Q1

2011 FIRST QUARTER REPORT

Sherritt International Corporation

For the three months ended March 31, 2011

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PRESS RELEASE

Sherritt reports first-quarter 2011 results

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

IN THIS SECTION

Toronto, April 27, 2011

Sherritt International Corporation ("Sherritt" or the "Corporation") (TSX: S) today announced first-quarter 2011 results.

- **Net earnings** for first-quarter 2011 were up 116% to $63.6 million ($0.22 per share), compared to net earnings of $29.4 million ($0.10 per share) for first-quarter 2010.

- **Net earnings** for first-quarter 2011 include an unrealized foreign exchange loss, after tax, of $3.2 million ($0.01 per share), mainly due to the impact of the change over the quarter in the value of the Canadian dollar relative to the U.S. dollar on the Corporation's $0.7 billion of U.S. dollar denominated Ambatovy partner loans.

- **Sales volumes** for first-quarter 2011 (Sherritt's share) totaled 9.4 million pounds of nickel, 1.0 million pounds of cobalt, 9.5 million tonnes of thermal coal, 1.1 million barrels of oil and 148 GWh of electricity.

- **Cash, cash equivalents and short-term investments** were $732.0 million at March 31, 2011, including $35.7 million (50% basis) held by the Moa Joint Venture and $5.0 million (33 1/3% basis) held by Energas S.A. Cash held by the Ambatovy Project is included in "Investment in an Associate" and was $10.5 million (40% basis) as at March 31, 2011.

- **Operating cash flow** for first-quarter 2011 was $112.8 million, compared to $126.9 million in first-quarter 2010.

- **Spending on capital and intangibles** relating to existing operations totaled $29.1 million for first-quarter 2011, compared to $39.0 million in first-quarter 2010. Spending on capital in the Ambatovy Project was $290.6 million (100% basis) for first-quarter 2011, 8% lower than the prior-year period as construction activities on the Project are nearing completion.

- At the **Ambatovy Project**, commissioning activities at the port were completed during first-quarter 2011, allowing for the receipt of the first shipments of input commodities, including sulphuric acid and coal. Several key components began start up activities during the quarter, including the power generation and facilities at the mine site, as well as the water and sewage treatment plants, the demineralized water plant and the compressed air plant at the plant site. At March 31, 2011, 50% of the major process plant modules had been transferred to commissioning teams. The current approved capital spending estimate and schedule are US$4.76 billion with production of first metal in summer 2011. As the Project nears both the estimated schedule and associated capital budget, a review is being conducted to determine if either estimate requires alteration. Revised guidance will be issued if there is any material change to either estimate.

- At March 31, 2011, **total available liquidity** was approximately $1.2 billion, not including approximately $115 million (40% basis) available under the Ambatovy Joint Venture senior project financing. **Total debt** was $1.5 billion including approximately $0.7 billion related to non-recourse Ambatovy partner loans to Sherritt.

IFRS

This reporting period is Sherritt's first under International Financial Reporting Standards (IFRS). A comprehensive summary of all of the significant changes, including reconciliations of Canadian GAAP financial statements to those prepared under IFRS, is presented in Note 30 "Transition to IFRS" of the Corporation's unaudited March 31, 2011 Interim Financial Statements.

Adopting IFRS did not impact the cash the Corporation generated. However, the adoption of IFRS had a substantial impact on the Corporation's Statement of Financial Position (or balance sheet) and Statement of Comprehensive Income (or income statement). The most significant difference from Canadian GAAP is the change in the method of accounting for the Corporation's investment in the Ambatovy Project (Metals) and Energas S.A. (Power).

The following table outlines some of the more significant changes to these Financial Statements by Division. This summary is intended for use as a quick reference regarding the IFRS impact on the Corporation's Statements and should be used in conjunction with the transition disclosure in the Financial Statements and Management's Discussion and Analysis provided on the Corporation's website (www.sherritt.com) or SEDAR (www.sedar.com).

SUMMARY OF SIGNIFICANT PRESENTATION CHANGES RESULTING FROM IFRS

	Statements Impacted and Relevant Notes	Accounting Treatment **IFRS**	Accounting Treatment **Canadian GAAP**
Metals - Ambatovy	Statement of Financial Position • See Note 9 of Financial Statements for additional information	• Equity account for 40% interest • Single line item referred to as "Investment in an Associate"	• 100% consolidation, line-by-line basis for all assets and liabilities • Non-controlling interest of the net assets reported separately
Metals - Ambatovy	Statement of Comprehensive Income • See Note 9 of Financial Statements for additional information	• Single line item referred to as "Share of earnings of an associate"	• 100% consolidation of related revenue and expenses • Non-controlling interest of the net income deducted as a separate line item
Coal – Prairie Operations	Statement of Financial Position	• 50%-owned mine (Genesee), contract mine (Highvale), and certain other assets are leases • Assets associated with above are finance lease receivables, not Property, Plant and Equipment	• No distinction between jointly-owned and wholly-owned operations • All operations (wholly- or jointly-owned) and all assets related to delivering service were recorded as Property, Plant and Equipment
Coal – Prairie Operations	Statement of Comprehensive Income	• Revenue earned from lease arrangements presented as finance lease income • Related depreciation is no longer recorded • Impact on net earnings is nominal • EBITDA will be lower as it does not include finance lease income	• No distinction between revenue earned from wholly-owned mines, jointly-owned mines or contract mining operations • Includes 100% of depreciation associated with these assets and operations
Power – Energas	Statement of Financial Position	• Proportionate consolidation of Sherritt's 33 1/3% interest in Energas • Line-by-line basis for all assets and liabilities	• 100% consolidation, line-by-line basis for all assets and liabilities • Non-controlling interest of the net assets reported separately
Power – Energas	Statement of Comprehensive Income	• Proportionate consolidation of 33 1/3% interest • Impact is nominal	• 100% consolidation, line-by-line basis for all revenue and expense items • Non-controlling interest of the net income deducted as a separate line item
Power –Facilities	Statement of Financial Position	• Facilities assets recognized as Intangible Assets • Impact on net earnings is nominal	• Facilities assets recognized as Property, Plant and Equipment

Consolidated net earnings were most significantly impacted by the following changes resulting from the transition to IFRS:

	IFRS	**Canadian GAAP**
Ambatovy U.S. Dollar Subordinated Loans[(1)]	• Presented as a separate line item on Statement of Financial Position ("Advances, loan receivables and other assets") • Foreign exchange gains (losses) on the loan revaluation each period will be included in the Statement of Comprehensive Income • Note 14 in the Financial Statements	• Included as part of the net investment in Ambatovy and eliminated on consolidation • No foreign exchange revaluation requirement each reporting period
Ambatovy Partner Loans – Interest[(1)]	• Expensed	• Capitalized

(1) During first-quarter 2010, the above two items had a cumulative reduction in net earnings of $24.2 million ($0.08 per share).

Summary Data

SUMMARY FINANCIAL DATA

($ millions unless otherwise noted)	Q1 2011	Q1 2010
Revenue	**474.5**	366.4
EBITDA[(1)]	**164.4**	115.2
Operating profit	**114.2**	69.2
Net earnings	**63.6**	29.4
Basic earnings per share ($ per share)	**0.22**	0.10
Diluted earnings per share ($ per share)	**0.22**	0.10
Net working capital[(2)]	**1,099.0**	992.6
Spending on capital and intangibles[(3)]	**29.1**	39.0
Total assets	**6,096.3**	5,745.8
Shareholders' equity	**3,539.4**	3,479.6
Long-term debt to total assets (%)	**27**	25
Weighted average number of shares (millions)		
Basic	**295.0**	294.0
Diluted	**296.4**	296.2

(1) For additional information see the 'Non-IFRS Measure – EBITDA' section of this release.
(2) Net working capital is calculated as total current assets less total current liabilities.
(3) Spending on capital does not include accruals and does not include spending on Ambatovy.

SUMMARY SALES DATA

(units as noted)	Q1 2011	Q1 2010
Sales volumes		
Nickel (thousands of pounds, 50% basis)	9,438	9,392
Cobalt (thousands of pounds, 50% basis)	1,014	907
Thermal coal – Prairie Operations (millions of tonnes)	8.5	9.3
Thermal coal – Mountain Operations (millions of tonnes)[(1)]	1.0	0.5
Oil (boepd, net working-interest production)	12,484	12,370
Electricity (GWh, 33 1/3% basis)	148	172
Average realized prices		
Nickel ($/lb)	11.73	9.20
Cobalt ($/lb)	17.55	20.16
Thermal coal – Prairie Operations ($/tonne)	15.04	13.37
Thermal coal – Mountain Operations ($/tonne)	91.44	69.45
Oil ($/boe)	61.85	52.83
Electricity ($/MWh)	40.54	42.67

(1) First-quarter 2011 results include the Corporation's 100% interest in both the Coal Valley and Obed Mountain mines. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest in the entity that owned these mines.

Review of Operations

METALS

(units as noted)	**Q1 2011**	Q1 2010
Production		
Mixed sulphides (tonnes, 50% basis)	**4,844**	4,659
Nickel (tonnes, 50% basis)	**4,303**	4,265
Cobalt (tonnes, 50% basis)	**470**	468
Fertilizers (tonnes)	**59,574**	63,235
Sales		
Nickel (thousands of pounds, 50% basis)	**9,438**	9,392
Cobalt (thousands of pounds, 50% basis)	**1,014**	907
Fertilizers (tonnes)	**17,694**	26,694
Reference prices		
Nickel (US$/lb)	**12.20**	9.11
Cobalt (US$/lb)[1]	**18.38**	20.11
Realized prices		
Nickel ($/lb)	**11.73**	9.20
Cobalt ($/lb)	**17.55**	20.16
Unit operating costs (US$/lb)		
Mining, processing and refining costs	**5.52**	4.68
Third-party feed costs	**0.24**	0.38
Cobalt by-product credits	**(1.91)**	(1.87)
Other	**0.22**	0.26
Net direct cash costs of nickel[2]	**4.07**	3.45
Revenue ($ millions)		
Nickel	**110.7**	86.4
Cobalt	**17.8**	18.3
Fertilizers, other	**11.9**	11.2
Total revenue	**140.4**	115.9
EBITDA ($ millions)[3]	**65.9**	48.1
Earnings from operations and associate ($ millions)	**57.4**	38.8
Spending on capital ($ millions)	**6.3**	5.5

(1) Average Metal Bulletin – Low Grade Cobalt published price.
(2) Net direct cash costs of nickel after cobalt and other by-product credits.
(3) For additional information see the 'Non-IFRS Measure – EBITDA' section of this release.

Mixed sulphides production for first-quarter 2011 was 4% (370 tonnes, 100% basis) higher than first-quarter 2010 and established a quarterly production record of 9,688 tonnes (100% basis). Finished nickel production was 1% (76 tonnes, 100% basis) higher than first-quarter 2010, reflecting the increased availability of mixed sulphides. Finished cobalt production was comparable to first-quarter 2010, as third-party feeds with higher cobalt content were displaced by mixed sulphides.

First-quarter 2011 nickel sales volumes were consistent with production levels, while cobalt sales volumes were 12% (0.1 million pounds, 50% basis) higher than the prior-year period primarily reflecting the timing of shipments. Fertilizer sales volumes were 34% (9,000 tonnes) lower than the prior-year period as the snow cover in Western Canada has delayed spring fertilizer application.

The average nickel reference price in first-quarter 2011 was 34% (US$3.09/lb) higher than first-quarter 2010, due to stronger demand and a weaker U.S. dollar in the prior-year period. The average cobalt reference price was 9% (US$1.73/lb) lower than first-quarter 2010, reflecting weaker demand.

The net direct cash cost of nickel for first-quarter 2011 was 18% (US$0.62/lb) higher than first-quarter 2010, primarily due to the impact of higher input commodity prices on the mining and processing costs. These costs were partially offset by lower third-party feed costs resulting from the displacement of purchased feed with the increased production of mixed sulphides.

Spending on capital in first-quarter 2011 for the Moa Joint Venture was 15% ($0.8 million, 50% basis) higher than the prior-year period, consistent with higher planned spending for 2011.

Ambatovy

Ambatovy project expenditures for first-quarter 2011 were 8% (US$10.3 million, 100% basis) lower than the prior-year period reflecting the winding down of construction activity. Cumulative capital spending on the Project at March 31, 2011 was US$4.61 billion, on a pro forma basis after adjusting for foreign exchange rates, consistent with the original project cost estimates and capital spending guidance for 2011. During first-quarter 2011, a total of $231.9 million (100% basis) in funding was provided by the Ambatovy Joint Venture partners. Sherritt directly funded $47.1 million of its $92.8 million partner funding obligation, and the remainder was funded through additional loans from the other partners. There were no requirements for draws on the senior project finance facility during first-quarter 2011.

Commissioning activities at the port have been completed, allowing for receipt of a shipment of sulphuric acid, sufficient for start up of the sulphuric acid plants, as well as the first coal shipment during the quarter. In addition, the power generation and facilities at the mine site, as well as the water and sewage treatment plants, the demineralized water plant and the compressed air plant at the plant site began their start up during the quarter. At the end of first-quarter 2011, 28 of the 56 major process plant modules had been transferred to commissioning teams.

The Project is designed to produce 60,000 tonnes (100% basis) of nickel and 5,600 tonnes (100% basis) of cobalt annually at capacity. The current approved capital spending estimate and schedule are US$4.76 billion with production of first metal in summer 2011. As the Project nears both the estimated schedule and associated capital budget, a review is being conducted to determine if either estimate requires alteration. Revised guidance will be issued if there is any material change to either estimate.

COAL

(units as noted)	**Q1 2011**	Q1 2010
Production (millions of tonnes)		
Prairie Operations	**8.6**	8.8
Mountain Operations	**1.1**	0.4
Sales (millions of tonnes)		
Prairie Operations	**8.5**	9.3
Mountain Operations(1)	**1.0**	0.5
Realized prices ($/tonne)		
Prairie Operations(2)	**15.04**	13.37
Mountain Operations(1)	**91.44**	69.45
Unit operating costs ($/tonne)		
Prairie Operations(3)	**12.72**	10.84
Mountain Operations	**78.26**	78.97
Revenue ($ millions)		
Prairie Operations		
Mining revenue	**133.2**	128.3
Coal royalties	**11.8**	11.1
Potash royalties	**4.8**	3.3
Mountain Operations and other assets	**96.1**	35.4
Total revenue	**245.9**	178.1

COAL (cont'd)

(units as noted)	**Q1 2011**	Q1 2010
EBITDA ($ millions)(4)		
Prairie Operations	**35.2**	36.6
Mountain Operations and other assets	**12.5**	(5.4)
Total EBITDA	**47.7**	31.2
Earnings from operations ($ millions)	**23.5**	13.2
Spending on capital ($ millions)		
Prairie Operations	**15.5**	15.2
Mountain Operations and other assets	**4.3**	1.1
Total spending on capital	**19.8**	16.3

(1) First-quarter 2011 results include the Corporation's 100% interest in both the Coal Valley and Obed Mountain mines. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest in the entity that owned these mines.
(2) Prairie Operations realized pricing excludes results of the char and activated carbon businesses and royalties.
(3) Prairie Operations unit operating costs exclude char and activated carbon results.
(4) For additional information see the 'Non-IFRS Measure – EBITDA' section of this release.

First-quarter 2011 production volumes at Prairie Operations were 2% (0.2 million tonnes) lower than the prior-year period largely due to lower demand at the Highvale mine, where two coal-fired generating units were removed from service by the mine's customer. Production volumes at Mountain Operations were 164% (0.7 million tonnes) higher than the prior-year period reflecting the consolidation of all of Mountain Operations production from July 1, 2010 onward and improved dragline availability at the Obed Mountain mine.

Sales volumes for first-quarter 2011 were lower at Prairie Operations (9% or 0.8 million tonnes) relative to first-quarter 2010, primarily reflecting the lower demand from the Highvale mine previously discussed. First-quarter 2011 Mountain Operations sales volumes were 107% (0.5 million tonnes) higher than the prior-year period, mainly due to the consolidation of all Mountain Operations sales from July 1, 2010 onward.

Realized pricing (excluding royalties, activated carbon and char) for first-quarter 2011 in Prairie Operations was 12% ($1.67/tonne) higher than in the prior-year period mainly due to the similar contract revenue on lower sales volumes at the Highvale mine. Realized pricing in Mountain Operations in first-quarter 2011 was 32% ($21.99/tonne) higher than first-quarter 2010 due to further strengthening of international thermal coal pricing from 2010 price levels, partially offset by the foreign exchange impact of a stronger Canadian dollar relative to the U.S. dollar. Export thermal coal prices are based on provisional pricing until contracts are finalized. As a result of the earthquake and tsunami in Japan, the finalization of most international thermal coal contracts has been delayed.

Unit operating costs at Prairie Operations were 17% ($1.88/tonne) higher for first-quarter 2011 relative to the prior-year period largely due to the impact of lower production from the Highvale mine. Unit operating costs at Mountain Operations were 1% ($0.71/tonne) lower for first-quarter 2011 largely due to increased plant yields at both the Coal Valley and Obed Mountain mines, partially offset by lower equipment availability at the Coal Valley mine and higher demurrage costs due to rail transport delays.

Total royalties for first-quarter 2011 were 15% ($2.2 million) higher than the prior-year period due to the timing of mining in coal royalty assessable areas as well as higher potash market prices.

Spending on capital in Prairie Operations was 2% ($0.3 million) higher in first-quarter 2011 compared to the prior-year period mainly due to the timing of receipt of leased mining equipment. Spending on capital in Mountain Operations was 291% ($3.2 million) higher in first-quarter 2011 than in the prior-year period, primarily due to the consolidation of 100% of Mountain Operations spending beginning in third-quarter 2010 and the timing of equipment arrivals.

OIL AND GAS

(units as noted)	**Q1 2011**	Q1 2010
Production (boepd)[1]		
Gross working-interest – Cuba[2, 3]	**20,874**	22,109
Net working-interest[4]		
Cuba – cost recovery	**4,197**	3,687
Cuba – profit oil	**7,505**	7,772
Cuba – total	**11,702**	11,459
Spain	**425**	546
Pakistan	**357**	365
Total net working-interest	**12,484**	12,370
Reference prices (US$/bbl)		
U.S. Gulf Coast Fuel Oil No.6	**86.45**	70.37
Brent crude	**105.95**	76.62
Realized prices		
Cuba ($/bbl)	**61.92**	53.00
Spain ($/bbl)	**105.29**	79.70
Pakistan ($/boe)	**7.98**	7.39
Weighted average ($/boe)	**61.85**	52.83
Unit operating costs		
Cuba ($/bbl)	**11.19**	11.73
Spain ($/bbl)	**33.35**	28.70
Pakistan ($/boe)	**3.77**	1.22
Weighted average ($/boe)	**11.73**	12.17
Revenue ($ millions)	**70.5**	59.3
EBITDA ($ millions)[5]	**54.8**	42.8
Earnings from operations ($ millions)	**39.4**	26.2
Spending on capital ($ millions)	**14.7**	13.2

(1) Oil production is stated in barrels per day ("bpd"). Natural gas production is stated in barrels of oil equivalent per day ("boepd"), which is converted at 6,000 cubic feet per barrel.
(2) In Cuba, Oil and Gas delivers all of its gross working-interest oil production to Union Cubapetroleo (CUPET) at the time of production. Gross working-interest oil production excludes: (i) production from wells for which commerciality has not been established in accordance with production-sharing contracts, and (ii) working-interest of other participants in the production-sharing contracts.
(3) Gross working-interest oil production is allocated between Oil and Gas and CUPET in accordance with production-sharing contracts. The Corporation's share, referred to as 'net working-interest oil production', includes: (i) cost recovery oil (based upon the recoverable capital and operating costs incurred by Oil and Gas under each production-sharing contract), and (ii) a percentage of profit oil (gross working-interest production remaining after cost recovery oil is allocated to Oil and Gas). Cost recovery pools for each production-sharing contract include cumulative recoverable costs, subject to certification by CUPET, less cumulative proceeds from cost recovery oil allocated to Oil and Gas. Cost recovery revenue equals capital and operating costs eligible for recovery under the production-sharing contracts.
(4) Net working-interest production (equivalent to net sales volume) represents the Corporation's share of gross working-interest production.
(5) For additional information see the 'Non-IFRS Measure – EBITDA' section of this release.

First-quarter 2011 net working-interest production in Cuba was 2% (243 bpd) higher than first-quarter 2010, mainly due to higher cost recovery expenditures, partially offset by higher realized oil prices and lower gross working-interest production. Gross working-interest production decreased due to the expiry of the Varadero production-sharing contract in March 2010, a 50% decrease in Sherritt's share of production from a well in the Varadero West field in third-quarter 2010 and natural reservoir declines, partially offset by production from new wells drilled and optimization of production from existing wells. Production in Spain was 22% (121 bpd) lower, and production in Pakistan was 2% (8 boepd) lower, compared to the prior-year period due to natural reservoir declines at both operations.

Average realized prices in first-quarter 2011 were substantially higher than first-quarter 2010 in Cuba (17%, $8.92/bbl) and Spain (32%, $25.59/bbl), and moderately higher in Pakistan (8%, $0.59/boe), as the benefit of increased reference pricing more than offset the impact of a stronger Canadian dollar relative to the U.S. dollar.

First-quarter 2011 unit operating costs were 5% ($0.54/bbl) lower in Cuba than in the prior-year period, primarily due to the impact of a stronger Canadian dollar relative to the U.S. dollar. Compared to the prior-year period, the 16% ($4.65/bbl) unit operating cost increase in Spain for first-quarter 2011 reflected the impact of lower production levels, while the 209% ($2.55/boe) increase in unit operating costs in Pakistan was due to changes in the classification of royalties. In prior reporting, royalties in Pakistan were deducted from revenue. Commencing in 2011, royalties in Pakistan are included in operating costs.

Spending on capital in first-quarter 2011 was 11% ($1.5 million) higher than the prior-year period, with spending in Cuba directed mainly toward development drilling as well as equipment and inventory purchases. In first-quarter 2011 in Cuba, two development wells were initiated, and one well was completed and began production.

POWER

(units as noted)	**Q1 2011**	Q1 2010
Electricity sold (GWh, 33 1/3% basis)	**148**	172
Realized price ($/MWh)	**40.54**	42.67
Unit cash operating cost ($/MWh)	**18.67**	7.56
Net capacity factor (%)	**63**	68
Revenue ($ millions)	**14.4**	11.4
EBITDA ($ millions)[1]	**4.8**	7.6
Earnings from operations ($ millions)	**2.2**	4.8
Spending on capital ($ millions)	**6.1**	2.2

(1) For additional information see the ‘Non-IFRS Measure – EBITDA’ section of this release.

Electricity production for first-quarter 2011was 14% (24 GWh, 33 1/3% basis) lower and the net capacity factor was 7% lower than the prior-year period, due mainly to turbine and rotor failures at the Boca de Jaruco facility and intermittent gas supply shortages at Varadero. Equipment responsible for the failures was repaired during the quarter.

First-quarter 2011 unit cash operating costs were 147% ($11.11/MWh) higher than the prior-year period primarily due to the reclassification of costs from administrative to cost of sales as well as the inclusion of an insurance recovery in first-quarter 2010.

Spending on capital was 177% ($3.9 million, 33 1/3% basis) higher than the prior-year period due to increased activity on the 150 MW Boca de Jaruco Combined Cycle Project.

CASH, DEBT AND FINANCING

Cash, cash equivalents and short-term investments were $732.0 million at March 31, 2011. Of the cash balance, $35.7 million (50% basis) was held by the Moa Joint Venture and $5.0 million (33 1/3% basis) was held by Energas S.A. These amounts are for the exclusive use of the joint venture and Energas, respectively. Cash held by the Ambatovy Project is included in “Investment in an Associate” and was $10.5 million (40% basis) as at March 31, 2011.

At March 31, 2011, the amount of credit available under various facilities was $439 million, not including approximately $115 million (40% basis) available under the Ambatovy Joint Venture senior project financing.

Outlook

Projections for Sherritt's production volumes, royalties and spending on capital for the year 2011 are shown below.

(units as noted)	2011
Production volumes	
Mixed sulphides (tonnes)	**37,700**
Nickel (tonnes, 100% basis)	**34,100**
Cobalt (tonnes, 100% basis)	**3,600**
Coal – Prairie Operations (millions of tonnes)	**35**
Coal – Mountain Operations (millions of tonnes)	**5**
Oil – Cuba (gross working-interest, boepd)	**19,700**
Oil – All operations (net working-interest, boepd)	**11,900**
Electricity (GWh, 33 1/3% basis)	**560**
Royalties ($ millions)	
Coal	**41**
Potash	**14**
Spending on capital ($ millions)	
Metals – Moa Joint Venture (50% basis)	**50**
Coal – Prairie Operations	**107**
Coal – Mountain Operations	**45**
Oil and Gas – Cuba(1)	**100**
Oil and Gas – Other(1)	**11**
Power (33 1/3% basis)(2)	**51**
Total spending on capital (excluding Ambatovy)	**364**
Metals – Ambatovy (US$ millions, 100% basis)	**325**

(1) Exploration and evaluation spending incurred prior to the technical feasibility and commercial viability of extracting the resources is recorded as an intangible asset.
(2) Growth spending for the Boca de Jaruco and Puerto Escondido facilities is recorded as an intangible asset.

- In Metals – Moa Joint Venture, guidance for full-year 2011 production of mixed sulphides increased 2% (700 tonnes, 100% basis), reflecting the strong performance at the Moa mine in first-quarter 2011. The anticipated increase in mixed sulphides production is expected to result in a 1% (300 tonne, 100% basis) increase in finished nickel production for the year and finished cobalt is expected to remain consistent with past guidance, as third-party feeds continue to be displaced. Capital spending guidance for the Moa Joint Venture remains unchanged. The Moa Joint Venture partners are reviewing options for the completion of the Phase 2 Expansion and the construction of the sulphuric acid plant at Moa. Capital spending guidance does not include any expansion-related expenditures, other than capitalized interest.

- In Metals – Ambatovy, as the Project nears both the estimated schedule and associated capital budget, a review is being conducted to determine if either estimate requires alteration. Revised guidance will be issued if there is any material change to either estimate. Sherritt will directly fund its partner funding obligations for the duration of the Project. The first slurry is expected to be transported down the pipeline from the mine site in Moramanga to the plant site in Toamasina during second-quarter 2011.

- In Metals – Sulawesi, estimates remain unchanged, as approximately $13 million is expected to be spent in 2011 to advance prefeasibility and feasibility work on the Project.

- In Coal – Prairie Operations, guidance for full-year 2011 production decreased 3% (1 million tonnes), as lower than anticipated production resulting from the closure of two units at a customer's power plant is expected to be partially offset by modest, demand-related production increases at other mines. Full-year 2011 production guidance of 13,000 tonnes (100% basis) for activated carbon remains unchanged from previous estimates. Spending on capital in Prairie Operations is expected to be marginally lower (4% or $4 million) than prior estimates, reflecting long lead times associated with ordering and procuring mining equipment.

- In Coal – Mountain Operations, production guidance remains unchanged from prior estimates. The devastating earthquake and tsunami that struck Japan in first-quarter 2011 have caused extensive damage to the country's power facilities and major disruptions in the generation and delivery of power. Consequently, the process of determining the benchmark Newcastle settlement pricing for export thermal coal, which is generally established for the standard April 1 to March 31 coal year, has been delayed. However, based on recent spot market prices and initial contract settlement pricing, the Newcastle benchmark for the 2011 contract year is expected to be higher than in 2010. Approximately 90% of Mountain Operations' 2011 coal production is expected to be sold in the export market. Spending on capital in Mountain Operations is expected to be approximately 10% ($5 million) lower than prior estimates, reflecting long lead times associated with ordering and procuring mining equipment.

- In Oil and Gas, guidance relating to 2011 gross working-interest oil production in Cuba remains unchanged from previous estimates. Total net working-interest production is expected to be 6% (800 bpd) lower than the previous estimate primarily due to higher oil prices. Spending on capital for 2011 in Cuba is expected to remain consistent with previous guidance. In total, seven development wells and one exploration well are planned for 2011.

- In Power, production and capital spending guidance remains unchanged from prior estimates, but is now being reported on a one-third basis, reflecting Sherritt's proportionate share of the production and spending on capital with respect to the Energas operations.

Non-IFRS Measure – EBITDA

The Corporation's definition of EBITDA is earnings (loss) from operations and associate as reported in the IFRS financial statements, excluding amounts included in net earnings or net loss for income taxes, financing income, financing expense, depletion, depreciation, and amortization in cost of sales and administrative expenses, impairment charges for property, plant and equipment, goodwill and investments, gain or loss on disposal of property, plant and equipment, and share of income or loss of associate.

About Sherritt

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

Forward-Looking Statements

This press release contains certain forward-looking statements. Forward-looking statements generally can be identified by the use of statements that include words such as "believe", "expect", "anticipate", "intend", "plan", "forecast", "likely", "may", "will", "could", "should", "suspect", "outlook", "projected", "continue" or other similar words or phrases. Specifically, forward-looking statements in this document include statements respecting certain future expectations about the Corporation's capital and project development spending; capital project commissioning and completion dates; production volumes; royalty revenues; oil and gas drilling activities; export thermal coal sales; and other corporate objectives, plans or goals for 2011. These forward-looking statements are not based on historic facts, but rather on current expectations, assumptions and projections about future events. 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. Sherritt cautions readers of this press release not to place undue reliance on any forward-looking statements 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. By their nature, forward-looking statements require Sherritt to make assumptions and are subject to inherent risks and uncertainties.

Key factors that may result in material differences between actual results and developments and those contemplated by this press release include global economic conditions, business, economic and political conditions in Canada, Cuba, Indonesia, Madagascar, and the principal markets for Sherritt's products. Other such factors include, but are not limited to, uncertainties in the development and construction of large mining projects; risks related to the availability of capital to undertake capital initiatives; changes in capital cost estimates in respect of the Corporation's capital initiatives; risks associated with Sherritt's joint venture partners; future non-compliance with financial covenants; potential interruptions in transportation; political, economic and other risks of foreign operations; Sherritt's reliance on key personnel and skilled workers; the possibility of equipment and other unexpected failures; the potential for shortages of equipment and supplies; risks associated with mining, processing and refining activities; uncertainties in oil and gas exploration; risks related to foreign exchange controls on Cuban government enterprises to transact in foreign currency; risks associated with the United States embargo on Cuba and the Helms-Burton legislation; risks related to the Cuban government's ability to make certain payments to the Corporation; development programs; uncertainties in reserve estimates; uncertainties in asset-retirement and reclamation cost estimates; Sherritt's reliance on significant customers; foreign exchange and pricing risks; uncertainties in commodity pricing; credit risks; competition in product markets; Sherritt's ability to access markets; risks in obtaining insurance; uncertainties in labour relations; uncertainties in pension liabilities; the ability of Sherritt to enforce legal rights in foreign jurisdictions; the ability of Sherritt to obtain government permits; risks associated with government regulations and environmental health and safety matters; differences between Canadian GAAP and IFRS; and other factors listed from time to time in Sherritt's continuous disclosure documents.

Further, any forward-looking statement speaks only as of the date on which such statement is made, and except as required by law, Sherritt undertakes no obligation to update any forward-looking statements.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2011

This Management's Discussion and Analysis (MD&A) has been prepared for the three months ended March 31, 2011 as of April 26, 2011 and should be read in conjunction with Sherritt's unaudited interim consolidated financial statements for the three months ended March 31, 2011, and the MD&A for the year ended December 31, 2010. Additional information related to the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at www.sedar.com or on the Corporation's web site at www.sherritt.com.

As of January 1, 2011, Sherritt International Corporation adopted International Financial Reporting Standards (IFRS), and the following disclosure, as well as associated interim condensed financial statements have been prepared in accordance with IFRS. Sherritt's effective transition date is January 1, 2010, to accommodate 2010 IFRS comparative figures. The Corporation has provided information throughout this document and other publicly filed documents to assist a user in understanding Sherritt's transition from Canadian Generally Accepted Accounting Principles (GAAP). A comprehensive summary of the all of the significant changes including the various reconciliations of Canadian GAAP financial statements to those prepared under IFRS is included in note 30 in the Corporation's unaudited interim consolidated financial statements for the three months ended March 31, 2011.

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

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

Key financial and operational data

$ millions, for the three months ended March 31	2011	2010
Financial highlights		
Revenue	**$ 474.5**	$ 366.4
EBITDA[1]	**164.4**	115.2
Earnings from operations and associate	**113.1**	68.4
Net earnings for the period	**63.6**	29.4
Comprehensive income (loss)	**22.2**	(31.9)
Net earnings per share, basic and diluted ($ per share)	**0.22**	0.10
Cash flow		
Cash provided by operating activities	**$ 112.8**	$ 126.9
Spending on capital and intangible assets [2]	**$ 47.1**	$ 38.2
Production volumes		
Nickel (tonnes)(50% basis)	**4,303**	4,265
Cobalt (tonnes)(50% basis)	**470**	468
Coal - Prairie Operations (millions of tonnes)	**8.6**	8.8
Coal - Mountain Operations (millions of tonnes) [3]	**1.1**	0.4
Oil - Cuba - net production (barrels per day)	**11,702**	11,459
Electricity (gigawatt hours) (33 1/3% basis)	**148**	172
Unit operating costs		
Nickel (US$ per pound) [4]	**$ 4.07**	$ 3.45
Coal - Prairie Operations ($ per tonne) [5]	**12.72**	10.84
Coal - Mountain Operations ($ per tonne)	**78.26**	78.97
Oil - Cuba ($ per barrel)	**11.19**	11.73
Electricity ($ per megawatt hour)	**18.67**	7.56
Averaged-realized sales prices		
Nickel ($ per pound)	**$ 11.73**	$ 9.20
Cobalt ($ per pound)	**17.55**	20.16
Coal - Prairie Operations ($ per tonne) [5]	**15.04**	13.37
Coal - Mountain Operations ($ per tonne)	**91.44**	69.45
Oil - Cuba ($ per barrel)	**61.92**	53.00
Electricity ($ per megawatt hour)	**40.54**	42.67

$ millions, as at	2011 March 31	2010 December 31
Financial condition [6]		
Current ratio	**3.92:1**	4.22:1
Net working capital balance	**$ 1,099.0**	$ 1,112.6
Cash, cash equivalents and short-term investments	**732.0**	759.8
Total assets	**6,096.3**	6,068.2
Total loans and borrowings	**1,553.5**	1,563.6
Shareholders' equity	**3,539.4**	3,528.3
Long-term debt to total assets [7]	**27%**	27%

(1) For additional information see the Non-IFRS measure - EBITDA section.
(2) Spending on capital and intangible assets includes accruals and does not include spending on Ambatovy.
(3) Results include the Corporation’s 100% interest in Mountain Operations from July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest.
(4) Net direct cash cost is inclusive of by-product credits and third-party feed costs.
(5) Excludes royalties, char and activated carbon.
(6) The Corporation was required to change how it accounts for Ambatovy and Energas. As a result, there were significant changes to most accounts in the statement of financial position.
(7) Calculated as total loans and borrowings divided by total assets excluding goodwill. This leverage ratio is monitored by management and lenders.

Executive summary

Q1 2011 Highlights

- Net earnings for the first quarter of 2011 were $63.6 million compared to $29.4 million in the same period in the prior year;
- Revenue of $474.5 million and EBITDA of $164.4 million in the first quarter of 2011 compared to revenue of $366.4 million and EBITDA of $115.2 million in the same period in the prior year. Higher revenue and EBITDA were primarily a result of higher nickel, export thermal coal and oil prices, and the acquisition of the remaining 50% interest of Coal Valley Partnership (CVP) on June 30, 2010, which was partially offset by higher operating costs primarily at Metals and the impact of a stronger Canadian dollar relative to the U.S. dollar during the quarter compared to the same period in the prior year;
- The Ambatovy Project continued to progress with an additional US$284.8 million (100% basis) of project expenditures. Commissioning activities at the port were completed during the first quarter of 2011, allowing for the receipt of the first shipments of input commodities, including sulphuric acid and coal. Several key components began start-up activities during the quarter, including the water and sewage treatment plants, demineralized water plant and compressed air plant at the plant site. At March 31, 2010, 50% of the major process plant modules had been transferred to the commissioning teams.
- The Corporation continued to maintain a strong liquidity position with a current ratio of 3.92:1, a net working capital balance of $1.1 billion and cash, cash equivalents, and short-term investments of $732.0 million. These amounts include $35.7 million of cash and cash equivalents held by the Moa Joint Venture. These amounts do not include $10.5 million of cash and cash equivalents (40% basis) held by the Ambatovy Joint Venture. The Corporation's long-term debt-to-total assets ratio was 27%.

Transition to IFRS

This MD&A is Sherritt's first under International Financial Reporting Standards (IFRS). The Corporation has provided information throughout this document and other publicly filed documents in an effort to assist users in understanding Sherritt's transition from Canadian generally accepted accounting principles (Canadian GAAP). A comprehensive summary of all of the significant changes including the various reconciliations of unaudited Canadian GAAP financial statements to those prepared under IFRS is included in note 30 in the Corporation's March 31, 2011 interim financial statements.

Adopting IFRS did not impact the cash the Corporation generates or how it conducts its various businesses; however, primarily as a result of the unique nature of Sherritt's agreements and arrangements, the adoption of IFRS did have a substantial impact on the Corporation's statement of financial position and statement of comprehensive income.

For the vast majority of accounting policy choices, Sherritt did not change its accounting policies under Canadian GAAP if it was not required to under IFRS. Sherritt did not have choices among alternative acceptable accounting policies on adoption of IFRS for the most significant changes that are noted below. The following is a summary of those significant changes affecting the statement of financial position on January 1, 2010:

- At Metals, primarily due to the interpretation of the Ambatovy Joint Venture shareholder's agreement under IFRS, the Corporation was required to account for its 40% interest in the project as an equity investment, presented as a single line item on the statement of financial position and the statement of comprehensive income (loss). IFRS differs from Canadian GAAP as it places greater emphasis on governance and decision making when determining whether an entity controls another entity on a basis other than voting interest. Under Canadian GAAP, Ambatovy was accounted for as a variable interest entity which was fully consolidated with non-controlling interest in the net assets reported separately. As a result of deconsolidating Ambatovy from the statement of financial position, total assets (net of a new financial statement line item for investment in an associate of $1 billion) decreased by $4.1 billion, and total liabilities and non-controlling interest decreased by $4.1 billion. There was no impact on net earnings. Sherritt is the operator of the Ambatovy Joint Venture.
- At Power, it was determined that under the terms of the shareholder's agreement the Corporation has joint control with its partners and is required to proportionally consolidate its 33$^{1/3}$% investment in Energas S.A. on a line-by-line basis on the consolidated statement of financial position and statement of comprehensive income. IFRS differs from Canadian GAAP as it places greater emphasis on governance and decision making when determining whether an entity controls another entity on a basis other than voting interest. Under Canadian GAAP, Energas S.A. was accounted for as a variable interest entity which was fully consolidated with non-controlling interest in the net assets reported separately. As a result, net assets decreased by $204 million and non-controlling interest decreased by $204 million. The impact on net earnings is nominal.

- At Coal's Prairie operations, it was determined that coal supply arrangements related to the operation of the 50% owned mine Genesee and the contract mine Highvale, as well as certain agreements to operate draglines and other assets, were leasing arrangements. It was determined that Sherritt contributed assets to these arrangements; however, the utility customer had the primary right to use those assets. In effect, Sherritt performs leasing services and is reimbursed with a return on its investment in these assets. As a result, Sherritt was required to reclassify assets of approximately $239 million previously recognized in property, plant and equipment to finance lease receivables since Sherritt is considered the lessor. The impact on net earnings is nominal; coal revenue earned from these lease arrangements are presented as finance lease income and the related depreciation is no longer recorded as these assets are not considered property, plant, and equipment. EBITDA will be lower as it does not include finance lease income related to these arrangements.
- At Power, the Boca de Jaruco and Puerto Escondido facilities were determined to be operating under service concession arrangements. A service concession arrangement is one whereby a private enterprise provides a service to a public sector entity. For Sherritt, it constructs infrastructure used to provide a public service and also operates and maintains that infrastructure for a fee for a specified period of time. At the end of the service concession arrangement the residual interest in the infrastructure is transferred to the Cuban Government. As a result of these service concession arrangements, Sherritt was required to derecognize the property, plant, and equipment and other assets of $73 million related to these facilities and record an equivalent amount as an intangible asset. The impact on net earnings is nominal.

A reconciliation of previously reported first quarter 2010 Canadian GAAP net earnings to first quarter 2010 IFRS net earnings is noted below:

	Reference		Q1 2010
Net earnings under Canadian GAAP		**$**	**59.7**
Foreign exchange loss on Ambatovy subordinated loan	(a)		(12.7)
Borrowing costs related to Ambatovy	(b)		(11.5)
Share based compensation expense	(c)		(3.4)
Other	(d)		(2.7)
Net earnings under IFRS		**$**	**29.4**

a) Sherritt has provided a U.S. dollar denominated subordinated loan to Ambatovy to finance the development of the project. Under IFRS, as repayment of the loan is expected to occur in the foreseeable future it cannot be included as part of the net investment in Ambatovy as was the case under Canadian GAAP. The loan is now presented as a separate line on the statement of financial position and unrealized foreign-exchange gains and losses are recognized in net earnings as the loan is revalued each period.

b) Under IFRS, Sherritt's investment in Ambatovy Joint Venture is accounted for as an equity investment. As a result, Sherritt is no longer permitted to capitalize interest costs related to the funds it has borrowed from its Ambatovy Joint Venture partners (additional partner loans) or the amortization of its cross-guarantee fee asset related to the Ambatovy project.

c) Sherritt was required to change how it accounted for certain stock options under IFRS such that the Black-Scholes model is used to value these options each reporting period. The amount of expense or recovery for these stock options is primarily determined by movement in the price of Sherritt's publicly traded shares.

d) The items included in Other were not significant on an individual basis and are not expected to cause significant volatility in net earnings in the future. Some of these items related to accounting for environmental rehabilitation provisions, accounting for employee benefits, accounting for income taxes, foreign-exchange changes and the impact of adopting IFRIC 4 and IFRIC 12 described above. At March 31, 2010, the effective tax rate under IFRS is higher than under Canadian GAAP primarily due to foreign-exchange losses as described in (a) above and borrowing costs deductions as described in (b) above that are not deductible for tax purposes.

Financial results

$ millions, except per share amounts, for the three months ended March 31		**2011**		2010
Revenue by segment				
Metals	**$**	**140.4**	$	115.9
Coal		**245.9**		178.1
Oil and Gas		**70.5**		59.3
Power		**14.4**		11.4
Corporate and other		**3.3**		1.7
		474.5		366.4
EBITDA[1] by segment				
Metals	**$**	**65.9**	$	48.1
Coal		**47.7**		31.2
Oil and Gas		**54.8**		42.8
Power		**4.8**		7.6
Corporate and other		**(8.8)**		(14.5)
		164.4		115.2
Earnings (loss) from operations and associate				
Metals	**$**	**57.4**	$	38.8
Coal		**23.5**		13.2
Oil and Gas		**39.4**		26.2
Power		**2.2**		4.8
Corporate and other		**(9.4)**		(14.6)
		113.1		68.4
Net finance expense[2]		**17.6**		14.9
Income taxes		**31.5**		23.3
Loss from discontinued operation, net of tax		**0.4**		0.8
Net earnings	**$**	**63.6**	$	29.4
Net earnings per share				
Basic	**$**	**0.22**	$	0.10
Diluted	**$**	**0.22**	$	0.10
Effective tax rate		**33%**		44%

(1) For additional information see the Non-IFRS Measure - EBITDA section.
(2) Net finance expense includes interest income or expense, gain or loss on financial instruments, net foreign-exchange losses or gains, and other charges

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

- Metals' earnings from operations and associate of $57.4 million for the three months ended March 31, 2011 were $18.6 million higher than in the same period in 2010 primarily due to higher average-realized nickel prices, partially offset by higher operating costs;
- Coal's earnings from operations of $23.5 million for the three months ended March 31, 2011 were $10.3 million higher than in the same period in 2010 primarily due to higher export thermal coal prices and the impact of the 50% acquisition of CVP on June 30, 2010, partially offset by the impact of a stronger Canadian dollar relative to the U.S. dollar;
- Oil and Gas' earnings from operations of $39.4 million for the three months ended March 31, 2011 were $13.2 million higher than in the same period in the prior year primarily due to an increase in the average-realized price for oil produced in Cuba;
- Power's earnings from operations of $2.2 million for the three months ended March 31, 2011 were $2.6 million lower than in the same period in the prior year primarily due to lower sales volumes and an insurance recovery received in 2010;

- Net financing expense of $17.6 million was $2.7 million higher for the three months ended March 31, 2011 compared to the same period in the prior year primarily due to higher interest expenses as a result of higher loan balances, partially offset by lower foreign-exchange losses. The foreign-exchange losses arising from the revaluation of U.S. dollar-denominated advances and loans receivable were mostly offset by the foreign-exchange gains from the revaluation of U.S. dollar-denominated loans payable; and
- The effective consolidated tax rate for the three months ended March 31, 2011 was 33% as compared to 44% in the same period in the prior year.   This decrease in the effective tax rate is primarily the result of changes in the relative mix of earnings and losses, including foreign-exchange gains and losses, that were incurred by the various divisions in different tax rate jurisdictions.

Review of Operations

METALS

Financial review

$ millions, for the three months ended March 31	2011	2010
Revenue		
Nickel	$ 110.7	$ 86.4
Cobalt	17.8	18.3
Fertilizers	8.2	8.5
Other	3.7	2.7
	140.4	115.9
Cost of sales[1]		
Mining, processing and refining	53.7	46.3
Third-party feed costs	2.2	3.7
Fertilizers	7.9	8.3
Selling costs	2.6	2.8
Other	6.0	5.1
	72.4	66.2
Administrative expenses[1]	2.1	1.6
EBITDA[2]	65.9	48.1
Depletion, depreciation, and amortization	7.4	8.5
Share of loss of associate	1.1	0.8
Earnings from operations and associate	$ 57.4	$ 38.8

(1) Excluding depletion, depreciation and amortization.

(2) For additional information see the Non-IFRS measure - EBITDA section.

The change in earnings from operations and associated entity between 2011 and 2010 is detailed below:

$ millions, for the three months ended March 31	2011
Higher realized nickel prices	$ 28.3
Lower realized cobalt prices	(1.5)
Higher nickel and cobalt sales volumes net of lower fertilizer sales volumes	2.4
Higher mining and processing costs net of lower third-party feed costs	(7.0)
Stronger Canadian dollar relative to the U.S. dollar	(4.1)
Other	0.5
Change in earnings from operations , compared to 2010	$ 18.6

Metal prices

For the three months ended March 31	2011	2010
Nickel - average-realized ($/lb)	$ 11.73	$ 9.20
Cobalt - average-realized ($/lb)	17.55	20.16
Nickel - average-reference (US$/lb)	12.20	9.11
Cobalt - average-reference (US$/lb)[1]	18.38	20.11

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

The average nickel reference price increased US$3.09 per pound due to higher demand and the weaker U.S. dollar. The average cobalt reference price decreased $1.73 per pound due to lower demand. Average-realized prices in 2011 were negatively impacted by the stronger Canadian dollar relative to the U.S. dollar.

Production and sales

Production (tonnes) (50% basis) For the three months ended March 31	2011	2010
Mixed sulphides	**4,844**	4,659
Finished nickel	**4,303**	4,265
Finished cobalt	**470**	468

Sales (50% basis) For the three months ended March 31	2011	2010
Finished nickel (thousands of pounds)	**9,438**	9,392
Finished cobalt (thousands of pounds)	**1,014**	907
Fertilizer (tonnes)	**17,694**	26,694

Production of 9,688 tonnes (100% basis) of contained nickel and cobalt in mixed sulphides established a quarterly production record and was 370 tonnes (100% basis) higher reflecting the impact of on-going process improvements and stable plant operation. Finished nickel and cobalt production were higher primarily due to increased availability of mixed sulphides from Moa.

Finished nickel and cobalt sales were higher primarily due to higher finished metals production and the timing of shipments. Fertilizer sales volumes were 9,000 tonnes lower as the timing of spring season sales has been impacted by the high level of snow cover in Western Canada that delayed spring fertilizer application.

Unit costs

Net direct cash cost For the three months ended March 31	2011	2010
Mining, processing and refining costs	**$ 5.52**	$ 4.68
Third-party feed costs	**0.24**	0.38
Cobalt by-product credits	**(1.91)**	(1.87)
Other[1]	**0.22**	0.26
Net direct cash cost (US$/lb of nickel)[2]	**$ 4.07**	$ 3.45
Natural gas costs ($/gigajoule)	**3.68**	4.87
Sulphur (US$/tonne)	**199.85**	114.22
Sulphuric acid (US$/tonne)	**174.09**	129.60

(1) Includes fertilizer profit or loss, marketing costs, premiums, and other by-product credits.
(2) Net direct cash cost represents the cash cost, adjusted for the impact of opening and closing inventory values, incurred at each processing stage from mining through recoverable nickel delivered to market, less by-product credits.

Components of mining, processing and refining costs[1] For the three months ended March 31	2011	2010
Fixed costs	**22%**	21%
Sulphur	**8%**	6%
Sulphuric acid	**19%**	14%
Fuel oil	**18%**	19%
Maintenance	**11%**	14%
Other variable	**22%**	26%
	100%	100%

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

Net direct cash cost of nickel increased US$0.62 per pound primarily due to higher mining and processing costs, partially offset by lower third party feed costs. Increased mining and processing costs were primarily due to higher commodity input prices. Third-party feed costs decreased as a result of lower third party feed levels to the refinery. Higher production at Moa allowed the refinery to increase its feed of more profitable Moa mixed sulphides.

Spending on capital

$ millions, for the three months ended March 31 (1)	2011	2010
Moa Joint Venture		
Sustaining	**$ 4.5**	$ 4.2
Expansion	**1.8**	1.3
Total	**$ 6.3**	$ 5.5

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

Spending on capital for the Moa Joint Venture continues to include capitalized interest related to financing of the Phase 2 expansion and the Moa acid plant.

Ambatovy Project update

- Project expenditures for the quarter were US$284.8 million (100% basis) and cumulative capital expenditures to March 31, 2011 were US$4.73 billion (100% basis) excluding financing charges, foreign–exchange gains and losses, and working capital requirements. Cumulative capital expenditures were US$4.61 billion (100% basis) on a pro-forma basis after adjusting for foreign exchange rates consistent with the original project cost estimates;
- The current approved capital spending estimate is US$4.76 billion (100% basis) with the production of first metal in summer 2011. As the Project nears both the estimated schedule and associated capital budget, a review is being conducted to determine if either estimate requires alteration. Revised guidance will be issued if there is any material change to either estimate;
- A total of $231.9 million (100% basis) in funding was provided by the Ambatovy Joint Venture partners in the quarter. $47.1 million of Sherritt's $92.8 million share of funding was directly funded by Sherritt and $45.7 million was funded through additional partner loans;
- No amounts were drawn from senior debt financing in the first quarter of 2011;
- Over 12,200 people are engaged in construction activities mainly at the plant site in Toamasina. Demobilization of contractors and construction workers is expected to commence in the second quarter of 2011 as construction completion is achieved in the Utilities and Pressure Acid Leach (PAL) areas;
- Steam blows using coal were completed on the first of the three coal-fired power plants at the plant site. The production of reliable power from this unit has been delayed until late May, 2011, due primarily to the failure of refractory in the boiler combustion chamber. The remaining two units remain under construction with reliable power expected from the second and third units in late July and early October, 2011, respectively;
- A total of 28 of the 56 major process plant modules have been handed over to the commissioning team. This process will continue throughout the second and third quarters of 2011. A significant number of systems, primarily in the PAL areas, will be handed over to the commissioning team in the second quarter of 2011;
- Commissioning activities have been completed at the port allowing for the receipt of the first shipment of coal at the end of the first quarter;
- Power generation facilities and utilities at the mine site, the facilities at the port in Toamasina, the water and sewage treatment plants and demineralized water plant and compressed air plant at the plant site are all in start-up mode;
- A shipment of 5,000 tonnes of sulphuric acid required for start up of the sulphuric acid plants was received successfully at the Port in Toamasina and was transferred to storage tanks at the plant site;

- Build-up of ore stockpiles at the mine site, which commenced in July 2010, is now complete and focus has shifted to commissioning of the ore preparation plant at the mine and the slurry pipeline between the mine and process plant; commissioning is progressing well with first slurry planned to be transported down the pipeline within the second quarter of 2011;
- Operational readiness activities have been completed in most departments and the remaining items are on schedule for completion prior to start-up of the plant. All critical procedures and policies have been developed and are being implemented;
- The Ambatovy Project experienced one labour disturbance in the first quarter between a contractor and its foreign labour force. This disturbance resulted in a 13-day labour disruption at the refinery. This labour disruption did not negatively affect other contractors; and
- While the project has not experienced material disruptions due to the political situation in Madagascar, the future of democratic elections in Madagascar remains uncertain. Following several visits to Madagascar by delegates of SADC (Southern Africa Development Community), a political road map has been proposed and subsequently endorsed by the Transitional Government but not by the main opposition parties. SADC leadership is yet to deliberate on whether it will endorse the roadmap. A ministerial reshuffle and the inclusion of a small number of opposition members is being promoted by the Transitional Government as a "government of national unity" but is viewed by some observers as a token effort to appease SADC. The Corporation actively monitors the political climate in Madagascar and continues to hold ongoing communication with representatives of the national, regional and local government as well as multilateral institutions and key embassies. Ambatovy has active working relations with all ministries to manage any impediments to construction, commissioning and future operations.

Sulawesi Project update

On November 30, 2010, the Corporation entered into an earn-in and shareholders agreement with a subsidiary of Rio Tinto whereby the Corporation could acquire a 57.5% interest in a holding company that owns the Sulawesi Nickel Project in Indonesia upon funding US$30.0 million and meeting certain other conditions by March 15, 2013. Rio Tinto will continue to own the remaining 42.5% in the holding company. In compliance with Indonesian Mining law, local Indonesian interests are expected to acquire a 20% stake in the Sulawesi Project after which Sherritt and Rio Tinto's economic interest will be 46.0% and 34.0%, respectively.

The Corporation can elect to spend an additional US$80.0 million by December 31, 2016 towards producing a feasibility study from which a development decision will be made. If the additional US$80.0 million is not spent, the Corporation's interest in the Sulawesi Project will be forfeited.

The Sulawesi Project is a large, high grade undeveloped lateritic nickel deposit on the Indonesian islands of Sulawesi. Sherritt has been appointed operator and will license its commercially-proven proprietary technology to the project.

During the first quarter of 2011, the Corporation advanced work on permitting related to the next phase of the resource drilling program, environmental and social baseline studies, and the project prefeasibility study.

Outlook for 2011

Production volumes and spending on capital For the three and twelve months ended	**Actual 2011 March 31**	Projected 2011 December 31
Production		
Mixed sulphides (tonnes, 100% basis)	**9,688**	37,700
Finished nickel (tonnes, 100% basis)	**8,605**	34,100
Finished cobalt (tonnes, 100% basis)	**940**	3,600
Spending on capital ($ millions)		
Moa Joint Venture (50% basis)	**6**	50
Ambatovy (US$ millions, 100% basis)	**285**	325

Moa Joint Venture guidance for full-year 2011 production of mixed sulphides increased 2% (700 tonnes, 100% basis), reflecting the strong performance at the Moa mine in first-quarter 2011. The anticipated increase in mixed sulphides production is expected to result in a 1% (300 tonne, 100% basis) increase in finished nickel production for the year and finished cobalt is expected to remain consistent with past guidance, as third-party feeds continue to be displaced. Capital spending guidance for the Moa Joint Venture remains unchanged. The Moa Joint Venture partners are reviewing options for the completion of the Phase 2 Expansion and the construction of the sulphuric acid plant at Moa. Capital spending guidance does not include any expansion-related expenditures, other than capitalized interest.

At Ambatovy, as the Project nears both the estimated schedule and associated capital budget, a review is being conducted to determine if either estimate requires alteration. Revised guidance will be issued if there is any material change to either estimate. Sherritt will directly fund its partner funding obligations for the duration of the Project. The first slurry is expected to be transported down the pipeline from the mine site in Moramanga to the plant site in Toamasina during second-quarter 2011.

At Sulawesi, estimates remain unchanged, as approximately $13 million is expected to be spent in 2011 to advance prefeasibility and feasibility work on the Project.

COAL
Financial review

$ millions, for the three months ended March 31		2011		2010
Prairie Operations				
Mining revenue(1)	**$**	**133.2**	$	128.3
Coal royalties		**11.8**		11.1
Potash royalties		**4.8**		3.3
		149.8		142.7
Cost of sales(1)(2)		**112.2**		104.5
Administrative expenses(2)		**2.4**		1.6
EBITDA(3)		**35.2**		36.6
Depletion, depreciation and amortization(1)		**13.4**		13.9
Earnings from operations	**$**	**21.8**	$	22.7
Mountain Operations and coal development assets(4)				
Revenue	**$**	**96.1**	$	35.4
Cost of sales(2)		**82.1**		40.1
Administrative expenses(2)		**1.5**		0.7
EBITDA(3)		**12.5**		(5.4)
Depletion, depreciation and amortization		**10.8**		4.1
Earnings (loss) from operations	**$**	**1.7**	$	(9.5)

(1) The Corporation determined certain coal supply agreements in Prairie Operations were leasing arrangements. As a result, coal revenue earned on specified assets from these arrangements were reclassified to finance income and the related depreciation is no longer recorded since these assets are not considered property, plant and equipment. Finance lease income is not included in EBITDA.
(2) Excluding depletion, depreciation and amortization.
(3) For additional information see the Non-IFRS Measure - EBITDA section.
(4) 2011 results include the Corporation's 100% interest in Mountain Operations due to its acquisition of the 50% interest it did not own on June 30, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest. For coal development assets, the Corporation continues to proportionately consolidate its 50% interest.

The change in earnings from operations between 2011 and 2010 is detailed below:

$ millions, for the three months ended March 31		2011
Prairie Operations		
Higher royalties	**$**	**2.2**
Higher cost of sales, net of mining revenue		**(3.0)**
Lower depletion, depreciation and amortization		**1.2**
Higher defined benefit pension expense		**(1.4)**
Other		**0.1**
Change in earnings from operations, compared to 2010	**$**	**(0.9)**
Mountain Operations and coal development assets		
50% of first quarter 2010 loss	**$**	**(9.5)**
Higher export coal prices, denominated in U.S. dollars		**22.4**
Stronger Canadian dollar relative to the U.S. dollar		**(4.0)**
Higher export sales volumes		**5.8**
Other		**(3.5)**
Change in earnings from operations, compared to 2010	**$**	**11.2**

Coal prices

Prices ($/tonne) For the three months ended March 31		2011		2010
Prairie Operations - average-realized(1)(2)	$	**15.04**	$	13.37
Mountain Operations - average-realized		**91.44**		69.45

(1) Excludes royalties, char and activated carbon revenue.
(2) Certain mining revenue as described above under Financial Review was reclassified as part of finance lease income and is not included in the average-realized price calculation.

In Prairie Operations, the average-realized price increased $1.67 per tonne primarily due to similar revenues earned at the Highvale mine on lower sales volumes. Sales volumes at the Highvale mine were lower due to the mine's customer shutting down two coal-fired generating units because of prohibitively expensive repair costs. Revenues were comparable to the prior period because a substantial portion of it was earned through fixed cost and capital recoveries.

In Mountain Operations, the average-realized price increased $21.99 per tonne due to higher thermal export coal pricing, partially offset by a stronger Canadian dollar relative to the U.S. dollar.

Royalty revenue

$ millions, for the three months ended March 31 Prairie Operations		2011		2010
Coal royalties	$	**11.8**	$	11.1
Potash royalties		**4.8**		3.3

In Prairie Operations, coal royalties increased due to the timing of mining in royalty-assessable areas. Potash royalties increased due to higher potash market prices on comparatively stable production volumes.

Production and sales

Production (millions of tonnes) For the three months ended March 31	2011	2010
Prairie Operations	**8.6**	8.8
Mountain Operations(1)	**1.1**	0.4

Sales (millions of tonnes) For the three months ended March 31	2011	2010
Prairie Operations	**8.5**	9.3
Mountain Operations(1)	**1.0**	0.5

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

In Prairie Operations, production and sales volumes were lower compared to the prior year period primarily at the Highvale and Genesee mines. At Highvale, production and sales volumes were lower due to the mine's customer shutting down two coal-fired generating units as discussed above. At Genesee, production and sales volumes were higher in 2010 as coal reserves were accumulated for planned plant maintenance.

In Mountain Operations, production and sales volumes were higher compared to the prior year period due to the impact of Sherritt acquiring the remaining 50% of CVP on June 30, 2010 and improved dragline availability at Obed Mountain mine.

Unit costs

Unit cost ($ per tonne) For the three months ended March 31	2011	2010
Prairie Operations[1][2]	$ 12.72	$ 10.84
Mountain Operations	78.26	78.97

(1) The unit cost is calculated by dividing the appropriate cost of sales from the financial review table above by the number of tonnes sold.
(2) Excludes activated carbon and char operating costs.

Components of unit cost (%) For the three months ended March 31	2011	2010
Prairie Operations		
Labour	44%	41%
Repairs and maintenance	27%	30%
Fuel	16%	12%
Other [1]	13%	17%
Total	100%	100%
Mountain Operations		
Labour	21%	24%
Repairs and maintenance	14%	12%
Fuel	10%	11%
Rentals and contractors	15%	15%
Ex-Mine[2]	32%	33%
Other [3]	8%	5%
Total	100%	100%

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

In Prairie Operations, unit operating costs increased $1.88 per tonne compared to the prior period primarily due to lower production volumes at the Highvale mine on comparable fixed costs.

In Mountain Operations, unit operating costs decreased $0.71 per tonne compared to the prior period primarily due to increased plant yields at both the Coal Valley and Obed Mountain mines from mining in areas with higher quality coal in 2011, partially offset by lower loading equipment availability at Coal Valley and higher demurrage costs from railing difficulties. In 2010, both mines operated in areas with lower quality coal due to delays in receiving regulatory permits related to areas that are now being mined.

Spending on capital

$ millions, for the three months ended March 31	2011	2010
Prairie Operations		
Sustaining[1][2]	$ 15.5	$ 8.0
Growth (50% basis)[2]	-	7.2
Mountain Operations[3]		
Sustaining[4]	4.3	1.1
Total	$ 19.8	$ 16.3

(1) Includes leased expenditures of $9.5 million and $5.5 million for the three-month periods ended March 31, 2011 and 2010, respectively.
(2) Prairie Operations capital expenditures include $4.9 million and $2.3 million of sustaining spending related to assets that are categorized as finance lease receivables for the three-month periods ended March 31, 2011 and 2010, respectively.
(3) 2011 results reflect the Corporation's 100% interest in Mountain Operations from July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest.
(4) Includes leased expenditures of $2.4 and $nil million for the three-month periods ended March 31, 2011 and 2010, respectively.

Coal leases the majority of its mobile equipment under long-term mine-support equipment agreements entered into in 2004. In 2011, in addition to the acquisition of $9.5 million of leased equipment, Prairie Operations incurred capital costs of $6.0 million for infrastructure development and capital repairs on mobile equipment.

Growth capital spending in Prairie Operations in 2010 related to the Activated Carbon plant at Bienfait mine. Production volumes for the first three months of 2011 totalled 1,398 tonnes (50% basis) of activated carbon.

In Mountain Operations, capital spending increased primarily due to the impact of Sherritt acquiring the remaining 50% of CVP on June 30, 2010 and the timing of receiving mining equipment at the site.

Outlook for 2011

Production volumes, royalties and spending on capital For the three and twelve months ended	**Actual 2011 March 31**	Projected 2011 December 31
Production		
Prairie Operations (millions of tonnes)	**9**	35
Mountain Operations (millions of tonnes)	**1**	5
Royalties ($ millions)		
Coal	**12**	41
Potash	**5**	14
Spending on capital ($ millions)		
Prairie Operations	**16**	107
Mountain Operations	**4**	45

At Coal's Prairie Operations, guidance for full-year 2011 production decreased 3% (1 million tonnes), as lower than anticipated production resulting from the closure of two units at a customer's power plant is expected to be partially offset by modest, demand-related production increases at other mines. Full-year 2011 production guidance of 13,000 tonnes (100% basis) for activated carbon remains unchanged from previous estimates. Spending on capital in Prairie Operations is expected to be marginally lower (4% or $4 million) than prior estimates, reflecting long lead times associated with ordering and procuring mining equipment.

At Coal's Mountain Operations, Mountain Operations, production guidance remains unchanged from prior estimates. The devastating earthquake and tsunami that struck Japan in first-quarter 2011 have caused extensive damage to the country's power facilities and major disruptions in the generation and delivery of power. Consequently, the process of determining the benchmark Newcastle settlement pricing for export thermal coal, which is generally established for the standard April 1 to March 31 coal year, has been delayed. However, based on recent spot market prices and initial contract settlement pricing, the Newcastle benchmark for the 2011 contract year is expected to be higher than in 2010. Approximately 90% of Mountain Operations' 2011 coal production is expected to be sold in the export market. Spending on capital in Mountain Operations is expected to be approximately 10% ($5 million) lower than prior estimates, reflecting long lead times associated with ordering and procuring mining equipment.

OIL AND GAS

Financial review

$ millions, for the three months ended March 31		2011		2010
Revenue				
Cuba	$	**65.2**	$	54.7
Spain		**4.0**		3.9
Pakistan		**0.3**		0.2
Processing and other		**1.0**		0.5
		70.5		59.3
Cost of sales(1)(2)		**13.4**		13.8
Administrative expenses(1)(2)		**2.3**		2.7
EBITDA(3)		**54.8**		42.8
Depletion, depreciation, and amortization		**15.4**		16.6
Earnings from operations	$	**39.4**	$	26.2

(1) Excluding depletion, depreciation and amortization.
(2) Certain costs previously categorized as general and administrative were reclassified to cost of sales. The 2010 figures have been adjusted accordingly.
(3) For additional information see the Non-IFRS Measure - EBITDA section.

The change in earnings from operations between 2011 and 2010 is detailed below:

$ millions, for the three months ended March 31		2011
Higher realized oil and gas prices	$	**13.2**
Stronger Canadian dollar relative to the U.S. dollar		**(2.0)**
Other		**2.0**
Change in earnings from operations, compared to 2010	$	**13.2**

Oil prices

Prices For the three months ended March 31		2011		2010
Average-realized prices				
Cuba ($/bbl)	$	**61.92**	$	53.00
Spain ($/bbl)		**105.29**		79.70
Pakistan ($/boe)(1)		**7.98**		7.39
Reference price (US$/bbl)				
Gulf Coast Fuel Oil No. 6		**86.45**		70.37
Brent		**105.95**		76.62

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

The average-realized price for oil production in Cuba increased by $8.92 per barrel as a result of higher oil reference prices, partially offset by a stronger Canadian dollar relative to the U.S. dollar. The average-realized price for oil produced in Spain was higher for the same reasons.

Production and sales

Daily Production Volumes[1] For the three months ended March 31	2011	2010
Gross working-interest oil production in Cuba[2][3]	**20,874**	22,019
Net working-interest oil production[4]		
Cuba (heavy oil)		
Cost recovery	**4,197**	3,687
Profit oil	**7,505**	7,772
Total	**11,702**	11,459
Spain (light/medium oil)[4]	**425**	546
Pakistan (natural gas)[4]	**357**	365
Total	**12,484**	12,370

(1) Oil production is stated in barrels per day (bpd). Natural gas production is stated in barrels of oil equivalent per day (boepd), which is converted at 6,000 cubic feet per barrel.
(2) In Cuba, Oil and Gas delivered all of its gross working-interest oil production to CUPET at the time of production. Gross working-interest oil production excludes (i) production from wells for which commerciality has not been established in accordance with production-sharing contracts, and (ii) working interests of other participants in the production-sharing contracts.
(3) For further information on gross working-interest oil production in Cuba, cost recovery, and profit oil see page 44 of the 2010 annual report.
(4) Net working-interest oil production (equivalent to net sales volume) represents the Corporation's share of gross working-interest production.

Gross working-interest oil production in Cuba decreased by 1,145 bpd primarily due to a decrease in production from the Varadero production-sharing contract which expired on March 18, 2010, a 50% decrease in Sherritt's share of production from a high producing well in the Varadero West field in the third quarter of 2010, and natural reservoir declines, partially offset by production increases from new wells drilled and optimization of production from existing wells.

Cost recovery oil production in Cuba increased by 510 bpd primarily due to an increase in cost recovery expenditures, partially offset by higher oil prices. Profit-oil production, which represents Sherritt's share of production after cost recovery volumes are deducted from gross working-interest volumes decreased by 267 bpd.

Production in Spain was lower due to natural reservoir declines.

Unit costs

Unit cost ($ per net boe)[1][2] For the three months ended March 31	2011	2010
Cuba	**$ 11.19**	$ 11.73
Spain	**33.35**	28.70
Pakistan	**3.77**	1.22
Weighted-average[3]	**$ 11.73**	$ 12.17

(1) Excludes depletion, depreciation, and amortization.
(2) The 2010 unit costs have been adjusted to reflect the reclassification between administrative expense and cost of sales as previously discussed.
(3) Calculated as total appropriate cost of sales divided by total oil production (total oil production calculated as boepd times the number of days in the period).

Components of unit cost - Cuba (%) For the three months ended March 31	2011	2010
Cuba		
Labour	**26%**	21%
Maintenance	**7%**	5%
Treatment and transportation	**21%**	31%
Other[1]	**46%**	43%
	100%	100%

(1) Composed mainly of chemicals, insurance, yard maintenance costs and fuel, net of capitalized equipment costs.

Unit costs in Cuba decreased by $0.54 per barrel primarily due to a stronger Canadian dollar relative to the U.S. dollar. Unit costs in Spain increased by $4.65 per barrel primarily due to lower production but partially offset by lower operating costs.

Spending on capital

$ millions, for the three months ended March 31		2011		2010
Development and facilities	$	**14.5**	$	10.9
Exploration (1)		**0.2**		2.3
Total	$	**14.7**	$	13.2

(1) Exploration and evaluation spending incurred before the technical feasibility and commercial viability of extracting the resource is accounted for as an intangible asset.

In the first quarter of 2011, development and facilities capital spending primarily included $7.6 million for development drilling activities, $4.0 million for equipment and inventory purchases, and $2.2 million related to facilities.

During the first quarter of 2011, two development wells commenced drilling and one was completed and is producing oil.

Outlook for 2011

Production volumes and spending on capital For the three and twelve months ended	**Actual 2011 March 31**	Projected 2011 December 31
Production		
Gross working-interest oil (Cuba) (bpd)	**20,874**	19,700
Net working-interest production, all operations (boepd)	**12,484**	11,900
Spending on capital ($ millions)		
Cuba	**13**	100
Other	**2**	11

Oil and Gas guidance relating to 2011 gross working-interest oil production in Cuba remains unchanged from previous estimates. Total net working-interest production is expected to be 6% (800 bpd) lower than the previous estimate primarily due to higher oil prices. Spending on capital for 2011 in Cuba is expected to remain consistent with previous guidance. In total, seven development wells and one exploration well are planned for 2011.

POWER

Financial review

$ millions, for the three months ended March 31 [1]		2011		2010
Revenue				
Electricity sales	$	**6.0**	$	7.3
By-products and other		**1.6**		1.5
Fixed price lease contracts[2]		**1.3**		1.4
Construction activity[3]		**5.5**		1.2
		14.4		11.4
Cost of sales[3]		**2.8**		1.3
Cost of construction		**5.5**		1.2
Administrative expenses[4]		**1.3**		1.3
EBITDA[5]		**4.8**		7.6
Depletion, depreciation, and amortization		**2.6**		2.8
Earnings from operations	$	**2.2**	$	4.8

(1) The Corporation's 33 1/3% interest in Energas is proportionately consolidated.
(2) Composed of fixed lease payments received for the operation of a 25 MW power plant in Madagascar. This revenue was previously included in by-products and other.
(3) The revenue is recognized in respect of construction, enhancement, or upgrading activity is equal to the costs recorded in cost of construction for the Boca de Jaruco and Puerto Escondido facilities. The contractual arrangements related to these facilities are treated as service concession arrangements.
(4) Excluding depletion, depreciation and amortization.
(5) For additional information see the Non-IFRS Measure - EBITDA section.

The change in earnings from operations between 2011 and 2010 is detailed below:

$ millions, for the three months ended March 31		2011
Lower realized electricity prices, denominated in Canadian dollars	$	**(0.3)**
Lower electricity volumes		**(1.0)**
Higher cost of sales in 2011 due to increased labour costs and an insurance recovery in 2010		**(1.5)**
Other		**0.2**
Change in earnings from operations, compared to 2010		**(2.6)**

Electricity Prices

Prices ($/MWh) [1] For the three months ended March 31		2011		2010
Average-realized price	$	**40.54**	$	42.67

(1) Megawatt hours (MWh).

The average-realized price of electricity was $2.13 per MWh lower primarily due to the impact of a weaker U.S. dollar relative to the Canadian dollar.

Production and sales

Production/Sales For the three months ended March 31	2011	2010
Electricity sold[1] GWh[2]	**148**	172

(1) Includes production related to the Varadero facility.
(2) Gigawatt hours (GWh).

Production decreased by 24 GWh primarily due to turbine and rotor failures at the Boca de Jaruco facility during January and February 2011 and gas supply shortages at the Varadero facility.

Unit costs

For the three months ended March 31	2011	2010
Unit cost ($ per MWh)[1]	**$ 18.67**	$ 7.56

(1) The unit cost is calculated by dividing cost of sales from the financial review table above by the number of MWh of electricity sold.

Components of unit cost(%) For the three months ended March 31	2011	2010
Labour	**39%**	46%
Maintenance	**31%**	41%
Other [1]	**30%**	13%
Total	**100%**	100%

(1) Composed mainly of insurance, freight and duty.

Unit operating costs increased $11.11 primarily due to a reclassification of costs from administrative to cost of sales, small increases in certain operating costs and an insurance recovery in the first quarter of 2010 in relation to a turbine failure.

Spending on capital

$ millions, for the three months ended March 31	2011	2010
Sustaining	**$ -**	$ 0.6
Growth[1]	**6.1**	1.6
Total	**$ 6.1**	$ 2.2

(1) Spending related to Boca de Jaruco and Puerto Escondido facilities is categorized as spending on intangible assets.

Spending on capital included components and capitalized interest for the 150 MW Boca de Jaruco Combined Cycle project.

Outlook for 2011

Production volumes and spending on capital For the three and twelve months ended	**Actual 2011 March 31**	Projected 2011 December 31
Production		
Electricity (GWh)	**148**	560
Spending on capital ($ millions)		
Cuba	**6**	51

Production and capital expenditure guidance remains unchanged from prior estimates, but is now being reported on a one-third basis, reflecting Sherritt's proportionate share of the production and spending on capital with respect to the Energas operations..

OTHER

Technologies

In the three months ended March 31, 2011, Technologies generated revenue of $3.1 million, compared to $1.7 million in the same period in the prior year. Revenue increased primarily due to new customer agreements.

Mineral Products

During the third quarter of 2010, the Corporation classified Mineral Products as a discontinued operation once the talc mine and plant closed.

The division incurred losses for the three months ended March 31, 2011 of $0.4 million (2010 - $0.8 million).

Liquidity and capital resources

Based on the Corporation's financial position and liquidity at March 31, 2011, and projected future earnings, management expects to be able to fund its working capital and capital project needs, and meet its other obligations including debt repayments.

CASH REQUIREMENTS

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

Canadian $ millions, as at	**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 more than 5 years**
Trade accounts payable and accrued liabilities	$ 194.5	$ 194.5	$ -	$ -	$ -	$ -	$ -
Advances and loans payable	137.8	26.3	17.3	12.7	12.7	12.7	56.1
Income taxes payable	32.4	32.4	-	-	-	-	-
Loans and borrowings(1)	2,866.3	84.6	396.0	90.3	332.7	367.1	1,595.6
Finance leases and other equipment financing	131.9	44.6	38.1	27.4	13.1	8.7	-
Operating leases	91.7	22.4	21.0	17.3	12.2	4.7	14.1
Capital commitments	21.3	15.3	6.0	-	-	-	-
Environmental obligation provision	395.4	27.3	16.7	14.9	26.0	29.9	280.6
Pensions	82.9	8.3	8.4	8.2	8.5	8.7	40.8
Total	$ 3,954.2	$ 455.7	$ 503.5	$ 170.8	$ 405.2	$ 431.8	$ 1,987.2

(1) Loans and borrowings include accrued interest. The interest and principal on the Ambatovy Joint Venture Additional Partner Loans will be repaid solely from Sherritt's share of the distributions from the Ambatovy Joint Venture. These loans are non-recourse to Sherritt unless there is a direct breach of certain restrictions in the loan documents.

The table above excludes the Corporation's external commitments related to the Ambatovy Joint Venture. The Corporation's 40% share of some of these commitments includes the following:

- Capital purchase commitments of $112.1 million due within the next year;
- Environmental obligation commitments of $143.4 million, with no significant repayments due in the next 5 years; and
- Ambatovy Joint Venture senior debt financing of $707.5 million, with principal repayments beginning the later of six months after financial completion of the Ambatovy Project or thirty months after final draw down, but not later than February 2013.

INVESTMENT LIQUIDITY

At March 31, 2011, cash, cash equivalents and short-term and long-term investments were located in the following countries:

$ millions, as at March 31, 2011	Cash and cash equivalents	Short-term investments	Long-term investments	Total
Canada	$ **338.9**	$ **351.1**	$ **48.7**	$ **738.7**
Cuba	**25.8**	**-**	**74.8**	**100.6**
Other	**16.2**	**-**	**-**	**16.2**
Total	$ **380.9**	$ **351.1**	$ **123.5**	$ **855.5**

Cash and short-term investments

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

At March 31, 2011, included in cash, cash equivalents and short-term investments was $35.7 million (50% basis) of cash held by the by the Moa Joint Venture. All cash held by the Moa Joint Venture is for the exclusive use of the joint venture.

The Corporation's short-term investments are primarily in Government of Canada treasury bills with original maturity dates of greater than three months and less than one year.

The table above does not include $10.5 million of cash held by the Ambatovy Joint Venture (which is included as part of the investment in an associate balance in the consolidated statements of financial position). The cash balances are deposited with major financial institutions rated A or higher by Standard and Poor's and are for the exclusive use of the Ambatovy Joint Venture.

Long-term investments

As a result of an agreement in January 2009 with Oil and Gas and Power's Cuban customers, Sherritt acquired approximately US$159.1 million in certificates of deposit (CDs). These CDs were issued by a Cuban bank and bear interest at a rate of 30-day LIBOR plus 5%. In the event of default, Sherritt has the right to receive payment from the cash flows payable by the Moa Joint Venture to its Cuban beneficiaries. At March 31, 2011, the balance of the CD's was $74.8 million.

At March 31, 2011, the Corporation held MAV notes with a fair value of $43.0 million. These notes are held as an investment. The Corporation has used these notes as collateral for its MAV note loans. Under the terms of the loans, proceeds from the sale of the MAV notes would be used to repay any outstanding principal amounts of the loan, if any and/or reduce the amount available under the loan.

AVAILABLE CREDIT FACILITIES

At March 31, 2011, the Corporation and its divisions have borrowed $1.5 billion under available long-term credit facilities. Total credit available under these facilities was $439 million, not including approximately $115 million (US$112 million) (40% basis) available under the Ambatovy Joint Venture senior debt financing.

The following table outlines the maximum amount and amounts available to the Corporation under its credit facilities as at March 31, 2011 and December 31, 2010.

$ millions, as at		2011 March 31		2010 December 31
	Maximum	Available	Maximum	Available
Short-term				
Syndicated 364-day revolving term credit facility	$ 115	$ 109	$ 115	$ 109
MAV liquidity line of credit	20	20	20	20
Letters of credit[(1)]	49	-	49	-
Long-term				
Ambatovy J.V. partner loans (US$)[(2)]	213	124	213	127
Senior credit facility agreement	235	158	235	121
MAV note loans	31	31	33	33
Total Canadian equivalent	$ 657	$ 439	$ 642	$ 452
Supplementary information				
Ambatovy Project financing (US$) (40%)[(3)]	$ 840	$ 112	$ 840	$ 112
Finance leases[(4)]	$ 191	$ 62	$ 190	$ 51

(1) Uncommitted letter of credit facility entered into for CVP.
(2) The availability under this loan has been reduced by US$22.9 million, the amount repaid to Korea Resources Corporation.
(3) Due to the equity accounting for Ambatovy previously discussed, this loan is not included in loans and borrowings on the Corporation's statement of financial position.
(4) Finance leases include only those that have been committed by lenders.

Covenants

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

At March 31, 2011, the Corporation and its divisions were in compliance with all of their financial covenants. The Corporation expects to remain in compliance with all of its financial covenants during the next 12 months, based on current market conditions. Other than the covenants required for the debt facilities, the Corporation is not subject to any externally imposed capital restrictions.

SOURCES AND USES OF CASH

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

$ millions, for the three months ended March 31		2011		2010
Cash from operating activities				
Cash from operating activities before change in non-cash working capital	**$**	**111**	$	74
Change in non-cash working capital		**22**		63
Net interest received, and income tax paid		**(20)**		(10)
Cash provided by operating activities	**$**	**113**	$	127
Cash from investing and financing				
Spending on capital and intangible asset	**$**	**(29)**	$	(39)
Loans to an associate		**(59)**		(16)
Repayment of loans and borrowings and other liabilities		**(50)**		(13)
Increase in loans and borrowings and other liabilities		**47**		21
Dividends paid on common shares		**(11)**		(11)
Investment in associate		**(34)**		-
Other		**(5)**		23
	$	**(141)**	$	(35)
	$	**(28)**	$	92
Cash, cash equivalents, and short-term investments:				
Beginning of the period	**$**	**760**	$	586
End of the period	**$**	**732**	$	678

In the first quarter of 2011:

- Cash from operating activities before change in non-cash working capital increased due to higher earnings. Changes in non-cash working capital were lower primarily due to lower trade and other accounts payable.
- Cash used toward spending on capital and intangibles expenditures for the first quarter of 2011 was $29 million. A discussion of spending on capital is included in the Review of operations sections for each division.
- The increase in loans and borrowings was primarily due to proceeds of $46 million received under the Ambatovy Joint Venture additional partner loans. A total of $93 million, including the $46 million of borrowed funds and a total of $47 million of cash, was provided to Ambatovy Joint Venture as its share of Joint venture funding requirements. Of the $93 million funded to Ambatovy, a total of $59 million was provided as a loan to an associate and the remaining $34 million was a direct contribution to Sherritt's investment in Ambatovy.
- Cash of $40 million was used to repay part of the senior credit facility agreement and 3-year non-revolving term loan.

COMMON SHARES

As at April 26, 2011 the Corporation had 294,964,800 common shares outstanding. An additional 5,278,680 common shares are issuable upon exercise of outstanding stock options granted to employees and directors pursuant to the Corporation's stock option plan.

An additional 943,276 common shares are issuable in relation to the cross-guarantees provided by certain Ambatovy Joint Venture partners. These shares are to be issued on December 31, 2011.

In February 2011, the Board of Directors of the Corporation approved a quarterly dividend of $0.038 per share that was payable on April 14, 2011 to shareholders of record at the close of business on March 31, 2011.

Managing risk

Sherritt manages a number of risks in each of its businesses in order to achieve an acceptable level of risk without hindering its ability to maximize returns. Management has procedures to identify and manage significant operational and financial risks. Strategies designed to manage the Corporation's significant business risks are discussed in the Corporation's Annual Information Form filed on SEDAR at www.sedar.com and on the Corporation's website at www.sherritt.com.

Accounting pronouncements

ISSUANCES OF ACCOUNTING PRONOUNCEMENTS

IFRS 9 – Financial instruments

IFRS 9, "Financial instruments" (IFRS 9) was issued by the IASB on November 12, 2009 and will replace IAS 39, "Financial Instruments: Recognition and Measurement" (IAS 39). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

IAS 24 – Related party disclosures

A revised version of IAS 24, "Related party disclosures" (IAS 24) was issued by the IASB on November 4, 2009. IAS 24 requires entities to disclose in their consolidated financial statements information about transactions with related parties. Generally, two parties are related to each other if one party controls, or significantly influences, the other party. IAS 24 has simplified the definition of a related party and removed certain of the disclosures required by the predecessor standard. The revised standard is effective for annual periods beginning on or after January 1, 2011. The adoption of this issuance did not have a significant impact on the consolidated financial statements.

Summary of quarterly results

The following table presents a summary of the segments and consolidated operating results for each of the eight quarters ended June 2009 to March 2011.

$ millions, except per share amounts, for the three months ended	2011 March 31	2010 December 31	2010 September 30	2010 June 30	2010 March 31	2009 December 31(1)	2009 September 30(1)	2009 June 30(1)
Revenue								
Metals	$ 140.4	$ 147.0	$ 127.8	$ 138.3	$ 115.9	$ 110.6	$ 114.3	$ 111.1
Coal(2)	245.9	260.6	217.8	189.8	178.1	174.9	181.2	165.7
Oil and Gas	70.5	61.9	53.2	63.7	59.3	63.0	59.9	50.2
Power	14.4	12.3	11.0	12.3	11.4	28.5	30.6	28.6
Corporate and other	3.3	3.4	2.9	2.2	1.7	2.2	3.0	2.1
	$ 474.5	$ 485.2	$ 412.7	$ 406.3	$ 366.4	$ 379.2	$ 389.0	$ 357.7
Net earnings	63.6	42.7	22.5	50.2	29.4	48.3	55.9	24.4
Net earnings per share								
Basic	$ 0.22	$ 0.15	$ 0.08	$ 0.17	$ 0.10	$ 0.16	$ 0.19	$ 0.08
Diluted	$ 0.22	$ 0.14	$ 0.07	$ 0.17	$ 0.10	$ 0.16	$ 0.19	$ 0.08

(1) The effective transition date from Canadian GAAP to IFRS was January 1, 2010. As a result these quarters have not been restated to IFRS.

(2) The Corporation fully consolidated Mountain Operations (100%) beginning July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest in Mountain Operations.

Net earnings for the Corporation before the inclusion of unusual items were affected primarily by changes in commodity prices and exchange rates that impact revenue and costs. The Corporation's results have been positively impacted by an increase in nickel, cobalt and oil prices, which have been generally been trending higher over the last five quarters.

Transactions with related parties

The Corporation and subsidiaries provide goods, labour, advisory and other administrative services to jointly-controlled entities, and an associate at exchange amounts (cost, commercial rates and other various contractual terms). 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.

Canadian $ millions, for the three months ended March 31	**2011**	2010
Total value of goods and services:		
Provided to jointly-controlled entities and associate	**$ 16.5**	$ 16.2
Purchased from jointly-controlled entities	**9.9**	11.4
Financing income from jointly-controlled entities	**5.9**	7.0

Canadian $ millions, as at	**2011 March 31**	2010 December 31	2010 January 1
Accounts receivable from jointly-controlled entities and associate	**$ 31.4**	$ 17.4	$ 12.7
Accounts payable to jointly-controlled entities and associate	**0.6**	2.1	1.7
Advances and loans receivable from associate	**664.6**	620.9	391.8
Advances and loans receivable from certain Moa Joint Venture entities	**156.7**	168.1	210.0
Loan receivable from Coal Valley Resources Inc.	**-**	-	5.0
Advances and loans receivable from Energas	**138.8**	134.1	144.8

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 owned by related parties.

Controls and procedures

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal control over financial reporting means a process designed by or under the supervision of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The internal controls are not expected to prevent and detect all misstatements due to error or fraud.

As at March 31, 2011, the Corporation's CEO and CFO have certified that the disclosure controls and procedures are effective and that during the quarter ended March 31, 2011 the Corporation did not make any material changes in the internal controls over financial reporting that materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

Supplementary information

SENSITIVITY ANALYSIS

The following table shows the approximate impact on the Corporation's first quarter 2011 net earnings and EPS of a change in selected key variables. The impact is measured changing one variable at a time and may not necessarily be indicative of sensitivities on future results.

Factor	Increase	Approximate change in Q1 net earnings ($ millions) Increase/(decrease)	Approximate quarterly change in basic EPS Increase/(decrease)
Prices			
Nickel - LME price per pound (50% basis)	US$ 0.50	3	0.01
Cobalt - Metal Bulletin price per pound (50% basis)	US$ 5.00	3	0.01
Oil -U.S. Gulf Coast Fuel Oil No. 6 price per barrel	US$ 5.00	3	0.01
Thermal coal - price per tonne	$ 5.00	5	0.02
Volume			
Nickel - tonnes (50% basis)	1,000	5	0.02
Cobalt - tonnes (50% basis)	250	3	0.01
Oil - barrels per day	1,000	4	0.01
Exchange rate			
Strengthening of the Canadian dollar relative to the U.S. dollar	US$ 0.05	(10)	(0.03)
Operating costs			
Natural Gas - cost per gigajoule (Metals) (50% basis)	$ 1.00	(1)	-
Sulphuric acid - cost per tonne (Metals) (50% basis)	US$ 25.00	(1)	-
Fuel - WTI oil price	US$ 10.00	(2)	(0.01)

NON-IFRS MEASURE - EBITDA

The Corporation's definition of EBITDA is earnings (loss) from operations and associate as reported in the IFRS financial statements, excluding amounts included in net earnings or net loss for income taxes, financing income, financing expense, depletion, depreciation, and amortization in cost of sales and administrative expenses, impairment charges for property, plant and equipment, goodwill and investments, gain or loss on disposal of property, plant and equipment, and share of income or loss of associate.

The table below presents EBITDA and reconciles this non-IFRS measure to earnings before tax.

$ millions, for the three months ended March 31		2011		2010
Revenue	$	474.5	$	366.4
Cost of sales		337.8		274.1
Gross profit		136.7		92.3
Administrative expenses		22.5		23.1
Operating profit		114.2		69.2
Add:				
Depletion, depreciation, and amortization in cost of sales and administrative expenses		50.2		46.0
EBITDA		164.4		115.2
Less:				
Depletion, depreciation, and amortization in cost of sales and administrative expenses		50.2		46.0
Share of loss of associate		(1.1)		(0.8)
Earnings from operations and associate		113.1		68.4
Financing income		(17.5)		(19.0)
Financing expense		35.1		33.9
Earnings before tax	$	95.5	$	53.5

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements. Forward-looking statements generally can be identified by the use of statements that include words such as "believe", "expect", "anticipate", "intend", "plan", "forecast", "likely", "may", "will", "could", "should", "suspect", "outlook", "projected", "continue" or other similar words or phrases. Specifically, forward-looking statements in this document include statements respecting certain future expectations about the Corporation's spending on capital and project development; capital project commissioning and completion dates; production volumes; scheduled maintenance and shutdown of production facilities; realized prices for production; royalty revenues; oil and gas drilling activity; sales of activated carbon; debt repayments; compliance with financial covenants; sufficiency of working capital and capital project funding; and other corporate objectives, plans or goals for 2011. These forward-looking statements are not based on historic facts, but rather on current expectations, assumptions and projections about future events. 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. Sherritt cautions readers of this MD&A not to place undue reliance on any forward-looking statements 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. By their nature, forward-looking statements require Sherritt to make assumptions and are subject to inherent risks and uncertainties.

Key factors that may result in material differences between actual results and developments and those contemplated by this MD&A include, global economic conditions, business, economic and political conditions in Canada, Cuba, Madagascar, Indonesia, and the principal markets for Sherritt's products. Other such factors include, but are not limited to, uncertainties in the development and construction of large mining projects; risks related to the availability of capital to undertake capital initiatives; changes in capital cost estimates in respect of the Corporation's capital initiatives; risks associated with Sherritt's joint-venture partners; future non-compliance with financial covenants; potential interruptions in transportation; political, economic and other risks of foreign operations; Sherritt's reliance on key personnel and skilled workers; the possibility of equipment and other unexpected failures; the potential for shortages of equipment and supplies; risks associated with mining, processing and refining activities; uncertainties in oil and gas exploration; risks related to foreign-exchange controls on Cuban government enterprises to transact in foreign currency; risks associated with the United States embargo on Cuba and the Helms-Burton legislation; risks related to the Cuban government's ability to make certain payments to the Corporation; development programs; uncertainties in reserve estimates; uncertainties in asset-retirement and reclamation cost estimates; Sherritt's reliance on significant customers; foreign-exchange and pricing risks; uncertainties in commodity pricing; credit risks; competition in product markets; Sherritt's ability to access markets; risks in obtaining insurance; uncertainties in labour relations; uncertainties in pension liabilities; the ability of Sherritt to enforce legal rights in foreign jurisdictions; the ability of Sherritt to obtain government permits; risks associated with government regulations and environmental health and safety matters; differences between Canadian GAAP and IFRS; and other factors listed from time to time in Sherritt's continuous disclosure documents.

Further, any forward-looking statement speaks only as of the date on which such statement is made, and except as required by law, Sherritt undertakes no obligation to update any forward-looking statements.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at and for the three months ended March 31, 2011

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed consolidated statements of financial position

Unaudited, Canadian $ millions, as at	Note	**2011 March 31**	2010 December 31 (note 30)	2010 January 1 (note 30)
ASSETS				
Current assets				
Cash and cash equivalents	27	**$ 380.9**	$ 263.1	$ 164.7
Restricted cash		**1.1**	1.1	1.8
Short-term investments	27	**351.1**	496.7	420.8
Investments	13	**29.8**	30.8	34.6
Advances, loans receivable and other assets	14	**82.4**	83.8	89.0
Finance lease receivable	14	**19.7**	19.9	19.9
Trade accounts receivable, net	27	**367.9**	335.9	290.6
Income taxes receivable		**27.9**	25.6	21.2
Inventories	10	**206.7**	190.6	172.3
Prepaid expenses		**8.0**	10.3	10.9
		1,475.5	1,457.8	1,225.8
Non-current assets				
Advances, loans receivable and other assets	14	**975.1**	940.6	790.1
Finance lease receivable	14	**196.5**	196.7	202.8
Property, plant and equipment	12	**1,321.2**	1,342.1	1,269.6
Investments	13	**93.7**	96.5	112.5
Investment in an associate	9	**934.0**	932.0	993.0
Goodwill	15	**307.9**	307.9	307.9
Intangible assets	16	**787.6**	791.5	803.1
Deferred income taxes		**3.2**	1.4	19.7
		4,619.2	4,608.7	4,498.7
Assets of discontinued operation	7	**1.6**	1.7	-
		$ 6,096.3	$ 6,068.2	$ 5,724.5
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Loans and borrowings	17	**$ 18.3**	$ 33.1	$ 34.4
Trade accounts payable and accrued liabilities		**194.5**	169.4	160.5
Income taxes payable		**32.4**	26.0	9.7
Other liabilities	17	**104.1**	91.2	54.0
Provisions	18	**27.2**	25.5	24.1
		376.5	345.2	282.7
Non-current liabilities				
Loans and borrowings	17	**1,535.2**	1,530.5	1,342.8
Other liabilities	17	**205.1**	208.7	219.1
Intangible liability	6	**12.6**	13.7	-
Provisions	18	**179.8**	182.8	140.0
Deferred income taxes		**237.9**	234.5	218.8
		2,170.6	2,170.2	1,920.7
Liabilities of discontinued operation	7	**9.8**	24.5	-
		2,556.9	2,539.9	2,203.4
Shareholders' equity				
Capital stock	19	**2,786.8**	2,787.3	2,771.9
Contributed surplus		**207.2**	206.6	218.5
Retained earnings		**684.9**	632.5	530.7
Accumulated other comprehensive loss		**(139.5)**	(98.1)	-
		3,539.4	3,528.3	3,521.1
		$ 6,096.3	$ 6,068.2	$ 5,724.5

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

Condensed consolidated statements of comprehensive income

Unaudited, Canadian $ millions, except per share amounts, for the three months ended March 31	Note		2011		2010
					(note 30)
Revenue		**$**	**474.5**	$	366.4
Cost of sales	24		**337.8**		274.1
Gross profit			**136.7**		92.3
Administrative expenses			**22.5**		23.1
Operating profit			**114.2**		69.2
Share of (loss) of an associate, net of tax	9		**(1.1)**		(0.8)
Earnings from operations and associate			**113.1**		68.4
Financing income	22		**(17.5)**		(19.0)
Financing expense	22		**35.1**		33.9
Net finance expense			**17.6**		14.9
Earnings before tax			**95.5**		53.5
Income tax expense	25		**31.5**		23.3
Net earnings from continuing operations			**64.0**		30.2
Loss from discontinued operation, net of tax	7		**0.4**		0.8
Net earnings for the period		**$**	**63.6**	$	29.4
Other comprehensive income (loss)					
Foreign currency translation differences on foreign operations			**(41.4)**		(61.3)
Comprehensive income (loss)		**$**	**22.2**	$	(31.9)
Earnings from continuing operations per common share:	20				
Basic		**$**	**0.22**	$	0.10
Diluted		**$**	**0.22**	$	0.10
Net earnings per common share:	20				
Basic		**$**	**0.22**	$	0.10
Diluted		**$**	**0.22**	$	0.10

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

Condensed consolidated statements of cash flow

Unaudited, Canadian $ millions, except per share amounts, for the three months ended March 31	Note	2011	2010 (note 30)
Operating activities			
Net earnings		**$ 63.6**	$ 29.4
Add (deduct)			
Depletion, depreciation and amortization		**50.2**	46.0
Accretion expense on environmental rehabilitation provisions	22	**1.4**	1.1
Stock-based compensation expense	21	**1.9**	6.6
Share of loss of an associate, net of tax	9	**1.1**	0.8
Impairment losses	24	**0.1**	0.4
Net gain on financial instruments	22	**(5.6)**	(6.6)
Deferred income taxes	25	**2.6**	2.2
Unrealized foreign-exchange (gain) loss		**2.2**	(1.5)
Liabilities settled for environmental rehabilitation	18	**(4.8)**	(2.4)
Cross guarantee fee amortization	22	**3.0**	3.0
Other Items		**(5.4)**	(4.8)
		110.3	74.2
Net change in non-cash working capital	11	**22.3**	62.6
		132.6	136.8
Interest received		**7.1**	7.0
Interest paid		**(2.9)**	(3.9)
Income tax paid		**(24.0)**	(13.0)
Cash provided by operating activities		**112.8**	126.9
Investing activities			
Property, plant and equipment expenditures		**(22.4)**	(34.2)
Intangible asset expenditures		**(6.7)**	(4.8)
Advances, loans receivable and other assets		**2.8**	12.6
Investments		**6.7**	7.1
Loans to an associate		**(58.9)**	(15.6)
Investment in an associate		**(33.9)**	-
Restricted cash		**-**	0.7
Net proceeds from sale of property, plant and equipment		**0.1**	0.3
Short-term investments		**145.6**	(101.0)
Cash provided by (used for) investing activities		**33.3**	(134.9)
Financing activities			
Repayment of loans and borrowings and other liabilities		**(50.3)**	(13.2)
Increase in loans and borrowings and other liabilities		**46.6**	21.2
Increase in (repayment of) short-term loans		**(14.2)**	2.5
Finance lease receivable, net		**1.4**	3.6
Issuance of common shares	19	**0.1**	-
Treasury stock - restricted stock plan	19	**(0.6)**	(0.8)
Dividends paid on common shares		**(11.2)**	(10.6)
Cash (used for) provided by financing activities		**(28.2)**	2.7
Effect of exchange rate changes on cash and cash equivalents		**(0.1)**	(3.5)
Increase (decrease) in cash and cash equivalents		**117.8**	(8.8)
Cash and cash equivalents at beginning of year		**263.1**	164.7
Cash and cash equivalents at end of period		**$ 380.9**	$ 155.9
Cash and cash equivalents consist of:			
Cash on hand and balances with banks		**$ 70.0**	$ 74.0
Cash equivalents		**310.9**	81.9

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

Condensed consolidated statement of changes in equity

Unaudited, Canadian $ millions

	Note	Capital stock	Retained earnings	Contri-buted surplus	Other compre-hensive loss	Total
Balance at January 1, 2010	30	$ 2,771.9	$ 530.7	$ 218.5	$ -	$ 3,521.1
Shares issued for:						
Employee share purchase plan	19	1.1	-	-	-	1.1
Cross-guarantee	19	13.9	-	(13.9)	-	-
Treasury stock - restricted stock plan	19	(0.8)	-	-	-	(0.8)
Other	19	1.2	-	-	-	1.2
Restricted stock plan amortization	19, 21	-	-	0.8	-	0.8
Employee share purchase plan expense	21	-	-	1.2	-	1.2
Dividends declared to common shareholders		-	(43.0)	-	-	(43.0)
Net earnings for the period	30	-	144.8	-	-	144.8
Other comprehensive income						
Foreign currency translation						
differences on foreign operations		-	-	-	(98.1)	(98.1)
Balance at December 31, 2010		$ 2,787.3	$ 632.5	$ 206.6	$ (98.1)	$ 3,528.3
Shares issued for:						
Employee share purchase plan	19	-	-	-	-	-
Cross-guarantee	19	-	-	-	-	-
Stock options exercised	19	0.1	-	-	-	0.1
Treasury stock - restricted stock plan	19	(0.6)	-	-	-	(0.6)
Other		-	-	-	-	-
Restricted stock plan amortization	19, 21	-	-	0.3	-	0.3
Employee share purchase plan expense	21	-	-	0.2	-	0.2
Stock option plan expense	21	-	-	0.1	-	0.1
Dividends declared to common shareholders		-	(11.2)	-	-	(11.2)
Net earnings for the period		-	63.6	-	-	63.6
Other comprehensive income						
Foreign currency translation						
differences on foreign operations		-	-	-	(41.4)	(41.4)
Balance at March 31, 2011		$ 2,786.8	$ 684.9	$ 207.2	$ (139.5)	$ 3,539.4

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

Notes to interim condensed consolidated financial statements

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

1 NATURE OF OPERATIONS AND CORPORATE INFORMATION

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

The Corporation is domiciled in Ontario, Canada and its registered office is 1133 Yonge Street, Toronto, Ontario, M4T 2Y7. These interim condensed consolidated financial statements were approved and authorized for issuance by the Audit Committee of the Board of Directors of Sherritt on April 26, 2011. The Corporation is listed on the Stock Exchange in Toronto.

2 BASIS OF PRESENTATION

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

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

The significant accounting policies described in note 3 set out below were consistently applied to all the periods presented.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Corporation’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

Changeover from Canadian Generally Accepted Accounting Principles

These interim consolidated financial statements represent the Corporation’s initial presentation of its results of operations and financial position under IFRS. They were prepared in accordance with IAS 34, “Interim Financial Reporting” and IFRS 1, “First-time Adoption of IFRS”, and those IFRS standards and IFRIC interpretations issued and effective as at the time of preparing these financial statements. The IFRS standards and IFRIC interpretations applicable at December 31, 2011, including those applicable on an optional basis, were not known with certainty at the time of preparing these interim consolidated financial statements.

The Corporation's annual consolidated financial statements previously were prepared in accordance with Canadian generally accepted accounting principles (GAAP). Canadian GAAP differs from IFRS in some areas. In preparing the IFRS statements, Management amended certain accounting, valuation, and consolidation methods previously applied under Canadian GAAP. The 2010 comparative figures have been restated to reflect these adjustments, except as described in the accounting policies.

The Corporation’s date of transition was January 1, 2010 (Transition Date). On adoption of IFRS, the accounting policies of the Corporation’s subsidiaries, joint ventures and an associate were changed as necessary to ensure consistency with the policies of the Corporation. Reconciliations and descriptions of the effect of transition from Canadian GAAP to IFRS on the Corporation’s consolidated financial statements are provided in note 30.

Certain information that has not changed from the information disclosed in the Corporation's annual 2010 Canadian GAAP financial statements has not been included in these interim condensed consolidated financial statements. This information can be found in the notes to the Corporation's annual 2010 Canadian GAAP financial statements:

- Investments – descriptions and related disclosures of Cuban certificates of deposit, and master asset vehicle (MAV) notes.
- Advances, loans receivable and other assets – descriptions and related disclosures of advances and loans receivable, other financial assets including the Ambatovy call option, deferred reclamation recoveries, and other non-financial assets including the cross-guarantee fee asset.
- Intangible assets – descriptions of royalty agreements, mining contracts, contractual arrangements, customer relationships, customer contracts, and technical knowledge.
- Loans, borrowings and other liabilities – descriptions of short-term loans, including the syndicated 354-day revolving term credit facility, the MAV liquidity line of credit, long-term loans including the 7.875% senior unsecured debentures due 2012, the 8.25% senior unsecured debentures due 2014, the 7.75% senior unsecured debentures due 2015, the Ambatovy Joint Venture additional partner loans, the Ambatovy Joint Venture partner loans, the senior credit facility agreement, the loan from financial institution, the 3-year non-revolving term facility, and advances and loans payable.
- Stock-based compensation plans – descriptions and related disclosures of the stock-based compensation plans related to stock options and options with tandem stock appreciation rights, stock appreciation rights, restricted share units, deferred share units, restricted stock plan, and the employee share purchase plan.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

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

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

(1) On June 30, 2010 Sherritt purchased the remaining 50% interest in the Coal Valley Partnership (CVP) that it did not previously own. Sherritt consolidated the assets acquired and liabilities assumed as at the acquisition date and fully consolidated (100%) the earnings of CVP beginning July 1, 2010. Prior to June 30, 2010, CVP was a jointly-controlled entity and was proportionately consolidated.

Subsidiaries

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

Interests in Joint Ventures

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

(i) Jointly-controlled entities

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

(ii) Jointly-controlled operations

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

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

Associate

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

- The Corporation recognizes its share of earnings (loss) net of tax in the consolidated statements of comprehensive income (loss) which is adjusted against the carrying amount of its investment in the associate;
- If the Corporation's share of losses equals or exceeds 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; and
- Unrealized gains and losses on transactions between the Corporation and its associate are eliminated to the extent of the Corporation's interest in this entity. Unrealized losses are eliminated only to the extent that there is no evidence of impairment. Interest revenue on a loan receivable from an associate is eliminated.

Business combinations

Business combinations are accounted for by applying the purchase method of accounting, whereby:

- The value of the purchase consideration (acquisition cost) is measured as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange;
- When the Corporation obtains control of an acquiree in which it held an ownership interest (a step-acquisition) the Corporation re-measures its previously held ownership interest at its acquisition-date fair value and recognizes any gain or loss in its consolidated statements of comprehensive income (loss);
- The acquisition cost is allocated on the basis of fair value at the date of acquisition to the identifiable assets less liabilities and contingent liabilities (identifiable net assets);
- Provisional fair values allocated at a reporting date are finalized within 12 months of the acquisition date; any changes in provisional fair values are applied retrospectively to the acquisition date;
- The excess of the acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;
- If the acquisition cost is less than the fair value of the identifiable net assets acquired, the difference is recognized as a gain (bargain purchase) in the consolidated statements of comprehensive income (loss);

- Goodwill and fair value adjustments arising on acquisition of foreign operations are translated to Canadian dollars at exchange rates at the reporting date;
- Equity instruments issued as consideration in a business combination are measured based on the fair value of the instrument on the date the consideration is transferred; and
- Transaction costs are expensed as incurred.

Discontinued operations

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

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

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

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

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

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

Basis of segmented disclosure

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

- The Metals segment mainly comprises the mining, processing and marketing of commodity nickel and cobalt and includes the production and sale of agricultural fertilizers. It also includes development of a nickel mine and the construction of a refinery in Madagascar, referred to as the Ambatovy Joint Venture.
- The Coal segment mines and sells thermal coal primarily for use as fuel to generate electricity and holds a portfolio of royalty assets. It also leases equipment to certain customers and operates a contract mine, and a 50% owned mine.
- The Oil and Gas segment includes exploration and development of oil and gas in Cuba, Spain and Pakistan.
- The Power segment constructs and operates electricity generating plants that provide electricity in Cuba and owns an electricity generating plant in Madagascar.
- The Corporate and other segment comprise the metallurgical technology business, mineral products division, management of cash and short-term investments, and general corporate activities.

When determining its reportable segments, the Corporation considers qualitative factors, such as operations which are considered to be significant by the Chief Operating Decision Maker (Senior management). The Corporation also considers quantitative thresholds when determining operating segments, such as if revenue, earnings (loss) or assets are greater than 10% of the total consolidated revenue, net earnings (loss), or assets of all the reportable segments, respectively. The reportable segments’ financial results are reviewed by Senior management.

Revenue recognition

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

Metals

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

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

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

Coal

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

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

Royalty revenue is recognized when the underlying commodity is extracted.

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

In Coal's Mountain Operations, which consists of Coal Valley Partnership, revenue from export thermal coal is recognized when the coal has been loaded onto marine vessels at terminal locations. For domestic coal sales to utility customers, revenue recognition occurs when the coal leaves the mine site.

Oil and Gas

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

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

Power

In Power, these criteria are met at the time electricity is delivered or services are performed. In exchange for providing design, construction and operating services at Boca de Jaruco and Puerto Escondido, Cuba, the Corporation receives the right to charge the Cuban Government for the supply of electricity. At Varadero, operating lease revenue is recognized as lease payments become due. The amount of lease payment due is contingent on the amount of electricity produced by the facility, and the price per kilowatt hour (kWh). Revenue related to construction, enhancement, and upgrading activity associated with service concession arrangements is recognized as costs are incurred. Substantially all of Power's revenue is from agencies of the Government of Cuba.

Interest and royalties

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

Foreign currency translation

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

Translation of foreign entities

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

- Monetary and non-monetary assets and liabilities are translated at the rate of exchange 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; and
- Exchange gains and losses that result from the translation are deferred and disclosed as a foreign currency translation adjustment in accumulated other comprehensive income (loss).

Translation of transactions and balances

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

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

Property, plant and equipment

Property, plant and equipment, include capitalized development and pre-production expenditures that are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Also included in the cost of property, plant and equipment are borrowing costs on qualifying capital projects. These are incurred while construction is in progress and before the commencement of commercial production, for which the commencement date for capitalization is on or after January 1, 2010. Once construction of an asset is substantially complete and is ready for its intended use, the costs are depreciated.

Plant, equipment and land

Plant, equipment and land 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, equipment and land when the parts and equipment are significant and are expected to be used over a period greater than a year, or when the parts and equipment can be used only in connection with an item of plant, equipment and land. Major inspections and overhauls required at regular intervals over the useful life of an item of plant, equipment and land are recognized in the carrying amount of the related item if the inspection or overhaul provides benefits exceeding one year.

Plant, equipment and land are depreciated using the straight-line method based on estimated useful lives, when the assets are available for use. Plant, equipment and land 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 included in net earnings. 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 property, plant and equipment are as follows:

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

Mining properties

Mining and properties include acquisition costs and development costs related to mines in production, properties under development, and properties held for future development. Ongoing pre-development costs relating to properties held for future development are expensed as incurred, including property carrying costs, drilling and other exploration costs. Once a project is determined to be commercially viable, development costs are capitalized. Development costs incurred to access reserves at producing properties and properties under development are capitalized and are depreciated on a unit-of-production basis over the life of such reserves. Reserves are measured based on proven and probable reserves.

Oil and gas properties

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

Derecognition

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

Capitalization of borrowing costs

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

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

Leases

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

Corporation as a lessor

The finance lease receivable is measured at the present value of the future lease payments at the inception of the arrangement. Lease payments received are composed of a repayment of principal and finance income. Finance income is recognized based on the interest rate implicit in the finance lease. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

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

Corporation as a lessee

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

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

Determining whether an arrangement contains a lease

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

At inception or upon reassessment of arrangements containing leases, the Corporation separates payments and other consideration required related to lease payments from those related to other goods or services using relative fair value or other estimation techniques.

Overburden removal costs

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

Intangible assets

Intangible assets acquired as part of a business combination are recognized separately from goodwill if the asset is separable or arises from contractual or legal rights. Intangible assets are also recognized when acquired individually or with a group of other assets. Intangible assets are initially recorded at their estimated fair value. Intangible assets with a finite life are amortized over their useful economic lives on a straight-line or units-of-production basis, as appropriate. The amortization expense is included in cost of sales unless otherwise noted. Intangible assets that are not yet ready for use are not amortized until put into use. They are reviewed for impairment at least annually. The Corporation has no identifiable intangible assets for which the expected useful life is indefinite.

Exploration and evaluation

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

E&E expenditures related to coal and mineral deposits are recognized in cost of sales as incurred until it is established that the mineral property has development potential, which generally occurs once the mineral deposit is classified as a proven and probable reserve.

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

Service concession arrangements

Service concession arrangements are contracts between private sector and government entities and can involve the construction, operation or upgrading of public infrastructure. 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.

In exchange for providing design, construction and operating services at Boca de Jaruco and Puerto Escondido, Cuba, the Corporation receives the right to charge the Cuban Government for the supply of electricity. The 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 in 2023. These assets have been classified as intangible assets representing the right to charge the Government of Cuba to the extent electricity and by-products are delivered. The carrying amount of the service concession intangible asset is amortized on a straight-line basis over the remaining contract period, which ends in 2023. New construction, enhancements and upgrades are capitalized as intangible assets at cost, and amortized over the remaining useful life of the concession once operational. Repair, maintenance and replacement costs are expensed as incurred.

Amortization

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

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

Goodwill

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

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

Impairment of non-financial assets

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

An impairment loss is the amount equal to the excess of the carrying amount over the recoverable amount. The recoverable amount is the higher of value in use (being the net present value of expected pre-tax future cash flows of the relevant asset) and fair value less costs to sell the asset(s). The best evidence of fair value is a quoted price in an active market or a binding sale agreement for the same or similar asset(s). Where neither exists, fair value is based on the best information available to estimate the amount the Corporation could obtain from the sale of the asset(s) in an arm's length transaction. This is often accomplished by using a discounted cash flow technique.

Impairment is assessed at the cash-generating unit (CGU) level. A CGU is the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows from other assets or group of assets. The assets of the corporate head office are allocated on a reasonable and consistent basis to CGUs or groups of CGUs. The carrying amounts of assets of the corporate head office that have not been allocated to a CGU are compared to their recoverable amounts to determine if there is any impairment loss.

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

If, after the Corporation has previously recognized an impairment loss, circumstances indicate that the fair value of the impaired assets is greater than the carrying amount, the Corporation reverses the impairment loss by the amount the revised fair value exceeds its carrying amount, to a maximum of the previous impairment loss. In no case shall the revised carrying amount exceed the original carrying amount, after depreciation or amortization, that would have been determined if no impairment loss been recognized. An impairment loss or a reversal of an impairment loss is recognized in cost of sales, or administrative expense, depending on the nature of the asset. Impairment of goodwill is not reversed.

Exploration and evaluation expenditures at Oil and Gas

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

Goodwill

Goodwill recognized on acquisition of a business is typically allocated to the CGUs of the acquired business for the purpose of impairment testing. However, allocation of goodwill is based on the lowest level at which management monitors it (not exceeding the level of an operating segment). The Corporation allocated the goodwill arising from the acquisition of Royal Utilities to Prairie Operations. The Corporation determines fair value according to an estimate of future discounted cash flows. The Corporation has elected to perform its annual impairment test as of October 1st of each fiscal year.

Impairment of financial assets

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

Impairment of advances, loans receivable, and investments

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

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

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

Impairment of the investment in an associate

At each reporting date, the Corporation assesses whether there is any indication that the carrying amount of Corporation's investment in an associate, including related mineral rights, may be impaired. The mineral rights are tested for impairment annually, as this asset is not yet available for use. Significant changes in commodity prices forecasts, reserve estimates, and production forecasts are examples of factors that could indicate impairment.

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

Provisions

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

Environmental rehabilitation

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

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

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

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

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

Income taxes

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

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

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

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

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

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

The probability that sufficient taxable profits exist in future periods against which the deferred tax assets can be utilized is reassessed at each reporting date. The amount of deferred tax assets recognized is adjusted accordingly.

Deferred tax assets and liabilities are offset where they relate to income taxes levied by the same taxation authority and where the Corporation has the legal right to offset them.

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

Stock-based compensation

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

The Corporation's equity-settled compensation plans include stock options, the Restricted Stock Plan (RSP) shares and Employee Share Purchase Plan (Share Purchase Plan). RSP obligations are settled by the purchase of shares on the open market. Equity-settled stock options and Share Purchase Plan obligations are settled by the issue of shares from treasury. The fair value of the share plans is recognized as an expense over the expected vesting period with a corresponding entry to shareholders' equity. The fair value of the RSP obligation is measured as the value at which the shares are purchased on the market. The fair value of grants issued under the other plans is 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.

Cash-settled share plans, including stock options with tandem stock appreciation rights (Options with Tandem SARs), stock appreciation rights (SARs), Restricted Share Units (RSUs) and Deferred Share Units (DSUs) are recognized as a liability at the date of grant. The fair value of the liability of the options with Tandem SARs and SARs are determined based on the application of the Black-Scholes option valuation model at the date granted and expensed over the vesting period of the awards based on management's estimate of the number of shares expected to vest. Projections are reviewed at each reporting date up to the vesting date to reflect management's best estimates and adjusted as required. No adjustment is made after the vesting date even if the awards are forfeited or not exercised. Movements in the liability between reporting dates is 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 are re-measured based on revised pricing parameters of the model based on market conditions at the reporting date and estimates of forfeiture rates. If any awards are ultimately settled in shares, the liability is transferred directly to equity as part of the consideration for the equity instruments issued.

The fair value of the RSUs and DSUs at the date of grant and at each subsequent reporting date until settlement is based on the market value of the shares with the liability expensed over the vesting period. Movements in that 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.

Post-employment benefits

Employee benefits, including pensions and other post-retirement benefits, are presented in these financial statements in accordance with IAS 19, "Employee Benefits". The Corporation has both defined benefit and defined contribution plans.

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

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

The defined benefit pension liability and expense are measured actuarially using the projected benefit method. Pension costs are based on management's best estimate of expected plan investment performance, discount rate, salary escalation and retirement age of employees. The discount rate used to determine the accrued benefit obligation is based on market interest rates, as at the measurement date, for high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments. Plan assets are valued at fair value for the purpose of calculating the expected return on plan assets.

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

Financial instruments

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

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

Financial assets

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

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

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

- MAV notes.

Loans and receivables, measured at amortized cost:

- Cash on hand and balances at bank; advances and loans receivable; trade accounts receivable; long-term receivables; notes receivable; Cuban certificates of deposit; finance lease receivable.

Financial liabilities

Other financial liabilities, measured at amortized cost:

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

Financial assets at fair value through profit or loss

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

Trade accounts receivable

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

Trade accounts payable and accrued liabilities

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

Loans and borrowings

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

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

Other financial assets and liabilities

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

Derivative instruments

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

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 finance income and finance expense respectively.

Financial instrument measurement hierarchy

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

Level 1: determined by reference to quoted prices in active markets for identical assets and liabilities;
Level 2: valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly; and
Level 3: valuations using inputs that are not based on observable market data.

The Corporation’s financial assets subject to the measurement hierarchy are provided in note 27.

Inventories

Uncovered coal, 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. The cost of inventory includes all costs related to bringing that 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. 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. Write downs to net realizable value may be reversed, up to the amount previously written down when circumstances support an increased inventory value.

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

Government grants

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

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

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

4 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.

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.

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

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

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

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

Property, plant and equipment

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

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.

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

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

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

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

Asset impairment

The Corporation assesses the carrying amount of non-financial assets including property, plant and equipment and intangible assets subject to depreciation and amortization at each reporting date to determine whether there are any indicators that the carrying amount of the assets may be impaired. Goodwill is tested for impairment annually.

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

Overburden removal costs

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

Exploration and evaluation

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

Income taxes

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

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

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.

Purchase price allocations

Business acquisitions are accounted for by the purchase method of accounting whereby the purchase price is allocated to the assets acquired and the liabilities assumed based on fair value at the time of the acquisition. The excess purchase price over the fair value of identifiable assets and liabilities acquired is goodwill. The determination of fair value often requires management to make assumptions and estimates about future events, and consider assumptions other market participants might make. The assumptions and estimates with respect to determining the fair value of property, plant and equipment generally requires a high degree of judgment, and includes estimates of acquired mineral reserves, future commodity prices and discount rates. Changes in any of the assumptions or estimates could impact the amounts assigned to assets, liabilities and goodwill in the purchase price allocation.

Arrangements containing a lease

The Corporation determined that certain property, plant, and equipment at Coal are subject to finance lease arrangements, and the Power facilities in Varadero, Cuba, and Madagascar are subject to operating lease arrangements. The Corporation applies judgment in interpreting these arrangements such as determining which asset(s) 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 by 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.

Measurement of unquoted financial instruments

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

Measuring the fair value of the Corporation’s interest in the Ambatovy Joint Venture

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

5 RECENT ACCOUNTING PRONOUNCEMENTS

IFRS 9 – Financial instruments

IFRS 9, “Financial instruments” (IFRS 9) was issued by the IASB on November 12, 2009 and will replace IAS 39, “Financial Instruments: Recognition and Measurement” (IAS 39). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

IAS 24 – Related party disclosures

A revised version of IAS 24, "Related party disclosures" (IAS 24) was issued by the IASB on November 4, 2009. IAS 24 requires entities to disclose in their consolidated financial statements information about transactions with related parties. Generally, two parties are related to each other if one party controls, or significantly influences, the other party. IAS 24 has simplified the definition of a related party and removed certain of the disclosures required by the predecessor standard. The revised standard is effective for annual periods beginning on or after January 1, 2011. The adoption of this issuance did not have a significant impact on the consolidated financial statements.

6 ACQUISITION OF COAL VALLEY PARTNERSHIP

On June 30, 2010, Sherritt purchased the remaining 50% interest in the Coal Valley Partnership (CVP) that it did not previously own for $45.0 million. The cash consideration of $45.0 million included two separate components; $34.9 million for the 50% partnership interest in CVP and $10.1 million for a loan that was owed to the former partner by Coal Valley Resources Inc. (CVRI), a wholly-owned subsidiary of CVP. The purchase completes the process of consolidating ownership of production assets in the Coal business.

The Corporation consolidated the underlying assets acquired and liabilities assumed as at the acquisition date of June 30, 2010. The Corporation fully consolidated (100%) the earnings of CVP beginning July 1, 2010. The acquisition was accounted for under the purchase method of accounting as a step acquisition, which required Sherritt to re-measure its previously held 50% equity interest to its fair value of $72.3 million, resulting in a gain of $14.3 million.

The estimated fair values assigned to the assets and liabilities assumed were based on a combination of independent appraisals and internal estimates. The fair values of the net identifiable assets were in excess of the consideration paid and as a result there was a gain (bargain purchase) recorded of $1.3 million.

The total gain of $15.6 million was immediately recognized in net earnings in the second quarter of 2010.

As part of the acquisition, an intangible asset and a liability were identified and are: a customer contract asset that was entered into at a fixed price above the forecast market price for a period of 2.5 years and a customer contract liability that was entered into at a fixed price below the forecast market price for a period of 3.5 years.

Acquisition-related costs of $0.4 million were recorded in administrative expenses in the consolidated statements of comprehensive income (loss).

The following table summarizes the components of the consideration paid and identified assets and liabilities assumed:

$ millions		
Consideration		
Cash consideration	$	45.0
Less: Loan owed to vendor by CVRI		(10.1)
Total consideration transferred		34.9
Carrying amount of 50% interest held before the acquisition		21.8
Gain on acquisition		15.6
	$	72.3

$ millions		
Recognized amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents		6.2
Inventories and prepaid expenses		38.1
Trade accounts receivable, net		13.5
Property, plant and equipment		201.7
Intangible asset		21.0
Intangible liability		(16.0)
Loans and borrowings		(30.1)
Trade accounts payable and accrued liabilities		(35.2)
Other liabilities		(49.6)
Deferred income taxes		(9.8)
Environmental rehabilitation and other provisions		(67.5)
	$	72.3

For the three months ended March 31, 2011, the Corporation recognized a net loss of $0.2 million related to the 50% interest acquired, that included amortization of $1.2 million related to the intangible liability. The remaining amortization period of the intangible liability is 2.75 years as at March 31, 2011.

7 DISCONTINUED OPERATION – MINERAL PRODUCTS

In 2007, the Corporation acquired Mineral Products, which included a talc mine and plant, through the acquisition of the Dynatec Corporation. During the second quarter of 2010, the Corporation made an economic decision to close the talc mine and plant on August 27, 2010. During the third quarter of 2010, the Corporation classified Mineral Products as a discontinued operation once the talc mine and plant closed with the prior periods of the consolidated statements of comprehensive income (loss) being restated accordingly. Results of Mineral Products are included in the Corporate and Other segment (note 29).

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

$ millions, except per share amounts, for the three months ended March 31		**2011**		2010
Revenue	**$**	**-**	$	0.7
Expenses		**0.4**		1.5
Loss from discontinued operation, net of tax	**$**	**0.4**	$	0.8

These losses had a nominal impact on the earnings per share of the Corporation.

The impact of the discontinued operation on the operating cash flows of the Corporation was a $0.5 million decrease for the three months ended March 31, 2011 ($0.1 million decrease in cash for the three months ended March 31, 2010).

The consolidated statements of comprehensive income (loss) for the twelve months ended December 31, 2010, included an expense of $8.1 million to increase the environmental rehabilitation provision for the talc mine and plant, a write down of inventory and other asset balances in the amount of $2.4 million, and termination benefit expenses of $1.6 million. The Corporation continues to incur minimal operating costs, such as salaries.

The environmental rehabilitation provision is subject to management estimate. The majority of the increase in the environmental rehabilitation provision recorded in 2010 for the talc mine and plant was due to higher costs as a result of new facts and circumstances, and reclamation activities being performed earlier than previously planned.

8 INTEREST IN JOINT VENTURES

Jointly-controlled entities

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

		2011 March 31	2010 December 31	2010 January 1
	Principal activities		**Economic interest**	
Moa Joint Venture	Nickel and cobalt mining and processing	**50%**	50%	50%
Carbon Development Partnership	Coal recovery and coal gasification project	**50%**	50%	50%
Coal Valley Partnership[(1)]	Thermal coal mining	**100%**	50%/100%	50%
Energas	Power generation	**33 1/3%**	33 1/3%	33 1/3%

(1) On June 30, 2010, Sherritt purchased the remaining 50% interest in the CVP that it did not previously own. As at June 30, 2010, Coal Valley Partnership ceased to be an interest in Joint Venture and became a wholly-owned subsidiary. Sherritt consolidated the assets acquired and liabilities assumed as at the acquisition date and fully consolidated (100%) the earnings of CVP beginning July 1, 2010. Prior to June 30, 2010, CVP was proportionately consolidated.

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

Canadian $ millions, as at March 31, 2011

	Moa Joint Venture	Carbon Development Partnership	Energas
	50%	**50%**	**33 1/3%**
Current assets	**$ 180.8**	**$ 0.5**	**$ 18.6**
Non-current assets	**523.1**	**29.7**	**112.8**
Current liabilities	**119.5**	**0.7**	**10.9**
Non-current liabilities	**239.3**	**0.4**	**61.7**
Net assets	**$ 345.1**	**$ 29.1**	**$ 58.8**

Canadian $ millions, for the three months ended March 31, 2011

	50%	50%	33 1/3%
Revenue	**$ 133.1**	**$ 0.3**	**$ 13.1**
Expenses	**89.7**	**0.4**	**12.6**
Net earnings (loss)	**$ 43.4**	**$ (0.1)**	**$ 0.5**

Canadian $ millions, as at December 31, 2010

	Moa Joint Venture	Carbon Development Partnership	Energas
	50%	50%	33 1/3%
Current assets	$ 174.3	$ 0.6	$ 15.1
Non-current assets	534.5	29.7	118.2
Current liabilities	101.0	0.7	11.8
Non-current liabilities	260.2	0.4	59.1
Net assets	$ 347.6	$ 29.2	$ 62.4

Canadian $ millions, for the three months ended March 31, 2010

	Moa Joint Venture	Carbon Development Partnership	Coal Valley Partnership (1)	Energas
	50%	50%	50%	33 1/3%
Revenue	$ 108.9	$ 0.2	$ 35.2	$ 10.0
Expenses	86.2	0.2	43.1	8.6
Net earnings (loss)	$ 22.7	$ -	$ (7.9)	$ 1.4

Canadian $ millions, as at January 1, 2010

	Moa Joint Venture	Carbon Development Partnership	Coal Valley Partnership (1)	Energas
	50%	50%	50%	33 1/3%
Current assets	$ 144.9	$ 0.4	$ 28.1	$ 20.0
Non-current assets	555.8	29.9	83.5	120.0
Current liabilities	96.1	1.2	50.4	11.6
Non-current liabilities	321.0	0.1	36.8	63.1
Net assets	$ 283.6	$ 29.0	$ 24.4	$ 65.3

(1) On June 30, 2010, Sherritt purchased the remaining 50% interest in the CVP that it did not previously own. Sherritt consolidated the assets acquired and liabilities assumed as at the acquisition date and fully consolidated (100%) the earnings of CVP beginning July 1, 2010.

At March 31, 2011 the share of commitments of the jointly-controlled entities are as follows:

Canadian $ millions, as at March 31, 2011		
Property, plant and equipment commitments	$	**6.2**
Construction commitments relating to service concession arrangements		**176.5**
Other commitments		**2.6**

Jointly-controlled operations

Production sharing contracts

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

At March 31, 2011 the Corporation's share of capital commitments for the production sharing contracts was $11.9 million.

Beinfait Activated Carbon Joint Venture

The Corporation has a contractual arrangement with another company for the production and sale of activated carbon to coal fired utility plants. Coal acts as operator of the plant facilities, while the other company conducts marketing activities. The assets of the operation are jointly owned by the Corporation and the other company based on their respective 50% ownership interests (December 31, 2010 - 50%).

9 INVESTMENT IN AN ASSOCIATE

The Corporation indirectly holds a 40% interest in the Ambatovy Joint Venture companies Ambatovy Minerals S.A. and Dynatec Madagascar S.A. Sherritt is the operator of the Ambatovy Project and has as its partners, Sumitomo Corporation, Korea Resources Corporation and SNC-Lavalin Incorporated. The Ambatovy Project is a large tonnage nickel and cobalt project with two nickel deposits located near Moramanga which are planned to be mined over a 29-year period. The ore from these deposits will be delivered via pipeline to a processing plant and refinery located near the Port of Toamasina. The Ambatovy Joint Venture has an annual reporting date of December 31.

The following additional information provides information for the Ambatovy Joint Venture:

Condensed statement of financial position

Canadian $ millions, 40% interest, as at	2011 March 31	2010 December 31	2010 January 1
Assets			
Cash on hand and balances with banks(1)	**$ 10.5**	$ 23.9	$ 111.3
Inventories(2)	**6.7**	2.4	-
Other current assets	**17.6**	15.3	8.7
Property, plant and equipment	**2,518.9**	2,459.1	2,124.8
Other assets	**2.9**	2.9	3.6
Deferred income taxes	**-**	0.1	-
Liabilities			
Current liabilities	**132.5**	108.0	85.6
Long-term debt			
Ambatovy Joint Venture financing(3)	**691.2**	706.8	646.7
Subordinated loan payable(4)	**664.6**	620.9	391.8
Environmental rehabilitation	**20.6**	20.5	9.8
Other long-term liabilities	**0.4**	0.4	0.3
Deferred income taxes	**113.3**	115.1	121.2
Net assets	**$ 934.0**	$ 932.0	$ 993.0

(1) The Ambatovy Joint Venture cash balances are deposited with major financial institutions rated A or higher by Standard and Poor's and are for the exclusive use of the Ambatovy Joint Venture.

(2) Inventories are composed entirely of raw materials.

(3) The Ambatovy Joint Venture financing totalling US$2.1 billion is limited recourse project financing with a group of international lenders that matures June 15, 2024. The first repayment will be at the latest of six months after financial completion or thirty months after the final draw down, but in no case later than February 2013. The project financing is guaranteed by the project sponsors until the project passes certain completion tests at which point the project financing is secured by the project assets. Interest is payable based on LIBOR rates plus applicable margins, depending on the lenders. Interest is currently payable based on LIBOR rates plus applicable margins of approximately 1.4%. As part of the project financing, Sherritt is required to demonstrate its financial capacity to fund its share of the project. Sherritt is required to have available cash or un-drawn partner loans equal to 3 months of its shareholder contributions. If Sherritt's net tangible assets fall below $1.6 billion or the ratio of debt-to-total-capitalization on a three-year rolling average basis is equal to or greater than 0.55:1, Sherritt will be required to set aside its remaining shareholder contributions. If these requirements are not met, the Ambatovy Joint Venture will be unable to draw down on the project financing. At March 31, 2011, the Ambatovy Joint Venture had borrowed US$1,820.1 million (December 31, 2010 - $1,820.1 million) under the project financing.

(4) The subordinated loan payable is composed of pro-rata contributions provided by the Ambatovy Joint Venture partners. The debt bears interest at LIBOR plus 6%. Repayments of principal or interest will not be made prior to certain conditions of the finance agreements being satisfied. Unpaid interest is accrued monthly and capitalized to the principal balance semi-annually. Interest expense capitalized to property, plant and equipment is eliminated on consolidation. The Corporation has recorded its share of subordinated loan receivable in Advances, loans receivable and other assets (note 14).

Results of operations

For the three months ended March 31, 2011, the Corporation's share of loss in the results of Ambatovy was $1.1 million, composed primarily of tax expense (net loss of $0.8 million for the three months ended March 31, 2010, composed entirely of financing expense).

Contingent liabilities and commitments

The Ambatovy Joint Venture is currently being audited by the tax authorities in Madagascar. The Ambatovy Joint Venture has had preliminary discussions with the Malagasy tax authorities on certain issues, but it is still early in the audit process and remains difficult to assess the final outcome. Included in income taxes payable is management's best estimate of the Corporation's potential settlement at this time. Most of this provision (with the exception of interest and penalties) has been capitalized to property, plant and equipment, consistent with the capitalization of other project costs incurred to date. While preliminary claims made by the tax authorities were material, management's accrual in the financial statements reflects a substantially lower amount as a result of subsequent information exchanges and discussions with the authorities and management's understanding of the tax legislation. There is uncertainty with respect to the final outcome of the proceedings at this early stage of the tax audit, but the Corporation will continue to have discussions to resolve the remaining outstanding issues on a basis favourable to the Corporation.

At March 31, 2011, the Corporation's share of property, plant and equipment commitments of the associate is $112.1 million.

10 INVENTORIES

Canadian $ millions, as at	**2011 March 31**	2010 December 31	2010 January 1
Uncovered coal	**$ 5.5**	$ 7.7	$ 5.7
Raw materials	**6.0**	5.0	4.8
Materials in process	**37.6**	29.2	31.4
Finished products	**67.7**	55.8	50.0
	116.8	97.7	91.9
Spare parts and operating materials	**89.9**	92.9	80.4
	$ 206.7	$ 190.6	$ 172.3

For the period ended March 31, 2011, the cost of inventories recognized as an expense and included in cost of sales was $237.3 million ($175.1 million for the three months ended March 31, 2010).

11 NET CHANGE IN NON-CASH WORKING CAPITAL

Canadian $ millions, for the three months ended March 31	**2011**	2010
Accounts receivable	**$ (38.5)**	$ (32.8)
Inventories	**(17.4)**	(9.5)
Prepaid expenses	**2.4**	0.9
Accounts payable and accrued liabilities	**75.8**	104.0
	$ 22.3	$ 62.6

12 PROPERTY, PLANT AND EQUIPMENT

Canadian $ millions, for the three months ended March 31 — **2011**

	Mining properties	**Oil and Gas properties**	**Plant, equipment and land**	**Total**
Cost				
Balance, beginning of the year	**$ 367.9**	**$ 984.8**	**$ 1,810.2**	**$ 3,162.9**
Additions	**1.7**	**11.0**	**19.5**	**32.2**
Additions through business acquisitions	**-**	**-**	**-**	**-**
Capitalized closure costs	**2.5**	**0.2**	**(0.6)**	**2.1**
Disposals	**-**	**-**	**(2.4)**	**(2.4)**
Capitalized interest	**-**	**-**	**1.0**	**1.0**
Effect of movements in exchange rates	**(0.7)**	**(12.6)**	**(12.2)**	**(25.5)**
Balance, end of the period	**$ 371.4**	**$ 983.4**	**$ 1,815.5**	**$ 3,170.3**
Depletion, depreciation and impairment losses				
Balance, beginning of the year	**$ 208.5**	**$ 851.2**	**$ 761.1**	**$ 1,820.8**
Depletion and depreciation	**7.8**	**12.6**	**21.7**	**42.1**
Disposals	**-**	**-**	**(2.2)**	**(2.2)**
Impairments	**-**	**-**	**-**	**-**
Effect of movements in exchange rates	**(0.6)**	**(10.4)**	**(0.6)**	**(11.6)**
Balance, end of the period	**$ 215.7**	**$ 853.4**	**$ 780.0**	**$ 1,849.1**
Net book value	**$ 155.7**	**$ 130.0**	**$ 1,035.5**	**$ 1,321.2**

Canadian $ millions, for the year ended December 31	Mining properties	Oil and Gas properties	Plant, equipment and land	Total 2010
Cost				
Balance, beginning of the year	$ 291.4	$ 1,008.3	$ 1,699.0	$ 2,998.7
Additions	12.0	35.8	109.0	156.8
Additions through business acquisitions	47.7	-	70.3	118.0
Capitalized closure costs	18.2	0.6	5.9	24.7
Disposals	-	-	(25.7)	(25.7)
Capitalized interest	-	-	5.9	5.9
Effect of movements in exchange rates	(1.4)	(59.9)	(54.2)	(115.5)
Balance, end of the year	$ 367.9	$ 984.8	$ 1,810.2	$ 3,162.9
Depletion, depreciation and impairment losses				
Balance, beginning of the year	$ 179.8	$ 849.6	$ 699.7	$ 1,729.1
Depletion and depreciation	29.2	55.0	93.8	178.0
Disposals	-	-	(21.9)	(21.9)
Impairments	-	-	-	-
Effect of movements in exchange rates	(0.5)	(53.4)	(10.5)	(64.4)
Balance, end of the year	$ 208.5	$ 851.2	$ 761.1	$ 1,820.8
Net book value	$ 159.4	$ 133.6	$ 1,049.1	$ 1,342.1

Canadian $ millions	**Mining properties**	**Oil and Gas properties**	**Plant, equipment and land**	**Total**
Assets held under finance lease at net book value, included in above				
As at March 31, 2011	**$ -**	**$ -**	**$ 84.3**	**$ 84.3**
As at December 31, 2010	-	-	74.1	74.1
As at January 1, 2010	-	-	61.9	61.9
Assets under construction, included in above				
As at March 31, 2011	**$ -**	**$ -**	**$ 286.4**	**$ 286.4**
As at December 31, 2010	-	-	256.0	256.0
As at January 1, 2010	-	-	287.5	287.5
Capital commitments, as at March 31, 2011				
Year 1	**$ -**	**$ -**	**$ 15.3**	**$ 15.3**
Year 2	-	-	**6.0**	**6.0**
Year 3	-	-	-	-
Year 4	-	-	-	-
Year 5	-	-	-	-
Beyond	-	-	-	-
Total	**$ -**	**$ -**	**$ 21.3**	**$ 21.3**

13 INVESTMENTS

Canadian $ millions, as at	Note	2011 March 31	2010 December 31	2010 January 1
Cuban certificates of deposit		$ 74.8	$ 82.4	$ 112.6
Master Asset Vehicle notes	27	43.0	39.3	28.8
Other		5.7	5.6	5.7
		123.5	127.3	147.1
Current portion of investments		(29.8)	(30.8)	(34.6)
		$ 93.7	$ 96.5	$ 112.5

14 ADVANCES, LOANS RECEIVABLE, OTHER ASSETS AND FINANCE LEASE RECEIVABLE

Advances and loans receivable and other assets

Canadian $ millions, as at	Note	2011 March 31	2010 December 31	2010 January 1
Advances, loans receivable				
Ambatovy subordinated loan receivable		$ 664.6	$ 620.9	$ 391.8
Energas conditional sales agreement		138.8	134.1	144.8
Moa Joint Venture expansion loans receivable		130.4	141.8	183.8
Other		56.4	58.4	74.9
Other financial assets				
Ambatovy call option	27	35.7	34.5	34.8
Deferred reclamation recoveries		6.5	6.3	6.4
Other non-financial assets				
Cross-guarantee fee asset		19.7	22.6	34.5
Pension asset		1.7	2.0	2.6
Other		3.7	3.8	5.5
		1,057.5	1,024.4	879.1
Current portion of advances, loans and other assets		(82.4)	(83.8)	(89.0)
		$ 975.1	$ 940.6	$ 790.1

Ambatovy subordinated loan 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 LIBOR plus 6%. Repayments of principal or interest will not be made prior to certain conditions of the finance agreements being satisfied. Unpaid interest is accrued monthly and capitalized to the principal balance semi-annually.

Energas conditional sales agreement

A conditional sales agreement was entered into by the Corporation with Energas to finance construction activity on specific power generating assets in Cuba. The agreement directs the Corporation to perform 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.

Earn-in and shareholder’s agreement – Sulawesi Project

On November 30, 2010, the Corporation entered into an earn-in and shareholder’s agreement with a subsidiary of Rio Tinto Limited (Rio Tinto), whereby the Corporation could acquire a 57.5% interest in a holding company that owns the Sulawesi Nickel Project (Sulawesi Project) in Indonesia upon funding US$30.0 million and meeting certain other conditions by March 15, 2013. Rio Tinto will continue to own the remaining 42.5% in the holding company. In compliance with Indonesian Mining law, local Indonesian interests are expected to acquire a 20% interest in the Sulawesi Project after which Sherritt and Rio Tinto’s economic interest will be 46% and 34%, respectively.

The Corporation can elect to spend an additional US$80.0 million by December 31, 2016 towards producing a feasibility study from which a development decision will be made. If the additional US$80.0 million is not spent, the Corporation's interest in the Sulawesi Project will be forfeited.

The Sulawesi Project is a large, high grade undeveloped lateritic nickel deposit on the Indonesian island of Sulawesi. Sherritt is the operator and will license its commercially-proven, proprietary technology to the Sulawesi Project.

Finance lease receivables

			2011			2010			2010
Canadian $ millions, as at			**March 31**			December 31			January 1
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	**$ 34.7**	**$ 15.0**	**$ 19.7**	$ 34.9	$ 15.0	$ 19.9	$ 35.5	$ 15.6	$ 19.9
Between one and five years	**120.5**	**46.2**	**74.3**	120.8	47.4	73.4	128.0	48.3	79.7
More than five years	**152.8**	**30.6**	**122.2**	155.5	32.2	123.3	158.0	34.9	123.1
	$ 308.0	**$ 91.8**	**$ 216.2**	$ 311.2	$ 94.6	$ 216.6	$ 321.5	$ 98.8	$ 222.7

Finance lease receivables relate to arrangements within Coal's Prairie Operations that contain leases. The Corporation recognizes finance income over a period of between 3 and 27 years, which reflects a constant periodic return on the lessor's net investment in the finance lease. Lease payments consist of blended monthly payments of principal and interest. The interest rates inherent in the leases are between 5.0% and 8.6% (December 31, 2010 – 5.0% and 8.9%). The Corporation has both fixed and variable rate leasing arrangements.

15 GOODWILL

The goodwill of $307.9 million arose on the acquisition of Royal Utilities in 2008. Royal Utilities is comprised of several Prairie coal-mining operations, each determined to be a CGU. Goodwill is tested for impairment by allocating it to the Royal Utilities' CGUs as one group as this is the lowest level that goodwill is monitored. Impairment testing is performed annually on October 1 by comparing the recoverable amount of Royal Utilities to its carrying amount including goodwill. The annual impairment review on October 1, 2010 resulted in no impairment charge.

Prior to the Corporation's acquisition of all trust units issued and outstanding that it did not already own, the trust units of Royal Utilities were publicly traded on an active market. Fair value was measured at the acquisition date using a discounted cash flow valuation model (valuation model). The Corporation determined the recoverable amount of Royal Utilities by reference to its fair value less cost to sell using this valuation model.

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

Cash flows

Cash flows are projected over a 49 year period and are based on production and growth plans, internal forecasts, and risk assessments that take into account the unique operations of each mine site. Revenue and expenses were projected over a 10 year period based on internal long range plans. Revenue and expenses beyond this period were extrapolated using growth rates between 0.5% and 3.9% depending on mine, based on the average historical growth. Cash flows are relatively stable as the majority of mine sites supply utility customers under long-term supply agreements in Alberta and Saskatchewan.

Growth opportunities

Cash flows from growth opportunities are probability-weighted and relate to initiatives management expects to progress on in the medium to long term.

Discount rate

A blended discount rate of 7.9 % for mine site operations, and 6.5% for royalty revenue was used to discount cash flows in the valuation model, which resulted in an excess of fair value over carrying amount of approximately $177.2 million. The valuation of Royal Utilities is sensitive to changes in the discount rate. A 0.5% increase in the discount rate would lead to a decrease in the excess of fair value less costs to sell over carrying amount of Royal Utilities by approximately $107.7 million. A corresponding decrease in the discount rate would increase the excess of fair value less costs to sell over carrying amount by approximately $119.2 million. The discount rate is based on current market information at the date of valuation.

16 INTANGIBLE ASSETS

Canadian $ millions, for the three months ended March 31							2011
	Royalty agree-ments	**Mining contracts**	**Contrac-tual arrange-ments**	**Explo-ration and evaluation**	**Service conces-sion arrangement**	**Other**	**Total**
Cost							
Balance, beginning of the period	$ 479.0	$ 236.0	$ 27.0	$ 11.5	$ 78.0	$ 44.1	$ 875.6
Additions through:							
Internal development	-	-	-	0.3	6.0	-	6.3
Business combinations	-	-	-	-	-	-	-
Effect of movements in exchange rates	-	-	-	(0.1)	(1.8)	-	(1.9)
Balance, end of the period	$ 479.0	$ 236.0	$ 27.0	$ 11.7	$ 82.2	$ 44.1	$ 880.0
Amortization and impairment losses							
Balance, beginning of the period	$ 29.0	$ 19.7	$ 13.9	$ 8.9	$ 3.8	$ 8.8	$ 84.1
Amortization	2.7	1.8	0.5	-	0.9	2.5	8.4
Impairments	-	-	-	-	-	-	-
Effect of movements in exchange rates	-	-	-	-	(0.1)	-	(0.1)
Balance, end of the period	$ 31.7	$ 21.5	$ 14.4	$ 8.9	$ 4.6	$ 11.3	$ 92.4
Net book value	$ 447.3	$ 214.5	$ 12.6	$ 2.8	$ 77.6	$ 32.8	$ 787.6
Remaining amortization period							
Weighted-average number of years, as at March 31, 2011	41.5	34.3	6.9	n/a	12.0	20.4	

Canadian $ millions, for the year ended December 31							2010
	Royalty agree-ments	Mining contracts	Contrac-tual arrange-ments	Explor-ration and evaluation	Service conces-sion arrangement	Other	Total
Cost							
Balance, beginning of the year	$ 479.0	$ 236.0	$ 27.0	$ 7.8	$ 76.0	$ 23.1	$ 848.9
Additions through:							
Internal development	-	-	-	3.9	5.8	-	9.7
Business combinations	-	-	-	-	-	21.0	21.0
Effect of movements in exchange rates	-	-	-	(0.2)	(3.8)	-	(4.0)
Balance, end of the year	$ 479.0	$ 236.0	$ 27.0	$ 11.5	$ 78.0	$ 44.1	$ 875.6
Amortization and impairment losses							
Balance, beginning of the year	$ 18.1	$ 12.3	$ 12.1	$ -	$ -	$ 3.3	$ 45.8
Amortization for the year	10.9	7.4	1.8	-	3.9	5.5	29.5
Impairments	-	-	-	9.0	-	-	9.0
Effect of movements in exchange rates	-	-	-	(0.1)	(0.1)	-	(0.2)
Balance, end of the year	$ 29.0	$ 19.7	$ 13.9	$ 8.9	$ 3.8	$ 8.8	$ 84.1
Net book value	$ 450.0	$ 216.3	$ 13.1	$ 2.6	$ 74.2	$ 35.3	$ 791.5

Exploration and Evaluation

E&E assets are composed of the Corporation's exploration projects in Oil and Gas pending the determination of proven and/or probable reserves.

Service concession arrangements

For the three months ended March 31, 2011, $5.5 million of revenue was recognized on exchanging construction services for additional intangible assets ($1.2 million for the three months ended March 31, 2010).

17 LOANS, BORROWINGS AND OTHER LIABILITIES

Loans and borrowings

Canadian $ millions, as at	2011 March 31	2010 December 31	2010 January 1
Long-term loans			
7.875% senior unsecured debentures due 2012	**$ 270.4**	$ 269.8	$ 267.8
8.25% senior unsecured debentures due 2014	**222.5**	222.4	221.8
7.75% senior unsecured debentures due 2015	**272.6**	272.4	272.0
Ambatovy Joint Venture additional partner loans	**628.6**	597.4	422.0
Ambatovy Joint Venture partner loans	**86.6**	88.7	91.7
Senior credit facility agreement	**43.9**	80.9	65.6
Loan from financial institution	**8.0**	8.0	18.3
3-year non-revolving term loan(1)	**20.9**	24.0	18.0
	1,553.5	1,563.6	1,377.2
Current portion of loans and borrowings	**(18.3)**	(33.1)	(34.4)
	$ 1,535.2	$ 1,530.5	$ 1,342.8

(1) The Corporation fully consolidated Mountain Operations (100%) beginning July 1, 2010. Prior to July 1, 2010, the Corporation proportionately consolidated its 50% interest in Mountain Operations.

Interest and accretion expense on loans and borrowings was $26.0 million for the three months ended March 31, 2011 ($23.2 million for the three months ended March 31, 2010).

Interest has been capitalized at the rate of interest applicable to the specific borrowings financing the assets under construction or, where financed through general borrowings, at a capitalization rate representing the average interest rate on such borrowings. The amount of interest expense capitalized was $1.0 million as at March 31, 2011 (December 31, 2010 – $5.9 million) at a weighted average capitalization rate of 6.5%.

Other liabilities

Canadian $ millions, as at	2011 March 31	2010 December 31	2010 January 1
Other financial liabilities			
Advances and loans payable	**$ 108.9**	$ 116.7	$ 131.0
Finance lease obligations	**108.9**	106.2	88.6
Other long-term financial liabilities	**18.6**	19.1	20.1
Stock compensation liability	**16.0**	16.8	10.0
Other non-financial liabilities			
Pension liability	**17.8**	17.3	21.4
Deferred revenue	**39.0**	23.8	2.0
	309.2	299.9	273.1
Current portion of other liabilities	**(104.1)**	(91.2)	(54.0)
	$ 205.1	$ 208.7	$ 219.1

Finance lease obligations

Canadian $ millions, as at	2011 March 31 Future minimum lease payments	Interest	Present value of minimum lease payments	2010 December 31 Future minimum lease payments	Interest	Present value of minimum lease payments	2010 January 1 Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	$ 39.8	$ 5.3	$ 34.5	$ 38.6	$ 3.8	$ 34.8	$ 32.4	$ 4.0	$ 28.4
Between one and five yea	80.3	5.9	74.4	78.8	7.4	71.4	65.4	5.2	60.2
	$ 120.1	$ 11.2	$ 108.9	$ 117.4	$ 11.2	$ 106.2	$ 97.8	$ 9.2	$ 88.6

Finance lease obligations of $108.9 million bear interest at rates ranging from 0.9% to 12.0% having a weighted-average interest rate of 5.66%. These finance leases mature between 2011 and 2016 and are repayable by blended monthly payments of principal and interest.

The Corporation has guaranteed a letter of credit issued on behalf of CVRI and payments under a lease contract entered into by CVRI. Sherritt and its former partner have each guaranteed 50% of the potential obligations under the letter of credit of Coal to a maximum of $24.5 million each. As at March 31, 2011 $48.1 million was outstanding ($48.1 million was outstanding as at December 31, 2010).

The Corporation and its former partner each had also guaranteed the payments under a lease of equipment contract entered into by CVP, up to a maximum of $27.5 million each. As at March 31, 2011, $35.4 million was outstanding ($35.9 million was outstanding as at December 31, 2010).

Upon acquiring the remaining 50% interest in CVP (note 6), the Corporation indemnified its former partner for any amounts paid relating to the guaranteed portion of the letter of credit and payments under the lease.

Other long-term financial liabilities

The other long-term liabilities are mostly composed of other equipment financing arrangements.

Canadian $ millions, as at	2011 March 31	2010 December 31	2010 January 1
Less than one year	$ 4.9	$ 4.3	$ 5.1
Between one and five years	8.1	8.7	8.8
More than five years	5.6	6.1	6.2
	$ 18.6	$ 19.1	$ 20.1

Other equipment financing lease arrangements for the Coal segment of $10.5 million bear interest at rates ranging from 5.31% to 9.85% having a weighted-average interest rate of 6.39%. These finance leases mature between 2011 and 2015 and are repayable by blended monthly payments of principal and interest.

Operating leases

At March 31, 2011, the Corporation has operating lease commitments as follows:

Canadian $ millions, as at March 31, 2011	Total	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6 and thereafter
Operating leases	$ 91.7	$ 22.4	$ 21.0	$ 17.3	$ 12.2	$ 4.7	$ 14.1

18 PROVISIONS

Environmental rehabilitation provision

The following is a reconciliation of the environmental rehabilitation provision:

Canadian $ millions	**For the three months ended 2011 March 31**	For the year ended 2010 December 31
Balance, beginning of the period	**$ 208.3**	$ 164.1
Acquisition of CVP	**-**	33.7
Additions	**4.0**	22.1
Change in estimates	**(1.9)**	3.5
Utilized during the period	**(4.8)**	(13.4)
Accretion	**1.4**	4.8
Foreign exchange translation	**-**	(5.1)
Other	**-**	(1.4)
Balance, end of the period	**207.0**	208.3
Current portion	**(27.2)**	(25.5)
	$ 179.8	$ 182.8

Contingencies

In October 2001, the Corporation received a statement of claim setting out a claim against it and the Dynatec Corporation (as it then existed) brought in the Supreme Court of Victoria, Australia, by Fluor Australia Pty Ltd. (Fluor) alleging negligence in connection with a mine development in Australia. On December 20, 2002, Fluor formally discontinued its proceeding against the Corporation and Dynatec Corporation, but reserved its right to recommence proceedings against them at a later date. The Corporation believes Fluor's claims against it are without merit and would vigorously defend any further claim Fluor may bring.

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

Guarantees

Ambatovy Joint Venture

Sherritt has provided guarantees of up to US$840.0 million as its pro-rata share of completion guarantees under the Ambatovy Joint Venture financing. The other joint venture partners have cross-guaranteed US$598.0 million and have also agreed to provide letters of credit up to US$242.0 million to the senior lenders. These guarantees are released once Ambatovy has satisfied certain required completion tests (note 9).

Other

In respect of various divestitures, environmental, tax and other indemnities have been provided to the purchasers. The indemnities generally extend for an unlimited period of time and the maximum potential liability cannot be determined at this time. No amounts have been accrued with respect to these indemnities.

In connection with a loan agreement entered into with a financial institution, the Corporation has also agreed to indemnify the financial institution against any environmental exposures relating to the Power expansion. The indemnities extend for an unlimited period of time and the maximum potential liability cannot be determined at this time. No amounts have been accrued with respect to these indemnities.

In respect of certain work being performed on behalf of the Corporation, indemnities have been provided to certain contractors and consultants for any claims, costs, losses or expenses arising out of the performance of work performed by the contractor or consultant. The indemnities extend for an unlimited period of time and the maximum potential liability, if any, cannot be determined at this time. No amounts have been accrued with respect to these indemnities.

In connection with the issuance of common shares, debt instruments and other corporate finance transactions, indemnities have been given to the underwriters. Indemnities have also been given to financial advisors in connection with transactions undertaken by the Corporation. The indemnities extend for an unlimited period of time and the maximum potential liability, if any, cannot be determined at this time. No amounts have been accrued with respect to these indemnities.

19 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 three months ended 2011 March 31**		For the year ended 2010 December 31
	Note	**Number**	**Capital stock**	Number	Capital stock
Balance, beginning of the period		**295,016,500**	**$ 2,787.3**	293,981,277	$ 2,771.9
Employee share purchase plan		**-**	**-**	186,820	1.1
Cross-guarantee		**-**	**-**	943,277	13.9
Treasury stock - restricted stock plan	21	**(71,700)**	**(0.6)**	(94,874)	(0.8)
Other		**-**	**-**	-	1.2
Stock options exercised		**20,000**	**0.1**	-	-
Balance, end of the period		**294,964,800**	**$ 2,786.8**	295,016,500	$ 2,787.3

On December 31, 2010, the Corporation issued 943,277 common shares valued at $14.74 per common share as the third of four annual issuances in relation to the cross-guarantees provided by Sumitomo and SNC-Lavalin on the Ambatovy senior credit facility. The issuance resulted in a total of $13.9 million being reclassified from Contributed surplus to Capital stock. The Contributed surplus balance within equity relates to equity-settled share-based payments, generally where the Corporation has issued shares at a premium, or as employee compensation.

Accumulated foreign currency translation adjustment

Shareholders' equity includes the accumulated foreign currency translation adjustment which relates to deferred exchange gains and losses arising from the translation of the financial statements of the Corporation's foreign operations which have a U.S. dollar functional currency.

20 EARNINGS PER SHARE

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

Net earnings per share

Canadian $ millions, except per share amounts, for the three months ended March 31		**2011**		2010
Earnings from continuing operations	**$**	**64.0**	$	30.2
Loss from discontinued operation		**0.4**		0.8
Net earnings - basic	**$**	**63.6**	$	29.4
Earnings from continuing operations	**$**	**64.0**	$	30.2
Adjustment to cash-settled share-based compensation expense (1)		**-**		(0.4)
Earnings from continuing operations - diluted		**64.0**		29.8
Loss from discontinued operation		**0.4**		0.8
Net earnings - diluted	**$**	**63.6**	$	29.0
Weighted-average number of common shares - basic		**295.0**		294.0
Weighted-average effect of dilutive securities: (1)				
Employee share purchase		**0.2**		0.1
Stock options		**-**		0.1
Restricted stock		**0.3**		0.1
Cross-guarantee		**0.9**		1.9
Weighted-average number of common shares - diluted		**296.4**		296.2
Earnings from continuing operations per common share				
Basic	**$**	**0.22**	$	0.10
Diluted	**$**	**0.22**	$	0.10
Loss from discontinued operation per common share				
Basic	**$**	**-**	**$**	-
Diluted	**$**	**-**	**$**	-
Net earnings per common share				
Basic	**$**	**0.22**	$	0.10
Diluted	**$**	**0.22**	$	0.10

(1) The determination of the weighted-average number of common shares-diluted excludes 5.3 million shares related to stock options that were anti-dilutive for the three months ended March 31, 2011, (5.1 million for the three months ended March 31, 2010). There were no shares related to the employee share purchase plan that were anti-dilutive for the three months ended March 31, 2011 (0.1 shares for the three months ended March 31, 2010).

21 STOCK-BASED COMPENSATION PLANS

Stock options and options with Tandem SARs

The following is a summary of stock option activity:

For the three months ended March 31	2011 Options	2011 Weighted-average exercise price	2010 Options	2010 Weighted-average exercise price
Outstanding at beginning of year	**4,819,146**	**$ 10.37**	4,774,906	$ 10.69
Granted	**546,200**	**9.10**	724,240	8.33
Exercised for cash	**(51,666)**	**5.16**	-	-
Exercised for shares	**(20,000)**	**5.05**	-	-
Forfeited	**(15,000)**	**15.02**	(30,000)	15.13
Outstanding at end of period	**5,278,680**	**10.30**	5,469,146	10.35
Options exercisable, end of period	**3,482,187**	**$ 11.34**	2,527,983	$ 11.76

The following table summarizes information on stock options outstanding and exercisable at March 31, 2011:

	Range of exercise prices	Number outstanding	Weighted-average remaining contractual life	Weighted-average exercise price	Exercisable number	Exercisable weighted-average exercise price
	$3.05-5.05	40,000	7.6 years	$ 3.69	26,666	$ 3.69
	$5.06-9.77	2,090,345	8.9 years	7.36	498,860	6.87
	$9.78-11.64	1,828,335	4.1 years	10.42	1,828,335	10.42
	$11.65-15.23	1,320,000	6.4 years	14.98	1,128,326	14.98
Total		5,278,680	6.6 years	$ 10.30	3,482,187	$ 11.34

As at March 31, 2011, 4,732,480 Options with Tandem SARs (March 31, 2010 – 5,449,146) and 546,200 options (March 31, 2010 – 20,000) remained outstanding for which the Corporation has recognized a compensation expense of $0.3 million for the three months ending March 31, 2011 ($5.5 million expense for the three months ended March 31, 2010). The carrying amount of liabilities associated with cash settled compensation arrangements is $10.5 million at March 31, 2011 (December 31, 2010 – $10.4 million).

Inputs for measurement of grant date fair values

The fair value at the grant date of the Options with Tandem SARs and SARs (described below) was measured using Black-Scholes. The following summarizes the fair value measurement factors for options granted during the period:

For the three months ended March 31	2011	2010
Share price at grant date	**$ 8.95**	$ 8.62
Exercise price	**$ 9.10**	$ 8.33
Risk-free interest rate (based on 10 year Government of Canada bonds)	**3.33%**	3.45%
Expected volatility	**48.48%**	49.07%
Expected dividend yield	**1.63%**	1.72%
Expected life of options	**10 years**	10 years
Weighted average fair value of options granted during the period	**$ 4.49**	$ 4.23

Expected volatility is estimated based on the average historical share price volatility for a period equal to the expected life of the option. The expected life of the option is estimated to equal its legal life at the time of grant. The expected dividend yield is determined by comparing total dividends paid during the preceding 12 months to the share price at grant date.

Other stock-based compensation

A summary of SARs, RSUs, DSUs and RSPs outstanding as at March 31, 2011 and 2010 and changes during the year is as follows:

For the three months ended March 31				2011
	SAR	RSU	DSU	RSP
Balance, beginning of year	140,000	1,531,914	283,359	203,730
Issued	-	517,777	45,556	71,700
Exercised	(100,000)	(316,568)	-	-
Forfeited	-	(5,688)	-	-
Outstanding at end of period	40,000	1,727,435	328,915	275,430
Units exercisable, end of period	40,000	n/a	328,915	n/a
Weighted-average exercise price	$ 5.56	n/a	n/a	n/a

For the three months ended March 31				2010
	SAR	RSU	DSU	RSP
Balance, beginning of year	212,500	1,304,689	216,946	108,856
Issued	-	693,536	62,120	94,874
Exercised	(72,500)	(214,299)	-	-
Forfeited	-	(21,298)	-	-
Outstanding at end of period	140,000	1,762,628	279,066	203,730
Units exercisable, end of period	140,000	n/a	279,066	n/a
Weighted-average exercise price	$ 5.56	n/a	n/a	n/a

The Corporation recorded a compensation expense of $1.6 million for the three months ended March 31, 2011, for other stock-based compensation plans ($1.1 million expense for the three months ended March 31, 2010). The carrying amount of liabilities associated with cash settled compensation arrangements is $5.5 million at March 31, 2011 (December 31, 2010 - $6.4 million).

Measurement of fair values at grant date

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

For the three months ended March 31			2011
	RSU	DSU	RSP
Share price at grant date	$ 8.95	$ 8.95	$ 8.95

For the three months ended March 31			2010
	RSU	DSU	RSP
Share price at grant date	$ 6.73	$ 6.57	$ 8.82

The intrinsic value of cash settled stock based compensation awards vested and outstanding as at March 31, 2011 was $7.3 million (December 31, 2010 - $8.3 million).

22 NET FINANCE EXPENSE

Canadian $ millions, for the three months ended March 31	2011	2010
Net gain on financial instruments	$ 5.6	$ 6.6
Interest income on cash, cash equivalents, and short-term investments	1.8	0.3
Interest income on investments	2.7	3.6
Interest income on advances and loans receivable	3.0	4.3
Interest income on finance leases	4.4	4.2
Total financing income	17.5	19.0
Interest expense and accretion on loans and borrowings and other liabilities	$ 26.0	$ 23.2
Interest expense and accretion on other liabilities	0.8	1.0
Interest expense on finance lease obligations	1.7	1.2
Accretion expense on environmental rehabilitation provisions	1.4	1.1
Foreign exchange loss	0.1	3.1
Cross guarantee fee amortization	3.0	3.0
Other finance charges	2.1	1.3
Total financing expense	35.1	33.9
Net finance expense	$ 17.6	$ 14.9

23 GOVERNMENT GRANTS

For the three months ended March 31, 2011, the Corporation recognized government grants relating to Energas re-investment credits of $0.4 million ($0.6 million for the three months ended March 31 2010). Re-investment credits are earned as a result of providing financing for construction projects approved by the Cuban Government. Receipt of these credits is contingent on Energas generating taxable income, and therefore re-investment credits are included in income only as Energas accrues income tax.

24 COST OF SALES

Cost of sales includes the following select information:

Canadian $ millions, for the three months ended March 31	2011	2010
Employee costs	$ 88.1	$ 75.3
Depletion, depreciation and amortization on property, plant and equipment and intangible assets	47.6	44.8
Impairment losses	0.1	0.4

25 INCOME TAXES

Canadian $ millions, for the three months ended March 31	2011	2010
Current tax expense (recovery)		
Current period	$ 28.9	$ 21.1
Initial recognition of tax assets	-	-
Adjustment for prior periods	-	-
	28.9	21.1
Deferred tax expense (recovery)		
Origination and reversal of temporary differences	$ 0.6	$ 2.2
Reduction in tax rate	-	-
Initial recognition of tax assets	-	-
Non-recognition (recognition) of tax assets (not) previously recognized	2.0	-
	2.6	2.2
	$ 31.5	$ 23.3

26 RELATED PARTY TRANSACTIONS

The Corporation and subsidiaries provide goods, labour, advisory and other administrative services to jointly-controlled entities, and an associate at exchange amounts (cost, commercial rates and other various contractual terms). 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 3, under principles of consolidation.

A description of the Corporation's interest in jointly-controlled entities and an associate is included in note 8 and 9, respectively.

Jointly-controlled entities and associate

Canadian $ millions, for the three months ended March 31	**2011**	2010
Total value of goods and services:		
Provided to jointly-controlled entities and associate	**$ 16.5**	$ 16.2
Purchased from jointly-controlled entities	**9.9**	11.4
Financing income from jointly-controlled entities	**5.9**	7.0

Canadian $ millions, as at	**2011 March 31**	2010 December 31	2010 January 1
Accounts receivable from jointly-controlled entities and associate	**$ 31.4**	$ 17.4	$ 12.7
Accounts payable to jointly-controlled entities and associate	**0.6**	2.1	1.7
Advances and loans receivable from associate	**664.6**	620.9	391.8
Advances and loans receivable from certain Moa Joint Venture entities	**156.7**	168.1	210.0
Loan receivable from Coal Valley Resources Inc.	**-**	-	5.0
Advances and loans receivable from Energas	**138.8**	134.1	144.8

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 owned by related parties.

27 FINANCIAL INSTRUMENTS

Financial instrument hierarchy

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

Canadian $ millions, as at	Note	Hierarchy Level	**2011 March 31**	2010 December 31	2010 January 1
Financial assets:					
Held for trading, measured at fair value					
Cash equivalents		1	**$ 310.9**	$ 167.2	$ 102.9
Short-term investments		1	**351.1**	496.7	420.8
Master asset vehicle notes	13	3	**43.0**	39.3	28.8
Ambatovy call option	14	3	**35.7**	34.5	34.8

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

Cash equivalents

These are liquid Canadian Government treasury bills having original maturity dates of three months or less.

Short-term investments

These are liquid Canadian Government treasury bills having original maturity dates greater than three months and less than one year.

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

Canadian $ million, as at March 31						**2011**
		Master Asset Vehicle Notes		**Ambatovy Call Option**		**Total**
Balance, beginning of period	$	**39.3**	$	**34.5**	$	**73.8**
Total gains in net earnings (1)		**3.7**		**1.9**		**5.6**
Effect of movements in exchange rates		**-**		**(0.7)**		**(0.7)**
Balance, end of period	$	**43.0**	$	**35.7**	$	**78.7**

Canadian $ millions, as at December 31						2010
		Master Asset Vehicle Notes		Ambatovy Call Option		Total
Balance, beginning of period	$	28.8	$	34.8	$	63.6
Total gains in net earnings (1)		10.5		1.6		12.1
Effect of movements in exchange rates		-		(1.9)		(1.9)
Balance, end of period	$	39.3	$	34.5	$	73.8

Canadian $ millions, as at March 31						2010
		Master Asset Vehicle Notes		Ambatovy Call Option		Total
Balance, beginning of period	$	28.8	$	34.8	$	63.6
Total gains in net earnings (1)		5.1		1.5		6.6
Effect of movements in exchange rates		-		(1.2)		(1.2)
Balance, end of period	$	33.9	$	35.1	$	69.0

(1) Gains (losses) are recognized in Net financing expense.

MAV notes

The MAV notes have been designated as fair value through profit or loss using the fair value option. In determining the fair value, the Corporation used credit spreads based on the current market bids available for A1, A2, B, C and Class 15 notes totalling $40.7 million. The remaining $2.3 million of notes held by the Corporation are not widely traded and the fair value was determined using discounted cash flows; the interest rate used was based on management's estimate of credit and other risk factors.

During the three months ended March 31, 2011, the Corporation recognized an upward fair value adjustment of $3.7 million (March 31, 2010 - $5.1 million) in financing income on its MAV notes primarily due to a decrease in credit spreads.

A 1% increase or decrease in the discount rate could decrease or increase the Corporation's determination of fair value by approximately $0.2 million, respectively.

Ambatovy call option

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

During the three months ended March 31, 2011, the Corporation recognized an upward fair value adjustment of $1.9 million (March 31, 2010 - $1.5 million) in financing income on the Ambatovy call option primarily due to an increase in estimated fair value of the Ambatovy project.

Fair values

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

		2011		2010		2010
		March 31		December 31		January 1
	Carrying	**Fair**	Carrying	Fair	Carrying	Fair
Canadian $ millions, as at	**value**	**value**	value	value	value	value
7.875% senior unsecured debentures due 2012	**$ 270.4**	**$ 286.8**	$ 269.8	$ 286.0	$ 267.8	$ 279.2
8.25% senior unsecured debentures due 2014	**222.5**	**240.0**	222.4	241.3	221.8	231.3
7.75% senior unsecured debentures due 2015	**272.6**	**293.7**	272.4	291.5	272.0	278.2

At March 31, 2011, the carrying amounts of cash and cash equivalents, restricted cash, short-term investments, trade accounts receivable, current portion of loans and borrowings, 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 approximate their carrying amount. The fair value of a financial instrument on initial recognition is normally the transaction price, the fair value of the consideration given or received. Fair values of advances and loans receivable are estimated based on discounted cash flows. Due to the use of judgment and uncertainties in the determination of the estimated fair values, these values should not be interpreted as being realizable in the immediate term.

At March 31, 2011, the carrying amount for the Cuban certificates of deposit is approximately equal to the fair value (note 13).

At March 31, 2011, the carrying amount of the lenders' conversion option under the Ambatovy Joint Venture additional partner loan agreements is approximately equal to the fair value (note 17).

Cash, cash equivalents and short-term investments

The Corporation's cash balances are deposited with major financial institutions rated A or higher by Standard and Poor's and with banks in Cuba that are not rated. The total cash held in Cuban bank deposit accounts was $25.8 million at March 31, 2011 (December 31, 2010 – $20.5 million).

As at March 31, 2011, $5.0 million of cash on the Corporation's consolidated statements of financial position was held by Energas and $35.7 million by Moa Joint Venture (December 31, 2010 – $7.0 million and $34.3 million, respectively). These funds are for the use of each joint venture, respectively.

As at March 31, 2011, the Corporation had $662.0 million in Government of Canada treasury bills (December 31, 2010 - $663.9 million) included in cash and cash equivalents and short-term investments.

Trade accounts receivable

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

Canadian $ millions, as at	**2011 March 31**	2010 December 31	2010 January 1
Trade accounts receivable	**$ 317.0**	$ 287.9	$ 267.5
Allowance for doubtful accounts	**(2.2)**	(2.2)	(6.6)
Other	**53.1**	50.2	29.7
	$ 367.9	$ 335.9	$ 290.6

Of which:

Canadian $ million, as at	**2011 March 31**	2010 December 31	2010 January 1
Not past due	**$ 356.3**	$ 292.6	$ 271.1
Past due no more than 30 days	**2.0**	22.7	14.5
Past due for more than 30 days but no more than 60 days	**0.6**	10.3	2.4
Past due for more than 60 days	**11.2**	12.5	9.2
	$ 370.1	$ 338.1	$ 297.2

28 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 contacts, it does not generally enter into such arrangements. The Corporation reduces the business-cycle risks inherent in its commodity operations through industry diversification.

Credit risk

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

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

$ millions, as at	**2011 March 31**	2010 December 31	2010 January 1
Cash	**$ 25.8**	$ 20.5	$ 22.7
Trade accounts receivable, net	**159.7**	165.8	157.2
Advances and loans receivable	**531.8**	550.0	664.6
Cuban certificates of deposit	**74.8**	82.4	112.6
Total	**$ 792.1**	$ 818.7	$ 957.1

The table above reflects the Corporation's maximum credit exposure to Cuban counterparties; however, certain loan balances are eliminated in the consolidated results in accordance with accounting principles for subsidiaries and joint ventures.

Liquidity risk

Liquidity risk arises from the Corporation's financial obligations and in the management of its assets, liabilities and capital structure. The Corporation manages this risk by regularly evaluating its liquid financial resources to fund current and long-term obligations and to meet its capital commitments in a cost-effective manner.

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

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

At March 31, 2011, considering the Corporation's financial position and available credit facilities, the Corporation currently does not need to access public debt and equity capital markets for financing over the next twelve months. However, the Corporation may access these markets.

Based on management's assessment of its financial position and liquidity profile at March 31, 2011, the Corporation will be able to satisfy its current and long-term obligations as they come due.

In respect of the Ambatovy Joint Venture financing, Sherritt has a completion guarantee of US$840 million, all of which is cross-guaranteed or covered by letters of credit to be provided by its partners (note 14).

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

Financial obligation maturity analysis

The Corporation's significant contractual commitments, obligations, and interest and principal repayments on its financial liabilities are presented in the following table:

Canadian $ millions, as at	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 more than 5 years
Trade accounts payable and accrued liabilities	$ 194.5	$ 194.5	$ -	$ -	$ -	$ -	$ -
Advances and loans payable	137.8	26.3	17.3	12.7	12.7	12.7	56.1
Income taxes payable	32.4	32.4	-	-	-	-	-
Loans and borrowings	2,866.3	84.6	396.0	90.3	332.7	367.1	1,595.6
Finance leases and other equipment financing	131.9	44.6	38.1	27.4	13.1	8.7	-
Operating leases	91.7	22.4	21.0	17.3	12.2	4.7	14.1
Total	$ 3,454.6	$ 404.8	$ 472.4	$ 147.7	$ 370.7	$ 393.2	$ 1,665.8

Loans and borrowings is composed primarily of $765.5 million in three public issues of senior unsecured debentures having interest rates of between 7.75% and 8.25% and maturities in 2012, 2014 and 2015; and $628.6 million and $86.6 million in loans provided by the Ambatovy Joint Venture partners to finance Sherritt's portion of the funding requirements of the Joint Venture bearing interest of LIBOR plus a margin of 7% and 1.125%, respectively. These partner loans are to be repaid from Sherritt's share of cash distributions from the Ambatovy Joint Venture.

Market risk

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

Foreign-exchange risk

Many of Sherritt's businesses transact in currencies other than the Canadian dollar. The Corporation is also 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.

Based on financial instrument balances as at March 31, 2011, a strengthening or weakening of $0.05 of the Canadian dollar to the U.S. dollar with all other variables held constant could have an unfavourable or favourable impact of approximately $0.5 million, respectively, on net earnings. This amount excludes the foreign-exchange risk arising from the translation of the subsidiaries with a functional currency other than the Canadian dollar impacting other comprehensive income (loss), as this is limited to the net investment in these operations, which is not considered a financial instrument.

Commodity price risk

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

The Corporation has the ability to address its price-related exposures through the limited use of options, future and forward contracts, but generally does not enter into such arrangements. Sherritt reduces the business-cycle risks inherent in its commodity operations through industry diversification.

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

Interest rate risk

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

Based on the balance of short-term and long-term loans and borrowings and cash, cash equivalent and short-term and long-term investments at March 31, 2011, excluding interest capitalized to project costs, a 1% increase or decrease in the market interest rate could increase or decrease the Corporation's annual interest expense by approximately $0.5 million, respectively. The Corporation does not engage in hedging activities to mitigate its interest rate risk.

Stock-based compensation cost risk

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

Potential fluctuations in the price of Sherritt's common shares would have an impact on the stock-based compensation expense. Based on balances at March 31, 2011, a strengthening or weakening of $1.00 in the price of the Corporation's common shares would have had an unfavourable or favourable impact of approximately $2.9 million or $2.7 million on annual net earnings, respectively.

Capital risk management

In the definition of capital, the Corporation includes, as disclosed on its consolidated Statements of financial position: Retained earnings; Capital stock; Loans and borrowings, including the current portion; Investments, including the current portion; Restricted cash; Cash and cash equivalents; and un-drawn credit facilities.

$ millions, as at	**2011 March 31**	2010 December 31	2010 January 1
Cash and cash equivalents	**$ 380.9**	$ 263.1	$ 164.7
Restricted cash	**1.1**	1.1	1.8
Short and long-term investments	**474.6**	624.0	567.9
Loans and borrowings	**1,553.5**	1,563.6	1,377.2
Capital stock	**2,786.8**	2,787.3	2,771.9
Retained earnings	**684.9**	632.5	530.7
Un-drawn credit facilities	**440.3**	408.6	441.5

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

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

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

The Corporation and its divisions were in compliance with all of their financial covenants as at March 31, 2011. The Corporation is not subject to any externally imposed capital restrictions.

29 SEGMENTED INFORMATION

Business segments

Canadian $ millions, for the three months ended March 31			Oil and		Corporate	2011
	Metals	**Coal**	**Gas**	**Power**	**and Other**	**Total**
Revenue	$ 140.4	$ 245.9	$ 70.5	$ 14.4	$ 3.3	$ 474.5
Cost of sales	78.1	217.8	28.6	10.8	2.5	337.8
Gross profit	62.3	28.1	41.9	3.6	0.8	136.7
Administrative expenses	3.8	4.6	2.5	1.4	10.2	22.5
Operating profit	58.5	23.5	39.4	2.2	(9.4)	114.2
Share of loss of associate	(1.1)	-	-	-	-	(1.1)
Earnings (loss) from operations and associate	57.4	23.5	39.4	2.2	(9.4)	113.1
Financing income	(1.9)	(4.6)	(2.0)	(0.7)	(8.3)	(17.5)
Financing expense	14.3	4.0	(3.7)	(1.2)	21.7	35.1
Net finance expense (income)	12.4	(0.6)	(5.7)	(1.9)	13.4	17.6
Earnings (loss) before tax	45.0	24.1	45.1	4.1	(22.8)	95.5
Income tax expense	17.9	1.4	13.5	0.4	(1.7)	31.5
Net earnings (loss) for the period	$ 27.1	$ 22.7	$ 31.6	$ 3.7	$ (21.1)	$ 64.0
Loss from discontinued operation	-	-	-	-	0.4	0.4
Net earnings (loss) for the period	$ 27.1	$ 22.7	$ 31.6	$ 3.7	$ (21.5)	$ 63.6
Supplementary information						
Depletion, depreciation and amortization	$ 7.4	$ 24.2	$ 15.4	$ 2.6	$ 0.6	$ 50.2
Property, plant and equipment expenditures	5.7	2.5	14.0	-	0.2	22.4
Intangible asset expenditures	-	-	0.7	6.0	-	6.7

Canadian $ millions, as at March 31						2011
Non-current assets(1)	$ 596.1	$ 1,417.6	$ 228.3	$ 155.1	$ 19.6	$ 2,416.7
Total assets	$ 2,462.6	$ 1,873.1	$ 786.0	$ 406.1	$ 568.5	$ 6,096.3

Canadian $ millions, for the three months ended March 31			Oil and		Corporate	2010
	Metals	Coal	Gas	Power	and Other	Total
Revenue	$ 115.9	$ 178.1	$ 59.3	$ 11.4	$ 1.7	$ 366.4
Cost of sales	74.4	162.6	30.2	5.2	1.7	274.1
Gross profit	41.5	15.5	29.1	6.2	-	92.3
Administrative expenses	1.9	2.3	2.9	1.4	14.6	23.1
Operating profit	39.6	13.2	26.2	4.8	(14.6)	69.2
Share of loss of associate	(0.8)	-	-	-	-	(0.8)
Earnings (loss) from operations and associate	38.8	13.2	26.2	4.8	(14.6)	68.4
Financing income	(1.7)	(4.6)	(2.7)	(0.9)	(9.1)	(19.0)
Financing expense	14.2	3.3	(8.4)	(1.2)	26.0	33.9
Net finance expense (income)	12.5	(1.3)	(11.1)	(2.1)	16.9	14.9
Earnings (loss) before tax	26.3	14.5	37.3	6.9	(31.5)	53.5
Income tax expense	14.9	(2.1)	9.5	0.6	0.4	23.3
Net earnings (loss) for the period	$ 11.4	$ 16.6	$ 27.8	$ 6.3	$ (31.9)	$ 30.2
Loss from discontinued operation	-	-	-	-	0.8	0.8
Net earnings (loss) for the period	$ 11.4	$ 16.6	$ 27.8	$ 6.3	$ (32.7)	$ 29.4
Supplementary information						
Depletion, depreciation and amortization	$ 8.5	$ 18.0	$ 16.6	$ 2.8	$ 0.1	$ 46.0
Property, plant and equipment expenditures	13.3	9.8	9.5	0.6	1.0	34.2
Intangible asset expenditures	-	-	3.2	1.6	-	4.8

Canadian $ millions, as at December 31						2010
Non-current assets(1)	$ 607.6	$ 1,427.1	$ 233.1	$ 153.6	$ 20.1	$ 2,441.5
Total assets	$ 2,400.2	$ 1,891.4	$ 782.0	$ 391.5	$ 603.1	$ 6,068.2

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

Geographic segments

The Corporation carries on business in the following geographic areas:

Canadian $ millions, as at	2011 March 31 Non-current assets(1)	2011 March 31 Total assets	2010 December 31 Non-current assets(1)	2010 December 31 Total assets
Canada	**$ 1,649.8**	**$ 3,461.5**	$ 1,665.8	$ 3,127.0
Cuba	**743.8**	**1,286.9**	756.7	1,194.3
Madagascar	**15.5**	**1,188.3**	12.7	1,566.4
Europe	**5.3**	**39.8**	5.9	38.7
Asia	**1.5**	**2.0**	0.3	0.7
Other	**0.8**	**117.8**	0.1	141.1
	$ 2,416.7	**$ 6,096.3**	$ 2,441.5	$ 6,068.2

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

Canadian $ millions, for the three months ended March 31	2011 Total Revenue	2010 Total Revenue
Canada	**$ 165.6**	$ 155.7
Cuba	**80.0**	65.9
Madagascar	**2.1**	2.0
Europe	**76.0**	49.5
Asia	**111.7**	71.3
Other	**39.1**	22.0
	$ 474.5	$ 366.4

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

Revenue segments

Revenue includes the following significant categories:

Canadian $ millions, for the three months ended March 31	2011	2010
Commodity and electricity	**$ 439.5**	$ 339.9
Royalty	**16.8**	14.6
Other	**18.2**	11.9
	$ 474.5	$ 366.4

Significant customers

In Coal, one customer located in Canada accounted for $49.8 million of consolidated revenue for the three months ended March 31, 2011 (two customers accounted for $48.7 million and $44.3 million, respectively, for the three months ended March 31, 2010). Oil and Gas derived $66.2 million of its revenue for the three months ended March 31, 2011 ($55.1 million for the three months ended March 31, 2010) directly and indirectly from agencies of the Government of Cuba.

30 TRANSITION TO IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP; however, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the amount of cash the Corporation generates, it has resulted in significant changes to the Corporation's financial statements.

The accounting policies described in note 3 have been applied in preparing these consolidated financial statements for the three months ended March 31, 2011 as well as the comparative information presented in the consolidated financial statements for the year ended December 31, 2010, the three months ended March 31, 2010 and the opening IFRS consolidated statements of financial position at January 1, 2010.

The most significant difference from Canadian GAAP is the change in the method of accounting for the Corporation's investments in the Ambatovy Joint Venture and Energas. As explained on page 71, under Canadian GAAP, these entities are considered investments in variable interest entities as defined by Accounting Guideline 15 Consolidation of Variable Interest Entities (AcG-15) and are fully consolidated with non-controlling interest in the net assets reported separately. Under IFRS, Ambatovy Joint Venture and Energas do not meet the criteria to be fully consolidated; Ambatovy is an investment in an associate and is accounted for using the equity method of accounting; and Energas is a jointly-controlled entity and accounted for using proportionate consolidation. Given the magnitude of the adjustments resulting from de-consolidating these entities, the impact on the consolidated statements of financial position has been included in a separate column in the various reconciliations of financial statements under Canadian GAAP to IFRS.

In order for users of the financial statements to better understand all of these changes, the Corporation's consolidated Canadian GAAP balance sheet, statements of operations and statements of cash flow have been reconciled to consolidated financial statements prepared under IFRS. The following reconciliations have been provided:

(i) Reconciliation of consolidated statements of financial position as at:

- January 1, 2010;
- March 31, 2010; and
- December 31, 2010.

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

- January 1, 2010;
- March 31, 2010; and
- December 31, 2010.

(iii) Reconciliation of consolidated statements of comprehensive income (loss) for:

- The three months ending March 31, 2010; and
- The twelve months ending December 31, 2010.

(iv) Reconciliation of consolidated statements of cash flow for:

- The three months ending March 31, 2010; and
- The twelve months ending December 31, 2010.

Transition Date Statements

January 1, 2010 Statements

Reconciliation of consolidated statements of financial position as at January 1, 2010

(Canadian $ millions)

Canadian GAAP accounts	Reference	Canadian GAAP balance	IFRS adjustments (IAS 27)(m)	IFRS adjustments (Other)	IFRS reclassifications(j)	IFRS balance	IFRS accounts
ASSETS							**ASSETS**
Current assets							**Current assets**
Cash and cash equivalents		$ 449.8	$ (276.1)	$ (9.0)	$ -	$ 164.7	Cash and cash equivalents
Restricted cash		1.8	-	-	-	1.8	Restricted cash
Short-term investments		420.8	-	-	-	420.8	Short-term investments
Current portion of long-term investments		40.5	(5.9)	-	-	34.6	Investments
Current portion of other assets		66.0	18.5	4.5	-	89.0	Advances, loans receivable and other assets
	(h)	-	-	19.9	-	19.9	Finance lease receivable
Accounts receivable, net	(d)(f)(k)	320.7	(31.6)	1.5	-	290.6	Trade accounts receivable, net
		-	-	-	21.2	21.2	Income taxes receivable
Inventories	(k)	168.7	(12.4)	16.0	-	172.3	Inventories
Prepaid expenses		11.5	(0.9)	0.3	-	10.9	Prepaid expenses
Future income taxes		29.1	-	(7.7)	(21.4)	-	
Assets of discontinued operation		3.1	-	(3.1)	-	-	
		1,512.0	(308.4)	22.4	(0.2)	1,225.8	
							Non-current assets
	(b)(k)	-	88.4	416.2	285.5	790.1	Advances, loans receivable and other assets
	(h)	-	-	202.8	-	202.8	Finance lease receivable
Long-term receivables		21.2	-	-	(21.2)	-	
Property, plant and equipment	(a)(d)(e)(h)(i)(k)(l)(n)	7,162.9	(5,306.6)	(597.5)	10.8	1,269.6	Property, plant and equipment
Investments		125.8	(13.3)	-	-	112.5	Investments
	(k)	-	1,364.8	(371.8)	-	993.0	Investment in an associate
Other assets	(b)(i)(k)(o)	285.5	-	-	(285.5)	-	
Goodwill		307.9	-	-	-	307.9	Goodwill
Intangible assets	(e)(i)	483.4	(3.4)	333.9	(10.8)	803.1	Intangible assets
Future income taxes	(d)(f)	8.3	-	3.0	8.4	19.7	Deferred income taxes
Assets of discontinued operation		1.4	-	(1.4)	-	-	
		$ 9,908.4	$ (4,178.5)	$ 7.6	$ (13.0)	$ 5,724.5	
LIABILITIES AND SHAREHOLDERS' EQUITY							**LIABILITIES AND SHAREHOLDERS' EQUITY**
Current Liabilities							**Current Liabilities**
		-	-	-	34.4	34.4	Loans and borrowings
Accounts payable and accrued liabilities	(f)	359.9	(197.4)	8.0	(10.0)	160.5	Trade accounts payable and accrued liabilities
Income taxes payable		10.8	(1.1)	-	-	9.7	Income taxes payable
Deferred revenue		2.0	-	-	(2.0)	-	
		-	-	-	54.0	54.0	Other liabilities
Current portion of long-term debt and other long-term liabilities		77.4	-	-	(77.4)	-	
Current portion of asset-retirement obligations		24.1	-	-	-	24.1	Provisions
Future income taxes		0.8	-	-	(0.8)	-	
Liabilities of discontinued operation		9.7	-	(9.7)		-	
		484.7	(198.5)	(1.7)	(1.8)	282.7	
							Non-current Liabilities
Long-term debt and other long-term liabilities		3,167.7	(1,616.7)	(0.1)	(208.1)	1,342.8	Loans and borrowings
	(b)	-	-	10.0	209.1	219.1	Other liabilities
Asset-retirement obligations	(d)	137.0	(24.6)	27.6	-	140.0	Provisions
Future income taxes	(a)(b)(d)(f)(h)(l)(n)(o)	552.5	(312.7)	(8.8)	(12.2)	218.8	Deferred income taxes
Liabilities of discontinued operation		1.3	-	(1.3)	-	-	
		4,343.2	(2,152.5)	25.7	(13.0)	2,203.4	
Non-controlling interests		2,110.8	(2,110.8)	-	-	-	
Shareholders' equity							**Shareholders' equity**
Capital stock		2,771.9	-	-	-	2,771.9	Capital stock
Contributed surplus	(f)	218.1	-	0.4	-	218.5	Contributed surplus
Retained earnings	(a)(b)(c)(d)(f)(h)(k)(l)(n)(o)	549.3	96.5	(115.1)	-	530.7	Retained earnings
Accumulated other comprehensive (loss) income	(c)(k)	(84.9)	(11.7)	96.6	-	-	Accumulated other comprehensive income (loss)
		3,454.4	84.8	(18.1)	-	3,521.1	
		$ 9,908.4	$ (4,178.5)	$ 7.6	$ (13.0)	$ 5,724.5	

Reconciliation of change in consolidated Shareholders' equity as at January 1, 2010

Canadian $ millions, as at	Reference		2010 January 1
Shareholders' equity under Canadian GAAP		$	3,454.4
Share-based payments	(f)		(4.2)
Income taxes			(7.5)
Property, plant and equipment	(a)		14.8
Employee benefits	(b)		(9.2)
The effects of changes in foreign exchange rate	(c)(k)		(4.6)
Borrowing costs	(l)		(32.0)
Change in accounting for Ambatovy Joint Venture and Energas	(m)		84.8
Impairment of assets	(n)		9.4
Provisions, contingent liabilities and contingent assets	(d)		(11.2)
Lease arrangements	(h)		1.6
Financial instruments	(o)		24.8
Total Shareholders' equity under IFRS		$	3,521.1

March 31, 2010 Statements

Reconciliation of consolidated statements of financial position as at March 31, 2010

(Canadian $ millions)

Canadian GAAP accounts	Reference	Canadian GAAP balance	IFRS adjustments (IAS 27)(m)	IFRS adjustments (Other)	IFRS reclassifications(j)	IFRS balance	IFRS accounts
ASSETS							**ASSETS**
Current assets							**Current assets**
Cash and cash equivalents		$ 243.0	$ (87.1)	$ -	$ -	$ 155.9	Cash and cash equivalents
Restricted cash		1.1	-	-	-	1.1	Restricted cash
Short-term investments		521.8	-	-	-	521.8	Short-term investments
Current portion of long-term investments		39.0	(5.7)	-	-	33.3	Investments
Current portion of other assets		67.0	17.9	4.6	(0.1)	89.4	Advances, loans receivable and other assets
	(h)	-	-	19.8	-	19.8	Finance lease receivable
Accounts receivable, net	(d)(f)(k)	329.1	(26.0)	7.4	-	310.5	Trade accounts receivable, net
		-	-	-	28.6	28.6	Income taxes receivable
Inventories	(k)	178.6	(13.6)	14.0	-	179.0	Inventories
Prepaid expenses		10.5	(0.4)	-	-	10.1	Prepaid expenses
Future income taxes		29.1	-	(12.7)	(16.4)	-	
		1,419.2	(114.9)	33.1	12.1	1,349.5	
							Non-current assets
	(b)(k)	-	107.4	429.8	232.8	770.0	Advances, loans receivable and other assets
	(h)	-	-	199.3	-	199.3	Finance lease receivable
Long-term receivables		28.6	-	-	(28.6)	-	
Property, plant and equipment	(a)(d)(e)(h)(i)(k)(l)(n)	7,337.1	(5,492.0)	(620.9)	10.9	1,235.1	Property, plant and equipment
Investments		121.9	(12.0)	-	-	109.9	Investments
	(k)	-	1,340.1	(382.1)	-	958.0	Investment in an associate
Other assets	(b)(i)(k)(o)	232.7	-	-	(232.7)	-	
Goodwill		307.9	-	-	-	307.9	Goodwill
Intangible assets	(e)(i)	479.6	(3.3)	334.0	(10.9)	799.4	Intangible assets
Future income taxes	(d)(f)	7.7	-	2.8	6.2	16.7	Deferred income taxes
		$ 9,934.7	$ (4,174.7)	$ (4.0)	$ (10.2)	$ 5,745.8	
LIABILITIES AND SHAREHOLDERS' EQUITY							**LIABILITIES AND SHAREHOLDERS' EQUITY**
Current Liabilities							**Current Liabilities**
Short-term debt		2.5	-	-	30.4	32.9	Loans and borrowings
Accounts payable and accrued liabilities	(f)	470.4	(251.5)	11.6	(28.1)	202.4	Trade accounts payable and accrued liabilities
		-	(1.3)	-	12.2	10.9	Income taxes payable
Deferred revenue		27.5	-	-	(27.5)	-	
		-	-	-	87.2	87.2	Other liabilities
Current portion of long-term debt and other long-term liabilities		76.0	-	-	(76.0)	-	
Current portion of asset-retirement obligations		23.5	-	-	-	23.5	Provisions
		599.9	(252.8)	11.6	(1.8)	356.9	
							Non-current Liabilities
Long-term debt and other long-term liabilities		3,135.1	(1,592.3)	-	(201.6)	1,341.2	Loans and borrowings
	(b)	-	-	9.8	203.4	213.2	Other liabilities
Asset-retirement obligations	(d)	140.0	(25.9)	24.3	-	138.4	Provisions
Future income taxes	(a)(b)(d)(f)(h)(l)(n)(o)	540.6	(304.0)	(9.9)	(10.2)	216.5	Deferred income taxes
		4,415.6	(2,175.0)	35.8	(10.2)	2,266.2	
Non-controlling interests		2,081.5	(2,081.5)	-	-	-	
Shareholders' equity							**Shareholders' equity**
Capital stock		2,772.3	-	-	-	2,772.3	Capital stock
Contributed surplus	(f)	218.5	-	0.6	-	219.1	Contributed surplus
Retained earnings	(a)(b)(c)(d)(f)(h)(i)(k)(l)(m)(n)(o)	598.4	96.5	(145.4)	-	549.5	Retained earnings
Accumulated other comprehensive (loss) income	(c)(k)	(151.6)	(14.7)	105.0	-	(61.3)	Accumulated other comprehensive income (loss)
		3,437.6	81.8	(39.8)	-	3,479.6	
		$ 9,934.7	$ (4,174.7)	$ (4.0)	$ (10.2)	$ 5,745.8	

Reconciliation of change in consolidated Shareholders' equity as at March 31, 2010

Canadian $ millions, as at	Reference		2010 March 31
Shareholders' equity under Canadian GAAP		$	3,437.6
Share-based payments	(f)		(7.4)
Income taxes			(12.7)
Property, plant and equipment	(a)		15.3
Employee benefits	(b)		(9.0)
The effects of changes in foreign exchange rate	(c)(k)		(8.4)
Borrowing costs	(l)		(43.5)
Change in accounting for Ambatovy Joint Venture and Energas	(m)		81.8
Impairment of assets	(n)		9.4
Provisions, contingent liabilities and contingent assets	(d)		(10.6)
Service concession arrangements	(i)		0.2
Lease arrangements	(h)		1.8
Financial instruments	(o)		25.1
Total Shareholders' equity under IFRS		$	3,479.6

Reconciliation of consolidated statements of comprehensive loss for the three months ended March 31, 2010

(Canadian $ millions) Canadian GAAP accounts	Reference	Canadian GAAP balance[1]	IFRS adjust-ments (IAS 27)(m)	IFRS adjust-ments (Other)	IFRS reclassi-fications(j)	IFRS balance	IFRS accounts
Revenue	(h)	$ 392.5	$ (17.5)	$ (8.6)	$ -	$ 366.4	**Revenue**
Operating, selling, general and administrative expenses	(g)(h)(i)(k)	268.2	(7.8)	(6.4)	20.1	274.1	Cost of sales
			(9.7)	(2.2)	(20.1)	92.3	**Gross profit**
	(f)(g)(k)		(0.5)	4.8	18.8	23.1	Administrative expenses
			(9.2)	(7.0)	(38.9)	69.2	**Operating profit**
			(0.8)	-	-	(0.8)	Share of (loss) of an associate, net of tax
Earnings before undernoted items		124.3	(10.0)	(7.0)	(38.9)	68.4	**Earnings from operations and associate**
Depletion, amortization and accretion		40.9	-	-	(40.9)	-	
Net financing income		(5.0)	(1.9)	-	6.9	-	
	(h)(o)		0.5	(5.8)	(13.7)	(19.0)	Financing income
	(k)(l)(o)		(2.2)	27.3	8.8	33.9	Financing expense
			(1.7)	21.5	(4.9)	14.9	**Net finance expense**
Earnings from operations before income taxes and non-controlling interests		88.4	(6.4)	(28.5)	-	53.5	**Earnings before tax**
Non-controlling interests		4.9	(4.9)	-	-	-	
Income taxes	(f)(g)(h)(l)	23.0	(1.5)	1.8	-	23.3	Income tax expense
Earnings from continuing operations		60.5	-	(30.3)	-	30.2	**Earnings from continuing operations**
Loss from discontinued operation		0.8	-	-	-	0.8	Loss from discontinued operation, net of tax
Net earnings		$ 59.7	$ -	$ (30.3)	$ -	$ 29.4	**Net earnings for the period**
Other comprehensive loss							
Unrealized foreign currency loss on self-sustaining foreign operations	(k)	(66.7)	(2.9)	8.3	-	(61.3)	Foreign currency translation differences on foreign operations
Comprehensive income (loss)		$ (7.0)	$ (2.9)	$ (22.0)	$ -	$ (31.9)	**Comprehensive income (loss)**
Earnings from continuing operations per common share							**Earnings from continuing operations per common share**
Basic		$ 0.21				$ 0.10	Basic
Diluted		$ 0.20				$ 0.10	Diluted
Net earnings per share							**Net earnings per share**
Basic		$ 0.20				$ 0.10	Basic
Diluted		$ 0.20				$ 0.10	Diluted

(1) During the third quarter of 2010, the Corporation classified Mineral Products as a discontinued operation once the talc mine and plant closed. The Q1 2010 financial statements were restated accordingly as discontinued operations.

Reconciliation of consolidated statements of cash flow for the three months ended March 31, 2010

(Canadian $ millions)

Canadian GAAP accounts	Canadian GAAP Balance	IFRS adjustments (IAS 27)(m)	IFRS adjustments (Other)	IFRS reclassifications(j)	IFRS balance	IFRS accounts
Operating activities						**Operating activities**
Net earnings	$ 59.7	$ -	$ (30.3)	$ -	$ 29.4	Net Earnings
Add (deduct)						Add (deduct)
Non-controlling interests	4.9	(4.9)	-	-	-	
Depletion, amortization and accretion	60.5	(4.7)	(7.7)	(2.1)	46.0	Depletion, depreciation and amortization
	-	-	(1.0)	2.1	1.1	Accretion expense on environmental rehabilitation provisions
Stock-based compensation expense	2.1	-	4.5	-	6.6	Stock-based compensation expense
	-	0.8	-	-	0.8	Share of loss of an associate, net of tax
		-	0.1	0.3	0.4	Impairment losses
Impairment of inventory	0.3	-	-	(0.3)	-	
Fair value adjustment	(5.1)	-	(1.5)	-	(6.6)	Net gain on financial instruments
Future income taxes	0.6	(0.2)	1.8	-	2.2	Deferred income taxes
Unrealized foreign-exchange gain, net	(13.1)	2.2	9.4	-	(1.5)	Unrealized foreign-exchange (gain) loss
Liabilities settled for asset-retirement obligations	(3.0)	-	0.6	-	(2.4)	Liabilities settled for environmental rehabilitation
		-	3.0	-	3.0	Cross guarantee fee amortization
Other items	0.2	(3.1)	(1.9)	-	(4.8)	Other items
	107.1	(9.9)	(23.0)	-	74.2	
Net change in non-cash working capital	38.4	(3.1)	17.4	9.9	62.6	Net change in non-cash working capital
	145.5	(13.0)	(5.6)	9.9	136.8	
		-	-	7.0	7.0	Interest received
		-	-	(3.9)	(3.9)	Interest paid
		-	-	(13.0)	(13.0)	Income tax paid
Cash provided by operating activities	145.5	(13.0)	(5.6)	-	126.9	**Cash provided by operating activities**
Investing activities						**Investing activities**
Capital expenditures	(362.1)	320.0	16.5	(8.6)	(34.2)	Property, plant and equipment expenditures
		-	(4.8)	-	(4.8)	Intangible asset expenditures
Purchase of short-term investments	(101.0)	-	-	-	(101.0)	Short-term investments
Advances, loans receivable and other assets	16.8	4.7	(0.6)	(8.3)	12.6	Advances, loans receivable and other assets
		(1.2)	-	8.3	7.1	Investments
		(15.6)	-	-	(15.6)	Loans to an associate
Restricted cash	0.7	-	-	-	0.7	Restricted cash
Net proceeds from sale of property, plant, and equipment	0.2	0.1	-	-	0.3	Net proceeds from sale of property, plant, and equipment
Net change in non-cash capital expenditures	63.2	(62.7)	(9.1)	8.6	-	
Cash used for investing activities	(382.2)	245.3	2.0	-	(134.9)	**Cash used for investing activities**
Financing activities						**Financing activities**
Short-term debt borrowings	2.5	-	-	-	2.5	Increase in short-term loans
Long-term debt repayments	(13.2)	-	-	-	(13.2)	Repayment of loans and borrowings and other liabilities
Long-term debt borrowings	43.7	(22.5)	-	-	21.2	Increase in loans and borrowings and other liabilities
		-	3.6	-	3.6	Finance lease receivable, net
Funding from Ambatovy Joint Venture partners	23.5	(23.5)	-	-	-	
Treasury stock - restricted stock plan	(0.8)	-	-	-	(0.8)	Treasury stock - restricted stock plan
Dividends paid on common shares	(10.6)	-	-	-	(10.6)	Dividends paid on common shares
Cash provided by financing activities	45.1	(46.0)	3.6	-	2.7	**Cash provided by financing activities**
Effect of exchange rate changes on cash and cash equivalents	(6.2)	2.7	-	-	(3.5)	**Effect of exchange rate changes on cash and cash equivalents**
Decrease in cash and cash equivalents	(197.8)	189.0	-	-	(8.8)	**Decrease in cash and cash equivalents**
Cash and cash equivalents at beginning of year	440.8	(276.1)	-	-	164.7	**Cash and cash equivalents at beginning of year**
Cash and cash equivalents at end of period	$ 243.0	$ (87.1)	$ -	$ -	$ 155.9	**Cash and cash equivalents at end of period**
Cash and cash equivalents consist of:						**Cash and cash equivalents consist of:**
Cash on hand and balances with banks	$ 161.1	$ (87.1)	$ -	$ -	$ 74.0	Cash on hand and balances with banks
Cash equivalents	81.9	-	-	-	81.9	Cash equivalents

December 31, 2010 Statements

Reconciliation of consolidated statements of financial position as at December 31, 2010

(Canadian $ millions)

Canadian GAAP accounts	Reference	Canadian GAAP balance	IFRS adjust-ments (IAS 27)(m)	IFRS adjust-ments (Other)	IFRS reclassi-fications(j)	IFRS balance	IFRS accounts
ASSETS							**ASSETS**
Current assets							**Current assets**
Cash and cash equivalents		$ 330.8	$ (67.7)	$ -	$ -	$ 263.1	Cash and cash equivalents
Restricted cash		1.1	-	-	-	1.1	Restricted cash
Short-term investments		496.7	-	-	-	496.7	Short-term investments
Current portion of long-term investments		36.0	(5.2)	-	-	30.8	Investments
Current portion of other assets		63.1	16.1	4.5	0.1	83.8	Advances, loans receivable and other assets
	(h)	-	-	19.9	-	19.9	Finance lease receivable
Accounts receivable, net	(d)(f)(k)	361.5	(25.7)	1.8	(1.7)	335.9	Trade accounts receivable, net
		-	-	-	25.6	25.6	Income taxes receivable
Inventories	(k)	195.0	(18.9)	13.7	0.8	190.6	Inventories
Prepaid expenses	(k)	11.1	(0.7)	(0.1)	-	10.3	Prepaid expenses
Future income taxes		21.4	-	(8.8)	(12.6)	-	
Assets of discontinued operation		0.2	-	-	(0.2)	-	Assets of discontinued operation
		1,516.9	(102.1)	31.0	12.0	1,457.8	
							Non-current assets
	(b)(k)	-	97.5	653.0	190.1	940.6	Advances, loans receivable and other assets
	(h)	-	-	196.7	-	196.7	Finance lease receivable
Long-term receivables		23.9	-	-	(23.9)	-	
Property, plant and equipment	(a)(d)(e)(g)(h)(i)(k)(l)(n)	8,099.2	(6,150.7)	(617.4)	11.0	1,342.1	Property, plant and equipment
Investments		105.3	(8.8)	-	-	96.5	Investments
	(k)	-	1,539.9	(607.9)	-	932.0	Investment in an associate
Other assets	(b)(i)(k)(o)	190.2	-	-	(190.2)	-	
Goodwill		307.9	-	-	-	307.9	Goodwill
Intangibles assets	(e)(g)(i)	476.6	(3.5)	329.2	(10.8)	791.5	Intangible assets
Future income taxes	(d)(f)(g)	-	-	4.4	(3.0)	1.4	Deferred income taxes
Assets of discontinued operation		1.5	-	-	0.2	1.7	Assets of discontinued operation
		$ 10,721.5	$ (4,627.7)	$ (11.0)	$ (14.6)	$ 6,068.2	
LIABILITIES AND SHAREHOLDERS' EQUITY							**LIABILITIES AND SHAREHOLDERS' EQUITY**
Current Liabilities							**Current Liabilities**
Short-term debt		-	-	-	33.1	33.1	Loans and borrowings
Accounts payable and accrued liabilities	(f)	384.3	(207.7)	8.6	(15.8)	169.4	Trade accounts payable and accrued liabilities
Income taxes payable		63.5	(37.5)	-	-	26.0	Income taxes payable
Deferred revenue		23.5	-	-	(23.5)	-	
		-	-	0.3	90.9	91.2	Other liabilities
Current portion of long-term debt and other long-term liabilities		86.3	-	0.1	(86.4)	-	
Current portion of asset-retirement obligations		25.5	-	-	-	25.5	Provisions
Liabilities of discontinued operation		19.5	-	-	(19.5)	-	Liabilities of discontinued operation
		602.6	(245.2)	9.0	(21.2)	345.2	
							Non-current Liabilities
Long-term debt and other long-term liabilities		3,500.7	(1,767.0)	-	(203.2)	1,530.5	Loans and borrowings
	(b)(g)	-	-	16.5	192.2	208.7	Other liabilities
		-	-	-	13.7	13.7	Intangible liability
Asset-retirement obligations	(d)(g)	180.8	(32.6)	34.6	-	182.8	Provisions
Future income taxes	(a)(b)(d)(f)(g)(h)(l)(n)(o)	554.8	(300.3)	(4.4)	(15.6)	234.5	Deferred income taxes
Liabilities of discontinued operation		4.7	-	0.3	19.5	24.5	Liabilities of discontinued operation
		4,843.6	(2,345.1)	56.0	(14.6)	2,539.9	
Non-controlling interest		2,367.7	(2,367.7)	-	-	-	
Shareholders' equity							**Shareholders' equity**
Capital stock		2,787.3	-	-	-	2,787.3	Capital stock
Contributed surplus	(f)	205.0	-	1.6	-	206.6	Contributed surplus
Retained earnings	(a)(b)(c)(d)(f)(g)(h)(h)(i)(k)(l)(m)(n)(o)	720.3	96.5	(184.3)	-	632.5	Retained earnings
Accumulated other comprehensive income (loss)	(c)(k)	(202.4)	(11.4)	115.7	-	(98.1)	Accumulated other comprehensive income (loss)
		3,510.2	85.1	(67.0)	-	3,528.3	
		$ 10,721.5	$ (4,627.7)	$ (11.0)	$ (14.6)	$ 6,068.2	

Reconciliation of change in consolidated Shareholders' equity as at December 31, 2010

Canadian $ millions, as at	Reference	2010 December 31
Shareholders' equity under Canadian GAAP		$ 3,510.2
Share-based payments	(f)	(6.1)
Income taxes		(8.8)
Property, plant and equipment	(a)	14.4
Employee benefits	(b)	(8.2)
The effects of changes in foreign exchange rate	(c)(k)	(15.3)
Borrowing costs	(l)	(82.5)
Change in accounting for Ambatovy Joint Venture and Energas	(m)	85.1
Impairment of assets	(n)	10.1
Provisions, contingent liabilities and contingent assets	(d)	(11.8)
Business combinations	(g)	13.2
Service concession arrangements	(i)	0.8
Lease arrangements	(h)	2.6
Financial instruments	(o)	24.6
Total Shareholders' equity under IFRS		$ 3,528.3

Reconciliation of consolidated statements of comprehensive income (loss) for the year ended December 31, 2010

(Canadian $ millions)

Canadian GAAP accounts	Reference	Canadian GAAP balance	IFRS adjust-ments (IAS 27)(m)	IFRS adjust-ments (Other)	IFRS reclassi-fications(j)	IFRS balance	IFRS accounts
Revenue	(h)(i)	$ 1,771.1	$ (68.7)	$ (33.8)	$ 2.0	$ 1,670.6	**Revenue**
Operating, selling, general and administrative expenses	(g)(h)(i)(k)	1,234.4	(45.9)	(16.4)	81.6	1,253.7	Cost of sales
			(22.8)	(17.4)	(79.6)	416.9	**Gross profit**
	(f)(g)(k)		(2.1)	4.9	81.4	84.2	Administrative expenses
			(20.7)	(22.3)	(161.0)	332.7	**Operating profit**
			(5.6)	-	-	(5.6)	Share of (loss) of an associate, net of tax
			-	15.6	-	15.6	Gain on acquisition of CVP
Earnings before undernoted items		536.7	(26.3)	(6.7)	(161.0)	342.7	**Earnings from operations and associate**
Depletion, amortization and accretion		162.6	-	-	(162.6)	-	
Impairment of property, plant and equipment		7.9	-	-	(7.9)	-	
Net financing expense		15.8	(1.0)	-	(14.8)	-	
	(h)(o)		3.9	(18.5)	(45.5)	(60.1)	Financing income
	(g)(k)(l)(o)		(10.9)	82.7	69.8	141.6	Financing expense
		-	(7.0)	64.2	24.3	81.5	**Net finance expense**
Earnings from operations before income taxes and non-controlling interests		350.4	(18.3)	(70.9)	-	261.2	**Earnings before tax**
Non-controlling interests		11.4	(11.4)	-	-	-	
Income taxes	(f)(g)(h)(l)	110.6	(6.9)	(2.0)	-	101.7	Income tax expense
Earnings from continuing operations		228.4	-	(68.9)	-	159.5	**Earnings from continuing operations**
Loss from discontinued operation		14.4	-	0.3	-	14.7	Loss from discontinued operation, net of tax
Net earnings		$ 214.0	$ -	$ (69.2)	$ -	$ 144.8	**Net earnings for the period**
Other comprehensive loss							
Unrealized foreign currency loss on self-sustaining foreign operations	(k)	(117.5)	0.3	19.1	-	(98.1)	Foreign currency translation differences on foreign operations
Comprehensive income		$ 96.5	$ 0.3	$ (50.1)	$ -	$ 46.7	**Comprehensive income**
Earnings from continuing operations per common share							**Earnings from continuing operations per common share**
Basic		$ 0.78				$ 0.54	Basic
Diluted		$ 0.77				$ 0.54	Diluted
Net earnings per share							**Net earnings per share**
Basic		$ 0.73				$ 0.49	Basic
Diluted		$ 0.72				$ 0.49	Diluted

Reconciliation of consolidated statements of cash flow for the year ended December 31, 2010

(Canadian $ millions)

Canadian GAAP accounts	Canadian GAAP Balance	IFRS adjust-ments (IAS 27)(m)	IFRS adjust-ments (Other)	IFRS reclassi-fications(j)	IFRS balance	IFRS accounts
Operating activities						**Operating activities**
Earnings from continuing operations	$ 228.4	$ -	$ (83.6)	$ -	144.8	Net Earnings
Add (deduct)						Add (deduct)
Non-controlling interests	11.4	(11.4)	-	-		
Depletion, amortization and accretion	257.9	(18.6)	(35.0)	-	204.3	Depletion, depreciation and amortization
	-	-	(4.8)	9.6	4.8	Accretion expense on environmental rehabilitation provisions
Stock-based compensation expense	8.3	-	3.8	-	12.1	Stock-based compensation expense
Impairment of property, plant and equipment	7.9	-	-	(7.9)	-	
	-	5.6	-	-	5.6	Share of loss of an associate, net of tax
	-	-	(15.6)	-	(15.6)	Gain on CVP acquisition
	-	-	1.5	8.6	10.1	Impairment losses
Fair value adjustment of MAV notes	(10.5)	-	(1.6)	-	(12.1)	Net gain on financial instruments
Future income taxes	31.3	(2.6)	(2.0)	-	26.7	Deferred income taxes
Unrealized foreign-exchange gain, net	(27.8)	(1.9)	34.8	-	5.1	Unrealized foreign-exchange (gain) loss
Liabilities settled for asset-retirement obligations	(16.3)	-	2.9	-	(13.4)	Liabilities settled for environmental rehabilitation
	-	-	11.8	-	11.8	Cross guarantee fee amortization
Other items	4.6	(7.2)	2.7	(0.7)	(0.6)	Other items
	495.2	(36.1)	(85.1)	9.6	383.6	
Net change in non-cash working capital	17.5	16.4	2.2	111.4	147.5	Net change in non-cash working capital
	512.7	(19.7)	(82.9)	121.0	531.1	
		-	-	23.5	23.5	Interest received
		-	-	(75.3)	(75.3)	Interest paid
		-	-	(59.6)	(59.6)	Income tax paid
Cash provided by continuing operations	512.7	(19.7)	(82.9)	9.6	419.7	
Cash used for discontinued operation	(3.7)	-	3.7	-	-	
Cash provided by operating activities	509.0	(19.7)	(79.2)	9.6	419.7	**Cash provided by operating activities**
Investing activities						**Investing activities**
Capital expenditures	(1,305.8)	1,116.1	66.5	(12.1)	(135.3)	Property, plant and equipment expenditures
	-	-	(9.6)	-	(9.6)	Intangible asset expenditures
Purchase of short-term investments	(75.9)	-	-	-	(75.9)	Short-term investments
Advances, loans receivable and other assets	54.9	12.6	8.8	(32.6)	43.7	Advances, loans receivable and other assets
	-	(4.6)	-	32.6	28.0	Investments
	-	(224.7)	-	-	(224.7)	Loans to an associate
	-	(22.9)	-	-	(22.9)	Investment in an associate
Restricted cash	0.7	-	-	-	0.7	Restricted cash
Net proceeds from sale of property, plant, and equipment	1.7	(0.3)	-	-	1.4	Net proceeds from sale of property, plant, and equipment
Acquisition of CVP, net of cash acquired	(32.2)	-	0.4	-	(31.8)	Acquisition of CVP, net of cash acquired
Net change in non-cash capital expenditures	55.3	(65.2)	(2.2)	12.1	-	
Cash used for continuing operations	(1,301.3)	811.0	63.9	-	(426.4)	
Cash used for discontinued operation	(0.1)	-	0.1	-	-	
Cash used for investing activities	(1,301.4)	811.0	64.0	-	(426.4)	**Cash used for investing activities**
Financing activities						**Financing activities**
Acquisition of loan from former partner	(10.1)	-	-	-	(10.1)	Acquisition of loan from former partner
Short-term debt borrowings	5.0	-	14.4	-	19.4	Increase in short-term loans
Long-term debt repayments	(64.0)	-	-	-	(64.0)	Repayment of loans and borrowings and other liabilities
Long-term debt borrowings	425.7	(233.1)	-	-	192.6	Increase in loans and borrowings and other liabilities
		-	5.6	-	5.6	Finance lease receivable, net
Funding from Ambatovy Joint Venture partners	370.2	(370.2)	-	-	-	
Issuance of common shares	1.1	-	-	-	1.1	Issuance of common shares
Treasury stock - restricted stock plan	(0.8)	-	-	-	(0.8)	Treasury stock - restricted stock plan
Dividends paid to non-controlling interests	(16.9)	16.9	-	-	-	
Dividends paid on common shares	(42.4)	-	-	-	(42.4)	Dividends paid on common shares
Cash provided by continuing operations	667.8	(586.4)	20.0	-	101.4	
Cash provided by discontinued operation	5.4	-	(5.4)	-	-	
Cash provided by financing activities	673.2	(586.4)	14.6	-	101.4	**Cash provided by financing activities**
Effect of exchange rate changes on cash and cash equivalents	0.2	3.5	-	-	3.7	**Effect of exchange rate changes on cash and cash equivalents**
Decrease in cash and cash equivalents	(119.0)	208.4	(0.6)	9.6	98.4	**Increase in cash and cash equivalents**
Cash and cash equivalents at beginning of year	449.8	(276.1)	(9.0)	-	164.7	**Cash and cash equivalents at beginning of year**
Cash and cash equivalents at end of year	$ 330.8	$ (67.7)	$ -	$ 9.6	$ 263.1	**Cash and cash equivalents at end of year**
Cash and cash equivalents consist of:						**Cash and cash equivalents consist of:**
Cash on hand and balances with banks	$ 163.6	$ (67.7)	$ -	$ -	$ 95.9	Cash on hand and balances with banks
Cash equivalents	167.2	-	-	-	167.2	Cash equivalents

Impact of applying IFRS 1 – First-time Adoption of IFRS

IFRS 1, First-time Adoption of International Financial Reporting Standards, provides guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at January 1, 2010 with adjustments to assets and liabilities taken to retained earnings unless certain mandatory exceptions and optional exemptions are applied.

Mandatory exceptions

The mandatory exceptions applicable to the Corporation include the following:

(i) Estimates

In accordance with IFRS 1, hindsight is not used to create or revise estimates. The estimates previously made by the Corporation under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any differences in accounting policies between Canadian GAAP and IFRS.

(ii) Asset and liabilities of subsidiaries, associates and joint ventures

If a parent adopts IFRS after a subsidiary, associate or joint venture, the exemptions otherwise available to it to revalue assets and liabilities are not permitted. The Ambatovy Joint Venture has reported under IFRS since its inception which was previous to the Corporation acquiring an interest in this investment in an associate. This mandatory exception did not have an impact to the Corporation as there were no accounting policy differences that were identified between the Ambatovy Joint Venture and the Corporation.

Optional exemptions

In addition to the mandatory exceptions, the Corporation has applied some exemptions available to it under IFRS at the Transition Date to its January 1, 2010 consolidated statements of financial position. Note that only material adjustments are discussed qualitatively below and that a reader may not be able to directly tie numbers with a specific letter reference to the various reconciliations of the financial statements on the preceding pages. Also note that the impact at January 1, 2010, is the same for the period March 31, 2010, and December 31, 2010 for the exemptions described below:

IFRS 2 - Share-based Payments

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2, Share-based Payment, to equity and liability instruments that were granted on or before November 7, 2002, or equity and liability instruments that were granted subsequent to November 7, 2002 and vested or were settled before the Transition Date. The Corporation has elected not to apply IFRS 2 for awards that vested or were settled prior to January 1, 2010.

The transition rules in IFRS 1 and IFRS 2 applied by the Corporation resulted in the following:

- Share-based payments granted prior to November 7, 2002 are exempt from the application of IFRS 2 as a result of applying the IFRS 1 exemption;
- Share-based payments granted subsequent to November 7, 2002 are impacted if they have not vested or remain unsettled as at January 1, 2010; and

At January 1, 2010, and on a prospective basis, all stock options, share grants and other share-based payments will be expensed in accordance with the policy stated in note 3.

IFRS 3 - Business Combinations

IFRS 1 provides an exemption not to apply IFRS 3R, Business Combinations, retrospectively to business combinations that occurred before the Transition Date. The Corporation has elected not to restate any business combinations that occurred prior to its Transition Date. Additionally, goodwill arising on business combinations occurring before the Transition Date has not been adjusted from the carrying amount previously determined under Canadian GAAP as a result of applying this exemption.

IFRS 6 - Exploration for and Evaluation of Mineral Resources

IFRS 1 provides an exemption from retrospectively applying the full cost method of accounting for Oil and Gas assets in accordance with IFRS 6, Exploration for and Evaluation of Mineral Resources.

The Corporation has applied this exemption that permits the following capitalization measurement basis to be retained for E&E costs incurred prior to the Transition Date:

- Capitalized amounts for E&E assets determined under Canadian GAAP; and
- Capitalized development and production assets determined for the cost centre under Canadian GAAP and the allocation of this amount to the respective assets based on reserve volumes.

IFRIC 4 - Determining Whether an Arrangement Contains a Lease

IFRS 1 permits first time adopters to determine whether an arrangement contains a lease on the basis of facts and circumstances existing at the Transition Date, rather than the date when the arrangement was entered into or amended. The Corporation has elected to apply this exemption and has assessed its agreements based on the facts and circumstances existing at the Transition Date.

An additional exemption is provided to a first time adopter that, under its previous GAAP, has already made an assessment as to whether an arrangement contains a lease, provided their previous conclusion is consistent with the criteria within IAS 17, and IFRS Interpretations Committee Interpretation 4 (IFRIC 4). Conclusions made under Emerging Issues Abstract 150, “Determining Whether an Arrangement Contains a Lease”, (EIC 150) are eligible for this exemption, however EIC 150 did not apply to arrangements entered into or modified before 2005. The Corporation assessed all arrangements that were previously “grandfathered” by EIC 150 under IFRIC 4.

IFRIC 12 - Service Concession Arrangements

IFRS 1 permits first time adopters to apply the transitional provisions in IFRIC 12. The Corporation has elected to apply this exemption and has used the previous carrying amounts of plant and equipment that were subject to IFRIC 12, as the carrying amount of the intangible asset subject to the service concession arrangement at the Transition Date.

IFRIC 18 – Transfers of Assets from Customers

An entity may receive equipment or other assets from its customers to be used to provide goods or services to these customers. Coal has been provided with certain mining equipment from customers as part of the coal supply agreements at various mines. The mining equipment is then used to deliver coal to these customers. IFRS 1 provides an exemption not to apply IFRIC 18 to transfers of assets that occurred before the Transition Date. The Corporation has applied this exemption to all transfers of assets that occurred before the Transition Date.

IAS 16 - Property, Plant and Equipment (a)

At the Transition Date, an entity may elect to measure an item of property, plant and equipment, including E&E costs, at its fair value and use that fair value as its deemed cost at that date. It may also elect to use a previous GAAP revaluation of an item of property, plant and equipment at, or before, the date of transition to IFRS as the item’s deemed cost if it is comparable to fair value or reflects the cost or depreciated cost under IFRS. This exemption is available on an item-by-item basis and need not be applied to an entire class of assets. The Corporation has applied this exemption to certain equipment that was valued by an independent valuator.

The impact arising from this change is summarized as follows:

Canadian $ millions, as at		2010 January 1
Consolidated statement of financial position		
Increase in Property, plant and equipment	$	12.3
Increase to Retained earnings	$	(12.3)

IAS 19 - Employee Benefits (b)

IFRS 1 provides the option under IAS 19, Employee Benefits, to retrospectively measure net defined benefit plans assets or liabilities as determined under IAS 19 or to recognize cumulative actuarial gains and losses deferred under Canadian GAAP in opening retained earnings at the Transition Date. The Corporation has elected to recognize all cumulative actuarial losses that existed at the Transition Date in opening retained earnings for all of its employee benefit plans.

The impact arising from this change is summarized as follows:

Canadian $ millions, as at		2010 January 1
Consolidated statement of financial position		
Decrease in Advances, loans receivable and other assets	$	(2.4)
Increase in Other liabilities (non-current)		(10.0)
Decrease in Deferred income tax liability (non-current)		3.2
Decrease to Retained earnings	$	9.2

IAS 21 - The Effects of Changes in Foreign Exchange Rates (c)

IFRS 1 provides an exemption to not apply the guidance of IAS 21, The Effects of Changes in Foreign Exchange Rates, retrospectively for cumulative translation differences relating to foreign operations that existed at the Transition Date. Retrospective application of IAS 21 would require the Corporation to determine cumulative currency translation differences from the date a subsidiary or other investee was formed or acquired. The Corporation has elected to apply the exemption under IFRS 1 and reset all cumulative translation gains and losses to zero at its Transition Date. This election is only permitted upon transition to IFRS. For the entities already reporting at the entity level under IFRS, this election is not available, except for any cumulative translation differences that would be created as a result of consolidation at the corporate level.

The accumulated other comprehensive loss was $84.9 million under Canadian GAAP at January 1, 2010. The net adjustment made under the IFRS 1 exemption at January 1, 2010, totalled $96.6 million.

The impact arising from this change is summarized as follows:

Canadian $ millions, as at		2010 January 1
Consolidated statement of financial position		
Increase in Accumulated other comprehensive income	$	(96.6)
Decrease to Retained earnings	$	96.6

The above adjustment to accumulated other comprehensive loss includes the following:

- The change in the method of accounting for the Corporation’s investment in the Ambatovy Joint Venture. See IAS 21 – The Effect of Changes in Foreign Exchange Rates (k), and IAS 27, IAS 28 and IAS 31 – Accounting for Investments in Joint Ventures (m);
- The change in the method of accounting for the Corporation’s investment in Energas on adoption of IFRS, and a change in the functional currency of Energas. See IAS 21 – The Effect of Changes in Foreign Exchange Rates (k);
- Any remaining cumulative translation difference balance was reset to zero through the application of the IFRS 1 exemption.

IAS 23 - Borrowing Costs

IFRS 1 provides that where an application of IAS 23, Borrowing Costs, constitutes a change in accounting policy, an entity shall apply the standard to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after the Transition Date. An exemption under this standard permits prospective treatment of borrowing costs on such qualifying assets. The Corporation has chosen to apply the exemption for qualifying assets. In applying this exemption, other than the impact of applying IAS 27, 28, and 31 (as described below), there was no change to the opening consolidated statements of financial position at the Transition Date.

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets - Changes in Existing Decommissioning, Restoration and Similar Liabilities included in the Cost of Property, plant and equipment (d)

IFRIC 1, Changes in Existing Decommission, Restoration and Similar Liabilities, requires specified changes in a decommissioning, restoration or a similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. IFRS 1 allows a first-time adopter to elect not to comply with the requirements of IFRIC 1 for changes that occurred in such rehabilitation obligations before the date of transition to IFRS.

In order to meet this requirement, the Corporation has elected to apply this exemption to certain environmental rehabilitation provisions by measuring the liability at the date of transition to IFRS in accordance with IAS 37, "Provisions, Contingent Liabilities, and Contingent Assets". To do this, the Corporation estimated the amount to be included in the cost of the related asset when the liability first arose by discounting the liability back to that date using the weighted average historical risk-adjusted discount rate for the intervening period and then calculated the accumulated depreciation on that amount, as at the Transition Date, on the basis of the estimated useful life under IFRS.

The impact arising from this change is summarized as follows:

Canadian $ millions, as at		2010 January 1
Consolidated statement of financial position		
Increase in Property, plant and equipment	$	10.7
Increase in Environmental rehabilitation and other provisions (non-current)		(26.3)
Increase in Deferred income tax assets (non-current)		3.0
Decrease in Deferred income tax liability (non-current)		1.9
Decrease to Retained earnings	$	10.7

IAS 38 - Intangible Assets (e)

IFRS 1 permits first time adopters to elect to use the fair value of an intangible asset at the date of an event such as privatization or initial public offering as its deemed cost at the date of the event provided that the intangible asset qualifies for recognition in accordance with IAS 38. As a result, certain amounts related to fair value increases that were applied to Property, plant and equipment on the Corporation's acquisition of the remaining units of Royal Utilities it did not already own on May 2, 2008, were reclassified from Property, plant and equipment to Intangible assets.

The impact arising from this change is summarized as follows:

Canadian $ millions, as at		2010 January 1
Consolidated statement of financial position		
Decrease in Property, plant and equipment	$	(252.8)
Increase in Intangible assets		252.8
(Increase) decrease to Retained earnings	$	-

Impact of adoption of IFRS accounting policies

The following provides a summary of the most significant changes in policy resulting in differences in transitioning the consolidated financial statements from Canadian GAAP to IFRS. Note that only material adjustments are discussed qualitatively below and that a reader may not be able to directly tie numbers with a specific letter reference to the various reconciliations of the financial statements on the preceding pages.

IFRS 2 - Share-based Payments (f)

FORFEITURES

Canadian GAAP – Forfeitures of awards are recognized as they occur.

IFRS – An estimate is required at the time the award is granted of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. As a result, the Corporation adjusted its expense to reflect this difference.

CASH-SETTLED SHARE-BASED PAYMENTS (RSUS, DSUS, OPTIONS WITH TANDEM SARS, SARS)

Canadian GAAP – A liability is accrued based upon the intrinsic value of the award with changes recognized in the consolidated statement of comprehensive income (loss) each period as the awards vest. Options with Tandem SARs, and SARs are accrued to the extent they have appreciated above the grant price.

IFRS – The liability for Options with Tandem SARs and SARs is measured at fair value at the grant date by applying the Black-Scholes option pricing model. Until the liability is settled, the fair value of the liability is re-measured at each reporting date with changes in fair value recognized in the consolidated statements of comprehensive income (loss) over the remaining vesting period. Changes in fair value of awards that have vested are immediately recognized in the consolidated statements of comprehensive income (loss). The determination of the liability and expense for RSUs and DSUs is unchanged from Canadian GAAP, except to estimate forfeitures for RSUs.

EQUITY-SETTLED SHARE-BASED PAYMENTS (EQUITY-SETTLED OPTIONS, RSPS AND SHARES ISSUED UNDER THE SHARE PURCHASE PLAN)

At the Transition Date, the Corporation has equity-settled employee share-based payment plans (settled by the issue of shares from treasury) composed of 20,000 fully vested stock options and 947,600 common shares issuable under its Share Purchase Plan.

Canadian GAAP – The equity settled stock options were fully vested at the Transition Date and therefore the related expense had been fully recognized in prior periods. An exemption available under Canadian GAAP, when specific requirements are met, permits the Share Purchase Plan to be treated as non-compensatory.

IFRS – Transactions for shares issued under the Share Purchase Plan are measured at fair value on the date of grant using the Black-Scholes model with the expense and equity recorded each period to recognize the compensation cost over the related vesting period. At the Transition Date, the Corporation also used the Black-Scholes model in order to measure the fair value of the shares under its Share Purchase Plan on a retrospective basis.

The Corporation applied the exemption under IFRS 1 and therefore did not revalue shares that were fully vested at the transition date.

Shares issuable under the RSP are purchased in the market at the date of grant and valued at the grant/purchase value and the cost is amortized over the vesting period but not re-measured after the initial recognition.

The impact arising from these changes is summarized as follows:

Canadian $ millions	For the twelve months ended 2010 December 31	For the three months ended 2010 March31
Consolidated statement of comprehensive income		
Increase in Administrative expenses	$ 3.8	$ 4.5
Decrease in Income tax expense	(0.7)	(1.1)
Decrease in Net earnings	$ 3.1	$ 3.4

Canadian $ millions, as at	2010 December 31	2010 March31	2010 January 1
Consolidated statement of financial position			
Increase in Contributed surplus	(1.6)	(0.6)	(0.4)
Increase in Accounts receivable	0.4	0.5	0.2
Increase in Trade accounts payable and accrued liabilities	(8.7)	(10.5)	(6.0)
Increase in Deferred income tax asset (non-current)	0.2	0.2	0.2
Decrease in Deferred income tax liability (non-current)	2.0	2.4	1.4
Decrease to Retained earnings	$ 7.7	$ 8.0	$ 4.6

IFRS 3 – Business Combinations (g)

Please refer to note 6 for a description of the acquisition of Coal Valley partnership on June 30, 2010.

Canadian GAAP – For step acquisitions, the acquiree is not required to re-measure the previously held equity interest. Canadian GAAP also requires direct costs of the business combination to be included as part of the purchase price. Any excess of fair value over purchase price paid (negative goodwill) is allocated to fair values of the acquired assets such that no gain is recognized.

IFRS – For step acquisitions, the acquirer is required to re-measure the previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss in the consolidated statements of comprehensive earnings (loss). IFRS requires all transaction costs to be expensed. Any excess of fair value over purchase paid is treated as a bargain purchase, with the resulting gain recognized in net earnings (loss).

The impact arising from this change is summarized as follows:

Canadian $ millions	For the twelve months ended 2010 December 31	For the three months ended 2010 March31 (1)
Consolidated statement of comprehensive income		
Decrease in Cost of Sales	$ (12.7)	$ -
Increase in Administrative expense	0.4	-
Increase in Financing expense	(0.1)	-
Decrease in Income tax expense	(0.8)	-
Increase in Net earnings	$ (13.2)	$ -

Canadian $ millions, as at	2010 December 31	2010 March31 (1)
Consolidated statement of financial position		
Increase in Property plant and equipment	$ 20.5	$ -
Increase in Deferred income tax asset (non-current)	2.2	-
Increase in Intangible assets	8.8	-
Increase in Other liabilities	(6.9)	-
Increase in Deferred income tax liability (non-current)	(7.4)	-
Increase in Environmental rehabilitation and other provisions (non-current)	(4.0)	-
Increase to Retained earnings	$ (13.2)	$ -

(1) There is no impact to the three months ended March 31, 2010, as the acquisition date was June 30, 2010.

IFRIC 4 - Determining Whether an Arrangement Contains a Lease (h)

Canadian GAAP – EIC 150 permitted an entity to not revisit arrangements that existed prior to the issuance date of the standard, December 9, 2004.

IFRS - At the Transition Date, based on the criteria within IFRIC 4 the Corporation was required to assess whether any of its arrangements that were not previously assessed under EIC 150 contained leases. An arrangement contains a lease if the fulfillment of the arrangement is dependent on the use of a specific asset, and the arrangement conveys a right to use that specific asset. At Coal's Prairie operations, it was determined that coal supply arrangements related to the operation of a 50% owned mine Genesee and a contract mine Highvale, as well as certain agreements to operate draglines, and other assets, were leasing arrangements. It was determined that Sherritt contributed assets to these arrangements; however, the utility customer had the primary right to use those assets. In effect, Sherritt performs leasing services and is reimbursed with a return on its investment in these assets. As a result, property, plant and equipment was derecognized and a finance lease receivable was recognized equal to the Corporation's net investment in the lease. The difference between the original carrying amount of the assets and the net investment in the lease was recognized in retained earnings on the Transition Date. Lease principal payments are recorded as a reduction in the lease receivable and interest payments are recorded as finance income.

The impact arising from this change is summarized as follows:

Canadian $ millions, for the year ended December 31	For the twelve months ended 2010 December 31	For the three months ended 2010 March 31
Consolidated statement of comprehensive income		
Decrease in Revenue	$ 41.3	$ 10.2
Decrease in Cost of Sales	(25.7)	(6.3)
Increase in Financing income	(17.0)	(4.2)
Increase in Income tax expense	0.4	0.1
Increase in Net earnings	$ (1.0)	$ (0.2)

Canadian $ millions, as at	2010 December 31	2010 March 31	2010 January 1
Consolidated statement of financial position			
Decrease in Property, plant and equipment	$ (232.2)	$ (235.2)	$ (239.0)
Increase in Loans receivable	235.8	237.8	241.3
Increase in Deferred income tax liability (non-current)	(1.0)	(0.8)	(0.7)
Increase to Retained earnings	$ (2.6)	$ (1.8)	$ (1.6)

IFRIC 12 - Service concession arrangements (i)

Canadian GAAP – No specific guidance under Canadian GAAP.

IFRS – IFRIC 12 provides guidance on the accounting by private sector entities (operators) for public-to-private service concessions whereby the private sector entity provides a service to the public sector entity, which sets or regulates the services provided with the infrastructure and their prices, and obtains any significant residual interest in the infrastructure.

At Power, the Boca de Jaruco and Puerto Escondido facilities were determined to be operating under service concession arrangements. Sherritt constructs infrastructure used to provide a public service and also operates and maintains that infrastructure for a fee for a specified period of time. At the end of the service concession arrangement the residual interest in the infrastructure is transferred to the Cuban Government.

As the operator, Sherritt derecognizes the property, plant, and equipment it has recorded and recognizes these assets as an intangible asset representing the right to charge the Government of Cuba to the extent electricity and by-products are delivered. The amortization of the intangible assets is recognized in cost of sales over the remaining term of the arrangement. For some assets, the remaining term of the contract is greater than the useful lives previously used to calculate depreciation, resulting in an increase in net earnings compared to Canadian GAAP.

New construction, enhancements and upgrading costs that increase productive capacity are capitalized as intangible assets at cost, and amortized over the remaining useful life of the concession once operational. Revenue recognized on construction, enhancement, or upgrading activity is equal to the costs recognized in cost of sales, with no impact on net earnings. There is no other impact to the consolidated statements of comprehensive income (loss).

The impact arising from this change is summarized as follows:

Canadian $ millions, for the year ended December 31	For the twelve months ended 2010 December 31	For the three months ended 2010 March 31
Consolidated statement of comprehensive income		
Increase in Revenue	$ (5.1)	$ (1.1)
Increase in Cost of Sales	4.3	0.9
Increase in Net earnings	$ (0.8)	$ (0.2)

Canadian $ millions, as at	2010 December 31	2010 March 31	2010 January 1
Consolidated statement of financial position			
Decrease in Property, plant and equipment	$ (63.6)	$ (66.5)	$ (57.2)
Increase in Intangible assets	71.9	72.0	73.3
Decrease in Other assets	(7.5)	(5.3)	(16.1)
Increase to Retained earnings	$ (0.8)	$ (0.2)	$ -

IAS 1 - Presentation of Financial Statements (j)

At the Transition Date, the Corporation made several changes to the presentation of its consolidated statements of financial position. These changes are primarily a result of reclassifying all or a portion of certain accounts and/or renaming of accounts as a result of differences in IFRS terminology:

- Long-term advances and loans receivable were reclassified from Other assets to Advances, loans receivable and other assets;
- Current portion of Long-term debt and other long-term liabilities were reclassified to separate Loans and borrowings from Other liabilities;
- Deferred revenue was reclassified to Current portion of other liabilities; and
- Long-term debt and other long-term liabilities were reclassified to separate Loans and borrowings from Other liabilities.

Under IFRS, the presentation of certain accounts is prescribed. Adopting IFRS resulted in the reclassifications for deferred income taxes. Deferred income tax assets and liabilities must be presented as non-current, resulting in the following:

- Under Canadian GAAP, the term used was future taxes. The IFRS term is deferred taxes.
- Future income taxes (current asset and current liability) were reallocated to deferred income taxes (non-current asset and non-current liability).

Also, IFRS permits the components of net earnings to be classified by either their function or nature. The Corporation has chosen to present by function. Under Canadian GAAP, the income and expenses were presented as a hybrid between function and nature.

IAS 21 - The Effect of Changes in Foreign Exchange Rates (k)

TRANSITION OF ENERGAS

Canadian GAAP – Energas was considered an integrated foreign operation that used the temporal method for translating foreign currencies and had a Canadian dollar functional currency. The indicators used to determine if a foreign operation is integrated or self-sustaining are equally weighted. Gains or losses resulting from these translation adjustments are recognized in the consolidated statements of comprehensive income (loss).

IFRS – The concept of an integrated or self-sustaining foreign operation does not exist under IFRS. The Corporation determined that the functional currency of Energas is the United States dollar. The indicators used to determine the functional currency of a foreign operation are based on the transactions carried out in the entities primary economic environment. The various factors evaluated in making the determination of functional currency are ranked differently between Canadian GAAP and IFRS. As a result of a United States dollar functional currency, Energas' operations have been translated at the current rate, which translates foreign denominated assets, liabilities and transactions at the exchange rate at the reporting date with all exchange gains and losses included in comprehensive income (loss) and deferred in accumulated other comprehensive income (loss).

The impact arising from this change is summarized as follows:

Canadian $ millions	For the twelve months ended 2010 December 31	For the three months ended 2010 March31
Consolidated statement of comprehensive income		
Decrease in Cost of sales	$ (1.6)	$ (0.6)
Decrease in Administrative expense	(0.2)	0.1
Increase in Financing expense	2.6	2.0
Decrease in Net earnings	$ 0.8	$ 1.5
Foreign currency translation adjustment	$ 3.3	$ 2.0

Canadian $ millions, as at	2010 December 31	2010 March31	2010 January 1
Consolidated statement of financial position			
Decrease in Inventories	$ (0.2)	$ (0.2)	$ (0.2)
Decrease in Prepaids	(0.1)	-	-
Decrease in Advances, loans receivable and other assets	-	-	-
Decrease in Property, plant and equipment	(29.2)	(28.7)	(25.2)
Decrease in Accumulated other comprehensive income (foreign exchange)	3.3	2.0	-
Decrease to Retained earnings	$ 26.2	$ 26.9	$ 25.4

The change in the functional currency for Energas resulted in an increase in the accumulated other comprehensive loss of $24.5 million at the Transition Date. However, this amount was reset to zero though the application of the IFRS 1 exemption and had no net impact on the accumulated other comprehensive loss balance.

SUBORDINATED LOANS TO AMBATOVY

Canadian GAAP – The subordinated loans receivable from the Ambatovy Project is included as part of the net investment in the Ambatovy Joint Venture because the loans meet the criteria of being long-term in nature. The loans were eliminated on consolidation.

IFRS – Loans are to be included in the net investment in an associate if the settlement is neither planned nor likely in the foreseeable future. The subordinated loans to Ambatovy are expected to be settled in the future. Therefore, the criteria to include the loan in the net investment account are not met and are presented as a separate line on the consolidated statements of financial position. The loan is in U.S. dollars and will be revalued each month. As a result, foreign-exchange gains and losses are reflected in the consolidated statements of comprehensive income (loss).

The impact arising from this change is summarized as follows:

Canadian $ millions	For the twelve months ended 2010 December 31	For the three months ended 2010 March31
Consolidated statement of comprehensive income		
Increase in Financing expense	$ 28.4	$ 12.7
Decrease in Net earnings	$ 28.4	$ 12.7
Foreign currency translation adjustment	$ 35.1	$ 12.4

Canadian $ millions, as at	2010 December 31	2010 March31	2010 January 1
Consolidated statement of financial position			
Increase in Advances, loans receivable and other assets	$ 620.9	$ 395.7	$ 391.8
Increase in Accounts receivable	1.4	$ 6.9	$ 0.8
Decrease in Investment in associated entity	(607.9)	(395.2)	(384.9)
Increase in Accumulated other comprehensive income	(58.2)	(35.5)	(23.1)
Decrease to Retained earnings	$ 43.8	$ 28.1	$ 15.4

The change in the method of accounting for the Corporation's investment in the Ambatovy Joint Venture on adoption of IFRS resulted in a decrease of approximately $23.1 million of opening accumulated other comprehensive loss. The IFRS 1 election was applied to this amount to reset this balance to zero at the Transition Date.

IAS 23 - Borrowing Costs (l)

BORROWING COSTS AND CROSS-GUARANTEE FEE ASSET AMORTIZATION RELATED TO THE AMBATOVY JOINT VENTURE

Canadian GAAP – Interest on loans directly attributable to the development of the Ambatovy mine and amortization of a cross-guarantee fee asset were capitalized to Property, plant and equipment.

IFRS – Under IFRS, the Ambatovy Joint Venture is accounted for using the equity method. As such, the investment is not a qualifying asset that permits the Corporation to capitalize interest costs and the capitalization of amortization of the cross-guarantee fee asset.

The impact arising from this change is summarized as follows:

Canadian $ millions	For the twelve months ended 2010 December 31	For the three months ended 2010 March31
Consolidated statement of comprehensive income		
Increase in Financing expense	$ 54.8	$ 12.4
Decrease in Income tax expense	(4.3)	(0.9)
Decrease in Net earnings	$ 50.5	$ 11.5

Canadian $ millions, as at	2010 December 31	2010 March31	2010 January 1
Consolidated statement of financial position			
Decrease in Property, plant and equipment	$ (93.0)	$ (50.6)	$ (38.2)
Decrease in Deferred income tax liability (non-current)	10.5	7.1	6.2
Decrease to Retained earnings	$ 82.5	$ 43.5	$ 32.0

IAS 27, IAS 28 and IAS 31 - Accounting for Investments in Joint Ventures (m)

Canadian GAAP – The Corporation's investment in the Moa joint Venture and Carbon Development Partnership are accounted for using proportionate consolidation. The Corporation's investments in the Ambatovy Joint Venture and Energas are considered investments in variable interest entities as defined by Accounting Guideline 15 Consolidation of Variable Interest Entities (AcG-15) and are therefore fully consolidated with non-controlling interest in the net assets reported separately.

IFRS – The Moa joint Venture and Carbon Development Partnership continue to be accounted for using proportionate consolidation. IFRS has guidance relating to Special Purpose Entities (SPE) requires consolidation if control existed on a basis other than ownership interest. The criteria to be an SPE under IFRS are different than VIE under Canadian GAAP.

The Corporation determined that Energas and Ambatovy Joint Venture were not SPE's to Sherritt resulting in the deconsolidation of the entities on the Transition Date. Under IFRS, Energas is considered a jointly-controlled entity and is accounted for using proportionate consolidation and the Ambatovy Joint Venture is considered an investment in an associate and is accounted for using the equity method.

In June 2009, Sherritt entered into the additional loan agreements that resulted in amendments to the shareholders agreement. As a result of interpreting the Ambatovy Joint Venture shareholders' agreement under IFRS, it was determined that the appropriate accounting would be to account for the Ambatovy Joint Venture as an Investment in an associate which is presented as a single line item on the statement of financial position and the statement of comprehensive income. Also at June 30, 2009, the Corporation was required to determine its initial cost in the investee which included the cost of acquired mineral rights and the Corporation's share of net loss to the Transition Date. The Corporation recorded an adjustment of $118.3 million to increase its investment in Ambatovy to reflect fair value. The acquired mineral rights within the investment will be amortized using the units-of-production method once the Ambatovy Project commences operations. These adjustments were denominated in U.S. dollars, and as a result increased accumulated other comprehensive at the Transition Date. This amount was reversed through the application of the IFRS 1 election. See adjustment IAS 21 – The Effects of Changes in Foreign Exchange Rates (c).

IFRS requires the Corporation to classify the funding it provided towards the development of Ambatovy as a separate loan receivable recorded in Advances, loans receivable and other assets, and not part of the net investment: see adjustment IAS 21 - The Effect of Changes in Foreign Exchange Rates (k). Interest revenue relating to the loans is eliminated. This is an accounting policy choice as IFRS is silent on how to account for revenue generated between group companies and an associate.

The change in the method of accounting for the Corporation's investment in Energas on adoption of IFRS, and the change in functional currency of Energas resulted in an increase in the accumulated other comprehensive loss. See adjustment IAS 21 – The Effects of Changes in Foreign Exchange Rates (c).

Given the magnitude of the adjustments resulting from de-consolidating the Ambatovy Joint Venture and Energas, the impact on the consolidated statements of financial position has been included in a separate column in the various reconciliations of the financial statements (see pages 53 to 60) under Canadian GAAP to IFRS.

IAS 36 - Impairment of Assets (n)

Canadian GAAP – If an indication of impairment is identified, the asset's carrying amount is compared to the asset's undiscounted cash flows. If the undiscounted cash flows are less than the carrying amount, the asset is impaired by an amount equal to the difference between the discounted cash flows and the carrying amount. A reversal of a previously recognized impairment is not permitted.

IFRS – If an indication of impairment is identified, the asset's carrying amount is compared to the asset's recoverable amount, where recoverable amount is defined as the higher of the asset's fair value less costs to sell and its value-in-use. Under the value-in-use calculation, the expected future cash flows from the asset are discounted to their net present value. Reversal of impairment losses up to the expected depreciated value is required for assets other than goodwill if certain criteria are met.

At the Transition Date, the Corporation performed impairment testing on its long-lived assets which resulted in no material impairment. The Corporation reversed impairment losses previously recognized on certain equipment.

The impact arising from this change is summarized as follows:

Canadian $ millions, as at	2010 December 31	2010 March31	2010 January 1
Consolidated statement of financial position			
Increase in Property, plant and equipment	$ 10.7	$ 10.7	$ 10.7
Increase in Deferred income tax liability (non-current)	(0.5)	(0.5)	(0.5)
Increase to Retained earnings	$ (10.2)	$ (10.2)	$ (10.2)

IAS 39 – Financial Instruments: Recognition and Measurement (o)

Canadian GAAP – The fair value of the Ambatovy call option was assumed to be the original cost ascribed to it when the Corporation acquired its ownership in the Ambatovy Joint Venture with its acquisition of Dynatec Corporation. Management determined that, given the nature of the asset, the fair value of the call option could not be reliably determined as the variability in the range of reasonable fair value estimates was significant, and the probabilities of the various estimates within the range could not be reasonably assessed. Under Canadian GAAP, if fair value cannot initially be reliably determined, it is common practise to continue to carry the item at cost until expiry.

IFRS – Under IFRS, an instrument is measured at cost only as long as it can be demonstrated that fair value cannot be reliably determined. At the Transition Date, the variability in the range of reasonable fair value estimates allowed a reliable determination of fair value to be made.

The impact arising from this change is summarized as follows:

Canadian $ millions, for the year ended December 31	For the twelve months ended 2010 December 31	For the three months ended 2010 March 31
Consolidated statement of comprehensive income		
Increase in Financing income	$ (1.6)	$ (1.5)
Increase in Financing expense	1.9	1.2
Decrease in Income tax expense	(0.1)	-
(Increase) decrease in Net earnings	$ 0.2	$ (0.3)

Canadian $ millions, as at	2010 December 31	2010 March 31	2010 January 1
Consolidated statement of financial position			
Increase in Other assets	$ 27.0	$ 27.6	$ 27.3
Increase in Deferred income tax liability (non-current)	(2.4)	(2.5)	(2.5)
Increase to Retained earnings	$ (24.6)	$ (25.1)	$ (24.8)

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Post-employment benefits

The Corporation sponsors defined benefit and defined contribution pension arrangements covering substantially all employees. The following table summarizes the significant actuarial assumptions used to calculate the pension expense and obligations under the defined benefit pension plans:

As at December 31	2010
Accrued benefit obligation	
Discount rate	5.6%
Rate of compensation increases	3.5%
Average remaining service period of active employees	0-15 years
Benefit costs	
Expected long-term rate of return on plan assets	3.1 - 6.3%
Discount rate	6.3%
Plan assets	
Expected return on plan assets	3.1 - 6.3%

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

Canadian $ millions, for the year ended December 31		2010
Current service cost		
Defined benefit	$	4.7
Defined contribution		11.4
Interest cost		7.2
Actual loss on plan assets		7.9
Actuarial loss		9.0
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs		40.2
Adjustments to recognize the long-term nature of employee future benefit costs		
Difference between expected return and actual return on plan assets		(13.8)
Deferral of actuarial loss		(8.5)
		17.9
IFRIC 14 valuation allowance provided against the accrued benefit asset		0.5
Net pension plan expense	$	18.4

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

Canadian $ millions, for the year ended December 31		2010
Accrued benefit obligation		
Balance, beginning of year	$	113.5
Current service cost		4.7
Interest cost		7.2
Benefits paid		(6.3)
Actuarial gain /loss		9.0
Balance, end of year	$	128.1

Canadian $ millions, for the year ended December 31		2010
Plan assets		
Fair value, beginning of year	$	98.5
Actual return (loss) on plan assets		10.9
Employer contributions		6.6
Employee contributions		-
Benefits paid		(6.3)
Fair value, end of year	$	109.7
Funded status - surplus (deficit)	$	(18.4)
Unamortized past service costs		-
Unamortized net actuarial losses		3.6
Unamortized net transitional (asset) obligation		-
IFRIC 14 valuation allowance		(0.5)
Net pension asset (liability)	$	(15.3)

Canadian $ millions, as at December 31		2010
Pension asset	$	2.0
Pension liability		(17.3)
	$	(15.3)

Total cash payments for post-retirement benefits for 2010, composed of contributions to defined benefit pension plans and defined contribution plans, were $18.0 million.

As at December 31, 2010, for pension plans with an accrued benefit obligation in excess of plan assets, the accrued benefit obligation was $105.7 million and the fair value of the plan assets was $82.5 million.

The measurement date for the plan assets and the accrued benefit obligations for the Corporation's defined benefit pension plans is December 31. Actuarial valuations are performed at least every three years and rendered to date using current salary levels to determine the actuarial present value of the accrued benefit obligation. An actuarial valuation was performed on certain plans as at December 31, 2010. The next required actuarial valuation for funding purposes for certain plans will be December 31, 2013.

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

As at December 31	2010
Equity securities	59%
Debt securities	34%
Other	7%

Income taxes

Income tax expense is composed of the following:

Canadian $ millions, for the year ended December 31		2010
Current tax expense		
Current period	$	75.0
Initial recognition of tax assets		-
Adjustment for prior periods		-
		75.0
Deferred tax expense		
Origination and reversal of temporary differences		29.6
Reduction in tax rate		-
Initial recognition of tax assets		(2.9)
Non-recognition/(recognition) of tax assets (not) previously recognized		-
		26.7
	$	101.7

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

Canadian $ millions, for the year ended December 31		2010
Earnings before tax	$	261.2
Income tax expense at the combined basic rate of 28.21%		73.7
Increase (decrease) in taxes resulting from:		
Difference between Canadian and foreign tax rates		27.4
Reduction in deferred income tax rates		(0.7)
Tax rate differential on temporary difference movements		(3.0)
Non-deductible impairments		-
Non-deductible losses and writedowns		3.5
Recognition of tax assets		(1.1)
Tax rate differential on loss carryback		(3.1)
Cuban tax contingency reserve		12.4
Movement in deferred taxes on business acquisition		(9.8)
Other items		2.4
	$	101.7

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

Canadian $ millions, for the year ended December 31, 2010	Opening balance	Recognized in net earnings	Recognized in other compre-hensive income	Business Acquisition	Closing balance
Deferred tax assets					
Tax loss carryforwards	$ 64.4	$ (17.8)	$ -	$ 1.3	$ 47.9
Environmental rehabilitation obligations	29.4	3.6	(0.4)	8.4	41.0
Finance lease obligations	23.0	0.7	-	3.6	27.3
Pension and other benefit plans and reserves	7.7	0.2	-	-	7.9
Property, plant and equipment	17.5	(10.8)	0.6	-	7.3
MAV note impairment	4.6	(1.5)	-	-	3.1
Deferred financing costs	0.7	(0.7)	-	-	-
Foreign currency denominated loans	-	-	-	-	-
Other	-	-	-	-	-
	147.3	(26.3)	0.2	13.3	134.5
Set off of deferred tax liabilities	(127.6)	-	-	-	(133.1)
Net deferred tax assets	19.7				1.4
Deferred tax liabilities					
Property, plant and equipment	$ (321.5)	$ 13.2	$ 2.3	$ (23.2)	$ (329.2)
Cuban tax contingency reserve	(3.4)	(12.0)	0.3	-	(15.1)
Foreign currency denominated loans	(3.9)	(2.2)	-	-	(6.1)
Pension and other benefit plans and reserves	(5.1)	0.7	0.2	(0.1)	(4.3)
Ambatovy call option	(4.3)	0.1	-	-	(4.2)
Deferred financing costs	(0.8)	(0.3)	(1.0)	-	(2.1)
Other	(7.4)	0.1	0.5	0.2	(6.6)
Environmental rehabilitation obligation	-	-	-	-	-
Finance lease obligations	-	-	-	-	-
	(346.4)	(0.4)	2.3	(23.1)	(367.6)
Set off of deferred tax assets	127.6	-	-	-	133.1
Net deferred tax liabilities	(218.8)				(234.5)
Net deferred tax assets (liabilities)	$ (199.1)	$ (26.7)	$ 2.5	$ (9.8)	$ (233.1)

As at December 31, 2010 the Corporation had temporary differences of $1,049.2 million associated with investments in subsidiaries, associated entities and interests in joint ventures for which no deferred tax liabilities have been recognized, as the Corporation is able to control the timing of the reversal of these temporary differences and it is not probable that these temporary differences will reverse in the foreseeable future.

As at December 31, 2010, the Corporation had non-capital losses of $175.6 million and capital losses of $119.9 million which may be used to reduce future taxable income.

The Corporation has not recognized a deferred tax asset on $6.1 million of non-capital losses, $74.5 of capital losses and $30.3 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 for which no benefit has been recognized are located primarily in Canada and expire as follows:

Canadian $ millions, for the years ended December 31	Recognized Losses	Unrecognized losses	Total
Expiration Date			
2014	$ -	$ 0.1	$ 0.1
2015	12.0	0.1	12.1
2026	21.5	0.1	21.6
2027	46.8	2.0	48.8
2028	55.3	2.6	57.9
2029	33.9	1.0	34.9
2030	-	0.2	0.2
Total	$ 169.5	$ 6.1	$ 175.6

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