

**sherritt**

**Q4**

**2017 FOURTH QUARTER REPORT**

Sherritt International Corporation  
For the three and twelve months ended December 31, 2017

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For immediate release

## Sherritt Reports Fourth Quarter and Year End 2017 Results

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**Toronto, Ontario – February 12, 2018** – Sherritt International Corporation (“Sherritt” or the “Corporation”) (TSX: S), a world leader in the mining and hydrometallurgical refining of nickel and cobalt from lateritic ores, today reported its financial results for the fourth quarter and year ended December 31, 2017. All amounts are in Canadian currency unless noted.

### CEO COMMENTARY

“Sherritt ended 2017 with a significantly strengthened balance sheet and a much improved outlook as a result of a number of key developments over the past year,” said David Pathe, President and CEO of Sherritt International. “Most notably, we completed the restructuring of the Ambatovy Joint Venture, achieved our nickel and cobalt production as well as our unit cost targets at the Moa Joint Venture, and benefitted from higher realized prices for each of the primary commodities that we produce.”

Mr. Pathe added, “We have sustained this momentum since the start of 2018 with our first equity financing in more than a decade, and are currently conducting a modified Dutch auction tender process to reduce our debt even further. With the strong outlook for Class 1 nickel and cobalt given electric vehicle market trends and the maturities on our outstanding debentures not due until the fourth quarter of 2021, we are particularly encouraged by our prospects in 2018 and beyond.”

### Q4 HIGHLIGHTS

- Sherritt and its partners successfully completed the restructuring of the Ambatovy Joint Venture. Following the restructuring, Sherritt eliminated \$1.4 billion in debt from its balance sheet, retained a 12% ownership interest in Ambatovy and continues to serve as operator.
- Net direct cash cost (NDCC)<sup>(1)</sup> at the Moa Joint Venture (“Moa JV”) was US\$1.80 per pound of finished nickel sold, the lowest total since the third quarter of 2004. The decline was primarily driven by higher cobalt prices and the US\$0.50 per pound cost savings achieved with the commissioning of the third acid plant at Moa in the fourth quarter of 2016.
- Sherritt’s share of finished nickel production at the Moa JV was 4,134 tonnes, up 9% from Q4 2016, while its share of finished cobalt was 465 tonnes, up 22% from Q4 2016. Production increased on a year-over-year basis despite the negative impact heavy rains had on lowering mixed sulphide production in November and December 2017.
- Received \$19.9 million from the Moa JV as repayment on its working capital facility and US\$7.5 million in Cuban energy payments.
- Adjusted EBITDA was \$49.6 million, up 33% from Q4 2016.
- Including a gain of \$629.0 million related to the Ambatovy restructuring, earnings were \$537.8 million, or \$1.80 per share outstanding, up from a net loss of \$106.7 million, or \$0.36 per share outstanding, in Q4 2016.

### 2017 HIGHLIGHTS

- Sherritt ended the year with cash, cash equivalents and short-term investments of \$203.0 million after reflecting payments related to the Ambatovy JV restructuring, interest payments related to outstanding debentures and the \$35.0 million repayment of a syndicated revolving-term loan.
- Sherritt’s share of finished nickel and finished cobalt production at the Moa JV were 15,762 tonnes and 1,801 tonnes, respectively. The production totals were in line with guidance for the year.
- NDCC at the Moa Joint Venture was US\$2.35 per pound of finished nickel, below the US\$2.80 - \$3.30 per pound guidance that the Company provided for the year.
- Adjusted EBITDA was \$149.8 million, up from \$40.0 million in 2016.

- Including the gain related to the Ambatovy JV restructuring, net earnings were \$293.8 million, or \$0.99 per share outstanding, up from a net loss of \$378.9 million, or \$1.29 per share outstanding, in 2016.
- Sherritt's efforts to strengthen its balance sheet were reflected in a number of improved financial ratios at year end. Net debt to Adjusted EBITDA reduced from 48.9 at the end 2016 to 4.4 at December 31, 2017 while total debt to shareholders' equity improved from 2.1 at the end of 2016 to 0.8 at December 31, 2017.<sup>(2)</sup>

#### HIGHLIGHTS SUBSEQUENT TO YEAR END

- Closed a unit offering financing transaction that generated gross proceeds of \$132.0 million. Net proceeds will be used to reduce Sherritt's outstanding indebtedness, for general corporate purposes and to fund future growth initiatives.
- Launched a modified Dutch Auction tender offer to repurchase up to \$75.0 million of outstanding unsecured debentures. The tender offering is expected to close on February 16, 2017.
- Executed a three-year extension of the Puerto Escondido/Yumuri production sharing contract to 2021.
- Although facilities at the Ambatovy Joint Venture in Madagascar were impacted by Tropical Cyclone Ava, a Category 2 hurricane equivalent storm, all personnel were unhurt and safely accounted for. Damage to equipment and the acid production facilities resulted in a temporary halt in production. Repairs have since been completed and partial production has resumed. A ramp up in production is expected through the end of Q2 2018.

(1) For additional information see the Non-GAAP measures section of this press release.

(2) Net debt is defined as debt due within one year plus the book value of long-term debt, less cash, cash equivalents and short-term investments, as shown in Sherritt's consolidated statement of financial position. Total debt is defined as debt due within one year plus the book value of long-term debt plus the non-recourse debt.

#### Q4 AND 2017 FINANCIAL HIGHLIGHTS

\$ millions, except per share amount	For the three months ended			For the years ended		
	2017 December 31	2016 December 31	Change	2017 December 31	2016 December 31	Change
Revenue	54.8	70.5	(22%)	\$ 267.3	\$ 262.3	2%
Combined Revenue <sup>(1)</sup>	223.8	240.3	(7%)	917.5	820.2	12%
Net earnings (loss) for the period	537.8	(106.7)	604%	293.8	(378.9)	178%
Adjusted EBITDA <sup>(1)</sup>	49.6	37.4	33%	149.8	40.0	275%
Cash provided (used) by continuing operations	(33.9)	(22.6)	(50%)	(9.6)	1.6	(700%)
Combined free cash flow <sup>(1)</sup>	(41.2)	(45.5)	9%	(62.1)	(111.9)	45%
Net earnings (loss) from continuing operations per share	1.85	(0.37)	600%	1.04	(1.30)	180%

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

\$ millions, except as otherwise noted, as at December 31	2017	2016	Change
Cash, cash equivalents and short-term investments	203.0	308.6	(34%)
Non-recourse loans and borrowings	-	1,367.5	(100%)
Other loans and borrowings	824.1	860.7	(4%)

In Q4 2017, Sherritt generated negative cash flow from operations of \$33.9 million. The consolidated total included \$32.5 million in positive cash flow contributions from the Moa JV and Fort Site and \$5.4 million in positive cash flow contributions from the Power division. Total transaction costs of \$11.3 million related to the restructuring of the Ambatovy JV contributed negatively to the consolidated total.

Cash, cash equivalents and short-term investments at year end were \$203.0 million, down from \$290.3 million at September 30, 2017. The decrease was primarily driven by payments related to the restructuring of the Ambatovy JV, lower Cuban energy payments received and the repayment of \$8.0 million in Q4 on the Company's syndicated revolving-term loan and partly offset by a \$19.9 million repayment from the Moa JV on its working capital facility to Sherritt.

During Q4, US\$7.5 million of Cuban energy payments were received compared to US\$32.6 million in the third quarter of 2017. Total Cuban overdue receivables were US\$132.6 million at December 31, 2017 compared to US\$100.5 million at September 30, 2017. The increase in overdue receivables was attributable to a number of factors, including the impact of Hurricane Irma and resulting recovery costs on Cuba's economy. Sherritt has experienced variability in its Cuban receivables over the years but has not incurred any losses related to any Cuban receivables.

### Adjusted earnings (loss) from continuing operations<sup>(1)</sup>

	2017		2016	
For the three months ended December 31	\$ millions	\$/share	\$ millions	\$/share
Net earnings (loss) from continuing operations	552.9	1.85	(109.6)	(0.37)
Adjusting items, net of tax:				
Unrealized foreign exchange (gain) loss	24.1	0.08	25.7	0.09
Gain on Ambatovy restructuring	(629.0)	(2.11)	-	-
Other	1.8	0.01	2.6	0.01
Adjusted net earnings (loss) from continuing operations	(50.2)	(0.17)	(81.3)	(0.28)
	2017		2016	
For the year ended December 31	\$ millions	\$/share	\$ millions	\$/share
Net earnings (loss) from continuing operations	308.9	1.04	(381.8)	(1.30)
Adjusting items, net of tax:				
Unrealized foreign exchange (gain) loss	7.7	0.03	(35.9)	(0.12)
Gain on Ambatovy restructuring	(629.0)	(2.12)	-	-
Other	(4.7)	(0.02)	(10.2)	(0.03)
Adjusted net earnings (loss) from continuing operations	(317.1)	(1.07)	(427.9)	(1.46)

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

Excluding the gain from the restructuring of the Ambatovy JV, Sherritt incurred an adjusted net loss from operations of \$50.2 million, or \$0.17 per share outstanding, in Q4 2017. These compare to an adjusted net loss of \$81.3 million, or \$0.28 per share, for the same period of 2016.

Sherritt's adjusted net loss for the 12-month period of 2017 was \$317.1 million or \$1.07 per share outstanding. These compare to an adjusted net loss of \$427.9 million, or \$1.46 per share outstanding, for 2016.

## REVIEW OF OPERATIONS

### METALS

\$ millions except as otherwise noted, for the three months ended December 31				2017				2016	
	Moa JV & Fort Site <sup>(1)</sup> (50%)	Ambatovy JV <sup>(2)</sup> (12%)	Other <sup>(3)</sup>	Total	Moa JV and Fort Site <sup>(1)</sup> (50%)	Ambatovy JV <sup>(2)</sup> (40%)	Other <sup>(3)</sup>	Total	Change
<b>FINANCIAL HIGHLIGHTS</b>									
Revenue	\$ 122.9	\$ 58.1	\$ 3.0	\$ 184.0	\$ 92.5	\$ 88.2	\$ 14.9	\$ 195.6	(6%)
Earnings (loss) from operations	19.9	(7.7)	-	12.2	(7.6)	(15.0)	0.2	(22.4)	154%
Adjusted EBITDA <sup>(4)</sup>	32.1	18.1	-	50.2	5.6	24.4	0.2	30.2	66%
Cash provided (used) by operations	32.5	(3.4)	(0.5)	28.6	(6.1)	(0.8)	3.3	(3.6)	894%
Free cash flow <sup>(4)</sup>	24.9	(20.7)	(0.5)	3.7	(9.8)	(10.6)	3.3	(17.1)	122%
<b>PRODUCTION VOLUMES (tonnes)</b>									
Mixed Sulphides	4,090	3,329	-	7,419	3,674	6,036	-	9,710	(24%)
Finished Nickel	4,134	3,111	-	7,245	3,782	5,111	-	8,893	(19%)
Finished Cobalt	465	245	-	710	382	404	-	786	(10%)
Fertilizer	61,923	10,011	-	71,934	61,460	16,650	-	78,110	(8%)
<b>NICKEL RECOVERY (%)</b>	<b>79%</b>	<b>84%</b>			<b>85%</b>	<b>87%</b>			
<b>SALES VOLUMES (tonnes)</b>									
Finished Nickel	4,129	2,602	-	6,731	3,975	4,935	-	8,910	(24%)
Finished Cobalt	480	225	-	705	487	360	-	847	(17%)
Fertilizer	51,141	8,114	-	59,255	45,698	15,485	-	61,183	(3%)
<b>AVERAGE EXCHANGE RATE (CAD/US)</b>				<b>1.271</b>				<b>1.334</b>	<b>(5%)</b>
<b>AVERAGE REFERENCE PRICES (US\$ per pound)</b>									
Nickel				\$ 5.25			\$ 4.90		7%
Cobalt				31.60			13.51		134%
<b>AVERAGE-REALIZED PRICES<sup>(4)</sup></b>									
Nickel (\$ per pound)	\$ 6.72	\$ 6.56	-	\$ 6.66	\$ 6.39	\$ 6.50	-	\$ 6.45	3%
Cobalt (\$ per pound)	38.78	39.03	-	38.86	16.85	18.73	-	17.68	120%
Fertilizer (\$ per tonne)	348	173	-	324	326	160	-	284	14%
<b>UNIT OPERATING COSTS<sup>(4)</sup> (US\$ per pound)</b>									
Nickel - net direct cash cost	\$ 1.80	\$ 3.27	-	\$ 2.37	\$ 3.80	\$ 3.10	-	\$ 3.41	(31%)
<b>SPENDING ON CAPITAL</b>									
Sustaining	\$ 7.7	\$ 10.0	-	\$ 17.7	\$ 4.7	\$ 19.0	-	\$ 23.7	(25%)
Expansion	-	-	-	-	(2.1)	-	-	(2.1)	100%
	\$ 7.7	\$ 10.0	-	\$ 17.7	\$ 2.6	\$ 19.0	-	\$ 21.6	(15%)

(1) Includes results for certain 100% owned assets at Fort Saskatchewan plant.

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

(3) Includes results for Sherritt's marketing organizations for certain Ambatovy and Moa Joint Venture sales.

(4) For additional information, see the Non-GAAP measures section of this release.

\$ millions, except as otherwise noted, for the years ended December 31				2017				2016	
	Moa JV and Fort Site <sup>(1)</sup>	Ambatovy JV <sup>(2)</sup>	Other <sup>(3)</sup>	Total	Moa JV and Fort Site <sup>(1)</sup>	Ambatovy JV <sup>(2)</sup>	Other <sup>(3)</sup>	Total	Change
	(50%)	(12%)			(50%)	(40%)			
<b>FINANCIAL HIGHLIGHTS</b>									
Revenue	\$ 417.0	\$ 279.2	\$ 43.1	\$ 739.3	\$ 339.3	\$ 264.8	\$ 48.0	\$ 652.1	13%
Earnings (loss) from operations	31.3	(109.5)	0.9	(77.3)	(28.4)	(150.9)	0.8	(178.5)	57%
Adjusted EBITDA <sup>(4)</sup>	80.5	26.0	0.9	107.4	19.6	(7.0)	0.8	13.4	701%
Cash provided (used) by operations	58.3	(26.7)	3.0	34.6	(2.7)	(34.6)	3.1	(34.2)	201%
Free cash flow <sup>(4)</sup>	37.4	(55.6)	3.0	(15.2)	(33.9)	(55.9)	3.1	(86.7)	82%
<b>PRODUCTION VOLUMES (tonnes)</b>									
Mixed Sulphides	17,297	14,836	-	32,133	16,923	18,271	-	35,194	(9%)
Finished Nickel	15,762	13,618	-	29,380	16,464	16,842	-	33,306	(12%)
Finished Cobalt	1,801	1,173	-	2,974	1,847	1,309	-	3,156	(6%)
Fertilizer	243,682	43,118	-	286,800	256,812	53,908	-	310,720	(8%)
<b>NICKEL RECOVERY (%)</b>	<b>85%</b>	<b>85%</b>			<b>87%</b>	<b>86%</b>			
<b>SALES VOLUMES (tonnes)</b>									
Finished Nickel	15,679	13,694	-	29,373	16,402	16,844	-	33,246	(12%)
Finished Cobalt	1,783	1,220	-	3,003	1,846	1,281	-	3,127	(4%)
Fertilizer	178,491	42,016	-	220,507	167,525	52,482	-	220,007	-
<b>AVERAGE EXCHANGE RATE (CAD/USD)</b>				<b>1.299</b>				<b>1.325</b>	<b>(2%)</b>
<b>AVERAGE REFERENCE PRICES (US\$ per pound)</b>									
Nickel				\$ 4.72				\$ 4.36	8%
Cobalt				26.53				11.77	125%
<b>AVERAGE-REALIZED PRICES<sup>(4)</sup></b>									
Nickel (\$ per pound)	\$ 6.14	\$ 6.05	\$ -	\$ 6.10	\$ 5.63	\$ 5.66	\$ -	\$ 5.65	8%
Cobalt (\$ per pound)	32.98	33.35	-	33.13	14.82	16.08	-	15.33	116%
Fertilizer (\$ per tonne)	361	168	-	325	377	164	-	326	-
<b>UNIT OPERATING COSTS (US\$ per pound)<sup>(4)</sup></b>									
Nickel - net direct cash cost	\$ 2.35	\$ 3.83	\$ -	\$ 3.04	\$ 3.42	\$ 4.27	\$ -	\$ 3.85	(21%)
<b>SPENDING ON CAPITAL</b>									
Sustaining	\$ 20.9	\$ 44.2	\$ -	\$ 65.1	\$ 22.6	\$ 33.1	\$ -	\$ 55.7	17%
Expansion	-	-	-	-	10.3	-	-	10.3	(100%)
	\$ 20.9	\$ 44.2	\$ -	\$ 65.1	\$ 32.9	\$ 33.1	\$ -	\$ 66.0	(25%)

(1) Includes results for certain 100% owned assets at Fort Saskatchewan plant.

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

(3) Includes results for Sherritt's marketing organizations for certain Ambatovy and Moa Joint Venture sales.

(4) For additional information, see the Non-GAAP measures section of this release.

## METAL MARKETS

### Nickel

Nickel prices rallied in the second half of 2017 after experiencing considerable volatility in the first six months of the year. The average nickel reference price in the fourth quarter was US\$5.25 per pound, up 7% from US\$4.90 for Q4 2016. The average nickel reference price for the 12-months of 2017 was US\$4.72 per pound, up 8% from US\$4.36 per pound for 2016.

The year-over-year price improvements were largely driven by the growing understanding of the important role that Class 1 nickel will play in the burgeoning electric vehicle (EV) market. Class 1 nickel, along with cobalt, are key elements needed to manufacture EV batteries. Demand for Class 1 nickel and cobalt are expected to grow significantly beginning in 2019 when China expects to begin production quotas requiring that 10% of all vehicles manufactured be electric.

During Q4, the nickel price was supported by news that nickel pig iron (NPI) producers in China were asked to reduce production to alleviate pollution with China's largest NPI-only producer ordered to halve production from November 2017 to March 2018. Actual and anticipated reductions from existing nickel producers also continued to help underpin the nickel price, with nickel supply expected to be in a deficit for 2018 and 2019.

Nickel reference price improvements in the second half were also driven by the decline in inventories. Combined LME and SHFE nickel inventories at year-end declined to 410,828 tonnes (from 464,696 tonnes at the beginning of the year). Any further decline in visible inventories could give momentum to nickel price increases in the future.

### Cobalt

Cobalt prices strengthened considerably in 2017. The average reference price in the fourth quarter was US\$31.60 per pound for 2017, up 134% from Q4 2016. The average reference cobalt price for the 12-month period of 2017 was US\$26.53, up 125% from US\$11.77 per pound for 2016.

The price increase is primarily linked to the growing strong demand emanating from the EV battery market. The double-digit price growth experienced over the past year was also driven by geopolitical and supply risk concerns given that the Democratic Republic of Congo is currently the world's largest source of cobalt.

As cobalt prices have a limited impact on overall battery pack costs, high prices are not expected to cause supply-chain disruptions or delay EV market growth. As a result, the risk of cobalt substitution in EV battery production in the near term is relatively low given cobalt's unique energy transference properties. While battery manufacturers continue to explore alternatives to cobalt, the likely beneficiary of any substitution is expected to be Class 1 nickel.

Cobalt supply deficits are expected to continue over the next few years. In addition to demand from industrial end users, speculative investors are also driving up cobalt prices by stockpiling inventory, further exacerbating supply deficit concerns.

### Moa Joint Venture (50% interest) and Fort Site (100%)

The Moa JV produced 4,134 tonnes of finished nickel in Q4 2017, up from 3,782 tonnes produced in Q4 2016, despite mixed sulphides production being negatively impacted by abnormally heavy rainfalls in November and December 2017. Finished nickel production on a 12-month basis was 15,679 tonnes in 2017, in line with expectations for the year.

Q4 2017 revenue for the Moa JV and the Fort Site totaled \$123.0 million, up 32% from \$92.5 million last year. The growth was driven by higher production and higher realized prices for nickel, cobalt and fertilizer. Nickel sales represented 50% of total Q4 2017 revenue while cobalt sales represented 33%. Fertilizer sales in Q4 2017 were up 19% from last year, reflecting stronger demand and higher realized prices.

Mining, processing and refining (MPR) costs for Q4 2017 were US\$4.89 per pound, down from US\$4.93 per pound for Q4 2016. The decline was largely due to higher production volumes in Q4 2017. MPR costs on the full-year basis were US\$4.80 per pound for 2017, up from US\$4.63 per pound for 2016. The US\$0.17 increase per pound in 2017 was attributable to higher energy costs, although partly offset by cost savings of approximately US\$0.50 per pound achieved with the commissioning of the third acid plant at Moa in the fourth quarter of 2016.

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Despite higher energy and sulphur input costs, Moa's NDCC of US\$1.80/lb of finished nickel in Q4 2017 was the lowest experienced since Q3 2004. The cobalt credit of US\$3.54/lb reflects Moa's high cobalt to nickel production ratio as well as the 125% growth in cobalt prices since Q4 2016. NDCC improvement also benefited from the commissioning of a third sulphuric acid plant at Moa in 2016 that generated approximate savings of US\$0.50/lb. NDCC on a 12-month basis was \$2.35/lb, down from \$3.42/lb for 2016. NDCC for 2017 was significantly lower than expectations for the year, due largely to higher cobalt by-product credits.

Cash provided by operations in Q4 2017 totaled \$32.5 million, up from a loss in Q4 2016 when Hurricane Matthew and the subsequent collapse of bridge infrastructure negatively impacted production. Cash flow from operations in Q4 2017 was also positively impacted higher realized nickel and cobalt prices..

Moa's sustaining capital spending in Q4 2017 was \$7.7 million, up from \$4.7 million in Q4 last year. The increase was attributable to the timing of expenditures.

### **Ambatovy Joint Venture (12% interest effective December 11, 2017)**

Along with its partners, Sherritt completed the restructuring of the Ambatovy Joint Venture on December 11, 2017. The restructuring led to Sherritt's ownership interest being reduced to 12% in exchange for the elimination of \$1.4 billion of debt. Sherritt's financial and operational results at Ambatovy are presented on a 40% basis to December 10, 2017 and on a 12% basis effective December 11, 2017. Sherritt will continue to serve as operator of Ambatovy at least through 2024, however, as a result of the reduction in its ownership interest, Sherritt's ability to direct local decision-making at Ambatovy has diminished.

Finished nickel production at Ambatovy in Q4 2017 was 3,111 tonnes, down from 5,111 tonnes for the comparable period of 2016, which represented Ambatovy's highest ever production total. The year-over-year decline was due to a number of developments that impacted plant reliability. Most notably, the failure of an economizer in one of the acid plants reduced production capacity to approximately 50% during November and December of 2017.

Finished nickel production on a 12-month basis for 2017 was 13,618 tonnes, down from 16,842 tonnes for 2016. The year-over-year decline was primarily due to equipment failures that reduced the reliability of Ambatovy's acid plant and pressure acid leach circuit. Maintenance activities and replacement of equipment completed in 2017 are expected to improve plant reliability and production stability over time.

Finished cobalt production in Q4 2017 was 245 tonnes, down from 404 tonnes for the same period of 2016. The decrease was tied to plant reliability issues previously cited that lowered production. Cobalt production for 2017 was 1,173 tonnes, down from 1,309 tonnes for 2016.

MPR costs for Q4 2017 were US\$5.76 per pound, up from US\$3.97 per pound in Q4 2016. MPR costs on a full-year basis were US\$6.01 per pound in 2017, up from US\$4.89 per pound in 2016. The year-over-year increases were largely due to higher input costs as well as lower production volumes in 2017.

NDCC for finished nickel at Ambatovy in Q4 2017 was \$3.26/lb, up from the \$3.10/lb for Q4 2016. The increase was due to lower production, higher maintenance costs, higher energy and sulphur input costs offset by higher cobalt by-product credits. NDCC on a 12-month basis \$3.83/lb for 2017, down from \$4.27/lb for 2016. Ambatovy's NDCC for 2017 places it slightly above the 50<sup>th</sup> percentile of industry average cost.

Subsequent to year end, facilities at the Ambatovy Joint Venture were impacted by Tropical Cyclone Ava, a Category 2 hurricane equivalent storm. Damage to equipment and the acid production facilities resulted in a temporary halt in production. Repairs have since been completed and partial production has resumed. A ramp up in production is expected through the end of Q2 2018.



## OIL AND GAS

\$ millions, except as otherwise noted	For the three months ended			For the years ended		
	2017	2016	Change	2017	2016	Change
	December 31	December 31		December 31	December 31	
<b>FINANCIAL HIGHLIGHTS</b>						
Revenue	\$ 27.7	\$ 30.6	(9%)	\$ 127.0	\$ 108.6	17%
Earnings (loss) from operations	7.9	2.8	182%	33.6	(16.3)	306%
Adjusted EBITDA <sup>(1)</sup>	10.5	11.6	(9%)	61.9	35.6	74%
Cash provided by operations	(2.3)	11.4	(120%)	30.8	76.4	(60%)
Free cash flow <sup>(1)</sup>	(9.9)	3.3	(400%)	8.9	50.4	(82%)
<b>PRODUCTION AND SALES (bopd)</b>						
Gross working-interest (GWI) - Cuba	10,378	14,470	(28%)	13,479	15,452	(13%)
Total net working-interest (NWI)	6,101	8,163	(25%)	7,856	9,483	(17%)
<b>AVERAGE EXCHANGE RATE (CAD/USD)</b>	1.271	1.334	(5%)	1.299	1.325	(2%)
<b>AVERAGE REFERENCE PRICE (US\$ per barrel)</b>						
West Texas Intermediate (WTI)	\$ 55.19	\$ 49.21	12%	\$ 50.78	\$ 43.37	17%
Gulf Coast Fuel Oil No. 6	52.81	41.12	28%	47.02	32.13	46%
Brent	61.77	48.53	27%	54.18	43.31	25%
<b>AVERAGE-REALIZED PRICE<sup>(1)</sup> (NWI)</b>						
Cuba (\$ per barrel)	\$ 48.82	\$ 39.75	23%	\$ 43.81	\$ 29.93	46%
<b>UNIT OPERATING COSTS<sup>(1)</sup> (GWI)</b>						
Cuba (\$ per barrel)	\$ 12.24	\$ 10.95	12%	\$ 9.78	\$ 9.75	-
<b>SPENDING ON CAPITAL<sup>(2)</sup></b>						
Development, facilities and other	\$ (1.4)	\$ 0.4	(450%)	\$ (1.7)	\$ 8.9	(119%)
Exploration	8.6	7.8	10%	21.1	17.0	24%
	\$ 7.2	\$ 8.2	(12%)	\$ 19.4	\$ 25.9	(25%)

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

(2) Spending on capital includes accruals.

Gross working-interest oil production in Q4 2017 in Cuba was 10,378 barrels of oil per day (bopd), down from 14,470 bopd for the comparable period of 2016. The decrease was primarily due to the expiration of the Varadero West Production Sharing Contract (PSC) in November 2017 and natural reservoir declines. Gross working-interest oil production on a 12-month basis for 2017 was 13,479 bopd, in line with guidance for the year.

Revenue in Q4 2017 was \$27.7 million, down 9% from \$30.6 million for last year. The decline was due to lowered production, partially offset by an increase in realized prices of 23% to \$48.82 per barrel in Cuba, though partially offset by the negative impact of a stronger Canadian dollar. Revenue on a full-year basis was \$127.0 million, up 17%. The increase was driven largely by higher realized prices.

Total net working interest production for Q4 2017 was 6,101 barrels of oil equivalent per day, down from 8,163 barrels in the same period of 2016. The decline was due to lower cost-recovery spending, the impact of the expiration of the Varadero West PSC already cited and the impact of higher oil prices in the current year period.

Unit operating costs in Q4 2017 in Cuba were \$12.24 per barrel, up 12% from \$10.95 in Q4 2016, driven largely by reduced production. On a full-year basis, unit costs in Cuba were \$9.78 in line with 2017 guidance.

Capital spending in Q4 2017 totaled \$7.2 million and was largely focused on Block 10 drilling activities. Drilling of the second development well began in August and was temporarily suspended in December 2017. Drilling results for the second well on Block 10 are expected in Q3 of 2018.

## POWER

	For the three months ended			For the years ended		
	2017	2016	Change	2017	2016	Change
\$ millions (33 ⅓% basis), except as otherwise noted	December 31	December 31		December 31	December 31	
<b>FINANCIAL HIGHLIGHTS</b>						
Revenue	\$ 12.0	\$ 13.7	(12%)	\$ 51.2	\$ 58.6	(13%)
Earnings (loss) from operations	(0.6)	(1.3)	54%	5.2	(5.3)	198%
Adjusted EBITDA <sup>(1)</sup>	5.5	7.4	(26%)	30.1	29.5	2%
Cash provided by operations	5.4	(3.3)	264%	44.5	8.0	456%
Free cash flow <sup>(1)</sup>	5.3	(3.7)	243%	43.0	7.0	514%
<b>PRODUCTION AND SALES</b>						
Electricity (GWh)	201	224	(10%)	848	894	(5%)
<b>AVERAGE-REALIZED PRICE<sup>(1)</sup></b>						
Electricity (\$/MWh)	\$ 54.01	\$ 56.24	(4%)	\$ 55.15	\$ 56.10	(2%)
<b>UNIT OPERATING COSTS<sup>(1)</sup> (\$/MWh)</b>						
Base	20.66	22.39	(8%)	16.48	17.70	(7%)
Non-base <sup>(2)</sup>	2.77	2.34	18%	2.81	5.24	(46%)
	23.43	24.73	(5%)	19.29	22.94	(16%)
<b>NET CAPACITY FACTOR (%)</b>						
	62	66	(6%)	67	70	(4%)
<b>SPENDING ON CAPITAL AND SERVICE CONCESSION ARRANGEMENTS<sup>(3)</sup></b>						
Sustaining	\$ 0.1	\$ 0.4	(75%)	\$ 1.5	\$ 1.0	50%
Service concession arrangements	-	0.1	(100%)	-	4.6	(100%)
	\$ 0.1	\$ 0.5	(80%)	\$ 1.5	\$ 5.6	(73%)

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

(2) 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.

(3) Spending on capital includes accruals.

Power production in Q4 2017 was 201 gigawatt hours (“GWh”) of electricity, down 10% from 224 GWh for the comparable period of 2016. The decline was largely due to reduced gas supply. Power production on a 12-month basis was 848 GWh for 2017, down from 894 GWh for 2016.

Average realized prices in Q4 2017 declined to \$54.01 per Megawatt hour (“MWh”) of electricity from \$56.24 per MWh in Q4 2016. The decline was due to the appreciation of the Canadian dollar relative to the U.S. currency.

Revenue in Q4 2017 totaled \$12.0 million, down 15% from \$13.7 million for Q4 2016. The decrease is attributable to lower production and lower realized prices. Revenue on a full-year basis was \$51.2 million, down from \$58.6 million for 2016.

Cash flow from operations in Q4 2017 grew by 264% to \$5.3 million due to changes in working capital in the quarter.

Unit operating cost in Q4 2017 was \$23.43 per MWh of electricity, down 5% from \$24.73 per MWh for Q4 2016. The decrease was due principally to reduced maintenance activities at the Boca and Puerto Escondido facilities this year.

Total capital spending in Q4 2017 was \$0.1 million, down from \$0.4 million for the comparable period of last year. For the full year, the decline in capital spending was primarily due to the absence of service concession spending this year.

## 2017 REVIEW OF STRATEGIC PRIORITIES

The table below lists Sherritt’s Strategic Priorities in 2017, and summarizes how the Corporation performed against those priorities in 2017.

Strategic Priorities	2017 Actions	Status
<b>PRESERVE LIQUIDITY AND BUILD BALANCE SHEET STRENGTH</b>	Finalize long-term Ambatovy equity and funding structure	Restructuring of the Ambatovy Joint Venture was completed on December 11, 2017 and resulted in the elimination of \$1.4 billion of debt and reduction of Sherritt's ownership interest to 12% from 40%.
	Optimize working capital and receivables collection	Management continues to take action to expedite Cuban energy receipts. Outstanding receivables at year end were US\$132.6 million. The year-over-year growth was due to Cuba's reduced liquidity, including the impact of Hurricane Irma and resulting recovery costs had on the country's economy.
	Operate Metals and Power businesses to be free cash flow neutral or better	The Oil and Gas and Power divisions generated positive free cash flow in 2017. The Moa JV generated sufficient operating cash flow to repay \$31.7 million on its working capital facility.
<b>OPTIMIZE OPPORTUNITIES IN CUBAN ENERGY BUSINESS</b>	Determine future capital allocation based on results from first two wells drilled on Block 10	The results from the first well have provided constructive data to optimize the drilling of the second well, again targeting the Lower Veloz formation. Drilling on the second well at Block 10 has been temporarily suspended to determine the best option to reach the target reservoir. Drilling results from the second well are expected in Q3 2018.
	Further reduce NDCC at Moa and Ambatovy towards the goal of achieving or remaining in the lowest quartile of global nickel cash costs	Q4 NDCC of US\$1.80/lb at the Moa JV is the lowest since Q3 2004. Moa's NDCC ranked it within the lowest cost quartile for the third consecutive quarter. Ambatovy's NDCC of US\$3.83/lb for 2017 marked an improvement from last year, but was below expectations due to lower production and higher maintenance costs.
<b>UPHOLD GLOBAL OPERATIONAL LEADERSHIP IN FINISHED NICKEL LATERITE PRODUCTION</b>	Increase Ambatovy production and predictability over 2016	Ambatovy production in 2017 experienced a number of unanticipated challenges and resulted in several unplanned maintenance activities. Initiatives, such as replacing certain equipment, are being implemented to improve asset reliability.
	Achieve peer leading performance in environmental, health, safety and sustainability	In 2017, Sherritt joined the Mining Association of Canada (MAC) and began implementing MAC's Towards Sustainable Mining program, an internationally recognized sustainability standard. In safety, Sherritt met its recordable incident frequency target, but exceeded its injury frequency target for the year. No significant environmental or community-related incidents were recorded in 2017. The company received five distinct honours for leadership in sustainability management and reporting during the year.

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## 2018 STRATEGIC PRIORITIES

The table below lists Sherritt's Strategic Priorities for 2018. As we execute on our 2018 Strategic Priorities, protecting the health and safety of our employees, contractors and communities will continue to be our top priority. Sherritt's purpose is to be ***a leader in the low-cost production of finished nickel and cobalt that creates sustainable prosperity for our employees, investors and communities.***

<b>Strategic Priorities</b>	<b>2018 Actions</b>
<b>PRESERVE LIQUIDITY AND BUILD BALANCE SHEET STRENGTH</b>	<p>Continue to emphasize de-leveraging of the balance sheet</p> <p>Optimize working capital and maximize receivables collection</p> <p>Operate Metals businesses to maintain a leadership position as a low-cost producer of finished nickel and cobalt while maximizing Free Cash Flow</p>
<b>OPTIMIZE OPPORTUNITIES IN CUBAN ENERGY BUSINESS</b>	<p>Successfully execute Block 10 drilling program</p> <p>Review opportunities to leverage Oil and Gas experience and relationships</p> <p>Continue to maintain strong relationships in Cuba</p>
<b>UPHOLD GLOBAL OPERATIONAL LEADERSHIP IN FINISHED NICKEL PRODUCTION FROM LATERITES</b>	<p>Protect the health and safety of all employees in all operations</p> <p>Achieve peer-leading performance in environmental, health, safety and sustainability</p> <p>Maximize production of finished nickel and cobalt and improve predictability over 2017 results</p> <p>Continue to maintain strong relationships with battery manufacturers</p> <p>Further reduce NDCC towards the goal of being consistently in the lowest cost quartile</p> <p>Leverage technical innovation for the purposes of reducing operating costs and identifying new market opportunities</p>

## OUTLOOK

### 2018 PRODUCTION, UNIT OPERATING COST AND CAPITAL SPENDING GUIDANCE

The guidance for 2018 reflects Sherritt's targets for production, unit costs and capital spending announced on January 12, 2018.

	Guidance at 2017	Actual 2017	Guidance for 2018
Production volumes, unit operating costs and spending on capital			
<b>Production volumes</b>			
Nickel, finished (tonnes, 100% basis)			
Moa Joint Venture	31,500-32,500	31,524	31,500-32,500
Ambatovy Joint Venture	36,000-39,000	35,474	40,000-43,000
Cobalt, finished (tonnes, 100% basis)			
Moa Joint Venture	3,500-3,800	3,601	3,500-3,800
Ambatovy Joint Venture	3,300-3,600	3,053	3,900-4,200
Oil – Cuba (gross working-interest, bopd)	13,000-14,000	13,479	4,300-4,800
Oil and Gas – All operations (net working-interest, boepd)	7,500-8,000	7,855	1,900-2,100
Electricity (GWh, 33 $\frac{1}{3}$ % basis)	850-900	848	750-800
<b>Unit operating costs</b>			
NDCC (US\$ per pound)			
Moa Joint Venture	2.80-3.30	2.35	2.50-3.00
Ambatovy Joint Venture	3.10-3.70	3.83	3.00-3.50
Oil and Gas - Cuba (unit operating costs, \$ per barrel)	11.00-12.00	9.78	22.00-23.50
Electricity (unit operating cost, \$ per MWh)	18.75-19.50	19.29	20.75-21.50
<b>Spending on capital (US\$ millions)</b>			
Metals – Moa Joint Venture (50% basis), Fort Site (100% basis) <sup>(1)</sup>	US\$28 (CDN\$38)	US\$17 (CDN\$21)	US\$41 (CDN\$52)
Metals – Ambatovy Joint Venture (40% basis then 12% basis) <sup>(2)</sup>	US\$45 (CDN\$61)	US\$35 (CDN\$44)	US\$13 (CDN\$17)
Oil and Gas	US\$35 (CDN\$47)	US\$15 (CDN\$19)	US\$39 (CDN\$50)
Power (33 $\frac{1}{3}$ % basis)	US\$1 (CDN\$2)	US\$1 (CDN\$2)	US\$1 (CDN\$1)
Spending on capital (excluding Corporate)	US\$109 (CDN\$148)	US\$68 (CDN\$86)	US\$94 (CDN\$120)

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

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

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## **NON-GAAP MEASURES**

The Corporation uses combined results, Adjusted EBITDA, average-realized price, unit operating cost, and adjusted operating cash flow, and free cash flow to monitor the 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. See Sherritt's Management's Discussion and Analysis for the period ended December 31, 2017 for further information.

## **CONFERENCE CALL AND WEBCAST**

Sherritt will hold its conference call and webcast today at 10:30 a.m. Eastern Time to review its Q4 and 2017 results.

Conference Call and Webcast: February 12, 2018, 10:30 a.m. ET

North American callers, please dial: 1-800-281-7829

International callers, please dial: 647-794-1827

Live webcast: [www.sherritt.com](http://www.sherritt.com)

An archive of the webcast will also be available on the website. The conference call will be available for replay until February 17, 2018 by calling 647-436-0148 or 1-888-203-1112, access code 4489193#.

## **COMPLETE FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS**

Sherritt's complete audited consolidated financial statements and MD&A for the year ended December 31, 2017 are available at [www.sherritt.com](http://www.sherritt.com) and should be read in conjunction with this news release. Financial and operating data can also viewed in the investor relations section of Sherritt's website.

## **ABOUT SHERRITT**

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

Source: Sherritt Investor Relations

## **FORWARD-LOOKING STATEMENTS**

This press release contains certain forward-looking statements. Forward-looking statements can generally be identified by the use of statements that include such words as "believe", "expect", "anticipate", "intend", "plan", "forecast", "likely", "may", "will", "could", "should", "suspect", "outlook", "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 press release and certain expectations regarding production volumes, operating costs and capital spending; supply, demand and pricing outlook in the nickel and cobalt markets; Ambatovy plant reliability and production stability; strategic priorities and 2018 actions; and drill results for the second well on Block 10.

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

The Corporation cautions readers of this press release not to place undue reliance on any forward looking statement as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward looking statements. 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; access to capital; access to financing; risks related to the liquidity of the Ambatovy Joint Venture; the risk to Sherritt's entitlements to future distributions from the Ambatovy Joint Venture; risk of future non-compliance with debt restrictions and covenants; risks associated with the Corporation's joint venture partners; 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 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 Sherritt's operations in Madagascar; risks associated with Sherritt's development, construction and operation of large projects generally; 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; risks to information technologies systems and cybersecurity; failure to comply with, or changes to, applicable government regulations; bribery and corruption risks, including failure to comply with the Corruption of Foreign Public Officials Act or applicable local anti-corruption law; uncertainties in growth management.

The Corporation may, from time to time, make oral forward-looking statements. The Corporation advises that the above paragraph and the risk factors described in this press release and in the Corporation's other documents filed with the Canadian securities authorities should be read for a description of certain factors that could cause the actual results of the Corporation to differ materially from those in the oral forward-looking statements. The forward-looking information and statements contained in this press release 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.

For further investor information contact:  
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Toronto, ON M5J 2T3  
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# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2017

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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 12, 2018, should be read in conjunction with Sherritt's audited consolidated financial statements for the year ended December 31, 2017. Additional information related to the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Corporation's website at [www.sherritt.com](http://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.

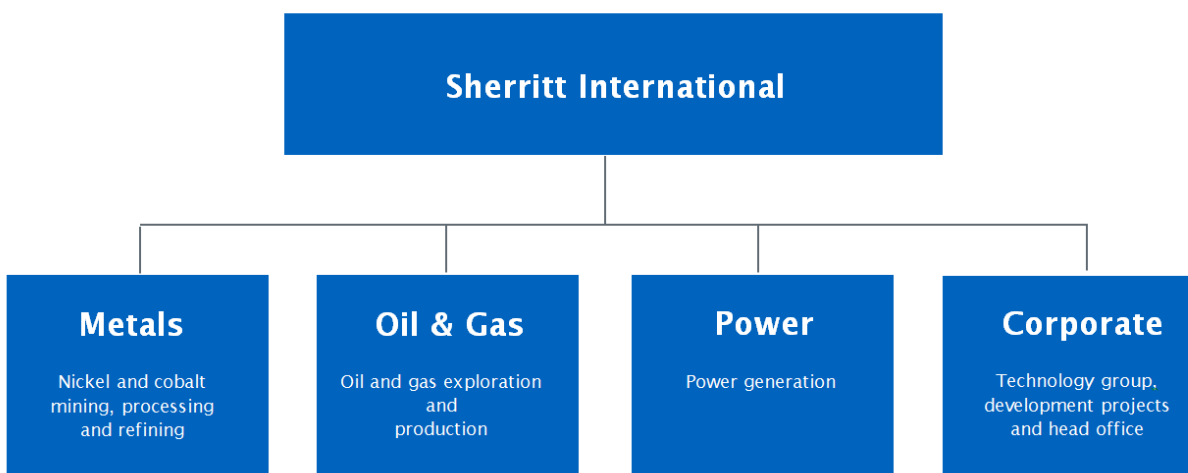
Securities regulators encourage companies to disclose forward-looking information to help investors understand a company's future prospects. This discussion contains statements about Sherritt's future financial condition, results of operations and business. See the end of this report for more information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

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# 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 12% interest in Ambatovy Minerals S.A. (AMSA) and Dynatec Madagascar S.A. (DMSA). Together AMSA and DMSA form the Ambatovy Joint Venture which owns a significant nickel operation in Madagascar. In addition, Sherritt has a 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 mines, processes and refines nickel and cobalt for sale worldwide (except in the United States). The Moa Joint Venture is a vertically-integrated joint venture that mines lateritic ore by open pit methods and processes them at its facilities at Moa, Cuba into mixed sulphides containing nickel and cobalt. The mixed sulphides are transported to the refining facilities in Fort Saskatchewan, Alberta. The resulting nickel and cobalt products are sold to various markets, primarily in Europe, Japan and China. Pursuant to an expansion agreement signed in March 2005, the Cuban State granted the Moa Joint Venture resource concessions ensuring 25 years of production post expansion. At current depletion rate, the concessions of the Moa Joint Venture will reach their limit in 2034.

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

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 principal partners Sumitomo Corporation (Sumitomo) and Korea Resources Corporation (KORES) (collectively, the Ambatovy Partners). The Ambatovy Joint Venture has two nickel deposits located near Moramanga (eastern-central Madagascar) which are planned to be mined over an 18-year period. Additionally, reclamation of low-grade ore stockpiles is expected to extend the project life by 11 years.

## **OIL AND GAS**

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

Under the terms of its production-sharing contracts (PSCs), Sherritt's net production is made up of an allocation from gross working-interest production (cost-recovery oil) to allow recovery of all approved costs in addition to a negotiated percentage of the remaining production (profit oil). The pricing for oil produced by Sherritt in Cuba is based on a discount to Gulf Coast Fuel Oil 6 (GCF06) reference prices.

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

In addition, Sherritt holds working-interests in several oil fields and the related production platform located in the Gulf of Valencia in Spain 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 arrangement established to process raw natural gas and generate electricity for sale to the Cuban national electrical grid. Cuban government agencies Unión Eléctrica (UNE) and Unión Cubapetróleo (CUPET) hold the remaining two-thirds interest in Energas.

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

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

## **CORPORATE AND OTHER**

### **Commercial and Technologies**

In November 2016, Sherritt Technologies was merged with Sherritt's Global Marketing and Logistics group to form the Commercial and Technologies group (Commercial and Technologies). Commercial and Technologies provides technical support, marketing and bulk commodity procurement services to Sherritt's operating divisions and identifies opportunities for the Corporation as a result of its international activities and research and development activities. Its activities include evaluating, developing and commercializing process technologies for natural resource based industries, in particular for the hydrometallurgical recovery of non-ferrous metals, marketing Sherritt's refined nickel and cobalt finished products and securing critical raw materials and feedstocks for the hydrometallurgical operations.

## ACCOUNTING PRESENTATION

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

	Relationship for accounting purposes	Interest	Basis of accounting
<b>Metals</b>			
Moa Joint Venture	Joint venture	50%	Equity method
Ambatovy Joint Venture <sup>(1)</sup>	Associate	40%, 12%	Equity method
<b>Oil and Gas</b>			
	Subsidiary	100%	Consolidation
<b>Power</b>			
	Joint operation	33⅓%	Share of assets, liabilities revenues and expenses
<b>Commercial and Technologies</b>			
	Subsidiary	100%	Consolidation

(1) On December 11, 2017, the Corporation reduced its interest in Ambatovy from 40% to 12%

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%/12% interest in Ambatovy, 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 results and Review of operations sections in this MD&A include the Corporation's 100% interest in its Oil and Gas business, 33⅓% interest in its Power businesses and 100% interest in the Commercial and Technologies business.

In December 2017, the Corporation concluded an agreement with its Ambatovy Joint Venture partners to reduce its interest in the joint venture from 40% to 12% (the Ambatovy restructuring). Operating results for Ambatovy to December 10, 2017 are presented on a 40% basis; operating results thereafter are presented on a 12% basis. Any balance sheet amounts in this MD&A at December 31, 2017 include the Corporation's interest in Ambatovy at 12% while the prior years ended December 31 are based on the Corporation's 40% interest.

Amounts presented in this MD&A can be reconciled to note 4 of the audited consolidated financial statements for the year ended December 31, 2017.

# Strategic priorities

The table below summarizes how the Corporation performed against its strategic priorities for 2017.

Strategic Priorities	2017 Actions	Status
<b>PRESERVE LIQUIDITY AND BUILD BALANCE SHEET STRENGTH</b>	Finalize long-term Ambatovy equity and funding structure	Restructuring of the Ambatovy Joint Venture was completed on December 11, 2017 and resulted in the elimination of \$1.4 billion of debt and reduction of Sherritt's ownership interest to 12% from 40%.
	Optimize working capital and receivables collection	Management continues to take action to expedite Cuban energy receipts. Outstanding receivables at year end were US\$132.6 million. The year-over-year growth was due to Cuba's reduced liquidity, including the impact of Hurricane Irma and resulting recovery costs had on the country's economy.
	Operate Metals and Power businesses to be free cash flow neutral or better	The Oil and Gas and Power divisions generated positive free cash flow in 2017. The Moa JV generated sufficient operating cash flow to repay \$31.7 million on its working capital facility.
<b>OPTIMIZE OPPORTUNITIES IN CUBAN ENERGY BUSINESS</b>	Determine future capital allocation based on results from first two wells drilled on Block 10	The results from the first well have provided constructive data to optimize the drilling of the second well, again targeting the Lower Veloz formation. Drilling on the second well at Block 10 has been temporarily suspended to determine the best option to reach the target reservoir. Drilling results from the second well are expected in Q3 2018.
	Further reduce NDCC at Moa and Ambatovy towards the goal of achieving or remaining in the lowest quartile of global nickel cash costs	Q4 NDCC of US\$1.80/lb at the Moa JV is the lowest since Q3 2004. Moa's NDCC ranked it within the lowest cost quartile for the third consecutive quarter. Ambatovy's NDCC of US\$3.83/lb for 2017 marked an improvement from last year, but was below expectations due to lower production and higher maintenance costs.
<b>UPHOLD GLOBAL OPERATIONAL LEADERSHIP IN FINISHED NICKEL LATERITE PRODUCTION</b>	Increase Ambatovy production and predictability over 2016	Ambatovy production in 2017 experienced a number of unanticipated challenges and resulted in several unplanned maintenance activities. Initiatives, such as replacing certain equipment, are being implemented to improve asset reliability.
	Achieve peer leading performance in environmental, health, safety and sustainability	In 2017, Sherritt joined the Mining Association of Canada (MAC) and began implementing MAC's Towards Sustainable Mining program, an internationally recognized sustainability standard. In safety, Sherritt met its recordable incident frequency target, but exceeded its injury frequency target for the year. No significant environmental or community-related incidents were recorded in 2017. The company received five distinct honours for leadership in sustainability management and reporting during the year.

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## Management's discussion and analysis

The table below lists Sherritt's Strategic Priorities for 2018. As we execute on our 2018 Strategic Priorities, protecting the health and safety of our employees, contractors and communities will continue to be our top priority. Sherritt's purpose is to be ***a leader in the low-cost production of finished nickel and cobalt that creates sustainable prosperity for our employees, investors and communities.***

<b>Strategic Priorities</b>	<b>2018 Actions</b>
<b>PRESERVE LIQUIDITY AND BUILD BALANCE SHEET STRENGTH</b>	<p>Continue to emphasize de-leveraging of the balance sheet</p> <p>Optimize working capital and maximize receivables collection</p> <p>Operate Metals businesses to maintain a leadership position as a low-cost producer of finished nickel and cobalt while maximizing Free Cash Flow</p>
<b>OPTIMIZE OPPORTUNITIES IN CUBAN ENERGY BUSINESS</b>	<p>Successfully execute Block 10 drilling program</p> <p>Review opportunities to leverage Oil and Gas experience and relationships</p> <p>Continue to maintain strong relationships in Cuba</p>
<b>UPHOLD GLOBAL OPERATIONAL LEADERSHIP IN FINISHED NICKEL PRODUCTION FROM LATERITES</b>	<p>Protect the health and safety of all employees in all operations</p> <p>Achieve peer-leading performance in environmental, health, safety and sustainability</p> <p>Maximize production of finished nickel and cobalt and improve predictability over 2017 results</p> <p>Continue to maintain strong relationships with battery manufacturers</p> <p>Further reduce NDCC towards the goal of being consistently in the lowest cost quartile</p> <p>Leverage technical innovation for the purposes of reducing operating costs and identifying new market opportunities</p>

# Highlights

## **UNIT ISSUANCE AND LAUNCH OF DEBT DUTCH AUCTION**

In January 2018 the Corporation closed a unit offering financing transaction that generated gross proceeds of \$132.0 million. Net proceeds will be used to reduce Sherritt's outstanding indebtedness, for general corporate purposes and to fund future growth initiatives. In addition, the Corporation launched a modified Dutch Auction tender offer to repurchase up to \$75.0 million of outstanding unsecured debentures. The tender offer is expected to close on or about February 16, 2017.

## **AMBATOVY JOINT VENTURE RESTRUCTURING**

On December 11, 2017, the Corporation closed the transaction to restructure its ownership interest in the Ambatovy Joint Venture from 40% to 12%. As part of the restructuring, the Corporation transferred a 28% interest in the Ambatovy Joint Venture and pre-completion shareholder subordinated loans receivable and derecognized \$1.4 billion in Ambatovy Joint Venture additional partner loans from its balance sheet. The Corporation retains a 12% equity interest and 12% of all shareholder subordinated loans receivable post restructuring of the Ambatovy Joint Venture. Sherritt made payments totaling \$71.5 million related to the Ambatovy restructuring, \$12.0 million dollars of which was placed in escrow as restricted cash.

## **OIL AND GAS UPDATE**

In January 2018, the Corporation executed a three-year extension of the Puerto Escondido/Yumuri production sharing contract to 2021.

On Block 10, the results from the first well provided constructive data to optimize the drilling of the second well, again targeting the Lower Veloz formation. Drilling on the second well at Block 10 has been temporarily suspended to determine the best option to reach the target reservoir. Drilling results from the second well are expected in the third quarter of 2018.

## **OPERATIONS UPDATE**

The Metals operations produced 7,245 tonnes of finished nickel (Sherritt's share) in the fourth quarter of 2017 and 29,380 tonnes during the year ended December 31, 2017.

In the fourth quarter of 2017, finished nickel production at Moa Joint Venture was higher than in the same period in the prior year and reasonably consistent with the third quarter of 2017. Despite the impact of unusually high rainfall in November and December 2017, production of mixed sulphides was higher than in the prior year period primarily because of the impact of Hurricane Matthew and subsequent damage to bridge infrastructure in the fourth quarter of 2016. For the year ended December 31, 2017, in addition to the above, nickel and cobalt production was lower than the prior year, impacted by mixed sulphides availability in the first quarter of 2017 as a result of lower production in the fourth quarter of 2016 following Hurricane Matthew. Finished nickel production was also impacted by higher cobalt to nickel ratio in the mixed sulphides, causing a limitation on nickel production when the cobalt plant was operating near capacity periodically during the year.

Beginning on December 11, 2017, Sherritt's share of production for the quarter and year ended December 31, 2017 reflects its 12% interest in the joint venture resulting in a 570 tonne reduction in its share of production in each period. In the fourth quarter of 2017, irrespective of the change in interest, finished nickel production at the Ambatovy Joint Venture was lower than in the same period in the prior year, but higher compared to the third quarter of 2017 as the operation continues to see reliability issues in its systems which are negatively affecting production. For the year ended December 31, 2017, in addition to the above, production issues during the year included restricted acid production due to failures in the acid plant and sulphur melting area, poor reliability of the pressure acid leach (PAL) circuit, an unplanned shutdown to address hydrogen sulphide emissions from the sulphide precipitation circuits and lower recovery rates in the second and third quarters related to various planned and unplanned maintenance shutdowns.

Metals operation's weighted average net direct cash cost (NDCC) for nickel of US\$2.37/lb and US\$3.04/lb in the three months and year ended December 31, 2017, respectively, was lower compared to the same periods in the prior year as the benefit of significantly higher cobalt by-product credits offset higher maintenance costs.

## **CYCLONE AT AMBATOVY**

Although facilities at the Ambatovy Joint Venture in Madagascar were impacted by Tropical Cyclone Ava, a Category 2 hurricane equivalent storm, all personnel were unhurt and safely accounted for. Damage to equipment and the acid production facilities resulted in a temporary halt in production. Repairs have since been completed and partial production has resumed. A ramp up in production is expected through the end of Q2 2018.

## **WORKING CAPITAL UPDATE**

Cash, cash equivalents and short-term investments at December 31, 2017 were \$203.0 million, a decrease of \$87.3 million from September 30, 2017 and \$105.6 million from December 31, 2016. This decrease is primarily due to the \$71.5 million in payments in December related to the Ambatovy restructuring, \$18.8 million and \$57.2 million in interest payments on debentures for the fourth quarter and year ended December 31, 2017, respectively, and lower Cuban energy receipts during the year partly offset by the receipt of payments from Moa Joint Venture on its revolving term loan.

During the quarter, US\$7.5 million of Cuban energy payments was received compared to US\$32.6 million in the third quarter of 2017 for a total received for the year of US\$106.5 million compared to US\$129.6 million in the prior year. Total Cuban overdue receivables were US\$132.6 million at December 31, 2017 compared to US\$100.5 million at September 30, 2017 and US\$74.6 million at December 31, 2016.

# Financial results<sup>(1)</sup>

\$ millions, except as otherwise noted	For the three months ended			For the years ended		
	2017	2016	Change	2017	2016	Change
	December 31	December 31		December 31	December 31	
<b>FINANCIAL HIGHLIGHTS</b>						
Revenue	\$ 54.8	\$ 70.5	(22%)	\$ 267.3	\$ 262.3	2%
Combined revenue <sup>(2)</sup>	223.8	240.3	(7%)	917.5	820.2	12%
Earnings (loss) from operations, associate and joint venture	606.5	(52.2)	1,262%	440.8	(320.8)	237%
Earnings(loss) from continuing operations	552.9	(109.6)	604%	308.9	(381.8)	181%
(Loss) earnings from discontinued operations, net of tax	(15.1)	2.9	(621%)	(15.1)	2.9	(621%)
Net earnings (loss) for the period	537.8	(106.7)	604%	293.8	(378.9)	178%
Adjusted loss from continuing operations <sup>(2)</sup>	(50.2)	(81.3)	38%	(317.1)	(427.9)	26%
Adjusted EBITDA <sup>(2)</sup>	49.6	37.4	33%	149.8	40.0	275%
Earnings (loss) per share (basic)(\$ per share)						
Net earnings (loss) from continuing operations	1.85	(0.37)	600%	1.04	(1.30)	180%
Net earnings (loss) for the period	1.80	(0.36)	600%	0.99	(1.29)	177%
Earnings (loss) per share (diluted)(\$ per share)						
Net earnings (loss) from continuing operations	1.80	(0.37)	586%	1.02	(1.30)	178%
Net earnings (loss) for the period	1.75	(0.36)	586%	0.97	(1.29)	175%
<b>CASH</b>						
Cash, cash equivalents and short-term investments	\$ 203.0	\$ 308.6	(34%)	\$ 203.0	\$ 308.6	(34%)
Cash provided (used) by continuing operating activities	(33.9)	(22.6)	(50%)	(9.6)	1.6	(700%)
Combined free cash flow <sup>(2)</sup>	(41.2)	(45.5)	9%	(62.1)	(111.9)	45%
Combined adjusted operating cash flow <sup>(2)</sup>	15.7	8.2	91%	50.7	(46.8)	208%
<b>OPERATIONAL DATA</b>						
<b>SPENDING ON CAPITAL AND INTANGIBLE ASSETS<sup>(3)</sup></b>	\$ 25.0	\$ 30.3	(17%)	\$ 86.0	\$ 93.0	(8%)
<b>PRODUCTION VOLUMES</b>						
Finished nickel (tonnes)(Sherritt's share)	7,245	8,893	(19%)	29,380	33,306	(12%)
Finished cobalt (tonnes)(Sherritt's share)	710	786	(10%)	2,974	3,156	(6%)
Oil (boepd, NWI production) <sup>(4)</sup>	6,101	8,163	(25%)	7,856	9,483	(17%)
Electricity (gigawatt hours) (33⅓% basis)	201	224	(10%)	848	894	(5%)
<b>AVERAGE EXCHANGE RATE (CAD/USD)</b>	1.271	1.334	(5%)	1.299	1.325	(2%)
<b>AVERAGE-REALIZED PRICES<sup>(2)</sup></b>						
Nickel (\$ per pound)	\$ 6.66	\$ 6.45	3%	\$ 6.10	\$ 5.65	8%
Cobalt (\$ per pound)	38.86	17.68	120%	33.13	15.33	116%
Oil (\$ per boe, NWI) <sup>(4)</sup>	47.48	38.98	22%	42.90	29.98	43%
Electricity (\$ per megawatt hour)	54.01	56.24	(4%)	55.15	56.10	(2%)
<b>UNIT OPERATING COSTS<sup>(2)</sup></b>						
Nickel (US\$ per pound)(NDCC)	\$ 2.37	\$ 3.41	(30%)	\$ 3.04	\$ 3.85	(21%)
Oil (\$ per boe, GWI) <sup>(4)</sup>	12.95	11.68	11%	10.52	10.58	(1%)
Electricity (\$ per megawatt hour)	23.43	24.73	(5%)	19.29	22.94	(16%)

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

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

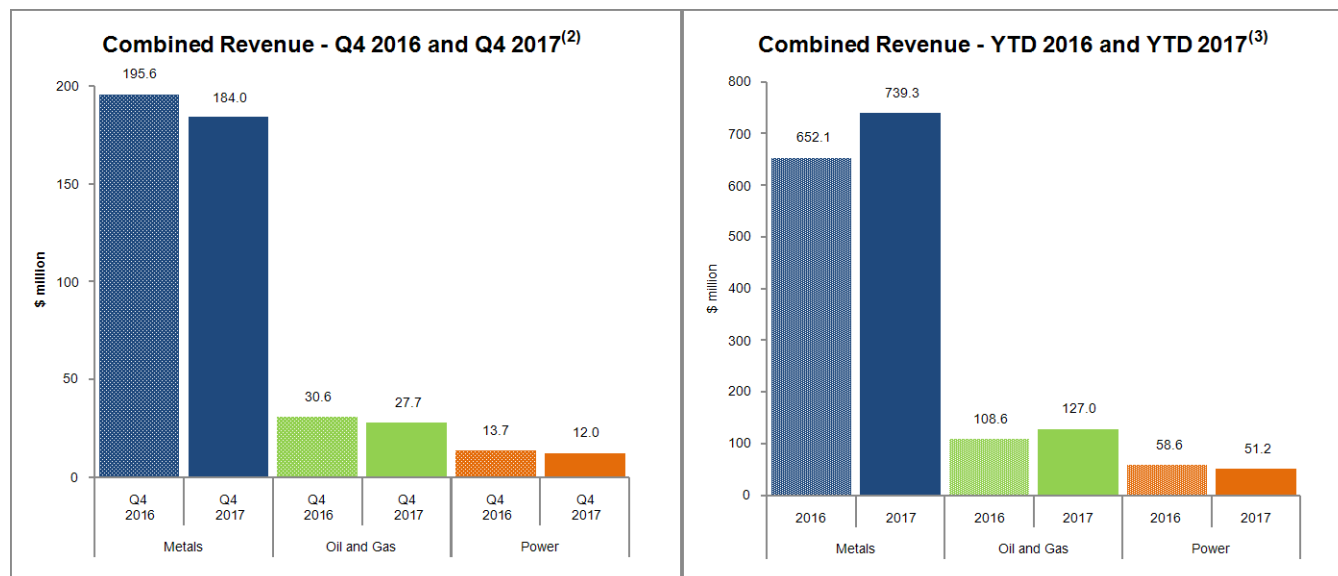
(3) Spending on capital and intangible assets includes accruals and does not include spending on service concession arrangements.

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



## Management's discussion and analysis

Total combined revenue<sup>(1)</sup> of \$223.8 million and \$917.5 million, respectively, for the three months and year ended December 31, 2017 compared to \$240.3 million and \$820.2 million for the same periods in the prior year. Combined revenue is composed of the following:



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

(2) Corporate and other revenue Q4 2017 - \$ 0.1 million, Q4 2016 - \$ 0.4 million.

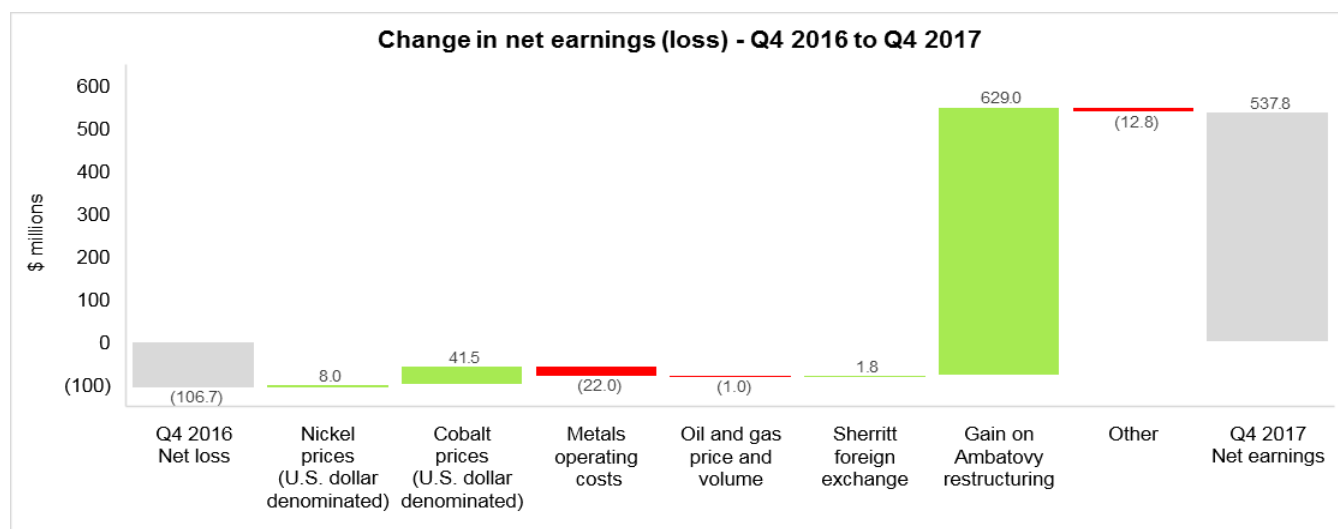
(3) Corporate and other revenue 2017 - \$nil, 2016 - \$ 0.9 million.

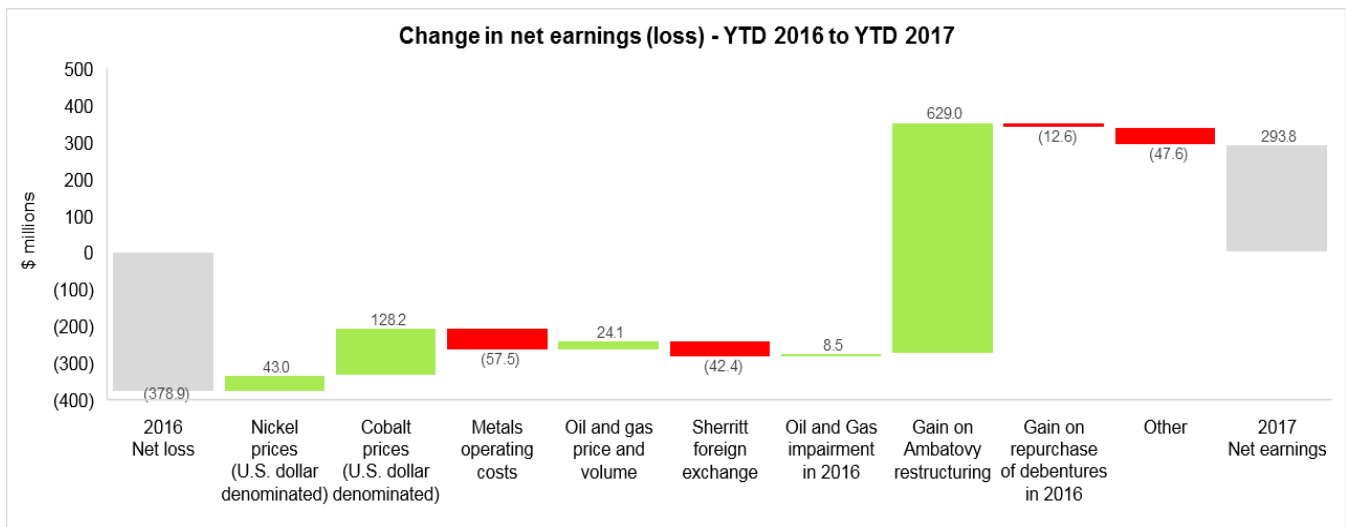
For the three months ended December 31, 2017, the net earnings from continuing operations was \$552.9 million, or \$1.85 per share, compared to a loss of \$109.6 million, or \$0.37 per share in the same period in the prior year. For the year ended December 31, 2017, the net earnings from continuing operations was \$308.9 million, or \$1.04 per share, compared to a loss of \$381.8 million, or \$1.30 per share in the prior year.

For the three months ended December 31, 2017, the Corporation recognized an adjusted net loss from continuing operations of \$50.2 million, or \$0.17 per share, and \$317.1 million, or \$1.07 per share for the year ended December 31, 2017. The most significant adjustment to net earnings was the gain recognized on the Ambatovy restructuring.

For the three months ended December 31, 2017, net earnings were \$537.8 million, or \$1.80 per share, compared to a loss of \$106.7 million, or \$0.36 per share in the same period in the prior year. For the year ended December 31, 2017, net earnings were \$293.8 million, or \$0.99 per share, compared to a loss of \$378.9 million, or \$1.29 per share in the prior year.

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





Combined revenue was lower for the three months ended December 31, 2017 and higher for full year period compared to the same periods in the prior year. Average reference prices for nickel, cobalt and Gulf Coast Fuel Oil #6 were all higher for the respective three months and year ended December 31, 2017 compared to the prior year. Nickel was 7% and 8% higher; cobalt was 134% and 125% higher; and Gulf Coast Fuel Oil #6 was 28% and 46% higher.

For the fourth quarter of 2017 revenue was lower as the impact of higher realized metals prices were more than offset by lower sales volumes at the Ambatovy Joint Venture as a result of lower production compared to the same period in the prior year. Production reliability issues at the Ambatovy Joint Venture continue to impact production and sales in the current period. Sherritt's share of current year production includes the impact of Sherritt's reduction in interest from 40% to 12% effective December 11, 2017. For the full year 2017, revenue was higher as the impact of higher realized cobalt prices more than offset lower sales volumes at both the Moa and Ambatovy joint ventures.

Metal operating costs, including third party feed costs, at the Ambatovy Joint Venture and Moa Joint Venture were higher for the three months and year ended December 31, 2017 compared to the same periods in the prior year primarily as a result of higher maintenance and energy input costs.

At Oil and Gas, the impact of higher reference prices was more than offset by lower production volumes and a stronger Canadian dollar relative to the U.S. dollar for the three months and year ended December 31, 2017 compared to the same periods in the prior year. Lower production was primarily due to the impact of the expiration of the Varadero West PSC in November 2017 and natural reservoir declines.

The Corporation recognized unrealized foreign exchange losses of \$24.1 million and \$7.7 million in the three months and year ended December 31, 2017, respectively compared to a loss of \$25.7 million and gain of \$35.9 for the same periods in the prior year, respectively. Unrealized exchange gains/losses are determined by the change in period-end exchange rates and the balance of the Corporation's U.S. dollar denominated net liabilities which was significantly reduced on the completion of the Ambatovy restructuring.

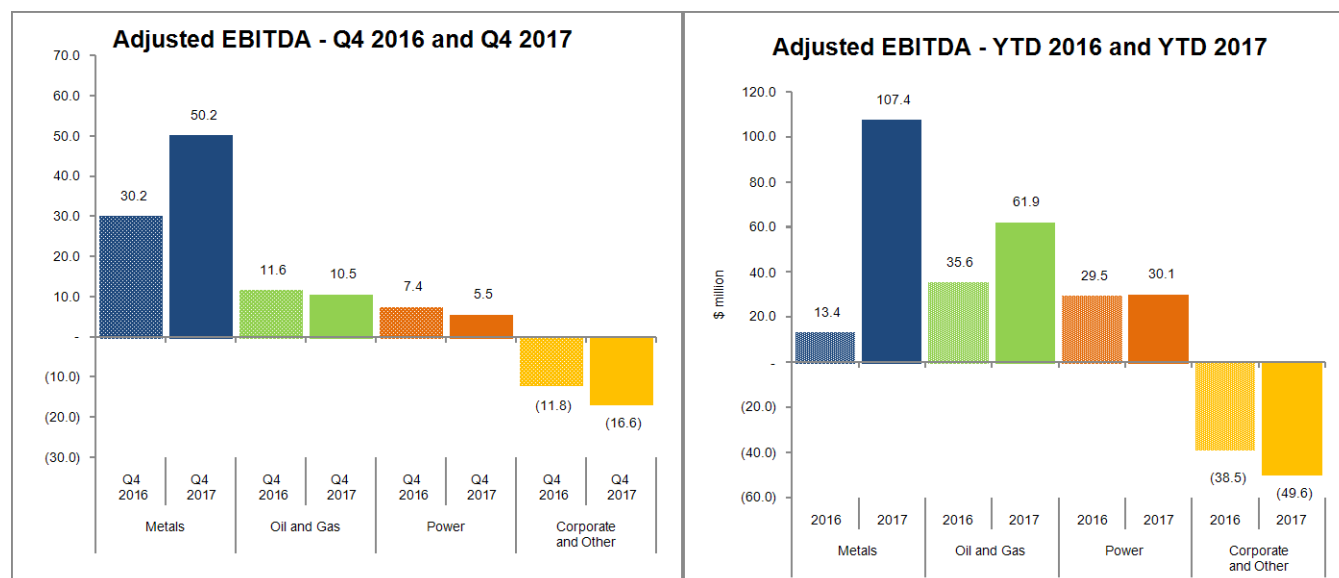
As a result of the Ambatovy restructuring, the Corporation realized a gain of \$629.0 million which, except for transaction costs of \$11.3 million, was non-cash (\$0.9 million of which was accrued and will be paid in 2018).

Compared to the same periods in the prior year, combined income tax expense was higher in the three months ended December 31, 2017 primarily due to higher income at Moa Joint Venture which resulted in one of the Moa Joint Venture entities being cash taxable whereas in the prior years it had been incurring tax losses which had been derecognized. In addition to the above, combined income tax expense was higher for the current year period due to higher income at Oil and Gas.

Other primarily includes higher interest and foreign exchange at the Ambatovy Joint Venture, the impact of lower fertilizer contributions and net costs for the current year associated with Commercial and Technologies of \$11.8 million, including \$5.2 million of administrative expenses. Other administration costs were higher due to higher stock-based compensation expense as a result of the higher share price at year end.

## ADJUSTED EBITDA<sup>(1)</sup>

Total combined Adjusted EBITDA for the year ended December 31, 2017 was \$49.6 million and \$149.8 million, respectively, compared to \$37.4 million and \$40.0 million in the same periods in the prior year. Adjusted EBITDA by business segment is as follows:



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

## CONSOLIDATED FINANCIAL POSITION

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

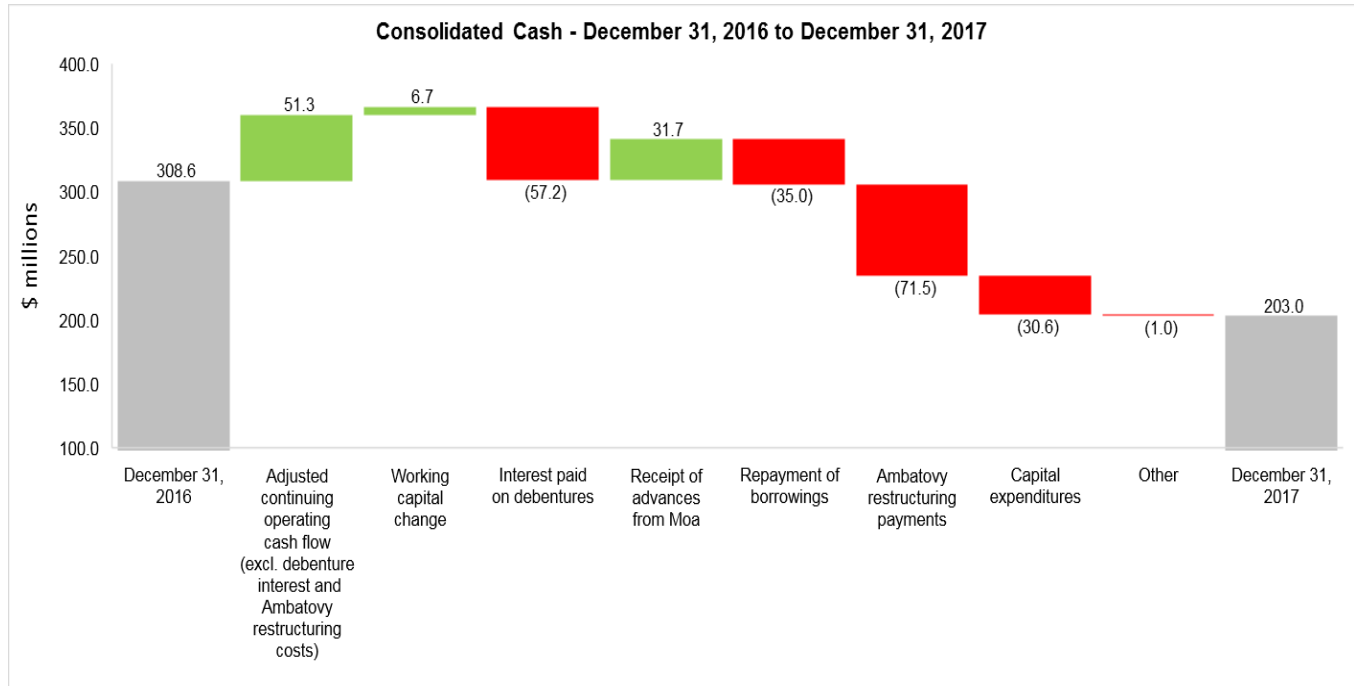
\$ millions, except as otherwise noted, as at December 31	2017	2016	Change
Current assets	\$ 580.3	\$ 720.9	(20%)
Current liabilities	245.1	226.0	8%
Working capital	335.2	494.9	(32%)
Current ratio	2.37:1	3.19:1	(26%)
Cash, cash equivalents and short-term investments	\$ 203.0	\$ 308.6	(34%)
Non-current advances, loans receivable and other financial assets	713.0	1,542.7	(54%)
Investment in an associate	211.9	767.9	(72%)
Investment in a joint venture	367.1	336.8	9%
Property, plant and equipment	228.5	286.4	(20%)
Total assets	2,244.8	3,806.9	(41%)
Non-recourse loans and borrowings	-	1,367.5	(100%)
Other loans and borrowings	824.1	860.7	(4%)
Provisions	110.3	114.6	(4%)
Total liabilities	1,188.5	2,709.0	(56%)
Deficit	(2,427.7)	(2,721.5)	11%
Shareholders' equity	1,056.3	1,097.9	(4%)

The Ambatovy restructuring had a significant impact on current assets; non-current advances, loans receivable and other financial assets; investment in Associate; non-recourse loans and borrowings; deficit and shareholders' equity. For additional information, see *Ambatovy Joint Venture restructuring* on page 27.

## LIQUIDITY

At December 31, 2017 total available liquidity was \$211.8 million which is composed of cash, cash equivalents, short-term investments and \$8.8 million of available credit facilities. The total liquidity excludes restricted cash of \$13.0 million.

Cash, cash equivalents and short-term investments at December 31, 2017 decreased by \$105.6 million from December 31, 2016. The components of this change is shown below:



The change in liquidity is primarily due to:

- positive adjusted operating cash flow at Power and Oil and Gas primarily as a result of higher commodity prices and lower operating costs at Oil and Gas;
- total payments of \$71.5 million related to the Ambatovy restructuring, including \$49.1 million related to the resumption of funding for the Corporation's 12% interest, including accrued interest; \$12.0 million placed in escrow as restricted cash, and \$10.4 million in transaction costs.
- collections of Cuban energy receivables;
- payment of interest on the Corporation's debentures;
- receipt of \$31.7 million from the Moa Joint Venture as repayment on its working capital facility; and
- repayment of \$35.0 million on the Corporation's syndicated revolving-term loan during the year.

# Outlook

## 2018 PRODUCTION, OPERATING COST AND CAPITAL SPENDING GUIDANCE

	Guidance at 2017	Actual 2017	Guidance for 2018
Production volumes, unit operating costs and spending on capital			
<b>Production volumes</b>			
Nickel, finished (tonnes, 100% basis)			
Moa Joint Venture	31,500-32,500	31,524	31,500-32,500
Ambatovy Joint Venture	36,000-39,000	35,474	40,000-43,000
Cobalt, finished (tonnes, 100% basis)			
Moa Joint Venture	3,500-3,800	3,601	3,500-3,800
Ambatovy Joint Venture	3,300-3,600	3,053	3,900-4,200
Oil – Cuba (gross working-interest, bopd)	13,000-14,000	13,479	4,300-4,800
Oil and Gas – All operations (net working-interest, boepd)	7,500-8,000	7,855	1,900-2,100
Electricity (GWh, 33 $\frac{1}{3}$ % basis)	850-900	848	750-800
<b>Unit operating costs</b>			
NDCC (US\$ per pound)			
Moa Joint Venture	2.80-3.30	2.35	2.50-3.00
Ambatovy Joint Venture	3.10-3.70	3.83	3.00-3.50
Oil and Gas - Cuba (unit operating costs, \$ per barrel)	11.00-12.00	9.78	22.00-23.50
Electricity (unit operating cost, \$ per MWh)	18.75-19.50	19.29	20.75-21.50
<b>Spending on capital (US\$ millions)</b>			
Metals – Moa Joint Venture (50% basis), Fort Site (100% basis) <sup>(1)</sup>	US\$28 (CDN\$38)	US\$17 (CDN\$21)	US\$41 (CDN\$52)
Metals – Ambatovy Joint Venture (40% basis then 12% basis) <sup>(2)</sup>	US\$45 (CDN\$61)	US\$35 (CDN\$44)	US\$13 (CDN\$17)
Oil and Gas	US\$35 (CDN\$47)	US\$15 (CDN\$19)	US\$39 (CDN\$50)
Power (33 $\frac{1}{3}$ % basis)	US\$1 (CDN\$2)	US\$1 (CDN\$2)	US\$1 (CDN\$1)
Spending on capital (excluding Corporate)	US\$109 (\$CDN148)	US\$68 (CDN\$86)	US\$94 (CDN\$120)

# Significant factors influencing operations

As a commodity-based, geographically diverse company, Sherritt's operating results are primarily influenced by the price of nickel and cobalt.

## **NICKEL**

Nickel prices rallied in the second half of 2017 after experiencing considerable volatility in the first six months of the year. The average nickel reference price in the fourth quarter was US\$5.25 per pound, up 7% from US\$4.90 for Q4 2016. The average nickel reference price for the 12-months of 2017 was US\$4.72 per pound, up 8% from US\$4.36 per pound for 2016.

The year-over-year price improvements were largely driven by the growing understanding of the important role that Class 1 nickel will play in the burgeoning electric vehicle (EV) market. Class 1 nickel, along with cobalt, are key elements needed to manufacture EV batteries. Demand for Class 1 nickel and cobalt are expected to grow significantly beginning in 2019 when China expects to begin production quotas requiring that 10% of all vehicles manufactured be electric.

During Q4, the nickel price was supported by news that nickel pig iron (NPI) producers in China were asked to reduce production to alleviate pollution with China's largest NPI-only producer ordered to halve production from November 2017 to March 2018. Actual and anticipated reductions from existing nickel producers also continued to help underpin the nickel price, with nickel supply expected to be in a deficit for 2018 and 2019.

Nickel reference price improvements in the second half were also driven by the decline in inventories. Combined LME and SHFE nickel inventories at year-end declined to 410,828 tonnes (from 464,696 tonnes at the beginning of the year). Any further decline in visible inventories could give momentum to nickel price increases in the future.

## **COBALT**

Cobalt prices strengthened considerably in 2017. The average reference price in the fourth quarter was US\$31.60 per pound for 2017, up 134% from Q4 2016. The average reference cobalt price for the 12-month period of 2017 was US\$26.53, up 125% from US\$11.77 per pound for 2016.

The price increase is primarily linked to the growing strong demand emanating from the EV battery market. The double-digit price growth experienced over the past year was also driven by geopolitical and supply risk concerns given that the Democratic Republic of Congo is currently the world's largest source of cobalt.

As cobalt prices have a limited impact on overall battery pack costs, high prices are not expected to cause supply-chain disruptions or delay EV market growth. As a result, the risk of cobalt substitution in EV battery production in the near term is relatively low given cobalt's unique energy transference properties. While battery manufacturers continue to explore alternatives to cobalt, the likely beneficiary of any substitution is expected to be Class 1 nickel.

Cobalt supply deficits are expected to continue over the next few years. In addition to demand from industrial end users, speculative investors are also driving up cobalt prices by stockpiling inventory, further exacerbating supply deficit concerns.

# Review of operations

## METALS

### Financial Review

\$ millions, except as otherwise noted, for the three months ended December 31									
2017					2016				
	Moa JV and Fort Site	Ambatovy JV <sup>(1)</sup>	Other	Total	Moa JV and Fort Site	Ambatovy JV	Other	Total	Change
<b>FINANCIAL HIGHLIGHTS</b>									
Revenue	\$ 122.9	\$ 58.1	\$ 3.0	\$ 184.0	\$ 92.5	\$ 88.2	\$ 14.9	\$ 195.6	(6%)
(Loss) earnings from operations	19.9	(7.7)	-	12.2	(7.6)	(15.0)	0.2	(22.4)	154%
Adjusted EBITDA <sup>(2)</sup>	32.1	18.1	-	50.2	5.6	24.4	0.2	30.2	66%
<b>CASH FLOW</b>									
Cash provided (used) by operations	\$ 32.5	\$ (3.4)	\$ (0.5)	\$ 28.6	\$ (6.1)	\$ (0.8)	\$ 3.3	\$ (3.6)	894%
Free cash flow <sup>(2)</sup>	24.9	(20.7)	(0.5)	3.7	(9.8)	(10.6)	3.3	(17.1)	122%
Adjusted operating cash flow <sup>(2)</sup>	32.4	4.7	0.7	37.8	5.9	8.6	0.2	14.7	157%
<b>PRODUCTION VOLUMES (tonnes)</b>									
Mixed Sulphides	4,090	3,329	-	7,419	3,674	6,036	-	9,710	(24%)
Finished Nickel	4,134	3,111	-	7,245	3,782	5,111	-	8,893	(19%)
Finished Cobalt	465	245	-	710	382	404	-	786	(10%)
Fertilizer	61,923	10,011	-	71,934	61,460	16,650	-	78,110	(8%)
<b>NICKEL RECOVERY (%)</b>									
	79%	84%			85%	87%			
<b>SALES VOLUMES (tonnes)</b>									
Finished Nickel	4,129	2,602	-	6,731	3,975	4,935	-	8,910	(24%)
Finished Cobalt	480	225	-	705	487	360	-	847	(17%)
Fertilizer	51,141	8,114	-	59,255	45,698	15,485	-	61,183	(3%)
<b>AVERAGE REFERENCE PRICES (US\$ per pound)</b>									
Nickel				\$ 5.25				\$ 4.90	7%
Cobalt <sup>(3)</sup>				31.60				13.51	134%
<b>AVERAGE-REALIZED PRICES<sup>(2)</sup></b>									
Nickel (\$ per pound)	\$ 6.72	\$ 6.56	\$ -	\$ 6.66	\$ 6.39	\$ 6.50	\$ -	\$ 6.45	3%
Cobalt (\$ per pound)	38.78	39.03	-	38.86	16.85	18.73	-	17.68	120%
Fertilizer (\$ per tonne)	348	173	-	324	326	160	-	284	14%
<b>UNIT OPERATING COSTS<sup>(2)</sup> (US\$ per pound)</b>									
Nickel - net direct cash cost	\$ 1.80	\$ 3.27	\$ -	\$ 2.37	\$ 3.80	\$ 3.10	\$ -	\$ 3.41	(31%)
<b>SPENDING ON CAPITAL</b>									
Sustaining	\$ 7.7	\$ 10.0	\$ -	\$ 17.7	\$ 4.7	\$ 19.0	\$ -	\$ 23.7	(25%)
Expansion	-	-	-	-	(2.1)	-	-	(2.1)	100%
	\$ 7.7	\$ 10.0	\$ -	\$ 17.7	\$ 2.6	\$ 19.0	\$ -	\$ 21.6	(18%)

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

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

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

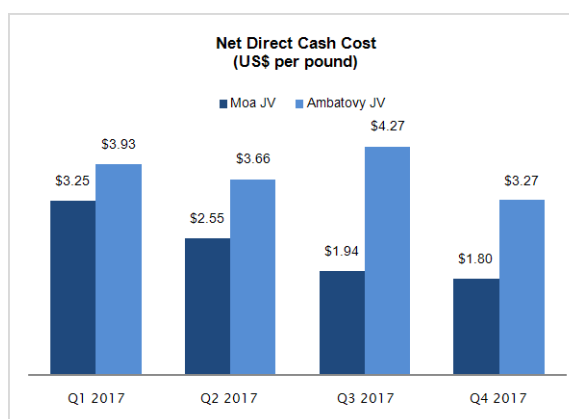
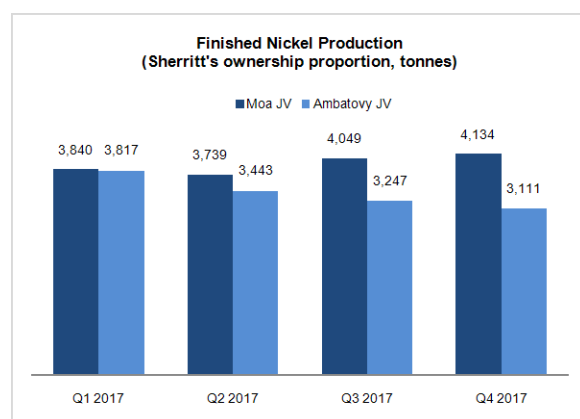
\$ millions, except as otherwise noted, for the years ended December 31

	2017				2016				Change	
	Moa JV and Fort Site	Ambatovy JV <sup>(1)</sup>	Other	Total	Moa JV and Fort Site	Ambatovy JV	Other	Total		
<b>FINANCIAL HIGHLIGHTS</b>										
Revenue	\$ 417.0	\$ 279.2	\$ 43.1	\$ 739.3	\$ 339.3	\$ 264.8	\$ 48.0	\$ 652.1	13%	
(Loss) earnings from operations	31.3	(109.5)	0.9	(77.3)	(28.4)	(150.9)	0.8	(178.5)	57%	
Adjusted EBITDA <sup>(2)</sup>	80.5	26.0	0.9	107.4	19.6	(7.0)	0.8	13.4	701%	
<b>CASH FLOW</b>										
Cash provided (used) by operations	\$ 58.3	\$ (26.7)	\$ 3.0	\$ 34.6	\$ (2.7)	\$ (34.6)	\$ 3.1	\$ (34.2)	201%	
Free cash flow <sup>(2)</sup>	37.4	(55.6)	3.0	(15.2)	(33.9)	(55.9)	3.1	(86.7)	82%	
Adjusted operating cash flow <sup>(2)</sup>	72.9	(5.9)	5.1	72.1	16.2	(39.2)	0.8	(22.2)	425%	
<b>PRODUCTION VOLUMES (tonnes)</b>										
Mixed Sulphides	17,297	14,836	-	32,133	16,923	18,271	-	35,194	(9%)	
Finished Nickel	15,762	13,618	-	29,380	16,464	16,842	-	33,306	(12%)	
Finished Cobalt	1,801	1,173	-	2,974	1,847	1,309	-	3,156	(6%)	
Fertilizer	243,682	43,118	-	286,800	256,812	53,908	-	310,720	(8%)	
<b>NICKEL RECOVERY (%)</b>	<b>85%</b>	<b>85%</b>			87%	86%				
<b>SALES VOLUMES (tonnes)</b>										
Finished Nickel	15,679	13,694	-	29,373	16,402	16,844	-	33,246	(12%)	
Finished Cobalt	1,783	1,220	-	3,003	1,846	1,281	-	3,127	(4%)	
Fertilizer	178,491	42,016	-	220,507	167,525	52,482	-	220,007	-	
<b>AVERAGE REFERENCE PRICES (US\$ per pound)</b>										
Nickel				\$ 4.72				\$ 4.36	8%	
Cobalt <sup>(3)</sup>				26.53				11.77	125%	
<b>AVERAGE-REALIZED PRICES<sup>(2)</sup></b>										
Nickel (\$ per pound)	\$ 6.14	\$ 6.05	\$ -	\$ 6.10	\$ 5.63	\$ 5.66	\$ -	\$ 5.65	8%	
Cobalt (\$ per pound)	32.98	33.35	-	33.13	14.82	16.08	-	15.33	116%	
Fertilizer (\$ per tonne)	361	168	-	325	377	164	-	326	-	
<b>UNIT OPERATING COSTS<sup>(2)</sup> (US\$ per pound)</b>										
Nickel - net direct cash cost	\$ 2.35	\$ 3.83	\$ -	\$ 3.04	\$ 3.42	\$ 4.27	\$ -	\$ 3.85	(21%)	
<b>SPENDING ON CAPITAL</b>										
Sustaining	\$ 20.9	\$ 44.2	\$ -	\$ 65.1	\$ 22.6	\$ 33.1	\$ -	\$ 55.7	17%	
Expansion	-	-	-	-	10.3	-	-	10.3	(100%)	
	\$ 20.9	\$ 44.2	\$ -	\$ 65.1	\$ 32.9	\$ 33.1	\$ -	\$ 66.0	(1%)	

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

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

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





Moa Joint Venture and Fort Site

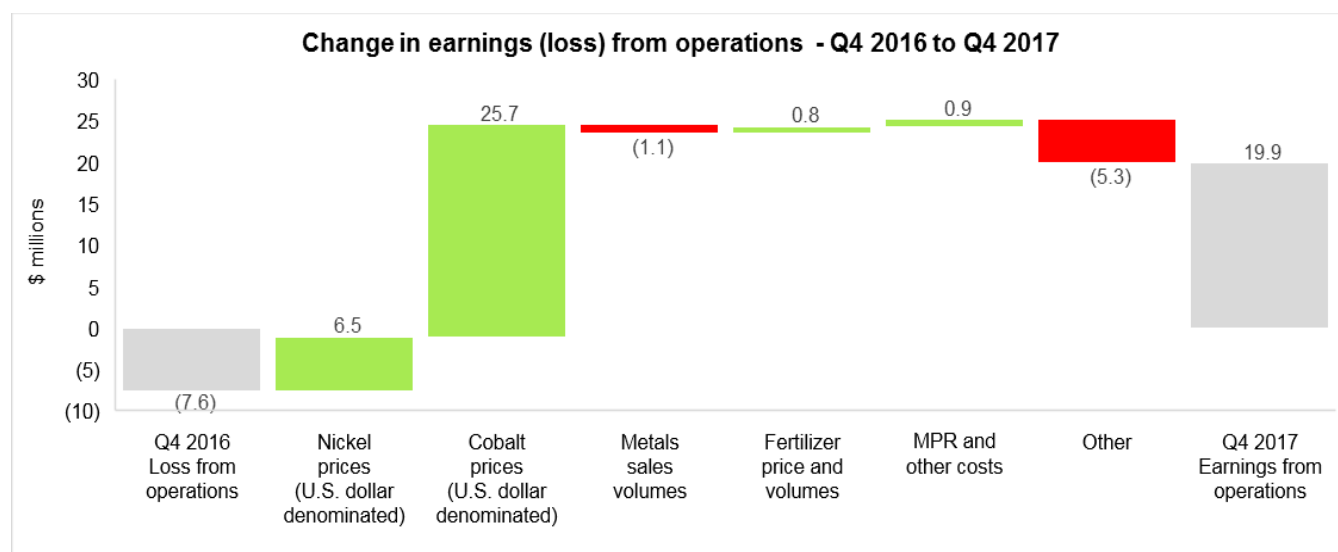
\$ millions	For the three months ended			For the years ended		
	2017	2016	Change	2017	2016	Change
	December 31	December 31		December 31	December 31	
<b>REVENUE</b>						
Nickel	\$ 61.2	\$ 56.0	9%	\$ 212.4	\$ 203.5	4%
Cobalt	41.0	18.1	127%	129.6	60.3	115%
Fertilizers	17.8	14.9	19%	64.5	63.2	2%
Other	2.9	3.5	(17%)	10.5	12.3	(15%)
	<u>\$ 122.9</u>	<u>\$ 92.5</u>	<u>33%</u>	<u>\$ 417.0</u>	<u>\$ 339.3</u>	<u>23%</u>
<b>COST OF SALES<sup>(1)</sup></b>						
Mining, processing and refining	\$ 54.1	\$ 56.7	(5%)	\$ 210.1	\$ 221.2	(5%)
Third-party feed costs	6.3	4.9	29%	19.3	12.9	50%
Fertilizers	14.5	12.4	17%	53.0	42.7	24%
Selling costs	4.4	4.5	(2%)	16.9	16.4	3%
Other	8.5	5.5	55%	27.8	16.3	71%
	<u>\$ 87.8</u>	<u>\$ 84.0</u>	<u>5%</u>	<u>\$ 327.1</u>	<u>\$ 309.5</u>	<u>6%</u>
<b>NET DIRECT CASH COST<sup>(2)</sup> (US\$ per pound of nickel)</b>						
Mining, processing and refining (MPR) costs	\$ 4.89	\$ 4.93	(1%)	\$ 4.80	\$ 4.63	4%
Third-party feed costs	0.54	0.42	29%	0.43	0.27	59%
Cobalt by-product credits	(3.54)	(1.55)	(128%)	(2.90)	(1.26)	(130%)
Other <sup>(3)</sup>	(0.09)	-	-	0.02	(0.22)	109%
	<u>\$ 1.80</u>	<u>\$ 3.80</u>	<u>(53%)</u>	<u>\$ 2.35</u>	<u>\$ 3.42</u>	<u>(31%)</u>

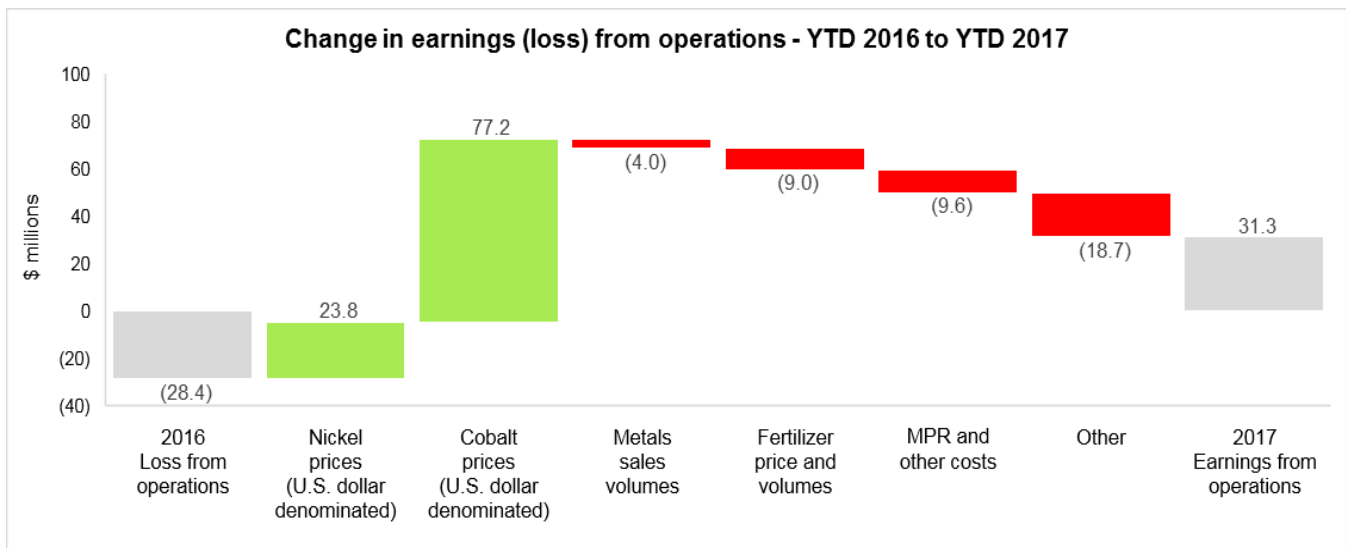
(1) Excludes depletion, depreciation and amortization

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

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

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





The reference price for nickel was higher (7% and 8%, respectively) for the three months and year ended December 31, 2017 compared to the same periods in the prior year while cobalt prices were more than double in the comparable periods. Realized prices were also higher but were negatively impacted by a stronger Canadian dollar relative to the U.S. dollar in 2017 compared to the same periods in the prior year.

Finished nickel and cobalt production for the three months ended December 31, 2017 was higher compared to the same period in the prior year primarily due to the impact of higher mixed sulphides availability. Despite the impact of unusually high rainfall in November and December 2017, production of mixed sulphides was higher than in the prior year primarily because of the impact of Hurricane Matthew and subsequent damage to bridge infrastructure in the fourth quarter of 2016.

For the year ended December 31, 2017, lower nickel and cobalt production was impacted by mixed sulphides availability in the first quarter of 2017 as a result of lower production in the fourth quarter of 2016 following Hurricane Matthew. Finished nickel production was also impacted by higher cobalt-to-nickel ratio in the mixed sulphides, causing a limitation on nickel production when the cobalt plant was operating near capacity periodically during the year.

Fertilizer's contribution to operating earnings for the three months was relatively unchanged and lower for the year ended December 31, 2017 compared to the same periods in the prior year. For the current year-to-date period, fertilizer contributions were negatively impacted by higher energy costs, and the impact of the bi-annual Fort Saskatchewan acid plant shutdown in the second quarter. Realized prices were higher in the fourth quarter of 2017 and lower for the current year-to-date period compared to the same periods in the prior year which is consistent with market prices. Sales volumes were higher in both the three months and year ended December 31, 2017 compared to the same periods in the prior year reflecting timing of sales.

Net direct cash cost of nickel (NDCC) for the three months and year ended December 31, 2017 was lower compared to the same periods in the prior year primarily due to higher cobalt credits which more than offset the impact of higher energy costs, higher third party feed costs and higher planned maintenance costs. NDCC was also positively impacted by higher metals sales volumes and net fertilizer by-product credits in the fourth quarter of 2017. The full year 2017 NDCC was negatively impacted by lower metals sales volumes but benefited from cost savings of approximately US\$0.50/lb from the new acid plant at Moa during the first nine months compared to the prior year. The acid plant was commissioned in October 2016.

For the year-to-date period, other costs includes higher royalties as a result of higher reference prices and lower margin on Fort Saskatchewan sulphuric acid sales as a result of costs associated with the bi-annual plant shutdown and lower realized prices.

Sustaining capital spending in the three months and year ended December 31, 2017 was lower compared to the same periods in the prior year due to the timing of expenditures. Expansion spending in 2016 was related to the new acid plant which was commissioned in October 2016. The Moa Joint Venture is expected to continue to operate and fund capital expenditures through internally generated joint venture cash flows and/or external loans, without shareholder funding.

## Management's discussion and analysis

### Ambatovy

\$ millions	For the three months ended			For the years ended		
	2017	2016	Change	2017	2016	Change
	December 31	December 31		December 31	December 31	
<b>REVENUE<sup>(1)</sup></b>						
Nickel	\$ 37.6	\$ 70.7	(47%)	\$ 182.3	\$ 210.1	(13%)
Cobalt	19.0	14.9	28%	88.9	45.4	96%
Fertilizers	1.4	2.5	(44%)	7.0	8.6	(19%)
Other	0.1	0.1	-	1.0	0.7	43%
	<u>\$ 58.1</u>	<u>\$ 88.2</u>	<u>(34%)</u>	<u>\$ 279.2</u>	<u>\$ 264.8</u>	<u>5%</u>
<b>COST OF SALES<sup>(1)(2)</sup></b>						
Mining, processing and refining	\$ 38.2	\$ 54.7	(30%)	\$ 227.6	\$ 236.1	(4%)
Selling costs	2.3	3.7	(38%)	11.2	14.2	(21%)
Other	2.6	1.4	86%	7.3	3.5	109%
	<u>\$ 43.1</u>	<u>\$ 59.8</u>	<u>(28%)</u>	<u>\$ 246.1</u>	<u>\$ 253.8</u>	<u>(3%)</u>
<b>NET DIRECT CASH COST<sup>(3)</sup> (US\$ per pound of nickel)</b>						
Mining, processing and refining costs	\$ 5.76	\$ 3.97	45%	\$ 6.01	\$ 4.89	23%
Cobalt by-product credits	(2.66)	(0.97)	(174%)	(2.35)	(0.82)	(187%)
Other <sup>(4)</sup>	0.16	0.10	60%	0.17	0.20	(15%)
	<u>\$ 3.26</u>	<u>\$ 3.10</u>	<u>5%</u>	<u>\$ 3.83</u>	<u>\$ 4.27</u>	<u>(10%)</u>

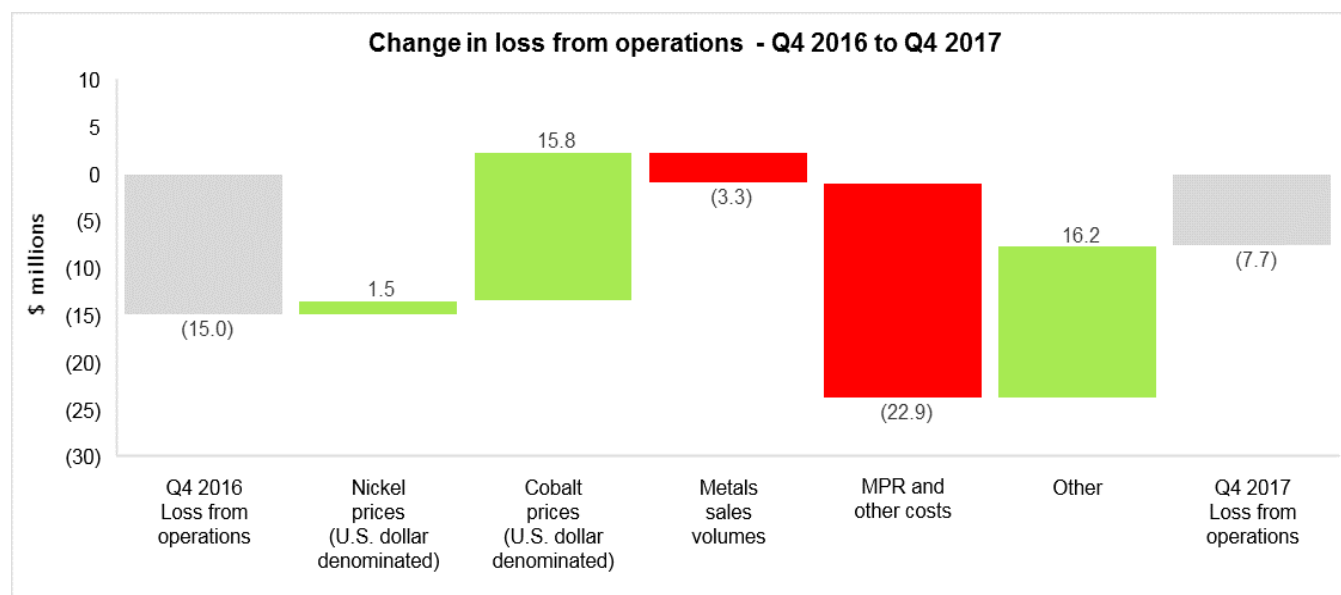
(1) Sherritt's share of financial and operating results for the Ambatovy Joint Venture reflects its interest at 40% to December 10, 2017 and 12% thereafter.

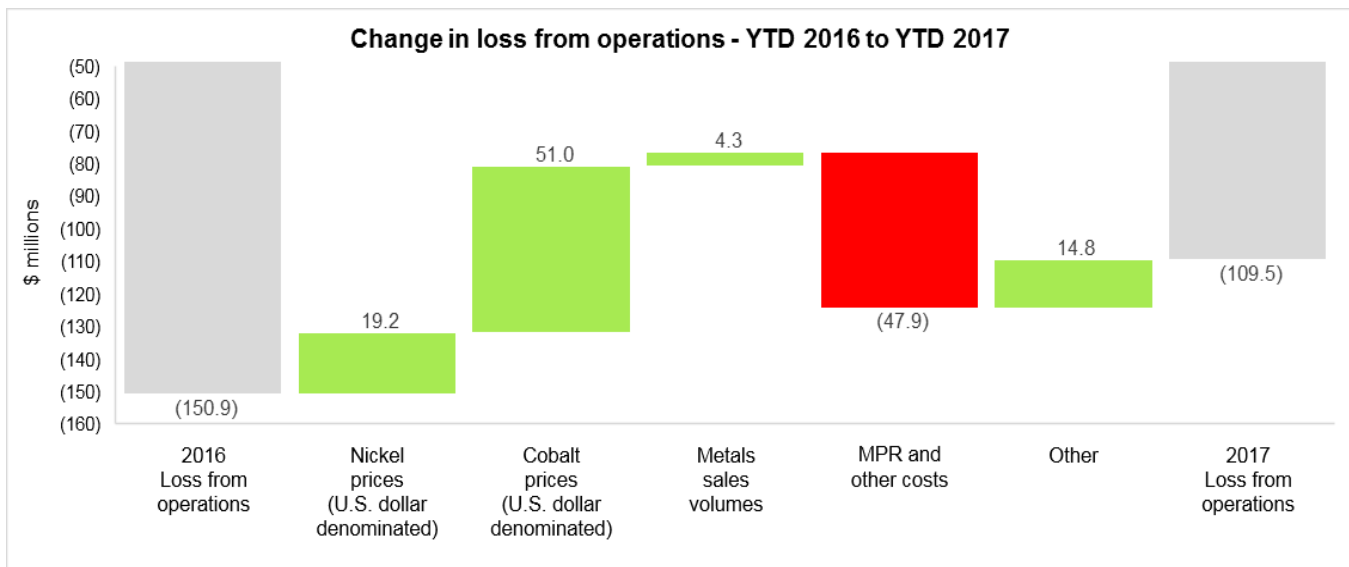
(2) Excludes depletion, depreciation and amortization.

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

(4) Includes selling costs, discounts and other by-product credits.

The change in loss from operations is detailed below:





The reference price for nickel was higher (7% and 8%, respectively) for the three months and year ended December 31, 2017 compared to the same periods in the prior year while cobalt prices were more than double in the comparable periods. Realized prices were also higher but were negatively impacted by a stronger Canadian dollar relative to the U.S. dollar in 2017 compared to the same periods in the prior year.

At the Ambatovy Joint Venture production of nickel and cobalt was lower in the fourth quarter of 2017 compared to the same period in the prior year. Beginning on December 11, 2017 Sherritt's share reflects its 12% interest in the joint venture resulting in a 570 tonne lower share of production in the fourth quarter related to its change in interest. Ambatovy continues to face reliability issues on some of the critical equipment which are negatively affecting production.

For the three months ended December 31, 2017, lower production was primarily a result of a failure of an economizer in one of the acid plants. The economizer could not be repaired during the period and reduced the nickel production capacity by approximately 50% during November and December.

For the year ended December 31, 2017, in addition to the above, production issues during the year included restricted acid production due to failures in the acid plant and sulphur melting area, poor reliability of the pressure acid leach (PAL) circuit, an unplanned shutdown to address hydrogen sulphide emissions from the sulphide precipitation circuits and lower recovery rates in the second and third quarters related to various unplanned maintenance shutdowns.

Compared to the same periods in the prior year, the percentage decrease in finished cobalt production was lower than that of finished nickel for the three months and year ended December 31, 2017 reflecting a higher cobalt to nickel ratio in the ore processed.

Despite the lower sales volumes, net direct cash cost of nickel was relatively unchanged for the three month period and lower for the year ended December 31, 2017 compared to the same periods in the prior year primarily due to significantly higher cobalt credits more than offsetting higher operating and maintenance costs.

Spending on sustaining capital was lower for the three months ended December 31, 2017 and higher for the current year-to-date period compared to the same periods in the prior year reflecting the timing of planned spending. Capital spending is focused on improving plant reliability and addressing corrosion issues, purchase of mining equipment, mine development works, tailings management facility construction and process improvement projects.

Although facilities at the Ambatovy Joint Venture in Madagascar were impacted by Tropical Cyclone Ava, a Category 2 hurricane equivalent storm, all personnel were unhurt and safely accounted for. Damage to equipment and the acid production facilities resulted in a temporary halt in production. Repairs have since been completed and partial production has resumed. A ramp up in production is expected through the end of Q2 2018.

## OIL AND GAS

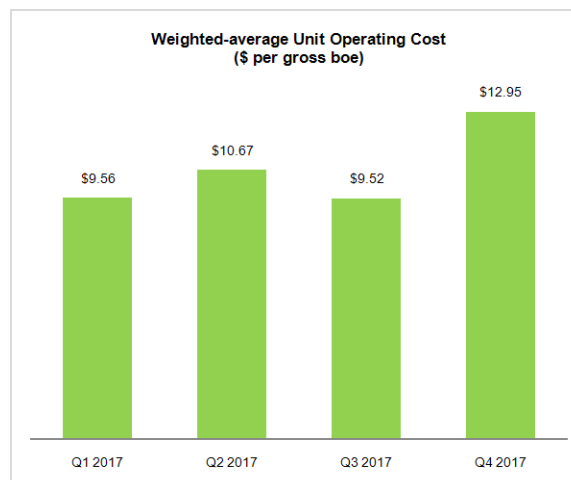
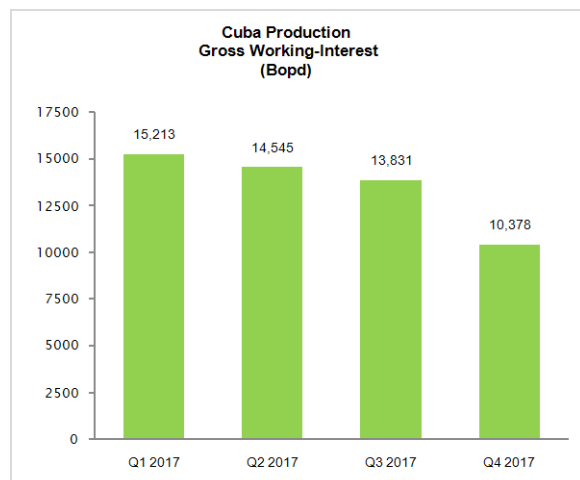
### Financial review

\$ millions, except as otherwise noted	For the three months ended			For the years ended		
	2017	2016	Change	2017	2016	Change
	December 31	December 31		December 31	December 31	
<b>FINANCIAL HIGHLIGHTS</b>						
Revenue	\$ 27.7	\$ 30.6	(9%)	\$ 127.0	\$ 108.6	17%
Earnings (loss) from operations	7.9	2.8	182%	33.6	(16.3)	306%
Adjusted EBITDA <sup>(1)</sup>	10.5	11.6	(9%)	61.9	35.6	74%
<b>CASH FLOW</b>						
Cash provided by operations	\$ (2.3)	\$ 11.4	(120%)	\$ 30.8	\$ 76.4	(60%)
Free cash flow <sup>(1)</sup>	(9.9)	3.3	(400%)	8.9	50.4	(82%)
Adjusted operating cash flow <sup>(1)</sup>	10.2	11.5	(11%)	49.9	31.6	58%
<b>PRODUCTION AND SALES<sup>(2)</sup></b>						
Gross working-interest (GWI) - Cuba	10,378	14,470	(28%)	13,479	15,452	(13%)
Total net working-interest (NWI)	6,101	8,163	(25%)	7,856	9,483	(17%)
<b>AVERAGE REFERENCE PRICES (US\$ per barrel)</b>						
West Texas Intermediate (WTI)	\$ 55.19	\$ 49.21	12%	\$ 50.78	\$ 43.37	17%
Gulf Coast Fuel Oil No. 6	52.81	41.12	28%	47.02	32.13	46%
Brent	61.77	48.53	27%	54.18	43.31	25%
<b>AVERAGE-REALIZED PRICES<sup>(1)</sup> (per NWI)</b>						
Cuba (\$ per barrel)	\$ 48.82	\$ 39.75	23%	\$ 43.81	\$ 29.93	46%
Spain (\$ per barrel)	78.91	63.27	25%	69.89	56.33	24%
Pakistan (\$ per boe) <sup>(2)</sup>	10.11	10.99	(8%)	10.34	10.71	(3%)
Weighted-average (\$ per boe)	47.48	38.98	22%	42.90	29.98	43%
<b>UNIT OPERATING COSTS<sup>(1)(2)(3)</sup> (per GWI)</b>						
Cuba	\$ 12.24	\$ 10.95	12%	\$ 9.78	\$ 9.75	-
Spain	44.78	60.75	(26%)	47.17	54.51	(13%)
Pakistan	6.95	4.81	44%	6.92	7.26	(5%)
Weighted-average (\$ per boepd)	12.95	11.68	11%	10.52	10.58	(1%)
<b>SPENDING ON CAPITAL</b>						
Development, facilities and other	\$ (1.4)	\$ 0.4	(450%)	\$ (1.7)	\$ 8.9	(119%)
Exploration	8.6	7.8	10%	21.1	17.0	24%
	\$ 7.2	\$ 8.2	(12%)	\$ 19.4	\$ 25.9	(25%)

(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).

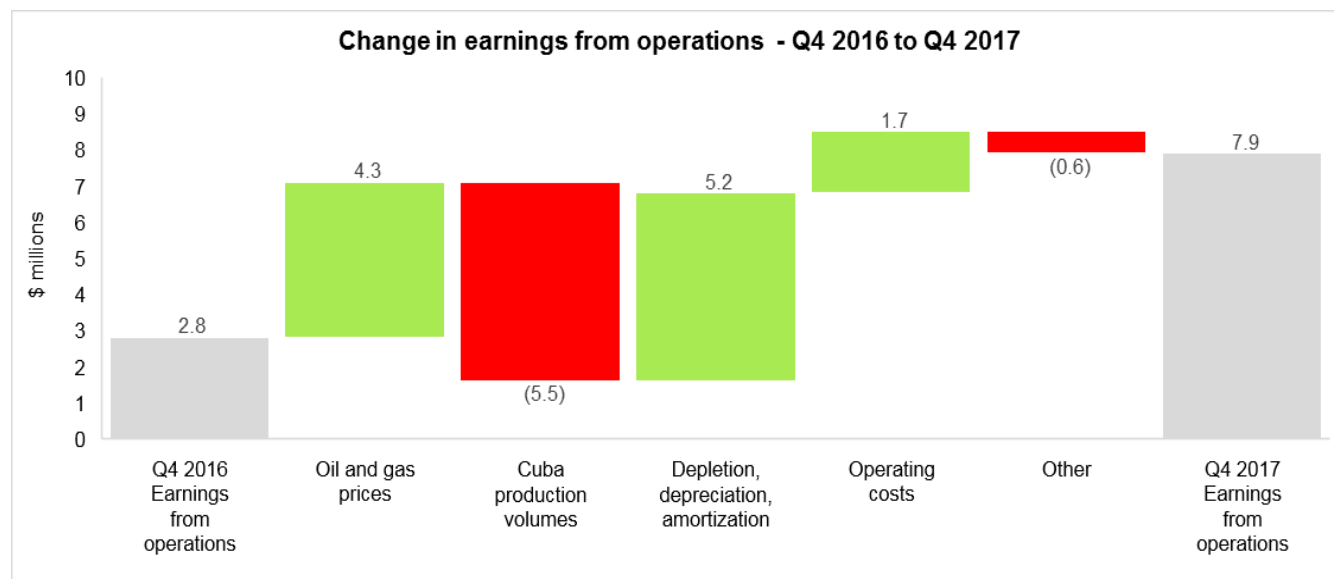
(3) 2016 excludes the impact of impairment of property, plant and equipment

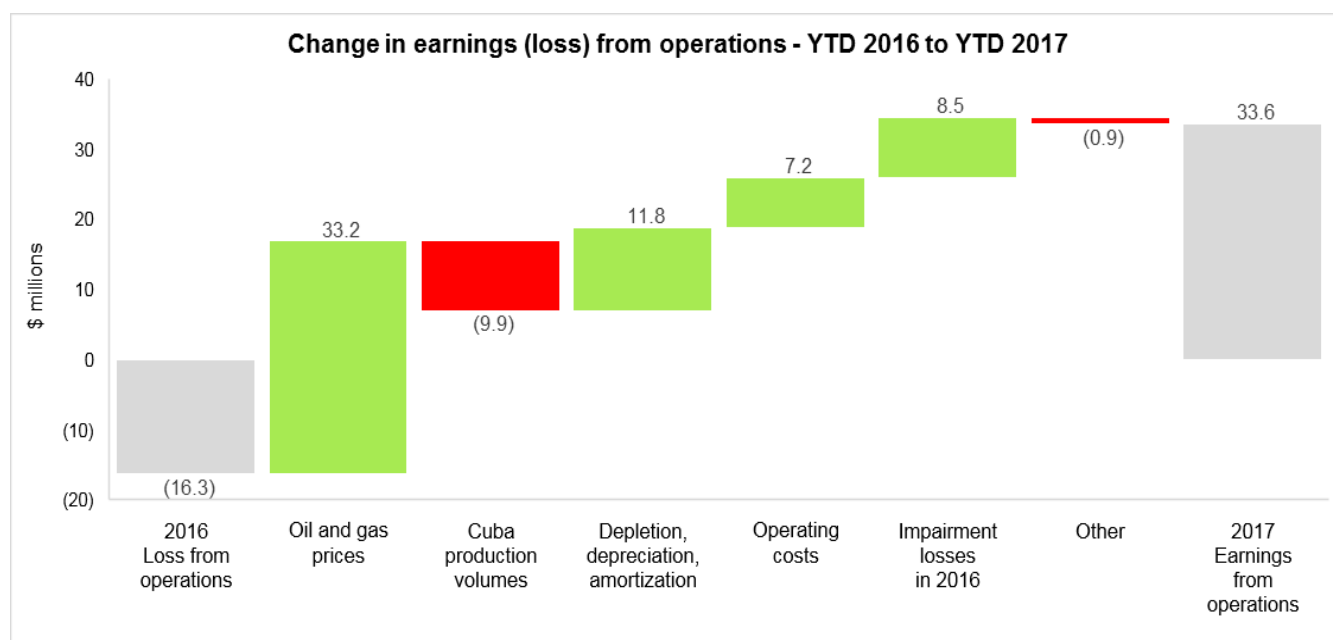


\$ millions	For the three months ended			For the years ended		
	2017	2016	Change	2017	2016	Change
	December 31	December 31		December 31	December 31	
<b>REVENUE</b>						
Cuba	\$ 23.9	\$ 27.2	(12%)	\$ 113.3	\$ 96.6	17%
Spain	2.3	1.5	53%	8.0	5.9	36%
Pakistan	0.4	0.5	(20%)	1.7	1.5	13%
Processing	1.1	1.4	(21%)	4.0	4.6	(13%)
	<b>\$ 27.7</b>	<b>\$ 30.6</b>	<b>(9%)</b>	<b>\$ 127.0</b>	<b>\$ 108.6</b>	<b>17%</b>
<b>DAILY PRODUCTION AND SALES VOLUMES (boepd)<sup>(1)(2)</sup></b>						
<b>Gross working-interest oil production in Cuba<sup>(3)</sup></b>	<b>10,378</b>	14,470	(28%)	<b>13,479</b>	15,452	(13%)
<b>Net working-interest oil production<sup>(4)</sup></b>						
Cuba (heavy oil)						
Cost recovery	1,208	1,710	(29%)	1,857	3,381	(45%)
Profit oil	4,127	5,742	(28%)	5,230	5,443	(4%)
Total	5,335	7,452	(28%)	7,087	8,824	(20%)
Spain (light oil)	312	271	15%	313	289	8%
Pakistan (natural gas)	454	440	3%	456	370	23%
	<b>6,101</b>	8,163	(25%)	<b>7,856</b>	9,483	(17%)

- (1) Oil production is stated in barrels of oil per day (bopd). Natural gas production is stated in barrels of oil equivalent per day (boepd), which is converted at 6,000 cubic feet per barrel. Collectively, oil and natural gas production are referred to as boepd.
- (2) In Cuba, Oil and Gas delivered all of its gross working-interest oil production to CUPET at the time of production.
- (3) Gross working-interest oil production is allocated between Oil and Gas and CUPET in accordance with production-sharing contracts. The Corporation's share, referred to as net working-interest production, includes (i) cost recovery oil (based upon the recoverable capital and operating costs incurred by Oil and Gas under each production-sharing contract) and (ii) a percentage of profit oil (gross working-interest production remaining after cost recovery oil is allocated to Oil and Gas). Cost recovery pools for each production-sharing contract include cumulative recoverable costs, subject to certification by CUPET, less cumulative proceeds from cost recovery oil allocated to Oil and Gas. Cost recovery revenue equals capital and operating costs eligible for recovery under the production-sharing contracts.
- (4) Net working-interest production (equivalent to net sales volume) represents the Corporation's share of gross working-interest production.

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





Realized prices for oil in the three months and year ended December 31, 2017 were higher than in the same periods in the prior year reflecting higher market prices partly offset by a stronger Canadian dollar relative to the U.S. dollar in each of the current year periods.

Gross working-interest oil production in Cuba was lower for the three months and year ended December 31, 2017 compared to the same periods in the prior year primarily due to the expiry of the Varadero West PSC in November 2017, natural reservoir declines, and the absence of new development drilling. In addition, Hurricane Irma temporarily curtailed production due to standard storm preparation and shutdown procedures in the third quarter, impacting production for the current year.

Cost-recovery oil production in Cuba for the three months and year ended December 31, 2017 was lower compared to the same periods in the prior year as a result of lower cost-recovery spending and the impact of higher oil prices in the current year periods. Profit oil production, which represents Sherritt's share of production after cost recovery volumes are deducted from GWI volumes, was lower in the three months and year ended December 31, 2017 as a result of lower GWI. Both cost-recovery and profit oil volumes were impacted by reduction in costs and volumes associated with the termination of the Varadero West PSC.

Unit operating costs were higher in Cuba in the fourth quarter and unchanged in the year ended December 31, 2017 compared to the same periods in the prior year as lower labour and treatment and transportation costs were offset the impact of lower production. Costs were positively impacted by a strengthening of the Canadian dollar relative to the U.S. dollar in the current year periods compared to the same periods in the prior year.

In 2016, the Corporation recognized an impairment of \$8.5 million (\$6.6 million net of tax) for the write-down of the Puerto Escondido/Yumuri extension in the Oil and Gas segment to its recoverable amount. There were no impairments recognized in the current year.

Spending continues to focus on Block 10. Drilling of the second development well began in August. Year-to-date spending primarily reflects spending related to the first two Block 10 wells. Negative capital spending for development, facilities and other reflects the reversal of accruals.

In January 2018, the Corporation executed a three-year extension of the Puerto Escondido/Yumuri production sharing contract to 2021.

On Block 10, the results from the first well provided constructive data to optimize the drilling of the second well, again targeting the Lower Veloz formation. Drilling on the second well at Block 10 has been temporarily suspended to determine the best option to reach the target reservoir. Drilling results from the second well are expected in the third quarter of 2018.

## POWER

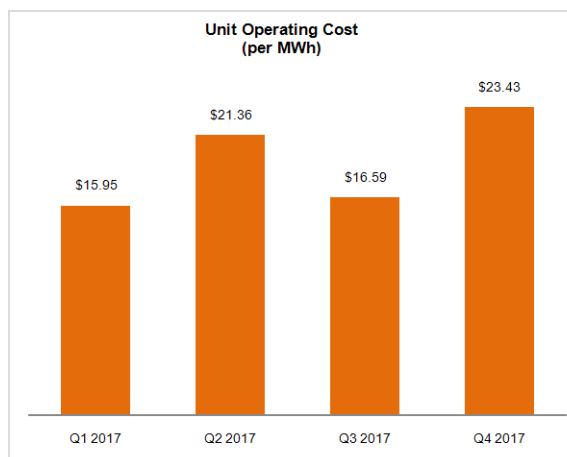
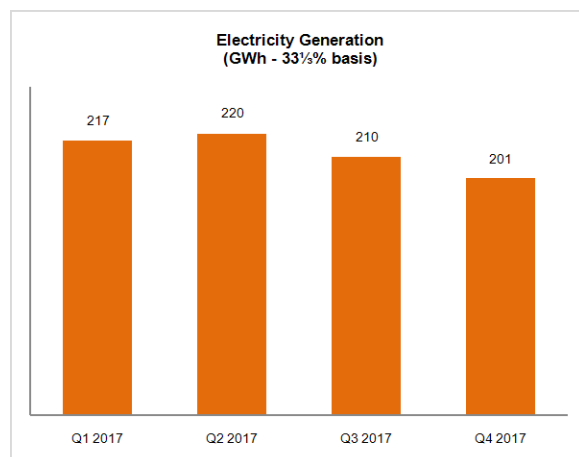
### Financial review

\$ millions (33 1/3% basis), except as otherwise noted	For the three months ended			For the years ended		
	2017 December 31	2016 December 31	Change	2017 December 31	2016 December 31	Change
<b>FINANCIAL HIGHLIGHTS</b>						
Revenue	\$ 12.0	\$ 13.7	(12%)	\$ 51.2	\$ 58.6	(13%)
Earnings (loss) from operations	(0.6)	(1.3)	54%	5.2	(5.3)	198%
Adjusted EBITDA <sup>(1)</sup>	5.5	7.4	(26%)	30.1	29.5	2%
<b>CASH FLOW</b>						
Cash provided by operations	\$ 5.4	\$ (3.3)	264%	\$ 44.5	\$ 8.0	456%
Free cash flow <sup>(1)</sup>	5.3	(3.7)	243%	43.0	7.0	514%
Adjusted operating cash flow <sup>(1)</sup>	6.4	7.2	(11%)	30.9	28.4	9%
<b>PRODUCTION AND SALES</b>						
Electricity (GWh <sup>(2)</sup> )	201	224	(10%)	848	894	(5%)
<b>AVERAGE-REALIZED PRICES<sup>(1)</sup></b>						
Electricity (per MWh <sup>(2)</sup> )	\$ 54.01	\$ 56.24	(4%)	\$ 55.15	\$ 56.10	(2%)
<b>UNIT OPERATING COSTS<sup>(1)</sup>(per MWh)</b>						
Base	\$ 20.66	\$ 22.39	(8%)	\$ 16.48	\$ 17.70	(7%)
Non-base <sup>(3)</sup>	2.77	2.34	18%	2.81	5.24	(46%)
	23.43	24.73	(5%)	19.29	22.94	(16%)
<b>SPENDING ON CAPITAL AND SERVICE CONCESSION ARRANGEMENTS</b>						
Sustaining	\$ 0.1	0.4	(75%)	\$ 1.5	\$ 1.0	50%
Service concession arrangements	-	0.1	(100%)	-	4.6	(100%)
	\$ 0.1	0.5	(80%)	\$ 1.5	\$ 5.6	(73%)

(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.





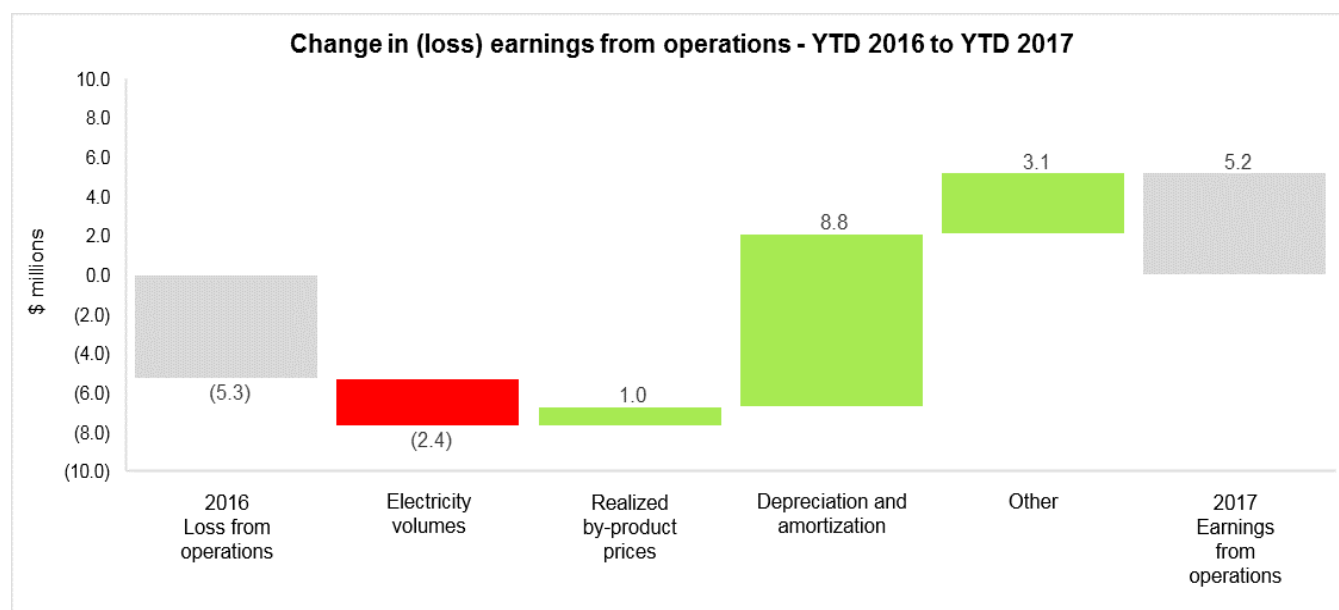
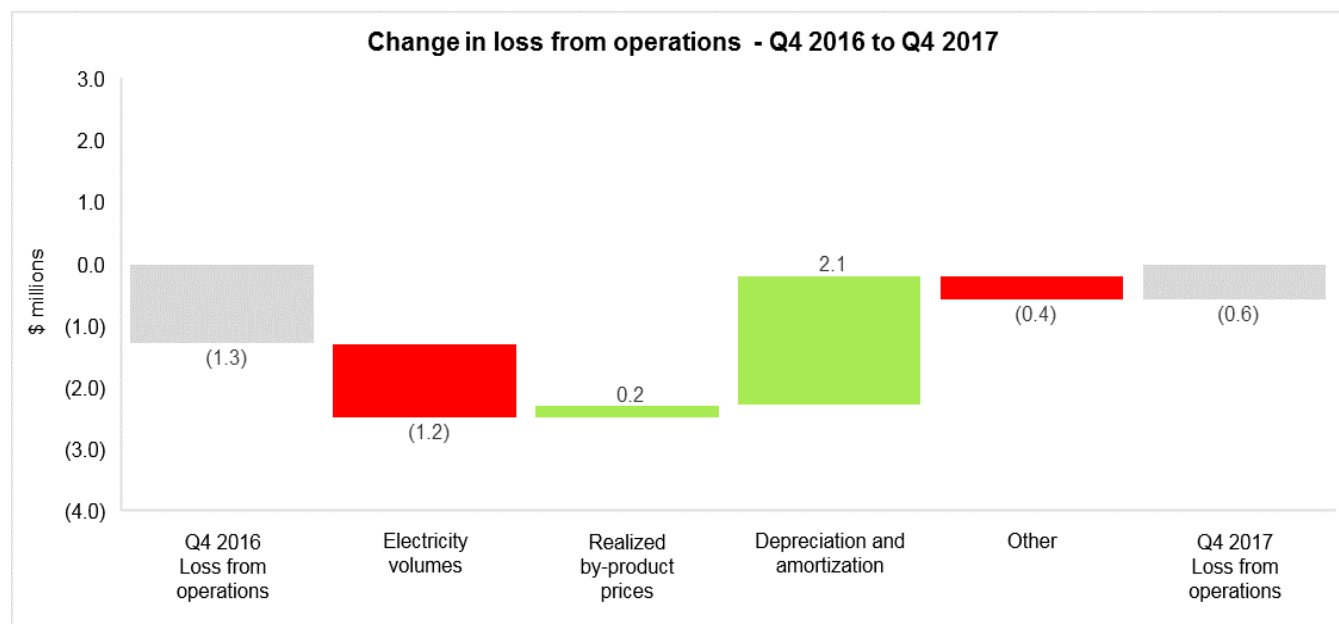
## Management's discussion and analysis

Power revenue is composed of the following:

\$ millions (33 1/3% basis)	For the three months ended			For the years ended		
	2017	2016	Change	2017	2016	Change
	December 31	December 31		December 31	December 31	
Electricity sales	\$ 10.9	\$ 12.6	(13%)	\$ 46.8	\$ 50.2	(7%)
By-products and other	1.1	1.0	10%	4.4	3.8	16%
Construction activity <sup>(1)</sup>	-	0.1	(100%)	-	4.6	(100%)
	\$ 12.0	\$ 13.7	(12%)	\$ 51.2	\$ 58.6	(13%)

(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 (loss) from operations is detailed below:



Production and sales volumes were lower for the three months and year ended December 31, 2017 compared to the same periods in the prior year primarily as a result of lower gas supply. Production for the twelve months ended December 31, 2017 was also impacted by Hurricane Irma in September. The change in average-realized price of electricity in the quarter and year-to-date periods was due to the stronger Canadian dollar relative to the U.S. dollar.

Unit operating cost was lower in the three months and year ended December 31, 2017 compared to the same periods in the prior year primarily due to reduced maintenance activities at the Boca and Puerto Escondido facilities in the current-year periods.

Depreciation was lower for the three months and year ended December 31, 2017 compared to the same periods in the prior year as a result of the extension of the Varadero contract term in December 2016 from 2018 to 2023.

Total capital spending was lower for the three months and year ended December 31, 2017 compared to the same periods in the prior year primarily due to the absence of service concession spending in 2017.

## Ambatovy Joint Venture restructuring

On December 11, 2017, the Corporation and its joint venture partners, Sumitomo Corporation and Korea Resources Corporation, completed the restructuring of the Ambatovy Joint Venture which resulted in the transfer by Sherritt of a 28% interest in the Ambatovy Joint Venture. Following the restructuring, The Corporation retains a 12% equity interest and 12% of all shareholder subordinated loans receivable post restructuring of the Ambatovy Joint Venture. As a result, Sherritt derecognized approximately \$1.4 billion in Ambatovy Joint Venture additional partner loans from its balance sheet. Sherritt recognized a gain for accounting purposes of \$629.0 million which, except for transaction costs of \$11.3 million, was non-cash.

The Corporation also:

- Resumed funding for its 12% interest retroactive to the end of 2015 resulting in a payment, including accrued interest, of US\$38.2 million (\$49.1 million).
- Made an additional payment of US\$9.6 million (\$12.0 million) into an escrow account (restricted cash) to cover potential future funding requirements of the Ambatovy Joint Venture.
- Paid transaction and other closing costs, including financial and legal advisory fees, applicable taxes and corporate restructuring costs incurring total fees of \$11.3 million, \$0.9 million of which was accrued and will be paid in 2018.
- Waived 50% of accrued and unpaid operator fees outstanding to the Corporation up to and including February 16, 2017 of US\$8.1 million (\$10.5 million).
- Agreed the outstanding partner loans can be repaid in cash at any time through to maturity in August 2023. At maturity, Sherritt can: elect to (i) repay the loans in cash, (ii) repay the loans in shares or a combination of cash and shares at 105% of the amount then due, or (iii) repay in 10 equal semi-annual principal installments (plus interest) commencing in December 2024, at an interest rate of LIBOR +5% applied from the original August 2023 maturity date.
- Committed to remaining as Operator until at least 2024; however, as a result of the reduction in its ownership interest, Sherritt's ability to direct local decision-making at Ambatovy has diminished.
- Regained voting rights and certain other rights that were suspended when it ceased funding.

For more information, see note 6 of the audited consolidated financial statements for the year ended December 31, 2017.

## Liquidity and capital resources

Total available liquidity at December 31, 2017 was \$211.8 million which is composed of available cash, cash equivalents, short term investments and \$8.8 million available on the syndicated revolving-term credit facility

### CASH AND SHORT-TERM INVESTMENTS

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

\$ millions, as at December 31, 2017	Cash	Cash equivalents and short-term investments	Total
Canada	\$ 76.1	\$ 75.2	\$ 151.3
Cuba	46.0	-	46.0
Other	5.7	-	5.7
	<u>\$ 127.8</u>	<u>\$ 75.2</u>	<u>\$ 203.0</u>
Sherritt's share of cash in the Moa Joint Venture and Ambatovy Joint Venture, not included in the above balances:			
Moa Joint Venture		\$	19.7
Ambatovy Joint Venture			6.8
		<u>\$</u>	<u>26.5</u>

## SOURCES AND USES OF CASH

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

\$ millions	For the three months ended			For the years ended		
	2017 December 31	2016 December 31	Change	2017 December 31	2016 December 31	Change
<b>Cash provided (used) by operating activities</b>						
Oil and Gas operating cash flow	\$ (2.3)	\$ 11.4	(120%)	\$ 30.8	\$ 76.4	(60%)
Power operating cash flow (excluding interest received on Energas CSA loan)	5.4	(3.3)	264%	44.5	4.1	985%
Fort Site operating cash flow	3.9	(6.0)	165%	11.0	(3.5)	414%
Interest received on the Moa Joint Venture loans	0.6	0.6	-	2.7	2.7	-
Interest received on Energas CSA loan	-	-	-	-	3.9	(100%)
Interest paid on debentures	(18.8)	(19.0)	1%	(57.2)	(59.8)	4%
Ambatovy restructuring costs	(10.4)	-	-	(10.4)	-	-
Corporate, Metals Other, and other operating cash flow	(12.3)	(6.3)	(95%)	(31.0)	(22.2)	(40%)
Cash provided by continuing operations	(33.9)	(22.6)	(50%)	(9.6)	1.6	(700%)
Cash used by discontinued operations <sup>(1)</sup>	0.8	(0.6)	233%	(5.2)	(7.4)	30%
	\$ (33.1)	\$ (23.2)	(43%)	\$ (14.8)	\$ (5.8)	(155%)
<b>Cash provided (used) by investing and financing activities</b>						
Property, plant, equipment and intangible expenditures	\$ (10.4)	\$ (10.8)	4%	\$ (30.6)	\$ (40.2)	24%
Receipts of advances, loans receivable and other financial assets	19.9	-	-	31.7	1.3	2338%
Increase in advances, loans receivable and other financial assets	(10.5)	-	-	(10.5)	-	-
Repayment of other loans and borrowings	(8.0)	(2.0)	(300%)	(35.0)	(65.7)	47%
Loans to the Ambatovy Joint Venture	(38.6)	-	-	(38.6)	-	-
Increase in restricted cash	(12.0)	-	-	(12.0)	-	-
Issuance of common shares	4.9	0.2	2350%	5.6	0.2	2700%
Fees paid on debenture extension	-	(0.2)	100%	-	(14.8)	100%
Other	0.5	0.4	25%	(1.4)	(0.8)	(75%)
	\$ (54.2)	\$ (12.4)	(337%)	\$ (90.8)	\$ (120.0)	24%
	(87.3)	(35.6)	(145%)	(105.6)	(125.8)	16%
<b>Cash, cash equivalents and short-term investments:</b>						
Beginning of the period	290.3	344.2	(16%)	308.6	434.4	(29%)
End of the period	\$ 203.0	\$ 308.6	(34%)	\$ 203.0	\$ 308.6	(34%)

(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 its Coal operations in 2014.

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

Cash from continuing operations was lower in three months and year ended December 31, 2017 compared to the prior-year periods, respectively, primarily as a result of the following:

- cash from operating activities at Oil and Gas was lower in the current year periods primarily due to lower receipts on Cuban receivables in both current year periods, partly offset by the impact of higher oil prices in the current periods;
- cash from operating activities at Power was higher in the current year period primarily due to higher receipts on Cuban receivables and other working capital changes in the current year, however, total overdue receivables increased as no interest or principal was received on the Energas conditional sales agreement (CSA) in the year. A total of US\$39.4 million of Energas receivables was received in 2017 compared to \$32.4 million in the prior year;
- the change in cash from operating activities at Fort Site was primarily due to the timing of collections and realization of fertilizer sales;
- the payment of Ambatovy restructuring costs; and
- cash used by Corporate, Metals Other and other operating activities were lower primarily due to timing of working capital payments.

## Management's discussion and analysis

Included in investing and financing activities:

- expenditures on property, plant and equipment and intangibles primarily related to Block 10. All other spending was limited to sustaining activities;
- the Corporation made payments of \$61.1 million related to the Ambatovy restructuring;
- the Corporation repaid \$8.0 million on its syndicated revolving-term credit facility in the fourth quarter; total repayments in the current year were \$35.0 million;
- the Corporation received \$19.9 million from the Moa Joint Venture as repayment on its working capital facility in the fourth quarter of 2017 for a total of \$31.7 million in the current year; and
- The Corporation received \$4.9 million and \$5.6 million in the three months and year ended December 31, 2017, respectively, on the exercise of warrants issued as part of its 2016 debenture extension (Common Share Warrants).

## 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, 2017	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	\$ 182.3	\$ 182.3	\$ -	\$ -	\$ -	\$ -	\$ -
Income taxes payable	11.8	11.8	-	-	-	-	-
Senior unsecured debentures	1,060.2	56.0	56.0	56.0	276.0	38.4	577.8
Ambatovy Joint Venture Partner loans <sup>(1)</sup>	153.3	-	-	10.2	-	-	143.1
Syndicated revolving-term credit facility	8.0	8.0	-	-	-	-	-
Provisions	158.5	20.8	1.0	-	-	0.4	136.3
Operating leases	14.1	3.0	3.0	3.0	1.0	1.0	3.1
Capital commitments	22.1	22.1	-	-	-	-	-
Other	0.6	-	-	0.2	0.2	0.2	-
<b>Total</b>	<b>\$ 1,610.9</b>	<b>\$ 304.0</b>	<b>\$ 60.0</b>	<b>\$ 69.4</b>	<b>\$ 277.2</b>	<b>\$ 40.0</b>	<b>\$ 860.3</b>

(1) Ambatovy Joint Venture partner loans are loans provided by the Ambatovy Joint Venture partners to finance Sherritt's portion of the funding requirements of the Joint Venture, bearing interest of LIBOR plus a margin of 1.125%. The partner loans are to be repaid from the Corporation's share of cash distributions from the Ambatovy Joint Venture. The amounts above are based on management's best estimate of future cash flows including estimating assumptions such as commodity prices, production levels, cash costs of production, capital and reclamation costs. The maturity analysis table includes an estimate of interest repayments.

## Ambatovy Joint Venture Partner Loans

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

The partner loans continue to be secured by Sherritt's 12% interest following the Ambatovy Joint Venture restructuring on December 11, 2017. The partner loans can be repaid in cash at any time through to maturity in August 2023. At maturity, Sherritt can elect to: (i) repay the loans in cash, (ii) repay the loans in shares or a combination of cash and shares at 105% of the amount then due, or (iii) repay in 10 equal semi-annual principal installments (plus interest) commencing in December 2024, at an interest rate of LIBOR +5% applied from the original August 2023 maturity date.

The principal amount outstanding under this facility at December 31, 2017 was \$127.8 million, including accrued interest (December 31, 2016 - \$133.3 million). This amount is net of financing costs of \$0.4 million at December 31, 2017 (December 31, 2016 - \$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 January 2018, the maturity of the syndicated revolving-term credit facility was extended to January 30, 2019 and the maximum credit available was increased from \$63.6 million to \$70.0 million. The total available draw is based on eligible receivables and inventory. The interest rates continue to be prime plus 3.50% or bankers' acceptance plus 4.50%.

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

- EBITDA, as defined in the agreement, of not less than \$100 million;
- EBITDA-to-interest expense covenant of not less than 1.75:1;
- Limits on capital expenditures and funding of the Ambatovy Joint Venture and Moa Joint Venture; and
- Maintenance of a minimum balance of cash and cash equivalents, short-term investments and undrawn credit held by the Corporation's wholly-owned subsidiaries greater than the facility size multiplied by two. The facility size multiplied by two as at December 31, 2017 (\$66.8 million) is \$133.5 million.

The principal amount outstanding under this facility at December 31, 2017 was \$8.0 million (December 31, 2016 - \$43.0 million).

## **OTHER COMMITMENTS**

The following commitments are not reflected in the table above:

### **Moa Joint Venture**

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

- Environmental rehabilitation commitments of \$87.3 million, with no significant payments due in the next five years;
- Advances and loans payable of \$208.9 million. Included within advances and loans payable is the loan related to the construction of the acid plant of \$16.9 million.

### **Ambatovy Joint Venture**

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

- Environmental rehabilitation commitments of \$49.2 million, with no significant payments due in the next five years;
- Other contractual commitments of \$9.2 million;
- Ambatovy revolving credit facility of \$7.7 million. The facility bears interest rates between 10.00% and 10.85% and matures on July 31, 2018; and
- The Ambatovy Joint Venture senior debt financing of US\$190.5 million (\$238.9 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 \$290.8 billion.

## **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, 2017, there are no events of default on the Corporation's borrowings or debentures.

## CAPITAL STRUCTURE

\$ millions, except as otherwise noted	2017		2016	Change
	December 31	December 31	December 31	
Non-recourse loans and borrowings	\$ -	\$ -	1,367.5	(100%)
Other loans and borrowings	824.1	824.1	860.7	(4%)
Other financial liabilities	24.2	24.2	168.0	(86%)
Total debt	\$ 848.3	\$ 848.3	2,396.2	(65%)
Shareholders' equity	1,056.3	1,056.3	1,097.9	(4%)
Total debt-to-capital <sup>(1)</sup>	<b>45%</b>	<b>45%</b>	<b>69%</b>	(35%)
Common shares outstanding	<b>301,758,665</b>	<b>301,758,665</b>	294,174,923	3%
Stock options outstanding	<b>10,435,061</b>	<b>10,435,061</b>	9,598,416	9%
Common Share Warrants outstanding	<b>11,244,176</b>	<b>11,244,176</b>	18,800,918	(40%)

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

### Common Share Warrants

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

### Issue of Units

In January 2018, the Corporation completed an equity offering and issued units consisting of 94.5 million common shares and 47.2 million cobalt-linked warrants at \$1.40 per unit, for gross proceeds of approximately \$132.0 million, less transaction costs of approximately \$8 million.

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

## COMMON SHARES

As at February 12, 2018, the Corporation had 396,880,293 common shares outstanding. An additional 10,435,061 common shares are issuable upon exercise of outstanding stock options granted to employees and directors pursuant to the Corporation's stock option plan, 10,586,947 common shares are issuable on the exercise of Common Share Warrants and a maximum of 47,232,200 on the issue of cobalt-linked warrants.

# 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.

Since the filing of the Corporation's 2016 AIF, certain risks have changed for the Corporation:

- Commodity Risk
- Securities Market Fluctuations and Price Volatility
- Liquidity and Access to Capital
- Ambatovy Liquidity and Funding Risks
- Restrictions in Debt Instruments, Debt Covenants and Mandatory Repayments
- Depletion of Reserves
- Risks Related to Sherritt's Operating in Cuba
- Risks Related to U.S. Government Policy Towards Cuba
  - The U.S. Embargo
  - The Helms-Burton Act
- Risks Related to Sherritt's Operations in Madagascar
- Climate Change/Greenhouse Gas Emissions
- Risks to Information Technologies Systems and Cybersecurity

## COMMODITY RISK

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

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

## SECURITIES MARKET FLUCTUATIONS AND PRICE VOLATILITY

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

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



## LIQUIDITY AND ACCESS TO CAPITAL

Sherritt's ability to fund its capital and operating expenses and to meet its financial obligations depends on being able to generate sufficient cash flow from its operations and its ability to obtain additional financing and/or refinance its existing credit facilities and loans on terms that are acceptable to the Corporation. As noted in the risk factor entitled "Commodity Risk" above, Sherritt's earnings and financial condition are highly dependent upon the market prices for nickel, cobalt, oil, gas and other commodities, which are highly volatile in nature. Should a negative trend in commodity prices prevail, Sherritt may find itself unable to access sufficient capital to fund its operations in the manner required for the long term viability of the business and/or remain in compliance with its debt covenants. Accordingly, there can be no assurance that Sherritt will have sufficient funds to repay its Notes at maturity, nor can there be any assurance that Sherritt will be able to refinance its Notes or raise funds in the equity capital markets on terms and conditions that would be acceptable. 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, the Syndicated Facility. The total available draw under the Syndicated Facility is based on eligible receivables and inventory. If prices for nickel and cobalt decline, this could result in a material reduction in the amount of funding available under the Syndicated Facility. Certain debt covenants under the Syndicated Facility are based on ratios involving the Corporation's EBITDA and/or interest expense and other covenants require the maintenance of minimum cash balances. The Corporation's ability to satisfy these covenants could also be negatively affected by decreases in commodity prices. Although the Corporation is currently engaged in the annual renewal process for the Syndicated Facility, which currently matures on January 31, 2018, there can be no assurance that this Syndicated Facility can be extended or renewed at any time, or otherwise replaced with a different credit facility on similar terms.

Agencies of the Cuban government have significant payment obligations to the Corporation in connection with the Corporation's Oil and Gas, Metals and Power operations in Cuba. This exposure to the Cuban government and its potential inability to timely or fully pay such amounts could have a material adverse effect on the Corporation's financial condition and results of operations.

## AMBATOVY LIQUIDITY AND FUNDING RISKS

The Ambatovy Joint Venture borrowed US\$2.1 billion (US\$1.6 billion as at December 31, 2017) under the financing agreements relating to the Ambatovy Joint Venture (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 and principal repayments in 2019, the senior lenders of the Ambatovy Joint Venture (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, and current production and pricing forecasts, the Ambatovy Joint Venture may require ongoing financing in order to support debt service interest payments and continued operations through 2018 and thereafter, as well as debt service principal repayments that are deferred through 2018 and recommence in 2019. The Ambatovy Joint Venture secured funding commitments from KORES and Sumitomo (and the Corporation has funded its pro rata share of such commitments into an escrow account) which were expected to cover debt service requirements and continued operations through 2018. However, such funding commitments may not be sufficient to do so, and may not be renewed in future. Although the Ambatovy Joint Venture has successfully secured sufficient financing from its shareholders and third party lenders in the past, there can be no assurance that it will be successful in securing additional financing or creditor concessions when required or on favourable terms. If the Ambatovy Joint Venture is unable to continue operations, this would have a material adverse effect on Sherritt's investment in the Ambatovy Joint Venture, and could have a material adverse effect on the Corporation's business, results of operations and financial performance.

If the escrow account has been fully drawn and the Ambatovy Joint Venture makes a cash call approved by the majority shareholders, absent a waiver from the other shareholders, Sherritt would become a defaulting shareholder should it fail to fund its pro rata share of such cash call. Such default could result in, among other things, the following: (a) Sherritt would not receive any Ambatovy Joint Venture distributions; (b) Sherritt would lose its voting rights at the Ambatovy Joint Venture's Executive Committee, its corporate boards of directors and its shareholder meetings; (c) Sherritt would lose its right to attend and be represented at meetings of the Ambatovy Joint Venture's Executive Committee and its corporate boards of directors; (d) Sherritt will be required to offer its 12% shareholder interest pro rata to the other Ambatovy Partners who have the right to

purchase at the lower of fair market value and book value; (e) the other Ambatovy Partners can elect to cure Sherritt's funding deficit by funding on Sherritt's behalf, in which case such funding is deemed to be a loan to Sherritt, payable on demand, which accrues interest at LIBOR +3% and is limited recourse to Sherritt's interest in the Ambatovy Joint Venture and repayable from future distributions; (f) the other Ambatovy Partners can elect to dilute Sherritt's interest by converting such deemed loans or by funding on Sherritt's behalf and electing dilution of Sherritt's interest, without any deemed loan; and (g) the other Ambatovy Partners can elect to fund additional subordinated debt to the Ambatovy Joint Venture, which accrues interest at a preferential rate and is repaid in priority to all other shareholder distributions (Preferred Debt). In the event that any of the other Ambatovy Partners elect to purchase the Corporation's interest pursuant to paragraph (d), there can be no assurance that the Corporation will receive any proceeds once such purchase price is offset against amounts outstanding under the Partner Loans. Preferred Debt lenders under paragraph (g) can also elect to exercise an enhanced dilution remedy entitling them to an equivalent amount of subordinated shareholder loans (and to the extent such loans are not available, equity) held by the defaulting shareholder for nil consideration. This enhanced dilution mechanism may not alter the defaulting shareholders equity interest, but could have a significant adverse effect on other shareholders future distributions from the Ambatovy Joint Venture and its effective economic interest therein.

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

#### **RESTRICTIONS IN DEBT INSTRUMENTS, DEBT COVENANTS AND MANDATORY REPAYMENTS**

Sherritt is a party to certain agreements in connection with the Syndicated Facility, as well as the trust indenture governing the 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, 2017) Ambatovy Financing Agreements. In addition, Sherritt has received loans from the other Ambatovy Partners (and certain other parties), that were used to fund part of Sherritt's contributions to the Ambatovy Joint Venture Partner Loans. These agreements and loans contain covenants which could have the effect of restricting Sherritt's ability to react to changes in Sherritt's business or to local and global economic conditions. In addition, Sherritt's ability to comply with these covenants and other terms of its indebtedness may be affected by changes in the Corporation's business, local or global economic conditions or other events beyond the Corporation's control. Failure by Sherritt to comply with any of the covenants contained in the Indenture, the Syndicated Facility, the Ambatovy Financing Agreements, the Partner Loans or any future debt instruments or credit agreements, could materially adversely affect the Corporation's business, results of operations, and financial performance.

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

The Partner Loans (\$127.8 million as at December, 2017, including accrued interest) are generally repayable by Sherritt at maturity in August 2023 and are secured by Sherritt's interest in the Ambatovy Joint Venture, which is subordinate to the security interests therein held by the Ambatovy Senior Lenders. The Partner Loans can be repaid in cash at any time through to maturity. At maturity, Sherritt can elect to: (i) repay the loans in cash, (ii) repay the loans in shares or a combination of cash and shares at 105% of the amount then due, or (iii) repay in 10 equal semi-annual principal installments (plus interest) commencing in December 2024, at an interest rate of LIBOR +5% applied from the original August 2023 maturity date.

If Sherritt becomes a defaulting shareholder under the terms of the Ambatovy Joint Venture Shareholders Agreement (the "Shareholders Agreement"), for example, by failing to fund a cash call, a cross default to the Partner Loans would be triggered and the lenders could, among other things, elect to accelerate repayment. However, due to the limited recourse nature of the loans, such acceleration will not require Sherritt to repay the loans until maturity and the lenders' recourse is effectively limited to their subordinated security interest over Sherritt's interest in, and future distributions from, the Ambatovy Joint Venture until that time. Sherritt is also obligated to repay any outstanding amount of the Partner Loans if the Ambatovy Senior Lenders exercise remedies as a result of a default by the Ambatovy Joint Venture under the Ambatovy Financing Agreements. In such a circumstance, Sherritt has the option to repay in cash or, provided its Common Shares are trading on the TSX 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 Common Shares 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 Common Shares this could result in significant dilution to existing shareholders depending on the prevailing Share price at the time of payment.

If Sherritt becomes a defaulting shareholder under the terms of the Shareholders Agreement, a cross default to the Partner Loans would be triggered, which in turn could trigger a cross default under the Syndicated 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 maturity it could in turn trigger a cross default under the Indenture. Such a cross default under the Indenture could result in acceleration of the Notes unless the default is cured by repaying the Initial Partners Loans or is waived in accordance with the Indenture. Sherritt may not have sufficient cash and short term investments to repay all or any portion of the amounts outstanding under any or all series of outstanding Notes (in the aggregate, \$720 million principal amount as at December 31, 2017) and there can be no assurance that Sherritt could refinance such amounts. Acceleration of the Partner Loans and/or the Notes would, in turn, trigger an event of default under the Syndicated Facility. Accordingly, acceleration of any one or more series of debentures could materially adversely affect the Corporation's business, results of operations, and financial performance.

### **DEPLETION OF RESERVES**

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

In 2017, the Corporation's share of oil and gas production from its original PSCs in Cuba provided significant operating cash flow to the Corporation. In November, 2017 the PSC for Block II (Varadero West) reverted to the Cuban Government. The other original PSC at Puerto Escondido-Yumuri is scheduled to revert to the Cuban Government in March, 2018; however the Corporation is negotiating the terms and conditions of an extension on this PSC based on the approval received from the Executive Committee of the Council of Ministers of the Republic of Cuba. Nevertheless, there can be no assurance that this extension will be consummated, nor that any such extension will be on the same terms as the original PSC. Accordingly, any future oil and gas production will depend very substantially on new reserves in Blocks 10, 8A and 6A and/or the ability to obtain and develop additional PSCs. Sherritt cannot provide assurance that its exploration or development efforts will result in any new commercial operations or yield new mineral or oil and gas reserves to replace or increase current reserves. Failure to obtain significant oil production on Blocks 10, 8A and 6A to replace Sherritt's currently declining and expiring production volumes could have a material adverse effect on Sherritt's financial condition and operations.

### **RISKS RELATED TO SHERRITT'S OPERATING IN CUBA**

The Corporation directly or indirectly holds significant interests in mining, metals processing, exploration for and production of crude oil and the generation of electricity in Cuba. The operations of the Cuban businesses may be affected by economic pressures on Cuba. Risks include, but are not limited to, fluctuations in official or convertible currency exchange rates and high rates of inflation. Any changes in regulations or shifts in political attitudes are beyond the control of Sherritt and may adversely affect its business. There can be no assurance as to the impact of changes in Cuban leadership on the Cuban Government or policy in the short, medium or long term. Operations may be affected in varying degrees by such factors as Cuban government regulations with respect to currency conversion, production, project approval and execution, price controls, import and export controls, income taxes or reinvestment credits, expropriation of property, environmental legislation, land use, water use and mine and plant safety.

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

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

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

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

#### **RISKS RELATED TO U.S. GOVERNMENT POLICY TOWARDS CUBA**

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

##### **The U.S. Embargo**

In its current form, apart from the Helms-Burton Act, the embargo applies to most transactions involving Cuba or Cuban enterprises, and it bars all "U.S. Persons" from participating in such transactions unless such persons have general or specific licenses from the U.S. Department of the Treasury (U.S. Treasury) authorizing their participation in the transactions. U.S. Persons include U.S. citizens, U.S. residents, individuals or enterprises located in the United States, enterprises organized under U.S. laws and enterprises owned or controlled by any of the foregoing. Subsidiaries of U.S. enterprises are subject to the embargo's prohibitions. The embargo also extends to entities deemed to be owned or controlled by Cuba (specially designated nationals or SDNs). The three entities constituting the Moa Joint Venture (as such term is defined in the 2016 AIF) in which Sherritt holds an indirect 50% interest have been deemed SDNs by U.S. Treasury. Sherritt is not an SDN. The U.S. embargo generally prohibits U.S. Persons from engaging in transactions involving the Cuban related businesses of the Corporation. Furthermore, despite the relaxation of certain restrictions over the past two years, generally U.S. originated technology, U.S. originated goods, and many goods produced from U.S. originated components or with U.S. originated technology cannot under U.S. law be transferred to Cuba or used in the Corporation's operations in Cuba. In 1992, Canada issued an order pursuant to the Foreign Extraterritorial Measures Act (Canada) to block the application of the U.S. embargo under Canadian law to Canadian subsidiaries of U.S. enterprises. However, the general embargo limits Sherritt's access to U.S. capital, financing sources, customers, and suppliers.

##### **The Helms-Burton Act**

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

The Helms-Burton Act authorizes damage lawsuits to be brought in U.S. courts by U.S. claimants against those “trafficking” in the claimants’ confiscated property. No such lawsuits have been filed because all Presidents of the United States in office since the enactment of the Helms-Burton Act have exercised their authority to suspend the right of claimants to bring such lawsuits for successive periods of up to six months. Pursuant to this authority, the President has suspended the right of claimants for successive six month periods since 1996; the latest suspension extends through to August 1, 2018. The Corporation has nevertheless received letters from U.S. nationals claiming ownership of certain Cuban properties or rights in which the Corporation has an indirect interest. Even if the suspension were permitted to expire, Sherritt does not believe that its operations would be materially affected by any Helms-Burton Act lawsuits, because Sherritt’s minimal contacts with the United States would likely deprive any U.S. court of personal jurisdiction over Sherritt. Furthermore, even if personal jurisdiction were exercised, any successful U.S. claimant would have to seek enforcement of the U.S. court judgment outside the U.S. in order to reach material Sherritt assets. Management believes it unlikely that a court in any country in which Sherritt has material assets would enforce a Helms-Burton Act judgment.

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

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

Nevertheless, in the absence of any judicial interpretation of the scope of the Helms-Burton Act, the threat of potential litigation discourages some potential investors, lenders, suppliers and customers from doing business with Sherritt.

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

The U.S. Department of State has issued guidelines for the implementation of the immigration provision, which state that it is “not sufficient in itself for a determination” of exclusion that a person “has merely had business dealings with a person” deemed to be “trafficking”. Also, the statutory definition of “traffics” relevant to the Helms-Burton Act’s immigration provision explicitly excludes “the trading or holding of securities publicly traded or held, unless the trading is with or by a person listed as a SDN”.

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

## **RISKS RELATED TO SHERRITT’S OPERATIONS IN MADAGASCAR**

The Corporation is the operator of, and indirectly holds a minority interest 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 by the CGIM, the government body responsible for overseeing the LGIM, and by the current democratically elected Malagasy government. The Malagasy government had previously announced that it would be proposing amendments to the mining code during the May 2017 parliamentary session. However in June 2017, the President of Madagascar stated that no amendment was envisaged in the short term. While the Government has publicly confirmed that the proposed amendments will 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's 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 the Ambatovy Joint Venture, the risk exists that opposition politicians will try to mobilize crowds by agitating against foreign interests or against major mining companies. The Ambatovy Joint Venture has developed a comprehensive stakeholder engagement plan to mitigate this risk. However, no guarantee can be given that unrest, if it happens, may not restrict temporarily or otherwise, the Ambatovy Joint Venture'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 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 of the Corporation's financial condition and results of operations.

## **CLIMATE CHANGE/GREENHOUSE GAS EMISSIONS**

The Canadian government implemented a national climate plan in 2016, which includes direction to the provinces to implement a carbon price strategy by 2018, that can be in the form of a carbon tax, starting at a minimum of \$10 per tonne and increasing to \$50 per tonne by 2022 or a cap-and-trade system focused on emission reductions. Regulations requiring significant reductions of GHG emissions by Canada's largest industrial sectors could impact the Corporation. This includes the industrial sectors to which the Corporation provides its products, the majority of the facilities in Canada from which the Corporation ultimately obtains power and some of the Corporation's facilities. In addition, uncertainty around when and how regulations may change or be adopted is not an ideal operating environment.

To align with the federal plan, several provincial and territorial governments continue to move ahead with GHG reduction and other initiatives designed to address climate change, including Alberta's Climate Leadership Plan. While the climate agenda continues to evolve, there continues to be a level of uncertainty over the application of specific provisions in any federal regulations and the impact of other provincial or regional initiatives, thus it is not yet possible to estimate with specificity the

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## Management's discussion and analysis

impact to the Corporation's operations. However, the Corporation's Canadian operations are large facilities, therefore the establishment of emissions regulations (whether in the manner described above or otherwise) may well affect them and may have a material adverse effect on the Corporation's business, results of operations and financial performance. In addition, the Corporation's operations require large quantities of power and future taxes on or regulation of power producers or the production of oil and gas or other products may also add to the Corporation's operating costs.

In addition, over the last few years the frequency and impact of major weather events – such as hurricanes in Cuba and cyclones in Madagascar – pose increasing operating risks to the Corporation's facilities. Sherritt has crisis preparedness, emergency response and recovery procedures and plans at all facilities that address such events.

### RISKS TO INFORMATION TECHNOLOGIES SYSTEMS AND CYBERSECURITY

The Corporation may be negatively affected by cybersecurity incidents or other IT systems disruption. The Corporation relies heavily on its information technology systems including, without limitation, its networks, equipment, hardware, software, telecommunications, and other information technology (collectively, IT systems), and the IT systems of its vendors and third-party service providers, to operate its business as a whole, including mining operations. Although the Corporation has not experienced any material losses to date relating to cybersecurity, or other IT systems disruptions, there can be no assurance that the Corporation will not incur such losses in the future. Despite the Corporation's mitigation efforts including implementing an IT systems security risk management framework, the risk and exposure to these threats cannot be fully mitigated because of, among other things, the evolving nature of cybersecurity threats. As a result, cybersecurity and the continued development and enhancement of controls, processes and practices designed to protect IT systems from cybersecurity threats remain a priority. As these threats continue to evolve, the Corporation may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any cybersecurity vulnerabilities. Any cybersecurity incidents or other IT systems disruption could result in production downtimes, operational delays, destruction or corruption of data, security breaches, financial losses from remedial actions, the theft or other compromising of confidential or otherwise protected information, fines and lawsuits, or damage to the Corporation's reputation. Any such occurrence could have an adverse impact on the Corporation's financial condition and operations.

### OTHER RISKS

Below is a list of the other significant business risks as presented in the Corporation's 2016 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.

- Reliance on partners
- Operating risk
- Transportation
- Uncertainty of gas supply to Energas
- 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
- Project development
  - Generally
  - Capital and operating cost estimates
- Foreign exchange and pricing risks
- Environment, health and safety
- 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**

### Property, plant and equipment

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

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

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

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

### Environmental rehabilitation provisions

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

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

### Reserves for oil and gas properties

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

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



## Income taxes

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

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

## CRITICAL ACCOUNTING JUDGMENTS

### Interests in other entities

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

### Ambatovy – Investment in Associate

As a result of the Ambatovy Joint Venture restructuring, post-financial completion cash calls were funded retroactively to December 2015 at Sherritt's 12% interest and Sherritt's voting rights were reinstated. It is the Corporation's judgment that the Ambatovy Joint Venture continues to be an associate after the restructuring given the Corporation's power to participate in its operating and financial decisions, in particular due to the Corporation's representation on the board of directors, participation in policy-making processes, existence of material transactions between the Corporation and the Ambatovy Joint Venture, interchange of managerial personnel and provision of essential technical information with Sherritt's commitment to continue as operator until at least 2024.

Prior to the Ambatovy Joint Venture restructuring, with respect to post-financial completion cash calls not funded by Sherritt under the Ambatovy Joint Venture financing, Sherritt had the option to pay the amounts in cash at any time, at Sherritt's election. Until the funding deficit was addressed, and subject to continued discussions with the Ambatovy Joint Venture partners, Sherritt did not exercise its Ambatovy Joint Venture voting rights. Sherritt had the ability to cure the underfunding and regain its voting rights at any time. Therefore, it was the Corporation's judgment that the Ambatovy Joint Venture continued to be an associate.

### Aggregation of segments

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

## Impairment of non-financial assets

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

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

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

The Corporation accounts for its investment in 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).

## Commercial viability

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

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

## Arrangements containing a lease

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

## Service concession arrangements

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

## Income taxes

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

# Accounting Pronouncements

## ADOPTION OF NEW AND AMENDED ACCOUNTING PRONOUNCEMENTS

In 2017, 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

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

The Corporation is in the final stages of its evaluation of the impact of this standard on its consolidated financial statements. The Corporation will adopt IFRS 9 for the annual period beginning January 1, 2018 and will apply the standard on a retrospective basis using the available transitional provisions. Under this approach, the 2017 comparative period will not be restated and a cumulative transitional adjustment to the opening deficit balance will be recognized at January 1, 2018.

Classification and measurement:

IFRS 9 requires a new approach for the classification and measurement of financial assets based on the Corporation's business models for managing these financial assets and their contractual cash flow characteristics, summarized as follows:

- Assets held for the purpose of collecting contractual cash flows that represent solely payments of principal and interest will be measured at amortized cost.
- Assets held within a business model where assets are both held for the purpose of collecting contractual cash flows or sold prior to maturity and the contractual cash flows represent solely payments of principal and interest will be measured at fair value through other comprehensive income ("FVTOCI").

- Assets held within another business model or assets that do not have contractual cash flow characteristics that are solely payments of principal and interest will be measured at fair value through profit or loss (“FVTPL”).

The Corporation has completed its review of all financial instruments held and has performed cash flow and business model assessments on the Corporation’s financial assets. The expected impact is summarized as follows:

- The Corporation’s cash equivalents and short-term investments currently measured at FVTPL will now be measured at FVTOCI, with unrealized gains and losses recorded in other comprehensive income, until the time they are sold or otherwise derecognized, at which point gains and losses will be reclassified to profit and loss. The Corporation does not expect a material impact as a result of this change.
- Generally, the Corporation’s other financial assets currently classified as loans and receivables will continue to be measured at amortized cost. This includes the Ambatovy subordinated loans receivable, Energas conditional sales agreement, Moa Joint Venture expansion loans receivable and Moa Joint Venture working capital facility.

#### Impairment:

IFRS 9 introduces a new expected credit loss (“ECL”) impairment model for all financial assets measured at amortized cost or debt instruments measured at FVTOCI. The new ECL model will result in an allowance for expected credit losses being recorded regardless of whether or not there has been an actual loss event.

The ECL model is forward-looking and requires the use of a reasonable and supportable forecast of future conditions in the determination of whether or not there has been a significant increase in credit risk since origination and measurement of the ECL. The Corporation continues to refine certain aspects of the expected credit loss modelling process leading up to its March 31, 2018 reporting. The expected impact is summarized as follows:

- The Corporation expects to recognize a material ECL allowance against the Ambatovy subordinated loans receivable due to forecasted conversions of debt to equity in the Ambatovy Joint Venture which will result in a reduction to the loans receivable. These conversions of debt to equity are undertaken to ensure compliance with a Malagasy mining regulatory requirement at the Ambatovy Joint Venture.
- The Corporation expects to recognize a material ECL allowance against the Moa expansion loans receivable due to management’s current forecast of expansion production.

#### Hedge accounting:

IFRS 9 also introduces a new hedge accounting model that expands the scope of hedge items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The Corporation does not currently engage in hedging activity and is not impacted by the new hedge accounting guidance.

#### Financial liabilities:

Generally, IFRS 9 does not introduce changes to the classification of financial liabilities. The Corporation will continue to measure its financial liabilities at amortized cost.

In regards to term modifications for financial liabilities, IFRS 9 requires that when a financial liability measured at amortized cost is modified or exchanged, and such modification or exchange does not result in derecognition, the adjustment to the amortized cost of the financial liability is recognized in profit or loss. The Corporation continues to refine its measurement of the required adjustments. The expected impact is summarized as follows:

- The Corporation expects to recognize a material reduction in the amortized cost of its senior unsecured debentures resulting from the extension of their maturity dates during 2016.
- The Ambatovy Joint Venture expects to recognize a material increase in the amortized cost of the Ambatovy Joint Venture financing resulting from the deferral of six principal repayments during 2016, resulting in the Corporation recognizing a material decrease in the investment in an associate based on its 12% ownership.

## IFRS 15 - Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers ("IFRS 15") which replaces IAS 18 and IAS 11 effective January 1, 2018. The objective of IFRS 15 is to establish the principles that the Corporation will apply to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The Corporation has elected to apply the standard on a modified retrospective basis using certain practical expedients. Under this approach, the 2017 comparative period will not be restated and a cumulative transitional adjustment to the opening deficit balance will be recognized at the date of initial application.

The Corporation is in the final stages of its evaluation of the impact of this standard on its consolidated financial statements. Management has identified the following impacts to revenue recognition and disclosure:

- In the Moa JV and Fort Site segment, revenue of the Moa JV is excluded from consolidated revenue due to the equity method and is included in the share of earnings (loss) of a joint venture. At the Moa JV, no material transitional adjustment is expected upon adoption and no material change is expected in the timing and recognition of revenue. The Corporation determined that Moa JV's revenue associated with performance obligations for shipping and insurance for certain sales was immaterial and therefore the current timing of recognition will not change upon adoption. At the Fort Site, the Corporation will be required to disclose revenue recognized during the year ended December 31, 2018 that is included in deferred revenue at the beginning of the period.
- In the Ambatovy JV segment, all revenue relates to the Ambatovy JV and is excluded from consolidated revenue due to the equity method and is included in the share of earnings (loss) of an associate. At the Ambatovy JV, no material transitional adjustment is expected upon adoption and no change is expected in the timing of revenue recognition. A change is expected in the recognition of marketing expenses paid to customers, which will be accounted for as reductions of revenue rather than expenses, with no impact to Ambatovy JV's net earnings (loss). The Corporation determined that Ambatovy JV's revenue associated with performance obligations for shipping and insurance for certain sales was immaterial and therefore the current timing of recognition will not change upon adoption.
- In the Oil and Gas segment, no material transitional adjustment is expected upon adoption and no material change is expected in the timing and recognition of revenue. The Corporation is entitled to the recovery of certain costs incurred as a result of its production-sharing contracts from an agency of the Government of Cuba. The Corporation's receivable for recoverable costs not yet approved by the agency will be required to be presented separately from trade accounts receivable, net, given that approval is outstanding. In addition, the Corporation will be required to disclose revenue allocated to remaining performance obligations for production-sharing contracts with an expected duration of over one year and when it expects to recognize this revenue.
- In the Power segment, no material transitional adjustment is expected upon adoption and no material change is expected in the timing and recognition of revenue. The Corporation will be required to disclose revenue allocated to remaining performance obligations for service concession arrangements with an expected duration of over one year and when it expects to recognize this revenue.

No impact on the consolidated statements of cash flow is expected from adoption.

## IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 Leases ("IFRS 16") which replaces IAS 17 and IFRIC 4 effective January 1, 2019. The objective of IFRS 16 is to report information that faithfully represents lease transactions and provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. To meet that objective, a lessee should recognize assets and liabilities arising from a lease.

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

The Corporation is currently evaluating the impact of this standard on its consolidated financial statements. The Corporation will not early adopt IFRS 16. The Corporation expects to recognize lease liabilities and right-of-use assets in respect of operating leases previously expensed.

# Three-year trend analysis<sup>(1)</sup>

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	2017	2016	2015
Revenue	\$ 267.3	\$ 262.3	\$ 355.9
Adjusted EBITDA <sup>(1)</sup>	149.8	40.0	113.1
Earnings (loss) from operations, associate and joint venture	440.8	(320.8)	(198.6)
Net earnings (loss) from continuing operations	308.9	(381.8)	(2,071.7)
(Loss) earnings from discontinued operations, net of tax	(15.1)	2.9	(5.0)
Net earnings (loss) for the year	293.8	(378.9)	(2,076.7)
Earnings (loss) per common share (basic)(\$ per share):			
Net earnings (loss) from continuing operations	1.04	(1.30)	(7.05)
Net earnings (loss) for the year	0.99	(1.29)	(7.07)
Earnings (loss) per common share (diluted)(\$ per share):			
Net earnings (loss) from continuing operations	1.02	(1.30)	(7.05)
Net earnings (loss) for the year	0.97	(1.29)	(7.07)
Dividend rate per share	-	-	0.02
<b>PRODUCTION VOLUMES</b>			
Finished nickel (tonnes)			
Moa Joint Venture (50% basis)	15,762	16,464	16,853
Ambatovy Joint Venture (40% basis)	13,618	16,842	18,908
Finished cobalt (tonnes)			
Moa Joint Venture (50% basis)	1,801	1,847	1,867
Ambatovy Joint Venture (40% basis)	1,173	1,309	1,386
Oil (boepd, net working-interest production) <sup>(2)</sup>	7,856	9,483	11,158
Electricity (gigawatt hours) (33 <sup>1</sup> / <sub>3</sub> % basis)	848	894	902

- (1) Sherritt's share of financial and operating results for the Ambatovy Joint Venture reflects its interest at 40% to December 10, 2017 and 12% thereafter.  
(2) For additional information see the Non-GAAP measures section.

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

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

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

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

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, \$44.3 million of unrealized foreign exchange losses, 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.

## Summary of quarterly results<sup>(1)</sup>

The following table presents a summary of the segment revenue and consolidated operating results for each of the eight quarters ended March 31, 2016 to December 31, 2017.

\$ millions, except per share amounts, for the three months ended	2017 Dec 31	2017 Sept 30	2017 June 30	2017 Mar 31	2016 Dec 31	2016 Sept 30	2016 June 30	2016 Mar 31
Revenue								
Metals	\$ 184.0	\$ 192.8	\$ 183.0	\$ 179.5	\$ 195.6	\$ 143.0	\$ 160.5	\$ 153.0
Oil and Gas	27.7	29.9	34.1	35.3	30.6	27.3	28.3	22.4
Power	12.0	12.2	13.6	13.4	13.7	14.4	14.9	15.6
Corporate and Other	0.1	(0.2)	0.3	(0.2)	0.4	(0.2)	0.4	0.3
Combined Revenue <sup>(2)</sup>	\$ 223.8	\$ 234.7	\$ 231.0	\$ 228.0	\$ 240.3	\$ 184.5	\$ 204.1	\$ 191.3
Adjust joint venture and associate revenue	(169.0)	(171.4)	(154.2)	(155.6)	(169.8)	(126.0)	(129.2)	(132.9)
Financial statement revenue	\$ 54.8	\$ 63.3	\$ 76.8	\$ 72.4	\$ 70.5	\$ 58.5	\$ 74.9	\$ 58.4
Share of loss of an associate, net of tax	(27.5)	(53.2)	(64.2)	(50.1)	(31.3)	(55.9)	(58.9)	(65.9)
Share of earnings (loss) of a joint venture, net of tax	17.4	11.6	1.8	1.1	(7.7)	(3.5)	(20.6)	(12.9)
Net earnings (loss) from continuing operations	552.9	(69.5)	(101.9)	(72.6)	(109.6)	(120.8)	(103.6)	(47.8)
(Loss) earnings from discontinued operations, net of tax <sup>(3)</sup>	(15.1)	-	-	-	2.9	-	-	-
Net earnings (loss) for the period	\$ 537.8	\$ (69.5)	\$ (101.9)	\$ (72.6)	\$ (106.7)	\$ (120.8)	\$ (103.6)	\$ (47.8)
<b>Net earnings (loss) per share, basic (\$ per share)</b>								
Net earnings (loss) from continuing operations	\$ 1.85	\$ (0.24)	\$ (0.35)	\$ (0.25)	\$ (0.37)	\$ (0.41)	\$ (0.35)	\$ (0.16)
Net earnings (loss) for the period	1.80	(0.24)	(0.35)	(0.25)	(0.36)	(0.41)	(0.35)	(0.16)
<b>Net earnings (loss) per share, diluted (\$ per share)</b>								
Net earnings (loss) from continuing operations	\$ 1.80	\$ (0.24)	\$ (0.35)	\$ (0.25)	\$ (0.37)	\$ (0.41)	\$ (0.35)	\$ (0.16)
Net earnings (loss) for the period	1.75	(0.24)	(0.35)	(0.25)	(0.36)	(0.41)	(0.35)	(0.16)

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

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

(3) Expenses relate to additional costs and penalties in respect of the Obed tailing pond breach, the liability for which was retained by the Corporation following the sale of the Coal operations in 2014, and insurance recoveries received by the Corporation.

In general, net loss or earnings for the Corporation are primarily affected by production and sales volumes, commodity prices, maintenance and operating costs, and exchange rates. The average Canadian dollar cost to purchase one U.S. dollar for the above quarters ranged from \$1.25 (Q3 2017) to \$1.37 (Q1 2016) and period-end rates ranged between \$1.25 (Q3 2017) to \$1.34 (Q4 2016).

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

- the fourth quarter of 2017 includes a gain of \$629.0 million on the Ambatovy restructuring and the recognition of \$24.1 million of unrealized foreign exchange losses primarily as a result of the reduction of U.S. dollar denominated loans derecognized as part of the Ambatovy restructuring;
- the third quarter of 2017 includes a \$13.5 million unrealized foreign exchange gain;
- the second quarter of 2017 includes a \$4.4 million unrealized foreign exchange loss;
- the first quarter of 2017 includes a \$7.3 million unrealized foreign exchange gain;
- the fourth quarter of 2016 includes a \$25.7 million unrealized foreign exchange loss;
- 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 compared to the December 31, 2015.

## 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 7, 8 and 22 of the Corporation's audited consolidated financial statements for the year ended December 31, 2017. 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	2017	2016
Accounts receivable from joint operations	\$ 0.2	\$ 0.4
Accounts receivable from joint venture	15.0	11.4
Accounts receivable from associate	8.2	33.9
Accounts payable to joint venture	105.2	81.3
Accounts payable to associate	5.4	1.8
Advances and loans receivable from associate	281.0	943.4
Advances and loans receivable from joint operations	206.7	192.4
Advances and loans receivable from joint venture	268.0	321.8

Canadian \$ millions, for the years ended December 31	2017	2016
Total value of goods and services:		
Provided to joint operations	\$ 19.9	\$ 32.0
Provided to joint venture	191.8	165.3
Provided to associate	2.6	3.4
Purchased from joint venture	736.1	405.3
Purchased from associate	30.4	39.1
Net financing income from joint operations	14.4	14.4
Net financing income from associate	37.8	38.9
Net financing income from joint venture	11.4	9.6

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 which was repaid as part of the Ambatovy restructuring -- see note 6 of the audited consolidated financial statements for the year ended December 31, 2017 for additional information.



## 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	2017	2016
Short-term benefits	\$ 7.8	\$ 7.4
Post-employment benefits <sup>(1)</sup>	0.4	0.4
Share-based payments	6.1	11.6
	<b>\$ 14.3</b>	<b>\$ 19.4</b>

(1) Post-employment benefits include a non-registered defined contribution executive supplemental pension plan. The total cash pension contribution for key management personnel was \$0.9 million for the year ended December 31, 2017 (\$0.4 million for the year ended December 31, 2016). The total pension expense that is attributable to key management personnel was \$0.2 million for the year ended December 31, 2017 (\$0.2 million for the year ended December 31, 2016).

## 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, 2017, 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 2017 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, 2017, 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, 2017.

# 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, 2017 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	Ambatovy at 12% <sup>(1)</sup>			
		Approximate change in annual net earnings (\$ millions)	Approximate change in annual basic EPS	Approximate change in annual net earnings (\$ millions)	Approximate change in annual basic EPS
		Increase/(decrease)	Increase/(decrease)	Increase/(decrease)	Increase/(decrease)
<b>Prices</b>					
Nickel - LME price per pound <sup>(2)</sup>	US\$ 1.00 \$	76 \$	0.26 \$	50 \$	0.17
Cobalt - Metal Bulletin price per pound <sup>(2)</sup>	US\$ 5.00	37	0.13	25	0.09
Oil -U.S. Gulf Coast Fuel Oil No. 6 price per barrel	US\$ 5.00	9	0.03	9	0.03
<b>Exchange rate</b>					
Strengthening of the Canadian dollar relative to the U.S. dollar	\$ 0.05	(27)	(0.09)	(30)	(0.10)
<b>Operating costs<sup>(2)</sup></b>					
Natural gas - per gigajoule (Moa Joint Venture)	\$ 1.00	(3)	(0.01)	(3)	(0.01)
Sulphur - per tonne (Moa Joint Venture and Ambatovy)	US\$ 25.00	(10)	(0.03)	(6)	(0.02)
Coal - per tonne (Ambatovy)	US\$ 20.00	(5)	(0.02)	(1)	-
Limestone - per tonne (Ambatovy)	US\$ 5.00	(3)	(0.01)	(1)	-

(1) Estimated total impact on current year's earnings assuming the Corporation's interest in Ambatovy was 12% for the entire year.

(2) 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 to December 10, 2017 and 12% thereafter.

## NON-GAAP MEASURES

Management uses combined results, Adjusted EBITDA, average-realized price, unit operating cost, adjusted earnings, adjusted operating cash flow, 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 share of the Ambatovy Joint Venture (40% to December 10, 2017 and 12% thereafter), both of which are accounted for using the equity method for accounting purposes. Management uses these measures to reflect the Corporation's economic interest in its business units prior to the application of equity accounting.

## Management's discussion and analysis

\$ millions	For the three months ended			For the years ended		
	2017	2016	Change	2017	2016	Change
	December 31	December 31		December 31	December 31	
<b>Revenue by segment</b>						
Metals	\$ 184.0	\$ 195.6	(6%)	\$ 739.3	\$ 652.1	13%
Oil and Gas	27.7	30.6	(9%)	127.0	108.6	17%
Power	12.0	13.7	(12%)	51.2	58.6	(13%)
Corporate and Other	0.1	0.4	(75%)	-	0.9	(100%)
Combined revenue	223.8	240.3	(7%)	917.5	820.2	12%
Adjust joint venture and associate	(169.0)	(169.8)		(650.2)	(557.9)	
Financial statement revenue	54.8	70.5	(22%)	267.3	262.3	2%

## Adjusted EBITDA

The Corporation defines Adjusted EBITDA as earnings (loss) from operations, associate and joint venture as reported in the financial statements for the period adjusted for depletion, depreciation and amortization; impairment charges for long lived assets, intangible assets, goodwill and investments; gain or loss on disposal of property, plant and equipment of the Corporation, associate and joint venture; and gain or loss on disposition of an interest in investment in associate or joint venture of the Corporation. The exclusion of impairment charges eliminates the non-cash impact. 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										2017
	Metals				Oil and Gas	Power	Corporate and Other	Adjustment for Joint Venture and Associate		Total
	Moa JV and Fort Site	Ambatovy JV	Other	Total						
Earnings (loss) from operations, associate and joint venture per financial statements	\$ 19.9	\$ (7.7)	\$ -	\$ 12.2	\$ 7.9	\$ (0.6)	\$ 611.9	\$ (24.9)	\$	606.5
Add (deduct):										
Depletion, depreciation and amortization	2.4	-	-	2.4	2.6	6.1	0.5	-	-	11.6
Gain on Ambatovy restructuring	-	-	-	-	-	-	(629.0)	-	-	(629.0)
Adjustments for share of associate and joint venture:										
Depletion, depreciation and amortization	9.8	30.0	-	39.8	-	-	-	-	-	39.8
Gain on write off of operator fee	-	(4.2)	-	(4.2)	-	-	-	4.2	-	-
Net finance expense	-	-	-	-	-	-	-	16.2	-	16.2
Income tax expense	-	-	-	-	-	-	-	4.5	-	4.5
Adjusted EBITDA	\$ 32.1	\$ 18.1	\$ -	\$ 50.2	\$ 10.5	\$ 5.5	\$ (16.6)	\$ -	\$	49.6
Earnings from operations, associate and joint venture										\$ 606.5
Net finance expense										(50.0)
Income tax expense										(3.6)
Net earnings from continuing operations										\$ 552.9

\$ millions, for the three months ended December 31

2016

	Metals				Oil and Gas	Power	Adjustment for Joint		Total
	Moa JV and Fort Site	Ambatovy JV	Other	Total			Corporate and Other	Venture and Associate	
(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 recovery	-	-	-	-	-	-	-	(0.4)	(0.4)
<b>Adjusted EBITDA</b>	<b>\$ 5.6</b>	<b>\$ 24.4</b>	<b>\$ 0.2</b>	<b>\$ 30.2</b>	<b>\$ 11.6</b>	<b>\$ 7.4</b>	<b>\$ (11.8)</b>	<b>\$ -</b>	<b>\$ 37.4</b>
Loss from operations, associate and joint venture									\$ (52.2)
Net finance expense									(53.3)
Income tax recovery (expenses)									(4.1)
<b>Net loss from continuing operations</b>									<b>\$ (109.6)</b>

\$ millions, for the year ended December 31

2017

	Metals				Oil and Gas	Power	Adjustment for Joint		Total
	Moa JV and Fort Site	Ambatovy JV	Other	Total			Corporate and Other	Venture and Associate	
Earnings (loss) from operations, associate and joint venture per financial statements	\$ 31.3	\$ (109.5)	\$ 0.9	\$ (77.3)	\$ 33.6	\$ 5.2	\$ 576.7	\$ (97.4)	\$ 440.8
Add (deduct):									
Depletion, depreciation and amortization	9.9	-	-	9.9	28.3	24.9	2.7	-	65.8
Gain on Ambatovy restructuring	-	-	-	-	-	-	(629.0)	-	(629.0)
Adjustments for share of associate and joint venture:									
Depletion, depreciation and amortization	39.3	139.7	-	179.0	-	-	-	-	179.0
Gain on write off of operator fee	-	(4.2)	-	(4.2)	-	-	-	4.2	-
Net finance expense	-	-	-	-	-	-	-	86.2	86.2
Income tax expense	-	-	-	-	-	-	-	7.0	7.0
<b>Adjusted EBITDA</b>	<b>\$ 80.5</b>	<b>\$ 26.0</b>	<b>\$ 0.9</b>	<b>\$ 107.4</b>	<b>\$ 61.9</b>	<b>\$ 30.1</b>	<b>\$ (49.6)</b>	<b>\$ -</b>	<b>\$ 149.8</b>
Earnings from operations, associate and joint venture									\$ 440.8
Net finance expense									(117.7)
Income tax expense									(14.2)
<b>Net earnings from continuing operations</b>									<b>\$ 308.9</b>

## Management's discussion and analysis

\$ millions, for the year ended December 31

2016

	Metals				Oil and Gas	Power	Adjustment for Joint		Total
	Moa JV and Fort Site	Ambatovy JV	Other	Total			Corporate Venture and Other	Associate	
(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
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 recovery	-	-	-	-	-	-	-	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 recovery									(6.5)
Net loss from continuing operations									\$ (381.8)

## 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 2017

	Metals				Total	Oil and Gas	Power
	Nickel	Cobalt	Fertilizer	Other revenue			
Revenue per financial statements	\$ 98.8	\$ 60.0	\$ 19.2	\$ 6.0	\$ 184.0	\$ 27.7	\$ 12.0
Adjustments to revenue:							
By-product revenue	-	-	-	-	-	-	(1.1)
Processing revenue	-	-	-	-	-	(1.1)	-
Revenue for purposes of average-realized price calculation	98.8	60.0	19.2			26.6	10.9
Sales volume for the period	14.8	1.6	59.3			0.6	201
Volume units	Millions of pounds	Millions of pounds	Thousands of tonnes			Millions of barrels <sup>(1)</sup>	Gigawatts
Average-realized price <sup>(2)(3)</sup>	\$ 6.66	\$ 38.86	\$ 324			\$ 47.48	\$ 54.01

\$ millions, except average-realized price and sales volume, for the three months ended December 31 2016

	Metals				Total	Oil and Gas	Power
	Nickel	Cobalt	Fertilizer	Other revenue			
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 <sup>(1)</sup>	Gigawatts
Average-realized price <sup>(2)(3)</sup>	\$ 6.45	\$ 17.68	\$ 284			\$ 38.98	\$ 56.24

\$ millions, except average-realized price and sales volume, for the year ended December 31 2017

	Metals				Total	Oil and Gas	Power
	Nickel	Cobalt	Fertilizer	Other revenue			
Revenue per financial statements	\$ 394.7	\$ 218.5	\$ 71.5	\$ 54.6	\$ 739.3	\$ 127.0	\$ 51.2
Adjustments to revenue:							
By-product revenue	-	-	-	-	-	-	(4.4)
Processing revenue	-	-	-	-	-	(4.0)	-
Revenue for purposes of average-realized price calculation	394.7	218.5	71.5			123.0	46.8
Sales volume for the period	64.8	6.6	220.5			2.9	848
Volume units	Millions of pounds	Millions of pounds	Thousands of tonnes			Millions of barrels <sup>(1)</sup>	Gigawatts
Average-realized price <sup>(2)(3)</sup>	\$ 6.10	\$ 33.13	\$ 325			\$ 42.90	\$ 55.15

## Management's discussion and analysis

\$ millions, except average-realized price and sales volume, for the year ended December 31 2016

	Metals					Total	Oil and Gas	Power
	Nickel	Cobalt	Fertilizer	Other revenue				
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)	
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 <sup>(1)</sup>	Gigawatts	
Average-realized price <sup>(2)(3)</sup>	\$ 5.65	\$ 15.33	\$ 326			\$ 29.98	\$ 56.10	

For purposes of average-realized price tables, above:

- (1) Net working-interest oil production.
- (2) Average-realized price may not calculate based on amounts presented due to foreign exchange and rounding.
- (3) Power, average-realized price per MWh.

## Unit operating cost

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.

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 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.

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 2017

	Metals				Total	Oil and Gas	Power
	Moa JV and Fort Site	Ambatovy JV	Other				
Cost of sales per financial statements	\$ 100.0	\$ 72.8	\$ 2.9	\$ 175.7	\$ 16.4	\$ 10.9	
Less:							
Depletion, depreciation and amortization in cost of sales	(12.2)	(29.7)	-	(41.9)	(2.6)	(6.0)	
	87.8	43.1	2.9	133.8	13.8	4.9	
Adjustments to cost of sales:							
Cobalt by-product, fertilizer and other revenue	(61.7)	(20.5)			-	-	
Impact of opening/closing inventory and other	(4.7)	0.7			-	-	
Cost of sales for purposes of unit cost calculation	21.4	23.3			13.8	4.9	
Sales volume for the period	9.1	5.8			1.1	201	
Volume units	Millions of pounds	Millions of pounds			Millions of barrels <sup>(1)</sup>	Gigawatts	
Unit operating cost <sup>(2)(3)</sup>	\$ 2.35	\$ 3.99			\$ 12.95	\$ 23.43	
Unit operating cost (U.S. dollars) (NDCC)	\$ 1.80	\$ 3.27					

\$ millions, except unit cost and sales volume, for the three months ended December 31

2016

	Metals				Oil and Gas	Power
	Moa JV and Fort Site	Ambatovy JV	Other	Total		
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 <sup>(1)</sup>	Gigawatts
Unit operating cost <sup>(2)(3)</sup>	\$ 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 year ended December 31

2017

	Metals				Oil and Gas	Power
	Moa JV and Fort Site	Ambatovy JV	Other	Total		
Cost of sales per financial statements	\$ 376.1	\$ 385.5	\$ 41.5	\$ 803.1	\$ 83.0	\$ 41.3
Less:						
Depletion, depreciation and amortization in cost of sales	(49.0)	(139.4)	-	(188.4)	(27.7)	(24.8)
	327.1	246.1	41.5	614.7	55.3	16.5
Adjustments to cost of sales:						
Cobalt by-product, fertilizer and other revenue	(204.6)	(96.9)			-	-
Impact of opening/closing inventory and other	(16.9)	1.0			-	-
Cost of sales for purposes of unit cost calculation	105.6	150.2			55.3	16.5
Sales volume for the period	34.6	30.2			5.2	848
Volume units	Millions of pounds	Millions of pounds			Millions of barrels <sup>(1)</sup>	Gigawatts
Unit operating cost <sup>(2)(3)</sup>	\$ 3.05	\$ 4.97			\$ 10.52	\$ 19.29
Unit operating cost (U.S. dollars) (NDCC)	\$ 2.35	\$ 3.83				

\$ millions, except unit cost and sales volume, for the year ended December 31

2016

	Metals				Oil and Gas	Power
	Moa JV and Fort Site	Ambatovy JV	Other	Total		
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 <sup>(1)</sup>	Gigawatts
Unit operating cost <sup>(2)(3)</sup>	\$ 4.53	\$ 5.43			\$ 10.58	\$ 22.94
Unit operating cost (U.S. dollars) (NDCC)	\$ 3.42	\$ 4.27				

For purposes of unit operating cost tables, above:

- (1) Gross working-interest oil production.
- (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 VAT receivable provision fair value adjustment, impairment of assets, gains and losses on the acquisition or disposition of assets (including the Corporation's interest in the Ambatovy Joint Venture), gains and losses on unrealized foreign exchange, 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 to net earnings (loss) from continuing operations per the financial statements:

\$ millions	For the three months ended		For the years ended	
	2017	2016	2017	2016
	December 31	December 31	December 31	December 31
Net earnings (loss) from continuing operations	\$ 552.9	\$ (109.6)	\$ 308.9	\$ (381.8)
Adjusting items:				
Sherritt - Unrealized foreign exchange (gain) loss - Continuing	24.1	25.7	7.7	(35.9)
Corporate - Gain on repurchase of debentures	-	-	-	(12.6)
Corporate - Gain on Ambatovy restructuring	(629.0)	-	(629.0)	-
Ambatovy - Inventory obsolescence	1.4	-	1.4	-
Ambatovy - VAT adjustment	(1.8)	(2.4)	(10.4)	(15.6)
Moa JV - Inventory Impairment	1.0	1.1	1.0	1.1
Oil and Gas - Impairment	-	-	-	8.5
Oil and Gas - Inventory obsolescence	1.2	1.9	1.2	1.9
Oil and Gas - Deferred consideration	-	-	-	(2.7)
Severance	-	2.0	2.1	3.4
<b>Total adjustments, before tax</b>	\$ (603.1)	\$ 28.3	\$ (626.0)	\$ (51.9)
Moa joint venture deferred tax asset write-off	-	-	-	7.7
Other tax adjustments	-	-	-	(1.9)
<b>Adjusted net loss from continuing operations</b>	\$ (50.2)	\$ (81.3)	\$ (317.1)	\$ (427.9)
<b>Adjusted net loss per share (basic) (\$ per share)</b>	\$ (0.17)	\$ (0.28)	\$ (1.07)	\$ (1.46)

## Combined adjusted operating cash flow

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

Combined adjusted operating cash flow is used by management 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 to the consolidated statement of cash flow:

\$ millions, except per share amounts, for the three months ended December 31

	Metals				Oil and Gas	Power	Corporate and Other	Combined total	Adjustment for Joint Venture Associate	Total derived from financial statements
	Moa JV and Fort Site	Ambatovy JV	Other	Total						
Cash provided (used) by continuing operations	\$ 32.5	\$ (3.4)	\$ (0.5)	\$ 28.6	\$ (2.3)	\$ 5.4	\$ (40.3)	\$ (8.6)	\$ (25.3)	\$ (33.9)
Adjust: net change in non-cash working capital	(0.1)	8.1	1.2	9.2	12.5	1.0	1.6	24.3	(10.7)	13.6
Adjusted continuing operating cash flow	32.4	4.7	0.7	37.8	10.2	6.4	(38.7)	15.7	(36.0)	(20.3)

\$ millions, except per share amounts, for the three months ended December 31

	Metals				Oil and Gas	Power	Corporate and Other	Combined total	Adjustment for Joint Venture Associate	Total derived from financial statements
	Moa JV and Fort Site	Ambatovy JV	Other	Total						
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)
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)

\$ millions, for the year ended December 31

	Metals				Oil and Gas	Power	Corporate and Other	Combined total	Adjustment for Joint Venture Associate	Total derived from financial statements
	Moa JV and Fort Site	Ambatovy JV	Other	Total						
Cash provided (used) by continuing operations	\$ 58.3	\$ (26.7)	\$ 3.0	\$ 34.6	\$ 30.8	\$ 44.5	\$ (98.8)	\$ 11.1	\$ (20.7)	\$ (9.6)
Adjust: net change in non-cash working capital	14.6	20.8	2.1	37.5	19.1	(13.6)	(3.4)	39.6	(46.3)	(6.7)
Adjusted continuing operating cash flow	72.9	(5.9)	5.1	72.1	49.9	30.9	(102.2)	50.7	(67.0)	(16.3)

\$ millions, for the year ended December 31

	Metals				Oil and Gas	Power	Corporate and Other	Combined total	Adjustment for Joint Venture Associate	Total derived from financial statements
	Moa JV and Fort Site	Ambatovy JV	Other	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)

## Management's discussion and analysis

### 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				Oil and Gas	Power	Corporate and Other	Combined total	Adjustment for Joint Venture Associate	Total derived from financial statements
	Moa JV and Fort Site	Ambatovy JV	Other	Total						
Cash (used) provided by continuing operations	\$ 32.5	\$ (3.4)	\$ (0.5)	\$ 28.6	\$ (2.3)	\$ 5.4	\$ (40.3)	\$ (8.6)	\$ (25.3)	\$ (33.9)
Less:										
Property, plant and equipment expenditures	(7.6)	(17.3)	-	(24.9)	(1.9)	(0.1)	-	(26.9)	22.2	(4.7)
Intangible Expenditures	-	-	-	-	(5.7)	-	-	(5.7)	-	(5.7)
<b>Free Cash Flow</b>	<b>\$ 24.9</b>	<b>\$ (20.7)</b>	<b>\$ (0.5)</b>	<b>\$ 3.7</b>	<b>\$ (9.9)</b>	<b>\$ 5.3</b>	<b>\$ (40.3)</b>	<b>\$ (41.2)</b>	<b>\$ (3.1)</b>	<b>\$ (44.3)</b>

\$ millions, for the three months ended December 31

	Metals				Oil and Gas	Power	Corporate and Other	Combined total	Adjustment for Joint Venture Associate	Total derived from financial statements
	Moa JV and Fort Site	Ambatovy JV	Other	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)
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)
<b>Free Cash Flow</b>	<b>\$ (9.8)</b>	<b>\$ (10.6)</b>	<b>\$ 3.3</b>	<b>\$ (17.1)</b>	<b>\$ 3.3</b>	<b>\$ (3.7)</b>	<b>\$ (28.0)</b>	<b>\$ (45.5)</b>	<b>\$ 12.1</b>	<b>\$ (33.4)</b>

\$ millions, for the year ended December 31

	Metals				Oil and Gas	Power	Corporate and Other	Combined total	Adjustment for Joint Venture Associate	Total derived from financial statements
	Moa JV and Fort Site	Ambatovy JV	Other	Total						
Cash provided (used) by continuing operations	\$ 58.3	\$ (26.7)	\$ 3.0	\$ 34.6	\$ 30.8	\$ 44.5	\$ (98.8)	\$ 11.1	\$ (20.7)	\$ (9.6)
Less:										
Property, plant and equipment expenditures	(20.9)	(28.9)	-	(49.8)	(9.9)	(1.5)	-	(61.2)	42.6	(18.6)
Intangible Expenditures	-	-	-	-	(12.0)	-	-	(12.0)	-	(12.0)
<b>Free Cash Flow</b>	<b>\$ 37.4</b>	<b>\$ (55.6)</b>	<b>\$ 3.0</b>	<b>\$ (15.2)</b>	<b>\$ 8.9</b>	<b>\$ 43.0</b>	<b>\$ (98.8)</b>	<b>\$ (62.1)</b>	<b>\$ 21.9</b>	<b>\$ (40.2)</b>

\$ millions, for the year ended December 31

2016

	Metals				Oil and Gas	Power	Corporate and Other	Combined total	Adjustment for Joint Venture Associate	Total derived from financial statements
	Moa JV and Fort Site	Ambatovy JV	Other	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
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)

## 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 regarding production volumes, operating costs and capital spending; supply, demand and pricing outlook in the nickel and cobalt markets; sources of funding for the Moa Joint Venture; future financing arrangements at the Ambatovy Joint Venture; results of discussions regarding timing of ongoing Cuban payments; drill results on exploration wells; joint venture environmental rehabilitation costs and amounts of certain other commitments.

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

The Corporation cautions readers of this MD&A not to place undue reliance on any forward looking statement as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward looking statements. These risks, uncertainties and other factors include, but are not limited to, changes in the global price for nickel, cobalt, oil and gas or certain other commodities; share price volatility; level of liquidity; access to capital; access to financing; risks related to the liquidity of the Ambatovy Joint Venture; the risk to Sherritt's entitlements to future distributions from the Ambatovy Joint Venture; risk of future non-compliance with debt restrictions and covenants; risks associated with the Corporation's joint venture partners; 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 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 Sherritt's operations in Madagascar; risks associated with Sherritt's development, construction and operation of large projects generally; 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; risks to information technologies systems and cybersecurity; failure to comply with, or changes to, applicable government regulations; bribery and corruption risks, including failure to comply with the Corruption of Foreign Public Officials Act or applicable local anti-corruption law; uncertainties in growth management.

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, 2017 and 2016

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# 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 2017 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 12, 2018

## 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, 2017 and December 31, 2016, 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 as issued by the International Accounting Standards Board, 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, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ Deloitte LLP

Chartered Professional Accountants  
Licensed Public Accountants  
February 12, 2018



# Consolidated statements of comprehensive income (loss)

Canadian \$ millions, except per share amounts, for the years ended December 31	Note	2017	2016
Revenue	4	\$ 267.3	\$ 262.3
Cost of sales	5	(230.1)	(263.4)
Administrative expenses	5	(62.3)	(54.5)
Impairment of Oil assets	15	-	(8.5)
Gain on Ambatovy Joint Venture restructuring	6	629.0	-
Share of loss of an associate, net of tax	7	(195.0)	(212.0)
Share of earnings (loss) of a joint venture, net of tax	8	31.9	(44.7)
<b>Earnings (loss) from operations, associate and joint venture</b>		<b>440.8</b>	<b>(320.8)</b>
Financing income	9	65.4	81.2
Financing expense	9	(183.1)	(135.7)
<b>Net finance expense</b>		<b>(117.7)</b>	<b>(54.5)</b>
<b>Earnings (loss) before tax</b>		<b>323.1</b>	<b>(375.3)</b>
Income tax expense	10	(14.2)	(6.5)
<b>Net earnings (loss) from continuing operations</b>		<b>308.9</b>	<b>(381.8)</b>
(Loss) earnings from discontinued operations, net of tax	17	(15.1)	2.9
<b>Net earnings (loss) for the year</b>		<b>\$ 293.8</b>	<b>\$ (378.9)</b>
<b>Other comprehensive income (loss)</b>			
Items that may be subsequently reclassified to profit or loss:			
Foreign currency translation differences on foreign operations	18	(72.1)	(89.8)
Items that will not be subsequently reclassified to profit or loss:			
Actuarial losses on pension plans, net of tax	18	(0.2)	(0.7)
<b>Other comprehensive loss</b>		<b>(72.3)</b>	<b>(90.5)</b>
<b>Total comprehensive income (loss)</b>		<b>\$ 221.5</b>	<b>\$ (469.4)</b>
<b>Net earnings (loss) from continuing operations per common share</b>			
Basic	11	\$ 1.04	\$ (1.30)
Diluted	11	\$ 1.02	\$ (1.30)
<b>Net earnings (loss) per common share</b>			
Basic	11	\$ 0.99	\$ (1.29)
Diluted	11	\$ 0.97	\$ (1.29)

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

# Consolidated statements of financial position

Canadian \$ millions, as at	Note	2017 December 31	2016 December 31
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	12	\$ 185.0	\$ 268.6
Restricted cash	6	13.0	1.0
Short-term investments	12	18.0	40.0
Advances, loans receivable and other financial assets	13	42.8	83.5
Trade accounts receivable, net	12	284.9	285.8
Inventories	14	33.9	39.6
Prepaid expenses		2.7	2.4
		<b>580.3</b>	<b>720.9</b>
<b>Non-current assets</b>			
Advances, loans receivable and other financial assets	6, 13	713.0	1,542.7
Other non-financial assets		0.2	0.4
Property, plant and equipment	15	228.5	286.4
Investment in an associate	7	211.9	767.9
Investment in a joint venture	8	367.1	336.8
Intangible assets	15	142.9	150.9
		<b>1,663.6</b>	<b>3,085.1</b>
Assets held for sale		0.9	0.9
<b>Total assets</b>		<b>\$ 2,244.8</b>	<b>\$ 3,806.9</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Other loans and borrowings	16	\$ 8.0	\$ 43.0
Trade accounts payable and accrued liabilities		182.3	148.3
Income taxes payable		11.8	4.4
Other financial liabilities	16	8.0	5.0
Deferred revenue		16.7	13.1
Provisions	17	18.3	12.2
		<b>245.1</b>	<b>226.0</b>
<b>Non-current liabilities</b>			
Non-recourse loans and borrowings	6, 16	-	1,367.5
Other loans and borrowings	16	816.1	817.7
Other financial liabilities	6, 16	16.2	163.0
Deferred revenue		3.3	3.5
Other non-financial liabilities		-	0.4
Provisions	17	92.0	102.4
Deferred income taxes	10	15.8	28.5
		<b>943.4</b>	<b>2,483.0</b>
<b>Total liabilities</b>		<b>1,188.5</b>	<b>2,709.0</b>
<b>Shareholders' equity</b>			
Capital stock	18	2,784.6	2,775.7
Deficit		(2,427.7)	(2,721.5)
Reserves	18	232.9	234.7
Accumulated other comprehensive income	6, 18	466.5	809.0
		<b>1,056.3</b>	<b>1,097.9</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 2,244.8</b>	<b>\$ 3,806.9</b>

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

Approved by the Board of Directors,

/s/ Lisa Pankratz

**Lisa Pankratz**  
Director

/s/ David V. Pathe

**David V. Pathe**  
Director

# Consolidated statements of cash flow

Canadian \$ millions, for the years ended December 31	Note	2017	2016
<b>Operating activities</b>			
Net earnings (loss) from continuing operations		\$ 308.9	\$ (381.8)
Add (deduct):			
Depletion, depreciation and amortization	5	65.8	92.1
Gain on Ambatovy Joint Venture restructuring	6	(629.0)	-
Share of loss of an associate, net of tax	7	195.0	212.0
Share of (earnings) loss of a joint venture, net of tax	8	(31.9)	44.7
Loss on impairment of Oil assets	15	-	8.5
Net finance expense (net of accretion expense)	9	116.7	53.5
Income tax expense	10	14.2	6.5
Service concession arrangements		-	(4.6)
Net change in non-cash working capital	20	6.7	14.1
Interest received		9.3	8.7
Interest paid		(57.2)	(59.8)
Income tax paid		(17.6)	(10.3)
Liabilities settled for environmental rehabilitation provisions		(0.7)	(1.1)
Other operating items	20	10.2	19.1
Cash (used) provided by continuing operations		(9.6)	1.6
Cash used by discontinued operations	17	(5.2)	(7.4)
<b>Cash used by operating activities</b>		<b>(14.8)</b>	<b>(5.8)</b>
<b>Investing activities</b>			
Property, plant and equipment expenditures		(18.6)	(23.2)
Intangible asset expenditures		(12.0)	(17.0)
Increase in advances, loans receivable and other financial assets	6	(10.5)	-
Receipts of advances, loans receivable and other financial assets		31.7	1.3
Increase in restricted cash	6, 12	(12.0)	-
Loans to an associate	6, 13	(38.6)	-
Net proceeds from sale of property, plant and equipment		0.8	-
Proceeds from short-term investments		22.0	164.8
Cash (used) provided by continuing operations		(37.2)	125.9
<b>Cash (used) provided by investing activities</b>		<b>(37.2)</b>	<b>125.9</b>
<b>Financing activities</b>			
Repayment of other loans and borrowings	16	(35.0)	(65.7)
Fees paid on debenture extension		-	(14.8)
Issuance of common shares		5.6	0.2
Cash used by continuing operations		(29.4)	(80.3)
<b>Cash used by financing activities</b>		<b>(29.4)</b>	<b>(80.3)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(2.2)</b>	<b>(0.8)</b>
<b>(Decrease) increase in cash and cash equivalents</b>		<b>(83.6)</b>	<b>39.0</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>268.6</b>	<b>229.6</b>
<b>Cash and cash equivalents at end of the year</b>	12	<b>\$ 185.0</b>	<b>\$ 268.6</b>

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
<b>Balance as at December 31, 2015</b>		<b>\$ 2,775.3</b>	<b>\$ (2,342.6)</b>	<b>\$ 224.9</b>	<b>\$ 899.5</b>	<b>\$ 1,557.1</b>
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
<b>Balance as at December 31, 2016</b>		<b>2,775.7</b>	<b>(2,721.5)</b>	<b>234.7</b>	<b>809.0</b>	<b>1,097.9</b>
Total comprehensive income:						
Net earnings for the year		-	293.8	-	-	293.8
Foreign currency translation differences on foreign operations	18	-	-	-	(72.1)	(72.1)
Actuarial losses on pension plans, net of tax	18	-	-	-	(0.2)	(0.2)
		-	293.8	-	(72.3)	221.5
Shares issued for:						
Restricted stock plan (vested)	18	0.1	-	(0.1)	-	-
Warrants exercised	18	8.8	-	(3.2)	-	5.6
Reclassification to Gain on Ambatovy Joint Venture restructuring	6, 18	-	-	-	(269.6)	(269.6)
Reclassification to net finance expense upon dissolution of foreign operation	18	-	-	-	(0.6)	(0.6)
Stock option plan expense	18	-	-	1.5	-	1.5
<b>Balance as at December 31, 2017</b>		<b>\$ 2,784.6</b>	<b>\$ (2,427.7)</b>	<b>\$ 232.9</b>	<b>\$ 466.5</b>	<b>\$ 1,056.3</b>

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 12, 2018. 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	16
4	Revenue recognition	x		16
7	Investment in an associate	x	x	22
8	Joint arrangements	x		25
10	Income taxes	x	x	27
12	Financial instruments	x		32
14	Inventories	x		37
15	Property, plant and equipment	x	x	37
15	Intangible assets	x	x	37
15	Impairment of non-financial assets	x	x	37
17	Provisions	x	x	47
19	Stock-based compensation	x		50
20	Statement of cash flows	x		56
23	Leases	x	x	61

## 2.2 Principles of consolidation

These consolidated financial statements include the financial position, financial performance and cash flows of the Corporation, its subsidiaries, its interest in 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
<b>Metals</b>				
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%, 12% <sup>(1)</sup>	Equity method
Composed of the following operating companies:				
Ambatovy Minerals S.A.		Madagascar	40%, 12% <sup>(1)</sup>	
Dynatec Madagascar S.A.		Madagascar	40%, 12% <sup>(1)</sup>	
<b>Oil and Gas</b>				
Sherritt International (Cuba) Oil and Gas Ltd.	Subsidiary	Cuba	100%	Consolidation
Sherritt International Oil and Gas Ltd.	Subsidiary	Canada	100%	Consolidation
<b>Power</b>				
Energas S.A. (Energas)	Joint operation	Cuba	33⅓%	Share of assets, liabilities, revenues and expenses

(1) On December 11, 2017, the Corporation's economic interest in the Ambatovy Joint Venture was reduced from 40% to 12% as part of the Ambatovy Joint Venture restructuring (note 6).

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## Notes to the consolidated financial statements

### 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 8 for details.

### Associate

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

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

At each reporting date, the Corporation assesses whether there is any indication that the carrying amounts of the Corporation's investment in 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 foreign currency translation differences on foreign operations in accumulated other comprehensive income.

### **Translation of transactions and balances**

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

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

## **3. ACCOUNTING PRONOUNCEMENTS**

### **Adoption of new and amended accounting pronouncements**

In 2017, 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**

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

The Corporation is in the final stages of its evaluation of the impact of this standard on its consolidated financial statements. The Corporation will adopt IFRS 9 for the annual period beginning January 1, 2018 and will apply the standard on a retrospective basis using the available transitional provisions. Under this approach, the 2017 comparative period will not be restated and a cumulative transitional adjustment to the opening deficit balance will be recognized at January 1, 2018.

Classification and measurement:

IFRS 9 requires a new approach for the classification and measurement of financial assets based on the Corporation’s business models for managing these financial assets and their contractual cash flow characteristics, summarized as follows:

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

The Corporation has completed its review of all financial instruments held and has performed cash flow and business model assessments on the Corporation’s financial assets. The expected impact is summarized as follows:

- The Corporation’s cash equivalents and short-term investments currently measured at FVTPL will now be measured at FVTOCI, with unrealized gains and losses recorded in other comprehensive income, until the time they are sold or otherwise derecognized, at which point gains and losses will be reclassified to profit and loss. The Corporation does not expect a material impact as a result of this change.
- Generally, the Corporation’s other financial assets currently classified as loans and receivables will continue to be measured at amortized cost. This includes the Ambatovy subordinated loans receivable, Energas conditional sales agreement, Moa Joint Venture expansion loans receivable and Moa Joint Venture working capital facility.

Impairment:

IFRS 9 introduces a new expected credit loss (“ECL”) impairment model for all financial assets measured at amortized cost or debt instruments measured at FVTOCI. The new ECL model will result in an allowance for expected credit losses being recorded regardless of whether or not there has been an actual loss event.

The ECL model is forward-looking and requires the use of a reasonable and supportable forecast of future conditions in the determination of whether or not there has been a significant increase in credit risk since origination and measurement of the ECL. The Corporation continues to refine certain aspects of the expected credit loss modelling process leading up to its March 31, 2018 reporting. The expected impact is summarized as follows:

- The Corporation expects to recognize a material ECL allowance against the Ambatovy subordinated loans receivable due to forecasted conversions of debt to equity in the Ambatovy Joint Venture which will result in a reduction to the loans receivable. These conversions of debt to equity are undertaken to ensure compliance with a Malagasy mining regulatory requirement at the Ambatovy Joint Venture.

- The Corporation expects to recognize a material ECL allowance against the Moa expansion loans receivable due to management's current forecast of expansion production.

#### Hedge accounting:

IFRS 9 also introduces a new hedge accounting model that expands the scope of hedge items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The Corporation does not currently engage in hedging activity and is not impacted by the new hedge accounting guidance.

#### Financial liabilities:

Generally, IFRS 9 does not introduce changes to the classification of financial liabilities. The Corporation will continue to measure its financial liabilities at amortized cost.

In regards to term modifications for financial liabilities, IFRS 9 requires that when a financial liability measured at amortized cost is modified or exchanged, and such modification or exchange does not result in derecognition, the adjustment to the amortized cost of the financial liability is recognized in profit or loss. The Corporation continues to refine its measurement of the required adjustments. The expected impact is summarized as follows:

- The Corporation expects to recognize a material reduction in the amortized cost of its senior unsecured debentures resulting from the extension of their maturity dates during 2016.
- The Ambatovy Joint Venture expects to recognize a material increase in the amortized cost of the Ambatovy Joint Venture financing resulting from the deferral of six principal repayments during 2016, resulting in the Corporation recognizing a material decrease in the investment in an associate based on its 12% ownership.

**IFRS 15 – Revenue from Contracts with Customers**

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers (“IFRS 15”) which replaces IAS 18 and IAS 11 effective January 1, 2018. The objective of IFRS 15 is to establish the principles that the Corporation will apply to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The Corporation has elected to apply the standard on a modified retrospective basis using certain practical expedients. Under this approach, the 2017 comparative period will not be restated and a cumulative transitional adjustment to the opening deficit balance will be recognized at the date of initial application.

The Corporation is in the final stages of its evaluation of the impact of this standard on its consolidated financial statements. Management has identified the following impacts to revenue recognition and disclosure:

- In the Moa JV and Fort Site segment, revenue of the Moa JV is excluded from consolidated revenue due to the equity method and is included in the share of earnings (loss) of a joint venture. At the Moa JV, no material transitional adjustment is expected upon adoption and no material change is expected in the timing and recognition of revenue. The Corporation determined that Moa JV’s revenue associated with performance obligations for shipping and insurance for certain sales was immaterial and therefore the current timing of recognition will not change upon adoption. At the Fort Site, the Corporation will be required to disclose revenue recognized during the year ended December 31, 2018 that is included in deferred revenue at the beginning of the period.
- In the Ambatovy JV segment, all revenue relates to the Ambatovy JV and is excluded from consolidated revenue due to the equity method and is included in the share of earnings (loss) of an associate. At the Ambatovy JV, no material transitional adjustment is expected upon adoption and no change is expected in the timing of revenue recognition. A change is expected in the recognition of marketing expenses paid to customers, which will be accounted for as reductions of revenue rather than expenses, with no impact to Ambatovy JV’s net earnings (loss). The Corporation determined that Ambatovy JV’s revenue associated with performance obligations for shipping and insurance for certain sales was immaterial and therefore the current timing of recognition will not change upon adoption.
- In the Oil and Gas segment, no material transitional adjustment is expected upon adoption and no material change is expected in the timing and recognition of revenue. The Corporation is entitled to the recovery of certain costs incurred as a result of its production-sharing contracts from an agency of the Government of Cuba. The Corporation’s receivable for recoverable costs not yet approved by the agency will be required to be presented separately from trade accounts receivable, net, given that approval is outstanding. In addition, the Corporation will be required to disclose revenue allocated to remaining performance obligations for production-sharing contracts with an expected duration of over one year and when it expects to recognize this revenue.
- In the Power segment, no material transitional adjustment is expected upon adoption and no material change is expected in the timing and recognition of revenue. The Corporation will be required to disclose revenue allocated to remaining performance obligations for service concession arrangements with an expected duration of over one year and when it expects to recognize this revenue.

No impact on the consolidated statements of cash flow is expected from adoption.

## **IFRS 16 – Leases**

In January 2016, the IASB issued IFRS 16 Leases (“IFRS 16”) which replaces IAS 17 and IFRIC 4 effective January 1, 2019. The objective of IFRS 16 is to report information that faithfully represents lease transactions and provides a basis for users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. To meet that objective, a lessee should recognize assets and liabilities arising from a lease.

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

The Corporation is currently evaluating the impact of this standard on its consolidated financial statements. The Corporation will not early adopt IFRS 16. The Corporation expects to recognize lease liabilities and right-of-use assets in respect of operating leases previously expensed.

## 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 interest in the Ambatovy Joint Venture's integrated nickel and cobalt facility in Madagascar. Prior to the Ambatovy Joint Venture restructuring (note 6) on December 11, 2017, the Corporation's interest was 40%. Subsequent to the restructuring, the Corporation's interest was 12%;
- 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 Corporation's metallurgical technology business, Commercial and Technologies; management of cash and short-term investments; general corporate activities; and wholly-owned subsidiaries of the Corporation established to finance the Ambatovy Joint Venture.

### Revenue recognition

Revenue from the sale of goods 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.

## Notes to the consolidated financial statements

### Supporting information

Canadian \$ millions, for the year ended December 31

2017

	Metals			Oil and Gas	Power	Corporate and Other <sup>(4)</sup>	Adjustments for Joint Venture and Associate <sup>(5)</sup>	Total
	Moa JV and Fort Site <sup>(1)</sup>	Ambatovy JV <sup>(2)</sup>	Other <sup>(3)</sup>					
Revenue <sup>(6)</sup>	\$ 417.0	\$ 279.2	\$ 43.1	\$ 127.0	\$ 51.2	\$ -	\$ (650.2)	\$ 267.3
Cost of sales	(376.1)	(385.5)	(41.5)	(83.0)	(41.3)	(9.6)	706.9	(230.1)
Administrative expenses	(9.6)	(12.3)	(0.7)	(10.4)	(4.7)	(42.7)	18.1	(62.3)
Gain on Ambatovy Joint Venture restructuring	-	4.2	-	-	-	629.0	(4.2)	629.0
Other gains	-	4.9	-	-	-	-	(4.9)	-
Share of loss of an associate, net of tax	-	-	-	-	-	-	(195.0)	(195.0)
Share of earnings of a joint venture, net of tax	-	-	-	-	-	-	31.9	31.9
Earnings (loss) from operations, associate and joint venture	31.3	(109.5)	0.9	33.6	5.2	576.7	(97.4)	440.8
Financing income								65.4
Financing expense								(183.1)
Net finance expense								(117.7)
Earnings before tax								323.1
Income tax expense								(14.2)
Net earnings from continuing operations								308.9
Loss from discontinued operations, net of tax (note 17)								(15.1)
Net earnings for the year								293.8

#### Supplementary information

Depletion, depreciation and amortization	\$ 49.2	\$ 139.7	\$ -	\$ 28.3	\$ 24.9	\$ 2.7	\$ (179.0)	\$ 65.8
Property, plant and equipment expenditures	20.9	28.9	-	9.9	1.5	-	(42.6)	18.6
Intangible asset expenditures	-	-	-	12.0	-	-	-	12.0

Canadian \$ millions, as at December 31

2017

Non-current assets <sup>(7)</sup>	\$ 666.7	\$ 704.7	\$ -	\$ 96.3	\$ 132.3	\$ 4.1	\$ (1,232.7)	\$ 371.4
Total assets	932.8	789.8	109.6	1,186.6	553.7	(394.6)	(933.1)	2,244.8

Canadian \$ millions, for the year ended December 31

2016

	Metals			Oil and Gas	Power	Corporate and Other <sup>(4)</sup>	Adjustments for Joint Venture and Associate <sup>(5)</sup>	Total
	Moa JV Fort Site <sup>(1)</sup>	Ambatovy JV <sup>(2)</sup>	Other <sup>(3)</sup>					
Revenue <sup>(6)</sup>	\$ 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 <sup>(7)</sup>	\$ 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

(1) Included in the Moa JV and Fort Site segment are the operations of the Corporation's 50% interest in the Moa Joint Venture and its 100% interest in the utility and fertilizer operations in Fort Saskatchewan.

- (2) Included in the Ambatovy JV segment are the operations of the Corporation's interest in the Ambatovy Joint Venture. Prior to the Ambatovy Joint Venture restructuring (note 6) on December 11, 2017, the Corporation's interest was 40%. Subsequent to the restructuring, the Corporation's interest was 12%
- (3) Included in the Metals Other segment are the operations of three wholly-owned subsidiaries of the Corporation established to buy, market and sell certain Ambatovy Joint Venture and Moa Joint Venture nickel and cobalt production.
- (4) Revenues from Corporate and Other primarily relate to sales from the Corporation's metallurgical technologies business, Commercial and Technologies. Also included in the Corporate and Other segment are the operations of wholly-owned subsidiaries of the Corporation established to finance the Ambatovy Joint Venture.
- (5) The Adjustments for Joint Venture and Associate reflect the adjustments for equity-accounted investments in the Ambatovy Joint Venture and Moa Joint Venture.
- (6) Revenue in the Metals Other segment includes \$7.0 million of intersegment revenue with the Moa JV and Fort Site segment related to marketing of nickel and cobalt (\$3.5 million for the year ended December 31, 2016). Revenue in the Corporate and Other segment includes \$1.7 million of intersegment revenue, net of elimination, with the Ambatovy JV segment related to the Ambatovy Joint Venture operator fee for the year ended December 31, 2017 (\$1.6 million for the year ended December 31, 2016).
- (7) Non-current assets are composed of property, plant and equipment and intangible assets.

## Geographic information

Canadian \$ millions, as at	2017 December 31		2016 December 31	
	Non-current assets <sup>(1)</sup>	Total assets <sup>(2)</sup>	Non-current assets <sup>(1)</sup>	Total assets <sup>(2)</sup>
North America	\$ 146.9	\$ 497.5	\$ 155.8	\$ 646.2
Cuba	217.6	1,104.3	263.7	1,164.3
Madagascar	-	483.0	1.0	1,896.5
Europe	6.4	72.8	16.1	54.3
Asia	0.5	41.5	0.7	22.6
Other	-	45.7	-	23.0
	<b>\$ 371.4</b>	<b>\$ 2,244.8</b>	<b>\$ 437.3</b>	<b>\$ 3,806.9</b>

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

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

Canadian \$ millions, for the years ended December 31	2017		2016	
	Total revenue <sup>(1)</sup>	Total revenue <sup>(1)</sup>	Total revenue <sup>(1)</sup>	Total revenue <sup>(1)</sup>
North America	\$ 85.4	\$ 87.6	\$ 87.6	\$ 87.6
Cuba	168.5	159.6	159.6	159.6
Madagascar	1.7	2.3	2.3	2.3
Europe	8.6	10.3	10.3	10.3
Asia	1.7	2.1	2.1	2.1
Other	1.4	0.4	0.4	0.4
	<b>\$ 267.3</b>	<b>\$ 262.3</b>	<b>\$ 262.3</b>	<b>\$ 262.3</b>

(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	2017		2016	
	Total revenue <sup>(1)</sup>	Total revenue <sup>(1)</sup>	Total revenue <sup>(1)</sup>	Total revenue <sup>(1)</sup>
Nickel	\$ 31.7	\$ 40.7	\$ 40.7	\$ 40.7
Fertilizer	49.0	47.9	47.9	47.9
Oil and gas	123.0	104.1	104.1	104.1
Power generation	46.8	50.2	50.2	50.2
Other	16.8	19.4	19.4	19.4
	<b>\$ 267.3</b>	<b>\$ 262.3</b>	<b>\$ 262.3</b>	<b>\$ 262.3</b>

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



## Notes to the consolidated financial statements

### Significant customers

The Oil and Gas segment derived \$117.3 million of its revenue for the year ended December 31, 2017 (\$101.0 million for the year ended December 31, 2016) directly and indirectly from agencies of the Government of Cuba.

The Power segment derived \$51.2 million of its revenue for the year ended December 31, 2017 (\$57.7 million for the year ended December 31, 2016) directly and indirectly from agencies of the Government of Cuba.

The Metals Other segment derived \$31.4 million of its revenue for the year ended December 31, 2017 (\$32.7 million for the year ended December 31, 2016) from a customer who markets and sells nickel.

No other single customer contributed 10% or more to the Corporation's revenue for both 2017 and 2016.

## 5. EXPENSES

Cost of sales includes the following:

Canadian \$ millions, for the years ended December 31	2017	2016
Employee costs	\$ 63.1	\$ 65.1
Depletion, depreciation and amortization of property, plant and equipment and intangible assets	63.1	89.4
Raw materials and consumables	36.9	34.6
Repairs and maintenance	45.2	38.7
Shipping and treatment costs	12.9	15.6
Impairment losses and inventory obsolescence <sup>(1)</sup>	2.4	2.0
Construction costs	-	4.6
Stock-based compensation expense	0.6	1.1
Other	5.9	12.3
	<b>\$ 230.1</b>	<b>\$ 263.4</b>

(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. 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	2017	2016
Employee costs	\$ 30.0	\$ 26.2
Severance	2.1	3.4
Depreciation	2.7	2.7
Stock-based compensation expense	14.1	10.9
Consulting services and audit fees	6.2	7.0
Other	7.2	4.3
	<b>\$ 62.3</b>	<b>\$ 54.5</b>

During the year ended December 31, 2017, the Corporation revised the presentation of stock-based compensation expense (recovery) to separate amounts included in cost of sales and administrative expense. In the prior year, this amount was presented entirely within administrative expenses. The Corporation revised this presentation to better allow the users of the financial statements to identify trends within the expenses note disclosure. For consistency with the current period presented, the comparative amounts have been reclassified. For the year ended December 31, 2016, employee costs and stock-based compensation expense (recovery) included within cost of sales have decreased by \$1.1 million and increased by \$1.1 million, respectively. For the year ended December 31, 2016, employee costs and stock-based compensation expense (recovery) included within administrative expenses have increased by \$1.1 million and decreased by \$1.1 million, respectively.

## 6. AMBATOVOY JOINT VENTURE RESTRUCTURING

On December 11, 2017, the Corporation closed the transaction to restructure its ownership interest in the Ambatovy Joint Venture from 40% to 12%, which resulted in the Gain on the Ambatovy Joint Venture restructuring consisting of the following gain (loss) components:

Canadian \$ millions, for the year ended December 31

2017

### Non-cash items:

Derecognition of Ambatovy Joint Venture additional partner loans	\$ 1,420.1
Reduction of Ambatovy Joint Venture subordinated loans receivable	(562.5)
Reduction of investment in the Ambatovy Joint Venture	(480.6)
Reclassification of accumulated other comprehensive income	269.6
Waiver of 50% of Ambatovy Joint Venture operator fee receivable	(6.3)
Accrued transaction and other closing costs	(0.9)

### Cash items:

Transaction and other closing costs	\$ (10.4)
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<b>Gain on Ambatovy Joint Venture restructuring</b>	<b>\$ 629.0</b>
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As part of the restructuring with the Corporation's joint venture partners, Sumitomo and KORES, the Corporation transferred a 28% ownership interest in the Ambatovy Joint Venture (note 7) and 28% of the pre-completion shareholder subordinated loans receivable (note 13). The Ambatovy Joint Venture additional partner loans of \$1.4 billion were also derecognized (note 16) as consideration for the ownership interest transferred. The Corporation retains a 12% ownership interest in the Ambatovy Joint Venture and 12% of the pre-completion shareholder subordinated loans receivable.

On the date of the restructuring, post-financial completion cash calls since Sherritt ceased funding the Ambatovy Joint Venture in December 2015, including accrued interest, of US\$30.0 million (\$38.6 million) were funded retroactively at Sherritt's 12% ownership interest, increasing advances, loans receivable and other financial assets on the consolidated statements of financial position and included in loans to an associate in the consolidated statements of cash flow. Advances, loans receivable and other financial assets increased by an additional US\$8.2 million (\$10.5 million) for funding paid to Sumitomo and KORES related to post-financial completion cash calls not previously funded by the Corporation. This funding is presented as an increase in advances, loans receivable and other financial assets on the consolidated statements of cash flow.

The Corporation made an additional payment of US\$9.6 million (\$12.0 million) into an escrow account to cover future funding requirements of the Ambatovy Joint Venture. This amount is classified within restricted cash on the Corporation's statements of financial position. Any amounts remaining in escrow in August 2023 will be used to repay the Ambatovy Joint Venture partner loans.

The Corporation's non-current financial liability and financial asset of \$222.8 million, related to the Corporation's obligation for outstanding shareholder funding, were derecognized as part of the retroactive funding (note 13 and note 16). Ambatovy Joint Venture's non-current financial asset and financial liability of the same amount, related to Ambatovy Joint Venture's right to receive outstanding shareholder funding from the Corporation, were also derecognized as part of the retroactive funding (note 7).

The Corporation's Ambatovy Joint Venture partner loans continue to be secured by its 12% ownership interest (note 16). The partner loans can be repaid in cash at any time through to maturity in August 2023. At maturity, Sherritt can elect to: (i) repay the loans in cash, (ii) repay the loans in shares or a combination of cash and shares at 105% of the amount then due, or (iii) repay in 10 equal semi-annual principal installments (plus interest) commencing in December 2024, at an interest rate of LIBOR plus 5% applied from the original August 2023 maturity date.

As a result of the Corporation's reduction of its ownership interest to 12%, \$269.6 million of accumulated other comprehensive income relating to the Ambatovy Joint Venture was reclassified to the Gain on Ambatovy Joint Venture restructuring within net earnings, in proportion to the reduction of its interest (note 18). This amount was recognized in other comprehensive (loss) income and accumulated within shareholders' equity prior to the reclassification.

The Corporation was responsible for transaction and other closing costs, including financial and legal advisory fees, applicable taxes and corporate restructuring costs, incurring total fees of \$11.3 million. These costs have been recognized within the Gain on Ambatovy Joint Venture restructuring.

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## Notes to the consolidated financial statements

As operator of the Ambatovy Joint Venture, the Corporation is entitled to US\$2.0 million per year for operator fees. As at the date of the restructuring, 50% of accrued and unpaid operator fees outstanding to the Corporation up to and including February 16, 2017 were waived. As a result, the Corporation's operator fee receivable was reduced by \$10.5 million and a loss of \$6.3 million, net of elimination of the Corporation's interest, was recognized in the Gain on Ambatovy Joint Venture restructuring by the Corporation.

As part of the restructuring, the Corporation has committed to continue as operator until at least 2024.

## 7. INVESTMENT IN AN ASSOCIATE

### Accounting policies

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

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

### Critical accounting judgments

As a result of the Ambatovy Joint Venture restructuring, post-financial completion cash calls were funded retroactively to December 2015 at Sherritt's 12% interest and Sherritt's voting rights were reinstated. It is the Corporation's judgment that the Ambatovy Joint Venture continues to be an associate after the restructuring given the Corporation's power to participate in its operating and financial decisions, in particular due to the Corporation's representation on the board of directors, participation in policy-making processes, existence of material transactions between the Corporation and the Ambatovy Joint Venture, interchange of managerial personnel and provision of essential technical information with Sherritt's commitment to continue as operator until at least 2024.

Prior to the Ambatovy Joint Venture restructuring, with respect to post-financial completion cash calls not funded by Sherritt under the Ambatovy Joint Venture financing, Sherritt had the option to pay the amounts in cash at any time, at Sherritt's election. Until the funding deficit was addressed, and subject to continued discussions with the Ambatovy Joint Venture partners, Sherritt did not exercise its Ambatovy Joint Venture voting rights. Sherritt had the ability to cure the underfunding and regain its voting rights at any time. Therefore, it was the Corporation's judgment that the Ambatovy Joint Venture continued to be an associate.

### Supporting information

The Corporation indirectly holds a 12% interest in Ambatovy Minerals S.A. and Dynatec Madagascar S.A. (collectively the Ambatovy Joint Venture). Prior to the Ambatovy Joint Venture restructuring (note 6) on December 11, 2017, the Corporation indirectly held a 40% interest in the Ambatovy Joint Venture. Sherritt is the operator of the Ambatovy Joint Venture and has as its partners, Sumitomo Corporation (Sumitomo) and Korea Resources Corporation (KORES). The Ambatovy Joint Venture has two nickel deposits located near Moramanga, Madagascar. The ore from these deposits is delivered via pipeline to a processing plant and refinery located near the Port of Toamasina.

## Ambatovy Joint Venture restructuring

On December 11, 2017, the Corporation restructured its ownership interest in the Ambatovy Joint Venture from 40% to 12%.

As operator of the Ambatovy Joint Venture, the Corporation is entitled to US\$2.0 million per year for operator fees. As at the date of the restructuring, 50% of accrued and unpaid operator fees outstanding to the Corporation up to and including February 16, 2017 were waived. As a result, the Ambatovy Joint Venture's operator fee payable was reduced by US\$8.1 million and a gain of US\$8.1 million was recognized in Gain on Ambatovy Joint Venture restructuring by the Ambatovy Joint Venture. The operator fee payable was also re-measured at fair value, resulting in a reduction to the payable and a gain of US\$2.1 million recognized in financing income by the Ambatovy Joint Venture.

The non-current financial asset and financial liability of \$222.8 million, related to Ambatovy Joint Venture's right to receive outstanding shareholder funding from the Corporation, were derecognized as part of the retroactive funding as part of the Ambatovy Joint Venture restructuring.

## 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, 2017 as a result of this deferral (nil for the year ended December 31, 2016). Interest payments of US\$63.2 million were made to the lenders during the year ended December 31, 2017 (US\$54.8 million for the year ended December 31, 2016).

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

## Statements of financial position

Canadian \$ millions, 100% basis, as at	2017 December 31	2016 December 31
<b>Assets</b>		
Cash and cash equivalents <sup>(1)</sup>	\$ 56.6	\$ 76.7
Other current assets	27.1	26.0
Trade accounts receivable, net	104.0	109.6
Inventories	517.4	415.5
Deferred income taxes <sup>(2)</sup>	-	-
Other non-current assets <sup>(3)</sup>	7.7	160.2
Property, plant and equipment	5,870.0	6,549.3
<b>Total assets</b>	<b>6,582.8</b>	<b>7,337.3</b>
<b>Liabilities</b>		
Trade accounts payable and accrued liabilities	315.7	321.0
Other taxes payable	24.8	21.7
Other current financial liabilities	0.5	0.1
Current portion of loans and borrowings:		
Ambatovy revolving credit facility <sup>(5)</sup>	66.6	50.5
Non-current portion of loans and borrowings:		
Ambatovy Joint Venture financing <sup>(4)</sup>	1,991.0	2,118.7
Ambatovy subordinated loans payable <sup>(6)</sup>	1,861.5	2,358.5
Ambatovy subordinated loans payable - post-financial completion <sup>(7)</sup>	399.5	242.9
Environmental rehabilitation provisions	129.7	142.0
Other non-current liabilities <sup>(3)</sup>	28.0	162.2
<b>Total liabilities</b>	<b>4,817.3</b>	<b>5,417.6</b>
<b>Net assets of Ambatovy Joint Venture</b>	<b>\$ 1,765.5</b>	<b>\$ 1,919.7</b>
Proportion of Sherritt's ownership interest	12%	40%
<b>Carrying value of investment in an associate</b>	<b>\$ 211.9</b>	<b>\$ 767.9</b>

(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.

## Notes to the consolidated financial statements

- (2) As at December 31, 2017, the Ambatovy Joint Venture has earned investment tax credits which management has estimated to be \$654.6 million (December 31, 2016 - \$694.2 million), operating losses of \$840.0 million (December 31, 2016 - \$867.9 million) and \$4,423.5 million (December 31, 2016 - \$4,359.1 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) On December 11, 2017, the financial asset and financial liability of \$222.8 million related to Ambatovy Joint Venture's right to receive outstanding shareholder funding from the Corporation were derecognized as part of the Ambatovy Joint Venture retroactive funding (note 6). As at December 31, 2016, the Ambatovy Joint Venture had recognized a financial asset of \$154.9 million relating to its right to receive outstanding shareholder funding from the Corporation (note 16). The Ambatovy Joint Venture had also recognized a financial liability relating to future distributions payable to the Corporation if and when the funding deficit was cured (note 13). This financial liability was not included within the Ambatovy subordinated loans payable as the funding had 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, 2017, nil financing costs relating to the deferral of principal repayments were capitalized (December 31, 2016 - US\$8.7 million (\$11.4 million)). 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 2.6%. Deferred principal is subject to an additional 2% accrued interest calculated from the date of each deferral. As at December 31, 2017, the Ambatovy Joint Venture had borrowed US\$1,601.1 million (December 31, 2016 - US\$1,601.1 million) under the project financing.
- (5) The Ambatovy revolving credit facility is comprised of a Malagasy Ariary (MGA) 156.0 billion (\$60.6 million) revolving credit and MGA 20.0 billion (\$7.8 million) overdraft credit facility agreement with local financial institutions which matures on July 31, 2018 (December 31, 2016 - MGA 126.0 billion (\$50.5 million) and nil, respectively). The facility bears interest rates between 9.00% and 11.85% and is subordinated to the Ambatovy Joint Venture financing. As at December 31, 2017, MGA 156.0 billion (\$60.6 million) and MGA 15.6 billion (\$6.0 million) was drawn on the revolving and overdraft facilities, respectively (December 31, 2016 - MGA 126.0 billion (\$50.5 million) and nil respectively).
- (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, 2017, US\$400.0 million of the Ambatovy Joint Venture subordinated loans payable was converted to equity which, at the Corporation's share, resulted in a US\$136.2 million (\$176.1 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 accrued interest at a rate of LIBOR plus 8.0%. As part of the Ambatovy Joint Venture restructuring, the Corporation provided US\$30.0 million of post-financial completion cash funding, including accrued interest, retroactive to December 15, 2015 at Sherritt's 12% interest (note 6), which is included in this balance.

## Statements of comprehensive income (loss)

Canadian \$ millions, 100% basis, for the years ended December 31

	2017	2016
<b>Revenue</b>	<b>\$ 720.5</b>	<b>\$ 662.1</b>
Cost of sales <sup>(1)</sup>	<b>(988.5)</b>	(993.3)
Administrative expenses	<b>(32.3)</b>	(46.0)
Gain on Ambatovy Joint Venture restructuring	<b>10.4</b>	-
Other gains	<b>14.8</b>	-
<b>Loss from operations</b>	<b>(275.1)</b>	<b>(377.2)</b>
Financing income	<b>3.7</b>	1.1
Financing expense <sup>(2)</sup>	<b>(273.6)</b>	(218.6)
<b>Net financing expense</b>	<b>(269.9)</b>	<b>(217.5)</b>
<b>Loss before tax</b>	<b>(545.0)</b>	<b>(594.7)</b>
Income tax expense	<b>(4.4)</b>	-
<b>Net loss and comprehensive loss of Ambatovy Joint Venture</b>	<b>\$ (549.4)</b>	<b>\$ (594.7)</b>
Proportion of Sherritt's ownership interest	<b>40%, 12%<sup>(3)</sup></b>	40%
<b>Total</b>	<b>(215.2)</b>	(237.9)
Intercompany elimination	<b>20.2</b>	25.9
<b>Share of loss of an associate, net of tax</b>	<b>\$ (195.0)</b>	<b>\$ (212.0)</b>

- (1) Included in cost of sales for the year ended December 31, 2017 is depreciation and amortization of \$362.1 million (\$358.7 million for the year ended December 31, 2016).
- (2) The Ambatovy Joint Venture has a value added tax (VAT) receivable of \$31.2 million (December 31, 2016 - \$23.7 million) from the government of Madagascar. The VAT receivable is net of a provision of \$73.0 million (December 31, 2016 - \$145.8 million) reflecting an assessment of the likelihood of receipt of these amounts. During the year ended December 31, 2017, a gain on the partial reversal of this provision of \$27.7 million was recognized in financing expense (\$38.8 million for the year ended December 31, 2016).
- (3) Prior to the closing of the Ambatovy Joint Venture restructuring on December 11, 2017, the Corporation recognized its 40% share of the Ambatovy Joint Venture's losses. Subsequent to this date, the Corporation recognized its 12% share of the Ambatovy Joint Venture's losses.

## 8. JOINT ARRANGEMENTS

### Investment in a joint venture

#### Accounting policies

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

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

#### Supporting information

The Corporation indirectly holds a 50% interest in the Moa Joint Venture. The operations of the Moa Joint Venture are currently conducted among three companies. Moa Nickel S.A. owns and operates the mining and processing facilities located in Moa, Cuba; The Cobalt Refinery Company Inc. owns and operates the metals refinery located at Fort Saskatchewan; 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:

#### Statements of financial position

Canadian \$ millions, 100% basis, as at	2017 December 31	2016 December 31
<b>Assets</b>		
Cash and cash equivalents	\$ 39.4	\$ 13.9
Income taxes receivable	4.6	-
Other current assets	8.6	8.4
Trade accounts receivable, net	107.0	86.0
Inventories	225.7	193.2
Other non-current assets	3.1	13.3
Property, plant and equipment	1,144.6	1,274.3
Deferred income taxes <sup>(1)</sup>	-	-
<b>Total assets</b>	<b>1,533.0</b>	<b>1,589.1</b>
<b>Liabilities</b>		
Trade accounts payable and accrued liabilities	72.2	57.2
Income taxes payable	1.4	5.1
Other current financial liabilities <sup>(2)</sup>	25.5	57.1
Loans and borrowings <sup>(3)</sup>	33.7	48.3
Environmental rehabilitation provisions	72.1	77.6
Other non-current financial liabilities <sup>(4)</sup>	481.1	548.0
Deferred income taxes	24.8	26.1
<b>Total liabilities</b>	<b>710.8</b>	<b>819.4</b>
<b>Net assets of Moa Joint Venture</b>	<b>\$ 822.2</b>	<b>\$ 769.7</b>
Proportion of Sherritt's ownership interest	50%	50%
<b>Total</b>	<b>411.1</b>	<b>384.9</b>
Intercompany capitalized interest elimination	(44.0)	(48.1)
<b>Carrying value of investment in a joint venture</b>	<b>\$ 367.1</b>	<b>\$ 336.8</b>

(1) As at December 31, 2017, the Moa Joint Venture has tax losses of nil (December 31, 2016 - \$75.0 million), for which a deferred tax asset had not been recognized in 2016 as the realization of tax losses at Moa Nickel S.A. was not considered probable.

(2) Included in other current financial liabilities as at December 31, 2017 is a \$25.2 million working capital facility with the Corporation (December 31, 2016 - \$56.9 million) (note 13).

## Notes to the consolidated financial statements

- (3) Included in loans and borrowings as at December 31, 2017 is a \$27.9 million loan for the construction of the Moa Joint Venture acid plant (December 31, 2016 - \$48.3 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, 2017 is \$464.0 million in expansion loans of which \$232.0 million are with the Corporation (December 31, 2016 - \$529.9 million, \$264.9 million of which are with the Corporation) (note 13). During the year ended December 31, 2017, interest was suspended for two years on the expansion loans, which resulted in a decrease to the Moa Joint Venture expansion loans payable of \$64.8 million. The interest suspension was an equity contribution to the joint venture and is accreted using the effective interest rate method in financing expense. During the year ended December 31, 2017, the Moa Joint Venture expansion loans payable increased \$25.4 million due to accretion.

## Statements of comprehensive income (loss)

Canadian \$ millions, 100% basis, for the years ended December 31	2017	2016
<b>Revenue</b>	\$ 741.9	\$ 586.2
Cost of sales <sup>(1)</sup>	(642.7)	(632.6)
Administrative expenses	(11.5)	(9.5)
<b>Earnings (loss) from operations</b>	<b>87.7</b>	<b>(55.9)</b>
Financing income	0.3	0.2
Financing expense <sup>(2)</sup>	(45.7)	(43.6)
<b>Net finance expense</b>	<b>(45.4)</b>	<b>(43.4)</b>
<b>Earnings (loss) before tax</b>	<b>42.3</b>	<b>(99.3)</b>
Income tax expense <sup>(3)</sup>	(10.5)	(15.7)
<b>Net earnings (loss) and comprehensive income (loss) of Moa Joint Venture</b>	<b>\$ 31.8</b>	<b>\$ (115.0)</b>
Proportion of Sherritt's ownership interest	50%	50%
<b>Total</b>	<b>15.9</b>	<b>(57.5)</b>
Intercompany elimination	16.0	12.8
<b>Share of earnings (loss) of a joint venture, net of tax</b>	<b>\$ 31.9</b>	<b>\$ (44.7)</b>

- (1) Included in cost of sales for the year ended December 31, 2017 is depreciation and amortization of \$78.5 million (for the year ended December 31, 2016 - \$76.8 million).
- (2) Included in financing expense for the year ended December 31, 2017 is accretion of \$25.4 million on the Moa Joint Venture expansion loans (for the year ended December 31, 2016 - nil).
- (3) Included in income tax expense for the year ended December 31, 2017 is an income tax expense of nil related to the derecognition of the deferred tax asset at Moa Nickel S.A. (\$15.4 million for the year ended December 31, 2016).

## 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 reduced 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.

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

Canadian \$ millions, 33⅓% basis, as at	2017		2016	
	December 31		December 31	
Current assets <sup>(1)</sup>	\$	66.5	\$	49.6
Non-current assets		120.8		151.3
Current liabilities		20.1		27.0
Non-current liabilities		96.2		86.0
<b>Net assets</b>	<b>\$</b>	<b>71.0</b>	<b>\$</b>	<b>87.9</b>

(1) Included in current assets is \$45.3 million of cash and cash equivalents (December 31, 2016 - \$25.5 million).

Canadian \$ millions, 33⅓% basis, for the years ended December 31	2017		2016	
Revenue	\$	51.2	\$	58.6
Expense		(54.7)		(61.1)
<b>Net loss</b>	<b>\$</b>	<b>(3.5)</b>	<b>\$</b>	<b>(2.5)</b>

## 9. NET FINANCE (EXPENSE) INCOME

Canadian \$ millions, for the years ended December 31	Note	2017		2016	
Revaluation on financial instruments		\$	(1.6)	\$	2.7
Interest income on cash, cash equivalents and short-term investments			3.3		2.5
Interest income on investments			0.2		0.4
Interest income on advances and loans receivable			57.2		63.0
Interest income on accretion of advances and loans receivable <sup>(1)</sup>			6.3		-
Gain on repurchase of debentures	16		-		12.6
<b>Total financing income</b>			<b>65.4</b>		<b>81.2</b>
Interest expense and accretion on loans and borrowings			(172.9)		(168.0)
Unrealized foreign exchange (loss) gain			(7.7)		35.9
Realized foreign exchange gain (loss)	20		0.6		(0.6)
Other finance charges	20		(2.1)		(2.0)
Accretion expense on environmental rehabilitation provisions	17, 20		(1.0)		(1.0)
<b>Total financing expense</b>			<b>(183.1)</b>		<b>(135.7)</b>
<b>Net finance expense</b>		<b>\$</b>	<b>(117.7)</b>	<b>\$</b>	<b>(54.5)</b>

(1) Interest income on accretion of advances and loan receivable relates to the Moa Joint Venture expansion loans receivable, which is recognized to the extent of Sherritt's economic interest (note 13).

## 10. 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.



## Notes to the consolidated financial statements

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	2017	2016
<b>Current income tax expense<sup>(1)</sup></b>		
Current period	\$ 25.7	\$ 12.4
	<b>25.7</b>	<b>12.4</b>
<b>Deferred income tax (recovery) expense<sup>(1)</sup></b>		
Origination and reversal of temporary differences	(28.4)	(34.3)
Non-recognition of tax assets	16.9	28.4
	<b>(11.5)</b>	<b>(5.9)</b>
<b>Income tax expense</b>	<b>\$ 14.2</b>	<b>\$ 6.5</b>

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

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

Canadian \$ millions, for the years ended December 31	2017	2016
Earnings (loss) before tax from continuing operations	\$ 323.1	\$ (375.3)
Add share of loss of equity accounted investments	163.1	256.7
Parent companies and subsidiaries loss before tax	486.2	(118.6)
Income tax expense (recovery) at the combined basic rate of 27% (2016 - 27%)	131.3	(32.0)
Increase (decrease) in taxes resulting from:		
Difference between Canadian and foreign tax rates	15.3	9.5
Non-deductible expenses and losses	20.2	0.3
Non-recognition of tax assets	16.9	27.9
Non-taxable gain on Ambatovy Joint Venture restructuring	(169.8)	-
Other items	0.3	0.8
	\$ 14.2	\$ 6.5

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

Canadian \$ millions, for the year ended December 31, 2017

	Opening Balance	Recognized in net income	Recognized in total com- prehensive income	Closing Balance
<b>Deferred tax assets</b>				
Property, plant and equipment	\$ 1.1	\$ (0.6)	\$ -	\$ 0.5
Deferred tax assets	1.1	(0.6)	-	0.5
Set off against deferred tax liabilities	(1.1)			(0.5)
	\$ -		\$ -	
<b>Deferred tax liabilities</b>				
Property, plant and equipment and intangible assets	\$ (9.1)	\$ 3.6	\$ 0.3	\$ (5.2)
Cuban tax contingency reserve	(19.9)	8.1	0.8	(11.0)
Pension and other benefit plans and reserves	(0.6)	0.4	0.1	(0.1)
Deferred tax liabilities	(29.6)	12.1	1.2	(16.3)
Set off against deferred tax assets	1.1			0.5
Net deferred tax (liabilities) assets	\$ (28.5)	\$ 11.5	\$ 1.2	\$ (15.8)

## Notes to the consolidated financial statements

Canadian \$ millions, for the year ended December 31, 2016

	Opening Balance	Recognized in net loss	Recognized in total comp- rehensive loss	Closing Balance
<b>Deferred tax assets</b>				
Property, plant and equipment	\$ 3.7	\$ (2.5)	\$ (0.1)	\$ 1.1
Deferred tax assets	3.7	(2.5)	(0.1)	1.1
Set off against deferred tax liabilities	(3.7)			(1.1)
	\$ -		\$ -	\$ -
<b>Deferred tax liabilities</b>				
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)
Deferred tax liabilities	(39.1)	8.4	1.1	(29.6)
Set off against deferred tax assets	3.7			1.1
Net deferred tax (liabilities) assets	\$ (35.4)	\$ 5.9	\$ 1.0	\$ (28.5)

As at December 31, 2017, the Corporation had temporary differences of \$763.7 million (December 31, 2016 - \$752.8 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, 2017, the Corporation had non-capital losses of \$567.5 million (December 31, 2016 - \$528.5 million) and capital losses of \$1,159.7 million (December 31, 2016 - \$1,074.0 million) which may be used to reduce future taxable income. The Corporation has not recognized a deferred income tax asset on \$567.5 million of non-capital losses, \$1,159.7 million of capital losses and \$176.3 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, 2017	Expiry	Non-capital losses
Canada	2026-2037	\$ 549.4
Barbados	2018-2024	13.6
Spain	No expiry	4.5

## 11. EARNINGS (LOSS) PER SHARE

Canadian \$ millions, except share amounts in millions and per share amounts in dollars, for the years ended December 31	2017	2016
Net earnings (loss) from continuing operations	\$ 308.9	\$ (381.8)
(Loss) earnings from discontinued operations, net of tax	(15.1)	2.9
<b>Net earnings (loss) - basic and diluted</b>	<b>\$ 293.8</b>	<b>\$ (378.9)</b>
Weighted-average number of common shares - basic	295.6	293.9
Weighted-average effect of dilutive securities:		
Stock options	1.2	-
Warrants	5.6	-
<b>Weighted-average number of common shares - diluted<sup>(1)</sup></b>	<b>302.4</b>	<b>293.9</b>
<b>Net earnings (loss) from continuing operations per common share:</b>		
Basic	\$ 1.04	\$ (1.30)
Diluted	\$ 1.02	\$ (1.30)
<b>(Loss) earnings from discontinued operations per common share:</b>		
Basic	\$ (0.05)	\$ 0.01
Diluted	\$ (0.05)	\$ 0.01
<b>Net earnings (loss) per common share:</b>		
Basic	\$ 0.99	\$ (1.29)
Diluted	\$ 0.97	\$ (1.29)

(1) The determination of the weighted-average number of common shares - diluted excludes 6.6 million shares related to stock options and nil shares related to warrants that were anti-dilutive for the year ended December 31, 2017 (9.6 million and 18.8 million, respectively, for the year ended December 31, 2016).

In January 2018, an additional 94.5 million common shares and 47.2 million cobalt-linked warrants were issued (note 25).

## 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 held in banks; 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**

## Notes to the consolidated financial statements

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

Cash and cash equivalents consist of:

Canadian \$ millions, as at	2017		2016	
	December 31		December 31	
Cash equivalents	\$	57.2	\$	162.9
Cash held in banks		127.8		105.7
	\$	185.0	\$	268.6

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 Madagascar and Cuban bank deposit accounts was \$2.8 million and \$46.0 million, respectively, as at December 31, 2017 (December 31, 2016 – \$3.8 million and \$26.8 million, respectively).

As at December 31, 2017, \$45.3 million of cash on the Corporation's consolidated statements of financial position was held by Energas (December 31, 2016 – \$25.5 million). These funds are for use locally by the joint operation and will be transferred to the Corporation upon foreign exchange approval.

The Corporation's cash equivalents consist of Government of Canada treasury bills, term deposits with maturities of 90 days or less and demand deposits redeemable upon 31 days request. The term deposits and demand deposits are with major financial institutions. As at December 31, 2017, the Corporation had \$41.9 million in Government of Canada treasury bills, nil in term deposits and \$15.3 million in demand deposits (December 31, 2016 - \$122.9 million, \$25.0 million and \$15.0 million, respectively) included in cash and cash equivalents and \$18.0 million in Government of Canada treasury bills included in short-term investments (December 31, 2016 - \$40.0 million).

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

### Fair value measurement

As at December 31, 2017, the carrying amounts of cash and cash equivalents, short-term investments, restricted cash, trade accounts receivable, current portion of advances, loans receivable and other financial assets, current portion of 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<sup>(1)</sup>:

Canadian \$ millions, as at	Note	Hierarchy level	2017		2016	
			December 31	December 31	December 31	December 31
			Carrying value	Fair value	Carrying value	Fair value
<b>Liabilities:</b>						
8.00% senior unsecured debentures due 2021	16	1	\$ 213.2	\$ 189.8	\$ 211.8	\$ 162.8
7.50% senior unsecured debentures due 2023	16	1	240.7	203.4	239.5	181.3
7.875% senior unsecured debentures due 2025	16	1	234.4	200.6	233.1	177.5
Ambatovy Joint Venture additional partner loans <sup>(2)(4)</sup>	16	3	-	-	1,367.5	640.6
Ambatovy Joint Venture partner loans <sup>(2)(4)</sup>	16	3	127.8	79.6	133.3	110.7
<b>Assets:</b>						
Ambatovy subordinated loans receivable <sup>(3)(4)</sup>	13	3	223.4	195.2	943.4	796.8
Energas conditional sales agreement <sup>(3)(4)</sup>	13	3	189.1	210.3	168.6	169.6
Moa Joint Venture expansion loans receivable <sup>(3)(4)</sup>	13	3	232.0	212.0	264.9	260.5

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

(2) The fair 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 borrowers' 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 borrowers' credit quality.

- (4) For disclosure purposes, the Corporation revised its methodology for the calculation of the fair values of financial instruments using updated market participant discount rates. For consistency with the current period presentation, comparative amounts have been restated.

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

Canadian \$ millions, as at	Hierarchy level	2017		2016
		December 31		December 31
Cash equivalents	1	\$ 57.2	\$	162.9
Short-term investments	1	18.0		40.0
Restricted cash	1	13.0		1.0

### Trade accounts receivable, net

Canadian \$ millions, as at	2017		2016
	December 31		December 31
Trade accounts receivable	\$ 241.2	\$	211.4
Allowance for doubtful accounts	(10.7)		(11.0)
Accounts receivable from joint operations	0.2		0.4
Accounts receivable from joint venture	15.0		11.4
Accounts receivable from associate	8.2		33.9
Other	31.0		39.7
	\$ 284.9	\$	285.8

### Aging of receivables not impaired

Canadian \$ millions, as at	2017		2016
	December 31		December 31
Not past due	\$ 222.6	\$	227.7
Past due no more than 30 days	12.6		25.2
Past due for more than 30 days but no more than 60 days	8.1		6.3
Past due for more than 60 days	41.6		26.6
	\$ 284.9	\$	285.8

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	2017		2016
	December 31		December 31
<b>Advances and loans receivable</b>			
Ambatovy subordinated loans receivable <sup>(1)</sup>	\$ 223.4	\$	943.4
Ambatovy subordinated loans receivable - post-financial completion <sup>(1)</sup>	47.9		-
Energas conditional sales agreement <sup>(1)</sup>	206.7		192.4
Moa Joint Venture expansion loans receivable <sup>(1)</sup>	232.0		264.9
Moa Joint Venture working capital facility	25.2		56.9
Other	20.6		10.8
<b>Other financial assets</b>			157.8
	755.8		1,626.2
Current portion of advances, loans receivable and other financial assets	(42.8)		(83.5)
	\$ 713.0	\$	1,542.7

- (1) As at December 31, 2017, the non-current portions of the Ambatovy subordinated loans receivable, Ambatovy subordinated loans receivable – post-financial completion, Energas conditional sales agreement and the Moa Joint Venture expansion loans receivable are \$223.4 million, \$47.9 million, \$189.1 million and \$232.0 million, respectively (December 31, 2016 – \$943.4 million, nil, \$168.6 million and \$264.9 million, respectively).



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## Notes to the consolidated financial statements

### Ambatovy subordinated loans receivable

A funding agreement was entered into by the Corporation with the Ambatovy Joint Venture to finance the development of the Ambatovy Project. The facility bears interest at six-month LIBOR plus 6%. Repayments of principal or interest will not be made prior to certain conditions of the Ambatovy Joint Venture financing agreements being satisfied. Unpaid interest is accrued monthly and capitalized to the principal balance semi-annually. During the year ended December 31, 2017, the Ambatovy Joint Venture converted US\$400.0 million of its subordinated loans payable to equity (note 7) which, at the Corporation's share, resulted in a US\$136.2 million (\$176.1 million) decrease in the Corporation's subordinated loans receivable. As a result of the Ambatovy Joint Venture restructuring (note 6), the Ambatovy subordinated loans receivable decreased by US\$436.5 million (\$561.1 million). During the year ended December 31, 2016, the Ambatovy Joint Venture converted US\$510.0 million of its subordinated loans payable to equity (note 7) 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. There was no change to the Corporation's ownership interest as a result of the conversions.

### Ambatovy subordinated loans receivable – post-financial completion

The Ambatovy subordinated loans receivable – post-financial completion is comprised of funding from the Corporation to the Ambatovy Joint Venture as part of the Ambatovy Joint Venture restructuring (note 6). The facility bears interest at six-month LIBOR plus 8%. Repayments of principal or interest will not be made prior to certain conditions of the Ambatovy Joint Venture senior debt finance agreements being satisfied. Unpaid interest is accrued monthly and capitalized to the principal balance semi-annually. For the year ended December 31, 2017, US\$30.0 million (\$38.6 million) and US\$8.2 million (\$10.5 million) of post-financial completion cash funding, including accrued interest, was provided to the Ambatovy Joint Venture and the Corporation's joint venture partners, KORES and Sumitomo, respectively, (nil and nil for the year ended December 31, 2016, respectively) retroactive to December 15, 2015 at Sherritt's 12% interest.

### Energas conditional sales agreement

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

### Moa Joint Venture expansion loans receivable

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

### 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 matured on April 21, 2017. Thereafter, the facility size decreased by 4.167% quarterly beginning April 28, 2017. Collectively, these reductions resulted in a facility size of \$38.6 million at January 30, 2018. The interest rates increased from prime plus 2.50% or bankers' acceptance plus 3.50% to prime plus 3.50% or bankers' acceptance plus 4.50%.

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

## Other financial assets

As at December 31, 2017, included in other financial assets is nil (December 31, 2016 - \$154.9 million) related to the Corporation's right to receive future distributions from the Ambatovy Joint Venture (note 16). On December 11, 2017, \$222.8 million was derecognized as part of the Ambatovy Joint Venture retroactive funding (note 6). As at December 31, 2016, this non-current financial asset was not included within Ambatovy subordinated loans receivable as the funding had not yet been provided by the Corporation (note 7).

As at December 31, 2017, included in other financial assets is \$9.7 million (December 31, 2016 - nil) related to the Ambatovy operator fee.

## 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	2017		2016	
	December 31		December 31	
Raw materials	\$	0.1	\$	-
Materials in process		0.1		0.1
Finished products		8.9		11.0
		9.1		11.1
Spare parts and operating materials		24.8		28.5
	\$	33.9	\$	39.6

For the year ended December 31, 2017, the cost of inventories included in cost of sales was \$61.2 million (\$46.9 million for the year ended December 31, 2016).

## 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.

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## Notes to the consolidated financial statements

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).

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## Notes to the consolidated financial statements

### 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

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

### Expiry of the Varadero West production-sharing contract

During the year ended December 31, 2017, the Varadero West production-sharing contract expired, resulting in the Corporation derecognizing its related property, plant and equipment from Oil and Gas properties. The derecognition had no impact on net earnings as the property, plant and equipment had a net book value of nil upon expiry.

## Notes to the consolidated financial statements

Canadian \$ millions, for the year ended December 31

2016

	Oil and Gas properties	Plant, equipment and land	Total
<b>Cost</b>			
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)
<b>Balance, end of the year</b>	<b>\$ 1,520.8</b>	<b>\$ 687.4</b>	<b>\$ 2,208.2</b>
<b>Depletion, depreciation and impairment losses</b>			
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)
<b>Balance, end of the year</b>	<b>\$ 1,496.9</b>	<b>\$ 424.9</b>	<b>\$ 1,921.8</b>
<b>Net book value</b>	<b>\$ 23.9</b>	<b>\$ 262.5</b>	<b>\$ 286.4</b>

Canadian \$ millions

Plant,  
equipment  
and land

### Assets under construction, included in above

<b>As at December 31, 2017</b>	<b>\$ 14.0</b>
As at December 31, 2016	16.6

### 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.

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%.

## Intangible assets

Canadian \$ millions, for the year ended December 31

2017

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

Canadian \$ millions, for the year ended December 31

2016

	Contractual arrange- ments	Exploration and Evaluation	Service concession arrange- ments	Other	Total
<b>Cost</b>					
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
Effect of movements in exchange rates	-	0.3	(6.8)	-	(6.5)
<b>Balance, end of the year</b>	<b>\$ 27.0</b>	<b>\$ 32.9</b>	<b>\$ 233.3</b>	<b>\$ 9.1</b>	<b>\$ 302.3</b>
<b>Amortization and impairment losses</b>					
Balance, beginning of the year	\$ 23.0	\$ 12.3	\$ 88.2	\$ 7.1	\$ 130.6
Amortization	1.8	-	19.6	1.7	23.1
Effect of movements in exchange rates	-	-	(2.3)	-	(2.3)
<b>Balance, end of the year</b>	<b>\$ 24.8</b>	<b>\$ 12.3</b>	<b>\$ 105.5</b>	<b>\$ 8.8</b>	<b>\$ 151.4</b>
<b>Net book value</b>	<b>\$ 2.2</b>	<b>\$ 20.6</b>	<b>\$ 127.8</b>	<b>\$ 0.3</b>	<b>\$ 150.9</b>

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

### Service concession arrangements

In 2016, construction of the Puerto Escondido/Yumuri pipeline was completed and the pipeline became operational. Also included in service concession arrangements is construction at the Energas Boca de Jaruco facility completed in 2014. Revenues and expenses relating to the construction activity for the year ended December 31, 2017 is nil (December 31, 2016 - \$4.6 million). Expenses incurred in relation to the construction activity are included in cost of sales in the consolidated statements of comprehensive income (loss).

### Other



## Notes to the consolidated financial statements

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	Note	For the year ended December 31, 2017				As at 2016 December 31
		As at 2017 December 31	Cash flows Repayments	Non-cash changes		
				Effect of movement in exchange rates	Other	
<b>Non-recourse loans and borrowings</b>						
Ambatovy Joint Venture additional partner loans <sup>(1)</sup>	12	\$ -	\$ -	\$ (60.3)	\$ (1,307.2)	1,367.5
<b>Other loans and borrowings</b>						
8.00% senior unsecured debentures due 2021 <sup>(2)</sup>	12	\$ 213.2	\$ -	\$ -	\$ 1.4	211.8
7.50% senior unsecured debentures due 2023 <sup>(2)</sup>	12	240.7	-	-	1.2	239.5
7.875% senior unsecured debentures due 2025 <sup>(2)</sup>	12	234.4	-	-	1.3	233.1
Ambatovy Joint Venture partner loans <sup>(3)</sup>	12	127.8	-	(8.9)	3.4	133.3
Syndicated revolving-term credit facility		8.0	(35.0)	-	-	43.0
		\$ 824.1	\$ (35.0)	\$ (8.9)	\$ 7.3	860.7
Current portion of other loans and borrowings		(8.0)				(43.0)
		\$ 816.1			\$	817.7

(1) As part of the Ambatovy Joint Venture restructuring (note 6), \$1.4 billion of the Ambatovy Joint Venture additional partner loans was derecognized and is included in other non-cash changes. Other non-cash changes also include \$57.0 million of capitalized interest, \$0.2 million of amortization of deferred financing costs and \$1.7 million of deferred financing costs which were also derecognized. Accrued and unpaid interest on these loans was capitalized to the loan balance every six months prior to derecognition.

(2) Other non-cash changes on the debentures consist of amortization of deferred financing costs.

(3) Other non-cash changes on the Ambatovy Joint Venture partner loans consist of capitalized interest and amortization of deferred financing costs. Accrued and unpaid interest on these loans is capitalized to the loan balance every six months.

### 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 \$6.8 million at December 31, 2017 (December 31, 2016 - \$8.2 million).

The 7.50% senior unsecured debentures, due 2023, are net of financing costs of \$9.3 million at December 31, 2017 (December 31, 2016 - \$10.5 million).

The 7.875% senior unsecured debentures, due 2025, are net of financing costs of \$15.6 million at December 31, 2017 (December 31, 2016 - \$16.9 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 9).

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

#### **Ambatovy Joint Venture additional partner loans**

Sherritt had 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 were fully drawn, were non-recourse to the Corporation except in circumstances where there was a direct breach by the Corporation of restrictions in the loan documents, which limited 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 was repaid solely through the Corporation's share of the distributions from the Ambatovy Joint Venture. However, the Corporation had 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, were fully repaid, 45% of the Corporation's share of distributions were applied to repay the Ambatovy Joint Venture additional partner loans, 25% were applied to repay the Ambatovy Joint Venture partner loans and the remaining 30% were payable to the Corporation. When one loan had been repaid in full, 70% of such distributions would be applied to repay the loan that remains outstanding and the Corporation would receive the balance of the distributions until such time as both loans had been repaid in full and the Corporation would be entitled to receive all of its distributions.

Each lender individually had 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 was 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 was an embedded derivative. The lenders' conversion option was bifurcated from the loan and ascribed a nominal value. These loans carried interest at a rate of six-month LIBOR plus 7.0% per annum.

The Ambatovy Joint Venture additional partner loans, which amounted to \$1.4 billion as at the date of the restructuring, were derecognized as part of the Ambatovy Joint Venture restructuring (note 6). The principal amount outstanding under this facility at December 31, 2017 was nil, including accrued interest (December 31, 2016 - \$1,367.5 million). This amount is net of financing costs of nil at December 31, 2017 (December 31, 2016 - \$1.9 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.

The partner loans continue to be secured by Sherritt's 12% interest following the Ambatovy Joint Venture restructuring on December 11, 2017 (note 6). The partner loans can be repaid in cash at any time through to maturity in August 2023. At maturity, Sherritt can elect to: (i) repay the loans in cash, (ii) repay the loans in shares or a combination of cash and shares at 105% of the amount then due, or (iii) repay in 10 equal semi-annual principal installments (plus interest) commencing in December 2024, at an interest rate of LIBOR +5% applied from the original August 2023 maturity date.

The principal amount outstanding under this facility at December 31, 2017 was \$127.8 million, including accrued interest (December 31, 2016 - \$133.3 million). This amount is net of financing costs of \$0.4 million at December 31, 2017 (December 31, 2016 - \$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.

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## Notes to the consolidated financial statements

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.

On January 31, 2017, the syndicated revolving-term credit facility was renewed for one year with a maximum credit available of \$90.0 million, of which \$13.7 million matured on April 21, 2017. Thereafter, the facility size decreased by 4.167% quarterly beginning April 28, 2017. Collectively, these reductions will result in a facility size 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 as at December 31, 2017:

- Net financial debt-to-EBITDA covenant of 4.75:1;
- EBITDA-to-interest expense covenant of not less than 1.75:1;
- Limits on capital expenditures and funding of the Ambatovy Joint Venture and Moa Joint Venture; and
- Maintenance of a minimum balance of cash and cash equivalents, short-term investments and undrawn credit held by the Corporation's wholly-owned subsidiaries greater than the facility size multiplied by two. The facility size multiplied by two as at December 31, 2017 is \$133.5 million.

The minimum balance restriction was amended during the third quarter of 2017 to include undrawn credit and to change the minimum balance required from \$180.0 million to the facility size multiplied by two.

As at December 31, 2017, the Corporation has \$50.0 million of letters of credit outstanding pursuant to this facility (December 31, 2016 - \$46.8 million). As at December 31, 2017, \$8.0 million has been drawn on this facility (December 31, 2016 - \$43.0 million).

In January 2018, the maturity of the syndicated revolving-term credit facility was extended to January 30, 2019 and the maximum credit available was increased from \$63.6 million to \$70.0 million. The total available draw is based on eligible receivables and inventory. The interest rates continue to be prime plus 3.50% or bankers' acceptance plus 4.50%.

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

- EBITDA, as defined in the agreement, of not less than \$100 million;
- EBITDA-to-interest expense covenant of not less than 1.75:1;
- Limits on capital expenditures and funding of the Ambatovy Joint Venture and Moa Joint Venture; and
- Maintenance of a minimum balance of cash and cash equivalents, short-term investments and undrawn credit held by the Corporation's wholly-owned subsidiaries greater than the facility size multiplied by two. The facility size multiplied by two as at December 31, 2017 is \$133.5 million.

### 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, 2017, there are no events of default on the Corporation's borrowings or debentures. The Corporation did not meet the financial ratios required to remove restrictions on the incurrence of debt or certain distributions under the senior unsecured debentures indenture agreement.

## Other financial liabilities

Canadian \$ millions, as at	2017		2016	
	December 31		December 31	
Other non-current financial liabilities <sup>(1)</sup>	\$	0.6	\$	155.7
Stock-based compensation liability		23.6		12.3
		24.2		168.0
Current portion of other financial liabilities		(8.0)		(5.0)
	\$	16.2	\$	163.0

(1) As at December 31, 2017, included in other non-current financial liabilities is nil (December 31, 2016 - \$154.9 million) related to the Corporation's obligation for outstanding shareholder funding to the Ambatovy Joint Venture. This obligation represented cash calls that were not funded since financial completion (note 7). On December 11, 2017, \$222.8 million was derecognized as part of the Ambatovy restructuring (note 6). The Corporation had also recognized a financial asset relating to its right to future distributions from the Ambatovy Joint Venture if and when this financial obligation were cured (note 13).

## 17. PROVISIONS, CONTINGENCIES AND GUARANTEES

### Accounting policies

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

### Environmental rehabilitation

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

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

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

## Notes to the consolidated financial statements

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	2017 December 31	2016 December 31
Environmental rehabilitation provisions	\$ 95.3	\$ 103.2
Other provisions	15.0	11.4
	110.3	114.6
Current portion of provisions	(18.3)	(12.2)
	\$ 92.0	\$ 102.4

### 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	2017	2016
Balance, beginning of the year		\$ 103.2	\$ 107.8
Change in estimates		(12.0)	(0.6)
Utilized during the year		(0.4)	(1.3)
Accretion	9	1.0	1.0
Effect of movement in exchange rates		3.5	(3.7)
<b>Balance, end of the year</b>		<b>\$ 95.3</b>	<b>\$ 103.2</b>

The Corporation has estimated that it will require approximately \$143.5 million in undiscounted cash flows to settle these obligations. The payments are expected to be funded by cash generated from operations. Discount rates from 2.14% to 11.49% 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	2017	2016
Balance, beginning of the year	\$ 11.4	\$ 18.8
Change in estimates	15.1	-
Reclassified to trade accounts payable and accrued liabilities	(3.4)	-
Utilized during the year	(8.1)	(7.4)
<b>Balance, end of the year</b>	<b>\$ 15.0</b>	<b>\$ 11.4</b>

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.

For the year ended December 31, 2017, the Corporation recognized \$15.1 million in loss from discontinued operations in the consolidated statements of comprehensive income (loss) due to an increase in its estimate of remediation costs for the Obed breach.

For the year ended December 31, 2017, the Corporation recognized \$5.2 million in cash used by discontinued operations in the consolidated statements of cash flow (\$7.4 million for the year ended December 31, 2016). Cash used by discontinued operations includes \$8.1 million of cash paid to settle the obligations relating to the Obed breach, net of \$2.9 million of cash provided from an insurance reimbursement related to the Obed breach. Included within the \$8.1 million of cash paid is \$6.2 million related to provincial and federal fines formalized by the Court in Alberta during the year ended December 31, 2017.

## 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.

## Notes to the consolidated financial statements

### 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		2017		2016	
	Note	Number	Capital stock	Number	Capital stock
Balance, beginning of the year		294,174,923	\$ 2,775.7	293,853,001	\$ 2,775.3
Restricted stock plan (vested)	19	27,000	0.1	-	-
Warrants exercised		7,556,742	8.8	321,922	0.4
<b>Balance, end of the year</b>		<b>301,758,665</b>	<b>\$ 2,784.6</b>	<b>294,174,923</b>	<b>\$ 2,775.7</b>

As at December 31, 2017, 11,244,176 warrants were outstanding.

#### Reserves

Canadian \$ millions, for the years ended December 31		Note	2017	2016
<b>Stated capital reserve</b>				
<b>Balance, beginning of the year</b>			\$ 225.8	\$ 217.8
Warrant issuance	16		-	8.2
Warrants exercised			(3.2)	(0.2)
<b>Balance, end of the year</b>			<b>222.6</b>	<b>225.8</b>
<b>Stock-based compensation reserve<sup>(1)</sup></b>				
Balance, beginning of the year			\$ 8.9	\$ 7.1
Restricted stock plan (vested)			(0.1)	-
Stock option plan expense			1.5	1.8
<b>Balance, end of the year</b>			<b>10.3</b>	<b>8.9</b>
<b>Total reserves, end of the year</b>			<b>\$ 232.9</b>	<b>\$ 234.7</b>

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

#### Accumulated other comprehensive income

Canadian \$ millions, for the years ended December 31		Note	2017	2016
<b>Foreign currency translation reserve</b>				
Balance, beginning of the year			\$ 813.2	\$ 903.0
Foreign currency translation differences on foreign operations			(72.1)	(89.8)
Reclassification to Gain on Ambatovy Joint Venture restructuring	6		(269.6)	-
Reclassification to net finance expense upon dissolution of foreign operation			(0.6)	-
<b>Balance, end of the year</b>			<b>470.9</b>	<b>813.2</b>
<b>Actuarial losses on pension plans</b>				
Balance, beginning of the year			(4.2)	(3.5)
Actuarial losses on pension plans, net of tax			(0.2)	(0.7)
<b>Balance, end of the year</b>			<b>(4.4)</b>	<b>(4.2)</b>
<b>Total accumulated other comprehensive income</b>			<b>\$ 466.5</b>	<b>\$ 809.0</b>

### 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"), Performance Share Units ("PSUs") and Deferred Share Units ("DSUs"), are recognized as liabilities at the date of grant.

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

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

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

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

## **Supporting information**

### **Stock options and options with tandem stock appreciation rights**

The following is a summary of stock option activity:

#### **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.



## Notes to the consolidated financial statements

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 849,943 at December 31, 2017. 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:

	2017		2016	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Outstanding, beginning of the year	9,598,416	\$ 3.57	6,149,349	\$ 5.80
Granted	1,382,814	1.20	3,802,400	0.68
Forfeited	(50,000)	15.02	-	-
Expired	(496,169)	12.51	(353,333)	11.34
Outstanding, end of the year	10,435,061	\$ 2.77	9,598,416	\$ 3.57
Options exercisable, end of the year	5,924,077	\$ 4.10	4,270,510	\$ 6.57

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

Range of exercise prices	Number outstanding	Weighted-average remaining contractual life (years)	2017	
			Weighted-average exercise price	Exercisable weighted-average exercise price
\$0.68 - \$2.10	5,185,214	8.4	\$ 0.82	\$ 0.68
\$2.11 - \$5.05	2,836,800	6.7	2.49	2,243,565
\$5.06 - \$9.77	2,168,047	3.3	6.43	2,168,047
\$9.78 - \$15.02	245,000	0.5	15.02	245,000
<b>Total</b>	<b>10,435,061</b>	<b>6.7</b>	<b>\$ 2.77</b>	<b>\$ 4.10</b>

As at December 31, 2017, 1,236,547 options with tandem SARs (December 31, 2016 – 1,670,216) and 9,198,514 options without tandem SARs (December 31, 2016 – 7,928,200) remained outstanding for which the Corporation has recognized a compensation expense of \$1.5 million for the year ended December 31, 2017 (compensation expense of \$1.9 million for the year ended December 31, 2016). The carrying amount of liabilities associated with stock options with tandem SARs is nil as at December 31, 2017 (December 31, 2016 – \$0.1 million).

## 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	2017	2016
Share price at grant date	\$ 1.20	\$ 0.68
Exercise price	\$ 1.20	\$ 0.68
Risk-free interest rates (based on 10-year Government of Canada bonds)	1.61%	1.14%
Expected volatility	57.92%	55.12%
Expected dividend yield	0.00%	0.00%
Expected life of options	10 years	10 years
Weighted-average fair value of options granted during the year	\$ 0.79	\$ 0.43

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

A summary of the RSU, PSU, DSU and RSP units outstanding as at December 31, 2017 and 2016 and changes during the year ended is as follows:

## Other stock-based compensation

### Restricted Share Units (RSUs)

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

Beginning in 2013, the Corporation began issuing performance based RSUs to certain employees, which vest at the end of three years. Under the plan, each unit awarded is equivalent to a common share. A liability is accrued related to the units awarded and a compensation expense is recognized in the consolidated statement of comprehensive income (loss) over the service period required for employees to become fully entitled to the award. At the maturity date, the participant receives cash representing the value of the units. The final number of units that vest will vary from 80% to 120% of the number of outstanding units on the vesting date (initial number awarded plus additional units for dividend equivalents) based on the Corporation's total shareholder return relative to a benchmark index comprised of mining and oil and gas companies. The number of RSUs subject to a performance condition based solely on the Corporation's relative total shareholder return outstanding at December 31, 2017 was 13,704,281 (December 31, 2016 – 16,150,734).

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. On May 3, 2017, all 8,448,555 units were cancelled. The number of RSUs subject to this performance condition outstanding at December 31, 2017 was nil (December 31, 2016 – 8,448,555).

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## Notes to the consolidated financial statements

In the first quarter of 2017, the Corporation's Board of Directors approved the grant of RSUs to certain employees with a 3-year vesting period with no performance conditions. The number of RSUs subject to no performance conditions outstanding at December 31, 2017 was 2,387,491 (December 31, 2016 – nil).

### Performance Share Units (PSUs)

In the first quarter of 2017, the Corporation's Board of Directors approved the grant of PSUs to certain employees. The PSUs represent a right to receive a cash amount payable by the Corporation to a participant at the end of the vesting period determined by reference to the market price of the common shares multiplied by the number of PSUs held by the participant as adjusted for dividend equivalents credited, if any. A liability is accrued related to the units awarded and a compensation expense is recognized in the consolidated statements of comprehensive income (loss) over the 3-year service period required for employees to become fully entitled to the award. The PSUs are issued subject to vesting conditions, including performance conditions, which are set by the Human Resources Committee. The vesting of PSUs will be subject to the achievement of two equally-weighted performance conditions measured over the 3-year vesting period: (i) the Corporation's total shareholder return relative to benchmark indices comprised of mining and oil and gas companies (a market condition); and (ii) unit cost of production compared to budget (a non-market condition). The value of PSUs that vest will vary from 0% to 200% based on the achievement of the market and non-market performance conditions. The number of PSUs subject to these performance conditions outstanding at December 31, 2017 was 3,761,449 (December 31, 2016 – 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 1<sup>st</sup> 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, 2017 (for the year ended December 31, 2016 the Corporation purchased nil common shares). These shares are excluded from the calculation of the weighted-average number of common shares used for the purposes of calculating basic earnings per share. In June 2017, the restricted shares fully vested and the plan was closed.

A summary of the RSU, PSU, DSU and RSP units outstanding as at December 31, 2017 and 2016 and changes during the year ended is as follows:

For the year ended December 31					2017
	RSU	PSU	DSU	RSP	
Outstanding, beginning of the year	24,670,181	-	1,682,089	27,000	
Issued	2,404,158	3,778,116	620,450	-	
Exercised	(1,971,994)	-	-	-	
Forfeited	(9,010,573)	(16,667)	-	-	
Vested	-	-	-	(27,000)	
<b>Outstanding, end of the year</b>	<b>16,091,772</b>	<b>3,761,449</b>	<b>2,302,539</b>	<b>-</b>	
<b>Units exercisable, end of the year</b>	<b>n/a</b>	<b>n/a</b>	<b>2,302,539</b>	<b>n/a</b>	

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)	-	-	-	
<b>Outstanding, end of the year</b>	<b>24,670,181</b>	<b>1,682,089</b>	<b>27,000</b>		
<b>Units exercisable, end of the year</b>	<b>n/a</b>	<b>1,682,089</b>	<b>n/a</b>		

For other stock-based compensation plans the Corporation recorded a compensation expense of \$13.2 million for the year ended December 31, 2017 (compensation expense of \$10.1 million for the year ended December 31, 2016). The carrying amount of liabilities associated with cash-settled compensation arrangements is \$23.6 million as at December 31, 2017 (December 31, 2016 - \$12.2 million).

### Measurement of fair values at grant date

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

Canadian \$, for the years ended December 31					2017	2016
RSU	\$	1.20	\$	0.68		
PSU		1.20		-		
DSU		1.10		0.76		

The intrinsic value of cash-settled stock-based compensation awards vested and outstanding as at December 31, 2017 was \$19.0 million (December 31, 2016 - \$11.4 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, 2017 (\$0.6 million for the year ended December 31, 2016).

## 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	2017	2016
Add (deduct) non-cash items:			
Accretion expense on environmental rehabilitation provisions	9, 17	\$ 1.0	\$ 1.0
Stock-based compensation expense, net	5	14.7	12.0
Other items		6.4	8.7
Cash flow arising from changes in:			
Other finance charges	9	(2.1)	(2.0)
Realized foreign exchange gain (loss)	9	0.6	(0.6)
Ambatovy Joint Venture transaction and other closing costs	6	(10.4)	-
		\$ 10.2	\$ 19.1

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

Canadian \$ millions, for the years ended December 31	2017	2016
Trade accounts receivable, net	\$ (34.9)	\$ (45.3)
Inventories	2.7	(2.1)
Prepaid expenses	(0.4)	2.0
Trade accounts payable and accrued liabilities	36.0	71.3
Deferred revenue	3.3	(11.8)
	\$ 6.7	\$ 14.1

## 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	2017		2016	
	December 31		December 31	
Cash	\$	51.9	\$	27.3
Trade accounts receivable, net		114.5		106.4
Advances and loans receivable		567.2		610.4
<b>Total</b>	<b>\$</b>	<b>733.6</b>	<b>\$</b>	<b>744.1</b>

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

## Madagascar

The Corporation has credit risk exposure in Madagascar related to its share (12% basis) of net accounts receivable of \$12.5 million (December 31, 2016 - \$43.8 million, 40% basis) associated with the Ambatovy Joint Venture including value added tax (VAT) receivables of \$3.7 million (12% basis) (December 31, 2016 - \$9.5 million, 40% basis) from the government of Madagascar. The VAT receivable is net of a provision of \$8.8 million (12% basis) (December 31, 2016 - \$58.3 million, 40% basis) reflecting an assessment of the likelihood of receipt of these amounts. During the year ended December 31, 2017, a gain on the partial reversal of this provision of \$10.4 million (40% basis until the Ambatovy Joint Venture restructuring on December 11, 2017, 12% basis thereafter) was recognized in financing expense (\$15.6 million for the year ended December 31, 2016, 40% basis). As at December 31, 2017, total overdue VAT receivable (net of provision) for the Ambatovy Joint Venture amount to \$2.4 million (12% basis) (December 31, 2016 - \$5.8 million, 40% basis).

## Liquidity risk

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

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

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

Based on management's assessment of its financial position and liquidity profile at December 31, 2017, 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.

## Notes to the consolidated financial statements

### 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, 2017	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	\$ 182.3	\$ 182.3	\$ -	\$ -	\$ -	\$ -	-
Income taxes payable	11.8	11.8	-	-	-	-	-
Senior unsecured debentures	1,060.2	56.0	56.0	56.0	276.0	38.4	577.8
Ambatovy Joint Venture partner loans <sup>(1)</sup>	153.3	-	-	10.2	-	-	143.1
Syndicated revolving-term credit facility	8.0	8.0	-	-	-	-	-
Provisions	158.5	20.8	1.0	-	-	0.4	136.3
Operating leases	14.1	3.0	3.0	3.0	1.0	1.0	3.1
Other	0.6	-	-	0.2	0.2	0.2	-
<b>Total</b>	<b>\$ 1,588.8</b>	<b>\$ 281.9</b>	<b>\$ 60.0</b>	<b>\$ 69.4</b>	<b>\$ 277.2</b>	<b>\$ 40.0</b>	<b>\$ 860.3</b>

(1) Ambatovy Joint Venture partner loans are loans provided by the Ambatovy Joint Venture partners to finance Sherritt's portion of the funding requirements of the Joint Venture, bearing interest of LIBOR plus a margin of 1.125%. The partner loans are to be repaid from the Corporation's share of cash distributions from the Ambatovy Joint Venture (note 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 maturity analysis table includes an estimate of interest repayments.

As a result of the Corporation's 12% interest in the Ambatovy Joint Venture, its proportionate share of significant undiscounted commitments of the joint venture include accounts payable of \$37.9 million, income taxes payable of \$3.0 million, environmental rehabilitation commitments of \$49.2 million, other contractual commitments of \$11.7 million and Ambatovy Joint Venture financing and revolving credit facility of \$298.8 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 \$36.1 million, income taxes payable of \$0.7 million, advances and loans payable of \$208.9 million, environmental rehabilitation commitments of \$87.3 million and other commitments of \$0.9 million.

### Market risk

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

### Foreign exchange risk

Many of Sherritt's businesses transact in currencies other than the Canadian dollar. The Corporation is sensitive to foreign exchange exposure when commitments are made to deliver products quoted in foreign currencies or when the contract currency is different from the product price currency. Derivative financial instruments are not used to reduce exposure to fluctuations in foreign exchange rates. The Corporation is also sensitive to foreign exchange risk arising from the translation of 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, 2017, a weakening or strengthening of \$0.05 of the Canadian dollar to the U.S. dollar with all other variables held constant could have a favourable or unfavourable impact of approximately \$25.3 million, respectively, on net earnings.

Based on financial instrument balances as at December 31, 2017, a weakening or strengthening of \$0.05 of the Canadian dollar to the U.S. dollar with all other variables held constant could have a favourable or unfavourable impact of approximately \$5.8 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, 2017 and December 31, 2016. 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, 2017, 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 earnings by approximately \$2.5 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, 2017, 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 \$7.5 million on the Corporation's net earnings, respectively.

## Capital risk management

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

Canadian \$ millions, as at	2017 December 31	2016 December 31
Capital stock	\$ 2,784.6	\$ 2,775.7
Deficit	(2,427.7)	(2,721.5)
Loans and borrowings	824.1	2,228.2
Other financial liabilities	24.2	168.0
Available credit facilities	8.8	0.2

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.



## Notes to the consolidated financial statements

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, 2017.

## 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 7 and 8, respectively.

Canadian \$ millions, for the years ended December 31	2017	2016
Total value of goods and services:		
Provided to joint operations	\$ 19.9	\$ 32.0
Provided to joint venture	191.8	165.3
Provided to associate	2.6	3.4
Purchased from joint venture	736.1	405.3
Purchased from associate	30.4	39.1
Net financing income from joint operations	14.4	14.4
Net financing income from associate	37.8	38.9
Net financing income from joint venture	11.4	9.6

Canadian \$ millions, as at	Note	2017 December 31	2016 December 31
Accounts receivable from joint operations	12	\$ 0.2	\$ 0.4
Accounts receivable from joint venture	12	15.0	11.4
Accounts receivable from associate	12	8.2	33.9
Accounts payable to joint venture		105.2	81.3
Accounts payable to associate		5.4	1.8
Advances and loans receivable from associate	13	281.0	943.4
Advances and loans receivable from joint operations	13	206.7	192.4
Advances and loans receivable from joint venture	13	268.0	321.8

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	2017	2016
Short-term benefits	\$ 7.8	\$ 7.4
Post-employment benefits <sup>(1)</sup>	0.4	0.4
Share-based payments	6.1	11.6
	<b>\$ 14.3</b>	<b>\$ 19.4</b>

(1) Post-employment benefits include a non-registered defined contribution executive supplemental pension plan. The total cash pension contribution for key management personnel was \$0.9 million for the year ended December 31, 2017 (\$0.4 million for the year ended December 31, 2016). The total pension expense that is attributable to key management personnel was \$0.2 million for the year ended December 31, 2017 (\$0.2 million for the year ended December 31, 2016).

## 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.

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## Notes to the consolidated financial statements

### 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, 2017, contingent revenue was \$15.2 million (\$15.0 million for the year ended December 31, 2016). The Corporation's operating lease commitments are disclosed in note 21.

## 24. COMMITMENTS FOR EXPENDITURES

Canadian \$ millions, as at December 31

		2017
Property, plant and equipment commitments	\$	22.1
Joint venture:		
Property, plant and equipment commitments		5.9

## 25. SUBSEQUENT EVENTS

Equity offering

In January 2018, the Corporation completed an equity offering and issued units consisting of 94.5 million common shares and 47.2 million cobalt-linked warrants at \$1.40 per unit for gross proceeds of approximately \$132.0 million, less transaction costs of approximately \$8 million.

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

Extension of the Puerto Escondido/Yumuri production-sharing contract

In January 2018, a three-year extension of the Puerto Escondido/Yumuri production-sharing contract to March 2021 was executed with an agency of the Government of Cuba.



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