a defaulting shareholder under the Ambatovy Joint Venture Shareholders Agreement (the Shareholders Agreement) as a consequence of such non funding through March 10, 2017 until such time after March 10, 2017 that (a) it is declared in default upon not less than 60 days prior notice; or (b) it fails to fund an approved cash call. These amounts (including accrued interest) will be subtracted from future Ambatovy Joint Venture distributions, or may be off-set by the Ambatovy Joint Venture against certain other amounts owed to Sherritt. Sherritt also has the option to pay such amounts in cash at any time at Sherritt's election. Until the funding deficit is cured, and subject to continued discussions amongst the Ambatovy Partners, Sherritt will not receive any Ambatovy Joint Venture distributions and will not exercise its voting rights at the Ambatovy Joint Venture's Executive Committee, its corporate Boards of Directors and its Shareholder Meetings. The Ambatovy Partners continue to seek a solution on future Ambatovy Joint Venture funding and debt service. In the event that a solution satisfactory to Sherritt is not achieved, there can be no assurance that Sherritt will resume its funding, nor that the existing arrangements between the Ambatovy Partners will be extended to funding any future cash calls.

As a consequence of becoming a defaulting shareholder at any time after March 10, 2017 for failing to fund its pro rata share of approved cash calls after the achievement of financial completion and until its funding deficit is cured: (a) Sherritt would not receive any Ambatovy Joint Venture distributions; (b) Sherritt would lose its voting rights at the Ambatovy Joint Venture's Executive Committee, its corporate Boards of Directors and its Shareholder Meetings; (c) Sherritt would lose its right to attend and be represented at meetings of the Ambatovy Joint Venture's Executive Committee and its corporate Boards of Directors; (d) it will be required to offer its 40% shareholder interest and subordinated loans pro rata to the other Ambatovy Partners who have the right to purchase them at the lower of fair market value and book value; (e) the other Ambatovy Partners can elect to cure Sherritt's funding deficit by funding on Sherritt's behalf, in which case such funding is deemed to be a loan to Sherritt, payable on demand, which accrues interest at LIBOR +3% and is limited recourse to Sherritt's interest in the Ambatovy Joint Venture and repayable from future distributions; and (f) the other Ambatovy Partners can elect to dilute Sherritt's interest by converting such deemed loans or by funding on Sherritt's behalf and electing dilution of Sherritt's interest, without any deemed loan. In the event that any of the other Ambatovy Partners elect to purchase the Corporation's interest pursuant to paragraph (d), there can be no assurance that the Corporation will receive any proceeds once such purchase price is offset against amounts outstanding under the Ambatovy Joint Venture Partner Loans (Partner Loans) and Ambatovy Joint Venture Additional Partner Loans (Additional Partner Loans).

Due to the Ambatovy Joint Venture’s current and projected funding requirements and the distribution sharing arrangements under the Partner Loans and Additional Partner Loans, in a persistently low nickel price environment there can be no certainty that Sherritt will receive any distributions from the Ambatovy Joint Venture. Accordingly, Sherritt’s continued funding and ongoing involvement in the Ambatovy Joint Venture may not be commercially or economically justified. Sherritt’s future involvement as operator and equity partner in the Ambatovy Joint Venture will be significantly impacted by the outcome of the ongoing discussions between and amongst Sherritt and the other Ambatovy Partners regarding future funding of the Ambatovy Joint Venture and modifications to the terms of the Partner Loans and Additional Partner Loans. There can be no assurance that these discussions will result in concessions or favourable terms for Sherritt. Whether as a result of Sherritt not funding cash calls or otherwise (and unless the other Ambatovy Partners otherwise agree), Sherritt’s equity interest in the Ambatovy Joint Venture and entitlements to future distributions could be at risk and there is no assurance that it will be able to retain all or any portion of its equity interest or entitlement to future distributions, which could have a materially adverse effect on the Corporation’s business, results of operations, and financial performance.

RESTRICTIONS IN DEBT INSTRUMENTS, DEBT COVENANTS AND MANDATORY REPAYMENTS

Sherritt is a party to certain agreements in connection with the syndicated revolving-term credit facility, as well as the trust indenture governing its 7.875% Notes, its 7.50% Notes and its 8.00% Notes (collectively, the Indenture). Sherritt is also a party to various agreements with the Ambatovy Senior Lenders relating to the US$2.1 billion (US$1.6 billion as at December 31, 2016) Ambatovy Financing Agreements. In addition, Sherritt has two tranches of loans – the Partner Loans and the Additional Partner Loans – with the other Ambatovy Partners (and certain other parties) that were used to fund Sherritt’s contributions to the Ambatovy Joint Venture. These agreements and loans contain covenants which could have the effect of restricting Sherritt’s ability to react to changes in Sherritt’s business or to local and global economic conditions. In addition, Sherritt’s ability to comply with these covenants and other terms of its indebtedness may be affected by changes in the Corporation’s business, local or global economic conditions or other events beyond the Corporation’s control. Failure by Sherritt to comply with the covenants contained in the Indenture, the syndicated revolving-term credit facility, the Ambatovy Financing Agreements, the Partner Loans, the Additional Partner Loans or any future debt instruments or credit agreements, could materially adversely affect the Corporation’s business, results of operations, and financial performance.

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

The Partner Loans ($133.8 million as at December 31, 2016) are generally repayable by Sherritt or a wholly-owned subsidiary of Sherritt solely from the proceeds of distributions from the Ambatovy Joint Venture. Recourse under these loans is generally limited to Sherritt’s interest in the Ambatovy Joint Venture and is subordinate to the security interests therein held by the Ambatovy Senior Lenders. If Sherritt becomes a defaulting shareholder under the terms of the Shareholders Agreement, for example, by failing to fund a cash call, a cross-default to the Partner Loans would be triggered and the lenders could elect to accelerate repayment. However, due to the limited recourse nature of the loans, such acceleration will not require Sherritt to repay the loans until after August 2023 and the lenders’ recourse is effectively limited to their subordinated security interest over Sherritt’s interest in and future distributions from the Ambatovy Joint Venture. While recourse is generally limited, Sherritt can be obligated to repay any outstanding amount of the Partner Loans if they have not been repaid in full by August 2023 or if the Ambatovy Senior Lenders exercise remedies as a result of a default by the Ambatovy Joint Venture under the Ambatovy Financing Agreements. In either case, Sherritt has the option to repay in cash or, provided its Shares are trading on the Toronto Stock Exchange at the time of payment, in common shares. Unless the lenders otherwise agree, the Partner Loans also require repayment in cash within five business days in the event of the sale of all or substantially all of the assets of Sherritt, the acquisition of more than 50% of the Shares of Sherritt or a corporate restructuring of Sherritt. Repayment of the Partner Loans in cash could have significant consequences for Sherritt’s liquidity and could materially adversely affect the Corporation’s business, results of operations and financial performance. In those cases where it has the option, if Sherritt elects to repay all or any portion of the Partner Loans in Shares this could result in significant dilution to existing shareholders depending on the prevailing Share price at the time of payment.

The Additional Partner Loans ($1.4 billion as at December 31, 2016) are repayable by a wholly-owned subsidiary of Sherritt solely from the proceeds of distributions from the Ambatovy Joint Venture. Recourse for a default under these loans is generally limited to Sherritt's interest in and future distributions from the Ambatovy Joint Venture, and is also subordinate to the security interests therein held by the Ambatovy Senior Lenders. These loans are recourse to Sherritt in circumstances where there is a breach of specific restrictions in the loan documents by Sherritt or its wholly-owned subsidiaries that hold Sherritt's interest in the Ambatovy Joint Venture. These restrictions are generally aimed at preserving the lenders' security interests by restricting the activities of such subsidiaries, for example, by prohibiting the pledging of Sherritt's interest in the Ambatovy Joint Venture or a corporate reorganization of a subsidiary that holds such interest.

If Sherritt becomes a defaulting shareholder under the terms of the Shareholders Agreement, a cross-default to the Partner Loans would be triggered, which in turn could trigger a cross-default under the syndicated revolving-term credit facility. However, the lenders under the syndicated revolving-term credit facility have waived any default attributable to Sherritt becoming a defaulting shareholder under the Shareholders Agreement due to non-funding and any cross-default under the Partner Loans that would be triggered as a result thereof. Certain breaches of the Shareholders Agreement could also trigger a default under the Additional Partner Loans. However, this would not trigger a cross-default under the syndicated revolving-term credit facility.

If a cross-default to the Partner Loans is triggered, and the lenders under those loans were to accelerate repayment, although generally such acceleration would not require repayment by Sherritt until after August 2023 it could in turn trigger a cross-default under the Indenture. Such a cross-default under the Indenture could result in acceleration of the Debentures unless the default is cured by repaying the Partner Loan or waived in accordance with the Indenture. Sherritt likely would not have sufficient cash and short term investments to repay all or any portion of the amounts outstanding under any or all series of outstanding Debentures (in the aggregate, $720.0 million principal amount as at December 31, 2016) and there can be no assurance that Sherritt could refinance such amounts. Acceleration of the Partner Loans and/or the Debentures would, in turn, trigger an event of default under the syndicated revolving-term credit facility. Accordingly, acceleration of any one or more series of Debentures could materially adversely affect the Corporation's business, results of operations, and financial performance.

RELIANCE ON PARTNERS

The Corporation is currently in discussions with its Ambatovy Partners regarding modifications to the Ambatovy Joint Venture financing structure. Failure to achieve modifications that are satisfactory to the Corporation could lead Sherritt to be in breach of its obligations under the Ambatovy Joint Venture funding arrangements. For information regarding the possible consequences of a failure to comply with such arrangements please see "*Ambatovy Liquidity and Funding Risks*" for additional information.

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

DEPLETION OF RESERVES

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

In 2016, the Corporation's share of oil and gas production from its original PSCs in Cuba provided significant operating cash flow to the Corporation. In 2017 and 2018, the original PSCs are scheduled to revert to Cuban ownership and the Corporation does not expect to carry out any further drilling activity on the original PSCs or for the original PSCs to be extended. As of 2017/2018 any future oil and gas production presently will depend on new reserves in Block 10 and 8A and/or the ability to obtain and develop additional PSCs. Sherritt cannot provide assurance that its exploration or development efforts will result in any new commercial operations or yield new mineral or oil and gas reserves to replace or expand current reserves. Failure to obtain significant oil production on Block 10 and 8A to replace Sherritt's currently declining and expiring production volumes could have a material adverse effect on Sherritt's financial condition and operations.

RISKS RELATED TO SHERRITT'S OPERATIONS IN MADAGASCAR

The Corporation is the operator of, and indirectly holds significant interests in the Ambatovy Joint Venture in Madagascar. Sherritt is subject to political, economic and social risks related to operating in Madagascar.

In 2002, the government of Madagascar passed the LGIM, which is legislation to manage large-scale mining projects. The Ambatovy Joint Venture is the first and currently the only project to be developed under the LGIM's terms and provisions, which have been largely untested. Although the Ambatovy Joint Venture has received its eligibility certification under the LGIM, it is possible that the LGIM could be interpreted or amended in a manner that has a material adverse effect on the Ambatovy Joint Venture.

Madagascar has a history of political instability and there is no assurance that continuing political stability will be achieved.

In 2009, Madagascar experienced an unexpected change of government and the Transitional Government of Madagascar took control of the country. At several points during the following five year political crisis, the Transitional Government indicated that the Ambatovy Joint Venture's status under the LGIM could be subject to review. However, the Ambatovy Joint Venture's eligible status under the LGIM has since been confirmed and upheld by the CGIM, the government body responsible for overseeing the LGIM and by the current democratically elected Malagasy Government. The Malagasy government has announced its intention of proposing amendments to the Mining Code during the May 2017 parliamentary session. While the amendments included in the current draft legislation do not affect the Ambatovy Joint Venture's rights under the LGIM, there is no guarantee that such amendments could not be made in the future.

The government may continue to have direct or indirect impact on the Ambatovy Joint Venture, and may adversely affect the Corporation's business. Any changes in regulations or shifts in political attitudes are beyond the control of Sherritt and may adversely affect its business. Operations may be affected in varying degrees by the Government of Madagascar regulations with respect to production, price controls, export controls (including the recent requirement for the registration of imports and exports), income taxes or investment tax credits, tax reimbursements, royalties and fees, expropriation of property, environmental legislation, land use, water use and mine and plant safety or changes to the LGIM.

Presidential elections are planned to be held at the end of 2018. Historically, electoral periods in Madagascar have typically been marred by social unrest, stirred by unsuccessful candidates or provoked prior to elections by politicians wishing to gain power without having to win an election. For Ambatovy, the risk exists that opposition politicians try to mobilize crowds by agitating against foreign interests or against major mining companies. Ambatovy has developed a comprehensive stakeholder engagement plan to mitigate this risk. However, no guaranty can be given that unrest, if it happens, may not restrict, temporarily or otherwise, Ambatovy's capacity to produce and export nickel and cobalt or otherwise have a material adverse effect on the Ambatovy Joint Venture's business, results of operations or performance.

Operations in Madagascar may also be affected by the fact that Madagascar's location potentially exposes it to cyclones and tropical storms of varying intensities. The risk of damage is dependent upon such factors as intensity, footprint, wind direction and the amount of precipitation associated with the storm and tidal surges. While the Ambatovy Joint Venture maintains comprehensive disaster plans and its facilities have been constructed to the extent reasonably possible to minimize damage, there can be no guarantee against severe property damage and disruptions to operations.

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

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

RISKS RELATED TO U.S. GOVERNMENT POLICY TOWARDS CUBA

The United States has maintained a general embargo against Cuba since the early 1960s, and the enactment in 1996 of the Cuban Liberty and Democratic Solidarity (Libertad) Act (commonly known as the Helms-Burton Act) extended the reach of the U.S. embargo. In December 2014, President Obama announced his intention to normalize diplomatic relations between the United States and Cuba and to reduce certain restrictions on travel, commercial and personal transactions between Americans and Cubans. Bilateral discussions between the U.S. and Cuba continued to advance for the remainder of the Obama administration. However, the change of government in the United States in January 2017 is relatively recent and the approach of the Trump administration towards Cuba and any resulting actions are not yet clear. There can be no assurance that the Trump Administration will follow the normalization process set out by President Obama.

RISKS TO INFORMATION TECHNOLOGIES SYSTEMS

Sherritt's operations rely on information technology systems and networks which could be materially and adversely impacted if Sherritt's information technology systems and networks were compromised. While Sherritt and its suppliers take steps to protect Sherritt's networks, equipment, IT systems and software from security breaches or other incidents related to theft or defects to software or hardware design, the consequences of the Corporation's information technology systems being compromised could include material and adverse impacts on Sherritt's financial condition, operations, production, sales and reputation.

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

- Market conditions
  - Generally
  - Commodity risk
  - Market fluctuations and share price volatility
  - Liquidity and access to capital
- Ambatovy liquidity and funding risk
- Restrictions in debt instruments, debt covenants and mandatory repayments
- Reliance on partners
- Operating risk
- Transportation
- Uncertainty of gas supply to Energas
- Depletion of reserves
- Reliance on key personnel and skilled workers
- Equipment failure and other unexpected failures
- Mining, processing and refining risks
- Uncertainty of resources and reserves estimates
- Environmental rehabilitation provisions
- Risks related to Sherritt's corporate structure
- Political, economic, and other risks of foreign operations
- Risks related to Sherritt's operations in Madagascar
- Risks related to Sherritt's operations in Cuba
- Risks related to U.S. Government policy towards Cuba
  - The U.S. Embargo
  - The Helms-Burton Act
- Project development
  - Generally
  - Capital and operating cost estimates
- Significant customers
- Foreign exchange and pricing risks
- Environment, health and safety
- Climate change/greenhouse gas emissions
- Community relations and social license to grow and operate
- Credit risk
- Shortage of equipment and supplies
- Competition in product markets
- Future market access
- Interest rate changes
- Insurable risk
- Labour relations
- Legal rights
- Legal contingencies
- Accounting policies
- Risks associated with future acquisitions
- Government permits
- Government regulations
- Anti-corruption and bribery
- Management of growth

Critical accounting estimates and judgments

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

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

CRITICAL ACCOUNTING ESTIMATES

Environmental rehabilitation provisions

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

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

Property, plant and equipment

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

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

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

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

Reserves for Oil and Gas properties

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

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

Income taxes

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

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

CRITICAL ACCOUNTING JUDGMENTS

Interests in other entities

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

Ambatovy – Significant influence

With respect to post-financial completion cash calls not funded by Sherritt under the Ambatovy Joint Venture financing, Sherritt has the option to pay the amounts in cash at any time, at Sherritt's election. Until the funding deficit is addressed, and subject to continued discussions with the Ambatovy Joint Venture partners, Sherritt will not exercise its Ambatovy Joint Venture voting rights. Sherritt has the ability to cure the underfunding and regain its voting rights at any time. Therefore, it is the Corporation's judgment that it continues to have significant influence over the Ambatovy Joint Venture.

Aggregation of segments

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

Commercial viability

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

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

Impairment of non-financial assets

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

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

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

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

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

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

Exploration and evaluation

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

Income taxes

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

Arrangements containing a lease

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

Service concession arrangements

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

Accounting Pronouncements

ADOPTION OF NEW AND AMENDED ACCOUNTING PRONOUNCEMENTS

In fiscal 2016, there have been no new or amended accounting pronouncements that have had a material impact on the Corporation's consolidated financial statements.

ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

IFRS 9 – Financial Instruments

IFRS 9, "Financial instruments" (IFRS 9) was issued by the IASB on July 24, 2014 and will replace IAS 39, "Financial instruments: recognition and measurement" (IAS 39). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 also introduces a new expected loss impairment model. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Corporation will not early adopt IFRS 9. The Corporation is currently evaluating the impact of this standard and amendments on its consolidated financial statements and expects to report more detailed information, including estimated quantitative financial effects, in 2017.

IFRS 15 - Revenue from Contracts with Customers

IFRS 15, "Revenue from Contracts and Customers" (IFRS 15) was issued by the IASB on May 28, 2014, and amended on April 12, 2016, and will replace IAS 18, "Revenue", IAS 11, "Construction Contracts", and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Corporation will not early adopt IFRS 15 and is currently evaluating its transition method. The Corporation is currently evaluating the impact of this standard and amendments on its consolidated financial statements and expects to report more detailed information, including estimated quantitative financial effects, in 2017.

IFRS 16 – Leases

IFRS 16, "Leases" (IFRS 16) was issued by the IASB on January 13, 2016, and will replace IAS 17, "Leases". IFRS 16 will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. The new standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has also been applied. The Corporation is currently evaluating when it will adopt IFRS 16 and the impact of this standard on its consolidated financial statements.

IFRS 2 – Share-based Payment

IFRS 2, "Share-based Payment" (IFRS 2) was amended by the IASB on June 20, 2016. The amendments clarify that in estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments. Other amendments do not apply to the Corporation. The amendments are effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Corporation is currently evaluating when it will adopt the amendments. The adoption of these amendments is not expected to have a material impact on the Corporation's consolidation financial statements

Three-year trend analysis

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

$ millions, except per share amounts for the years ended December 31		2016		2015		2014
Revenue	$	**262.3**	$	335.9	$	455.6
Adjusted EBITDA[1]		**40.0**		113.1		253.2
Loss from operations, associate and joint venture		**(320.8)**		(1,978.6)		(111.9)
Loss from continuing operations		**(381.8)**		(2,071.7)		(318.5)
Earnings (loss) from discontinued operations, net of tax		**2.9**		(5.0)		28.5
Net loss for the year		**(378.9)**		(2,076.7)		(290.0)
Loss per common share (basic and diluted)($ per share):						
Net loss from continuing operations		**(1.30)**		(7.05)		(1.07)
Net loss for the year		**(1.29)**		(7.07)		(0.97)
Dividend rate per share		**–**		0.02		0.04
PRODUCTION VOLUMES						
Finished nickel (tonnes)						
Moa Joint Venture (50% basis)		**16,464**		16,853		16,455
Ambatovy Joint Venture (40% basis)		**16,842**		18,908		14,821
Finished cobalt (tonnes)						
Moa Joint Venture (50% basis)		**1,847**		1,867		1,605
Ambatovy Joint Venture (40% basis)		**1,309**		1,386		1,166
Oil (boepd, net working-interest production)[2]		**9,483**		11,158		10,960
Electricity (gigawatt hours) (33 1/3% basis)		**894**		902		847

(1) For additional information see the Non-GAAP measures section.
(2) Barrels of oil equivalent per day (boepd).

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

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

In 2016, the loss from continuing operations was negatively impacted by an impairment recognized in Oil and Gas of $6.6 million, after tax and a write down of deferred tax assets of $7.7 million in the Moa Joint Venture partly offset by a gain on the repurchase of $30 million in the Corporation's debentures of $12.6 million.

In 2015, the loss from continuing operations was negatively impacted by a $1.6 billion after tax impairment of the Ambatovy Joint Venture assets and $80.6 million impairment on Oil assets, partly offset by the $19.1 million gain on sale of the Corporate office and $43.3 million tax recoveries on the change in Cuban tax rates.

In 2014, loss from continuing operations was negatively impacted by $14.4 million of impairments at Oil and Gas primarily related to its exploration and evaluation licenses in the United Kingdom's North Sea and in Spain's Alboran Sea, $7.5 million of restructuring costs, and unsecured debenture refinancing costs of $33.6 million, partly offset by $14.1 million arbitration gain.

Summary of quarterly results

The following table presents a summary of the segment revenue and consolidated operating results for each of the eight quarters ended March 31, 2015 to December 31, 2016.

$ millions, except per share amounts, for the three months ended	**2016 Dec 31**	2016 Sept 30	2016 June 30	2016 Mar 31	2015 Dec 31	2015 Sept 30	2015 June 30	2015 Mar 31
Revenue								
Metals	**$ 195.6**	$ 143.0	$ 160.5	$ 153.0	$ 183.8	$ 193.4	$ 204.2	$ 223.7
Oil and Gas	**30.6**	27.3	28.3	22.4	30.5	38.5	51.3	42.3
Power	**13.7**	14.4	14.9	15.6	13.7	14.5	12.7	11.8
Corporate and Other	**0.4**	(0.2)	0.4	0.3	1.5	0.1	0.2	0.5
Combined Revenue(1)	**$ 240.3**	$ 184.5	$ 204.1	$ 191.3	$ 229.5	$ 246.5	$ 268.4	$ 278.3
Adjust joint venture and associate revenue	**(169.8)**	(126.0)	(129.2)	(132.9)	(153.0)	(169.6)	(168.8)	(195.4)
Financial statement revenue	**$ 70.5**	$ 58.5	$ 74.9	$ 58.4	$ 76.5	$ 76.9	$ 99.6	$ 82.9
Share of loss of an associate, net of tax	**(31.3)**	(55.9)	(58.9)	(65.9)	(1,703.2)	(68.6)	(62.6)	(42.3)
Share of (loss) earnings of a joint venture, net of tax	**(7.7)**	(3.5)	(20.6)	(12.9)	(9.1)	(6.4)	(0.3)	4.0
Net loss from continuing operations	**(109.6)**	(120.8)	(103.6)	(47.8)	(1,757.3)	(210.0)	(47.6)	(56.8)
Earnings (loss) from discontinued operations, net of tax(2)	**2.9**	-	-	-	-	-	(5.0)	-
Net loss for the period	**$ (106.7)**	$ (120.8)	$ (103.6)	$ (47.8)	$ (1,757.3)	$ (210.0)	$ (52.6)	$ (56.8)
Net loss per share, basic and diluted ($ per share)								
Net loss from continuing operations	**$ (0.37)**	$ (0.41)	$ (0.35)	$ (0.16)	$ (5.99)	$ (0.72)	$ (0.16)	$ (0.19)
Net loss for the period	**(0.36)**	(0.41)	(0.35)	(0.16)	(5.99)	(0.72)	(0.18)	(0.19)

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

(2) Amounts are insurance recoveries and additional expenses related to the Corporation's Coal operations which were sold in 2014.

In general, net loss or earnings for the Corporation are primarily affected by production and sales volumes, commodity prices, and exchange rates. The average Canadian dollar cost to purchase one U.S. dollar for the above quarters has ranged from $1.23 (Q2-2015) to $1.37 (Q1-2016) and period-end rates between $1.25 (Q2-2015) to $1.38 (Q4-2015).

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

- the fourth quarter of 2016 includes a $25.7 million unrealized exchange loss on net U.S. dollar denominated financial liabilities due to a weakening of the period-end Canadian dollar relative to the U.S. dollar on December 31, 2016 compared to September 30, 2016;
- the third quarter of 2016 includes an impairment of $8.5 million recognized on oil assets. Net finance expense includes an unrealized foreign exchange loss of $12.8 million;
- the second quarter of 2016 includes a $12.6 million gain on repurchase of $30.0 million of debentures;
- the first quarter of 2016 includes unrealized foreign exchange gains of $76.0 million, due to the significant strengthening of the period-end Canadian dollar relative to the U.S. dollar on March 31, 2016 compared to the December 31, 2015;
- the fourth quarter of 2015 includes an impairment of $1.6 billion recognized on Ambatovy Joint Venture assets and an unrealized exchange loss of $18.3 million;
- the third quarter of 2015 includes an impairment of $80.6 million recognized on oil assets. Net finance expense includes a loss on financial instruments of $13.7 million related to the expiry of the Ambatovy call option and an unrealized exchange loss of $10.2 million;
- the second quarter of 2015 includes a gain on sale of the Corporation's head office building of $19.1 million and an additional tax recovery of $13.2 million related to tax rate reductions in Cuba;

- the first quarter of 2015 includes a tax recovery of $30.1 million related to tax rate reductions in Cuba and an unrealized exchange loss of $17.6 million.

Off-balance sheet arrangements

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

Transactions with related parties

The Corporation enters into transactions related to its investment in an associate and joint arrangements. For further detail, refer to Note 6, 7 and 18 of the Corporation's December 31, 2016 audited consolidated financial statements. Transactions between related parties are generally based on standard commercial terms. All amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received on the outstanding amounts. No expense has been recognized in the current or prior periods for bad debts in respect of amounts owed by related parties.

Canadian $ millions, as at December 31	2016	2015
Accounts receivable from joint operations	$ **0.4**	$ 0.7
Accounts receivable from joint venture	**11.4**	20.2
Accounts receivable from associate	**33.9**	33.8
Accounts payable to joint operations	**–**	0.2
Accounts payable to joint venture	**81.3**	5.2
Accounts payable to associate	**1.8**	0.5
Advances and loans receivable from associate	**943.4**	1,187.2
Advances and loans receivable from joint operations	**192.4**	182.0
Advances and loans receivable from joint venture	**321.8**	312.8

Canadian $ millions, for the years ended December 31	2016	2015
Total value of goods and services:		
Provided to joint operations	$ **32.0**	$ 33.2
Provided to joint venture	**165.3**	169.4
Provided to associate	**3.4**	2.9
Purchased from joint venture	**405.3**	141.0
Purchased from associate	**39.1**	53.8
Net financing income from joint operations	**14.4**	16.1
Net financing income from associate	**38.9**	65.6
Net financing income from joint venture	**9.6**	8.6

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

Advances and loans receivable from associate, joint operation and joint venture relate to the Corporation's interest in the Ambatovy subordinated loans receivable, Energas conditional sales agreement, and the Moa Joint Venture loans receivable, respectively. For further detail, refer to note 22 of the Corporation's December 31, 2016 audited consolidated financial statements.

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

KEY MANAGEMENT PERSONNEL

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

Canadian $ millions, for the years ended December 31		**2016**		2015
Short-term benefits	$	7.4	$	7.5
Post-employment benefits[1]		0.4		1.8
Share-based payments		11.6		6.3
	$	19.4	$	15.6

(1) Post-employment benefits include a non-registered defined contribution executive supplemental pension plan. The total cash pension contribution for key management personnel was $0.4 million for the year ended December 31, 2016 ($0.4 million for the year ended December 31, 2015). The total pension expense that is attributable to key management personnel was $0.2 million for the year ended December 31, 2016 ($0.2 million for the year ended December 31, 2015).

Controls and procedures

DISCLOSURE CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining adequate internal control over disclosure controls and procedures, as defined in National Instrument 52-109 of the Canadian Securities Commission (NI 52-109). Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. Management, with the participation of the certifying officers, has evaluated the effectiveness of the design and operation, as of December 31, 2016, of the Corporation's disclosure controls and procedures. Based on that evaluation, the certifying officers have concluded that such disclosure controls and procedures are effective and designed to ensure that material information known by others relating to the Corporation and its subsidiaries is provided to them.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

The internal controls are not expected to prevent and detect all misstatements due to error or fraud. Management advises that there have been no changes in the Corporation's internal controls over financial reporting during 2016 that have materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

Management, with the participation of the certifying officers, conducted an evaluation of the effectiveness of the Corporation's internal controls over financial reporting, as of December 31, 2016, using the Internal Control-Integrated Framework published in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 Framework). Based on this evaluation, the CEO and CFO have concluded that the internal controls over financial reporting were effective as of December 31, 2016.

Supplementary information

SENSITIVITY ANALYSIS

The following table shows the approximate impact on the Corporation's net earnings and earnings per share from continuing operations for the year ended December 31, 2016 from a change in selected key variables. The impact is measured changing one variable at a time and may not necessarily be indicative of sensitivities on future results.

Factor		Increase	Approximate change in annual net earnings ($ millions) Increase/(decrease)	Approximate change in annual basic EPS Increase/(decrease)
Prices				
Nickel - LME price per pound[1]	US$	0.50	$ 42	$ 0.14
Cobalt - Metal Bulletin price per pound[1]	US$	0.50	4	0.01
Oil -U.S. Gulf Coast Fuel Oil No. 6 price per barrel	US$	5.00	13	0.04
Exchange rate				
Strengthening of the Canadian dollar relative to the U.S. dollar	$	0.05	58	0.20
Operating costs[1]				
Natural gas - per gigajoule (Moa Joint Venture)	$	1.00	(4)	(0.01)
Sulphur - per tonne (Moa Joint Venture and Ambatovy)	US$	25.00	(10)	(0.04)
Sulphuric acid - per tonne (Moa Joint Venture)	US$	25.00	(5)	(0.02)
Coal - per tonne (Ambatovy)	US$	20.00	(5)	(0.02)
Limestone - per tonne (Ambatovy)	US$	5.00	(4)	(0.01)

(1) Variable changes are applied at the operating level with the approximate change in net earnings and basic EPS representing the Corporation's 50% interest in the Moa Joint Venture and 40% interest in the Ambatovy Joint Venture.

OIL AND GAS PRODUCTION AND SALES VOLUME

The following table provides further detail about the Corporation's oil and gas production and determination of sales volumes.

	For the three months ended			For the years ended		
	2016	2015		**2016**	2015	
Daily production volumes[1]	**December 31**	December 31	Change	**December 31**	December 31	Change
Gross working-interest oil production in Cuba[2][3]	**14,470**	17,045	(15%)	**15,452**	18,257	(15%)
Net working-interest oil production[4]						
Cuba (heavy oil)						
Cost recovery	**1,710**	4,580	(63%)	**3,381**	4,059	(17%)
Profit oil	**5,742**	5,565	3%	**5,443**	6,378	(15%)
Total	**7,452**	10,145	(27%)	**8,824**	10,437	(15%)
Spain (light oil)[4]	**271**	292	(7%)	**289**	426	(32%)
Pakistan (natural gas)[4]	**440**	290	52%	**370**	295	25%
	8,163	10,727	(24%)	**9,483**	11,158	(15%)

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

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

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

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

NON-GAAP MEASURES

Management uses combined results, Adjusted EBITDA, average-realized price, unit operating cost, adjusted earnings, adjusted operating cash flow per share, free cash flow and Net Investment in Ambatovy to monitor the financial performance of the Corporation and its operating divisions and believes these measures enable investors and analysts to compare the Corporation's financial performance with its competitors and evaluate the results of its underlying business. These measures do not have a standard definition under IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. As these measures do not have a standardized meaning, they may not be comparable to similar measures provided by other companies.

Combined results

The Corporation presents combined revenue, combined cost of sales, combined administrative expenses, combined net finance expense, and combined income taxes (together, combined results) as measures which help management assess the Corporation's financial performance across its business units. The combined results include the Corporation's consolidated financial results, and the results of its 50% share of the Moa Joint Venture and its 40% share of the Ambatovy Joint Venture, both of which are accounted for using the equity method for accounting purposes. Management uses these measures to reflect the Corporation's economic interest in its business units prior to the application of equity accounting. Refer to pages 10 to 12 for the reconciliations of the combined results.

Adjusted EBITDA

The Corporation defines Adjusted EBITDA as earnings (loss) from operations, associate and joint venture as reported in the financial statements for the period adjusted for depletion, depreciation and amortization; impairment charges for long lived assets, intangible assets, goodwill and investments; and gain or loss on disposal of property, plant and equipment of the Corporation, associate and joint venture. The exclusion of impairment charges eliminates the non-cash impact. The Corporation believes that Adjusted EBITDA provides useful information to investors in evaluating our operating results in the same manner as management and the board of directors.

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

$ millions, for the three months ended December 31									**2016**
	Metals							Adjustment for Joint Venture and Associate	
	Moa JV and Fort Site	Ambatovy JV	Other	Total	Oil and Gas	Power	Corporate and Other		Total
(Loss) earnings from operations, associate and joint venture per financial statements	$ **(7.6)**	$ **(15.0)**	$ **0.2**	$ **(22.4)**	$ **2.8**	$ **(1.3)**	$ **(12.6)**	$ **(18.7)**	$ **(52.2)**
Add (deduct):									
Depletion, depreciation and amortization	**2.4**	**–**	**–**	**2.4**	**8.8**	**8.7**	**0.8**	**–**	**20.7**
Adjustments for share of associate and joint venture:									
Depletion, depreciation and amortization	**10.8**	**39.4**	**–**	**50.2**	**–**	**–**	**–**	**–**	**50.2**
Net finance expense	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**19.1**	**19.1**
Income tax expense	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(0.4)**	**(0.4)**
Adjusted EBITDA	$ **5.6**	$ **24.4**	$ **0.2**	$ **30.2**	$ **11.6**	$ **7.4**	$ **(11.8)**	$ **–**	$ **37.4**
Loss from operations, associate and joint venture									$ **(52.2)**
Net finance expense									**(53.3)**
Income tax expense									**(4.1)**
Net loss from continuing operations									$ **(109.6)**

$ millions, for the three months ended December 31									2015
	Metals							Adjustment for Joint Venture and Associate	
	Moa JV and Fort Site	Ambatovy JV	Other	Total	Oil and Gas	Power	Corporate and Other		Total
(Loss) earnings from operations, associate and joint venture per financial statements	$ (6.8)	$ (1,785.5)	$ (0.6)	$ (1,792.9)	$ (1.2)	$ (3.3)	$ (7.9)	$ 83.4	$ (1,721.9)
Add (deduct):									
Depletion, depreciation and amortization	2.7	-	0.1	2.8	10.9	8.8	0.7	-	23.2
Impairment of assets	1.4	1,722.5	-	1,723.9	-	-	-	-	1,723.9
Adjustments for share of associate and joint venture:									
Depletion, depreciation and amortization	10.3	53.5	0.5	64.3	-	-	-	-	64.3
Net finance expense	-	-	-	-	-	-	-	29.8	29.8
Income tax recovery	-	-	-	-	-	-	-	(113.2)	(113.2)
Adjusted EBITDA	$ 7.6	$ (9.5)	$ -	$ (1.9)	$ 9.7	$ 5.5	$ (7.2)	$ -	$ 6.1
Loss from operations, associate and joint venture									$ (1,721.9)
Net finance expense									(35.4)
Net loss from continuing operations									$ (1,757.3)

$ millions, for the year ended December 31	Metals: Moa JV and Fort Site	Metals: Ambatovy JV	Metals: Other	Metals: Total	Oil and Gas	Power	Corporate and Other	Adjustment for Joint Venture and Associate	Total 2016
(Loss) earnings from operations, associate and joint venture per financial statements	**$ (28.4)**	**$ (150.9)**	**$ 0.8**	**$ (178.5)**	**$ (16.3)**	**$ (5.3)**	**$ (42.8)**	**$ (77.9)**	**$ (320.8)**
Add (deduct):									
Depletion, depreciation and amortization	**9.6**	**–**	**–**	**9.6**	**43.4**	**34.8**	**4.3**	**–**	**92.1**
Impairment of assets	**–**	**–**	**–**	**–**	**8.5**	**–**	**–**	**–**	**8.5**
Gain on property, plant and equipment and intangibles	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Adjustments for share of associate and joint venture:									
Depletion, depreciation and amortization	**38.4**	**143.9**	**–**	**182.3**	**–**	**–**	**–**	**–**	**182.3**
Net finance expense	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**70.1**	**70.1**
Income tax expense	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7.8**	**7.8**
Adjusted EBITDA	**$ 19.6**	**$ (7.0)**	**$ 0.8**	**$ 13.4**	**$ 35.6**	**$ 29.5**	**$ (38.5)**	**$ –**	**$ 40.0**

Loss from operations, associate and joint venture	**$ (320.8)**
Net finance expense	**(54.5)**
Income tax expense	**(6.5)**
Net loss from continuing operations	**$ (381.8)**

$ millions, for the year ended December 31	Metals: Moa JV and Fort Site	Metals: Ambatovy JV	Metals: Other	Metals: Total	Oil and Gas	Power	Corporate and Other	Adjustment for Joint Venture and Associate	Total 2015
(Loss) earnings from operations, associate and joint venture per financial statements	$ (4.4)	$ (1,934.1)	$ 0.5	$ (1,938.0)	$ (71.6)	$ (3.7)	$ (15.9)	$ 50.6	$ (1,978.6)
Add (deduct):									
Depletion, depreciation and amortization	9.7	-	-	9.7	72.9	33.7	2.9	-	119.2
Impairment of assets	1.4	1,722.5	-	1,723.9	80.6	-	-	-	1,804.5
Gain on property, plant and equipment and intangibles	-	-	-	-	-	-	(19.1)	-	(19.1)
Adjustments for share of associate and joint venture:									
Depletion, depreciation and amortization	35.5	202.2	-	237.7	-	-	-	-	237.7
Net finance expense	-	-	-	-	-	-	-	85.5	85.5
Income tax recovery	-	-	-	-	-	-	-	(136.1)	(136.1)
Adjusted EBITDA	$ 42.2	$ (9.4)	$ 0.5	$ 33.3	$ 81.9	$ 30.0	$ (32.1)	$ -	$ 113.1

Loss from operations, associate and joint venture	$ (1,978.6)
Net finance expense	(129.0)
Income tax recovery	35.9
Net loss from continuing operations	$ (2,071.7)

Average-realized price

Average-realized price is generally calculated by dividing revenue by sales volume for the given product in a given division. The average-realized price for nickel, cobalt, and fertilizer excludes the impact of by-product revenue and the metals marketing company. The average-realized price for oil and gas is based on net working-interest oil plus natural gas production stated in barrels of oil equivalent. Management uses this measure to better understand the price realized in each reporting period for nickel, cobalt, fertilizer, oil and gas, and power.

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

$ millions, except average-realized price and sales volume, for the three months ended December 31							**2016**
	Metals						
	Nickel	Cobalt	Fertilizer	Other revenue	Total	Oil and Gas	Power
Revenue per financial statements	$ **126.7**	$ **33.0**	$ **17.4**	$ **18.5**	$ **195.6**	$ **30.6**	$ **13.7**
Adjustments to revenue:							
By-product revenue	**–**	**–**	**–**			**–**	**(1.0)**
Processing revenue	**–**	**–**	**–**			**(1.4)**	**–**
Service concession arrangement revenue	**–**	**–**	**–**			**–**	**(0.1)**
Revenue for purposes of average-realized price calculation	**126.7**	**33.0**	**17.4**			**29.2**	**12.6**
Sales volume for the period	**19.6**	**1.9**	**61.2**			**0.8**	**224**
Volume units	Millions of pounds	Millions of pounds	Thousands of tonnes			Millions of barrels(1)	Gigawatts
Average-realized price(2)(3)	$ **6.45**	$ **17.68**	$ **284**			$ **38.98**	$ **56.24**

$ millions, except average-realized price and sales volume, for the three months ended December 31							2015
	Metals						
	Nickel	Cobalt	Fertilizer	Other revenue	Total	Oil and Gas	Power
Revenue per financial statements	$ 111.6	$ 27.6	$ 27.9	$ 16.7	$ 183.8	$ 30.5	$ 13.7
Adjustments to revenue:							
By-product revenue	-	-	-			-	(1.0)
Processing revenue	-	-	-			(1.4)	-
Service concession arrangement revenue	-	-	-			-	0.2
Revenue for purposes of average-realized price calculation	111.6	27.6	27.9			29.1	12.9
Sales volume for the period	19.6	2.1	75.3			1.0	226
Volume units	Millions of pounds	Millions of pounds	Thousands of tonnes			Millions of barrels(1)	Gigawatts
Average-realized price(2)(3)	$ 5.54	$ 12.91	$ 371			$ 29.53	$ 56.53

$ millions, except average-realized price and sales volume, for the year ended December 31							2016
	Metals						
	Nickel	Cobalt	Fertilizer	Other revenue	Total	Oil and Gas	Power
Revenue per financial statements	$ **413.6**	$ **105.7**	$ **71.8**	$ **61.0**	$ **652.1**	$ **108.6**	$ **58.6**
Adjustments to revenue:							
By-product revenue	–	–	–			–	**(3.8)**
Processing revenue	–	–	–			**(4.6)**	–
Service concession arrangement revenue	–	–	–			–	**(4.6)**
Other	–	–	–			–	–
Revenue for purposes of average-realized price calculation	**413.6**	**105.7**	**71.8**			**104.0**	**50.2**
Sales volume for the period	**73.3**	**6.9**	**220.0**			**3.5**	**894**
Volume units	Millions of pounds	Millions of pounds	Thousands of tonnes			Millions of barrels[1]	Gigawatts
Average-realized price[2][3]	$ **5.65**	$ **15.33**	$ **326**			$ **29.98**	$ **56.10**

$ millions, except average-realized price and sales volume, for the year ended December 31							2015
	Metals						
	Nickel	Cobalt	Fertilizer	Other revenue	Total	Oil and Gas	Power
Revenue per financial statements	$ 530.8	$ 108.8	$ 88.4	$ 77.1	$ 805.1	$ 162.6	$ 52.7
Adjustments to revenue:							
By-product revenue	-	-	-			-	(4.0)
Processing revenue	-	-	-			(4.9)	-
Service concession arrangement revenue	-	-	-			-	0.3
Revenue for purposes of average-realized price calculation	530.8	108.8	88.4			157.7	49.0
Sales volume for the period	79.0	7.2	238.1			4.1	902
Volume units	Millions of pounds	Millions of pounds	Thousands of tonnes			Millions of barrels[1]	Gigawatts
Average-realized price[2][3]	$ 6.68	$ 15.20	$ 371			$ 38.73	$ 54.26

For purposes of average-realized price tables, above:

(1) Net working-interest oil production. For additional discussion see Oil and Gas Production and Sales Volume section.

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

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

Unit operating cost

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 financial statements, less depreciation, depletion and amortization in cost of sales, the impact of impairment, gains and losses on property, plant, and equipment and exploration and evaluation assets and certain other non-production related costs by the number of units sold.

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

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

Unit operating costs for nickel, oil, and electricity are key measures that management uses to monitor performance. Management uses these statistics to assess how well the Corporation's producing mines, oil wells and power facilities are performing and to assess overall efficiency and effectiveness of the mining operations.

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

$ millions, except unit cost and sales volume, for the three months ended December 31						**2016**
	Metals					
	Moa JV and Fort Site	**Ambatovy JV**	**Other**	**Total**	**Oil and Gas**	**Power**
Cost of sales per financial statements	**$ 97.1**	**$ 99.1**	**$ 14.5**	**$ 210.7**	**$ 25.0**	**$ 14.1**
Less:						
Depletion, depreciation and amortization in cost of sales	**(13.1)**	**(39.3)**	**–**	**(52.4)**	**(8.7)**	**(8.7)**
	84.0	**59.8**	**14.5**	**158.3**	**16.3**	**5.4**
Adjustments to cost of sales:						
Cobalt by-product, fertilizer and other revenue	**(36.5)**	**(16.6)**			**–**	**–**
Impact of opening/closing inventory and other	**(3.0)**	**(0.8)**			**–**	**–**
Service concession arrangements – Cost of construction	**–**	**–**			**–**	**(0.1)**
Cost of sales for purposes of unit cost calculation	**44.5**	**42.4**			**16.3**	**5.3**
Sales volume for the period	**8.8**	**10.8**			**1.4**	**224**
Volume units	Millions of pounds	Millions of pounds			Millions of barrels[1]	Gigawatts
Unit operating cost[2][3]	**$ 5.08**	**3.90**			**$ 11.68**	**$ 24.73**
Unit operating cost (U.S. dollars) (NDCC)	**$ 3.80**	**3.10**				

$ millions, except unit cost and sales volume, for the three months ended December 31						2015
	Metals					
	Moa JV and Fort Site	Ambatovy JV	Other	Total	Oil and Gas	Power
Cost of sales per financial statements	$ 106.3	$ 165.6	$ 13.0	$ 284.9	$ 30.2	$ 16.7
Less:						
Depletion, depreciation and amortization in cost of sales	(13.0)	(53.4)	(0.6)	(67.0)	(10.9)	(8.7)
	93.3	112.2	12.4	217.9	19.3	8.0
Adjustments to cost of sales:						
Cobalt by-product, fertilizer and other revenue	(46.3)	(15.2)			-	-
Impact of opening/closing inventory and other	(10.6)	(0.7)			-	-
Service concession arrangements – Cost of construction	-	-			-	0.2
Impairments	-	(39.4)			-	-
Cost of sales for purposes of unit cost calculation	36.4	57.0			19.3	8.2
Sales volume for the period	9.3	10.3			1.6	226
Volume units	Millions of pounds	Millions of pounds			Millions of barrels[1]	Gigawatts
Unit operating cost[2][3]	$ 3.90	5.54			$ 11.64	$ 33.88
Unit operating cost (U.S. dollars) (NDCC)	$ 2.90	4.07				

$ millions, except unit cost and sales volume, for the year ended December 31						2016
	Metals					
	Moa JV and Fort Site	Ambatovy JV	Other	Total	Oil and Gas	Power
Cost of sales per financial statements	$ 357.3	$ 397.3	$ 46.3	$ 800.9	$ 105.7	$ 59.7
Less:						
Depletion, depreciation and amortization in cost of sales	(47.8)	(143.5)	(0.2)	(191.5)	(43.2)	(34.7)
	309.5	253.8	46.1	609.4	62.5	25.0
Adjustments to cost of sales:						
Cobalt by-product, fertilizer and other revenue	(135.8)	(49.6)			–	–
Impact of opening/closing inventory and other	(9.8)	(2.5)			–	–
Service concession arrangements – Cost of construction	–	–			–	(4.6)
Cost of sales for purposes of unit cost calculation	163.9	201.7			62.5	20.4
Sales volume for the period	36.2	37.1			5.9	894
Volume units	Millions of pounds	Millions of pounds			Millions of barrels[1]	Gigawatts
Unit operating cost[2][3]	$ 4.53	5.43			$ 10.58	$ 22.94
Unit operating cost (U.S. dollars) (NDCC)	$ 3.42	4.27				

$ millions, except unit cost and sales volume, for the year ended December 31						2015
	Metals					
	Moa JV and Fort Site	Ambatovy JV	Other	Total	Oil and Gas	Power
Cost of sales per financial statements	$ 410.9	$ 558.4	$ 58.8	$ 1,028.1	$ 146.9	$ 52.6
Less:						
Depletion, depreciation and amortization in cost of sales	(45.1)	(201.7)	-	(246.8)	(72.7)	(33.6)
	365.8	356.7	58.8	781.3	74.2	19.0
Adjustments to cost of sales:						
Cobalt by-product, fertilizer and other revenue	(158.1)	(58.3)			-	-
Impact of opening/closing inventory and other	(22.0)	0.1			-	-
Service concession arrangements – Cost of construction	-	-			-	0.3
Impairments	-	(39.4)			-	-
Cost of sales for purposes of unit cost calculation	185.7	259.1			74.2	19.3
Sales volume for the period	37.4	41.6			6.9	902
Volume units	Millions of pounds	Millions of pounds			Millions of barrels[1]	Gigawatts
Unit operating cost[2][3]	$ 4.96	6.23			$ 10.69	$ 21.00
Unit operating cost (U.S. dollars) (NDCC)	$ 3.88	4.83				

For purposes of unit operating cost tables, above:

(1) Gross working-interest oil production. For additional discussion, see Oil and Gas Production and Sales Volume section.

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

(3) Power, unit operating cost per MWh.

Adjusted earnings from continuing operations

The Corporation defines adjusted earnings from continuing operations as earnings from continuing operations less items not reflective of operational performance. These adjusting items include, but are not limited to, the Ambatovy call option fair value adjustment, impairment of assets, gains and losses on the acquisition or disposition of assets, gains and losses on unrealized foreign exchange, and other one-time adjustments. While some adjustments are recurring (such as unrealized foreign exchange (gain) loss), management believes that they do not reflect the Corporation's operational performance or future operational performance. Management believes that these measures, which are used internally to monitor operational performance, provide investors the ability to better assess the Corporation's operations.

The table below reconciles adjusted earnings net earnings (loss) per the financial statements:

	For the three months ended		For the years ended	
	2016	2015	**2016**	2015
$ millions	**December 31**	December 31	**December 31**	December 31
Net loss from continuing operations	**$ (109.6)**	$ (1,757.3)	**$ (381.8)**	$ (2,071.7)
Adjusting items:				
Sherritt - Unrealized foreign exchange (gain) loss - Continuing	**25.7**	18.3	**(35.9)**	44.3
Corporate - Gain on repurchase of debentures	**–**	-	**(12.6)**	-
Corporate - Call option fair value adjustment	**–**	-	**–**	17.7
Corporate - Gain on sale of corporate office	**–**	-	**–**	(19.1)
Ambatovy - Impairment	**–**	1,619.6	**–**	1,619.6
Ambatovy - VAT adjustment	**(2.4)**	-	**(15.6)**	(4.5)
Ambatovy - Arbitration Award costs	**–**	-	**–**	4.5
Moa JV - Obsolete inventory and equipment impairment	**1.1**	2.9	**1.1**	2.9
Oil and Gas - Impairment	**–**	-	**8.5**	80.6
Oil and Gas - Inventory Impairment	**1.9**	1.7	**1.9**	1.7
Oil and Gas - Deferred consideration	**–**	-	**(2.7)**	-
Severance	**2.0**	-	**3.4**	2.2
Other	**–**	-	**–**	7.4
Total adjustments, before tax	**$ 28.3**	$ 1,642.5	**$ (51.9)**	$ 1,757.3
Moa joint venture and Oil and Gas Cuban tax recovery	**–**	-	**–**	(43.3)
Moa joint venture Deferred tax asset write-off	**–**	-	**7.7**	-
Other tax adjustments	**–**	1.0	**(1.9)**	6.4
Adjusted net loss from continuing operations	**$ (81.3)**	$ (113.8)	**$ (427.9)**	$ (351.3)

Combined adjusted operating cash flow per share

The Corporation defines combined adjusted operating cash flow per share as cash provided (used) by continuing operations adjusted for dividends received from joint venture and associate and before net changes in non-cash working capital divided by the weighted average number of outstanding shares during the period.

Combined adjusted operating cash flow per share is used by management to assess its ability to generate cash from its operations, while also taking into consideration changes in the number of outstanding shares of the Corporation.

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

$ millions, except per share amounts, for the three months ended December 31										**2016**
	Metals								Adjustment for Joint Venture and Associate	**Total derived from financial statements**
	Moa JV and Fort Site	Ambatovy JV	Other	Total	Oil and Gas	Power	Corporate and Other	**Combined total**		
Cash provided (used) by continuing operations	**$ (6.1)**	**$ (0.8)**	**$ 3.3**	**$ (3.6)**	**$ 11.4**	**$ (3.3)**	**$ (28.0)**	**$ (23.5)**	**$ 0.9**	**$ (22.6)**
Adjust: net change in non-cash working capital	**12.0**	**9.4**	**(3.1)**	**18.3**	**0.1**	**10.5**	**2.8**	**31.7**	**(14.1)**	**17.6**
Adjusted continuing operating cash flow	**5.9**	**8.6**	**0.2**	**14.7**	**11.5**	**7.2**	**(25.2)**	**8.2**	**(13.2)**	**(5.0)**
Combined adjusted operating cash flow per share[1]	**$ 0.02**	**$ 0.03**	**$ –**	**$ 0.05**	**$ 0.04**	**$ 0.03**	**$ (0.09)**	**$ 0.03**	**$ (0.04)**	**$ (0.01)**

(1) The weighted average number of common shares for the quarter was 294.0 million shares.

$ millions, except per share amounts, for the three months ended December 31										2015
	Metals								Adjustment for Joint Venture and Associate	**Total derived from financial statements**
	Moa JV and Fort Site	Ambatovy JV	Other	Total	Oil and Gas	Power	Corporate and Other	**Combined total**		
Cash (used) provided by continuing operations	$ 21.1	$ (22.3)	$ 1.4	$ 0.2	$ 30.2	$ 6.5	$ (28.5)	$ 8.4	$ 2.4	$ 10.8
Adjust: net change in non-cash working capital	(12.4)	(4.9)	(1.5)	(18.9)	(22.6)	2.3	1.4	(37.8)	22.4	(15.3)
Adjusted continuing operating cash flow	8.7	(27.2)	(0.1)	(18.7)	7.6	8.8	(27.2)	(29.5)	24.8	(4.6)
Combined adjusted operating cash flow per share[1]	$ 0.03	$ (0.09)	$ -	$ (0.06)	$ 0.03	$ 0.03	$ (0.09)	$ (0.09)	$ 0.08	$ (0.01)

(1) The weighted average number of common shares for the quarter was 293.9 million shares.

$ millions, except per share amounts, for the year ended December 31										**2016**
	Metals								Adjustment for Joint Venture and Associate	**Total derived from financial statements**
	Moa JV and Fort Site	Ambatovy JV	Other	Total	Oil and Gas	Power	Corporate and Other	**Combined total**		
Cash (used) provided by continuing operations	**$ (2.7)**	**$ (34.6)**	**$ 3.1**	**$ (34.2)**	**$ 76.4**	**$ 8.0**	**$ (82.5)**	**$ (32.3)**	**$ 33.9**	**$ 1.6**
Adjust: net change in non-cash working capital	**18.9**	**(4.6)**	**(2.3)**	**12.0**	**(44.8)**	**20.4**	**(2.1)**	**(14.5)**	**0.4**	**(14.1)**
Adjusted continuing operating cash flow	**16.2**	**(39.2)**	**0.8**	**(22.2)**	**31.6**	**28.4**	**(84.6)**	**(46.8)**	**34.3**	**(12.5)**
Combined adjusted operating cash flow per share[1]	**$ 0.06**	**$ (0.13)**	**$ –**	**$ (0.07)**	**$ 0.11**	**$ 0.10**	**$ (0.29)**	**$ (0.15)**	**$ 0.12**	**$ (0.03)**

(1) The weighted average number of common shares for the year was 293.9 million shares.

$ millions, except per share amounts, for the year ended December 31	Metals: Moa JV and Fort Site	Metals: Ambatovy JV	Metals: Other	Metals: Total	Oil and Gas	Power	Corporate and Other	**Combined total**	Adjustment for Joint Venture and Associate	**Total derived from financial statements**
										2015
Cash provided (used) by continuing operations	$ 53.4	$ (24.3)	$ 4.1	$ 33.2	$ 80.7	$ 61.4	$ (108.6)	$ 66.7	$ (2.2)	$ 64.5
Adjust: net change in non-cash working capital	(22.9)	(5.1)	(3.7)	(31.7)	(6.8)	6.7	28.2	(3.6)	24.7	21.1
Adjusted continuing operating cash flow	30.5	(29.4)	0.4	1.5	73.9	68.1	(80.4)	63.1	22.5	85.6
Combined adjusted operating cash flow per share(1)	$ 0.10	$ (0.10)	$ -	$ -	$ 0.25	$ 0.23	$ (0.27)	$ 0.21	$ 0.08	$ 0.29

(1) The weighted average number of common shares for the year was 293.7 million shares.

Combined free cash flow

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

Management uses free cash flow as a non-GAAP measure to analyze cash flows generated from operations. Free cash flow should be viewed as a measure that provides supplemental information to the Corporation's condensed consolidated statements of cash flow, as reconciled below.

$ millions, for the three months ended December 31	Metals: Moa JV and Fort Site	Metals: Ambatovy JV	Metals: Other	Metals: Total	Oil and Gas	Power	Corporate and Other	**Combined total**	Adjustment for Joint Venture and Associate	**Total derived from financial statements**
										2016
Cash (used) provided by continuing operations	**$ (6.1)**	**$ (0.8)**	**$ 3.3**	**$ (3.6)**	**$ 11.4**	**$ (3.3)**	**$ (28.0)**	**$ (23.5)**	**$ 0.9**	**$ (22.6)**
Less:										
Property, plant and equipment expenditures	**(3.7)**	**(9.8)**	**–**	**(13.5)**	**(0.3)**	**(0.4)**	**–**	**(14.2)**	**11.2**	**(3.0)**
Intangible Expenditures	**–**	**–**	**–**	**–**	**(7.8)**	**–**	**–**	**(7.8)**	**–**	**(7.8)**
Free Cash Flow	**$ (9.8)**	**$ (10.6)**	**$ 3.3**	**$ (17.1)**	**$ 3.3**	**$ (3.7)**	**$ (28.0)**	**(45.5)**	**$ 12.1**	**$ (33.4)**

$ millions, for the three months ended December 31	Metals: Moa JV and Fort Site	Metals: Ambatovy JV	Metals: Other	Metals: Total	Oil and Gas	Power	Corporate and Other	**Combined total**	Adjustment for Joint Venture and Associate	**Total derived from financial statements**
										2015
Cash provided (used) by continuing operations	$ 21.1	$ (22.3)	$ 1.4	$ 0.2	$ 30.2	$ 6.5	$ (28.5)	$ 8.4	$ 2.4	$ 10.8
Less:										
Property, plant and equipment expenditures	(19.8)	(4.3)	-	(24.1)	(6.4)	(2.1)	(0.1)	(32.7)	22.0	(10.7)
Intangible expenditures	-	-	-	-	(0.5)	-	-	(0.5)	-	(0.5)
Free Cash Flow	$ 1.3	$ (26.6)	$ 1.4	$ (23.9)	$ 23.3	$ 4.4	$ (28.6)	(24.8)	$ 24.4	$ (0.4)

$ millions, for the year ended December 31	Metals									2016
	Moa JV and Fort Site	Ambatovy JV	Other	Total	Oil and Gas	Power	Corporate and Other	**Combined total**	Adjustment for Joint Venture and Associate	**Total derived from financial statements**
Cash (used) provided by continuing operations	$ (2.7)	$ (34.6)	$ 3.1	$ (34.2)	$ 76.4	$ 8.0	$ (82.5)	$ (32.3)	$ 33.9	$ 1.6
Less:										
Property, plant and equipment expenditures	(31.2)	(21.3)	–	(52.5)	(9.0)	(1.0)	(0.1)	(62.6)	39.4	(23.2)
Intangible Expenditures	–	–	–	–	(17.0)	–	–	(17.0)	–	(17.0)
Free Cash Flow	$ (33.9)	$ (55.9)	$ 3.1	$ (86.7)	$ 50.4	$ 7.0	$ (82.6)	(111.9)	$ 73.3	$ (38.6)

$ millions, for the year ended December 31	Metals									2015
	Moa JV and Fort Site	Ambatovy JV	Other	Total	Oil and Gas	Power	Corporate and Other	**Combined total**	Adjustment for Joint Venture and Associate	**Total derived from financial statements**
Cash provided (used) by continuing operations	$ 53.4	$ (24.3)	$ 4.1	$ 33.2	$ 80.7	$ 61.4	$ (108.6)	$ 66.7	$ (2.2)	$ 64.5
Less:										
Property, plant and equipment expenditures	(62.4)	(36.1)	-	(98.5)	(57.9)	(4.4)	(3.3)	(164.1)	85.1	(79.0)
Intangible expenditures	-	-	-	-	(1.4)	-	-	(1.4)	-	(1.4)
Free Cash Flow	$ (9.0)	$ (60.4)	$ 4.1	$ (65.3)	$ 21.4	$ 57.0	$ (111.9)	(98.8)	$ 82.9	$ (15.9)

Net Investment in Ambatovy

The table below reconciles the Net Investment in Ambatovy to the consolidated statement of financial position at December 31, 2015.

Audited, Canadian $ millions, as at	**2015 December 31**	Investment in Associate	Ambatovy Subordinated Loan Receivable	Non-recourse Ambatovy JV Partner Loans	**Adjusted 2015 December 31**
ASSETS					
Current assets	$ 820.4	$ -	$ -	$ -	$ 820.4
Non-current assets					
Advances, loans receivable and other financial	1,600.5	-	(1,187.2)	-	413.3
Investment in an associate	757.3	(757.3)	-	-	-
Net investment in Ambatovy	-	757.3	1,187.2	(1,303.2)	641.3
Other non-current assets	911.8	-	-	-	911.8
Total assets	$ 4,090.0	$ -	$ -	$ (1,303.2)	$ 2,786.8
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities	$ 212.1	$ -	$ -	$ -	212.1
Non-current liabilities					
Non-recourse loans and borrowings	1,303.2	-	-	(1,303.2)	-
Loans and borrowings	868.7	-	-	-	868.7
Other non-current liabilities	148.9	-	-	-	148.9
Total liabilities	2,532.9	-	-	(1,303.2)	1,229.7
Shareholders' equity	1,557.1	-	-	-	1,557.1
Total liabilities and shareholders' equity	$ 4,090.0	$ -	$ -	$ (1,303.2)	$ 2,786.8
Total debt-to-capital (1)	59%				38%

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

FORWARD–LOOKING STATEMENTS

This MD&A contains certain forward-looking statements. Forward-looking statements can generally be identified by the use of statements that include such words as "believe", "expect", "anticipate", "intend", "plan", "forecast", "likely", "may", "will", "could", "should", "suspect", "outlook", "potential", "projected", "continue" or other similar words or phrases. Specifically, forward-looking statements in this document include, but are not limited to, statements set out in the "Outlook" sections of this MD&A and certain expectations about capital costs and expenditures; production volumes; capital project completion and ramp up dates; future price of key commodities; sales volumes; revenue, costs, and earnings; sufficiency of working capital and capital project funding; results of on-going discussions regarding the partnership structure and future financing arrangements at the Ambatovy Joint Venture; results of discussions regarding timing of ongoing Cuban payments; completion of development and exploration wells; and amounts of certain joint venture commitments.

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. These risks, uncertainties and other factors include, but are not limited to changes in the global price for nickel, cobalt, oil and gas or certain other commodities, share-price volatility, level of liquidity and access to capital resources, access to financing, risk of future non-compliance with debt restrictions and covenants; risks associated with the Corporation's joint venture partners; discrepancies between actual and estimated production; variability in production at Sherritt's operations in Madagascar and Cuba; potential interruptions in transportation; uncertainty of gas supply for electrical generation; uncertainty of exploration results and Sherritt's ability to replace depleted mineral and oil and gas reserves; the Corporation's reliance on key personnel and skilled workers; the possibility of equipment and other failures; the potential for shortages of equipment and supplies; risks associated with mining, processing and refining activities; uncertainty of resources and reserve estimates; uncertainties in environmental rehabilitation provisions estimates; risks related to the Corporation's corporate structure; political, economic and other risks of foreign operations; risks related to Sherritt's operations in Madagascar and Cuba; risks related to the U.S. government policy toward Cuba, including the U.S. embargo on Cuba and the Helms-Burton legislation; risks related to amounts owed to the Corporation by the Malagasy and Cuban governments; risks related to the accuracy of capital and operating cost estimates; reliance on significant customers; foreign exchange and pricing risks; compliance with applicable environment, health and safety legislation and other associated matters; risks associated with governmental regulations regarding greenhouse gas emissions; maintaining the Corporation's social license to grow and operate; risks relating to community relations; credit risks; shortage of equipment and supplies; competition in product markets; future market access; interest rate changes; risks in obtaining insurance; uncertainties in labour relations; uncertainty in the ability of the Corporation to enforce legal rights in foreign jurisdictions; uncertainty regarding the interpretation and/or application of the applicable laws in foreign jurisdictions; legal contingencies; risks related to the Corporation's accounting policies; risks associated with future acquisitions; uncertainty in the ability of the Corporation to obtain government permits; failure to comply with, or changes to, applicable government regulations; bribery and corruption risks, including failure to comply with the *Corruption of Foreign Public Officials Act* or applicable local anti-corruption law; uncertainties in growth management; risks related to information technology systems; and certain corporate objectives, goals and plans for 2017; and the Corporation's ability to meet other factors listed from time to time in the Corporation's continuous disclosure documents. Readers are cautioned that the foregoing list of factors is not exhaustive and should be considered in conjunction with the risk factors described in this MD&A and in the Corporation's other documents filed with the Canadian securities authorities.

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

CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2016 and 2015

Management's report

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

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

The consolidated financial statements are approved by the Board of Directors on the recommendation of the audit committee. The audit committee of the Board of Directors is composed entirely of independent directors. Sherritt's consolidated financial statements are reviewed by the audit committee with management before the consolidated financial statements are approved by the Board of Directors. In addition, the audit committee has the duty to review the accounting principles and practices applied and followed by the Corporation during the fiscal year, including critical accounting policies and significant estimates and judgments underlying the consolidated financial statements as presented by management. Deloitte LLP ("Deloitte") performs an audit of the consolidated financial statements, the results of which are reflected in their independent auditor's report for 2016 included on the next page. Deloitte has full and independent access to the audit committee to discuss their audit and related matters. In addition, Sherritt has an internal audit function that evaluates and formally reports to management and the audit committee on the adequacy and effectiveness of internal controls specified in the approved annual internal audit plan.

/s/ David V. Pathe

David V. Pathe
President and Chief Executive Officer

/s/ Andrew Snowden

Andrew Snowden
Senior Vice President and
Chief Financial Officer

February 16, 2017

Deloitte.

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Independent Auditor's Report

To the Shareholders of Sherritt International Corporation

We have audited the accompanying consolidated financial statements of Sherritt International Corporation, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, and the consolidated statements of comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flow for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sherritt International Corporation as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

/s/ Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
February 16, 2017

Consolidated statements of comprehensive income (loss)

Canadian $ millions, except per share amounts, for the years ended December 31	Note		2016		2015
Revenue	4	$	**262.3**	$	335.9
Cost of sales	5		**(263.4)**		(318.1)
Administrative expenses	5		**(54.5)**		(46.4)
Impairment of Oil assets	15		**(8.5)**		(80.6)
Gain on sale of Corporate assets	10		**–**		19.1
Share of loss of an associate, net of tax, including impairment	6		**(212.0)**		(1,876.7)
Share of loss of a joint venture, net of tax	7		**(44.7)**		(11.8)
Loss from operations, associate and joint venture			**(320.8)**		(1,978.6)
Financing income	8		**81.2**		75.5
Financing expense	8		**(135.7)**		(204.5)
Net finance expense			**(54.5)**		(129.0)
Loss before tax			**(375.3)**		(2,107.6)
Income tax (expense) recovery	9		**(6.5)**		35.9
Net loss from continuing operations			**(381.8)**		(2,071.7)
Earnings (loss) from discontinued operations, net of tax	17		**2.9**		(5.0)
Net loss for the year		$	**(378.9)**	$	(2,076.7)
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss:					
Foreign currency translation differences on foreign operations	18		**(89.8)**		579.2
Items that will not be subsequently reclassified to profit or loss:					
Actuarial losses on pension plans, net of tax	18		**(0.7)**		(0.2)
Other comprehensive (loss) income			**(90.5)**		579.0
Total comprehensive loss		$	**(469.4)**	$	(1,497.7)
Net loss from continuing operations per common share, basic and diluted	11	$	**(1.30)**	$	(7.05)
Net loss per common share, basic and diluted	11	$	**(1.29)**	$	(7.07)

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

Consolidated statements of financial position

Canadian $ millions, as at	Note	2016 December 31	2015 December 31
ASSETS			
Current assets			
Cash and cash equivalents	12	**$ 269.6**	$ 230.6
Short-term investments	12	**40.0**	204.8
Advances, loans receivable and other financial assets	13	**83.5**	82.7
Trade accounts receivable, net	12	**285.8**	258.3
Inventories	14	**39.6**	38.0
Prepaid expenses		**2.4**	6.0
		720.9	820.4
Non-current assets			
Advances, loans receivable and other financial assets	13	**1,542.7**	1,600.5
Other non-financial assets		**0.4**	0.8
Property, plant and equipment	15	**286.4**	351.1
Investment in an associate	6	**767.9**	757.3
Investment in a joint venture	7	**336.8**	404.2
Intangible assets	15	**150.9**	154.8
		3,085.1	3,268.7
Assets held for sale		**0.9**	0.9
Total assets		**$ 3,806.9**	$ 4,090.0
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Other loans and borrowings	16	**$ 43.0**	$ 91.2
Trade accounts payable and accrued liabilities		**148.3**	73.6
Income taxes payable		**4.4**	2.4
Other financial liabilities	16	**5.0**	1.5
Deferred revenue		**13.1**	24.6
Provisions	17	**12.2**	18.8
		226.0	212.1
Non-current liabilities			
Non-recourse loans and borrowings	16	**1,367.5**	1,303.2
Other loans and borrowings	16	**817.7**	868.7
Other financial liabilities	16	**163.0**	1.9
Deferred revenue		**3.5**	3.8
Other non-financial liabilities		**0.4**	-
Provisions	17	**102.4**	107.8
Deferred income taxes	9	**28.5**	35.4
		2,483.0	2,320.8
Total liabilities		**2,709.0**	2,532.9
Shareholders' equity			
Capital stock	18	**2,775.7**	2,775.3
Deficit		**(2,721.5)**	(2,342.6)
Reserves	18	**234.7**	224.9
Accumulated other comprehensive income	18	**809.0**	899.5
		1,097.9	1,557.1
Total liabilities and shareholders' equity		**$ 3,806.9**	$ 4,090.0

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

Approved by the Board of Directors,

/s/ Harold (Hap) Stephen

Harold (Hap) Stephen
Director

/s/ David V. Pathe

David V. Pathe
Director

Consolidated statements of cash flow

Canadian $ millions, for the years ended December 31	Note	2016	2015
Operating activities			
Net loss from continuing operations		$ **(381.8)**	$ (2,071.7)
Add (deduct):			
Depletion, depreciation and amortization	5	**92.1**	119.2
Share of loss of an associate, net of tax, including impairment	6	**212.0**	1,876.7
Share of loss of a joint venture, net of tax	7	**44.7**	11.8
Loss on impairment of Oil assets	15	**8.5**	80.6
Net finance expense (less accretion expense)	8	**53.5**	127.9
Income tax expense (recovery)	9	**6.5**	(35.9)
Service concession arrangements		**(4.6)**	-
Gain on sale of Corporate assets	10	**–**	(19.1)
Net change in non-cash working capital	20	**14.1**	(21.1)
Interest received		**8.7**	49.8
Interest paid		**(59.8)**	(58.9)
Income tax paid		**(10.3)**	(10.6)
Dividends received from joint venture	7	**–**	12.5
Liabilities settled for environmental rehabilitation provisions		**(1.1)**	-
Other operating items	20	**19.1**	3.3
Cash provided by continuing operations		**1.6**	64.5
Cash used by discontinued operations	17	**(7.4)**	(16.0)
Cash (used) provided by operating activities		**(5.8)**	48.5
Investing activities			
Property, plant and equipment expenditures		**(23.2)**	(79.0)
Intangible asset expenditures		**(17.0)**	(1.4)
Increase in advances, loans receivable and other financial assets		**–**	(17.1)
Receipts of advances, loans receivable and other financial assets		**1.3**	38.5
Loans to an associate	13	**–**	(135.7)
Net proceeds from sale of Corporate assets	10	**–**	21.2
Net proceeds from sale of property, plant and equipment		**–**	0.1
Proceeds from short-term investments		**164.8**	110.8
Cash provided (used) by continuing operations		**125.9**	(62.6)
Cash provided (used) by investing activities		**125.9**	(62.6)
Financing activities			
Repayment of other loans and borrowings		**(65.7)**	(1.6)
Increase in other loans and borrowings		**–**	90.0
Fees paid on debenture extension		**(14.8)**	-
Issuance of common shares		**0.2**	0.7
Dividends paid on common shares	18	**–**	(9.0)
Cash (used) provided by continuing operations		**(80.3)**	80.1
Cash (used) provided by financing activities		**(80.3)**	80.1
Effect of exchange rate changes on cash and cash equivalents		**(0.8)**	3.0
Increase in cash and cash equivalents		**39.0**	69.0
Cash and cash equivalents at beginning of the year		**230.6**	161.6
Cash and cash equivalents at end of the year	12	$ **269.6**	$ 230.6

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

Consolidated statements of changes in shareholders' equity

Canadian $ millions

	Note	Capital stock	Deficit	Reserves	Accumulated other comprehensive income (loss)	Total
Balance as at December 31, 2014		**$ 2,772.9**	**$ (259.9)**	**$ 225.2**	**$ 320.5**	**$ 3,058.7**
Total comprehensive loss:						
Net loss for the year		-	(2,076.7)	-	-	(2,076.7)
Foreign currency translation differences on foreign operations	18	-	-	-	579.2	579.2
Actuarial loss on pension plans, net of tax	18	-	-	-	(0.2)	(0.2)
		-	(2,076.7)	-	579.0	(1,497.7)
Shares issued for:						
Restricted stock plan (vested)	18	1.6	-	(1.6)	-	-
Employee share purchase plan (vested)	18	0.8	-	(0.1)	-	0.7
Restricted stock plan expense	18	-	-	0.1	-	0.1
Stock option plan expense	18	-	-	1.3	-	1.3
Dividends declared to common shareholders		-	(6.0)	-	-	(6.0)
Balance as at December 31, 2015		**2,775.3**	**(2,342.6)**	**224.9**	**899.5**	**1,557.1**
Total comprehensive loss:						
Net loss for the year		-	(378.9)	-	-	(378.9)
Foreign currency translation differences on foreign operations	18	-	-	-	(89.8)	(89.8)
Actuarial loss on pension plans, net of tax	18	-	-	-	(0.7)	(0.7)
		-	(378.9)	-	(90.5)	(469.4)
Shares issued for:						
Warrants exercised	18	0.4	-	(0.2)	-	0.2
Stock option plan expense	18	-	-	1.8	-	1.8
Warrant issuance	16	-	-	8.2	-	8.2
Balance as at December 31, 2016		**$ 2,775.7**	**$ (2,721.5)**	**$ 234.7**	**$ 809.0**	**$ 1,097.9**

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

Notes to the consolidated financial statements

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

1. NATURE OF OPERATIONS AND CORPORATE INFORMATION

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

The Corporation is domiciled in Ontario, Canada and its registered office is 181 Bay Street, Toronto, Ontario, M5J 2T3. These consolidated financial statements were approved and authorized for issuance by the Board of Directors of Sherritt on February 16, 2017. The Corporation is listed on the Toronto Stock Exchange.

2. BASIS OF PRESENTATION

2.1 Basis of presentation

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

The Corporation has consistently applied the same accounting policies to all periods presented.

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

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

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

Note	Topic	Accounting policies	Critical accounting estimates and judgments	Page
4	Reportable segments	x	x	13
4	Revenue recognition	x		13
6	Investment in an associate	x	x	17
7	Joint arrangements	x		20
9	Income taxes	x	x	23
12	Financial instruments	x		27
14	Inventories	x		32
15	Property, plant and equipment	x	x	32
15	Intangible assets	x	x	32
15	Impairment of non-financial assets	x	x	32
17	Provisions	x	x	41
19	Stock-based compensation	x		45
20	Statement of cash flows	x		50
23	Leases	x	x	55

2.2 Principles of consolidation

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

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

	Relationship	Geographic location	Economic interest	Basis of accounting
Metals				
Moa Joint Venture	Joint venture		50%	Equity method
Composed of the following operating companies:				
International Cobalt Company Inc.		Bahamas	50%	
Moa Nickel S.A.		Cuba	50%	
The Cobalt Refinery Company Inc.		Canada	50%	
Ambatovy Joint Venture	Associate		40%	Equity method
Composed of the following operating companies:				
Ambatovy Minerals S.A.		Madagascar	40%	
Dynatec Madagascar S.A.		Madagascar	40%	
Oil and Gas				
Sherritt International (Cuba) Oil and Gas Ltd.	Subsidiary	Cuba	100%	Consolidation
Sherritt International Oil and Gas Ltd.	Subsidiary	Canada	100%	Consolidation
Power				
Energas S.A. (Energas)	Joint operation	Cuba	33⅓%	Share of assets, liabilities, revenues and expenses

Subsidiaries

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

Joint arrangements

A joint arrangement is an arrangement whereby two or more parties are subject to joint control. Joint control is considered to be when all parties to the joint arrangement are required to reach unanimous consent over decisions about relevant business activities pertaining to the contractual arrangement. The Corporation has two types of joint arrangements: a joint venture and joint operations. See note 7 for details.

Associate

An associate is an entity over which the Corporation has significant influence. Significant influence is the power to participate in operating and financial decisions of the investee, but is not control or joint control over those policies. The Corporation is presumed to have significant influence over an entity if it holds, directly or indirectly, 20 percent or more of the voting power of the entity or if significant influence can be clearly demonstrated. The Corporation has one associate. See note 6 for details.

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

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

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

See note 15 for the Corporation's policy on impairment of non-financial assets of its subsidiaries and joint operations.

Critical accounting judgments

Interests in other entities

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

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

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

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

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

2.3 Foreign currency translation

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

Translation of foreign entities

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

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

Translation of transactions and balances

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

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

3. ACCOUNTING PRONOUNCEMENTS

3.1 Adoption of new and amended accounting pronouncements

In fiscal 2016, there have been no new or amended accounting pronouncements that have had a material impact on the Corporation's consolidated financial statements.

3.2 Accounting pronouncements issued but not yet effective

IFRS 9 – Financial Instruments

IFRS 9, "Financial instruments" (IFRS 9) was issued by the IASB on July 24, 2014 and will replace IAS 39, "Financial instruments: recognition and measurement" (IAS 39). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 also introduces a new expected loss impairment model. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Corporation will not early adopt IFRS 9. The Corporation is currently evaluating the impact of this standard and amendments on its consolidated financial statements and expects to report more detailed information, including estimated quantitative financial effects, in 2017.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15, "Revenue from Contracts and Customers" (IFRS 15) was issued by the IASB on May 28, 2014, and amended on April 12, 2016, and will replace IAS 18, "Revenue", IAS 11, "Construction Contracts", and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Corporation will not early adopt IFRS 15 and is currently evaluating its transition method. The Corporation is currently evaluating the impact of this standard and amendments on its consolidated financial statements and expects to report more detailed information, including estimated quantitative financial effects, in 2017.

IFRS 16 – Leases

IFRS 16, "Leases" (IFRS 16) was issued by the IASB on January 13, 2016, and will replace IAS 17, "Leases". IFRS 16 will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. The new standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has also been applied. The Corporation is currently evaluating when it will adopt IFRS 16 and the impact of this standard on its consolidated financial statements.

IFRS 2 – Share-based Payment

IFRS 2, "Share-based Payment" (IFRS 2) was amended by the IASB on June 20, 2016. The amendments clarify that in estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments. Other amendments do not apply to the Corporation. The amendments are effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Corporation is currently evaluating when it will adopt the amendments. The adoption of these amendments is not expected to have a material impact on the Corporation's consolidation financial statements.

4. SEGMENTED INFORMATION

Accounting policies

The accounting policies of the segments are the same as those described in note 2 and other relevant notes and are measured in a manner consistent with that of the consolidated financial statements.

Reportable segments

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

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

Revenue recognition

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

Metals

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

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

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

Oil and Gas

In Oil and Gas, these criteria are met at the time of production based on the Corporation's working interest. In Cuba, all oil production is sold to the Cuban government and, accordingly, delivery coincides with production. The Corporation is allocated a share of Cuban oil production pursuant to its production-sharing contracts.

Revenue from cost recovery oil, up to the total recoverable costs incurred in connection with oil activities, is recognized when entitlement to the cost recovery oil component of production is established. The production-sharing contracts limit cost recovery oil to a maximum percentage of total production in a calendar quarter, ranging generally between 50% and 60% of total production. Revenue from profit oil represents the Corporation's share of oil production after cost recovery oil production is deducted. Recoverable costs that do not provide cost recovery oil entitlements in the current period are included in the determination of cost recovery oil entitlements, and thus revenue, in future periods.

Power

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

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

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

Critical accounting judgments

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

Supporting information

Canadian $ millions, for the year ended December 31	Metals							2016
	Moa JV and Fort Site	Ambatovy JV	Other	Oil and Gas	Power	Corporate and Other[1]	Adjustments for Joint Venture and Associate[2]	Total
Revenue	$ 339.3	$ 264.8	$ 48.0	$ 108.6	$ 58.6	$ 0.9	$ (557.9)	$ 262.3
Cost of sales	(357.3)	(397.3)	(46.3)	(105.7)	(59.7)	(10.7)	713.6	(263.4)
Administrative expenses	(10.4)	(18.4)	(0.9)	(10.7)	(4.2)	(33.0)	23.1	(54.5)
Impairment of Oil assets	–	–	–	(8.5)	–	–	–	(8.5)
Share of loss of an associate, net of tax	–	–	–	–	–	–	(212.0)	(212.0)
Share of loss of a joint venture, net of tax	–	–	–	–	–	–	(44.7)	(44.7)
(Loss) earnings from operations, associate and joint venture	(28.4)	(150.9)	0.8	(16.3)	(5.3)	(42.8)	(77.9)	(320.8)
Financing income								81.2
Financing expense								(135.7)
Net finance expense								(54.5)
Loss before tax								(375.3)
Income tax expense								(6.5)
Net loss from continuing operations								(381.8)
Earnings from discontinued operations, net of tax (note 17)								2.9
Net loss for the year								(378.9)

Supplementary information								
Depletion, depreciation and amortization	$ 48.0	$ 143.9	$ –	$ 43.4	$ 34.8	$ 4.3	$ (182.3)	$ 92.1
Property, plant and equipment expenditures	31.2	21.3	–	9.0	1.0	0.1	(39.4)	23.2
Intangible asset expenditures	–	–	–	17.0	–	–	–	17.0

Canadian $ millions, as at December 31								2016
Non-current assets[3]	$ 734.0	$ 2,620.8	$ –	$ 119.9	$ 165.1	$ 7.3	$ (3,209.8)	$ 437.3
Total assets	961.1	2,934.8	92.2	1,194.0	542.6	658.9	(2,576.7)	3,806.9

Canadian $ millions, for the year ended December 31	Metals							2015
	Moa JV and Fort Site	Ambatovy JV	Other	Oil and Gas	Power	Corporate and Other[1]	Adjustments for Joint Venture and Associate[2]	Total
Revenue	$ 412.6	$ 332.0	$ 60.5	$ 162.6	$ 52.7	$ 2.3	$ (686.8)	$ 335.9
Cost of sales	(410.9)	(558.4)	(58.8)	(146.9)	(52.6)	(5.2)	914.7	(318.1)
Administrative expenses	(6.1)	(24.6)	(1.2)	(6.7)	(3.8)	(32.1)	28.1	(46.4)
Impairment of Ambatovy JV assets	-	(1,683.1)	-	-	-	-	1,683.1	-
Impairment of Oil assets	-	-	-	(80.6)	-	-	-	(80.6)
Gain on sale of Corporate assets	-	-	-	-	-	19.1	-	19.1
Share of loss of an associate, net of tax	-	-	-	-	-	-	(1,876.7)	(1,876.7)
Share of loss of a joint venture, net of tax	-	-	-	-	-	-	(11.8)	(11.8)
(Loss) earnings from operations, associate and joint venture	(4.4)	(1,934.1)	0.5	(71.6)	(3.7)	(15.9)	50.6	(1,978.6)
Financing income								75.5
Financing expense								(204.5)
Net finance expense								(129.0)
Loss before tax								(2,107.6)
Income tax recovery								35.9
Net loss from continuing operations								(2,071.7)
Loss from discontinued operations, net of tax (note 17)								(5.0)
Net loss for the year								(2,076.7)

Supplementary information								
Depletion, depreciation and amortization	$ 45.2	$ 202.2	$ -	$ 72.9	$ 33.7	$ 2.9	$ (237.7)	$ 119.2
Property, plant and equipment expenditures	62.4	36.1	-	57.9	4.4	3.3	(85.1)	79.0
Intangible asset expenditures	-	-	-	1.4	-	-	-	1.4

Canadian $ millions, as at December 31								2015
Non-current assets[3]	$ 772.0	$ 2,815.9	$ -	$ 147.6	$ 199.6	$ 11.0	$ (3,440.2)	$ 505.9
Total assets	1,039.8	3,044.1	12.2	1,219.5	548.6	913.8	(2,688.0)	4,090.0

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

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

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

Geographic information

Canadian $ millions, as at		2016 December 31		2015 December 31
	Non-current assets(1)	**Total assets(2)**	Non-current assets(1)	Total assets(2)
North America[3]	$ **155.8**	$ **646.2**	$ 165.0	$ 814.9
Cuba[3]	**263.7**	**1,164.3**	324.4	1,257.9
Madagascar	**1.0**	**1,896.5**	1.3	1,975.4
Europe	**16.1**	**54.3**	14.2	20.4
Asia	**0.7**	**22.6**	1.0	2.6
Other	**–**	**23.0**	-	18.8
	$ **437.3**	$ **3,806.9**	$ 505.9	$ 4,090.0

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

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

(3) Included within total assets in Cuba is the Moa expansion loan receivable of $264.9 million as at December 31, 2016 ($255.9 million as at December 31, 2015). The geographical location of the Moa expansion loan receivable is based on the location of the borrower. In the prior year, this amount was included within North America. For consistency of presentation with the current years presented, the comparative amount has been reclassified to Cuba.

Canadian $ millions, for the years ended December 31	**2016**	**2015**
	Total revenue(1)	Total revenue(1)
North America	$ **87.6**	$ 115.9
Cuba	**159.6**	203.3
Madagascar	**2.3**	1.7
Europe	**10.3**	11.3
Asia	**2.1**	2.3
Other	**0.4**	1.4
	$ **262.3**	$ 335.9

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

Revenue components

Canadian $ millions, for the years ended December 31	**2016**	2015
	Total revenue(1)	Total revenue(1)
Nickel	$ **40.7**	$ 56.2
Fertilizer	**47.9**	58.9
Oil and gas	**104.1**	157.7
Power generation	**50.2**	49.0
Other	**19.4**	14.1
	$ **262.3**	$ 335.9

(1) Revenue excludes the revenue of equity accounted investments.

Significant customers

The Oil and Gas segment derived $101.0 million of its revenue for the year ended December 31, 2016 ($150.6 million for the year ended December 31, 2015) directly and indirectly from agencies of the Government of Cuba.

The Power segment derived $54.8 million of its revenue for the year ended December 31, 2016 ($48.7 million for the year ended December 31, 2015) directly and indirectly from agencies of the Government of Cuba.

The Metals Other segment derived $32.7 million of its revenue for the year ended December 31, 2016 ($54.1 million for the year ended December 31, 2015) from a customer who markets and sells nickel.

No other single customer contributed 10% or more to the Corporation’s revenue for both 2016 and 2015.

5. EXPENSES

Cost of sales includes the following:

Canadian $ millions, for the years ended December 31		2016		2015
Employee costs	$	66.2	$	59.1
Depletion, depreciation and amortization of property, plant and equipment and intangible assets		89.4		116.5
Raw materials and consumables		34.6		48.4
Repairs and maintenance		38.7		56.6
Impairment losses and inventory obsolescence(1)		2.0		2.1
Freight and shipping costs		15.6		17.8
Construction costs		4.6		-
Other		12.3		17.6
	$	263.4	$	318.1

(1) In the third quarter of 2016, the Corporation recognized an impairment loss of $8.5 million (note 15) representing the write-down of certain Oil assets in the Oil and Gas segment to their recoverable amount ($80.6 million during the year ended December 31, 2015). Due to the significance of this impairment loss, the amount has been presented separately from cost of sales as impairment of Oil assets in the consolidated statement of comprehensive income (loss).

Administrative expenses include the following:

Canadian $ millions, for the years ended December 31		2016		2015
Employee costs	$	25.1	$	32.9
Severance		3.4		2.2
Depreciation		2.7		2.7
Stock-based compensation expense (recovery)		12.0		(1.0)
Consulting services and audit fees		6.0		5.2
Other		5.3		4.4
	$	54.5	$	46.4

6. INVESTMENT IN AN ASSOCIATE

Accounting policies

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

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

Critical accounting judgments

With respect to post-financial completion cash calls not funded by Sherritt under the Ambatovy Joint Venture financing, Sherritt has the option to pay the amounts in cash at any time, at Sherritt's election. Until the funding deficit is addressed, and subject to continued discussions with the Ambatovy Joint Venture partners, Sherritt will not exercise its Ambatovy Joint Venture voting rights. Sherritt has the ability to cure the underfunding and regain its voting rights at any time. Therefore, it is the Corporation's judgment that it continues to have significant influence over the Ambatovy Joint Venture.

Supporting information

The Corporation indirectly holds a 40% interest in Ambatovy Minerals S.A. and Dynatec Madagascar S.A. (collectively the Ambatovy Joint Venture). Sherritt is the operator of the Ambatovy Joint Venture and has as its partners, Sumitomo Corporation (Sumitomo) and Korea Resources Corporation (Kores). The Ambatovy Joint Venture has two nickel deposits located near Moramanga, Madagascar. The ore from these deposits is delivered via pipeline to a processing plant and refinery located near the Port of Toamasina.

Deferral of principal repayment on Ambatovy Joint Venture financing

In August 2016, the Ambatovy Joint Venture financing lenders agreed to up to six principal payment deferrals totaling US$565.1 million (100% basis), which are to be repaid on a schedule starting in June 2021, or earlier subject to cash flow generation. Until June 2019, the Ambatovy Joint Venture will pay semi-annual interest payments only and will not make semi-annual principal payments unless there is sufficient free cash flow after required deductions. Deferred principal is subject to an additional 2% accrued interest calculated from the date of each deferral. Total principal repayments were nil for the year ended December 31, 2016 as a result of this deferral (US$188.4 million for the year ended December 31, 2015). Interest payments of US$54.8 million were made to the lenders during the year ended December 31, 2016 (US$34.8 million for the year ended December 31, 2015).

Ambatovy Joint Venture funding and Shareholders Agreement

Total post-financial completion cash funding provided by Sumitomo and Kores is US$173.0 million, pursuant to total post-financial completion cash calls of US$288.3 million, with cash funding of US$143.0 million provided during the year ended December 31, 2016. Sherritt has not funded any portion of these cash calls, and continues not to fund. Sherritt's unfunded amounts remain payable. These amounts will be subtracted from future Ambatovy Joint Venture distributions, or may be set off against other amounts owed to Sherritt.

By agreement amongst the partners, Sherritt is not considered to be a defaulting shareholder under the Shareholders Agreement for amounts not funded through March 10, 2017, while discussions continue regarding the partnership structure and future funding arrangements. As part of this agreement, shareholder funding contributed from and including December 15, 2015, will accrue interest at a rate of LIBOR plus 8.0% and will be paid in priority to the subordinated loans payable. Repayments of principal and interest will not be made prior to certain conditions being satisfied. Unpaid interest is accrued monthly and capitalized to the principal balance semi-annually. As at December 31, 2016, the shareholder funding contributed from and including December 15, 2015 amounts to US$173.0 million and has been recognized in the Ambatovy Joint Venture's statement of financial position as Ambatovy subordinated loans payable – post-financial completion.

Impairment

During the year ended December 31, 2015, an impairment indicator was identified at the Ambatovy Joint Venture reflecting the expectation of a sustained reduction in long-term nickel prices. The recoverable amount was determined to be $7.1 billion (100% basis) as at December 31, 2015. In determining the recoverable amount for the Ambatovy Joint Venture, a long-term nickel price of US$8.50/lb and a discount rate of 9.0% were used in the discounted cash flow calculation. The Corporation has identified the Ambatovy Joint Venture operation as one cash-generating unit ("CGU"), which constitutes the Ambatovy Joint Venture reportable segment.

During the year ended December 31, 2015, the Corporation recognized a total impairment of $1.6 billion (40% basis), after tax, within the Corporation's share of loss of an associate, net of tax, in the consolidated statement of comprehensive income (loss). The total impairment consisted of the Corporation's 40% share of the Ambatovy Joint Venture impairment, a deferred tax asset write-down, an inventory write-down and an incremental impairment of the Corporation's mineral rights, net of deferred tax adjustments.

During the year ended December 31, 2016, no impairment was recognized relating to the Corporation's 40% interest in the Ambatovy Joint Venture.

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

Statement of financial position

Canadian $ millions, 100% basis, as at		2016 December 31		2015 December 31
Assets				
Cash and cash equivalents[1]	$	76.7	$	39.6
Other current assets		26.0		12.9
Trade accounts receivable, net		109.6		89.6
Inventories		415.5		426.2
Deferred income taxes[2]		–		-
Other non-current assets[3]		160.2		5.8
Property, plant and equipment		6,549.3		7,036.5
Total assets		7,337.3		7,610.6
Liabilities				
Trade accounts payable and accrued liabilities		321.0		317.5
Other taxes payable		21.7		15.8
Other current financial liabilities		0.1		-
Current portion of loans and borrowings:				
Ambatovy Joint Venture financing[4]		–		260.7
Ambatovy revolving credit facility[5]		50.5		60.6
Non-current portion of loans and borrowings:				
Ambatovy Joint Venture financing[4]		2,118.7		1,927.9
Ambatovy subordinated loans payable[6]		2,358.5		3,009.1
Ambatovy subordinated loans payable - post-financial completion[7]		242.9		-
Environmental rehabilitation provision		142.0		117.6
Other non-current liabilities[3]		162.2		8.2
Total liabilities		5,417.6		5,717.4
Net assets of Ambatovy Joint Venture	$	1,919.7	$	1,893.2
Proportion of Sherritt's ownership interest		40%		40%
Carrying value of investment in an associate	$	767.9	$	757.3

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

(2) As at December 31, 2015, the Ambatovy Joint Venture had derecognized its deferred tax asset. As at December 31, 2016, the Ambatovy Joint Venture has earned investment tax credits which management has estimated to be $694.2 million (December 31, 2015 - $713.7 million), operating losses of $867.9 million (December 31, 2015 - $652.1 million) and $4,359.1 million (December 31, 2015 - $4,117.8 million) of deductible temporary differences for which deferred tax assets have not been recognized since the realization of any related tax benefit through future taxable profits is not probable. The investment tax credits have an indefinite carry forward period and may be used to partially offset Malagasy income tax otherwise payable by the Ambatovy Joint Venture in subsequent years. The operating losses have a 5-year expiry period.

(3) As at December 31, 2016, the Ambatovy Joint Venture has recognized a financial asset relating to its right to receive outstanding shareholder funding from the Corporation (note 16). The Ambatovy Joint Venture has also recognized a financial liability relating to future distributions payable to the Corporation if and when the funding deficit is cured (note 13). This financial liability has not been included within the Ambatovy subordinated loans payable as the funding has not yet been provided by the Corporation.

(4) The Ambatovy Joint Venture financing is project financing with a group of international lenders that matures on June 15, 2024. For the year ended December 31, 2016, US$8.7 million ($11.4 million) of financing costs relating to the deferral of principal repayments were capitalized. The project financing became non-recourse to the partners in September 2015 when the project filed the remaining completion certificates and is now solely secured by the project assets. Interest is payable based on LIBOR plus a weighted-average margin of 2.5%. Deferred principal is subject to an additional 2% accrued interest calculated from the date of each deferral. As at December 31, 2016, the Ambatovy Joint Venture had borrowed US$1,601.1 million (December 31, 2015 - US$1,601.1 million) under the project financing.

(5) The Ambatovy revolving credit facility is a Malagasy Ariary (MGA) 126.0 billion ($50.5 million) revolving credit facility agreement with local financial institutions (December 31, 2015 – MGA 140 billion ($60.6 million)) which matures on July 31, 2017. The facility bears interest rates between 9.00% and 11.85% and is subordinated to the Ambatovy Joint Venture financing. As at December 31, 2016, MGA 126.0 billion ($50.5 million) was drawn on the revolving credit facility (December 31, 2015 - MGA 140 billion ($60.6 million)). As at December 31, 2015, the Ambatovy revolving credit facility was also comprised of a MGA 20 billion ($8.7 million) overdraft facility which matured on February 29, 2016.

(6) The subordinated loans payable is comprised of pro-rata contributions provided by the Ambatovy Joint Venture partners. The debt bears interest at LIBOR plus 6%. Repayments of principal or interest will not be made prior to certain conditions of the finance agreements being satisfied. Unpaid interest is accrued monthly and capitalized to the principal balance semi-annually. During the year ended December 31, 2016, US$510.0 million of the Ambatovy Joint Venture subordinated loans payable was converted to equity which, at the Corporation's 40% share, resulted in a US$204.0 million ($284.1 million) decrease in the Corporation's subordinated loans receivable. The Corporation has recorded its share of the related subordinated loans receivable within advances, loans receivable and other financial assets (note 13). There was no change to the Corporation's ownership interest as a result of the conversion.

(7) The subordinated loans payable – post-financial completion is comprised of the Ambatovy Joint Venture partner contributions from and including December 15, 2015, and accrues interest at a rate of LIBOR plus 8.0%.

Results of operations

Canadian $ millions, 100% basis, for the years ended December 31	2016	2015
Revenue	**$ 662.1**	$ 830.0
Cost of sales[1]	**(993.3)**	(1,395.9)
Administrative expenses	**(46.0)**	(61.4)
Loss on impairment of property, plant and equipment	**–**	(3,044.1)
Loss from operations	**(377.2)**	(3,671.4)
Financing income	**1.1**	0.2
Financing expense[2]	**(218.6)**	(295.3)
Net financing expense	**(217.5)**	(295.1)
Loss before tax	**(594.7)**	(3,966.5)
Income tax expense[3]	**–**	(48.3)
Net loss and comprehensive loss of Ambatovy Joint Venture	**$ (594.7)**	$ (4,014.8)
Proportion of Sherritt's ownership interest	**40%**	40%
Total	**(237.9)**	(1,605.9)
Intercompany interest expense elimination	**25.9**	43.7
Impairment of mineral rights, net of deferred tax	**–**	(314.5)
Share of loss of an associate, net of tax, including impairment	**$ (212.0)**	$ (1,876.7)

(1) Included in cost of sales for the year ended December 31, 2016 is depreciation and amortization of $358.7 million ($504.2 million for the year ended December 31, 2015. Cost of sales also includes a $101.3 million inventory write-down for the year ended December 31, 2015.)

(2) During the year ended December 31, 2016, a gain on the partial reversal of the value added tax (VAT) receivable provision of $38.8 million was recognized in financing expense ($11.5 million for the year ended December 31, 2015).

(3) Included in income tax expense for the year ended December 31, 2015 is a $120.6 million write-down of the Ambatovy Joint Venture deferred tax asset.

7. JOINT ARRANGEMENTS

Investment in a joint venture

Accounting policies

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

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

Supporting information

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

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

Statement of financial position

Canadian $ millions, 100% basis, as at	2016 December 31	2015 December 31
Assets		
Cash and cash equivalents	**$ 13.9**	$ 43.7
Other current assets	**8.4**	11.8
Trade accounts receivable, net	**86.0**	72.2
Inventories	**193.2**	208.4
Other non-current assets	**13.3**	13.9
Property, plant and equipment	**1,274.3**	1,349.5
Deferred income taxes[1]	**–**	12.1
Total assets	**1,589.1**	1,711.6
Liabilities		
Trade accounts payable and accrued liabilities	**57.2**	68.3
Income taxes payable	**5.1**	2.9
Other current financial liabilities[2]	**57.1**	59.0
Loans and borrowings[3]	**48.3**	43.9
Environmental rehabilitation provision	**77.6**	80.6
Other non-current financial liabilities[4]	**548.0**	519.9
Deferred income taxes	**26.1**	27.6
Total liabilities	**819.4**	802.2
Net assets of Moa Joint Venture	**$ 769.7**	$ 909.4
Proportion of Sherritt's ownership interest	**50%**	50%
Total	**384.9**	454.7
Intercompany capitalized interest elimination	**(48.1)**	(50.5)
Carrying value of investment in a joint venture	**$ 336.8**	$ 404.2

(1) During the year ended December 31, 2016, the Moa Joint Venture derecognized its deferred tax asset. As at December 31, 2016, the Moa Joint Venture has tax losses of $75.0 million (December 31, 2015 - $53.8 million) for which a deferred tax asset has not been recognized as the realization of tax losses at Moa Nickel S.A. are not probable. The tax losses have a 5-year carry forward period from the year incurred and are located in Cuba.

(2) Included in other current financial liabilities as at December 31, 2016 is a $56.9 million working capital facility with the Corporation (December 31, 2015 - $56.9 million) (note 13).

(3) Included in loans and borrowings as at December 31, 2016 is a $48.3 million loan for the construction of the Moa Joint Venture acid plant (December 31, 2015 - $43.9 million). The acid plant loan accrues interest at a rate of 10% per annum which is payable monthly.

(4) Included in other non-current financial liabilities as at December 31, 2016 is $529.9 million in expansion loans of which $264.9 million are with the Corporation (December 31, 2015 - $511.8 million, $255.9 million of which are with the Corporation) (note 13).

Results of operations

Canadian $ millions, 100% basis, for the years ended December 31	2016	2015
Revenue	**$ 586.2**	$ 709.5
Cost of sales[1]	**(632.6)**	(712.8)
Administrative expenses	**(9.5)**	(7.0)
Loss from operations	**(55.9)**	(10.3)
Financing income	**0.2**	0.5
Financing expense	**(43.6)**	(41.4)
Net finance expense	**(43.4)**	(40.9)
Loss before tax	**(99.3)**	(51.2)
Income tax (expense) recovery[2]	**(15.7)**	8.7
Net loss and comprehensive loss of Moa Joint Venture	**$ (115.0)**	$ (42.5)
Proportion of Sherritt's ownership interest	**50%**	50%
Total	**(57.5)**	(21.3)
Intercompany elimination	**12.8**	9.5
Share of loss of a joint venture, net of tax	**$ (44.7)**	$ (11.8)

(1) Included in cost of sales for the year ended December 31, 2016 is depreciation and amortization of $76.8 million (for the year ended December 31, 2015 - $71.1 million).

(2) Included in income tax (expense) recovery for the year ended December 31, 2016 is an income tax expense of $15.4 million related to the derecognition of the deferred tax asset at Moa Nickel S.A. (nil for the year ended December 31, 2015).

For the year ended December 31, 2016, the Moa Joint Venture (50% basis) paid nil dividends ($12.5 million for the year ended December 31, 2015).

Joint operations

Accounting policies

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

Supporting information

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

On December 15, 2016, the term of the Varadero lease agreement was extended to March 2023. The Corporation continues to account for the Varadero lease agreement as an operating lease (note 23) amortized using the straight-line method of amortization. The extension will reduce the amortization expense each period as the asset is now amortized to March 2023. This change was accounted for prospectively from the date of the extension. For the year ended December 31, 2016, amortization expense decreased by approximately US$0.2 million as a result of the extension.

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

Canadian $ millions, 33⅓% basis, as at	2016 December 31	2015 December 31
Current assets	**$ 49.6**	$ 25.6
Non-current assets	**151.3**	176.2
Current liabilities	**27.0**	21.4
Non-current liabilities	**86.0**	79.8
Net assets	**$ 87.9**	$ 100.6

Canadian $ millions, 33⅓% basis, for the years ended December 31		2016		2015
Revenue	$	**58.6**	$	52.2
Expense		**(61.1)**		(28.8)
Net (loss) earnings	$	**(2.5)**	$	23.4

8. NET FINANCE INCOME (EXPENSE)

Canadian $ millions, for the years ended December 31	Note		2016		2015
Revaluation on financial instruments[1]		$	**2.7**	$	(17.7)
Interest income on cash, cash equivalents and short-term investments			**2.5**		2.7
Interest income on investments			**0.4**		-
Interest income on advances and loans receivable			**63.0**		90.5
Gain on repurchase of debentures	16		**12.6**		-
Total financing income			**81.2**		75.5
Interest expense and accretion on loans and borrowings			**(168.0)**		(149.9)
Unrealized foreign exchange gain (loss)			**35.9**		(44.4)
Realized foreign exchange (loss) gain	20		**(0.6)**		1.5
Other finance charges	20		**(2.0)**		(10.6)
Accretion expense on environmental rehabilitation provisions	17, 20		**(1.0)**		(1.1)
Total financing expense			**(135.7)**		(204.5)
Net finance expense		$	**(54.5)**	$	(129.0)

(1) Included in revaluation on financial instruments for the year ended December 31, 2015 is the Corporation's realized loss on the extinguishment of the Ambatovy call option of $13.7 million which expired on September 30, 2015.

9. INCOME TAXES

Accounting policies

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

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

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

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

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

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

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

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

Critical accounting estimates

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

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

Critical accounting judgments

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

Supporting information

Canadian $ millions, for the years ended December 31	2016	2015
Current income tax expense (recovery)		
Current period	$ 12.4	$ 16.2
Tax rate changes	–	(27.2)
	12.4	(11.0)
Deferred income tax (recovery) expense		
Origination and reversal of temporary differences	(34.3)	(55.9)
Reduction in tax rate	–	(13.5)
Non-recognition of tax assets	28.4	44.5
	(5.9)	(24.9)
Income tax expense (recovery)	$ 6.5	$ (35.9)

Tax rate changes

In 2015, clarification was received from the Cuban government regarding the application of tax rate reductions in Cuba due to a new foreign investment law. As a result, the tax expense for the year ended December 31, 2015 included a tax recovery of $40.7 million in Oil and Gas. In addition, for the year ended December 31, 2015 a tax recovery of $2.6 million (50% basis) was recognized at the Moa Joint Venture, the impact of which is included in the Corporation's share of (loss) earnings of a joint venture. The new foreign investment law in Cuba resulted in the following rate changes:

Operation	Prior Statutory Tax Rate	Revised Statutory Tax Rate
Oil and Gas	30.0%	22.5%
Power	30.0%	15.0%
Metals - Moa Joint Venture	45.0%	22.5%

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

Canadian $ millions, for the years ended December 31	2016	2015
Loss before tax from continuing operations	$ (375.3)	$ (2,107.6)
Add share of loss of equity accounted investments	256.7	1,888.5
Parent companies and subsidiaries loss before tax	(118.6)	(219.1)
Income tax recovery at the combined basic rate of 26.94% (2015 - 26.06%)	(32.0)	(57.1)
Increase (decrease) in taxes resulting from:		
Difference between Canadian and foreign tax rates	9.5	(16.5)
Reduction in income tax rates	–	(40.7)
Non-deductible losses and write-downs	0.3	36.4
Non-recognition of tax assets	27.9	44.5
Other items	0.8	(2.5)
	$ 6.5	$ (35.9)

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

Canadian $ millions, for the year ended December 31, 2016	Opening Balance	Recognized in net loss	Recognized in other comp-rehensive income (loss)	Closing Balance
Deferred tax assets				
Environmental rehabilitation obligations	$ –	$ –	$ –	$ –
Property, plant and equipment	3.7	(2.5)	(0.1)	1.1
	3.7	(2.5)	(0.1)	1.1
Set off against deferred tax liabilities	(3.7)	–	–	(1.1)
Deferred tax assets	$ –	$ (2.5)	$ (0.1)	$ –
Deferred tax liabilities				
Property, plant and equipment and intangible assets	$ (16.9)	$ 7.4	$ 0.4	$ (9.1)
Cuban tax contingency reserve	(20.2)	(0.3)	0.6	(19.9)
Pension and other benefit plans and reserves	(2.0)	1.3	0.1	(0.6)
	(39.1)	8.4	1.1	(29.6)
Set off against deferred tax assets	3.7	–	–	1.1
Deferred tax liabilities	(35.4)	8.4	1.1	(28.5)
Net deferred tax (liabilities) assets	$ (35.4)	$ 5.9	$ 1.0	$ (28.5)
Recovery recognized in net loss		5.9		

Canadian $ millions, for the year ended December 31, 2015	Opening Balance	Recognized in net loss	Recognized in other comp-rehensive income (loss)	Closing Balance
Deferred tax assets				
Environmental rehabilitation obligations	$ 0.3	$ (0.3)	$ -	$ -
Property, plant and equipment	16.4	(14.9)	2.2	3.7
	16.7	(15.2)	2.2	3.7
Set off against deferred tax liabilities	(14.4)	-	-	(3.7)
Deferred tax assets	$ 2.3	$ (15.2)	$ 2.2	$ -
Deferred tax liabilities				
Property, plant and equipment and intangible assets	$ (44.3)	$ 33.1	$ (5.7)	$ (16.9)
Cuban tax contingency reserve	(22.0)	4.8	(3.0)	(20.2)
Pension and other benefit plans and reserves	(3.7)	2.2	(0.5)	(2.0)
	(70.0)	40.1	(9.2)	(39.1)
Set off against deferred tax assets	14.4	-	-	3.7
Deferred tax liabilities	(55.6)	40.1	(9.2)	(35.4)
Net deferred tax (liabilities) assets	$ (53.3)	$ 24.9	$ (7.0)	$ (35.4)
Recovery recognized in net loss		24.9		

As at December 31, 2016, the Corporation had temporary differences of $752.8 million (December 31, 2015 - $838.2 million) associated with investments in subsidiaries, associated entities and interests in joint ventures for which no deferred tax liabilities have been recognized, as the Corporation is able to control the timing of the reversal of these temporary differences and it is not probable that these temporary differences will reverse in the foreseeable future.

As at December 31, 2016, the Corporation had non-capital losses of $528.5 million (December 31, 2015 - $439.2 million) and capital losses of $1,074.0 million (December 31, 2015 - $1,054.0 million) which may be used to reduce future taxable income. The Corporation has not recognized a deferred income tax asset on $528.5 million of non-capital losses, $1,074.0 million of capital losses and $161.7 million of other deductible temporary differences since the realization of any related tax benefit through future taxable profits is not probable. The capital losses have no expiry dates and the other deductible temporary differences do not expire under current tax legislation. The non-capital losses are located in the following countries and expire as follows:

Canadian $ millions, as at December 31, 2016	Expiry	Non-capital losses
Canada	2026-2036	$ 503.2
Barbados	2017-2024	21.9
Spain	No expiry	3.4

10. GAIN ON SALE OF CORPORATE ASSETS

On May 29, 2015, the Corporation completed the sale of its corporate office in Toronto for $21.5 million. On the sale of the property, the Corporation recognized a gain of $19.1 million, which represents the difference between the proceeds, net of transaction costs of $0.3 million, and the net book value of $2.1 million.

11. LOSS PER SHARE

Canadian $ millions, except share amounts in millions and per share amounts in dollars, for the years ended December 31		2016		2015
Net loss from continuing operations	$	**(381.8)**	$	(2,071.7)
Earnings (loss) from discontinued operations, net of tax		**2.9**		(5.0)
Net loss – basic and diluted	$	**(378.9)**	$	(2,076.7)
Weighted-average number of common shares – basic and diluted(1)		**293.9**		293.7
Net loss from continuing operations per common share, basic and diluted	$	**(1.30)**	$	(7.05)
Earnings (loss) from discontinued operations per common share, basic and diluted	$	**0.01**	$	(0.02)
Net loss per common share, basic and diluted	$	**(1.29)**	$	(7.07)

(1) The determination of the weighted-average number of common shares - diluted excludes 9.6 million shares related to stock options and 18.8 million warrants that were anti-dilutive for the year ended December 31, 2016 (6.2 million and nil, respectively, for the year ended December 31, 2015).

12. FINANCIAL INSTRUMENTS

Accounting policies

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

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

Financial assets

Financial assets, measured at fair value through profit or loss:

- Restricted cash; cash equivalents; short-term investments.

Loans and receivables, measured at amortized cost:

- Cash on hand and balances at bank; advances and loans receivable; other financial assets; trade accounts receivable.

Financial liabilities

Other financial liabilities, measured at amortized cost:

- Trade accounts payable and accrued liabilities; loans and borrowings; other financial liabilities.

Financial assets, measured at fair value through profit or loss

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

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

Financial assets and liabilities, measured at amortized cost

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

Cash on hand and balances at bank and advances and loans receivable are initially recognized at fair value net of transaction costs and are subsequently measured at amortized cost. Interest revenue on advances and loans receivable are recognized using the effective interest method.

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

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

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

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

Derecognition of financial assets and liabilities

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

Impairment of financial assets, carried at amortized costs

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

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

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

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

Financial instrument measurement hierarchy

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

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

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

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

Supporting information

Cash, cash equivalents and short-term investments

Cash and cash equivalents consist of:

Canadian $ millions, as at	2016 December 31	2015 December 31
Cash equivalents	$ **162.9**	$ 118.9
Cash on hand and balances with banks	**105.7**	110.7
Restricted cash	**1.0**	1.0
	$ **269.6**	$ 230.6

The Corporation's cash balances are deposited with major financial institutions rated A- or higher by Standard and Poor's except for institutions located in Madagascar and Cuba that are not rated. The total cash held in Madagascan and Cuban bank deposit accounts was $3.8 million and $26.8 million, respectively, as at December 31, 2016 (December 31, 2015 – $4.0 million and $3.8 million, respectively).

As at December 31, 2016, $25.5 million of cash on the Corporation's consolidated statements of financial position was held by Energas (December 31, 2015 – $0.8 million). These funds are for use by the joint operation.

The Corporation's cash equivalents consist of Government of Canada treasury bills, term deposits with maturities of 90 days or less and demand deposits redeemable upon 31 days request. The term deposits and demand deposits are with major financial institutions. As at December 31, 2016, the Corporation had $122.9 million in Government of Canada treasury bills, $25.0 million in term deposits and $15.0 million in demand deposits (December 31, 2015 - $93.9 million, $25.0 million and nil, respectively) included in cash and cash equivalents and $40.0 million in Government of Canada treasury bills included in short-term investments (December 31, 2015 - $204.8 million).

Fair value measurement

As at December 31, 2016, the carrying amounts of trade accounts receivable, current portion of advances, loans receivable and other financial assets, current portion of other loans and borrowings, current portion of other financial liabilities, trade accounts payable and accrued liabilities are at fair value or approximate fair value due to their immediate or short terms to maturity.

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

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

Canadian $ millions, as at	Note			2016 December 31		2015 December 31
		Hierarchy level	**Carrying value**	**Fair value**	Carrying value	Fair Value
Liabilities:						
8.00% senior unsecured debentures due 2021	16	1	$ **211.8**	$ **162.8**	$ 247.3	$ 140.0
7.50% senior unsecured debentures due 2023	16	1	**239.5**	**181.3**	246.5	135.0
7.875% senior unsecured debentures due 2025	16	1	**233.1**	**177.5**	240.3	130.0
Ambatovy Joint Venture additional partner loans(2)	16	2	**1,367.5**	**77.7**	1,303.2	106.4
Ambatovy Joint Venture partner loans(2)	16	2	**133.3**	**66.3**	134.6	20.1
Assets:						
Ambatovy subordinated loans receivable(3)	13	2	**943.4**	**959.8**	1,187.2	1,308.7
Energas conditional sales agreement(3)	13	2	**168.6**	**101.3**	157.5	167.7
Moa Joint Venture expansion loans receivable(3)	13	2	**264.9**	**198.2**	255.9	225.7

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

(2) The fair values of the Ambatovy Joint Venture partner loans and Ambatovy Joint Venture additional partner loans are calculated by discounting future cash flows using rates that are based on market rates adjusted for the Corporation's credit quality for instruments with similar maturity horizons.

(3) The fair values of the Ambatovy subordinated loans receivable, Energas conditional sales agreement and Moa Joint Venture expansion loans receivable are calculated by discounting future cash flows using rates that are based on market rates adjusted for the entity's credit quality.

The following table presents financial assets, measured at fair value through profit or loss on a recurring basis:

Canadian $ millions, as at	Hierarchy level	2016 December 31	2015 December 31
Cash equivalents	1	$ 162.9	$ 118.9
Short-term investments	1	40.0	204.8
Restricted cash	1	1.0	1.0
Ambatovy call option	3	−	-

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

Canadian $ millions	Note	For the year ended December 31 2016	For the year ended December 31 2015
Balance, beginning of the year		$ −	$ 15.5
Revaluation on financial instruments in net finance expense	8	−	(17.7)
Effect of movements in exchange rates		−	2.2
Balance, end of the year		$ −	$ -

Upon achieving financial completion on September 21, 2015, the Corporation's Ambatovy call option became exercisable for a two-year period or until SNC-Lavalin exercised its put option. The Ambatovy call option related to the right of the Corporation and Sumitomo Corporation to acquire SNC-Lavalin's 5% equity interest in the Ambatovy Joint Venture. SNC-Lavalin's put option related to the right to divest of its 5% equity interest to the Corporation and Sumitomo Corporation. The Corporation had the right to decline such an offer. On September 30, 2015, SNC-Lavalin exercised its put option. The Corporation declined its option to acquire its share of SNC-Lavalin's interest. As a result, the Ambatovy call option expired and the Corporation realized a loss of $13.7 million on the extinguishment of this financial instrument through net finance expense.

Trade accounts receivable, net

Canadian $ millions, as at	2016 December 31	2015 December 31
Trade accounts receivable	$ 211.4	$ 186.6
Allowance for doubtful accounts	(11.0)	(11.8)
Accounts receivable from joint operations	0.4	0.7
Accounts receivable from joint venture	11.4	20.2
Accounts receivable from associate	33.9	33.8
Other	39.7	28.8
	$ 285.8	$ 258.3

Aging of receivables not impaired:

Canadian $ millions, as at	2016 December 31	2015 December 31
Not past due	$ 227.7	$ 170.6
Past due no more than 30 days	25.2	26.9
Past due for more than 30 days but no more than 60 days	6.3	11.8
Past due for more than 60 days	26.6	49.0
	$ 285.8	$ 258.3

Payment terms for oil sales to an agency of the Cuban government are based on Gulf Coast No. 6 Fuel Oil (FO#6) reference prices. If the FO#6 price is greater than US$29.50, payment terms are 180 days from the date of invoice. If FO#6 price is between US$24.76 and US$29.50, payment terms are 150 days from the date of invoice. If FO#6 price is between US$20.01 and US$24.75, payment terms are 120 days from the date of invoice. If FO#6 price is equal to or less than US$20.00, payment terms are 90 days from the date of invoice.

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

13. ADVANCES, LOANS RECEIVABLE AND OTHER FINANCIAL ASSETS

Canadian $ millions, as at	2016 December 31	2015 December 31
Advances and loans receivable		
Ambatovy subordinated loans receivable[1]	**$ 943.4**	$ 1,187.2
Energas conditional sales agreement[1]	**192.4**	182.0
Moa Joint Venture expansion loans receivable[1]	**264.9**	255.9
Moa Joint Venture working capital facility	**56.9**	56.9
Other	**10.8**	1.2
Other financial assets	**157.8**	–
	1,626.2	1,683.2
Current portion of advances, loans receivable and other financial assets	**(83.5)**	(82.7)
	$ 1,542.7	$ 1,600.5

(1) As at December 31, 2016, the non-current portions of the Ambatovy subordinated loans receivable, Energas conditional sales agreement and the Moa Joint Venture expansion loans receivable are $943.4 million, $168.6 million and $264.9 million, respectively (December 31, 2015 – $1,187.2 million, $157.5 million and $255.9 million, respectively).

Ambatovy subordinated loans receivable

A funding agreement was entered into by the Corporation with the Ambatovy Joint Venture to finance the development of the Ambatovy Project. The facility bears interest at six-month LIBOR plus 6%. Repayments of principal or interest will not be made prior to certain conditions of the Ambatovy Joint Venture senior debt finance agreements being satisfied. Unpaid interest is accrued monthly and capitalized to the principal balance semi-annually. For the year ended December 31, 2016, no post-financial completion cash funding was provided to the Ambatovy Joint Venture ($135.7 million for the year ended December 31, 2015). During the years ended December 31, 2016 and December 31, 2015, the Ambatovy Joint Venture converted US$510.0 million and US$1.5 billion, respectively, of its subordinated loans payable to equity (note 6) which, at the Corporation's 40% share, resulted in a US$204.0 million and US$618.0 million ($284.1 million and $840.0 million), respectively, decrease in the Corporation's subordinated loans receivable. There was no change to the Corporation's ownership interest as a result of the conversions.

Energas conditional sales agreement

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

Moa Joint Venture expansion loans receivable

The Moa Joint Venture expansion loans receivable is a funding agreement entered into by the Corporation in prior years to finance expansion. This loans receivable has a fixed interest rate of 6.5%. In June 2015, the maturity date of this agreement was extended to December 31, 2026. Repayments are being made from available distributable cash flows from the Moa Joint Venture.

Moa Joint Venture working capital facility

The Moa Joint Venture working capital facility is a working capital facility for use by the Moa Joint Venture. In November 2016, the maturity of the working capital facility was extended to January 31, 2017 and the maximum credit available was reduced from $90.0 million to $65.0 million. The interest rates increased from prime plus 2.25% or bankers' acceptance plus 3.25% to prime plus 2.50% or bankers' acceptance plus 3.50%.

On January 31, 2017, the credit facility was renewed with a maximum credit available of $65.0 million, $13.7 million of which matures on April 21, 2017 and the remaining $51.3 million matures on January 30, 2018. The maximum credit available will further decrease by 4.167% quarterly beginning April 28, 2017. Collectively, these reductions in available credit will result in outstanding credit of $38.6 million at January 30, 2018. The interest rates increased from prime plus 2.50% or bankers' acceptance plus 3.50% to prime plus 3.50% or bankers' acceptance plus 4.50%.

Other financial assets

As at December 31, 2016, included in other financial assets is $154.9 million related to the Corporation's right to receive future distributions from the Ambatovy Joint Venture (note 16). This non-current financial asset has not been included within Ambatovy subordinated loans receivable as the funding has not yet been provided by the Corporation (note 6).

14. INVENTORIES

Accounting policies

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

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

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

Supporting information

Canadian $ millions, as at	2016 December 31	2015 December 31
Materials in process	$ 0.1	$ -
Finished products	11.0	7.7
	11.1	7.7
Spare parts and operating materials	28.5	30.3
	$ 39.6	$ 38.0

For the year ended December 31, 2016, the cost of inventories included in cost of sales was $46.9 million ($65.1 million for the year ended December 31, 2015).

15. NON-FINANCIAL ASSETS

Accounting policies

Property, plant and equipment

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

Plant and equipment

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

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

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

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

Oil and Gas properties

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

Capitalization of borrowing costs

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

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

Derecognition

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

Intangible assets

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

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

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

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

Exploration and evaluation

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

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

Service concession arrangements

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

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

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

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

Amortization

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

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

Impairment of non-financial assets

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

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

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

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

Impairment of exploration and evaluation expenditures at Oil and Gas

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

Critical accounting estimates

Property, plant and equipment

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

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

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

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

Reserves for Oil and Gas properties

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

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

Critical accounting judgments

Exploration and evaluation

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

Service concession arrangements

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

Commercial viability

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

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

Impairment of non-financial assets

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

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

Supporting information

Property, plant and equipment

Canadian $ millions, for the year ended December 31			2016
	Oil and Gas properties	Plant, equipment and land	Total
Cost			
Balance, beginning of the year	$ 1,564.0	$ 716.9	$ 2,280.9
Additions	2.9	20.7	23.6
Additions and changes in estimates to environmental rehabilitation provisions	4.9	(5.5)	(0.6)
Disposals and derecognition	–	(30.1)	(30.1)
Effect of movements in exchange rates	(51.0)	(14.6)	(65.6)
Balance, end of the year	$ 1,520.8	$ 687.4	$ 2,208.2
Depletion, depreciation and impairment losses			
Balance, beginning of the year	$ 1,507.8	$ 422.0	$ 1,929.8
Depletion and depreciation	30.0	39.2	69.2
Impairments	8.0	0.5	8.5
Disposals and derecognition	–	(26.0)	(26.0)
Effect of movements in exchange rates	(48.9)	(10.8)	(59.7)
Balance, end of the year	$ 1,496.9	$ 424.9	$ 1,921.8
Net book value	$ 23.9	$ 262.5	$ 286.4

Canadian $ millions, for the year ended December 31	Oil and Gas properties	Plant, equipment and land	Total 2015
Cost			
Balance, beginning of the year	$ 1,303.6	$ 649.9	$ 1,953.5
Additions	32.1	42.1	74.2
Additions and changes in estimates to environmental rehabilitation provisions	6.7	(5.8)	0.9
Disposals and derecognition	(1.3)	(27.4)	(28.7)
Effect of movements in exchange rates and other	222.9	62.1	285.0
Reclassified to assets held for sale	-	(4.0)	(4.0)
Balance, end of the year	$ 1,564.0	$ 716.9	$ 2,280.9
Depletion, depreciation and impairment losses			
Balance, beginning of the year	$ 1,227.5	$ 303.9	$ 1,531.4
Depletion and depreciation	59.8	38.5	98.3
Impairments	78.5	2.1	80.6
Disposals and derecognition	(1.3)	(26.0)	(27.3)
Effect of movements in exchange rates and other	143.3	106.6	249.9
Reclassified to assets held for sale	-	(3.1)	(3.1)
Balance, end of the year	$ 1,507.8	$ 422.0	$ 1,929.8
Net book value	$ 56.2	$ 294.9	$ 351.1

Canadian $ millions	**Plant, equipment and land**
Assets under construction, included in above	
As at December 31, 2016	**$ 16.6**
As at December 31, 2015	18.3

Impairment of Oil assets

The Corporation has the following four cash-generating units ("CGUs") within its Oil and Gas segment: Puerto Escondido/Yumuri, Puerto Escondido/Yumuri extension ("PE/YU extension"), Spain and Varadero West. These CGUs are determined by geographical area or production-sharing contract ("PSC"). Any impairment of these CGUs will be recognized within the consolidated statements of comprehensive income (loss) as Impairment of Oil assets.

In the third quarter of 2015, the Corporation recognized an impairment loss of $80.6 million representing the write-down of certain CGUs in the Oil and Gas segment to their recoverable amount as a result of lower oil price forecasts and drilling results from development wells at the PE/YU extension that were below expectations. The impaired CGUs consisted of Puerto Escondido/Yumuri, PE/YU extension and Spain. The recoverable amounts of the impaired CGUs were based on value in use and were $54.4 million as at September 30, 2015. In determining value in use for the CGU, the cash flows were discounted at a rate of 10.0%. The drilling results used in the value in use were derived from internal estimates. In the fourth quarter of 2015, an independent qualified reserve analysis was received. Based on the Corporation's review of this report, no additional impairment was recognized in 2015.

During the third quarter of 2016, the Corporation recognized an impairment loss of $8.5 million representing the write-down of the PE/YU extension CGU, within the Oil and Gas segment, to its recoverable amount. This impairment was the result of a decrease in internally forecasted oil reserves at the PE/YU extension due to two oil wells being shut-in as a result of low oil production. The PE/YU extension was the only CGU where an impairment indicator was identified. Its recoverable amount was determined to be negligible based on value in use analysis at September 30, 2016. In determining value in use for the PE/YU extension CGU, the cash flows were discounted at a rate of 10.0%.

In the fourth quarter of 2016, an independent qualified reserve analysis was received. Based on the Corporation's review of this report, no additional impairment was recognized in 2016.

Intangible assets

Canadian $ millions, for the year ended December 31	Contractual arrange-ments	Exploration and Evaluation	Service concession arrange-ments	Other	Total
					2016
Cost					
Balance, beginning of the year	$ 27.0	$ 13.8	$ 235.5	$ 9.1	$ 285.4
Additions through internal development	–	18.8	4.6	–	23.4
Disposals	–	–	–	–	–
Effects of movements in exchange rates	–	0.3	(6.8)	–	(6.5)
Balance, end of the year	$ 27.0	$ 32.9	$ 233.3	$ 9.1	$ 302.3
Amortization and impairment losses					
Balance, beginning of the year	$ 23.0	$ 12.3	$ 88.2	$ 7.1	$ 130.6
Amortization	1.8	–	19.6	1.7	23.1
Disposals	–	–	–	–	–
Impairments	–	–	–	–	–
Effect of movements in exchange rates	–	–	(2.3)	–	(2.3)
Balance, end of the year	$ 24.8	$ 12.3	$ 105.5	$ 8.8	$ 151.4
Net book value	$ 2.2	$ 20.6	$ 127.8	$ 0.3	$ 150.9

Canadian $ millions, for the year ended December 31	Contractual arrange-ments	Exploration and Evaluation	Service concession arrange-ments	Other	Total
					2015
Cost					
Balance, beginning of the year	$ 27.0	$ 12.3	$ 198.5	$ 9.1	$ 246.9
Additions through internal development	-	1.4	-	-	1.4
Disposals	-	-	-	-	-
Effect of movements in exchange rates	-	0.1	37.0	-	37.1
Balance, end of the year	$ 27.0	$ 13.8	$ 235.5	$ 9.1	$ 285.4
Amortization and impairment losses					
Balance, beginning of the year	$ 21.2	$ 12.3	$ 57.1	$ 6.9	$ 97.5
Amortization	1.8	-	18.7	0.2	20.7
Disposals	-	-	-	-	-
Impairments	-	-	-	-	-
Effect of movements in exchange rates	-	-	12.4	-	12.4
Balance, end of the year	$ 23.0	$ 12.3	$ 88.2	$ 7.1	$ 130.6
Net book value	$ 4.0	$ 1.5	$ 147.3	$ 2.0	$ 154.8

Contractual arrangements

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

Exploration and evaluation

In 2014, the Corporation signed two new PSCs with the Government of Cuba, encompassing areas of 967 and 261 square kilometres, respectively referred to as Block 8A and Block 10. Both PSCs have a term of 25 years. Exploration and evaluation assets include capitalized expenditures on these two blocks, and primarily consist of exploration drilling performed on Block 10.

Service concession arrangements

In 2016, construction of the Puerto Escondido/Yumuri pipeline was completed and the pipeline became operational. Also included in service concession arrangements is construction at the Energas Boca de Jaruco facility completed in 2014. Revenues and expenses relating to the construction activity for the year ended December 31, 2016 is $4.6 million (December 31, 2015 - nil). Expenses incurred in relation to the construction activity are included in cost of sales in the consolidated statements of comprehensive income (loss).

Other

In 2007, the Corporation acquired scientific and technical knowledge related primarily to hydrometallurgical technologies for the treatment and recovery of non-ferrous metals.

16. LOANS, BORROWINGS AND OTHER FINANCIAL LIABILITIES

Loans and borrowings

Canadian $ millions, as at	Note	2016 December 31	2015 December 31
Non-recourse loans and borrowings			
Ambatovy Joint Venture additional partner loans	12	**$ 1,367.5**	$ 1,303.2
Other loans and borrowings			
8.00% senior unsecured debentures due 2021	12	**$ 211.8**	$ 247.3
7.50% senior unsecured debentures due 2023	12	**239.5**	246.5
7.875% senior unsecured debentures due 2025	12	**233.1**	240.3
Ambatovy Joint Venture partner loans	12	**133.3**	134.6
Syndicated revolving-term credit facility		**43.0**	55.0
Line of credit		**–**	35.0
Vendor financing		**–**	1.2
		860.7	959.9
Current portion of other loans and borrowings		**(43.0)**	(91.2)
		$ 817.7	$ 868.7

Senior unsecured debentures

During the year ended December 31, 2016, the maturity dates of the outstanding senior unsecured debentures (the "Notes") were extended by three years from 2018, 2020 and 2022 to 2021, 2023 and 2025, respectively (the "Extension"). The applicable interest rates and existing covenants for the Notes remain unchanged. The Noteholders that voted in favour of the Extension received, at the option of the Noteholder, either:

- cash consent consideration equal to 2% of the principal amount of the debentures; or,
- 73.25 warrants for each $1,000 of principal amount of debentures held. The warrants have a term of 5 years, are not listed on any exchange and have an exercise price of $0.74 per share.

During the year ended December 31, 2016, 19.1 million warrants were granted to the Noteholders that elected for this option with a fair value of $0.43 per warrant which totalled $8.2 million. The fair value of the warrants was determined using the Black-Scholes option valuation model using observable market data and an expected dividend of 0% and was recognized in Reserves (note 18). Cash consent fees paid to Noteholders that voted in favour of the extension and other transaction fees totalled $14.8 million and have been capitalized to the Notes on a pro-rata basis.

The 8.00% senior unsecured debentures, due 2021, are net of financing costs of $8.2 million at December 31, 2016 (December 31, 2015 - $2.7 million).

The 7.50% senior unsecured debentures, due 2023, are net of financing costs of $10.5 million at December 31, 2016 (December 31, 2015 - $3.5 million).

The 7.875% senior unsecured debentures, due 2025, are net of financing costs of $16.9 million at December 31, 2016 (December 31, 2015 - $9.7 million).

During the year ended December 31, 2016, the Corporation repurchased $30.0 million aggregate principal amount of its 8.00% senior unsecured debentures due 2021 for $17.4 million. A gain of $12.6 million was recognized during the year ended December 31, 2016 within net finance expense in the consolidated statements of comprehensive income (loss) (note 8).

Under the Corporation's indenture agreement the Corporation is subject to certain covenants, including financial covenants which, if exceeded, limit or prohibit the incurrence of indebtedness and the ability to make certain distributions. The financial covenants are as follows; earnings before interest, taxes, depreciation and amortization (EBITDA)-to-interest expense ratio of no less than 2:1 and total indebtedness-to-EBITDA ratio not to exceed 3:1.

Ambatovy Joint Venture additional partner loans

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

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

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

Each lender individually has the right to exchange some or all of its Ambatovy Joint Venture additional partner loan for up to a maximum 15% equity interest, in aggregate, at any time. Exercise of these rights in full would reduce Sherritt's interest in the Ambatovy Joint Venture to 25%. This right is subject to senior project lender consent and Sherritt's right to repay such loans and avoid the reduction in its equity interest.

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

The principal amount outstanding under this facility at December 31, 2016 was $1,367.5 million, including accrued interest (December 31, 2015 - $1,303.2 million). This amount is net of financing costs of $1.9 million at December 31, 2016 (December 31, 2015 - $2.2 million).

Ambatovy Joint Venture partner loans

In 2008, the Ambatovy Joint Venture partners finalized agreements to provide Sherritt with loans of up to US$236.0 million to be used to fund Sherritt's contributions for the project. The loans are provided at an interest rate based on a six-month LIBOR plus 1.125% with a 15-year term. Should Ambatovy distributions be insufficient to repay the loans in full, the Corporation will have the option to repay any outstanding balance in either cash or its common shares.

The principal amount outstanding under this facility at December 31, 2016 was $133.3 million, including accrued interest (December 31, 2015 - $134.6 million). This amount is net of financing costs of $0.5 million at December 31, 2016 (December 31, 2015 - $0.5 million). The Corporation's ability to draw additional amounts on the facility expired on August 22, 2014.

Syndicated revolving-term credit facility

In November 2016, the maturity of the syndicated revolving-term credit facility was extended to January 31, 2017 and the maximum credit available was reduced from $115.0 million to $90.0 million. The total available draw was based on eligible receivables and inventory. The interest rates increased from prime plus 2.25% or bankers' acceptance plus 3.25% to prime plus 2.50% or bankers' acceptance plus 3.50%. Transaction costs related to this amendment were expensed.

The facility was subject to the following financial covenants: net financial debt-to-EBITDA covenant of 4.25:1, net financial debt-to-equity covenant of 0.55:1 and EBITDA-to-interest expense covenant of not less than 1.75:1. If net financial debt-to-EBITDA is greater than 3.75:1, unrestricted cash must be greater than 50% of the lower of the borrowing base amount and facility amount.

As at December 31, 2016, the Corporation has $46.8 million of letters of credit outstanding pursuant to this facility (December 31, 2015 - $47.5 million). As at December 31, 2016, $43.0 million has been drawn on this facility (December 31, 2015 - $55.0 million).

On January 31, 2017, the syndicated revolving-term credit facility was renewed with a maximum credit available of $90.0 million, $13.7 million of which matures on April 21, 2017 and the remaining $76.3 million matures on January 30, 2018. The maximum credit available will further decrease by 4.167% quarterly beginning April 28, 2017. Collectively, these reductions in available credit will result in outstanding credit of $63.6 million at January 30, 2018. The interest rates increased from prime plus 2.50% or bankers' acceptance plus 3.50% to prime plus 3.50% or bankers' acceptance plus 4.50%. The facility is subject to the following financial covenants and restrictions:

- Net financial debt-to-EBITDA covenant of 4.25:1, increasing to 4.75:1 by maturity;
- EBITDA-to-interest expense covenant of not less than 1.75:1; and
- Limits on capital expenditures, funding of the Ambatovy Joint Venture and Moa Joint Venture, and maintenance of a minimum balance of $180.0 million of cash and cash equivalents and short-term investments held by the Corporation's wholly-owned subsidiaries.

Line of credit

On February 23, 2016, the Corporation repaid the outstanding balance of $35.0 million and terminated its line of credit.

Covenants

As at December 31, 2016, there are no events of default on the Corporation's borrowings or debentures.

Other financial liabilities

Canadian $ millions, as at	**2016 December 31**	2015 December 31
Other non-current financial liabilities[1]	**$ 155.7**	$ 0.3
Stock-based compensation liability	**12.3**	3.1
	168.0	3.4
Current portion of other financial liabilities	**(5.0)**	(1.5)
	$ 163.0	$ 1.9

(1) Included in other non-current financial liabilities is $154.9 million related to the Corporation's obligation for outstanding shareholder funding to the Ambatovy Joint Venture. This obligation represents cash calls that were not funded during the year ended December 31, 2016 (note 6). The Corporation has also recognized a financial asset relating to its right to future distributions from the Ambatovy Joint Venture if and when this financial obligation is cured (note 13).

17. PROVISIONS

Accounting policies

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

Environmental rehabilitation

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

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

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

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

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

Critical accounting estimates

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

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

Supporting information

Canadian $ millions, as at	**2016 December 31**	2015 December 31
Environmental rehabilitation provisions	**$ 103.2**	$ 107.8
Other provisions	**11.4**	18.8
	114.6	126.6
Current portion of provisions	**(12.2)**	(18.8)
	$ 102.4	$ 107.8

Environmental rehabilitation provisions

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

The following is a reconciliation of the environmental rehabilitation provisions:

Canadian $ millions, for the years ended December 31	Note		2016		2015
Balance, beginning of the year		$	**107.8**	$	101.7
Additions			**–**		0.2
Change in estimates			**(0.6)**		0.7
Utilized during the year			**(1.3)**		(0.1)
Accretion	8		**1.0**		1.1
Effect of movement in exchange rates			**(3.7)**		4.2
Balance, end of the year		**$**	**103.2**	$	107.8

The Corporation has estimated that it will require approximately $143.0 million in undiscounted cash flows to settle these obligations. The payments are expected to be funded by cash generated from operations. Discount rates from 2.00% to 9.86% were applied to expected future cash flows to determine the carrying value of the environmental rehabilitation provision.

Other provisions

The following is a reconciliation of other provisions:

Canadian $ millions, for the years ended December 31		2016		2015
Balance, beginning of the year	$	**18.8**	$	25.1
Additions		**–**		5.0
Utilized during the year		**(7.4)**		(11.3)
Balance, end of the year	**$**	**11.4**	$	18.8

On October 31, 2013, a breach of an onsite water containment pond occurred at the Coal operations' Obed Mountain mine near Hinton, Alberta. The release consisted of 670,000 cubic metres of process water, containing water mixed with clay, mud, slate and coal particles. The Corporation continues to be subject to financial obligations relating to the Obed breach subsequent to the sale of the Coal operations.

Other provisions include additions of nil for the year ended December 31, 2016 ($5.0 million for the year ended December 31, 2015, for financial obligations relating to the Obed breach reflecting management's best estimate of penalties arising from regulatory charges, including the provincial charges laid in October 2015 by the Alberta Crown Prosecutor). As the Obed breach occurred within the Coal operations, any change in estimate is included within discontinued operations in the consolidated statements of comprehensive income (loss).

For the year ended December 31, 2016, the Corporation has recognized $7.4 million in cash used by discontinued operations in the consolidated statements of cash flow ($16.0 million for the year ended December 31, 2015, of which $4.7 million was for amounts payable not included in other provisions). Cash used by discontinued operations relates to cash paid to settle the obligations retained by the Corporation post-disposition.

In December 2016, the Corporation recognized $2.9 million in income within earnings (loss) from discontinued operations in the consolidated statements of comprehensive income (loss) related to an insurance claim reimbursement for the Obed breach. The corresponding receivable has been included within other financial assets in the consolidated statements of financial position.

Contingencies

A number of the Corporation's subsidiaries and affiliates have operations located in Cuba. The Corporation will continue to be affected by the difficult political relationship between the United States and Cuba. The Corporation has received letters from U.S. citizens claiming ownership of certain Cuban properties or rights in which the Corporation has an indirect interest, and explicitly or implicitly threatening litigation. Having regard to legal and other developments in the United States, and remedies available in Canada and in Europe, the Corporation believes that the impact of any claims against it will not be material.

In addition to the above matter, the Corporation and its subsidiaries are also subject to routine legal proceedings and tax audits. The Corporation does not believe that the outcome of any of these matters, individually or in aggregate, would have a material adverse effect on its consolidated net earnings, cash flow or financial position.

18. SHAREHOLDERS' EQUITY

Capital Stock

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

Canadian $ millions, except share amounts, for the years ended December 31			2016		2015
	Note	**Number**	**Capital stock**	Number	Capital stock
Balance, beginning of the year		**293,853,001**	**$ 2,775.3**	293,271,191	$ 2,772.9
Restricted stock plan (vested)	19	–	–	260,400	1.6
Employee share purchase plan (vested)	19	–	–	321,410	0.8
Warrants exercised		**321,922**	**0.4**	-	-
Balance, end of the year		**294,174,923**	**$ 2,775.7**	293,853,001	$ 2,775.3

The following dividends were paid:

Canadian $ millions, except per share amounts, for the years ended December 31		2016		2015
	Per share	**Total**	Per share	Total
Dividends paid	**$ –**	**$ –**	$ 0.030	$ 9.0

On September 17, 2015, the Corporation's Board of Directors suspended its quarterly dividend of $0.01 per common share.

Reserves

Canadian $ millions, for the years ended December 31	Note	2016	2015
Stated capital reserve			
Balance, beginning of the year		**$ 217.8**	$ 217.8
Warrant issuance	16	**8.2**	-
Warrants exercised		**(0.2)**	-
Balance, end of the year		**225.8**	217.8
Stock-based compensation reserve(1)			
Balance, beginning of the year		**$ 7.1**	$ 7.4
Restricted stock plan (vested)		–	(1.6)
Restricted stock plan expense		–	0.1
Employee share purchase plan (vested)		–	(0.1)
Stock option plan expense		**1.8**	1.3
Balance, end of the year		**8.9**	7.1
Total reserves, end of the year		**$ 234.7**	$ 224.9

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

Accumulated other comprehensive income

Canadian $ millions, for the years ended December 31		2016		2015
Foreign currency translation reserve				
Balance, beginning of the year	$	**903.0**	$	323.8
Foreign currency translation differences on foreign operations		**(89.8)**		579.2
Balance, end of the year		**813.2**		903.0
Actuarial (losses) gains on defined benefit obligation				
Balance, beginning of the year	$	**(3.5)**	$	(3.3)
Actuarial losses on pension plans, net of tax		**(0.7)**		(0.2)
Balance, end of the year	$	**(4.2)**	$	(3.5)
Total accumulated other comprehensive income	$	**809.0**	$	899.5

19. STOCK-BASED COMPENSATION PLANS

Accounting policies

The Corporation operates a number of equity-settled and cash-settled share-based compensation plans under which it issues equity instruments of the Corporation, or makes cash payments based on the value of the underlying equity instrument of the Corporation, to directors, officers and employees in exchange for services.

The Corporation's equity-settled compensation plans include the stock options plan and the Restricted Stock Plan ("RSP"). Equity-settled stock options obligations are settled by the issuance of shares from treasury. RSP obligations are settled by the purchase of shares on the open market. The fair value of grants issued under the stock options plan are determined at the date of grant using the Black-Scholes option valuation model. They are only re-measured if there is a modification to the terms of the option, such as a change in exercise price or legal life. The fair value of the RSP obligation is measured as the value at which the shares are purchased on the market. The fair value of the equity-settled compensation plans is recognized as an expense over the expected vesting period with a corresponding entry to shareholders' equity.

The Corporation's cash-settled share plans, including stock options with tandem stock appreciation rights ("Options with Tandem SARs"), Restricted Share Units ("RSUs") and Deferred Share Units ("DSUs"), are recognized as liabilities at the date of grant.

The fair value of the liability of the Options with Tandem SARs is determined based on the application of the Black-Scholes option valuation model at the date granted and expensed over the vesting period of the awards based on management's estimate of the number of shares expected to vest. Projections are reviewed at each reporting date up to the vesting date to reflect management's best estimates and adjusted as required. Movements in the liability between reporting dates are recognized as an adjustment to the liability and an offsetting expense or recovery. At each reporting date until settlement, the fair value of the awards is re-measured based on revised pricing parameters of the model based on market conditions at the reporting date and estimates of forfeiture rates. Options with Tandem SARs permit awards to be settled in shares. If this occurs, the liability is transferred directly to equity as part of the consideration for the equity instruments issued.

The fair value of the RSU liability at the date of grant and at each subsequent reporting date until settlement is based on the market value of the Corporation's shares. If the Corporation's share price changes between reporting dates then the fair value of the RSU liability is adjusted and an offsetting expense or recovery is recognized in the statement of comprehensive income (loss). The adjusted fair value of the RSU liability is then amortized over the remaining vesting period. For RSUs issued with performance requirements, the fair value at the date of grant and at each subsequent reporting date until settlement is based on performance metrics which are defined at the time of issuance and on the market value of the Corporation's shares with the liability expensed over the vesting period. Adjustments recorded are amortized over the remaining vesting period.

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

Supporting information

Stock options and options with tandem stock appreciation rights

The Corporation maintains a stock option plan, pursuant to which securities of the Corporation may be issued as compensation. Eligible participants are those persons designated from time to time by the Human Resources Committee of the Board of Directors (the Committee) from among the executive officers and certain senior employees of the Corporation or its subsidiaries who occupy responsible managerial or professional positions and who have the capacity to contribute to the success of the Corporation.

Under the Corporation's stock option plan, the Committee has the discretion to attach Tandem SARs to options, which entitles the holder to a cash payment of the difference between the option's exercise price and the volume-weighted average trading price of a share on the Toronto Stock Exchange for the five trading days preceding the exercise date. Options with Tandem SARs have not been issued since March 2010.

The maximum number of stock options issuable is 17,500,000. The remaining number of options which may be issued under the stock option plan is 1,686,588 at December 31, 2016. Under the stock option plan, the exercise price of each option equals the volume-weighted average trading price over the five days prior to the date the option is granted. An option's maximum term is 10 years. Options vest on such terms as the Committee determines, generally in three equal instalments on the annual anniversary date of the grant of the options. When options with or without Tandem SARs are exercised, the related options are cancelled and the shares underlying such options are issued and are no longer available for issuance under the stock option plan.

The following is a summary of stock option activity:

Canadian $, except number of options, for the years ended December 31			**2016**			2015
	Number of options		**Weighted-average exercise price**	Number of options		Weighted-average exercise price
Outstanding, beginning of the year	**6,149,349**	**$**	**5.80**	5,518,752	$	7.52
Granted	**3,802,400**		**0.68**	2,075,600		2.07
Forfeited	**–**		**–**	(1,090,003)		5.40
Expired	**(353,333)**		**11.34**	(355,000)		11.97
Outstanding, end of the year	**9,598,416**	**$**	**3.57**	6,149,349	$	5.80
Options exercisable, end of the year	**4,270,510**	**$**	**6.57**	3,497,447	$	8.22

The following table summarizes information on stock options outstanding and exercisable:

As at December 31							**2016**
Range of exercise prices	**Number outstanding**	**Weighted-average remaining contractual life (years)**		**Weighted-average exercise price**	**Number exercisable**		**Exercisable weighted-average exercise price**
$0.68 - $2.10	**3,802,400**	**9.1**	**$**	**0.68**	**–**	**$**	**–**
$2.11 - $5.05	**2,836,800**	**7.7**		**2.49**	**1,311,294**		**2.65**
$5.06 - $9.77	**2,344,216**	**4.0**		**6.55**	**2,344,216**		**6.55**
$9.78 - $15.23	**615,000**	**0.9**		**14.98**	**615,000**		**14.98**
Total	**9,598,416**	**6.9**	**$**	**3.57**	**4,270,510**	**$**	**6.57**

As at December 31, 2016, 1,670,216 options with tandem SARs (December 31, 2015 – 2,023,549) and 7,928,200 options without tandem SARs (December 31, 2015 – 4,125,800) remained outstanding for which the Corporation has recognized a compensation expense of $1.9 million for the year ended December 31, 2016 (compensation expense of $0.8 million for the year ended December 31, 2015). The carrying amount of liabilities associated with stock options with tandem SARs is $0.1 million as at December 31, 2016 (December 31, 2015 – nil).

Inputs for measurement of grant date fair values

The fair value at the grant date of the stock options was measured using Black-Scholes. The following summarizes the weighted average fair value measurement factors for options granted during the year:

Canadian $, except as noted, for the years ended December 31	2016	2015
Share price at grant date	$ 0.68	$ 2.07
Exercise price	$ 0.68	$ 2.07
Risk-free interest rates (based on 10-year Government of Canada bonds)	1.14%	1.50%
Expected volatility	55.12%	51.78%
Expected dividend yield	0.00%	1.74%
Expected life of options	10 years	10 years
Weighted-average fair value of options granted during the year	$ 0.43	$ 1.00

Expected volatility is estimated based on the average historical share price volatility for a period equal to the expected life of the option. The expected life of the option is estimated to equal its legal life at the time of grant. The expected dividend yield is determined by comparing the most recent dividend payment to the share price at grant date.

Other stock-based compensation

Restricted Share Units (RSUs)

Under the terms of the Executive Share Unit Plan, the RSUs are available to be granted to executives and employees. The RSUs represent a right to receive a cash amount payable by the Corporation to a participant at the end of the vesting period for RSUs determined by reference to the market price of the common shares multiplied by the number of RSUs held by the participant as adjusted for dividend equivalents credited. RSUs are issued subject to vesting conditions, including performance criteria, if any, which are set by the Committee. The RSUs vest at the sole discretion of the Committee. RSUs vest not later than the earlier of (a) the earlier of: (i) December 31 of the third calendar year following the calendar year in respect of which the RSUs were granted or (ii) the date set out in the RSU grant agreement; and (b) the date of death of a participant. The vesting date set out in the grant agreement is typically the third anniversary of the grant date. The Corporation shall redeem all of a participant's vested RSUs on the vesting date and may, at the discretion of the Committee, redeem all or any part of a participant's unvested RSUs prior to the vesting date.

Beginning in 2013, the Corporation began issuing performance based RSUs to certain employees, which vest at the end of three years. Under the plan, each unit awarded is equivalent to a common share. A liability is accrued related to the units awarded and a compensation expense is recognized in the consolidated statement of comprehensive income (loss) over the service period required for employees to become fully entitled to the award. At the maturity date, the participant receives cash representing the value of the units. The final number of units that vest will vary from 80% to 120% of the number of outstanding units on the vesting date (initial number awarded plus additional units for dividend equivalents) based on the Corporation's total shareholder return relative to a benchmark index comprised of mining and oil and gas companies. The number of RSUs subject to a performance condition based on the Corporation's relative total shareholder return outstanding at December 31, 2016 was 16,150,734 (December 31, 2015 – 7,132,981).

In the first quarter of 2016, the Corporation's Board of Directors approved an additional one-time grant of performance based RSUs to certain employees which vest at December 31, 2018. Under the plan, each unit awarded is equivalent to a common share. A liability is accrued related to the units awarded and a compensation expense is recognized in the consolidated statement of comprehensive income (loss) over the service period required for employees to become fully entitled to the award. At the maturity date, the participant receives cash representing the value of the units. The final number of units that vest will be either 0%, 50% or 100% of the initial number awarded, plus dividend equivalents (if any), depending on the Corporation's ability to achieve certain net direct cash cost (NDCC) milestones in the Corporation's Metals operations. The number of RSUs subject to this performance condition outstanding at December 31, 2016 was 8,448,555 (December 31, 2015 – nil).

Deferred Share Units (DSUs)

Under the terms of the Non-executive Directors' Deferred Share Unit Plan, the DSUs are available to be granted to non-executive directors. The DSUs represent a right to receive a cash amount payable by the Corporation to a participant following departure from the Board of Directors. The value payable is determined by reference to the market price of the common shares multiplied by the number of DSUs held by the participant as adjusted for dividend equivalents credited. DSUs vest on the later of (a) the grant date or (b) the date that any terms of vesting conditions attached to the DSUs are satisfied. DSUs generally vest on the grant date. DSUs are redeemed by the Corporation at the election of the participant by filing a notice of redemption not earlier than the participant's termination date and not later than December 1st of the calendar year following the termination date.

Restricted Stock Plan (RSP)

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

For accounting purposes, these shares are excluded from the number of outstanding common shares of the Corporation and reduce the capital stock of the Corporation. As the shares vest, the shares are included in the number of outstanding common shares of the Corporation and the capital stock of the Corporation is increased accordingly. The Corporation purchased nil common shares during the year ended December 31, 2016 (for the year ended December 31, 2015 the Corporation purchased nil common shares). These shares are excluded from the calculation of the weighted-average number of common shares used for the purposes of calculating basic earnings per share.

Employee Share Purchase Plan

The Employee Share Purchase Plan (Share Purchase Plan) was intended to allow eligible employees of the Corporation to purchase shares of the Corporation by means of automatic payroll deductions. On June 30, 2015, the purchase period ended and the Share Purchase Plan was closed.

A summary of the Share Purchase Plan units, RSUs, DSUs and RSP units outstanding as at December 31, 2016 and 2015 and changes during the year ended is as follows:

For the year ended December 31			2016
	RSU	DSU	RSP
Outstanding, beginning of the year	7,208,937	738,699	27,000
Issued	19,083,980	943,390	–
Exercised	(1,149,336)	–	–
Forfeited	(473,400)	–	–
Outstanding, end of the year	**24,670,181**	**1,682,089**	**27,000**
Units exercisable, end of the year	**n/a**	**1,682,089**	**n/a**

For the year ended December 31				2015
	Share Purchase Plan	RSU	DSU	RSP
Outstanding, beginning of the year	293,280	4,696,518	375,314	287,400
Issued	-	3,568,505	455,155	-
Dividends credited	-	87,802	6,267	-
Exercised	(326,875)	-	-	-
Forfeited	(133,940)	(445,577)	-	-
Adjusted on settlement	167,535	-	-	-
Vested	-	(698,311)	(98,037)	(260,400)
Outstanding, end of the year	-	7,208,937	738,699	27,000
Units exercisable, end of the year	n/a	n/a	738,699	n/a

For other stock-based compensation plans the Corporation recorded a compensation expense of $10.1 million for the year ended December 31, 2016 (compensation recovery of $1.8 million for the year ended December 31, 2015). The carrying amount of liabilities associated with cash-settled compensation arrangements is $12.2 million as at December 31, 2016 (December 31, 2015 - $3.1 million).

Measurement of fair values at grant date

The fair value of the RSUs, DSUs and RSPs are determined by reference to the market value and performance conditions, as applicable, of the shares at the time of grant. The following summarizes the grant date fair values for the RSU and DSU units granted during the period:

Canadian $, for the years ended December 31	2016	2015
RSU	**0.68**	2.05
DSU	**0.76**	1.70

The intrinsic value of cash-settled stock-based compensation awards vested and outstanding as at December 31, 2016 was $11.4 million (December 31, 2015 - $3.1 million).

Employee share ownership plan

The Corporation offers an employee share ownership plan (ESOP) for eligible employees. Under the ESOP, contributions by the Corporation and eligible employees will be used by the plan administrator to make purchases of common shares of the Corporation on the open market. Each eligible employee may contribute up to 10% of the employee's salary to the ESOP. The Corporation will match 50% of employee contributions to the plan, up to a maximum annual contribution. Employer contributions will be used by the plan administrator to purchase additional common shares in the Corporation. These additional shares cannot be sold or withdrawn until the employee has participated in the plan for a continuous 24 month period. Shareholder approval is not required for this plan or any amendments to this plan.

The Corporation accounts for its contributions to the employee share ownership plan (ESOP) as compensation and benefits expense when the amounts are contributed to the plan. Compensation and benefits expense related to this plan was $0.6 million for the year ended December 31, 2016 ($0.6 million for the year ended December 31, 2015).

20. SUPPLEMENTAL CASH FLOW INFORMATION

Accounting policies

The Corporation presents the consolidated statements of cash flow using the indirect method. The Corporation presents interest paid and received as an operating activity in the consolidated statements of cash flow. Dividends paid are presented as a financing activity and dividends received are presented as an operating activity in the consolidated statements of cash flow.

Supporting information

Other operating items includes the following:

Canadian $ millions, for the years ended December 31	Note		2016		2015
Add (deduct) non-cash items:					
Accretion expense on environmental rehabilitation provisions	8, 17	$	**1.0**	$	1.1
Stock-based compensation expense (recovery), net	19		**12.0**		(1.0)
Other items			**8.7**		12.3
Cash flow arising from changes in:					
Other finance charges	8		**(2.0)**		(10.6)
Realized foreign exchange (loss) gain	8		**(0.6)**		1.5
		$	**19.1**	$	3.3

Net change in non-cash working capital includes the following:

Canadian $ millions, for the years ended December 31		2016		2015
Trade accounts receivable, net	**$**	**(45.3)**	$	38.1
Inventories		**(2.1)**		(3.6)
Prepaid expenses		**2.0**		(7.5)
Trade accounts payable and accrued liabilities		**71.3**		(55.3)
Deferred revenue		**(11.8)**		7.2
	$	**14.1**	$	(21.1)

21. FINANCIAL RISK AND CAPITAL RISK MANAGEMENT

Risk management policies and hedging activities

The Corporation is sensitive to changes in commodity prices, foreign exchange and interest rates. The Corporation's Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. Although the Corporation has the ability to address its price-related exposures through the use of options, futures and forward contracts, it does not generally enter into such arrangements. The Corporation reduces the business-cycle risks inherent in its commodity operations through industry diversification.

Credit risk

Sherritt's sales of nickel, cobalt, oil, gas and electricity expose the Corporation to the risk of non-payment by customers. Sherritt manages this risk by monitoring the creditworthiness of its customers, covering some exposure through receivables insurance, documentary credit and seeking prepayment or other forms of payment security from customers with an unacceptable level of credit risk. In addition, there are certain credit risks that arise due to the fact that all sales of oil and electricity in Cuba are made to agencies of the Cuban government. Although Sherritt seeks to manage its credit risk exposure, there can be no assurance that the Corporation will be successful in eliminating the potential material adverse impacts of such risks.

Cuba

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

Canadian $ millions, as at		2016 December 31		2015 December 31
Cash	$	**27.3**	$	9.8
Trade accounts receivable, net		**106.4**		155.8
Advances and loans receivable		**610.4**		585.7
Total	$	**744.1**	$	751.3

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

Madagascar

The Corporation has credit risk exposure in Madagascar related to its share (40% basis) of net accounts receivable of $43.8 million (December 31, 2015 - $35.8 million) associated with the Ambatovy Joint Venture including value added tax (VAT) receivables of $9.5 million (40% basis) (December 31, 2015 - $6.2 million) from the government of Madagascar. The VAT receivable is net of a provision of $58.3 million (40% basis) (December 31, 2015 - $100.5 million) reflecting an assessment of the likelihood of receipt of these amounts. During the year ended December 31, 2016, a gain on the partial reversal of this provision of $15.6 million (40% basis) was recognized in financing expense ($4.5 million for the year ended December 31, 2015). As at December 31, 2016, total overdue VAT receivable (net of provision) for the Ambatovy Joint Venture amount to $5.8 million (40% basis) (December 31, 2015 - $5.5 million).

Liquidity risk

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

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

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

At December 31, 2016, considering the Corporation's financial position, the Corporation currently does not expect to access public debt and equity capital markets for financing over the next 12 months. However, the Corporation may access these markets.

Based on management's assessment of its financial position and liquidity profile at December 31, 2016, the Corporation will be able to satisfy its current and long-term obligations as they come due.

The agreements establishing certain jointly controlled entities require the unanimous consent of shareholders to pay dividends. It is not expected that this restriction will have a material impact on the ability of the Corporation to meet its obligations.

Financial obligation maturity analysis

The Corporation's significant contractual commitments, obligations, and interest and principal repayments in respect of its financial liabilities, provisions and operating leases are presented in the following table:

Canadian $ millions, as at December 31, 2016	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	$ 148.3	$ 148.3	$ –	$ –	$ –	$ –	$ –
Income taxes payable	4.4	4.4	–	–	–	–	–
Senior unsecured debentures	1,116.3	56.0	56.0	56.0	56.0	276.0	616.3
Ambatovy Joint Venture additional partner loans (non-recourse)(1)	3,236.3	–	–	–	–	–	3,236.3
Ambatovy Joint Venture partner loans(1)	160.0	–	–	–	–	–	160.0
Syndicated revolving-term credit facility	44.9	44.9	–	–	–	–	–
Provisions	154.3	16.3	5.1	–	–	–	132.9
Operating leases	17.0	2.9	3.0	3.0	3.0	1.0	4.1
Other	0.9	–	–	–	–	–	0.9
Total	$ 4,882.4	$ 272.8	$ 64.1	$ 59.0	$ 59.0	$ 277.0	$ 4,150.5

(1) Ambatovy Joint Venture additional partner loans and partner loans are loans provided by the Ambatovy Joint Venture partners to finance Sherritt's portion of the funding requirements of the Joint Venture, bearing interest of LIBOR plus a margin of 7% and 1.125%, respectively. These partner loans are to be repaid from the Corporation's share of cash distributions from the Ambatovy Joint Venture (note 16). The amounts above are based on management's best estimate of future cash flows including estimating assumptions such as commodity prices, production levels, cash costs of production, capital and reclamation costs. The Ambatovy Joint Venture additional partner loans are non-recourse to Sherritt unless there is a direct breach of certain restrictions stipulated in the loan documents. The maturity analysis table includes an estimate of interest repayments.

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 accounts payable of $128.4 million, income taxes payable of $8.7 million, environmental rehabilitation commitments of $241.9 million, other contractual commitments of $34.8 million and senior debt financing and working capital facility of $1,093.0 million.

As a result of the Corporation's 50% interest in the Moa Joint Venture, its proportionate share of significant undiscounted commitments of the joint venture include accounts payable of $28.6 million, income taxes payable of $2.6 million, advances and loans payable of $272.5 million, environmental rehabilitation commitments of $92.7 million and other commitments of $0.3 million.

Market risk

Market risk is the potential for financial loss from adverse changes in underlying market factors, including foreign exchange rates, commodity prices, interest rates and stock-based compensation costs.

Foreign exchange risk

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

Based on financial instrument balances as at December 31, 2016, a strengthening or weakening of $0.05 of the Canadian dollar to the U.S. dollar with all other variables held constant could have a favourable or unfavourable impact of approximately $56.9 million, respectively, on net loss.

Based on financial instrument balances as at December 31, 2016, a strengthening or weakening of $0.05 of the Canadian dollar to the U.S. dollar with all other variables held constant could have an unfavourable or favourable impact of approximately $43.0 million, respectively, on other comprehensive loss.

Commodity price risk

The Corporation is exposed to fluctuations in certain commodity prices. Realized prices for finished products and for input commodities are the most significant factors affecting the Corporation's revenue and earnings. Revenue, earnings and cash flows from the sale of nickel, cobalt and oil are sensitive to changes in market prices over which the Corporation has little or no control.

The Corporation has the ability to address its price-related exposures through the limited use of options, future and forward contracts, but has not entered into such arrangements for the years ended December 31, 2016 and December 31, 2015. Sherritt reduces the business-cycle risks inherent in its commodity operations through industry diversification.

The Corporation has certain provisional pricing agreements in Metals. These provisionally priced transactions are periodically adjusted to actual as prices are confirmed as the settlement occurs within a short period of time. In periods of volatile price movements, adjustments may be material to the Ambatovy Joint Venture or Moa Joint Venture.

Interest rate risk

The Corporation is exposed to interest rate risk based on its outstanding loans and borrowings, and short-term and other investments. A change in interest rates could affect future cash flows or the fair value of financial instruments.

Based on the balance of short-term and long-term loans and borrowings, cash equivalents, short-term and long-term investments, and advances and loans receivable at December 31, 2016, excluding interest capitalized to project costs, a 1.0% decrease or increase in the market interest rate could decrease or increase the Corporation's net loss by approximately $6.6 million, respectively. The Corporation does not engage in hedging activities to mitigate its interest rate risk.

Stock-based compensation risk

The Corporation is exposed to a financial risk related to stock-based compensation costs.

Potential fluctuations in the price of Sherritt's common shares would have an impact on the stock-based compensation expense. Based on balances at December 31, 2016, a strengthening or weakening of $0.50 in the price of the Corporation's common shares would have had an unfavourable or favourable impact of approximately $4.8 million on the Corporation's net loss, respectively.

Capital risk management

In the definition of capital, the Corporation includes, as disclosed in its consolidated financial statements and notes: capital stock, deficit and available credit facilities.

Canadian $ millions, as at	**2016 December 31**	2015 December 31
Capital stock	**$ 2,775.7**	$ 2,775.3
Deficit	**(2,721.5)**	(2,342.6)
Available credit facilities	**0.2**	2.6

The Corporation's objectives, when managing capital, are to maintain financial liquidity and flexibility in order to preserve its ability to meet financial obligations throughout the various resource cycles with sufficient capital and capacity to manage unforeseen operational and industry developments and to ensure the Corporation has the capital and capacity to allow for business growth opportunities and/or to support the growth of its existing businesses.

In order to maintain or adjust its capital structure, the Corporation may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, repay outstanding debt, issue new debt (secured, unsecured, convertible and/or other types of available debt instruments), refinance existing debt with different characteristics, acquire or dispose of assets or adjust the amount of cash and short-term investment balances.

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

Refer to note 16 for the Corporation's compliance with financial covenants as at December 31, 2016.

22. RELATED PARTY TRANSACTIONS

The Corporation and subsidiaries provide goods, labour, advisory and other administrative services to jointly controlled entities and an associate at fair value. The Corporation and its subsidiaries also market, pursuant to sales agreements, a portion of the nickel, cobalt and certain by-products produced by certain jointly controlled entities and an associate in the Metals business.

Balances and transactions between the Corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated and are not disclosed in this note. A listing of the Corporation's subsidiaries is included in note 2.2.

A description of the Corporation's interests in an associate and its interest in jointly controlled entities are included in notes 6 and 7, respectively.

Canadian $ millions, for the years ended December 31	**2016**	2015
Total value of goods and services:		
Provided to joint operations	$ **32.0**	$ 33.2
Provided to joint venture	**165.3**	169.4
Provided to associate	**3.4**	2.9
Purchased from joint venture	**405.3**	141.0
Purchased from associate	**39.1**	53.8
Net financing income from joint operations	**14.4**	16.1
Net financing income from associate	**38.9**	65.6
Net financing income from joint venture	**9.6**	8.6

Canadian $ millions, as at	Note	**2016 December 31**	2015 December 31
Accounts receivable from joint operations	12	$ **0.4**	$ 0.7
Accounts receivable from joint venture	12	**11.4**	20.2
Accounts receivable from associate	12	**33.9**	33.8
Accounts payable to joint operations		**–**	0.2
Accounts payable to joint venture		**81.3**	5.2
Accounts payable to associate		**1.8**	0.5
Advances and loans receivable from associate	13	**943.4**	1,187.2
Advances and loans receivable from joint operations	13	**192.4**	182.0
Advances and loans receivable from joint venture	13	**321.8**	312.8

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

Key management personnel

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

Canadian $ millions, for the years ended December 31	**2016**	2015
Short-term benefits	$ **7.4**	$ 7.5
Post-employment benefits[1]	**0.4**	1.8
Share-based payments	**11.6**	6.3
	$ **19.4**	$ 15.6

(1) Post-employment benefits include a non-registered defined contribution executive supplemental pension plan. The total cash pension contribution for key management personnel was $0.4 million for the year ended December 31, 2016 ($0.4 million for the year ended December 31, 2015). The total pension expense that is attributable to key management personnel was $0.2 million for the year ended December 31, 2016 ($0.2 million for the year ended December 31, 2015).

23. OPERATING LEASE ARRANGEMENTS

Accounting policies

Leases of property, plant and equipment are classified as finance leases when the lessee retains substantially all the risks and rewards of ownership. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Corporation as a lessee

Finance leases are recognized at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding lease obligations, net of finance charges, are recorded as interest-bearing liabilities. Each lease payment is allocated between the liability and finance cost when paid.

Operating lease payments (net of any amortization of incentives) are expensed as incurred. Incentives received from the lessor to enter into an operating lease are capitalized and depreciated over the life of the lease.

Corporation as a lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Contingent rental income is recognised as revenue in the period in which it is earned. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

Determining whether an arrangement contains a lease

The Corporation determines whether a lease exists at the inception of an arrangement. A lease exists when one party is effectively granted control of a specific asset over the term of the arrangement.

At inception or upon reassessment of arrangements containing leases, the Corporation separates payments and other consideration required related to lease payments from those related to other goods or services using relative fair value or other estimation techniques.

Critical accounting judgments

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

Supporting information

Corporation acts as a lessor

The Corporation acts as a lessor in operating leases related to the Power facilities in Varadero, Cuba. All operating lease payments related to the Varadero facility are contingent on power generation. For the year ended December 31, 2016, contingent revenue was $15.0 million ($14.1 million for the year ended December 31, 2015).

24. COMMITMENTS FOR EXPENDITURES

Canadian $ millions, as at December 31		2016
Property, plant and equipment commitments	$	**10.3**
Joint venture:		
Property, plant and equipment commitments		**3.9**

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