

sherritt

2020

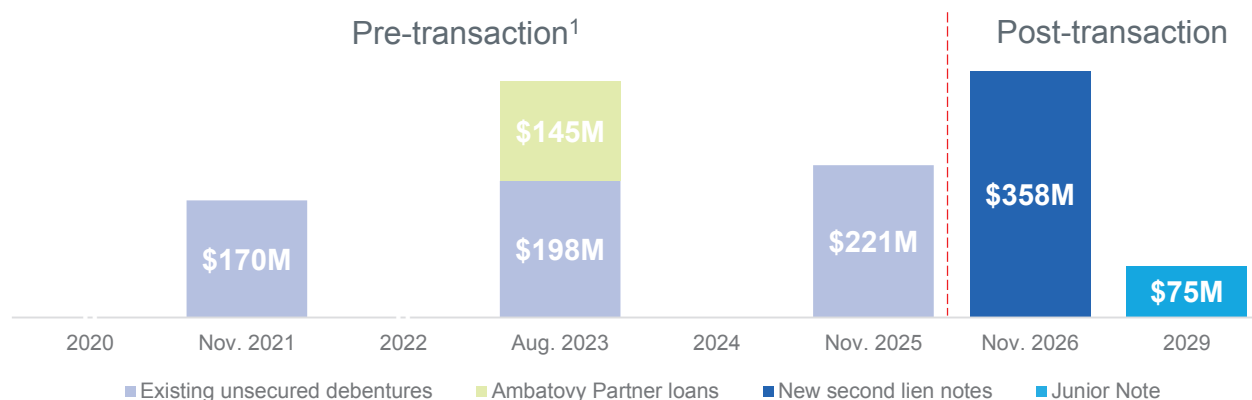
FINANCIAL RESULTS

Sherritt International Corporation

Sherritt's strongest balance sheet in more than a decade

2020 was a difficult year for the mining industry, with volatile commodity prices, the global pandemic and, for Sherritt, a tumultuous Cuba-U.S. relationship. Through it all, Sherritt remained steadfastly focused on protecting employees, suppliers and other stakeholders from COVID-19, maintaining collections on Cuban energy overdue receivables, and preserving liquidity.

2020 was a transformative year for Sherritt, foremost, it completed its balance sheet initiative which reduced its outstanding debt by approximately \$301 million, extended the maturities of its note obligations to 2026 and 2029, reduced annual interest payments by more than \$15 million, and terminated its debt obligations relating to the Ambatovy Joint Venture and its cross-default risk of the Ambatovy shareholder agreement, all without any dilution of its common shares.

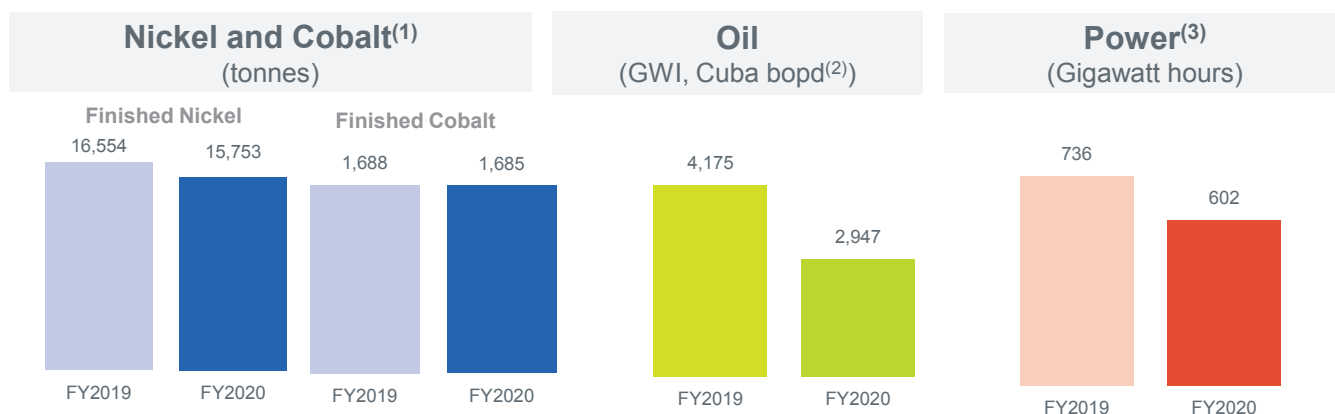


(1) Face value of public debentures and principal amount and accrued interest of Ambatovy partner loans (\$ millions) / Excluding the credit facility

2020 Operational Highlights

Sherritt's focus is nickel and cobalt, but we also have a long history of oil and power production in Cuba.

Our continued focus on operational excellence and employee safety meant that COVID-19 had a limited impact on our production activities at each of our operations primarily as a result of a quick and sustained focus on additional health and safety measures implemented starting in March 2020 as the virus was spreading around the world. This resulted in production results largely in line with our guidance for the year.



(1) Sherritt's 50% share. (2) NWI = Gross working-interest, bopd = barrels of oil per day, (3) Sherritt's 33⅓% share

Message from Sherritt's Chair

I am pleased to enclose our Financial Statements and Management's Discussion and Analysis as at and for the year ended December 31, 2020.

For all of us, 2020 was a year like no other, but it was also an eventful year for Sherritt.

I am particularly proud of how our company responded to the COVID-19 pandemic. Despite the disruption caused by the pandemic, rail disruptions in Canada, and the impact of harsh U.S. sanctions against our Cuban partners, we largely met our production and unit cost targets for 2020 across all of our businesses. The limited impact COVID-19 had on our operations is due in large part to the additional health and safety measures that we implemented starting in early March, and which since then have been applied with great diligence by our entire workforce.

In August, we completed a plan of arrangement under the *Canada Business Corporations Act*. That arrangement enabled us to:

- reduce our outstanding debt by approximately \$300 million;
- eliminate debt maturities in 2021, 2023, and 2025 and replace them with maturities in 2026 and 2029;
- reduce our annual interest payments by more than \$15 million; and
- exit the Ambatovy project and thereby terminate our debt obligations to our Ambatovy partners and eliminate the risk of cross-defaults to our debt as a result of not funding Ambatovy.

This arrangement was all completed without any dilution to our common shares. If we had not achieved this, Sherritt would not exist in its current form today.

This restructuring marks the culmination of nearly seven years of efforts to strengthen our balance sheet from the threat posed by Ambatovy. Since 2014, Sherritt has eliminated some \$2.4 billion in debt and an additional \$1.1 billion in debt guarantees from its balance sheet.

2020 was not without setback for Sherritt. Most notably, after overcoming a number of geotechnical challenges and restricted access to technology as a result of increasing U.S. sanctions against Cuba to reach our target depth, we were disappointed by test results at Block 10 that confirmed water had penetrated the well above the target reservoir, rendering the well uneconomic.

Sherritt's outlook has improved tremendously over the past several months with the completion of the balance sheet initiative. Most notably, global and macro-economic developments provide near-term and longer-term opportunities for us to build on recent financial results, strengthen our balance sheet and collect on overdue amounts owed to us by our Cuban partners. Central to our encouraging outlook are the fundamental changes to the nickel market being driven by rapid adoption of electric vehicles.

This trend, which is being fueled by the introduction of new government policies and by advances within the automotive industry, is expected to drive significant demand for high purity or Class 1 nickel – the type that Sherritt produces.

Looking at the nickel market over the longer term, demand forecasts are particularly bullish. Total demand is slated to grow by more than 80% over the next 20 years, largely on the back of electric vehicle adoption.

As we look to the future and the nickel market develops, we will look to the unique capabilities of our Technologies Group to ensure we are at the forefront of the battery revolution. We will also bring more focus to commercializing the innovations carried out by the Technologies Group in making the next generation of nickel mining and processing less capital intensive and more environmentally friendly. These R&D efforts take advantage of the unparalleled expertise we have developed in hydrometallurgy and lateritic ore processing.

Our ability to identify market opportunities and commercialize our research projects is driven by our experience and work with more than 40 operations around the world which already use our technology and processes. This experience and expertise includes more than 14 PhDs on staff, more than 1,000 cumulative years of process development experience and the more than 1,700 patents we have registered since 1954.

In 2021 and beyond, we also plan to build on our Environmental, Social and Governance (ESG) targets, including efforts to reduce greenhouse emissions, maintain peer-leading safety metrics, and our commitments to doubling the number of female employees by 2030. In 2020, we improved our safety performance despite the disruption caused by the pandemic, and signed the BlackNorth Initiative Pledge aimed at ending anti-Black systemic racism and creating opportunities for Black, Indigenous, and People of Colour communities.

I would like to thank all of our employees for their tremendous efforts in difficult circumstances in 2020, and all of our shareholders for your patience and support over recent years. I look forward to sharing highlights of our progress again with you soon.

A handwritten signature in black ink, appearing to read 'R. Lapthorne', written in a cursive style.

Sir Richard Lapthorne
Chair of Sherritt's Board of Directors

CEO COMMENTARY

“With a significantly strengthened balance sheet, a considerably improved outlook for nickel and cobalt, and encouraging signs for improved Cuban-U.S. relations, Sherritt ended 2020 in its strongest position in more than a decade,” said David Pathe, President and CEO of Sherritt International. “Keys to our progress were completion of a debt restructuring initiative that resolved our Ambatovy investment legacy while extending our debt maturities to the fourth quarter of 2026, ongoing commitments to operational excellence and employee health and safety that contributed to production results largely in line with our guidance for the year, and measures we took to preserve liquidity against a backdrop of a global pandemic and volatile commodity prices.”

Mr. Pathe added, “We plan to sustain our momentum into 2021 – even as we manage against the continuing global pandemic – by capitalizing on the growing demand for high purity nickel as the market adoption of electric vehicles and requirement for low-carbon emissions accelerate, and on the current nickel price nearly US\$2 per pound higher than the average for 2020. We will also be focused on our ESG commitments in 2021 and beyond. Over the longer term, we expect to fuel our growth through an increased focus on commercializing the innovation and process development capabilities of our Technologies Group.”

SELECTED Q4 2020 HIGHLIGHTS

- Sherritt’s share of finished nickel and cobalt production at the Moa Joint Venture (Moa JV) were 4,020 tonnes and 451 tonnes, respectively. Despite being impacted by unplanned autoclave repairs at the refinery in Fort Saskatchewan, Alberta, Q4’s production totals helped to offset the negative effects of railway service disruptions in Q1 and an extended plant shutdown in Q3 due to additional found work scope, and reduced contractor availability due to COVID-19, enabling Sherritt to largely meet its production guidance at the Moa JV for the year.
- Sherritt received US\$20 million in distributions from the Moa JV, representing its 50% share of total dividends declared. Sherritt also received an additional US\$20 million, representing the 50% share of distributions of its Moa JV partner, General Nickel Company (“GNC”), pursuant to an overdue receivables agreement negotiated by Sherritt in 2019. Distributions received in Q4 were indicative of improving nickel and cobalt prices and strong operational performance.
- Sherritt received US\$30.1 million in Cuban energy payments as part of the overdue receivables agreement with its Cuban partners. Included in this amount was the aforementioned US\$20 million re-directed to Sherritt by GNC to be applied against amounts owed by Energas. Total payments consisted of US\$27.7 million received in Canada and US\$2.4 million accepted in Cuba to support local costs for Sherritt’s Oil and Gas operations.
- Adjusted EBITDA was \$10.7 million, down 34% from last year due to declining Oil and Gas contributions related to maturing oil fields and a \$7.2 million increase in non-cash share-based compensation as a result of the 116% rise in Sherritt’s share price in Q4 2020.
- Sherritt employee members of Unifor at the refinery in Fort Saskatchewan ratified a new collective agreement through March 31, 2022. The new agreement extends Sherritt’s track record of no labour disruptions at the refinery since it began operations in 1954.
- Sherritt renewed and extended its \$70 million credit facility with its syndicate of lenders to April 30, 2022, agreeing to more flexible financial covenants. As at December 31, Sherritt had drawn \$8 million against the facility.
- Sherritt purchased two separate put nickel options, each on 25% of its share of attributable finished nickel production from the Moa JV for 2021. The first, at a strike price of US\$6.50/lb for a total cost of \$5.8 million, is in effect for a 12-month period starting January 1, 2021. The second, at a strike price of US\$7.00/lb for a total of \$3.5 million, is in effect for a nine-month period starting April 1, 2021. Any cash settlements will be completed on a monthly basis against the average monthly nickel price on the London Metal Exchange and will involve no physical delivery. The hedging strategy is designed to provide Sherritt with cash flow security in 2021 against downward changes in nickel prices.
- Sherritt announced that its CEO, David Pathe, plans to step down from his role in 2021. The Company has launched a search for his successor, and Mr. Pathe has agreed to stay on until a replacement is in place to ensure an orderly transition.

SUMMARY OF KEY 2020 DEVELOPMENTS

- Sherritt ended 2020 with cash and cash equivalents of \$167.4 million (\$75.0 million held by Energas in Cuba), up from \$166.1 million last year (\$79.8 million held by Energas in Cuba). The higher cash position and increased amount held in Canada were driven by the receipt of \$39.6 million of dividend distributions from the Moa JV, receipt of US\$77 million of payments from Cuban energy partners, and lower interest payments of \$5.0 million. The increased cash position was offset by balance sheet transaction costs of \$27.6 million, capital expenditures of \$12.1 million, and nickel put option purchase costs of \$9.3 million.
- Sherritt successfully completed a balance sheet initiative in Q3 that improved its capital structure and addressed its Ambatovy investment legacy following stakeholder approval. As a result of the transaction, Sherritt reduced its outstanding debt by approximately \$301 million, extended the maturities of its note obligations to 2026 and 2029, reduced annual interest payments by more than \$15 million, terminated its debt obligations relating to the Ambatovy Joint Venture, and ended the cross-default risk of the Ambatovy shareholder agreement, all without any dilution of its common shares.
- Sherritt implemented a number of austerity measures that resulted in the reduction or deferral of more than \$90 million in budgeted expenditures for the Moa JV (100% basis), Sherritt's Oil and Power operations, and Corporate office, and reduced administrative expenses by \$5.2 million (excluding non-cash share-based compensation and depreciation).
- Sherritt's share of production, unit costs, and capital spend for each of its business units in 2020 were largely in line with guidance for the year, indicative of ongoing commitments to operational excellence and employee health and safety, particularly in light of the COVID-19 global pandemic.
- Net loss from continuing operations in FY2020 totaled \$85.7 million or \$0.22 per share. The amounts were an improvement from the net loss of \$142.4 million, or \$0.36 per share, for FY2019. In FY2020 Sherritt recognized earnings from discontinued operations of \$107.9 million related to the disposition of its 12% ownership interest in the Ambatovy Joint Venture as part of the balance sheet initiative and reclassification as discontinued operations.
- Sherritt committed to identifying commercial applications for innovations developed by its Technologies Group aimed at making next generation lateritic ore mining more economically viable and more sustainable.
- Sherritt implemented a number of additional health and safety measures and work processes designed to protect employees, suppliers and other stakeholders at its operations in response to the spread of COVID-19. As a result of the additional measures, Sherritt had minimal impact to its nickel, cobalt, power, and oil production in 2020. The additional measures will remain in effect through the duration of the pandemic.
- Sherritt released its 2019 Sustainability Report showing progress against its Environmental, Social, and Governance (ESG) targets, including efforts to reduce greenhouse emissions, maintain peer-leading safety metrics, and commitments to doubling the number of female employees by 2030. Sherritt will continue to develop and reinforce its ESG commitments in 2021 and beyond.
- Sherritt signed the BlackNorth Initiative Pledge aimed at ending anti-Black systemic racism and creating opportunities for the BIPOC community.

DEVELOPMENTS SUBSEQUENT TO THE YEAR END

- Sherritt received a \$20.3 million prepayment against nickel deliveries in 2021. The prepayment is consistent with Sherritt's efforts to enhance its liquidity.
- Sherritt's refinery in Fort Saskatchewan had its operating license renewed for 10 years by Alberta's Ministry of Environment and Parks.

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

Q4 2020 FINANCIAL HIGHLIGHTS⁽¹⁾

\$ millions, except per share amount	For the three months ended			For the year ended		
	2020 December 31	2019 December 31	Change	2020 December 31	2019 December 31	Change
Revenue	28.2	31.0	(9%)	\$ 119.8	\$ 136.3	(12%)
Combined revenue ⁽²⁾	135.9	143.0	(5%)	497.0	544.9	(9%)
Net earnings (loss) from continuing operations for the period	(49.3)	(65.6)	25%	(85.7)	(142.4)	40%
Net earnings (loss) for the period	(49.6)	(185.5)	73%	22.2	(367.7)	106%
Adjusted EBITDA ⁽²⁾	10.7	17.5	(39%)	38.9	46.0	(15%)
Cash provided (used) by continuing operations	12.7	7.3	74%	48.0	(10.9)	540%
Combined adjusted operating cash flow ⁽²⁾	25.8	(3.4)	nm ⁽³⁾	71.7	(6.1)	nm
Combined free cash flow ⁽²⁾	(11.6)	28.1	(141%)	17.9	(24.2)	174%
Average exchange rate (CAD/US\$)	1.303	1.320	-	1.341	1.327	-
Net earnings (loss) from continuing operations per share	(0.12)	(0.17)	29%	(0.22)	(0.36)	39%

(1) All non-GAAP measures exclude the Ambatovy Joint Venture performance. As a result of the transaction in Q3 2020, Ambatovy Joint Venture's share of loss of an associate and other statement of comprehensive income (loss) items related to the Ambatovy Joint Venture were reclassified to the loss on discontinued operations in the current and comparative periods. The earnings on discontinued operations also includes the gain on disposal of Ambatovy Joint Venture Interests in the current year period.

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

(3) Not meaningful (nm)

\$ millions, as at December 31	2020	2019	Change
Cash, cash equivalents and short-term investments	167.4	166.1	1%
Loans and borrowings	441.4	713.6	(38%)

Cash, cash equivalents, and short-term investments at December 31, 2020 were \$167.4 million, up from \$165.1 million at September 30, 2020. The increase was due to a number of factors including, receipt of more than US\$30.1 million of Cuban energy payments and \$26.3 million of dividend distributions from the Moa Joint Venture, partly offset by negative cash flow at Oil and Gas and the \$9.3 million purchase of nickel put options.

As at December 31, 2020, \$75.0 million of Sherritt's cash and cash equivalents was held by Energas in Cuba, down from \$82.1 million at the end of Q3 2020.

Sherritt received US\$30.1 million in Cuban energy payments as part of its overdue receivables agreement with its Cuban partners in Q4 2020. Payments, which included US\$27.7 million received in Canada and US\$2.4 million accepted in Cuba to support local costs relating to Sherritt's Oil and Gas operations, were higher than expected as Sherritt's Moa Joint Venture partner, GNC, redirected US\$20.0 million of its share of dividends paid by the joint venture to Sherritt to reduce the overdue receivables.

Total overdue scheduled receivables at December 31, 2020 were US\$145.9 million, down from US\$159.1 million at September 30, 2020 due to the timing of payments received and re-direction of Moa Joint Venture dividends.

Adjusted net loss⁽¹⁾

For the three months ended December 31	2020		2019	
	\$ millions	\$/share	\$ millions	\$/share
Net earnings (loss) from continuing operations	(49.3)	(0.12)	(65.6)	(0.17)
Adjusting items:				
Unrealized foreign exchange (gain) loss	4.3	0.01	4.6	0.01
Moa JV expansion loans receivable revaluation	-	-	6.8	0.02
Impairment of Power intangible assets	-	-	20.3	0.05
Impairment of Power assets	9.4	0.02	1.4	-
Other	3.9	0.01	14.3	0.04
Adjusted net loss from continuing operations	(31.7)	(0.08)	(18.2)	(0.05)

For the year ended December 31	2020		2019	
	\$ millions	\$/share	\$ millions	\$/share
Net earnings (loss) from continuing operations	(85.7)	(0.22)	(142.4)	(0.36)
Adjusting items:				
Unrealized foreign exchange (gain) loss	(4.4)	(0.01)	3.8	0.01
Gain on debenture exchange	(142.3)	(0.36)	-	-
Moa JV expansion loans receivable revaluation	(6.4)	(0.02)	6.8	0.02
Impairment of Oil assets	115.6	0.29	-	-
Impairment of Power intangible assets	-	-	20.3	0.05
Impairment of Power assets	9.4	0.02	1.4	-
Other	9.1	0.04	13.1	0.04
Adjusted net loss from continuing operations	(104.7)	(0.26)	(97.0)	(0.24)

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

Net loss for FY2020 includes a gain of \$142.3 million on the exchange of debentures as part of the balance sheet initiative offset by an impairment loss recognized on the write down of exploration and evaluation assets and capitalized spare parts relating to Block 10 drilling activities totaling \$115.6 million and an impairment on Power assets of \$9.4 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2020

This Management's Discussion and Analysis (MD&A) is intended to help the reader understand Sherritt International Corporation's operations, financial performance and the present and future business environment. This MD&A, which has been prepared as of February 10, 2021, should be read in conjunction with Sherritt's audited consolidated financial statements for the year ended December 31, 2020. Additional information related to the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at www.sedar.com or on the Corporation's website at www.sherritt.com.

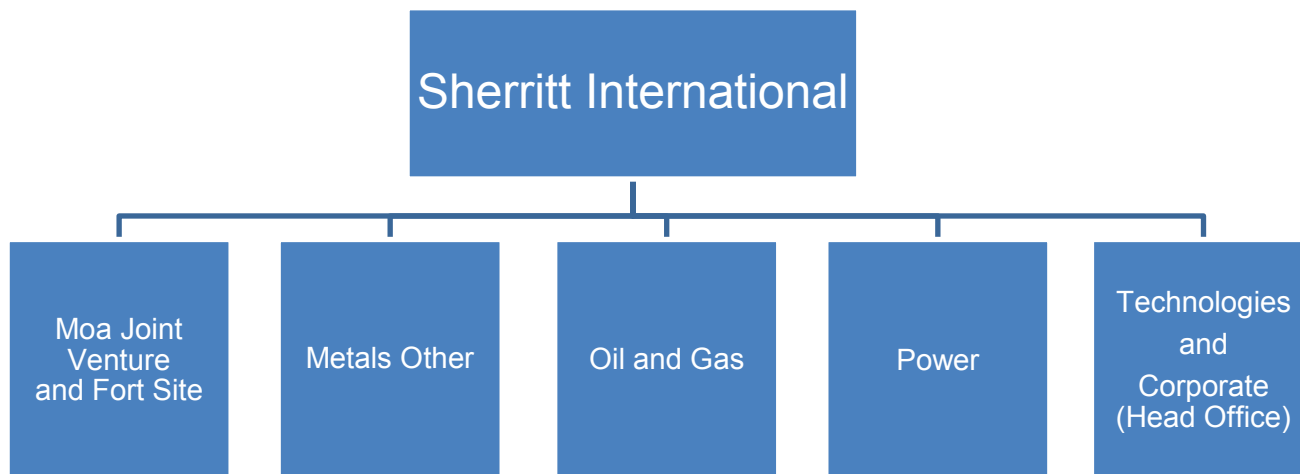
References to "Sherritt" or the "Corporation" refer to Sherritt International Corporation and its share of consolidated subsidiaries, joint operations, joint ventures and associate, unless the context indicates otherwise. All amounts are in Canadian dollars unless otherwise indicated. References to "US\$"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

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

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Overview of the business

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



MOA JOINT VENTURE AND FORT SITE

Sherritt has a 50/50 partnership with General Nickel Company S.A. (GNC) of Cuba (the Moa Joint Venture) and a wholly-owned fertilizer business and sulphuric acid, utilities and fertilizer storage facilities in Fort Saskatchewan, Alberta, Canada (Fort Site) that provides additional sources of income.

The Corporation's strategic priority is to maintain a leadership position as a low-cost producer of finished nickel and cobalt, maximizing finished production and free cash flow while achieving peer-leading performance in environmental, health, safety and sustainability.

The Moa Joint Venture mines, processes and refines nickel and cobalt for sale worldwide (except in the United States). The Moa Joint Venture is a vertically-integrated joint venture that mines lateritic ore by open pit methods and processes them at its facilities at Moa, Cuba into mixed sulphides containing nickel and cobalt. The mixed sulphides are transported to the refining facilities in Fort Saskatchewan, Alberta. The resulting nickel and cobalt products are sold to various markets, primarily in Europe, Japan and China. At current depletion rates, the concessions of the Moa Joint Venture are planned to be mined until at least 2034. In Q2 2019, the Moa Joint Venture filed an updated National Instrument 43-101 technical report on SEDAR that confirmed the current mineral reserves and outlined increased mineral resources with the potential to extend Moa's mine life.

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

METALS OTHER

Sherritt's Metals Other division includes the Corporation's 100% interests in wholly-owned subsidiaries established to buy, market and sell certain Moa Joint Venture's nickel and cobalt production.

OIL AND GAS

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

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

Sherritt currently has an interest in four PSCs: one PSC which is in the production stage and expires in March 2021 and the remaining three PSCs which are in the exploration phase.

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

POWER

Sherritt's primary power-generating assets are located in Cuba at Varadero, Boca de Jaruco and Puerto Escondido. These assets are held by Sherritt through its one-third interest in Energas S.A. (Energas), which is a Cuban joint arrangement established to process raw natural gas and generate electricity for sale to the Cuban national electrical grid. Cuban government agencies Unión Eléctrica (UNE) and Unión Cubapetróleo (CUPET) hold the remaining two-thirds interest in Energas. The Corporation's current contract term for power generation from Energas expires in March 2023.

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

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

TECHNOLOGIES AND CORPORATE

Technologies and Corporate is comprised of the Corporation's metallurgical technology business and general corporate activities, including management of cash, short-term investments and debt.

Sherritt's Technologies business provides technical support, process optimization and technology development services to the Moa Joint Venture and Fort Site operations and identifies opportunities for the Corporation to commercialize its research and development for natural resource-based industries. Technologies has a particular focus on making next generation lateritic ore mining more economically viable and more sustainable and on the hydrometallurgical recovery of non-ferrous metals.

ACCOUNTING PRESENTATION

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

	Relationship for accounting purposes	Interest	Basis of accounting
Moa Joint Venture	Joint venture	50%	Equity method
Metals Other	Subsidiaries	100%	Consolidation
Oil and Gas	Subsidiary	100%	Consolidation
Power	Joint operation	33⅓%	Share of assets, liabilities revenues and expenses
Ambatovy Joint Venture ⁽¹⁾	Associate	12%, 0%	Discontinued operations

(1) On August 31, 2020, the Corporation's economic interest in the Ambatovy Joint Venture was reduced from 12% to nil as a result of the implementation of a transaction.

The Fort Site and Technologies and Corporate operations are a part of Sherritt International Corporation, the parent company, and are not separate legal entities.

For financial statement purposes, the Moa Joint Venture is accounted for using the equity method of accounting, which recognizes the Corporation's share of earnings (loss) from a joint venture and its net assets as the Corporation's investment in a joint venture. The financial results and review of operations sections in this MD&A presents amounts by reportable segment, based on the Corporation's economic interest. The Corporation's reportable segments are as follows:

Moa Joint Venture and Fort Site: Includes the Corporation's 50% interest in the Moa Joint Venture and 100% interest in the utility and fertilizer operations at Fort Site.

Metals Other: Includes the Corporation's 100% interests in wholly-owned subsidiaries established to buy, market and sell certain Moa Joint Venture's nickel and cobalt production.

Oil and Gas: Includes the Corporation's 100% interest in its Oil and Gas business.

Power: Includes the Corporation's 33⅓% interest in its Power business.

Technologies and Corporate: Includes the operations of the Corporation's Technologies business and head office activities. The Technologies and Corporate reportable segment was renamed during the year ended December 31, 2020 from Corporate and Other, with no change to the operating segments included in this reportable segment.

Operating and financial results presented in this MD&A for reportable segments can be reconciled to note 7 of the consolidated financial statements for the year ended December 31, 2020.

INVESTMENT IN AMBATOVY JOINT VENTURE

In August 2020, the Corporation completed a transaction (the "Transaction" or "Balance Sheet Initiative") that exchanged the Corporation's Ambatovy Joint Venture partner loans for the Corporation's 12% interest in the Ambatovy Joint Venture and its loans and operator fee receivable from the Ambatovy Joint Venture ("the Ambatovy Joint Venture Interests"). As a result, Ambatovy Joint Venture's share of loss of an associate and other components of comprehensive income (loss) related to the Ambatovy Joint Venture were reclassified to the loss on discontinued operations in the current and comparative periods. The loss on discontinued operations also includes the gain on disposal of the Ambatovy Joint Venture Interests in the current period. In 2019, the Ambatovy Joint Venture was excluded from combined results, Adjusted EBITDA and combined cash flow metrics as a result of Sherritt becoming a defaulting shareholder and the Ambatovy Joint Venture therefore no longer being a reportable segment. As a result of the completion of the Transaction, the Ambatovy Joint Venture continues to be excluded in the current and comparative periods. See the Highlights section for further information.

NON-GAAP MEASURES

Management uses the following non-GAAP financial performance measures in this MD&A:

- combined results,
- adjusted EBITDA,
- average-realized price,
- unit operating cost/NDCC,
- adjusted earnings/loss,
- adjusted operating cash flow, and
- free cash flow.

Management uses non-GAAP measures to monitor the financial performance of the Corporation and its operating divisions and believes these measures enable investors and analysts to compare the Corporation's financial performance with its competitors and/or evaluate the results of its underlying business. These measures are intended to provide additional information, not to replace IFRS measures. Non-GAAP measures do not have a standard definition under IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. As these measures do not have a standardized meaning, they may not be comparable to similar measures provided by other companies.

The non-GAAP measures are reconciled to the most directly comparable IFRS measure in the non-GAAP measures section starting on page 59.

Strategic priorities

The table below summarizes how the Corporation performed against its strategic priorities in 2020.

Strategic Priorities	2020 Actions	Status
PRESERVE LIQUIDITY AND BUILD BALANCE SHEET STRENGTH	Continue to emphasize de-leveraging of the balance sheet within the context of a low commodity price environment.	<p>Sherritt successfully completed a balance sheet initiative in 2020 that improved its capital structure and addressed its Ambatovy investment legacy following strong stakeholder support. The transaction resulted in the elimination of approximately \$301 million of total debt, savings of more than \$15 million in annual cash interest payments, the elimination of the cross-default risk of the Ambatovy shareholder agreement, and the extension of debt maturities to 2026 and 2029.</p> <p>In concert with the balance sheet initiative and in response to the economic uncertainty caused by the spread of COVID-19, Sherritt implemented a number of austerity measures that saved or deferred more than \$90 million of capital spend and operating and administrative expenses. These austerity measures were applied against 2020 budgeted expenditures for Sherritt's operations and corporate office as well as the Moa JV (100% basis).</p> <p>Sherritt reduced its administrative expenses by 13% or \$5.2 million, when compared to 2019 (excluding share-based compensation and depreciation).</p>
	Optimize working capital and receivables collection	<p>Total overdue receivables at the end of 2020 were US\$145.9 million, down from US\$158.4 million at the beginning of the year. The improvement was largely driven by the receipt of US\$20 million of distributions re-directed to Sherritt by GNC to be applied against amounts owed by Energas.</p>
	Operate the Metals business to maintain a leadership position as a low-cost producer of finished nickel and cobalt while maximizing Free Cash Flow	<p>The Moa JV reduced mining, processing and refining (MPR) costs in FY2020 by 10% from last year through a combination of factors, including lower input commodity prices, the benefits of ongoing operational excellence initiatives, and the implementation of austerity measures.</p>
UPHOLD GLOBAL OPERATIONAL LEADERSHIP IN FINISHED NICKEL LATERITE PRODUCTION	Further reduce NDCC towards the goal of being consistently in the lowest cost quartile.	<p>NDCC in FY2020 was in line with guidance for the year despite the negative impacts of unplanned maintenance activities and an extended plant shutdown due to reduced contractor availability on account of COVID-19. Lower fertilizer and cobalt by-product credits were largely offset by the reduction in MPR costs.</p>
	Maximize production of finished nickel and cobalt and improve predictability over 2019 results	<p>Moa JV finished nickel and cobalt production of 31,506 tonnes and 3,370 tonnes (100%), respectively. Finished nickel production was largely in line with guidance for the year, while cobalt achieved targets for 2020.</p>
	Achieve peer leading performance in environmental, health, safety and sustainability	<p>In Q4 2020, all operations continued to focus on COVID-19 controls and ensuring that essential work was planned and performed safely.</p> <p>Up to December 31, 2020, the Moa JV (Moa Nickel Site and Fort Site) had a total recordable incident frequency rate (TRIFR) of 0.20 and a lost time incident frequency rate (LTIFR) of 0.14; the Oil and Gas business had a TRIFR and LTIFR of 0.00; and the Power business had a TRIFR of 0.56 and LTIFR of 0.00.</p> <p>Sherritt's TRIFR and LTIFR were 0.22 and 0.12 respectively, for the 12-month period ending December 31, 2020. Sherritt remains in the lowest quartile of its benchmark peer set of data.</p> <p>Sherritt will continue to develop and reinforce its ESG commitments in 2021 and beyond.</p>
OPTIMIZE OPPORTUNITIES IN CUBAN ENERGY BUSINESS	Successfully execute Block 10 drilling program	<p>Sherritt completed the analysis on a second set of samples from Block 10 that confirmed that the water produced during the test period is from the loss circulation zone, which located at a depth of approximately 5,300 meters and above the target oil reservoir. The analysis also confirmed that no viable technical solution to prevent the further flow of water into the existing well is possible. While Sherritt still believes that the Block 10 reservoir contains oil, the existing well cannot be used for future production purposes. Sherritt is currently reviewing its options with respect to Block 10, including seeking an earn-in partner. At this time, Sherritt is not contemplating any further investments in Block 10 without first securing an earn-in partner.</p>

Highlights

MOA JOINT VENTURE UPDATE

Sherritt's share of finished nickel production at the Moa Joint Venture for the three months and year ended December 31, 2020 was 4,020 tonnes and 15,753 tonnes, comparable and 5% lower, respectively, compared to the prior year periods. The Moa Joint Venture was largely in line with its 2020 guidance for finished nickel production and capital spending and met guidance for finished cobalt production and unit costs, indicative of ongoing commitments to operational excellence and employee health and safety, particularly in light of the COVID-19 global pandemic. The Moa Joint Venture has not been significantly affected by COVID-19.

Finished nickel production was comparable for the three months ended December 31, 2020 despite unplanned repairs to an autoclave at the refinery in Fort Saskatchewan during the quarter. Repairs were completed before the end of the quarter and finished production returned to normal capacity. In addition to the above, finished nickel production was lower for the year ended December 31, 2020 primarily due to transportation delays in shipping mixed sulphides from Moa to the refinery in the first quarter of 2020 and an extension of the annual maintenance shutdown of the refinery in Fort Saskatchewan in the third quarter of 2020 owing to limited local contractor availability due to COVID-19 and additional repair scope identified. Sherritt's share of finished cobalt production for the three months and year ended December 31, 2020 was 451 tonnes and 1,685 tonnes, 10% higher and comparable, respectively, compared to the prior year periods.

During the year ended December 31, 2020, Sherritt employee members of Unifor at the refinery in Fort Saskatchewan ratified a new collective agreement through March 31, 2022. The new agreement extends Sherritt's track record of no labour disruptions at the refinery since it began operations in 1954.

Subsequent to December 31, 2020, Sherritt's refinery in Fort Saskatchewan had its operating license renewed for 10 years by Alberta's Ministry of Environment and Parks.

NICKEL AND COBALT PRICE UPDATE

Nickel price on the London Metal Exchange (LME) closed on December 31, 2020 at US\$7.50/lb., up 15% from the end of the third quarter of 2020 and up 18% from the beginning of the year. Nickel prices have benefited from renewed interest in electric vehicles, bullish forecasts by industry analysts for accelerated demand growth and multiple announcements from automakers indicating considerable investments to significantly expand electric vehicle production capacity. The momentum of higher nickel prices has carried over into 2021, reaching US\$8.38/lb. on February 10, the highest price since August 2019.

Cobalt price closed on December 31, 2020 at US\$15.60/lb. according to data collected by Fastmarkets MB, comparable to the price at the end of the third quarter of 2020 and beginning of the year. Since the start of 2021, cobalt prices have climbed to more than US\$22.00/lb., largely on news reports that consumers in China have started to stockpile inventory to take advantage of weak prices in anticipation of stronger demand expected with accelerated growth of electric vehicle demand expected in the coming years.

Refer to the Significant factors influencing operations section in this MD&A for further detail.

DISTRIBUTIONS FROM THE MOA JOINT VENTURE

During the three months and year ended December 31, 2020, the Moa Joint Venture paid US\$40.0 million and US\$60.0 million of distribution to its shareholders, respectively. Sherritt received its 50% share of these distributions, or US\$20.0 million and US\$30.0 million, respectively, directly.

CUBAN OVERDUE RECEIVABLES AGREEMENTS

During 2019, Sherritt's Cuban partners ratified an overdue receivables agreement under which Sherritt will receive Cuban energy payments from Energas averaging US\$2.5 million per month effective May 2019. The agreement also allows for Sherritt's joint venture partner, GNC, to redirect its 50% share of Moa Joint Venture dividends. For the three months and year ended December 31, 2020, Sherritt received Cuban energy payments of US\$27.3 million and US\$50.6 million, respectively, in Canada under this agreement, of which US\$20.0 million was redirections from GNC and applied against amounts owing to Sherritt from Energas. The redirections were secured through negotiations between Sherritt and its Cuban partners.

Management's discussion and analysis

In February 2020, Sherritt received a commitment from its Cuban partners for an incremental US\$5.0 million per month, which is being used to fund Energas operations and reduce amounts owed to Sherritt. For the three months and year ended December 31, 2020, Sherritt received Cuban energy payments of US\$0.4 million and US\$18.5 million, respectively, in Canada under this agreement.

Cuban energy payments were lower than expected as the spread of COVID-19 and the ongoing impact of U.S. sanctions continued to limit Cuba's access to foreign currency in 2020. Sherritt anticipates variability in the timing and the amount of energy payments through 2021.

As at December 31, 2020, total overdue scheduled receivables were US\$145.9 million, down from US\$159.1 million as at September 30, 2020 and \$158.4 million as at December 31, 2019. Subsequent to December 31, 2020, the Corporation received US\$0.6 million in Canada as part of the Cuban overdue receivables agreements.

WORKING CAPITAL UPDATE

Cash, cash equivalents and short-term investments at December 31, 2020 were \$167.4 million, an increase from \$166.1 million at December 31, 2019. As at December 31, 2020, \$75.0 million of Sherritt's cash was held by Energas in Cuba, down from \$79.8 million at December 31, 2019. Excluding the cash held by Energas in Cuba, Sherritt's cash was \$92.4 million and \$86.3 million as at December 31, 2020 and December 31, 2019, respectively.

During the year ended December 31, 2020, cash increased primarily due to \$46.0 million of interest received primarily on the Energas conditional sales agreement, \$39.6 million of distributions received from the Moa Joint Venture and the timing of working capital receipts and payments, partially offset by \$27.6 million of cash transaction costs related to the Balance Sheet Initiative, \$12.1 million of capital expenditures, \$9.3 million of purchases of commodity put options and \$5.0 million of interest paid on the 8.50% second lien secured notes due 2026 ("New Second Lien Notes"). In addition, interest payments of \$40.3 million on the Corporation's previously existing senior unsecured debentures due in 2021, 2023 and 2025 ("Old Notes") were deferred as a result of the Transaction and included in the principal amount of the New Second Lien Notes.

During the quarter, US\$30.1 million of Cuban energy payments were received compared to US\$16.3 million in the third quarter of 2020. Cuban energy payments received during the quarter included US\$27.7 million in Canada from the Energas overdue receivables agreements, which are cited in the Cuban overdue receivables agreements section above, \$2.4 million accepted in Cuba to support local Cuban costs relating to Sherritt's Oil and Gas operations and nil from Oil and Gas.

PRESERVING LIQUIDITY AND MANAGING COSTS

During the year ended December 31, 2020, the maturity of the Corporation's \$70.0 million syndicated revolving-term credit facility was extended to April 30, 2022 with more favourable covenants, including a Net Available Cash covenant, as defined in the agreement, of \$25.0 million, a reduction from \$65.0 million. The maximum credit available, collateral and interest rates remained unchanged. Effective June 30, 2020, the Corporation did not renew a \$47.0 million letter of credit issued to support its share of the environmental rehabilitation obligations held by its Spanish operations. The Corporation continues to be in discussions with its partners to replace the letter of credit with a potential alternative arrangement. More details can be found in the Liquidity and capital resources section of this MD&A.

The Corporation implemented a number of austerity measures, resulting in the reduction or deferral of more than \$90 million in budgeted expenditures for the Moa Joint Venture (100% basis), Sherritt's Oil and Gas and Power operations, and Corporate Office in 2020 for capital spend projects and administrative and operating expenses while sustaining safe operations. These opportunities included limiting capital spending, eliminating discretionary spending not affecting safe operations, applying for government grants, deferring external hiring, maximizing sales terms to improve collections and negotiating with vendors for improved payment terms.

Excluding the non-cash impacts of share-based compensation and depreciation, administrative expenses for the year ended December 31, 2020 decreased by \$5.2 million compared to the same period in the prior year. Administrative expenses for the year ended December 31, 2020 include \$1.5 million of recoveries related to the Canada Emergency Wage Subsidy (CEWS) amounts received in support of employee costs. An additional \$5.0 million of CEWS amounts received during the year ended December 31, 2020 are recognized in cost of sales. The Corporation has accessed the CEWS program to mitigate the risk of additional employee layoffs.

During the quarter, the Corporation took advantage of the recent strength in nickel prices and purchased \$5.8 million of put options on 4,125 metric tonnes of nickel at a strike price of US\$6.50/lb for a 12-month period starting January 1, 2021. The Corporation also purchased \$3.5 million of put options on 3,094 metric tonnes of nickel at a strike price of US\$7.00/lb. for a nine-month period starting April 1, 2021. The hedging strategy is designed to provide Sherritt with cash flow security in 2021 against downward changes in nickel prices by providing a floor but no cap on 25% of Sherritt's share of 2021 nickel production in the first quarter and 50% of Sherritt's share of 2021 nickel production in the second to fourth quarter of 2021.

Subsequent to December 31, 2020, the Corporation received a \$20.3 million prepayment against nickel deliveries in 2021 as part of efforts to enhance the Corporation's liquidity in light of uncertainty around receipt of Cuban energy payments.

TECHNOLOGIES

With respect to its Technologies business, the Corporation is committed to identifying commercial applications for research and development projects that are focused on making next generation nickel lateritic ore mining more economically viable and more sustainable. Technologies is also currently focused on the commercialization of a process to upgrade Alberta bitumen at a lower cost and the processing of high-arsenic copper concentrates for the natural resource-based industry. Other projects currently being undertaken by Technologies are driven by industry needs and include: improving the purity of nickel, reducing greenhouse emissions, extending the life of mines, reducing tailings waste, increasing the recovery of high-value metals and reducing operating costs. Refer to the Review of operations section for Technologies and Corporate in this MD&A for further detail.

IMPAIRMENT

During the three months and year ended December 31, 2020, the Corporation recognized a non-cash impairment loss of \$9.4 million on the Varadero power generation facility, a cash-generating unit in the Power segment, as a result of a forecasted decline in gas supply.

During the year ended December 31, 2020, the Corporation completed its analysis and testing of samples obtained from the Block 10 well. Testing confirmed that water is present and entering the well from the loss circulation zone and the analysis also confirmed that no viable technical solution to prevent the further flow of water into the existing well is possible. While Sherritt still believes that the Block 10 reservoir contains oil, the existing well cannot be used for future production purposes. As a result, the Corporation decided to suspend the well and recognized a non-cash impairment loss of \$95.0 million for capitalized well costs. The impairment loss consists of all exploration and evaluation assets related to the well asset, including drilling materials and equipment, as well as geological and engineering expenses. The Corporation also recognized a non-cash impairment loss of \$20.6 million on capital spare parts due to the well suspension and uncertainty on the timing of future exploration activities in Cuba. Sherritt is currently reviewing its options with respect to Block 10, including seeking an earn-in partner. Sherritt has committed to making no further investments in Block 10 without first securing an earn-in partner.

BALANCE SHEET INITIATIVE

The Transaction was completed on August 31, 2020 and resulted in the extinguishment of the Corporation's Old Notes in the aggregate principal amount of \$588.1 million, together with all accrued and unpaid interest thereon, in exchange for, in the aggregate (i) New Second Lien Notes in an aggregate principal amount of \$357.5 million, (ii) new 10.75% unsecured payment-in-kind ("PIK") option notes due in 2029 (the "New Junior Notes") in an aggregate principal amount of \$75.0 million and (iii) early consent cash consideration of \$15.5 million. The Transaction resulted in a reduction of loans and borrowings in respect of the Corporations' debenture obligations by \$155.6 million and an extension of the 2021, 2023 and 2025 maturities under the Old Notes to a maturity of 2026 under the New Second Lien Notes and a maturity of 2029 under the New Junior Notes. As a result, the Corporation recognized a \$142.3 million gain on debenture exchange for the year ended December 31, 2020 within net finance income (expense).

The Transaction also resulted in the extinguishment of all of Sherritt's obligations under the Corporation's Ambatovy Joint Venture partner loans, plus all accrued and unpaid interest in respect thereof, in exchange for the Corporation's remaining 12% interest in the Ambatovy Joint Venture and its loans and operator fee receivable from the Ambatovy Joint Venture (collectively, the "Ambatovy Joint Venture Interests"). This resulted in a further reduction of recourse loans and borrowings of \$145.2 million. As of August 31, 2020, as a result of the implementation of the Transaction the Corporation no longer had an interest in the Ambatovy Joint Venture. As a result, the Corporation recognized a \$258.7 million gain on disposal of the Ambatovy Joint Venture Interests, net of tax, for the year ended December 31, 2020 included in the earnings (loss) from discontinued operations, net of tax.

In aggregate, the Transaction reduced total debt by \$300.8 million.

Management's discussion and analysis

Subject to execution of certain documentation with the Ambatovy Joint Venture, Sherritt will cease being the operator of the Ambatovy Joint Venture.

Financial results

\$ millions, except as otherwise noted	For the three months ended			For the year ended		
	2020 December 31	2019 December 31	Change	2020 December 31	2019 December 31	Change
FINANCIAL HIGHLIGHTS						
Revenue	\$ 28.2	\$ 31.0	(9%)	\$ 119.8	\$ 136.3	(12%)
Combined revenue ⁽¹⁾	135.9	143.0	(5%)	497.0	544.9	(9%)
Loss from operations and joint venture	(33.9)	(37.1)	9%	(197.1)	(85.9)	(129%)
Net loss from continuing operations	(49.3)	(65.6)	25%	(85.7)	(142.4)	40%
(Loss) earnings from discontinued operations, net of tax	(0.3)	(119.9)	100%	107.9	(225.3)	148%
Net (loss) earnings for the period	(49.6)	(185.5)	73%	22.2	(367.7)	106%
Adjusted net loss ⁽¹⁾	(31.7)	(18.2)	(74%)	(104.7)	(97.0)	(8%)
Adjusted EBITDA ⁽¹⁾	10.7	17.5	(39%)	38.9	46.0	(15%)
Net loss from continuing operations (\$ per share) (basic and diluted)	\$ (0.12)	\$ (0.17)	29%	\$ (0.22)	\$ (0.36)	39%
Net (loss) earnings (basic and diluted)	(0.12)	(0.47)	74%	0.06	(0.93)	106%
CASH						
Cash, cash equivalents and short-term investments (prior period, December 31, 2019)	\$ 167.4	\$ 166.1	1%	\$ 167.4	\$ 166.1	1%
Cash provided (used) by continuing operating activities	12.7	7.3	74%	48.0	(10.9)	540%
Combined adjusted operating cash flow ⁽¹⁾	25.8	(3.4)	nm ⁽⁴⁾	71.7	(6.1)	nm ⁽⁴⁾
Combined free cash flow ⁽¹⁾	(11.6)	28.1	(141%)	17.9	(24.2)	174%
Distributions to Sherritt from the Moa Joint Venture	26.3	14.9	77%	39.6	43.3	(9%)
OPERATIONAL DATA						
SPENDING ON CAPITAL AND INTANGIBLE ASSETS ⁽³⁾	9.8	14.3	(31%)	34.5	63.8	(46%)
PRODUCTION VOLUMES						
Finished nickel (50% basis, tonnes)	4,020	4,049	(1%)	15,753	16,554	(5%)
Finished cobalt (50% basis, tonnes)	451	411	10%	1,685	1,688	-
Oil (boepd, net working-interest production) ⁽²⁾	1,518	1,182	28%	1,687	1,417	19%
Electricity (gigawatt hours) (33 $\frac{1}{3}$ % basis)	144	186	(23%)	602	736	(18%)
AVERAGE EXCHANGE RATE (CAD/US\$)	1.303	1.320	(1%)	1.341	1.327	1%
AVERAGE-REALIZED PRICES⁽¹⁾						
Nickel (\$ per pound)	\$ 9.13	\$ 9.38	(3%)	\$ 8.16	\$ 8.37	(3%)
Cobalt (\$ per pound)	17.55	19.69	(11%)	17.84	17.80	-
Oil - Cuba (\$ per boe, NWI) ⁽²⁾	38.74	42.07	(8%)	34.27	53.67	(36%)
Electricity (\$ per megawatt hour)	55.10	55.73	(1%)	57.05	55.78	2%
UNIT OPERATING COSTS⁽¹⁾						
Nickel (US\$ per pound)(NDCC)	\$ 4.47	\$ 3.75	19%	\$ 4.20	\$ 4.14	1%
Oil - Cuba (\$ per boe, GWI) ⁽²⁾	23.13	24.23	(5%)	27.17	21.60	26%
Electricity (\$ per megawatt hour)	26.73	22.15	21%	17.38	18.22	(5%)

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

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

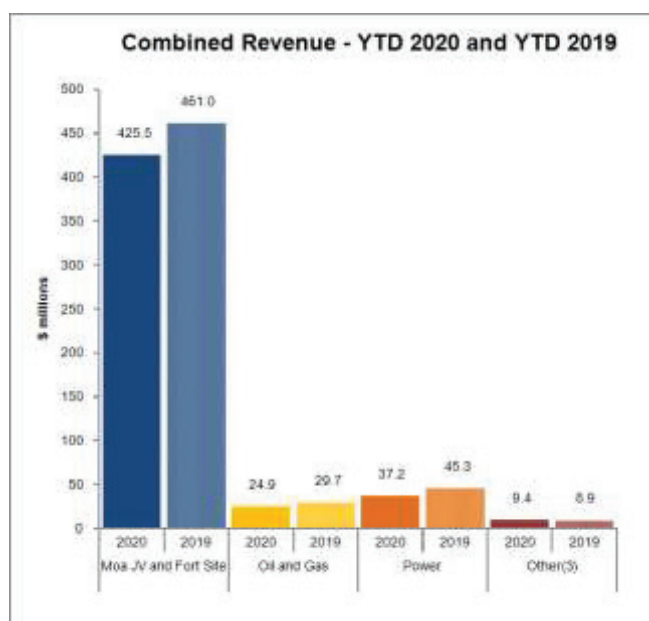
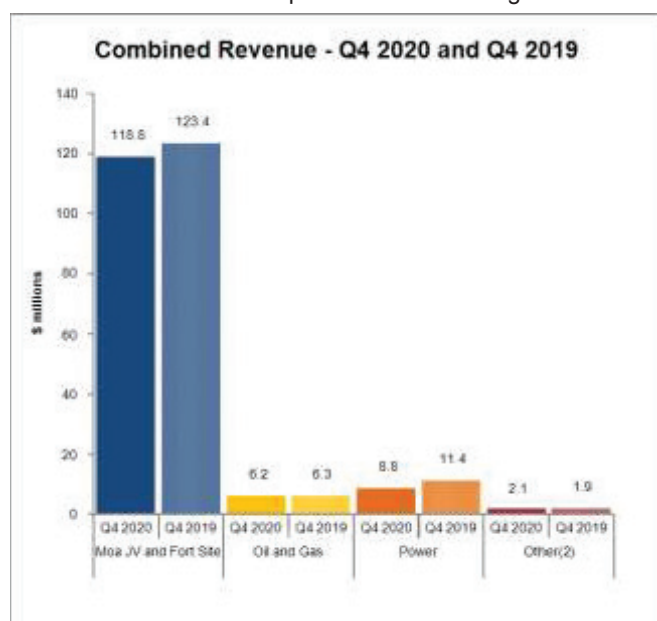
(3) Spending on capital for the three months and year ended December 31, 2019 excludes right-of-use assets recognized on adoption of IFRS 16. Refer to note 4 of the consolidated financial statements for the year ended December 31, 2019 for additional information.

(4) Not meaningful (nm).

Revenue for accounting purposes, which excludes revenue from the Moa Joint Venture as it is accounted for under the equity method, was lower for the three months ended December 31, 2020 compared to the same period in the prior year primarily due to lower power generation. Revenue was lower for the year ended December 31, 2020 compared to the same period in the prior year primarily due to lower power generation and lower average-realized fertilizer and oil prices.

The Corporation uses combined revenue as a measure to help management assess the Corporation's financial performance, including the Corporation's consolidated financial results and the results of its 50% share of the Moa Joint Venture. Total combined revenue⁽¹⁾, which includes revenue from the Moa Joint Venture, was \$135.9 million and \$497.0 million, respectively, for the three months and year ended December 31, 2020 compared to \$143.0 million and \$544.9 million for the same periods in the prior year. Lower total combined revenue for the three months ended December 31, 2020 was primarily due to lower cobalt, fertilizer and power revenue. Lower total combined revenue for the year ended December 31, 2020 was primarily due to lower nickel, cobalt, oil and power revenue.

Combined revenue is composed of the following:



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

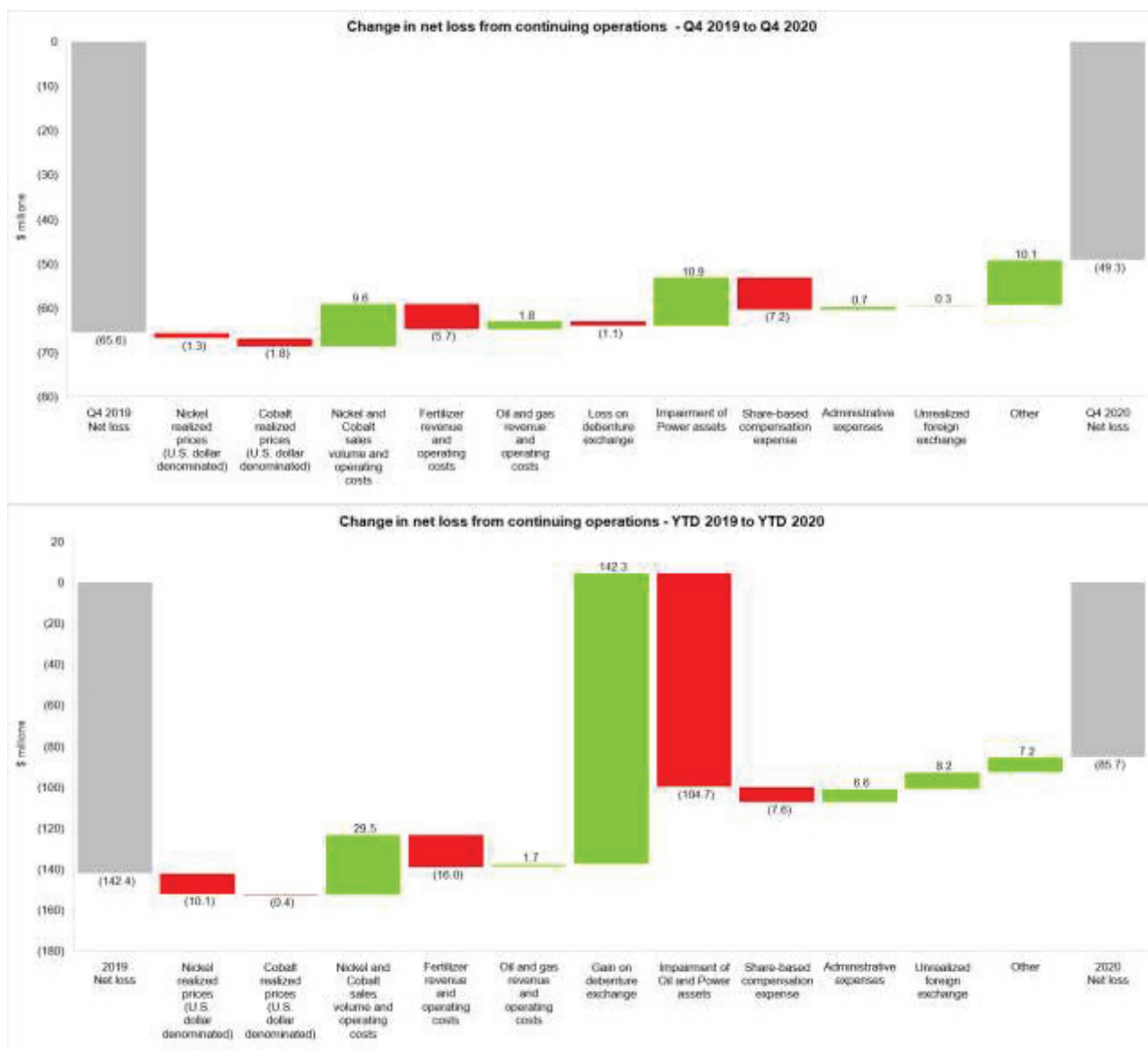
(2) Q4 2020 Other includes – Metals Other - \$1.8 million and Technologies and Corporate - \$0.3 million. (Q4 2019 Other includes – Metals Other - \$1.9 million and Technologies and Corporate - \$ - million).

(3) YTD 2020 Other includes – Metals Other - \$8.2 million and Technologies and Corporate - \$ 1.2 million. (YTD 2019 Other includes – Metals Other - \$7.5 million and Technologies and Corporate - \$ 1.4 million).

For the three months ended December 31, 2020, the net loss from continuing operations was \$49.3 million, or \$0.12 per share, compared to net loss of \$65.6 million, or \$0.17 per share in the same period in the prior year. For the year ended December 31, 2020, the net loss from continuing operations was \$85.7 million, or \$0.22 per share, compared to net loss of \$142.4 million, or \$0.36 per share in the prior year.

For the three months ended December 31, 2020, the net loss was \$49.6 million, or \$0.12 per share, compared to net loss of \$185.5 million, or \$0.47 per share in the same period in the prior year. For the year ended December 31, 2020, net earnings was \$22.2 million, or \$0.06 per share, compared to net loss of \$367.7 million, or \$0.93 per share in the prior year. Net loss in all periods contains earnings (loss) from discontinued operations, net of tax, which is primarily related to the disposition of the Ambatovy Joint Venture Interests. See the Highlights section of this MD&A for more information.

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



At the Moa Joint Venture and Fort Site, revenue for the three months ended December 31, 2020 was 4% lower than the same period in the prior year primarily due to lower average-realized nickel, cobalt and fertilizer prices, partially offset by higher nickel, cobalt and fertilizer sales volume. Revenue for the year ended December 31, 2020 was 8% lower than the prior year primarily due to lower average-realized nickel and fertilizer prices and lower nickel and cobalt sales volume, partially offset by higher fertilizer sales volume. Operating costs for the three months and year ended December 31, 2020 were 6% and 10% lower, respectively, than the same periods in the prior year primarily due to lower mining, process and refining costs, including lower sulphur and fuel oil prices, and lower third-party feed costs.

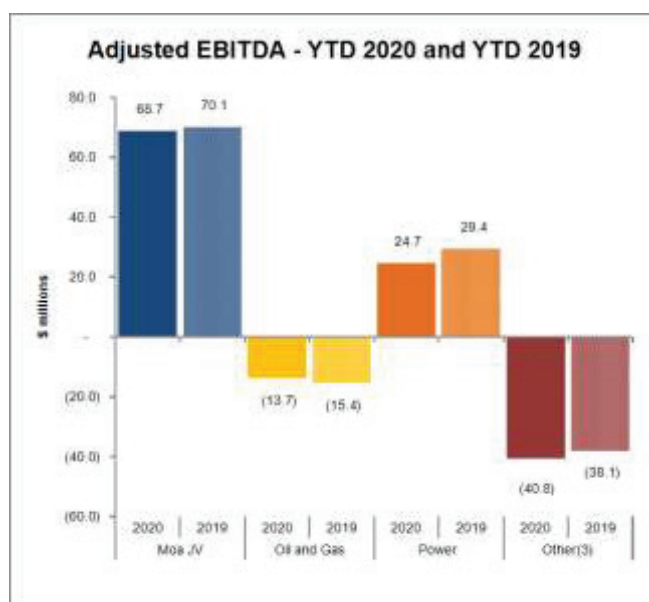
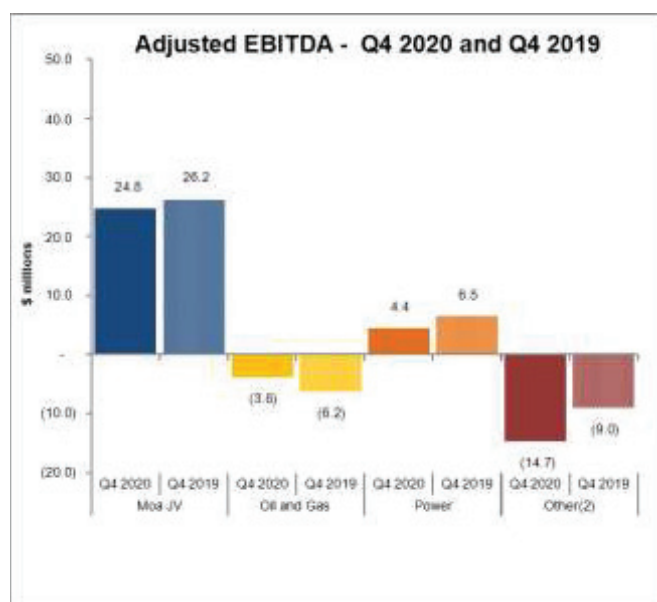
During the three months and year ended December 31, 2020, the Corporation recognized a \$1.1 million loss and \$142.3 million gain on debenture exchange upon completion of the Balance Sheet Initiative. During the three months and year ended December 31, 2020, the Corporation recognized a \$9.4 million impairment of Power assets, compared to a \$20.3 million impairment of Power assets during the same periods in the prior year. During the year ended December 31, 2020, the Corporation also recognized a \$115.6 million impairment of Oil assets. Refer to notes 11 and 17 of the consolidated financial statements for the year ended December 31, 2020 for more information.

Administrative expenses decreased by \$0.7 million and \$6.6 million, respectively, compared to the three months and year ended December 31, 2019, excluding non-cash share-based compensation expense. Share-based compensation expense increased during the three months and year ended December 31, 2020 as a result of an increase in the Corporation's share price. Employee costs included in administrative expenses were comparable and \$1.8 million lower for the three months and year ended December 31, 2020, respectively, primarily due to cost savings due to austerity measures and recoveries related to CEWS amounts received in support of employee costs.

The Corporation recognized an unrealized foreign exchange loss of \$4.3 million and gain \$4.4 million for the three months and year ended December 31, 2020, respectively, compared to unrealized foreign exchange losses of \$4.5 million and \$3.7 million, respectively, for the same periods in the prior year. Unrealized exchange gains/losses are impacted by the change in period-end exchange rates and the balance of the Corporation's U.S. dollar-denominated net liabilities.

ADJUSTED EBITDA

Total Adjusted EBITDA⁽¹⁾ for the three months and year ended December 31, 2020 was \$10.7 million and \$38.9 million, respectively, compared to \$17.5 million and \$46.0 million, respectively, in the same periods in the prior year. Adjusted EBITDA by segment is as follows:



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

(2) Q4 2020 Other includes – Metals Other - \$(0.5) million and Technologies and Corporate - \$(14.2) million. (Q4 2019 Other includes – Metals Other - \$(0.1) million and Technologies and Corporate - \$(8.9) million).

(3) YTD 2020 Other includes – Metals and Other - \$(1.8) million and Technologies and Corporate - \$(39.0) million. (YTD 2019 Other includes – Metals Other - \$(2.2) million and Technologies and Corporate - \$(35.9) million).

CONSOLIDATED FINANCIAL POSITION

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

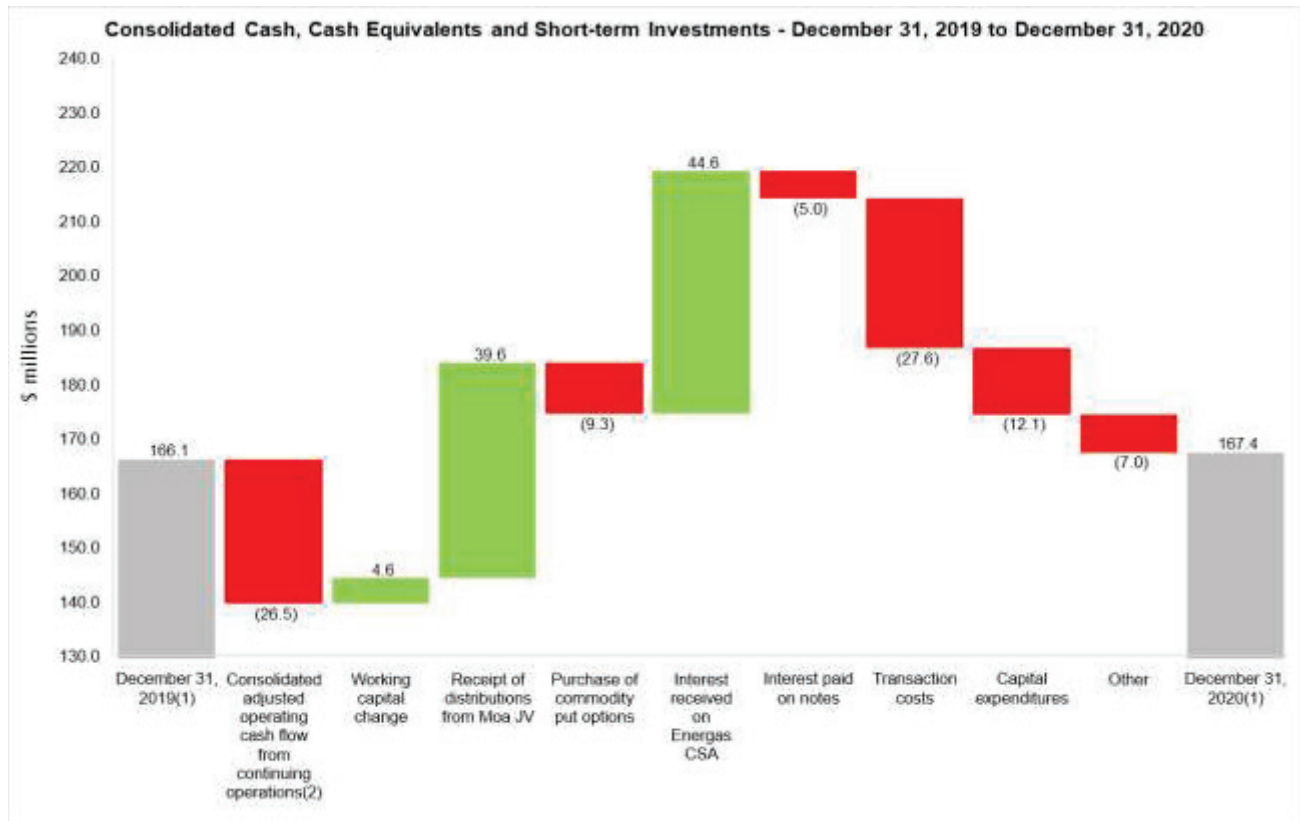
\$ millions, except as otherwise noted, as at December 31	2020	2019	Change
Current assets	\$ 381.3	\$ 377.7	1%
Current liabilities ⁽¹⁾	169.5	330.7	(49%)
Working capital	211.8	47.0	351%
Current ratio	2.25:1	1.14:1	97%
Cash, cash equivalents and short-term investments	\$ 167.4	\$ 166.1	1%
Non-current advances, loans receivable and other financial assets	169.6	588.0	(71%)
Investment in a joint venture	597.4	382.9	56%
Property, plant and equipment	166.4	208.6	(20%)
Total assets	1,352.2	1,738.1	(22%)
Loans and borrowings	441.4	713.6	(38%)
Provisions	112.1	104.4	7%
Total liabilities	745.4	1,016.0	(27%)
Deficit	(2,880.1)	(2,902.3)	1%
Shareholders' equity	606.8	722.1	(16%)

(1) In the comparative period, current liabilities included the Ambatovy Joint Venture partner loans of \$151.5 million which were extinguished during the year ended December 31, 2020 as a result of the Transaction.

LIQUIDITY

As at December 31, 2020, total available liquidity was \$226.9 million which is composed of cash, cash equivalents, short-term investments and \$59.5 million of available credit facilities. Effective June 30, 2020, the Corporation did not renew a \$47.0 million letter of credit issued to support its share of the environmental rehabilitation obligations held by its Spanish operations. The Corporation continues to be in discussions with its partners to replace the letter of credit with a potential alternative arrangement. The total liquidity excludes restricted cash of \$5.3 million.

Cash, cash equivalents and short-term investments at December 31, 2020 increased by \$1.3 million from December 31, 2019. The components of this change are shown below:



(1) As at December 31, 2020, \$75.0 million of the Corporation's cash, cash equivalents and short-term investments was held by Energas (December 31, 2019 - \$79.8 million).

(2) Excludes working capital change, receipt of distributions from the Moa Joint Venture, purchase of commodity put options, interest received on the Energas conditional sales agreement and interest paid on the notes, presented separately above.

The change in consolidated cash, cash equivalents and short-term investments is primarily due to:

- \$44.6 million in interest received on the Energas conditional sales agreement at Power;
- \$39.6 million in distributions received from the Moa Joint Venture;
- positive working capital changes primarily due to the timing of working capital receipts and changes in inventories, partially offset by the timing of working capital payments and lower receipts of Cuban energy payments at Oil and Gas; partially offset by,
- negative adjusted operating cash flow at Fort Site, Metals Other, Oil and Gas and Technologies and Corporate;
- \$27.6 million of transaction costs related to the Balance Sheet Initiative;
- \$12.1 million in capital expenditures;
- \$9.3 million of purchases of commodity put options; and
- \$5.0 million of interest paid on the 8.50% second lien secured notes due 2026.

Outlook

2021 PRODUCTION, UNIT OPERATING COST AND CAPITAL SPENDING GUIDANCE

Production volumes, unit operating costs and spending on capital	2020	Year-to-date	2021
	Guidance	actual to December 31, 2020	Guidance
Production volumes			
Moa Joint Venture (tonnes, 100% basis)			
Nickel, finished	32,000 - 33,000 ⁽¹⁾	31,506	32,000 - 34,000
Cobalt, finished	3,300 - 3,400 ⁽¹⁾	3,370	3,300 - 3,600
Oil – Cuba (gross working-interest, bopd) ⁽³⁾	3,000 - 3,300	2,947	n/a
Oil and Gas – All operations (net working-interest, boepd) ⁽³⁾	1,800 - 2,000 ⁽¹⁾	1,687	n/a
Electricity (GWh, 33½% basis)	500 - 550	602	450 - 500
Unit operating costs			
NDCC (US\$ per pound)			
Moa Joint Venture	\$4.00 - \$4.50	\$4.20	\$4.25 - \$4.75
Oil and Gas - Cuba (unit operating costs, \$ per barrel) ⁽³⁾	\$28.00 - \$29.50	\$27.17	n/a
Electricity (unit operating cost, \$ per MWh)	\$20.00 - \$21.50 ⁽¹⁾⁽²⁾	\$17.38	\$30.50 - \$32.00
Spending on capital (US\$ millions)			
Moa Joint Venture (50% basis), Fort Site (100% basis) ⁽⁴⁾	US\$22 (CDN\$30) ⁽¹⁾	US\$24 (CDN\$32)	US\$44 (CDN\$57)
Oil and Gas ⁽³⁾	US\$1.5 (CDN\$2) ⁽¹⁾⁽²⁾	US\$1.2 (CDN\$1.6)	n/a
Power (33½% basis)	US\$1 (CDN\$1.3)	US\$0.5 (CDN\$0.7)	US\$1 (CDN\$1.3)
Spending on capital (excluding Corporate)	US\$24.5 (CDN\$33) ⁽¹⁾⁽²⁾	US\$25.7 (CDN\$34.3)	US\$45 (CDN\$58)

(1) 2020 guidance was updated June 30, 2020.

(2) 2020 guidance was updated September 30, 2020.

(3) Given the anticipated expiration of the production sharing contract (PSC) at Puerto Escondido/Yumuri on March 20, 2021, Sherritt has not provided any production, unit costs or capital spend guidance for its Oil and Gas business unit for 2021.

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

Significant factors influencing operations

As a commodity-based business, Sherritt's operating results are primarily influenced by the prices of nickel and cobalt.

Nickel

Nickel market conditions continued to improve in the fourth quarter of 2020, sustaining the momentum triggered by the restart of economic activities late in the second quarter, particularly in China, following the easing of restrictions caused by the COVID-19 pandemic.

Market conditions in Q4 also benefited from renewed interest in electric vehicles, bullish forecasts by industry analysts for accelerated demand growth, and multiple announcements from automakers indicating considerable investments to significantly expand electric vehicle production capacity. High purity, or Class 1 nickel, as produced by Sherritt, will be the primary metal in battery chemistries most automakers have adopted.

Nickel prices on the London Metal Exchange opened at US\$6.52/lb on October 1 and closed on December 31 at US\$7.50/lb, representing a growth of 15%. Nickel prices in 2020 experienced considerable volatility, ranging from a low of US\$5.01/lb to a high of US\$8.07/lb. In 2020, nickel prices ended the year up 18% from the start of the year.

While nickel prices climbed during Q4, nickel inventory levels on the London Metal Exchange (LME) and the Shanghai Future Exchange (SHFE) remained relatively flat. Combined inventory levels at December 31 totaled approximately 262,900 tonnes, up from approximately 262,700 tonnes at September 30. Nickel inventories on the LME and SHFE have stayed relatively flat despite the reduced production of stainless steel globally on a year to date basis largely because a number of nickel mines around the world have either significantly reduced production or have gone into care and maintenance as a result of the spread of COVID-19. Production at the Moa JV has largely been unaffected by the spread of COVID-19 in 2020.

The momentum of higher nickel prices has carried over into 2021, reaching US\$8.38/lb on February 10, the highest price since August 2019. Nevertheless, nickel prices are expected to be volatile over the near and medium term given the softening of demand expected with the interruption of manufacturing activities in China caused by Lunar New Year celebrations in February, and also by the ongoing economic uncertainty caused by the continued spread of the COVID-19 pandemic.

As mining operations resume production activities, nickel inventory levels may rise given that supply could exceed demand as a number of industries that are large consumers of stainless steel, such as food and hospitality sector, will experience a delayed or slower economic recovery, particularly if the second wave of the pandemic is prolonged.

Added to this uncertainty is the substantial increase expected in nickel pig iron production, leading some industry analysts to predict an oversupplied nickel market in the near term. This development is putting additional pressure on producers of lower-grade material such as ferronickel, which is currently selling at significant discount. Combined, these developments suggest near-term nickel price fluctuations.

Over the longer term, as demand for nickel is expected to grow with the increased adoption of electric vehicles and requirement for low-carbon emissions since nickel – along with cobalt – is a key metal needed to manufacture assorted energy storage batteries, more favorable price conditions with less volatility are expected.

Cobalt

Cobalt prices remained relatively flat in the fourth quarter of 2020 according to data collected by Fastmarkets MB. Standard grade cobalt prices on December 31 closed at US\$15.60/lb, down from US\$15.65/lb at the start of the quarter. Stable prices in the fourth quarter suggest that soft market conditions experienced earlier in the year due the onset of the COVID-19 pandemic have improved. Cobalt prices had declined to US\$13.90/lb in July from US\$15.53/lb at the start of 2020, largely due to reduced demand emanating from markets, such as the aerospace sector, most impacted by the pandemic.

Since the start of 2021, cobalt prices have climbed to more than US\$22.00/lb, largely on news reports that consumers in China have started to stockpile inventory to take advantage of weak prices in anticipation of stronger demand expected with accelerated growth of electric vehicle demand expected in the coming years. Cobalt is a key component of rechargeable batteries providing energy density and stability.

Review of operations

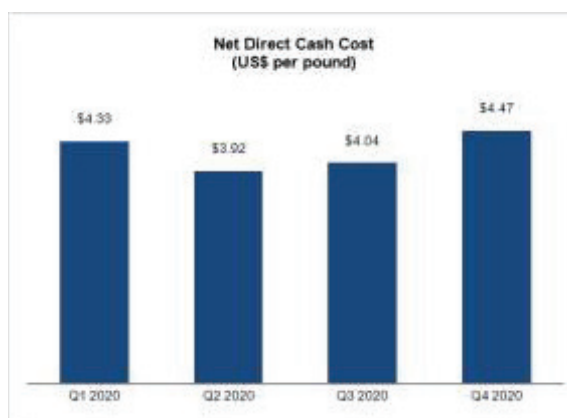
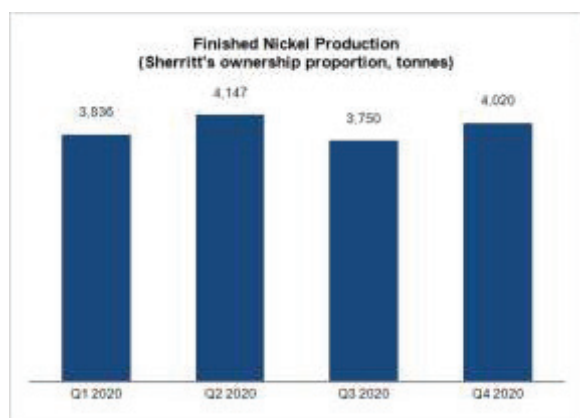
Moa Joint Venture and Fort Site

\$ millions, except as otherwise noted	For the three months ended			For the year ended		
	2020	2019	Change	2020	2019	Change
	December 31	December 31		December 31	December 31	
FINANCIAL HIGHLIGHTS						
Revenue	\$ 118.8	\$ 123.4	(4%)	\$ 425.5	\$ 461.0	(8%)
Earnings from operations	4.4	8.7	(49%)	3.9	11.0	(65%)
Adjusted EBITDA ⁽¹⁾	24.8	26.2	(5%)	68.7	70.1	(2%)
CASH FLOW						
Cash provided by operations	\$ 13.4	\$ 51.6	(74%)	\$ 53.7	\$ 59.6	(10%)
Adjusted operating cash flow ⁽¹⁾	24.9	24.0	4%	64.7	66.3	(2%)
Free cash flow ⁽¹⁾	4.1	44.7	(91%)	24.5	33.7	(27%)
PRODUCTION VOLUMES (tonnes)						
Mixed Sulphides	4,421	4,203	5%	17,429	17,010	2%
Finished Nickel	4,020	4,049	(1%)	15,753	16,554	(5%)
Finished Cobalt	451	411	10%	1,685	1,688	-
Fertilizer	56,277	56,284	-	235,886	249,207	(5%)
NICKEL RECOVERY (%)						
	86%	80%	8%	86%	84%	2%
SALES VOLUMES (tonnes)						
Finished Nickel	4,177	4,089	2%	15,687	16,698	(6%)
Finished Cobalt	443	437	1%	1,678	1,766	(5%)
Fertilizer	48,542	46,467	4%	187,922	165,162	14%
AVERAGE REFERENCE PRICES (US\$ per pound)						
Nickel	\$ 7.23	\$ 7.01	3%	\$ 6.25	\$ 6.32	(1%)
Cobalt ⁽²⁾	15.73	16.90	(7%)	15.58	16.57	(6%)
AVERAGE-REALIZED PRICE⁽¹⁾						
Nickel (\$ per pound)	\$ 9.13	\$ 9.38	(3%)	\$ 8.16	\$ 8.37	(3%)
Cobalt (\$ per pound)	17.55	19.69	(11%)	17.84	17.80	-
Fertilizer (\$ per tonne)	298	351	(15%)	343	417	(18%)
UNIT OPERATING COST⁽¹⁾ (US\$ per pound)						
Nickel - net direct cash cost	\$ 4.47	\$ 3.75	19%	\$ 4.20	\$ 4.14	1%
SPENDING ON CAPITAL⁽³⁾						
Sustaining	\$ 9.3	\$ 6.9	35%	\$ 32.2	\$ 33.6	(4%)
	\$ 9.3	\$ 6.9	35%	\$ 32.2	\$ 33.6	(4%)

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

(2) Average standard-grade cobalt published price per Fastmarkets MB.

(3) Spending on capital for the three months and year ended December 31, 2019 excludes right-of-use assets recognized on adoption of IFRS 16. Refer to note 4 of the consolidated financial statements for the year ended December 31, 2019 for additional information.



Revenue, cost of sales and NDCC are composed of the following:

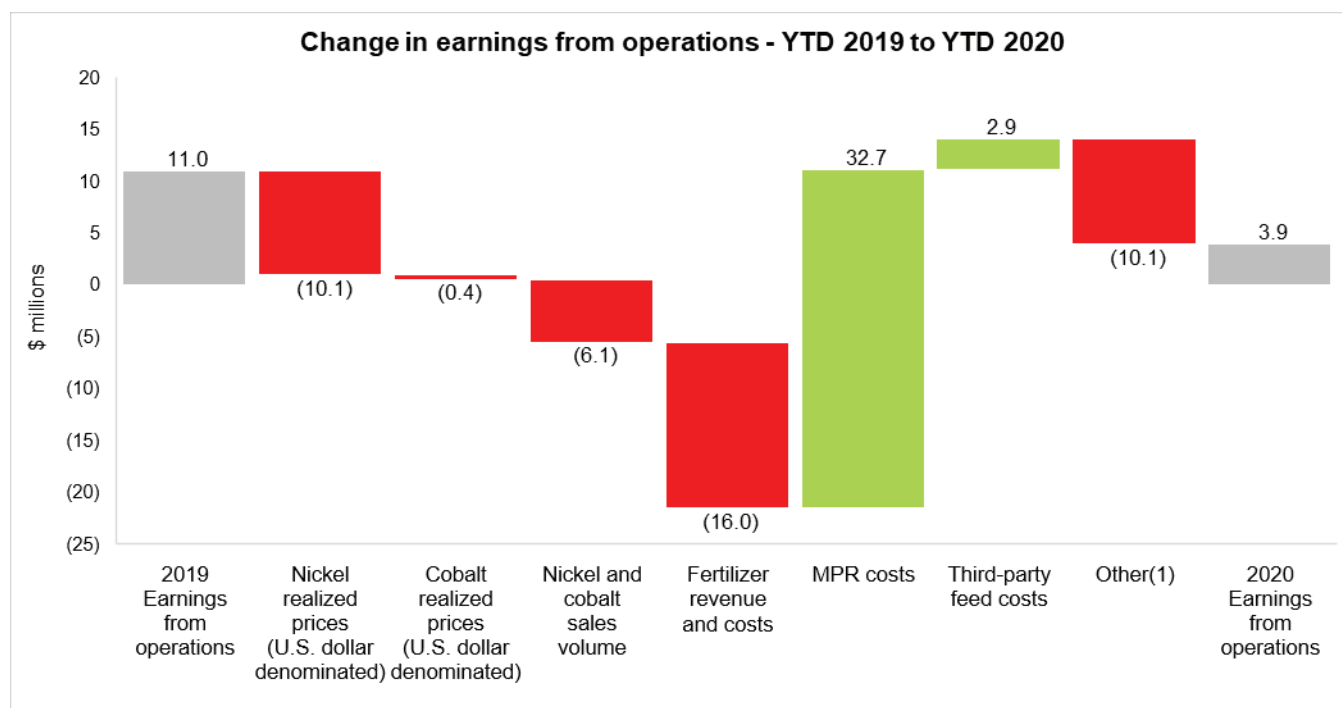
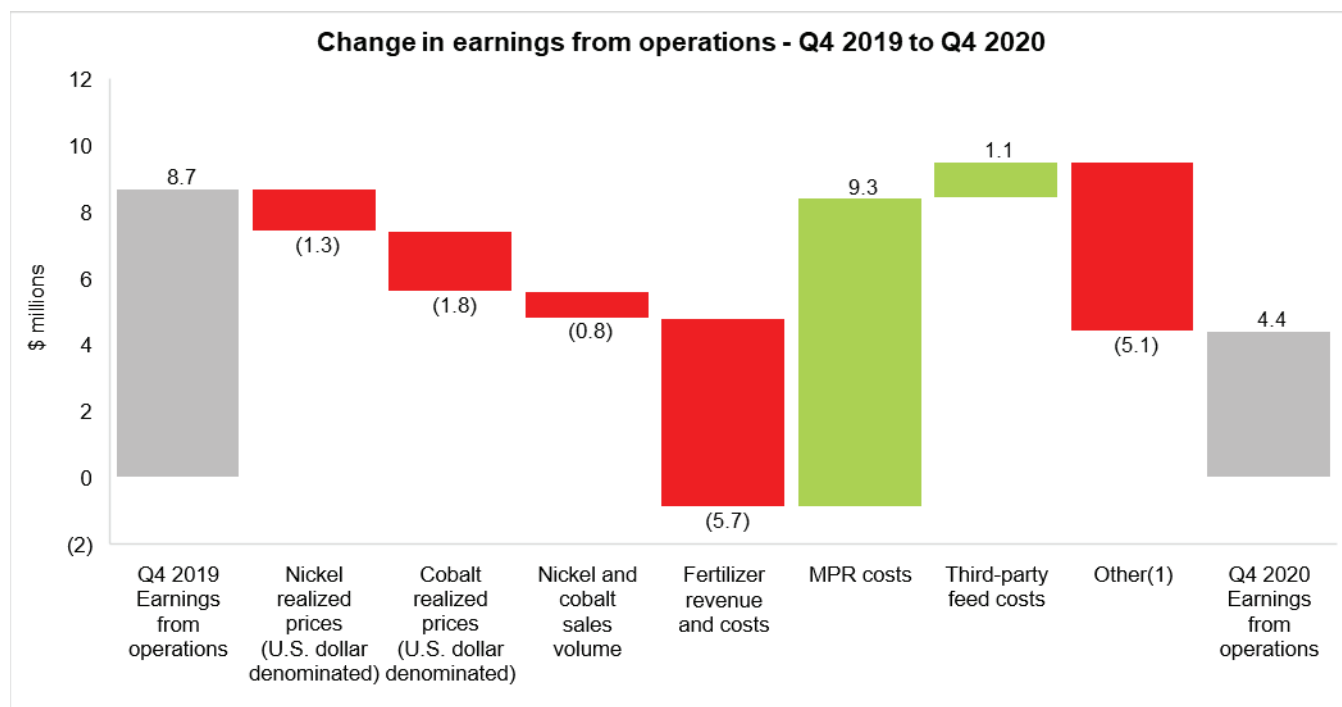
	For the three months ended			For the year ended		
	2020	2019	Change	2020	2019	Change
\$ millions, except as otherwise noted	December 31	December 31		December 31	December 31	
REVENUE						
Nickel	\$ 84.1	\$ 84.6	(1%)	\$ 282.1	\$ 308.0	(8%)
Cobalt	17.2	19.0	(9%)	66.0	69.3	(5%)
Fertilizers	14.4	16.2	(11%)	64.5	68.9	(6%)
Other	3.1	3.6	(14%)	12.9	14.8	(13%)
	\$ 118.8	\$ 123.4	(4%)	\$ 425.5	\$ 461.0	(8%)
COST OF SALES⁽¹⁾						
Mining, processing and refining (MPR)	\$ 56.0	\$ 66.0	(15%)	\$ 226.3	\$ 271.6	(17%)
Third-party feed costs	4.5	5.5	(18%)	15.8	19.5	(19%)
Fertilizers	16.7	12.8	30%	62.2	50.6	23%
Selling costs	4.6	4.7	(2%)	17.7	16.5	7%
Other	9.5	8.5	12%	25.3	26.0	(3%)
	\$ 91.3	\$ 97.5	(6%)	\$ 347.3	\$ 384.2	(10%)
NET DIRECT CASH COST⁽²⁾ (US\$ per pound of nickel)						
Mining, processing and refining costs	\$ 4.73	\$ 5.31	(11%)	\$ 4.93	\$ 5.46	(10%)
Third-party feed costs	0.36	0.45	(20%)	0.34	0.40	(15%)
Cobalt by-product credits	(1.43)	(1.59)	10%	(1.43)	(1.42)	(1%)
Other ⁽³⁾	0.81	(0.42)	293%	0.36	(0.30)	220%
	\$ 4.47	\$ 3.75	19%	\$ 4.20	\$ 4.14	1%

(1) Excludes depletion, depreciation and amortization

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

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

The change in earnings from operations is detailed below:



(1) Included in Other for the three months and year ended December 31, 2020 is a depreciation adjustment and higher by-product costs for sulphuric acid due to the bi-annual Fort Saskatchewan acid plant maintenance shutdown in Q4 2020.

Average U.S. dollar reference prices for nickel were 3% higher and 1% lower for the three months and year ended December 31, 2020, respectively, compared to the same periods in the prior year, while average U.S. dollar reference prices for cobalt were 7% and 6% lower than in the comparable prior year periods. Average-realized prices for nickel were 3% lower for the three months and year ended December 31, 2020 compared to the same periods in the prior year. Average-realized prices for cobalt were 11% lower and comparable for the three months and year ended December 31, 2020, respectively, compared to the same periods in the prior year. Realized prices for the three months ended December 31, 2020 were negatively impacted by a weaker U.S. dollar relative to the Canadian dollar compared to the same period in the prior year. Realized prices for the year ended December 31, 2020 were positively impacted by a stronger U.S. dollar relative to the Canadian dollar compared to the same period in the prior year.

Mixed sulphides production was 5% and 2% higher for the three months and year ended December 31, 2020, respectively, compared to the same periods in the prior year, primarily due to normalized diesel availability in the current year periods. In the prior year, Cuba, and in turn the Moa Joint Venture, experienced diesel shortages due to economic and trade sanctions imposed on Venezuela, Cuba's largest oil supplier. Subsequent to Q3 2019, the Moa Joint Venture was able to secure its diesel requirements and as a result, there have been no diesel availability issues in 2020.

Nickel recovery rates were 8% and 2% higher for the three months and year ended December 31, 2020, respectively, compared to the same periods in the prior year, due to better quality ore in the current year periods and the commissioning of the fifth sulphide precipitation autoclave in Moa in July. Furthermore, nickel recovery rates were negatively impacted by reduced diesel availability in Q3 2019, which limited access to planned mining areas

For the three months ended December 31, 2020, finished nickel production was comparable and cobalt finished production was higher than the same period in the prior year despite unplanned repairs to an autoclave at the refinery in Fort Saskatchewan. The repairs resulted in the refinery operating at 50% of normal capacity for several days. Repairs were completed before the end of the quarter and finished production returned to normal capacity. In the prior year quarter, finished nickel and cobalt production were negatively impacted by Canadian rail transportation issues. For the year ended December 31, 2020, finished nickel production was lower and cobalt production was comparable to the same period in the prior year due to the unplanned repairs at the refinery during the quarter noted above, extension of the annual maintenance shutdown of the refinery in Fort Saskatchewan and lower mixed sulphides availability in Fort Saskatchewan earlier in the year. Lower mixed sulphides availability was a result of transportation delays in shipping mixed sulphides from Moa to the refinery caused by poor weather and congestion at the port of Moa, as well as Canadian rail transportation issues, all of which have since ended. Finished production has not been significantly affected by COVID-19 as result of safety protocols implemented during the year. Moa Joint Venture was largely in line with its 2020 guidance for finished nickel production and met 2020 guidance for finished cobalt production.

Fertilizer production was comparable for the three months ended December 31, 2020 to the same period in the prior year. Fertilizer production was 5% lower for the year ended December 31, 2020 compared to the same period in the prior year as poor weather in Q4 2019 resulted in lower than anticipated sales and higher opening 2020 inventory, resulting in lower production in 2020 due to customer demand and on-site storage capacity. Fertilizer's earnings from operations for the three months and year ended December 31, 2020 were lower compared to the same periods in the prior year, primarily due to lower average-realized fertilizer prices and higher maintenance costs, partially offset by higher sales volume.

Mining, processing and refining (MPR) unit costs for the three months and year ended December 31, 2020 were 11% and 10% lower, respectively, compared to the same periods in the prior year primarily due to lower sulphur and fuel oil prices.

Net direct cash cost (NDCC) for the three months and year ended December 31, 2020 was US\$4.47 per pound and US\$4.20 per pound, 19% higher and comparable, respectively, compared to the prior year periods. NDCC was higher for the three months ended December 31, 2020 primarily as a result of lower fertilizer and cobalt by-product credits due to lower average-realized prices and higher by-product costs primarily resulting from the bi-annual Fort Saskatchewan acid plant maintenance shutdown. These increases in costs were partially offset by lower fuel oil and sulphur prices and lower third-party feed costs. NDCC was comparable for the year ended December 31, 2020 primarily as a result of lower fertilizer by-product credits due to lower average-realized fertilizer prices and higher by-product costs primarily resulting from maintenance noted above, partially offset by lower fuel oil and sulphur prices and lower third-party feed costs. Moa Joint Venture met its 2020 guidance for unit costs.

Sustaining capital spending for the three months ended December 31, 2020 was higher than the same period in the prior year primarily due to the timing of planned capital expenditures. Sustaining capital was marginally lower for the year ended December 31, 2020 than the same period in the prior year primarily due to austerity measures in response to volatile commodity prices and uncertainties related to the impact of COVID-19. Moa Joint Venture was largely in line with its 2020 guidance for capital spending.

Management's discussion and analysis

During the year ended December 31, 2020, the Corporation and General Nickel Company S.A. (GNC) (together, the Moa Joint Venture partners) mutually agreed to convert US\$402.1 million (\$548.0 million) of the Moa Joint Venture expansion loans to equity which, at the Corporation's 50% share, resulted in a US\$201.0 million (\$274.0 million) decrease in the Corporation's expansion loans receivable and a US\$201.0 million (\$274.0 million) increase in the investment in a joint venture. The conversion of the expansion loans into equity, which did not result in any change to the ownership interest percentage of either Moa Joint Venture shareholder, results in a simpler capital structure for the Moa Joint Venture and results in all future distributions to shareholders being in the form of dividends.

During the three months and year ended December 31, 2020, the Moa Joint Venture paid US\$40.0 million and US\$60.0 million, respectively, of distributions to its shareholders. Sherritt received its 50% share of these distributions, or US\$20.0 million and US\$30.0 million, respectively, directly. In addition, GNC, Sherritt's joint venture partner, redirected US\$20.0 million of distributions during the three months and year ended December 31, 2020, to the Corporation to be applied against amounts owing to Sherritt from Energas. The redirections were secured through negotiations between Sherritt and its Cuban partners, and were made in accordance with the 2019 Cuban overdue receivables agreement.

During the year ended December 31, 2020, Sherritt employee members of Unifor at the refinery in Fort Saskatchewan ratified a new collective agreement through March 31, 2022. The new agreement extends Sherritt's track record of no labour disruptions at the refinery since it began operations in 1954.

Subsequent to December 31, 2020, Sherritt's refinery in Fort Saskatchewan had its operating license renewed for 10 years by Alberta's Ministry of Environment and Parks.

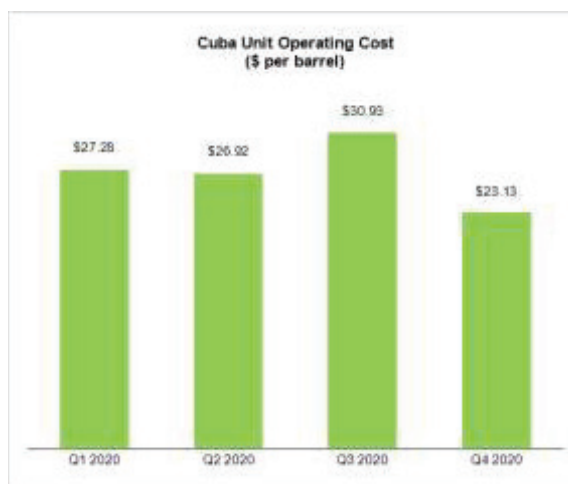
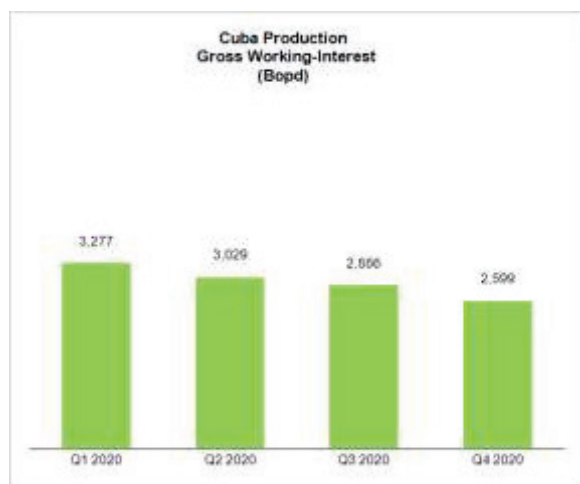
OIL AND GAS

\$ millions, except as otherwise noted	For the three months ended			For the year ended		
	2020	2019	Change	2020	2019	Change
	December 31	December 31		December 31	December 31	
FINANCIAL HIGHLIGHTS						
Revenue	\$ 6.2	\$ 6.3	(2%)	\$ 24.9	\$ 29.7	(16%)
Loss from operations	(5.9)	(7.1)	17%	(136.4)	(24.7)	(452%)
Adjusted EBITDA ⁽¹⁾	(3.8)	(6.2)	39%	(13.7)	(15.4)	11%
CASH FLOW						
Cash (used) provided by operations	\$ (5.3)	\$ 5.2	(202%)	\$ (26.5)	\$ 9.5	(379%)
Adjusted operating cash flow ⁽¹⁾	(1.0)	(8.0)	88%	(11.1)	(19.6)	43%
Free cash flow ⁽¹⁾	(6.4)	(1.2)	(433%)	(31.8)	(18.6)	(71%)
PRODUCTION AND SALES⁽²⁾						
Gross working-interest (GWI) - Cuba	2,599	3,785	(31%)	2,947	4,175	(29%)
Total net working-interest (NWI)	1,518	1,182	28%	1,687	1,417	19%
AVERAGE REFERENCE PRICES (US\$ per barrel)						
U.S. Gulf Coast High Sulphur Fuel Oil (USGC HSFO)	40.56	40.76	-	35.15	53.58	(34%)
AVERAGE-REALIZED PRICES⁽¹⁾ (per NWI)						
Cuba (\$ per barrel)	\$ 38.74	\$ 42.07	(8%)	\$ 34.27	\$ 53.67	(36%)
UNIT OPERATING COSTS⁽¹⁾⁽²⁾ (per GWI)						
Cuba (\$ per barrel)	\$ 23.13	\$ 24.23	(5%)	\$ 27.17	\$ 21.60	26%
SPENDING ON CAPITAL⁽³⁾						
Development, facilities and other	\$ 0.3	\$ (0.8)	138%	\$ (1.8)	\$ -	-
Exploration	0.3	8.6	(97%)	3.4	29.7	(89%)
	\$ 0.6	\$ 7.8	(92%)	\$ 1.6	\$ 29.7	(95%)

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

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

(3) Spending on capital includes accruals. Spending on capital for the three months and year ended December 31, 2019 excludes right-of-use assets recognized on adoption of IFRS 16. Refer to note 4 of the audited consolidated financial statements for the year ended December 31, 2019 for additional information.



Management's discussion and analysis

\$ millions, except as otherwise noted	For the three months ended			For the year ended		
	2020	2019	Change	2020	2019	Change
	December 31	December 31		December 31	December 31	
REVENUE						
Cuba	\$ 5.1	\$ 3.9	31%	\$ 19.9	\$ 21.2	(6%)
Other ⁽⁵⁾	0.3	1.4	(79%)	1.9	4.0	(53%)
Processing	0.8	1.0	(20%)	3.1	4.5	(31%)
	<u>\$ 6.2</u>	<u>\$ 6.3</u>	<u>(2%)</u>	<u>\$ 24.9</u>	<u>\$ 29.7</u>	<u>(16%)</u>
DAILY PRODUCTION AND SALES VOLUMES (boepd)⁽¹⁾⁽²⁾						
Gross working-interest (GWI) oil production in Cuba⁽³⁾	2,599	3,785	(31%)	2,947	4,175	(29%)
Net working-interest (NWI) oil production⁽⁴⁾						
Cuba (heavy oil)						
Cost recovery	1,376	800	72%	1,480	856	73%
Profit oil	93	206	(55%)	109	226	(52%)
Total	<u>1,469</u>	<u>1,006</u>	<u>46%</u>	<u>1,589</u>	<u>1,082</u>	<u>47%</u>
Other ⁽⁵⁾	49	176	(72%)	98	335	(71%)
	<u>1,518</u>	<u>1,182</u>	<u>28%</u>	<u>1,687</u>	<u>1,417</u>	<u>19%</u>

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

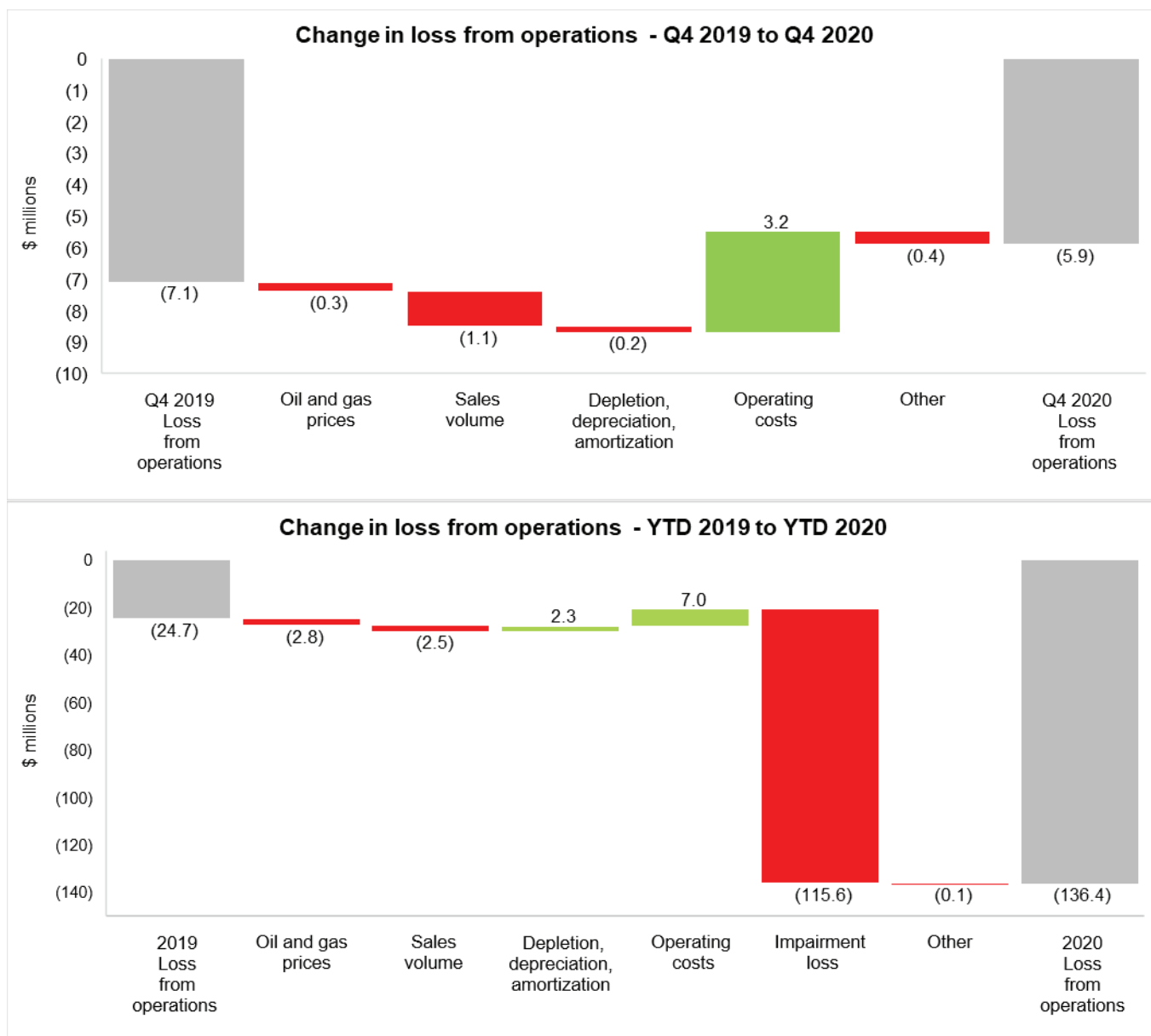
(2) In Cuba, Oil and Gas delivers all of its gross working-interest oil production to CUPET at the time of production.

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

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

(5) In the prior year, Other included a working interest in a natural gas field in Pakistan, which Sherritt sold in Q3 2019 for cash proceeds that did not differ materially from the carrying value of the assets sold.

The change in loss from operations is detailed below:



Realized prices in Cuba for the three months and year ended December 31, 2020 were lower than the same periods in the prior year reflecting relatively unchanged and lower USGC HSFO reference prices, respectively, and the impact of foreign exchange. For the three months ended December 31, 2020, realized prices in Cuba were negatively impacted by a weaker U.S. dollar relative to the Canadian dollar compared to the same period in the prior year. For the year ended December 31, 2020, realized prices in Cuba were positively impacted by a stronger U.S. dollar relative to the Canadian dollar compared to the same period in the prior year.

GWI production in Cuba for the three months and year ended December 31, 2020 was lower primarily due to natural reservoir declines and the absence of new development drilling. Cuba cost recovery oil production for the three months and year ended December 31, 2020 was higher than the same periods in the prior year as the impact of lower oil prices offset the impact of lower GWI production. Profit oil production, which represents Sherritt's share of production after cost recovery volume is deducted from GWI volume, was lower than the same periods in the prior year reflecting the higher cost recovery oil production allocation as discussed above.

Management's discussion and analysis

Unit operating costs in Cuba were lower for the three months ended December 31, 2020 primarily as a result of lower total operating costs compared to the same period in the prior year, partially offset by the impact of lower GWI production in Cuba for the same period. Unit operating costs in Cuba were higher for the year ended December 31, 2020, primarily as a result of the impact of lower GWI production in Cuba compared to the same period in the prior year, partially offset by lower labour costs. Total operating costs for the three months and year ended December 31, 2020 were positively and negatively impacted, respectively, by a weaker and stronger U.S. dollar, respectively, relative to the Canadian dollar compared to the same periods in the prior year.

Negative capital spending for development, facilities and other reflects the reversal of accruals. Exploration spending was lower for the three months and year ended December 31, 2020 due to limited spending on drilling activities on Block 10.

Oil and Gas achieved its 2020 guidance for unit costs and capital spending and was largely in line with its GWI production in Cuba and total NWI production for the year ended December 31, 2020.

In Q3 2020, the Corporation completed its analysis and testing of samples obtained from the Block 10 well. Testing confirmed that water is present and entering the well from the loss circulation zone and the analysis also confirmed that no viable technical solution to prevent the further flow of water into the existing well is possible. While Sherritt still believes that the Block 10 reservoir contains oil, the existing well cannot be used for future production purposes. As a result, the Corporation suspended the well and recognized a non-cash impairment loss of \$95.0 million for capitalized well costs during the third quarter of 2020. The Corporation also recognized a non-cash impairment loss of \$20.6 million on capital spare parts due to the well suspension and uncertainty on the timing of future exploration activities in Cuba. Sherritt is currently reviewing its options with respect to Block 10, including seeking an earn-in partner. Sherritt has committed to making no further investments in Block 10 without first securing an earn-in partner.

The Puerto Escondido/Yumuri production-sharing contract with an agency of the Government of Cuba expires in March 2021, at which point the Corporation will relinquish its producing oil wells in Puerto Escondido/Yumuri.

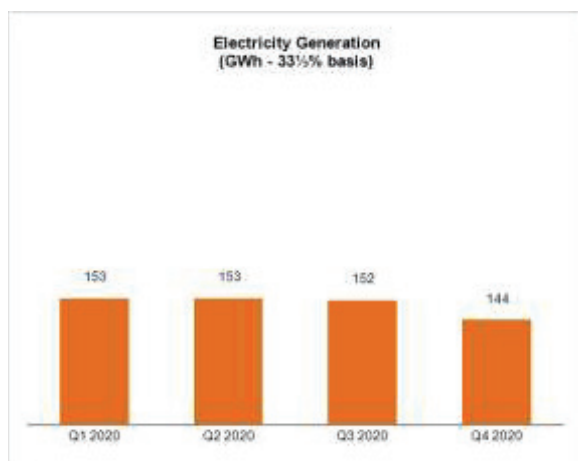
POWER

\$ millions (33 $\frac{1}{3}$ % basis), except as otherwise noted	For the three months ended			For the year ended		
	2020	2019	Change	2020	2019	Change
	December 31	December 31		December 31	December 31	
FINANCIAL HIGHLIGHTS						
Revenue	\$ 8.8	\$ 11.4	(23%)	\$ 37.2	\$ 45.3	(18%)
Loss from operations	(10.1)	(22.0)	54%	(5.6)	(18.5)	70%
Adjusted EBITDA ⁽¹⁾	4.4	6.5	(32%)	24.7	29.4	(16%)
CASH FLOW						
Cash provided by operations	\$ 30.2	\$ 8.3	264%	\$ 77.8	\$ 39.4	97%
Adjusted operating cash flow ⁽¹⁾	28.2	6.3	348%	68.0	30.8	121%
Free cash flow ⁽¹⁾	30.2	8.7	247%	77.1	39.0	98%
PRODUCTION AND SALES						
Electricity (GWh ⁽²⁾)	144	186	(23%)	602	736	(18%)
AVERAGE-REALIZED PRICES⁽¹⁾						
Electricity (per MWh ⁽²⁾)	\$ 55.10	\$ 55.73	(1%)	\$ 57.05	\$ 55.78	2%
UNIT OPERATING COSTS						
Electricity (per MWh ⁽¹⁾⁽²⁾)	26.73	22.15	21%	17.38	18.22	(5%)
SPENDING ON CAPITAL⁽³⁾						
Sustaining	\$ (0.1)	\$ (0.4)	75%	\$ 0.7	\$ 0.4	75%
	\$ (0.1)	\$ (0.4)	75%	\$ 0.7	\$ 0.4	75%

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

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

(3) Spending on capital for the three months and year ended December 31, 2019 excludes right-of-use assets recognized on adoption of IFRS 16. Refer to note 4 of the audited consolidated financial statements for the year ended December 31, 2019 for additional information.



Management's discussion and analysis

Power revenue is composed of the following:

\$ millions (33⅓% basis)	For the three months ended			For the year ended		
	2020	2019	Change	2020	2019	Change
	December 31	December 31		December 31	December 31	
Electricity sales	\$ 8.0	\$ 10.4	(23%)	\$ 34.4	\$ 41.1	(16%)
By-products and other	0.8	1.0	(20%)	2.8	4.2	(33%)
	\$ 8.8	\$ 11.4	(23%)	\$ 37.2	\$ 45.3	(18%)

Electricity production and sales volumes were lower for the three months and year ended December 31, 2020 compared to the same periods in the prior year primarily as a result of lower gas supply. The decrease in the average-realized price of electricity for the three months ended December 31, 2020 compared to the same period in the prior year was due to the weaker U.S. dollar relative to the Canadian dollar. The increase in the average-realized price of electricity for the year ended December 31, 2020 compared to the same period in the prior year was due to the stronger U.S. dollar relative to the Canadian dollar.

Unit operating costs were higher for the three months ended December 31, 2020 compared to the same period in the prior year as a result of lower sales volume and operational spending on maintenance activities as a result of Cuban energy receipts received during the fourth quarter of 2020. Operational spending was limited earlier in the year due to lower Cuban energy receipts. Unit operating costs were lower for the year ended December 31, 2020 compared to the same period in the prior year due to limiting operational spending to manage within Cuban energy receipts. This decrease was partially offset by lower sales volume and the negative impact of a weaker Canadian dollar relative to the U.S. dollar, as costs are primarily denominated in U.S. dollars.

Power had negligible capital spending for the three months and year ended December 31, 2020. Negative sustaining capital spending reflects the reversal of accruals.

Power achieved its 2020 guidance for production, unit costs and capital spending.

During the three months and year ended December 31, 2020, the Corporation recognized a non-cash impairment loss of \$9.4 million on the Varadero power generation facility, within the Power segment, to its recoverable amount. The impairment was the result of a forecasted decline in gas supply. The recoverable amount of the power generating facility was based on value in use using the present value of expected future cash flows.

TECHNOLOGIES AND CORPORATE

\$ millions	For the three months ended			For the year ended		
	2020	2019	Change	2020	2019	Change
	December 31	December 31		December 31	December 31	
EXPENSES						
Cost of sales	\$ 2.7	\$ 3.2	(16%)	\$ 10.6	\$ 11.3	(6%)
Administrative expenses	12.1	7.2	68%	30.7	28.2	9%
	14.8	10.4	42%	41.3	39.5	5%

Technologies and Corporate is comprised of the Corporation's metallurgical technology business and general corporate activities, including management of cash, short-term investments and debt.

With respect to its Technologies business, the Corporation is committed to identifying commercial applications for research and development projects that are focused on making next generation nickel lateritic ore mining more economically viable and more sustainable. Technologies' efforts take advantage of the considerable depth of experience and expertise developed over the years in hydrometallurgy and lateritic ore processing representing a key point of differentiation for Sherritt.

Technologies is also currently focused on the commercialization of a process to upgrade Alberta bitumen at a lower cost and the processing of high-arsenic copper concentrates for the natural resource-based industry. Other projects currently being undertaken by Technologies are driven by industry needs and include: improving the purity of nickel, reducing greenhouse emissions, extending the life of mines, reducing tailings waste, increasing the recovery of high-value metals and reducing operating costs.

All expenses included in cost of sales relate to Technologies' ongoing support of the Moa Joint Venture and Fort Site operations and the research and development projects detailed above. All administrative expenses relate to Corporate expenses, which are primarily composed of employee costs, share-based compensation expense, consulting services and audit fees.

Excluding the non-cash impacts of share-based compensation and depreciation, administrative expenses at Corporate for the three months and year ended December 31, 2020 decreased by \$0.4 million and \$3.1 million, respectively, compared to the same periods in the prior year due to austerity measures and recoveries related to the Canada Emergency Wage Subsidy (CEWS) amounts received in support of Corporate employee costs. Administrative expenses for the three months and year ended December 31, 2020 include nil and \$0.9 million, respectively, of recoveries related to the CEWS program. The Corporation has accessed the CEWS program to mitigate the risk of additional employee layoffs.

Liquidity and capital resources

Total available liquidity as at December 31, 2020 was \$226.9 million, which is composed of available cash, cash equivalents, short term investments and \$59.5 million of available credit facilities. Effective June 30, 2020, the Corporation did not renew a \$47.0 million letter of credit issued to support its share of the environmental rehabilitation obligations held by its Spanish operations. The Corporation continues to be in discussions with its partners to replace the letter of credit with a potential alternative arrangement. Total available liquidity excludes restricted cash of \$5.3 million.

CASH AND SHORT-TERM INVESTMENTS

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

\$ millions, as at December 31, 2020	Cash equivalents and short-term investments		Total
	Cash		
Canada	\$ 43.8	\$ 41.0	\$ 84.8
Cuba	80.0	-	80.0
Other	2.6	-	2.6
	\$ 126.4	\$ 41.0	\$ 167.4
Sherritt's share of cash in the Moa Joint Venture, not included in the above balances:			\$ 13.1

SOURCES AND USES OF CASH

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

\$ millions	For the three months ended			For the year ended		
	2020	2019	Change	2020	2019	Change
	December 31	December 31		December 31	December 31	
Cash provided (used) by operating activities						
Fort Site operating cash flow	\$ 1.0	\$ 3.0	(67%)	\$ 8.9	\$ (24.9)	136%
Metals Other operating cash flow	(8.0)	3.1	(358%)	(1.0)	5.2	(119%)
Oil and Gas operating cash flow	(5.3)	5.2	(202%)	(26.5)	9.5	(379%)
Power operating cash flow	6.4	5.4	19%	33.2	36.5	(9%)
Technologies and Corporate and other operating cash flow	(17.2)	(12.1)	(42%)	(36.5)	(37.6)	3%
Distributions received from the Moa Joint Venture	26.3	14.9	77%	39.6	43.3	(9%)
Interest received on Energas conditional sales agreement	23.8	2.9	nm ⁽¹⁾	44.6	2.9	nm ⁽¹⁾
Interest paid on notes and debentures	(5.0)	(15.1)	67%	(5.0)	(45.8)	89%
Purchase of commodity put options	(9.3)	-	-	(9.3)	-	-
Cash provided (used) by continuing operations	12.7	7.3	74%	48.0	(10.9)	540%
Cash (used) provided by discontinued operations	(1.6)	(1.4)	(14%)	(7.3)	9.4	(178%)
	\$ 11.1	\$ 5.9	88%	\$ 40.7	\$ (1.5)	nm
Cash provided (used) by investing and financing activities						
Property, plant, equipment and intangible expenditures	\$ (3.4)	\$ (6.6)	48%	\$ (12.1)	\$ (32.0)	62%
Receipts of advances, loans receivable and other financial assets	0.2	0.1	100%	0.7	0.6	17%
Repayment of other financial liabilities	(0.3)	(1.0)	70%	(1.8)	(3.3)	45%
Fees paid on debenture exchange	(1.3)	-	-	(24.6)	-	-
Effect of exchange rates and other	(4.0)	(1.6)	(150%)	(1.6)	(4.7)	66%
	\$ (8.8)	\$ (9.1)	3%	\$ (39.4)	\$ (39.4)	-
	2.3	(3.2)	172%	1.3	(40.9)	103%
Cash, cash equivalents and short-term investments:						
Beginning of the period	165.1	169.3	(2%)	166.1	207.0	(20%)
End of the period	\$ 167.4	\$ 166.1	1%	\$ 167.4	\$ 166.1	1%

(1) Not meaningful (nm).

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

Cash provided by operating activities was higher for the three months and year ended December 31, 2020, respectively, compared to the same periods in the prior year, primarily as a result of the following:

- higher distributions received from the Moa Joint Venture for the three months ended December 31, 2020. Distributions from the Moa Joint Venture were marginally lower for the year ended December 31, 2020 compare to the prior year;
- higher interest received on the Energas conditional sales agreement for the three months and year ended December 31, 2020. During the year ended December 31, 2020, GNC, Sherritt's joint venture partner, redirected US\$20.0 million of its share of distributions from the Moa Joint Venture to the Corporation to be applied against amounts owing to Sherritt from Energas. Interest received on the Energas conditional sales agreement reflects this redirection net of a 33⅓% elimination;
- lower interest paid on notes for the three months and year ended December 31, 2020 as a result of the Balance Sheet Initiative completed on August 31, 2020 discussed in the Highlights section of this MD&A. During the three months ended December 31, 2020, \$5.0 million of interest was paid on the New Second Lien Notes. During the year ended December 31, 2020, prior to completion of the Balance Sheet Initiative, no interest was paid on the Old Notes and accrued and unpaid interest was included in the principal amount of the New Second Lien Notes; partially offset by
- lower cash provided by operating activities at Fort Site for the three months ended December 31, 2020 primarily due to timing of working capital receipts and payments. Cash provided by operating activities at Fort Site for the year ended December 31, 2020 was higher due to timing of working capital receipts and payments and austerity measures, as well as timing of fertilizer pre-sale receipts;
- lower cash provided by operating activities at Oil and Gas for the three months and year ended December 31, 2020 primarily due to lower Cuban energy receipts, partially offset by austerity measures;
- the purchase of commodity put options on nickel during the three months and year ended December 31, 2020;

Management's discussion and analysis

- higher cash used by operating activities at Metals Other for the three months and year ended December 31, 2020 primarily due to the timing of working capital receipts and payments; and
- higher cash used by operating activities at Technologies and Corporate for the three months ended December 31, 2020, primarily due to the timing of working capital payments, partially offset by austerity measures. Cash used by operating activities at Technologies and Corporate for the year ended December 31, 2020 was lower primarily due to receipts from the CEWS program and austerity measures.

Cash used by discontinued operations for the three months and year ended December 31, 2020 includes \$0.3 million and \$3.0 million, respectively, of transaction costs related to the Ambatovy Joint Venture Interests exchange, in addition to payments made in respect of a provision retained by the Corporation following the sale of its Coal operations in 2014.

Included in investing and financing activities are expenditures on property, plant and equipment, which decreased during the three months and year ended December 31, 2020 due to austerity measures, expenditures on intangible assets related to Block 10, which decreased as the Corporation completed drilling in December 2019, and fees paid on debenture exchange.

Subsequent to December 31, 2020, the Corporation received a \$20.3 million prepayment against nickel deliveries in 2021 as part of efforts to enhance the Corporation's liquidity in light of uncertainty around receipt of Cuban energy payments.

The Corporation's Adjusted EBITDA⁽¹⁾ reconciles to the increase in cash, cash equivalents and short-term investments as follows for the year ended December 31, 2020:

<u>\$ millions, for the year ended December 31</u>	<u>2020</u>
Adjusted EBITDA ⁽¹⁾	\$ 38.9
Add (deduct):	
Moa Joint Venture Adjusted EBITDA	(73.5)
Distributions from the Moa Joint Venture	39.6
Purchase of commodity put options	(9.4)
Interest received on Energas conditional sales agreement	44.6
Interest paid on notes	(5.0)
Net change in non-cash working capital	4.6
Share-based compensation expense	8.2
Cash provided by continuing operations per financial statements	48.0
Add (deduct):	
Cash used by discontinued operations	(7.3)
Capital expenditures	(12.1)
Fees paid on debenture exchange	(24.6)
Effect of exchange rate changes on cash and cash equivalents	(1.6)
Other	(1.1)
<u>Change in cash, cash equivalents and short-term investments</u>	<u>\$ 1.3</u>

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

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

Canadian \$ millions, as at December 31, 2020	Total	Falling due within 1 year	Falling due between 1-2 years	Falling due between 2-3 years	Falling due between 3-4 years	Falling due between 4-5 years	Falling due in more than 5 years
Trade accounts payable and accrued liabilities	\$ 135.0	\$ 135.0	\$ -	\$ -	\$ -	\$ -	-
Income taxes payable	12.3	12.3	-	-	-	-	-
8.50% second lien secured notes due 2026	561.3	30.4	30.4	30.4	43.0	57.1	370.0
10.75% unsecured PIK option notes due 2029	194.2	-	-	-	-	-	194.2
Syndicated revolving-term credit facility	8.5	-	8.5	-	-	-	-
Provisions	133.3	2.5	3.4	5.0	-	0.5	121.9
Lease liabilities	20.6	2.4	2.6	2.5	2.4	2.4	8.3
Capital commitments	4.9	4.9	-	-	-	-	-
Other	0.3	-	-	0.3	-	-	-
Total	\$ 1,070.4	\$ 187.5	\$ 44.9	\$ 38.2	\$ 45.4	\$ 60.0	\$ 694.4

DEBT RESTRUCTURING

As a result of the Transaction completed on August 31, 2020, the Corporation issued 8.50% second lien secured notes with a principal amount of \$357.5 million maturing on November 30, 2026. Interest is payable semi-annually in cash. The indenture governing the New Second Lien Notes Indenture (the "New Second Lien Notes Indenture") requires mandatory redemptions from excess cash (subject to the minimum liquidity condition noted below and the other terms and conditions set forth in the New Second Lien Notes Indenture). The mandatory excess cash flow redemption provision is in effect beginning with the two-quarter period ending June 30, 2021 and mandatory redemptions are based on excess cash flow (a measure calculated based on cash provided by (used in) operating activities excluding Energas, less sustaining property, plant and equipment expenditures excluding Energas, plus all cash distributed by Energas to the Corporation held in Canada), which mandatory redemption shall be required to be made only if the Corporation has minimum liquidity of \$75.0 million calculated in accordance with the New Second Lien Notes Indenture. Mandatory redemptions have been presented as falling due between 3-5 years and falling due in more than 5 years based on the expected timing of excess cash flow requiring redemption.

The New Second Lien Notes Indenture provides for a 7% premium on (i) any optional early redemptions made at the election of the Corporation prior to maturity as mentioned above and (ii) on repayment on the maturity date, provided that the aggregate amount of all premium payments paid by Sherritt with respect to the foregoing shall collectively not be less than \$25.0 million. This premium has been presented as falling due in more than 5 years based on its expected timing of payment at maturity. Mandatory redemptions do not incur a premium and ultimately do not affect the timing of when this 7% premium is paid.

As a result of the Transaction, the Corporation also issued 10.75% unsecured PIK option notes with a principal amount of \$75.0 million maturing on August 31, 2029. Interest is payable semi-annually in cash or in-kind, at Sherritt's election. All interest has been presented as falling due in more than 5 years based on the expected timing of cash payment at maturity.

SYNDICATED REVOLVING-TERM CREDIT FACILITY

During the year ended December 31, 2020, the syndicated revolving-term credit facility was renewed and its maturity extended to April 30, 2022. The maximum credit available remained at \$70.0 million and the interest rates are bankers' acceptance plus 4.00%, which remain unchanged. The total available draw is based on eligible receivables and inventories, which are pledged as collateral. Certain cash held in banks in Canada is also pledged as collateral.

The facility is subject to the following financial covenants and restrictions as of December 31, 2020:

- Net Available Cash covenant, as defined in the agreement, of \$25.0 million. The amount compared against this covenant is comprised of cash and cash equivalents and short-term investments of the Corporation and its wholly-owned subsidiaries held in Canada, plus the undrawn amounts on the credit facility;

Management's discussion and analysis

- Senior Secured Net Debt-to-EBITDA covenant, as defined in the agreement, of less than 2:1. Senior Secured Net Debt is calculated as first-lien debt, or amounts drawn on the credit facility, any derivative liability and any additional security ranked equal to first-lien debt, less cash and cash equivalents and short-term investments of the Corporation and its wholly-owned subsidiaries held in Canada up to \$25.0 million. EBITDA is calculated on a 12-month trailing basis with Energas included on a cash basis.
- EBITDA-to-Interest Expense covenant, as defined in the agreement, of not less than 1.5:1. EBITDA is calculated on a 12-month trailing basis with Energas included on a cash basis. Interest expense excludes the payment-in-kind (PIK) interest on the Corporation's 10.75% unsecured PIK option notes due 2029; and
- Minimum Tangible Net Worth covenant, as defined in the agreement, of \$600.0 million plus 50% of positive net earnings, beginning with the three months ended December 31, 2020 and for all future periods. Tangible Net Worth is calculated as total assets, less intangible assets, less amounts drawn on the credit facility, less the principal amount of the 8.50% second lien secured notes due in 2026, less the principal amount of the 10.75% unsecured payment-in-kind ("PIK") option notes due in 2029, less any derivative liability and less any additional secured financing ranked equal to first-lien debt.

The amended credit facility also includes an accordion feature that allows any existing lender to increase its commitment or other lenders to join the syndicate pending appropriate approvals. The increase is limited to \$10.0 million which would increase the total facility amount to \$80.0 million.

As at December 31, 2020, the Corporation has \$2.5 million of letters of credit outstanding pursuant to this facility (December 31, 2019 - \$45.3 million). As at December 31, 2020, \$8.0 million was drawn on this facility (December 31, 2019 - \$8.0 million).

Effective June 30, 2020, the Corporation did not renew a \$47.0 million letter of credit issued to support its share of the environmental rehabilitation obligations held by its Spanish operations. The Corporation continues to be in discussions with its partners to replace the letter of credit with a potential alternative arrangement.

As at December 31, 2020, the Corporation was in compliance with all syndicated revolving-term credit facility covenants.

OTHER COMMITMENTS

The following commitments are not reflected in the table above:

Moa Joint Venture

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

- Environmental rehabilitation commitments of \$85.7 million, with no significant payments due in the next five years;
- Accounts payable and accrued liabilities of \$25.7 million;
- Income taxes payable of \$6.0 million;
- Lease commitments of \$3.7 million; and
- Loans and borrowings of \$16.2 million. This is a reduction from the prior year as a result of the conversion of the Moa Joint Venture expansion loans to equity during the year ended December 31, 2020. Previously, the Corporation included its proportionate share of this commitment to its Moa Joint Venture partner.

Ambatovy Joint Venture

As a result of the completion of the Transaction on August 31, 2020, the Corporation no longer has an interest in the Ambatovy Joint Venture, nor any share of commitments of the joint venture, as at December 31, 2020.

CAPITAL STRUCTURE

\$ millions, except as otherwise noted	2020		2019	Change
	December 31		December 31	
Loans and borrowings	\$	441.4	\$ 713.6	(38%)
Other financial liabilities		29.5	22.8	29%
Total debt	\$	470.9	\$ 736.4	(36%)
Shareholders' equity		606.8	722.1	(16%)
Total debt-to-capital ⁽¹⁾		44%	50%	(13%)
Common shares outstanding		397,284,652	397,282,785	-
Stock options outstanding		8,978,031	9,432,219	(5%)
Common share warrants outstanding		57,608,588	57,610,455	-

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

Common share warrants

Common share warrants were issued as part of the debenture extension in 2016 when 19.1 million warrants with a fair value of \$0.43 were granted to the Noteholders that elected to accept warrants. Warrants are exercisable at any time at an exercise price of \$0.74 per share and had an original term of 5 years. These warrants expire on July 29, 2021. They are not listed on any exchange. During 2019 and 2020, a negligible amount of warrants was exercised for negligible proceeds.

Issuance of units

In January 2018, the Corporation completed an equity offering and issued units consisting of 94.5 million common shares and 47.2 million cobalt-linked warrants at \$1.40 per unit, for gross proceeds of \$132.3 million, less transaction costs of \$7.2 million.

The cobalt-linked warrants have an exercise price of \$1.95. Each cobalt-linked warrant is exercisable to acquire between 1.00 and 1.25 common shares, determined based on a prescribed cobalt reference price. No cobalt-linked warrants were exercised during the three months and year ended December 31, 2020 or during the same periods in the prior year. These warrants expired on January 25, 2021.

COMMON SHARES

As at February 10, 2021, the Corporation had 397,284,652 common shares outstanding. An additional 8,978,031 common shares are issuable upon exercise of outstanding stock options granted to employees and directors pursuant to the Corporation's stock option plan and a maximum of 10,376,388 common shares are issuable upon the exercise of other common share warrants.

Managing risk

For the purposes of this section, all capitalized terms that are not specifically defined herein, have the meaning ascribed to them in the 2019 AIF.

Sherritt manages a number of risks in each of its businesses in order to achieve an acceptable level of risk without appreciably hindering its ability to maximize returns. Management has procedures to identify and manage significant operational and financial risks. Significant risks include, amongst others:

- Commodity Risk
- Securities Market Fluctuations and Price Volatility
- Liquidity and Access to Capital
- Restrictions in Debt Instruments, Debt Covenants and Mandatory Repayments
- Risks Related to Sherritt's Operations in Cuba
- Risks Related to U.S. Government Policy Towards Cuba
- Risks to Information Technologies Systems and Cybersecurity
- Identification and Management of Growth Opportunities
- Depletion of Reserves
- Reliance on Partners
- Mining, Processing and Refining Risks
- Operating Risks

As a result of the completion of the Transaction on August 31, 2020, the Corporation no longer has an interest in the Ambatovy Joint Venture, nor any risks associated with the Ambatovy Joint Venture partners, operating in Madagascar, funding joint venture cash calls and other related specific risks contained in the 2019 AIF.

COMMODITY RISK

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

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

SECURITIES MARKET FLUCTUATIONS AND PRICE VOLATILITY

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

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

LIQUIDITY AND ACCESS TO CAPITAL

Sherritt's ability to fund its capital and operating expenses and to meet its financial obligations depends on being able to generate sufficient cash flow from its operations and its ability to obtain additional financing and/or refinance its existing credit facilities and loans on terms that are acceptable to the Corporation. As noted in the risk factor entitled "Commodity Risk" above, Sherritt's earnings and financial condition are highly dependent upon the market prices for nickel, cobalt, oil, gas and other commodities, which are highly volatile in nature. Depending upon commodity prices in particular, Sherritt may find itself unable to access sufficient capital to fund its operations in the manner required for the long-term viability of the business and/or remain in compliance with its debt covenants. There can be no assurance that Sherritt will have sufficient funds to repay its Debentures at maturity, nor can there be any assurance that Sherritt will be able to refinance its Debentures or raise funds in the equity capital markets on terms and conditions that would be acceptable. Failure to provide adequate funds to its operations, execute growth strategies, replace depleted reserves or meet or refinance its financial obligations could have a material adverse effect on Sherritt's business, results of operations and financial performance.

Sherritt's operations are subject to the risk of emerging infectious diseases or the threat of outbreaks of viruses or other contagions or epidemic diseases, including the novel coronavirus diseases (COVID-19) pandemic. We are currently monitoring and regularly assessing the short and medium-term impacts of the COVID-19 virus, including for example supply-chain, mobility, workforce, market and trade flow impacts, as well as the resilience of Canadian, Cuban and other global financial markets to support recovery. Any longer term impacts are also being considered and monitored, as appropriate. However, this pandemic continues to evolve and its effects on our own operations are uncertain. It is possible that in the future operations may be temporarily shut down or suspended for indeterminate amounts of time, any of which may, individually or in the aggregate, have a material and adverse impact on our business, results of operations and financial performance. The extent to which COVID-19 may impact the Corporation's business and operations will depend on future developments that are highly uncertain and cannot be accurately predicted, including new information which may emerge concerning the severity of and the actions required to contain COVID-19 or remedy its impact.

The global response to the COVID-19 pandemic has resulted in, among other things, border closures, severe travel restrictions, as well as quarantine, self-isolation and other emergency measures imposed by various governments. Additional government or regulatory actions or inactions around the world in jurisdictions where Sherritt operates may also have potentially significant economic and social impacts. If the business operations of the Corporation are disrupted or suspended as a result of these or other measures, it may have a material adverse effect on Sherritt's business, results of operations and financial performance. There are potentially significant adverse impacts of COVID-19 which may include decreased demand or the inability to sell nickel or cobalt or declines in the price of nickel and cobalt or other unknown but potentially significant impacts. The coronavirus and efforts to contain it may have a significant effect on commodity prices, and the possibility of a prolonged global economic downturn may further impact commodity demand and prices.

Sherritt's current financing includes, among other things, the Syndicated Facility. The total available draw under the Syndicated Facility is based on eligible receivables and inventory. If prices for nickel and cobalt decline, this could result in a material reduction in the amount of funding available under the Syndicated Facility. Certain debt covenants under the Syndicated Facility are based on ratios involving the Corporation's EBITDA and/or interest expense and other covenants require the maintenance of minimum cash balances. The Corporation's ability to satisfy these covenants could also be negatively affected by decreases in commodity prices. As a result, there can be no assurance that this Syndicated Facility can be extended or renewed at any time, or otherwise replaced with a different credit facility on similar terms, or that required consent or waivers under the Syndicated Facility will be provided without concessions on the part of the Corporation or at all.

Agencies of the Cuban government have significant payment obligations to the Corporation in connection with the Corporation's Oil and Gas, Moa Joint Venture and Power operations in Cuba. This exposure to the Cuban government and its potential inability to timely or fully pay such amounts could have a material adverse effect on the Corporation's financial condition and results of operations. Please see the risk factor entitled "Risks Related to Sherritt's Operations in Cuba" for additional information. Please see the risk factor entitled "Restrictions in Debt Instruments, Debt Covenants and Mandatory Repayments" for more information on Sherritt's loans and borrowings and on the effect of non-compliance with certain debt covenants.

RESTRICTIONS IN DEBT INSTRUMENTS, DEBT COVENANTS AND MANDATORY REPAYMENTS

Sherritt is a party to certain agreements in connection with the Syndicated Facility, as well as the trust indenture governing the Debentures (collectively, the "Indenture"). These agreements and loans contain covenants which could have the effect of restricting Sherritt's ability to react to changes in Sherritt's business or to local and global economic conditions. In addition, Sherritt's ability to comply with these covenants and other terms of its indebtedness may be affected by changes in the Corporation's business, local or global economic conditions or other events beyond the Corporation's control. Failure by Sherritt to comply with any of the covenants contained in the Indenture, the Syndicated Facility or any future debt instruments or credit agreements, could materially adversely affect the Corporation's business, results of operations, and financial performance

RISKS RELATED TO SHERRITT'S OPERATIONS IN CUBA

The Corporation directly or indirectly holds significant interests in mining, metals processing, exploration for and production of crude oil and the generation of electricity in Cuba. The operations of the Cuban businesses and the ability of the Cuban government to fulfil payment obligations to the Corporation may be affected by economic and other pressures on Cuba. Risks include, but are not limited to, fluctuations in official or convertible currency exchange rates, access to foreign exchange, and high rates of inflation and the impact of the COVID-19 virus on Cuba and the Cuban tourist industry. In addition, the former U.S. administration increased its sanctions against Cuba and its trading partners and these measures had an adverse impact on Cuba and its economy, as well as its ability to conduct international trade. On January 12, 2021, this administration designated Cuba as a State Sponsor of Terrorism. There can be no assurance that the incumbent U.S. administration will relax these measures. Changes in regulations and political attitudes are beyond the control of Sherritt and may adversely affect its business. Operations may be affected in varying degrees by such factors as Cuban government regulations with respect to currency conversion, production, project approval and execution, price controls, import and export controls, income taxes or reinvestment credits, expropriation of property, environmental legislation, land use, water use and mine and plant safety. On January 1, 2021, Cuba began its transition from a dual to a single currency regime. Sherritt has not experienced any material changes or additional risks to its operations as a result of this change, however we are continuously monitoring and assessing the potential impacts of the transition as it evolves.

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

There is increased demand from downstream customers that electronics, automotive and other manufactures demonstrate that their product supply chains are ethical and responsible. Such responsible sourcing requirements are affecting the metals sector broadly. Requests for assurance of a responsible cobalt supply chain from the refinery to the mine site are increasingly being received by downstream customers of the Corporation. The Corporation believes that its supply of minerals is ethical and responsible and in order to demonstrate this the Corporation is engaged in activities to implement policies and due diligence systems to independently verify that its mineral supply chain conforms with internationally accepted best practices. While the Corporation is committed to demonstrating a responsible supply of minerals, the Corporation has no control over the purchasing decisions of its customers or the factors on which they are based and there is no guarantee that the Corporation's efforts will mitigate this potential risk. Please see also the risk factor entitled "Risks Related to U.S. Government Policy Towards Cuba- The U.S. Embargo".

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

All sales of Sherritt's oil production in Cuba are made to an agency of the Government of Cuba, as are all electricity sales made by Energas. The access of the Cuban government to foreign exchange is severely limited. As a consequence, from time to time, the Cuban agencies have had difficulty in discharging their foreign currency obligations. During such times, Sherritt has worked with these agencies in order to ensure that Sherritt's operations continue to generate positive cash flow to the extent possible. However, there is a risk, beyond the control of Sherritt, that receivables and contractual performance due from Cuban entities will not be paid or performed in a timely manner, or at all. Nevertheless, overdue receivables owed by Cuban entities to Sherritt decreased from US\$158.4 million at the beginning of 2020 to US\$145.9 million as at December 31, 2020. In addition, if any of these agencies or the Cuban government are unable or unwilling to conduct business with Sherritt, or satisfy their obligations to Sherritt, Sherritt could be forced to close some or all of its Cuban businesses, which could have a material adverse effect upon Sherritt's results of operations and financial performance.

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

RISKS RELATED TO U.S. GOVERNMENT POLICY TOWARDS CUBA

The United States has maintained a general embargo against Cuba since the early 1960s, and the enactment in 1996 of the Cuban Liberty and Democratic Solidarity (Libertad) Act (commonly known as the "Helms Burton Act") extended the reach of the U.S. embargo.

The U.S. Embargo

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

The Helms Burton Act

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

Management's discussion and analysis

The Helms Burton Act authorizes damage lawsuits to be brought in U.S. courts by U.S. claimants against those "trafficking" in the claimants' confiscated property. All Presidents of the United States in office since the enactment of the Helms Burton Act have suspended the right of claimants for successive six-month periods until the U.S. administration ceased such suspensions and allowed Title III to come into effect on May 2, 2019. Since that time a number of lawsuits have been filed pursuant to Title III in the United States against companies in the U.S., Canada and elsewhere. The Corporation has received letters in the past from U.S. nationals claiming ownership of certain Cuban properties or rights in which the Corporation has an indirect interest, including in relation to claims certified by the U.S. Foreign Claims Settlement Commission. However, no lawsuits against Sherritt have been initiated or threatened. In the event that any such lawsuits were to be filed, Sherritt does not believe that its operations would be materially affected because Sherritt's minimal contacts with the United States would likely deprive any U.S. court of personal jurisdiction over Sherritt. Furthermore, even if personal jurisdiction were exercised, any successful U.S. claimant would have to seek enforcement of the U.S. court judgment outside the U.S. in order to reach material Sherritt assets. Management believes it unlikely that a court in Canada or in any country in which Sherritt has material assets would enforce a Helms Burton Act judgment against it.

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

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

Nevertheless, the threat of potential litigation creates a distraction from constructive business operations and may discourage some potential investors, lenders, suppliers and customers from doing business with Sherritt and there can be no assurance that any litigation against Sherritt pursuant to the Helms Burton Act would not ultimately be successful or have a material adverse effect on Sherritt's business, results of operations or financial performance.

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

The U.S. Department of State has issued guidelines for the implementation of the immigration provision, which state that it is "not sufficient in itself for a determination" of exclusion that a person "has merely had business dealings with a person" deemed to be "trafficking". Also, the statutory definition of "traffics" relevant to the Helms Burton Act's immigration provision explicitly excludes "the trading or holding of securities publicly traded or held, unless the trading is with or by a person determined by the Secretary of the Treasury to be a specially designated national".

The embargo has been, and may be, amended from time to time, including the Helms Burton Act, and therefore the U.S. sanctions applicable to transactions with Cuba may become more or less stringent. The stringency and longevity of the U.S. laws relating to Cuba are likely to continue to be functions of political developments in the United States and Cuba, over which Sherritt has no control. The former U.S. administration has increased its sanctions against Cuba and its trading partners and these measures have had an adverse impact on Cuba and its economy, as well as its ability to conduct international trade. There can be no assurance that the incumbent U.S. administration will relax these measures. The pace and extent of any future changes are uncertain and beyond Sherritt's control. There can be no assurance that the general embargo and the Helms Burton Act will not have a material adverse effect on the Corporation's business, results of operations or financial performance.

RISKS TO INFORMATION TECHNOLOGIES SYSTEMS AND CYBERSECURITY

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

The Corporation may also be negatively impacted by the rise of disruptive technologies including robotics, automation, and data analytics should it not adapt to these technological advancements in a timely manner.

IDENTIFICATION AND MANAGEMENT OF GROWTH OPPORTUNITIES

In order to manage its current operations and any future growth effectively, Sherritt must examine opportunities to replace and expand its reserves through the exploration of its existing properties and through acquisitions of interests in new properties or of interests in companies which own such properties. The development of Sherritt's business will be in part dependent on management's ability to identify, acquire and develop suitable acquisition targets in both new and existing markets. In certain circumstances, acceptable acquisition targets might not be available. Sherritt may also not be able to identify suitable partners with whom it could make such acquisitions. Acquisitions involve a number of risks, including: (i) the possibility that the Corporation, as a successor owner, may be legally and financially responsible for liabilities of prior owners; (ii) the possibility that the Corporation may pay more than the acquired company or assets are worth; (iii) the additional expenses associated with completing an acquisition and amortizing any acquired intangible assets; (iv) the difficulty of integrating the operations and personnel of an acquired business; (v) the challenge of implementing uniform standards, controls, procedures and policies throughout an acquired business; (vi) the inability to integrate, train, retain and motivate key personnel of an acquired business; and (vii) the potential disruption of the Corporation's ongoing business and the distraction of management from its day-to-day operations.

Additionally, the future viability of the Corporation will also depend on its ability to implement and improve its operational, financial and management information systems and to hire, train, motivate, manage and retain its employees. If and when any such growth occurs, there can be no assurance that the Corporation will be able to manage such growth effectively, that its management, personnel or systems will be adequate to support the Corporation's operations or that the Corporation will be able to achieve the increased levels of revenue commensurate with increased levels of operating expenses associated with this growth, and failure to do so could have a material adverse effect on the Corporation's business, financial condition and results of operations.

DEPLETION OF RESERVES

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

In November 2017 the PSC for Block II (Varadero West) reverted to the Cuban Government. Furthermore, the PSC for the PE-Yumuri Block will revert to the Cuban Government on March 19, 2021. The majority of future oil and gas production will depend on new reserves in Blocks 10, 8A and 6A and/or the ability to obtain and develop additional PSCs. Sherritt cannot provide assurance that its exploration or development efforts will result in any new commercial operations or yield new mineral or oil and gas reserves to replace or increase current reserves. Failure to obtain significant oil production on Blocks 10, 8A and 6A to replace Sherritt's currently declining and expiring production volumes could have a material adverse effect on Sherritt's financial condition and operations.

RELIANCE ON PARTNERS

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

MINING, PROCESSING AND REFINING RISKS

The business of mining, processing and refining involves many risks and hazards, including environmental hazards, industrial accidents, labour-force disruptions, supply problems and delays, unusual or unexpected geological or operating conditions, geology-related failures, change in the regulatory and geopolitical environment, weather conditions, floods, earthquakes and water conditions. Such occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability. As a result, Sherritt may incur significant liabilities and costs that could have a material adverse effect upon its business, results of operations and financial performance. In addition, failure to maintain high levels of safety, health and security could adversely affect the Corporation's operations, financial performance, reputation and social license to operate.

Other risks and uncertainties which could impact the performance of mining projects include factors such as the ore characteristics; adverse impacts from construction or commissioning activities on ongoing operations; and difficulties with commissioning, changing geological conditions and integrating the operations of newly constructed mines and processing facilities.

The Corporation's business is also inherently subject to the risk of disruptive technological change in nickel and cobalt processing or otherwise and to market shifts to substitute products.

OPERATING RISKS

Variability in production at Sherritt's operations in Cuba is most likely to arise from the following categories of potential risk: (i) Parts and Equipment – the inherent risk that parts and equipment may fail or fail to perform in accordance with design due to mechanical or engineering issues (given the location and associated logistics, replacement components may not be immediately available); (ii) Operational Risk – production is directly affected by the performance of core operators and maintenance teams; (iii) Weather and Natural Disasters – risks related to increased frequency of severe weather events, including hurricanes in Cuba, and other natural disasters that can impede operations before, during and after such events; and (iv) Supply of Critical Commodities – production may be impacted by the availability of critical commodities to operate the facility.

Please see the Risk Factors entitled “Risks Related to Sherritt’s Operations in Cuba” and “Climate Change/Greenhouse Gas Emissions” in Sherritt’s 2019 AIF for additional information.

OTHER RISKS

Below is a list of the other significant business risks as presented in the Corporation’s 2019 AIF. Further detail of these and other risks and the strategies designed to manage them can be found in the Corporation’s 2019 AIF to the extent not included herein.

- Transportation
- Uncertainty of gas supply to Energas
- Reliance on key personnel and skilled workers
- Equipment failure and other unexpected failures
- Uncertainty of resources and reserves estimates
- Environmental risks and liabilities
- Risks related to Sherritt’s corporate structure
- Political, economic, and other risks of foreign operations
- Project operations
- Generally
- Capital and operating cost estimates
- Foreign exchange and pricing risks
- Environment, health and safety
- Climate change/greenhouse gas emissions
- Community relations and social license to grow and operate
- Credit risk
- Shortage of equipment and supplies
- Competition in product markets
- Future market access
- Interest rate changes
- Insurable risk
- Labour relations
- Legal rights
- Legal contingencies
- Accounting policies
- Government permits
- Government regulations
- Anti-corruption and bribery
- Controls Relating to Corporate Structure Risk

Critical accounting estimates and judgments

For the purposes of this section, all capitalized terms that are not specifically defined herein, have the meaning ascribed to them in the December 31, 2020 consolidated financial statements.

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

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

CRITICAL ACCOUNTING ESTIMATES

Income taxes

Effective tax rate

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.

Deferred taxes

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

Financial instruments

Forward-looking information

The measurement of the expected credit loss (ECL) for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

Multiple forward-looking scenarios

The Corporation estimates an allowance for credit losses (ACL) using probability-weighted forward-looking scenarios. The Corporation considers both internal and external sources of information in order to achieve an unbiased measure of the scenarios used. The Corporation determines an ECL in each scenario and uses external sources and judgment to apply a probability-weighting to each scenario. The ACL is measured as the present value of the probability-weighted ECL in each scenario, discounted using the original effective interest rate of the instrument.

Property, plant and equipment

The capitalization of costs, the determination of estimated recoverable amounts and the depletion and depreciation of these assets have a significant impact on the Corporation's financial results.

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

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

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

Reserves for Oil and Gas properties

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

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

Environmental rehabilitation provisions

Environmental rehabilitation provision costs

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

Environmental rehabilitation provision discount rates

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.

Leases

Incremental borrowing rate used to determine the present value of the Corporation's lease liabilities

The measurement of the Corporation's lease liabilities depends on the interest rate implicit in the lease used to discount the remaining lease payments. If the interest rate implicit in the lease cannot be readily determined, the lease payments are discounted using the incremental borrowing rate. The incremental borrowing rate is the rate of interest that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Significant assumptions are required to be made on the basis for which the rate is derived. These assumptions are considered to be a key source of estimation uncertainty as relatively small changes in the assumptions used may have a significant effect on the Corporation's financial statements.

CRITICAL ACCOUNTING JUDGMENTS

Going concern

The consolidated financial statements are prepared on a going concern basis, under the historical cost convention, except for certain financial assets and liabilities and cash-settled share-based payments, which have been measured at fair value. The going concern basis assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

Interests in other entities

The Corporation applies judgment in determining the classification of its interest in other entities, such as: (i) the determination of the level of control or significant influence held by the Corporation; (ii) the legal structure and contractual terms of the arrangement; (iii) concluding whether the Corporation has rights to assets and liabilities or to net assets of the arrangement; and (iv) when relevant, other facts and circumstances. The Corporation has determined that Energas S.A. represents a joint operation, while the Moa Joint Venture represents a joint venture as described in IFRS 11, "Joint Arrangements". The Corporation concluded that the Ambatovy Joint Venture represented an associate as described in IAS 28, "Investments in Associates and Joint Ventures" until approval of the Transaction (note 4) on August 31, 2020. All other interests in other entities have been determined to be subsidiaries as described in IFRS 10, "Consolidated Financial Statements".

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

The Corporation accounts for its investment in a joint venture using the equity method. The Corporation previously accounted for its investment in an associate using the equity method, which ceased upon approval of the Transaction (note 4) on August 31, 2020. The Corporation assesses the carrying amount of its investments at each reporting date to determine whether there are any indicators that the carrying amount of the investments may be impaired.

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

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

Reportable segments

Determination of reportable segments

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

Income taxes

Realization of deferred tax assets

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.

Financial Instruments

Business model assessment

The Corporation applies judgment in determining whether financial assets are managed in order to generate cash flows from the collection of contractual cash flows, selling financial assets or both. For the assessment of business models, the Corporation takes into consideration whether the financial asset is held for trading purposes and the frequency and volume of sales in prior periods and expectations about future sales activity.

Cash flow characteristics assessment

The Corporation applies judgment in assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest (SPPI).

In performing this assessment, the Corporation takes into consideration contractual features that could change the amount or timing of contractual cash flows, such that the cash flows are no longer consistent with a basic lending arrangement. If the Corporation identifies any contractual features that could modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss (FVPL).

Exploration and evaluation (E&E)

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

Service concession arrangements

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

Commercial viability

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

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

Impairment of non-financial assets

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

There are a number of potential indicators that could trigger an impairment or impairment reversal, which may require critical accounting judgments to determine the extent to which external and/or internal factors may impact the assets' recoverable amount. Such internal factors include changes to estimated recoverable production, commodity or contracted prices, cash costs of production, capital and reclamation costs. External factors include the Corporation's market capitalization deficiency and changes in economic conditions, including uncertainty as a result of the COVID-19 pandemic, such as its potential impact on commodity prices, and collection of Cuban receivables.

For purposes of determining fair value, management assesses the recoverable amount of the asset using the net present value of expected future cash flows and an appropriate discount rate. Projections of future cash flows are based on factors relevant to the asset and could include estimated recoverable production, commodity or contracted prices, foreign exchange rates, production levels, cash costs of production, capital and reclamation costs. Projections inherently require assumptions and judgments to be made about each of the factors affecting future cash flows. Changes in any of these assumptions or judgments could result in a significant difference between the carrying amount and fair value of these assets. In the event that management's estimate of future cash flows is not representative of actual events, impairments may be identified, which could have a material impact on the Corporation's consolidated financial statements. Where necessary, management engages qualified third-party professionals to assist in the determination of fair values.

Accounting pronouncements

ADOPTION OF NEW AND AMENDED ACCOUNTING PRONOUNCEMENTS

During the year ended December 31, 2020, there have been no new or amended accounting pronouncements that have had a material impact on the Corporation's consolidated financial statements.

ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

The Corporation has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective and no material impact is expected on the Corporation's consolidated financial statements.

Interest Rate Benchmark Reform – Phase 2

In August 2020, the IASB issued Interest Rate Benchmark Reform – Phase 2, which amends IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases. The amendments apply for annual periods beginning on or after January 1, 2021. Earlier application is permitted.

The Phase 2 amendments address issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate.

The Corporation does not expect a material impact from the application of the Phase 2 amendments given that the contractual cash flows of its financial instruments and lease liabilities are not dependent upon any interest rate benchmarks under reform and the Corporation does not apply hedge accounting.

The Corporation's secured and unsecured notes have fixed interest rates that are not based on a benchmark. Borrowings drawn against the syndicated revolving-term credit facility mature monthly and are renewed up to a maximum of three months using one-, two- or three-month bankers' acceptance rates, which will continue to be published after the six- and twelve-month rates cease to be published in 2021.

Three-year trend analysis⁽¹⁾

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

\$ millions, except per share amounts for the years ended December 31	2020	2019	2018
Revenue	\$ 119.8	\$ 136.3	\$ 152.9
Adjusted EBITDA ⁽²⁾	38.9	46.0	126.2
Loss from operations, joint venture and associate	(197.1)	(85.9)	(60.6)
Net loss from continuing operations	(85.7)	(142.4)	(80.2)
Earnings (loss) from discontinued operations, net of tax	107.9	(225.3)	16.0
Net earnings (loss) for the year	22.2	(367.7)	(64.2)
(Loss) earnings per common share (basic and diluted) (\$ per share):			
Net loss from continuing operations	(0.22)	(0.36)	(0.21)
Net earnings (loss) for the year	0.06	(0.93)	(0.16)

PRODUCTION VOLUMES

Moa Joint Venture (50% basis)			
Finished nickel (tonnes)	15,753	16,554	15,354
Finished cobalt (tonnes)	1,685	1,688	1,617
Oil (boepd, net working-interest production)	1,687	1,417	2,209
Electricity (gigawatt hours) (33⅓% basis)	602	736	781

(1) The amounts for periods ended after December 31, 2018 have been prepared in accordance with IFRS 16 and restated to account for the Ambatovy Joint Venture as a discontinued operation; amounts for the period ended December 31, 2018 have not been restated. Refer to note 4 in the consolidated financial statements for the year ended December 31, 2019 for additional information on IFRS 16 and the Highlights section of this MD&A for additional information regarding the Ambatovy Joint Venture classification as a discontinued operation.

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

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

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

In 2020, net earnings from continuing operations was positively impacted by a \$142.3 million gain on debenture exchange, partially offset by a loss of \$115.6 million on impairment of Oil assets and a \$9.4 million impairment on Power assets. Net earnings also included \$107.9 million of earnings from discontinued operations, net of tax, related to the disposition of the Corporation's interest in the Ambatovy Joint Venture and reclassification of the Ambatovy Joint Venture's share of loss of an associate, net of tax, and other components of comprehensive income (loss).

In 2019, net loss from continuing operations was negatively impacted by an impairment loss of \$20.3 million on intangible assets at Power and a \$6.8 million loss on revaluation of the Moa Joint Venture expansion loans receivable allowance for expected credit losses. Loss from discontinued operations, net of tax, primarily related to the reclassification of the Ambatovy Joint Venture as a discontinued operation and included \$138.5 million of losses on the revaluation of the expected credit loss allowances for the Ambatovy Joint Venture subordinated and post-financial completion loans receivable, a \$65.0 million share of loss of an associate, net of tax, and an impairment loss on the investment in an associate of \$31.0 million.

In 2018, which was not restated to account for the Ambatovy Joint Venture as a discontinued operation, net loss from continuing operations was negatively impacted by a \$47.4 million loss on revaluation of the allowance for expected credit losses on the Ambatovy Joint Venture subordinated loans receivable and a \$72.4 million share of loss of an associate, net of tax, partially offset by \$33.3 million of unrealized foreign exchange gains primarily as a result of the change in U.S. dollar-denominated net assets.

Summary of quarterly results⁽¹⁾

The following table presents selected amounts derived from the Corporation's consolidated financial statements:

\$ millions, except per share amounts, for the three months ended	2020 Dec 31	2020 Sep 30	2020 June 30	2020 Mar 31	2019 Dec 31	2019 Sep 30	2019 Jun 30	2019 Mar 31
Revenue per financial statements	\$ 28.2	\$ 24.9	\$ 40.4	\$ 26.3	\$ 31.0	\$ 27.5	\$ 46.2	\$ 31.6
Share of earnings (loss) of a joint venture, net of tax	11.4	4.2	(3.2)	(3.9)	3.5	7.0	(1.3)	(8.9)
Net (loss) earnings from continuing operations	(49.3)	11.4	(13.3)	(34.5)	(65.6)	(15.5)	(26.2)	(35.1)
(Loss) earnings from discontinued operations, net of tax ⁽²⁾	(0.3)	217.1	(101.2)	(7.7)	(119.9)	(14.5)	(64.2)	(26.7)
Net (loss) earnings for the period	\$ (49.6)	\$ 228.5	\$ (114.5)	\$ (42.2)	\$ (185.5)	\$ (30.0)	\$ (90.4)	\$ (61.8)
Net (loss) earnings per share, basic (\$ per share)								
Net (loss) earnings from continuing operations	\$ (0.12)	\$ 0.03	\$ (0.03)	\$ (0.09)	\$ (0.17)	\$ (0.04)	\$ (0.07)	\$ (0.09)
Net (loss) earnings for the period	(0.12)	0.58	(0.29)	(0.11)	(0.47)	(0.08)	(0.23)	(0.16)

(1) The quarterly results have been restated to present the Ambatovy Joint Venture as a discontinued operation for all periods. Refer to Note 5 of the consolidated financial statements for the year ended December 31, 2020 for additional information.

(2) Earnings (loss) from discontinued operations, net of tax, relates to the Ambatovy Joint Venture, as well as expenses and insurance recoveries in respect of the Corporation's previous Coal operations, the liability for which was retained by the Corporation following the sale of the Coal operations in 2014.

In general, net loss or earnings for the Corporation are primarily affected by production and sales volumes, commodity prices, maintenance and operating costs, and exchange rates. The average Canadian dollar cost to purchase one U.S. dollar for the above quarters ranged from \$1.30 (Q4 2020) to \$1.39 (Q2 2020) and period-end rates ranged between \$1.27 (Q4 2020) to \$1.42 (Q1 2020).

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

- The fourth quarter of 2020 includes the recognition of \$4.3 million of unrealized foreign exchange losses in continuing operations and a \$9.4 million impairment of Power assets.
- The third quarter of 2020 includes the recognition of \$3.6 million of unrealized foreign exchange gains in continuing operations, a \$115.6 million impairment of Oil assets, a \$143.4 gain on debenture exchange within net finance income (expense) and \$217.2 million of earnings from discontinued operations related to the Ambatovy Joint Venture;
- The second quarter of 2020 includes the recognition of \$13.1 million of unrealized foreign exchange losses, a \$23.6 million of gains on the revaluation of the allowance for expected credit losses on the Moa Joint Venture expansion loans receivable, and, included in discontinued operations, \$74.4 million of losses on the revaluation of the allowances for expected credit losses on the Ambatovy Joint Venture subordinated loans receivable and post-financial completion loans receivable;
- The first quarter of 2020 includes the recognition of \$23.5 million of unrealized foreign exchange gains and \$17.2 million of losses on the revaluation of the allowance for expected credit losses on the Moa Joint Venture expansion loans receivable;
- The fourth quarter of 2019 includes a \$6.8 million loss on the revaluation of the allowance for expected credit losses on the Moa Joint Venture expansion loans receivable, an impairment loss of \$20.3 million on intangible assets, the recognition of \$8.4 million of unrealized foreign exchange losses, and, included in discontinued operations, a \$31.0 million impairment of the investment an associate and \$81.5 million of losses on the revaluation of the allowances for expected credit losses on the Ambatovy Joint Venture subordinated and post-financial completion loans receivable;
- The third quarter of 2019 includes the recognition of \$7.7 million of unrealized foreign exchange gains;
- the second quarter of 2019 includes the recognition of \$8.0 million of unrealized foreign exchange losses and, included in discontinued operations, a \$9.6 million gain recognized on the revaluation of financial assets measured at fair value through profit or loss and a \$53.6 million loss on the revaluation of the allowances for expected credit losses on the Ambatovy Joint Venture subordinated loans receivable;

- the first quarter of 2019 includes the recognition of \$5.8 million of unrealized foreign exchange losses.

Off-balance sheet arrangements

As at December 31, 2020, the Corporation had no foreign exchange options, futures or forward contracts and no commodity futures or forward contracts.

During the year ended December 31, 2020, the Corporation purchased \$5.8 million of put options on 4,125 metric tonnes of nickel, or 344 metric tonnes per month, representing 25% of its share of attributable finished nickel production from the Moa Joint Venture for the year ended 2021, at a strike price of US\$6.50/lb. These put options are in effect for a 12-month period starting January 1, 2021. The Corporation also purchased \$3.5 million of put options on 3,094 metric tonnes of nickel, or 344 metric tonnes per month, representing 25% of its share of attributable finished nickel production from the Moa Joint Venture during the nine-month period in 2021, at a strike price of US\$7.00/lb. These put options are in effect for a nine-month period starting April 1, 2021. The put options will provide Sherritt with cash flow security in 2021 against downward changes in nickel prices.

Any cash settlements will be completed on a monthly basis against the average monthly nickel price on the London Metal Exchange and will involve no physical delivery. The put options are recognized in the Corporation's consolidated statements of financial position and are financial derivatives measured at fair value through profit or loss. For further detail, refer to note 15 of the Corporation's consolidated financial statements for the year ended December 31, 2020.

Transactions with related parties

The Corporation enters into transactions related to its joint arrangements. The Corporation also entered into transactions with its former associate, the Ambatovy Joint Venture. As a result of Transaction, the Ambatovy Joint Venture ceased to be a related party of the Corporation on August 31, 2020. Transactions with the Ambatovy Joint Venture when it was a related party prior to August 31, 2020 are presented below.

For further detail, refer to notes 10 and 24 of the Corporation's consolidated financial statements for the year ended December 31, 2020.

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

Canadian \$ millions, for the years ended December 31	2020	2019
Total value of goods and services:		
Provided to joint operations	\$ 12.7	\$ 14.0
Provided to joint venture	204.1	240.6
Provided to associate ⁽¹⁾	1.2	1.9
Purchased from joint venture	618.2	681.0
Net financing income from joint operations	14.4	14.4
Net financing income from joint venture	4.4	8.7
Net financing income from associate ⁽¹⁾	8.0	18.9

- (1) During the year ended December 31, 2020, the Corporation completed the Transaction and the Ambatovy Joint Venture Interests met the criteria to be classified and presented as discontinued operations. As a result of the Transaction, components of comprehensive income (loss) related to the Ambatovy Joint Venture were reclassified to the loss from discontinued operations, net of tax.

Canadian \$ millions, as at December 31	2020	2019
Accounts receivable from joint operations	\$ 0.3	\$ 0.1
Accounts receivable from joint venture	13.8	15.8
Accounts receivable from associate	-	11.8
Accounts payable to joint venture	66.7	68.8
Accounts payable to associate	-	5.1
Advances and loans receivable from joint operations	197.0	228.4
Advances and loans receivable from joint venture	-	252.2
Advances, loans and other receivable from associate	-	115.3

Goods and services provided to joint venture primarily relates to services provided by Fort Site to the Moa Joint Venture. Net financing income from associate relates to interest income recognized by the Corporation on the Ambatovy loans receivable.

KEY MANAGEMENT PERSONNEL

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

Canadian \$ millions, for the years ended December 31	2020	2019
Short-term benefits	\$ 10.5	\$ 9.1
Post-employment benefits ⁽¹⁾	0.3	0.4
Share-based payments	4.0	5.2
	\$ 14.8	\$ 14.7

(1) Post-employment benefits include a non-registered defined contribution executive supplemental pension plan. The total cash pension contribution for key management personnel was \$0.3 million for the year ended December 31, 2020 (\$0.3 million for the year ended December 31, 2019). The total pension expense that is attributable to key management personnel was nil for the year ended December 31, 2020 (nil for the year ended December 31, 2019).

Controls and procedures

DISCLOSURE CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining adequate internal control over disclosure controls and procedures, as defined in National Instrument 52-109 of the Canadian Securities Commission (NI 52-109). Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. Management, with the participation of the certifying officers, has evaluated the effectiveness of the design and operation, as of December 31, 2020, of the Corporation's disclosure controls and procedures. Based on that evaluation, the certifying officers have concluded that such disclosure controls and procedures are effective and designed to ensure that material information known by others relating to the Corporation and its subsidiaries is provided to them.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

The internal controls are not expected to prevent and detect all misstatements due to error or fraud. Management advises that there have been no changes in the Corporation's internal controls over financial reporting during 2020 that have materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

Management, with the participation of the certifying officers, conducted an evaluation of the effectiveness of the Corporation's internal controls over financial reporting, as of December 31, 2020, using the Internal Control-Integrated Framework published in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 Framework). Based on this evaluation, the CEO and CFO have concluded that the internal controls over financial reporting were effective as of December 31, 2020.

Supplementary information

SENSITIVITY ANALYSIS

The following table shows the approximate impact on the Corporation's net earnings and earnings per share from continuing operations for the year ended December 31, 2020 from a change in selected key variables. The impact is measured changing one variable at a time and may not necessarily be indicative of sensitivities on future results.

Factor	Increase	Approximate change in annual net earnings (CDN\$ millions)		Approximate change in annual basic EPS	
		Increase/ (decrease)	Increase/ (decrease)	Increase/ (decrease)	Increase/ (decrease)
Prices					
Nickel - LME price per pound ⁽¹⁾	US\$ 1.00	\$	38	\$	0.10
Cobalt - Metal Bulletin price per pound ⁽¹⁾	US\$ 5.00		20		0.05
Exchange rate					
Strengthening of the Canadian dollar relative to the U.S. dollar	\$ 0.05		(2)		-
Operating costs⁽¹⁾					
Natural gas - per gigajoule (Moa Joint Venture and Fort Site)	\$ 1.00		(3)		(0.01)
Sulphur - per tonne (Moa Joint Venture and Fort Site)	US\$ 25.00		(5)		(0.01)

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

NON-GAAP MEASURES

Management uses the following non-GAAP financial performance measures in this MD&A and/or press release:

- combined results,
- adjusted EBITDA,
- average-realized price,
- unit operating cost/NDCC,
- adjusted earnings,
- adjusted operating cash flow, and
- free cash flow.

Management uses non-GAAP measures to monitor the financial performance of the Corporation and its operating divisions and believes these measures enable investors and analysts to compare the Corporation's financial performance with its competitors and/or evaluate the results of its underlying business. These measures are intended to provide additional information, not to replace IFRS measures. Non-GAAP measures do not have a standard definition under IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. As these measures do not have a standardized meaning, they may not be comparable to similar measures provided by other companies.

As discussed in the Business we manage section, in 2019, the Ambatovy Joint Venture was excluded from combined results, Adjusted EBITDA and combined cash flow metrics as a result of Sherritt becoming a defaulting shareholder and the Ambatovy Joint Venture therefore no longer being a reportable segment. As a result of the completion of the Transaction, the Ambatovy Joint Venture continues to be excluded in the current and comparative periods.

The non-GAAP measures are reconciled to the most directly comparable IFRS measure in the sections below.

Combined results

The Corporation uses combined revenue (along with other combined measures, not used in this current MD&A) as a measure to help management assess the Corporation's financial performance across its operating divisions. The combined results include the Corporation's consolidated financial results and the results of its 50% share of the Moa Joint Venture, which is accounted for using the equity method for accounting purposes. Management uses these measures to reflect the Corporation's economic interest in its operating divisions prior to the application of equity accounting to help allocate financial resources and provide investors with information that it believes is useful in understanding the scope of Sherritt's business, based on its economic interest, irrespective of the accounting treatment.

The table below reconciles combined revenue to revenue per the financial statements:

\$ millions	For the three months ended			For the year ended		
	2020 December 31	2019 December 31	Change	2020 December 31	2019 December 31	Change
Revenue by operations						
Moa Joint Venture and Fort Site	\$ 118.8	\$ 123.4	(4%)	\$ 425.5	\$ 461.0	(8%)
Oil and Gas	6.2	6.3	(2%)	24.9	29.7	(16%)
Power	8.8	11.4	(23%)	37.2	45.3	(18%)
Other ⁽¹⁾⁽²⁾	2.1	1.9	11%	9.4	8.9	6%
Combined revenue	\$ 135.9	\$ 143.0	(5%)	\$ 497.0	\$ 544.9	(9%)
Adjust joint venture	(107.7)	(112.0)		(377.2)	(408.6)	
Financial statement revenue	\$ 28.2	\$ 31.0	(9%)	\$ 119.8	\$ 136.3	(12%)

(1) Other Q4 2020 revenue includes – Metals Other - \$1.8 million and Technologies and Corporate - \$0.3 million. (Other Q4 2019 revenue includes – Metals Other - \$1.9 million and Technologies and Corporate - \$ - million).

(2) Other YTD 2020 revenue includes – Metals Other - \$8.2 million and Technologies and Corporate - \$ 1.2 million. (Other YTD 2019 revenue includes – Metals Other - \$7.5 million and Technologies and Corporate - \$ 1.4 million).

Management's discussion and analysis

Adjusted EBITDA

The Corporation defines Adjusted EBITDA as earnings (loss) from operations and joint venture, which excludes net finance expense, as reported in the financial statements for the period, adjusted for: depletion, depreciation and amortization; impairment losses for long-lived assets, intangible assets, goodwill and investments; gains or losses on disposal of property, plant and equipment of the Corporation or joint venture; and gains or losses on disposition of an interest in an investment in joint venture of the Corporation. The exclusion of impairment losses eliminates the non-cash impact of the losses. Management uses Adjusted EBITDA internally to evaluate Sherritt's operating divisions on a combined and individual basis as an indicator of ability to fund working capital needs, service debt and fund capital expenditure, as well as provide a level of comparability to similar entities. Management believes that Adjusted EBITDA provides useful information to investors in evaluating the Corporation's operating results in the same manner as management and the Board of Directors.

The tables below reconcile earnings (loss) from operations and joint venture to adjusted EBITDA:

								2020
	Moa JV and Fort Site	Metals Other	Oil and Gas	Power	Technologies and Corporate	Adjustment for joint venture	Total	
(Loss) earnings from operations and joint venture per financial statements	\$ 4.4	\$ (0.5)	\$ (5.9)	\$ (10.1)	\$ (14.5)	\$ (7.3)	\$ (33.9)	
Add (deduct):								
Depletion, depreciation and amortization	8.4	-	2.1	5.1	0.3	-	15.9	
Impairment of assets	0.2	-	-	-	-	-	0.2	
Impairment of Power assets	-	-	-	9.4	-	-	9.4	
Adjustments for share of joint venture:								
Depletion, depreciation and amortization	11.8	-	-	-	-	-	11.8	
Net finance expense	-	-	-	-	-	0.6	0.6	
Income tax expense	-	-	-	-	-	6.7	6.7	
Adjusted EBITDA	\$ 24.8	\$ (0.5)	\$ (3.8)	\$ 4.4	\$ (14.2)	\$ -	\$ 10.7	
Loss from operations and joint venture								\$ (33.9)
Net finance expense								(16.9)
Income tax recovery								1.5
Net loss from continuing operations								\$ (49.3)
								2019
	Moa JV and Fort Site	Metals Other	Oil and Gas	Power	Technologies and Corporate	Adjustment for joint venture	Total	
(Loss) earnings from operations and joint venture per financial statements	\$ 8.7	\$ (0.3)	\$ (7.1)	\$ (22.0)	\$ (10.1)	\$ (6.3)	\$ (37.1)	
Add (deduct):								
Depletion, depreciation and amortization	2.5	0.2	0.9	6.8	1.2	-	11.6	
Impairment of assets	0.9	-	-	1.4	-	-	2.3	
Impairment of Power assets	-	-	-	20.3	-	-	20.3	
Adjustments for share of joint venture:								
Depletion, depreciation and amortization	12.3	-	-	-	-	-	12.3	
Impairment of assets	1.8	-	-	-	-	-	1.8	
Net finance expense	-	-	-	-	-	2.8	2.8	
Income tax expense	-	-	-	-	-	3.5	3.5	
Adjusted EBITDA	\$ 26.2	\$ (0.1)	\$ (6.2)	\$ 6.5	\$ (8.9)	\$ -	\$ 17.5	
Loss from operations and joint venture								\$ (37.1)
Net finance expense								(28.2)
Income tax expense								(0.3)
Net loss from continuing operations								\$ (65.6)

\$ millions, for the year ended December 31

2020

	Moa JV and Fort Site	Metals Other	Oil and Gas	Power	Technologies and Corporate	Adjustment for joint venture	Total
(Loss) earnings from operations and joint venture per financial statements	\$ 3.9	\$ (2.0)	\$ (136.4)	\$ (5.6)	\$ (40.1)	\$ (16.9)	\$ (197.1)
Add (deduct):							
Depletion, depreciation and amortization	16.5	0.2	7.1	20.9	1.1	-	45.8
Impairment of assets	0.2	-	115.6	-	-	-	115.8
Impairment of Power assets	-	-	-	9.4	-	-	9.4
Adjustments for share of joint venture:							
Depletion, depreciation and amortization	48.1	-	-	-	-	-	48.1
Net finance expense	-	-	-	-	-	5.1	5.1
Income tax expense	-	-	-	-	-	11.8	11.8
Adjusted EBITDA	\$ 68.7	\$ (1.8)	\$ (13.7)	\$ 24.7	\$ (39.0)	\$ -	\$ 38.9
Loss from operations and joint venture							\$ (197.1)
Net finance income							110.2
Income tax recovery							1.2
Net loss from continuing operations							\$ (85.7)

\$ millions, for the year ended December 31

2019

	Moa JV and Fort Site	Metals Other	Oil and Gas	Power	Technologies and Corporate	Adjustment for joint venture	Total
(Loss) earnings from operations and joint venture per financial statements	\$ 11.0	\$ (2.4)	\$ (24.7)	\$ (18.5)	\$ (38.1)	\$ (13.2)	\$ (85.9)
Add (deduct):							
Depletion, depreciation and amortization	9.6	0.2	9.3	26.2	2.2	-	47.5
Impairment of assets	0.9	-	-	1.4	-	-	2.3
Impairment of Power assets	-	-	-	20.3	-	-	20.3
Adjustments for share of joint venture:							
Depletion, depreciation and amortization	46.8	-	-	-	-	-	46.8
Impairment of assets	1.8	-	-	-	-	-	1.8
Net finance expense	-	-	-	-	-	9.0	9.0
Income tax expense	-	-	-	-	-	4.2	4.2
Adjusted EBITDA	\$ 70.1	\$ (2.2)	\$ (15.4)	\$ 29.4	\$ (35.9)	\$ -	\$ 46.0
Loss from operations and joint venture							\$ (85.9)
Net finance expense							(53.3)
Income tax expense							(3.2)
Net loss from continuing operations							\$ (142.4)

Management's discussion and analysis

Average-realized price

Average-realized price is generally calculated by dividing revenue by sales volume for the given product in a given division. The average-realized price for nickel, cobalt and fertilizer excludes the impact of by-product revenue. Transactions by the Metals marketing company, included in other revenue, are excluded. The average-realized price for oil and gas is based on net working-interest oil production in Cuba plus natural gas production stated in barrels of oil equivalent. Management uses this measure, and believes investors use this measure, to compare the relationship between the revenue and direct costs on a per unit basis in each reporting period for nickel, cobalt, fertilizer, oil and gas and power and provide comparability with other similar external operations.

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

\$ millions, except average-realized price and sales volume, for the three months ended December 31 2020

	Moa Joint Venture					Oil and Gas	Power
	Nickel	Cobalt	Fertilizer	Other revenue	Total		
Revenue per financial statements	\$ 84.1	\$ 17.2	\$ 14.4	\$ 3.1	\$ 118.8	\$ 6.2	\$ 8.8
Adjustments to revenue:							
By-product revenue	-	-	-	-	-	-	(0.8)
Processing and Spain revenue	-	-	-	-	-	(1.0)	-
Revenue for purposes of average-realized price calculation	84.1	17.2	14.4			5.2	8.0
Sales volume for the period	9.2	1.0	48.5			0.14	144
Volume units	Millions of pounds	Millions of pounds	Thousands of tonnes			Millions of barrels ⁽¹⁾	Gigawatt hours
Average-realized price ⁽²⁾⁽³⁾	\$ 9.13	\$ 17.55	\$ 298			\$ 38.74	\$ 55.10

\$ millions, except average-realized price and sales volume, for the three months ended December 31 2019

	Moa Joint Venture					Oil and Gas	Power
	Nickel	Cobalt	Fertilizer	Other revenue	Total		
Revenue per financial statements	\$ 84.6	\$ 19.0	\$ 16.2	\$ 3.6	\$ 123.4	\$ 6.3	\$ 11.4
Adjustments to revenue:							
By-product revenue	-	-	-	-	-	-	(1.0)
Processing and Spain revenue	-	-	-	-	-	(2.4)	-
Revenue for purposes of average-realized price calculation	84.6	19.0	16.2			3.9	10.4
Sales volume for the period	9.0	0.9	46.5			0.09	186
Volume units	Millions of pounds	Millions of pounds	Thousands of tonnes			Millions of barrels ⁽¹⁾	Gigawatt hours
Average-realized price ⁽²⁾⁽³⁾	\$ 9.38	\$ 19.69	\$ 351			\$ 42.07	\$ 55.73

\$ millions, except average-realized price and sales volume, for the year ended December 31 2020

	Moa Joint Venture					Oil and Gas	Power
	Nickel	Cobalt	Fertilizer	Other revenue	Total		
Revenue per financial statements	\$ 282.1	\$ 66.0	\$ 64.5	\$ 12.9	\$ 425.5	\$ 24.9	\$ 37.2
Adjustments to revenue:							
By-product revenue	-	-	-	-	-	-	(2.8)
Processing and Spain revenue	-	-	-	-	-	(5.0)	-
Revenue for purposes of average-realized price calculation	282.1	66.0	64.5			19.9	34.4
Sales volume for the period	34.6	3.7	187.9			0.58	602
Volume units	Millions of pounds	Millions of pounds	Thousands of tonnes			Millions of barrels ⁽¹⁾	Gigawatt hours
Average-realized price ⁽²⁾⁽³⁾	\$ 8.16	\$ 17.84	\$ 343			\$ 34.27	\$ 57.05

	Moa Joint Venture					Oil and Gas	Power
	Nickel	Cobalt	Fertilizer	Other revenue	Total		
Revenue per financial statements	\$ 308.0	\$ 69.3	\$ 68.9	\$ 14.8	\$ 461.0	\$ 29.7	\$ 45.3
Adjustments to revenue:							
By-product revenue	-	-	-	-	-	-	(4.2)
Processing and Spain revenue	-	-	-	-	-	(8.5)	-
Revenue for purposes of average-realized price calculation	308.0	69.3	68.9			21.2	41.1
Sales volume for the period	36.8	3.9	165.2			0.39	736
Volume units	Millions of pounds	Millions of pounds	Thousands of tonnes			Millions of barrels ⁽¹⁾	Gigawatt hours
Average-realized price ⁽²⁾⁽³⁾	\$ 8.37	\$ 17.80	\$ 417			\$ 53.67	\$ 55.78

(1) Net working-interest oil production in Cuba.

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

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

Unit operating cost/NDCC

With the exception of the Moa Joint Venture, which uses NDCC, unit operating cost is generally calculated by dividing cost of sales as reported in the financial statements, less depreciation, depletion and amortization in cost of sales, the impact of impairment losses, gains and losses on property, plant, and equipment and exploration and evaluation assets and certain other non-production related costs, by the number of units sold.

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

Average unit operating costs for oil and gas are based on gross working-interest oil production in Cuba.

Unit operating costs for nickel, oil, and electricity are key measures that management and investors uses to monitor performance. NDCC of nickel is a widely-used performance measure for nickel producers. Management uses unit operating costs/NDCC to assess how well the Corporation's producing mine, oil wells and power facilities are performing and to assess overall production efficiency and effectiveness internally across periods and compared to its competitors.

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

	2020			2019		
	Moa JV and Fort Site	Oil and Gas	Power	Moa JV and Fort Site	Oil and Gas	Power
Cost of sales per financial statements	\$ 111.3	\$ 10.0	\$ 8.9	\$ 112.1	\$ 11.8	\$ 12.4
Less:						
Depletion, depreciation and amortization in cost of sales	(20.0)	(2.0)	(5.1)	(14.6)	(0.4)	(6.8)
	91.3	8.0	3.8	97.5	11.4	5.6
Adjustments to cost of sales:						
Cobalt by-product, fertilizer and other revenue	(34.7)	-	-	(38.8)	-	-
Impact of opening/closing inventory and other	(0.9)	-	-	(8.3)	-	-
Impairment on assets	(1.3)	0.1	-	(5.2)	(1.9)	(2.8)
Other	-	(2.6)	-	-	(1.1)	-
Cost of sales for purposes of unit cost calculation	54.4	5.5	3.8	45.2	8.4	2.8
Sales volume for the period	9.2	0.24	144	9.0	0.35	186
Volume units	Millions of pounds	Millions of barrels ⁽¹⁾	Gigawatt hours	Millions of pounds	Millions of barrels ⁽¹⁾	Gigawatt hours
Unit operating cost ⁽²⁾⁽³⁾	\$ 5.91	\$ 23.13	\$ 26.73	\$ 5.01	\$ 24.23	\$ 22.15
Unit operating cost (U.S. dollars) (NDCC)	\$ 4.47			\$ 3.75		

Management's discussion and analysis

	\$ millions, except unit cost and sales volume, for the year ended December 31					
	2020			2019		
	Moa JV and Fort Site	Oil and Gas	Power	Moa JV and Fort Site	Oil and Gas	Power
Cost of sales per financial statements	\$ 411.7	\$ 39.4	\$ 31.3	\$ 440.4	\$ 46.9	\$ 41.0
Less:						
Depletion, depreciation and amortization in cost of sales	(64.4)	(6.4)	(20.9)	(56.2)	(7.3)	(26.2)
	347.3	33.0	10.4	384.2	39.6	14.8
Adjustments to cost of sales:						
Cobalt by-product, fertilizer and other revenue	(143.4)	-	-	(153.0)	-	-
Impact of opening/closing inventory and other	(6.5)	-	-	(23.8)	-	-
Impairment on assets	(2.6)	(1.9)	-	(5.2)	(1.1)	(1.4)
Other	-	(1.8)	-	-	(5.6)	-
Cost of sales for purposes of unit cost calculation	194.8	29.3	10.4	202.2	32.9	13.4
Sales volume for the period	34.6	1.08	602	36.8	1.52	736
Volume units	Millions of pounds	Millions of barrels ⁽¹⁾	Gigawatt hours	Millions of pounds	Millions of barrels ⁽¹⁾	Gigawatt hours
Unit operating cost ⁽²⁾⁽³⁾	\$ 5.63	\$ 27.17	\$ 17.38	\$ 5.49	\$ 21.60	\$ 18.22
Unit operating cost (U.S. dollars) (NDCC)	\$ 4.20			\$ 4.14		

(1) Gross working-interest oil production in Cuba.

(2) Unit operating cost/NDCC may not calculate exactly based on amounts presented due to foreign exchange and rounding.

(3) Power, unit operating cost price per MWh.

Adjusted earnings/loss from continuing operations

The Corporation defines adjusted earnings/loss from continuing operations as earnings/loss from continuing operations less items not reflective of operational performance. These adjusting items include, but are not limited to, impairment of assets, gains and losses on the acquisition or disposition of assets, gains and losses on unrealized foreign exchange, gains and losses on financial assets and liabilities and other one-time adjustments. While some adjustments are recurring (such as unrealized foreign exchange (gain) loss), management believes that they do not reflect the Corporation's operational performance or future operational performance.

Management uses this measure internally and believes that it provides investors with a performance measure with which to assess the Corporation's core operations by adjusting for items or transactions that are not reflective of its core operating activities.

The table below reconciles net loss from continuing operations per the financial statements to adjusted net loss from continuing operations:

\$ millions	For the three months ended		For the year ended	
	2020	2019	2020	2019
	December 31	December 31	December 31	December 31
Net earnings (loss) from continuing operations	\$ (49.3)	\$ (65.6)	\$ (85.7)	\$ (142.4)
Adjusting items:				
Sherritt - Unrealized foreign exchange loss (gain) - continuing operations	4.3	4.6	(4.4)	3.8
Corporate - Loss (gain) on debenture exchange	1.1	-	(142.3)	-
Corporate - Cobalt-linked warrants fair value revaluation	(0.3)	(0.4)	(0.5)	(2.1)
Corporate - Moa JV expansion loans receivable ACL revaluation	-	6.8	(6.4)	6.8
Corporate - Ambatovy Joint Venture partner loans revaluation	-	2.5	-	2.5
Corporate - Unrealized losses on commodity put options	3.4	-	3.4	-
Moa JV - Inventory obsolescence	0.6	2.5	1.3	2.5
Moa JV - Impairment of assets	-	1.8	-	1.8
Fort Site - Inventory obsolescence	0.5	-	1.1	-
Fort Site - Impairment of assets	0.2	0.9	0.2	0.9
Oil and Gas - Impairment	-	-	115.6	-
Oil and Gas - Inventory obsolescence	(0.1)	1.1	1.9	1.1
Oil and Gas and Power - ACL revaluation	0.7	1.7	3.0	2.2
Power - Impairment of intangible assets	-	20.3	-	20.3
Power - Impairment of property, plant and equipment	9.4	1.4	9.4	1.4
Other	(0.4)	4.2	1.1	4.2
Total adjustments, before tax	\$ 19.4	\$ 47.4	\$ (16.6)	\$ 45.4
Tax adjustments	(1.8)	-	(2.4)	-
Adjusted net loss from continuing operations	\$ (31.7)	\$ (18.2)	\$ (104.7)	\$ (97.0)
Adjusted net loss per share (\$ per share)	\$ (0.08)	\$ (0.05)	\$ (0.26)	\$ (0.24)

Management's discussion and analysis

Combined adjusted operating cash flow

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

Combined adjusted operating cash flow is used by management, and management believes this information is used by investors, to assess its ability to generate cash from its operations in each period without the impact of working capital changes.

The tables below reconcile cash (used) provided by continuing operations per the financial statements to combined adjusted operating cash flow:

\$ millions, for the three months ended December 31										2020
	Moa JV and Fort Site	Metals Other	Oil and Gas	Power	Technologies and Corporate	Combined total	Adjustment for joint venture	Total derived from financial statements		
Cash provided (used) by continuing operations	\$ 13.4	\$ (8.0)	\$ (5.3)	\$ 30.2	\$ (31.6)	\$ (1.3)	\$ 14.0	\$	\$ 12.7	
Adjust: net change in non-cash working capital	11.5	3.8	4.3	(2.0)	9.5	27.1	(17.3)		9.8	
Adjusted operating cash flow	\$ 24.9	\$ (4.2)	\$ (1.0)	\$ 28.2	\$ (22.1)	\$ 25.8	\$ (3.3)	\$	\$ 22.5	

\$ millions, for the three months ended December 31										2019
	Moa JV and Fort Site	Metals Other	Oil and Gas	Power	Technologies and Corporate	Combined total	Adjustment for joint venture	Total derived from financial statements		
Cash provided (used) by continuing operations	\$ 51.6	\$ 3.1	\$ 5.2	\$ 8.3	\$ (27.2)	\$ 41.0	\$ (33.7)	\$	\$ 7.3	
Adjust: net change in non-cash working capital	(27.6)	(2.6)	(13.2)	(2.0)	1.0	(44.4)	26.5		(17.9)	
Adjusted operating cash flow	\$ 24.0	\$ 0.5	\$ (8.0)	\$ 6.3	\$ (26.2)	\$ (3.4)	\$ (7.2)	\$	\$ (10.6)	

\$ millions, for the year ended December 31										2020
	Moa JV and Fort Site	Metals Other	Oil and Gas	Power	Technologies and Corporate	Combined total	Adjustment for joint venture	Total derived from financial statements		
Cash (used) provided by continuing operations	\$ 53.7	\$ (1.0)	\$ (26.5)	\$ 77.8	\$ (50.8)	\$ 53.2	\$ (5.2)	\$	\$ 48.0	
Adjust: net change in non-cash working capital	11.0	(1.6)	15.4	(9.8)	3.5	18.5	(23.1)		(4.6)	
Adjusted operating cash flow	\$ 64.7	\$ (2.6)	\$ (11.1)	\$ 68.0	\$ (47.3)	\$ 71.7	\$ (28.3)	\$	\$ 43.4	

\$ millions, for the year ended December 31										2019
	Moa JV and Fort Site	Metals Other	Oil and Gas	Power	Technologies and Corporate	Combined total	Adjustment for joint venture	Total derived from financial statements		
Cash (used) provided by continuing operations	\$ 59.6	\$ 5.2	\$ 9.5	\$ 39.4	\$ (83.4)	\$ 30.3	\$ (41.2)	\$	\$ (10.9)	
Adjust: net change in non-cash working capital	6.7	(4.0)	(29.1)	(8.6)	(1.4)	(36.4)	28.1		(8.3)	
Adjusted operating cash flow	\$ 66.3	\$ 1.2	\$ (19.6)	\$ 30.8	\$ (84.8)	\$ (6.1)	\$ (13.1)	\$	\$ (19.2)	

Combined free cash flow

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

Free cash flow is used by management, and management believes this information is used by investors to analyze cash flows generated from operations and assess its operations' ability to provide cash or its use of cash, after funding cash capital requirements, to service current and future working capital needs and service debt.

The tables below reconcile cash (used) provided by continuing operations per the financial statements to combined free cash flow:

\$ millions, for the three months ended December 31 2020

	Moa JV and Fort Site	Metals Other	Oil and Gas	Power	Technologies and Corporate	Combined total	Adjustment for joint venture	Total derived from financial statements
Cash provided (used) by continuing operations	\$ 13.4	\$ (8.0)	\$ (5.3)	\$ 30.2	\$ (31.6)	\$ (1.3)	\$ 14.0	\$ 12.7
Less:								
Property, plant and equipment expenditures	(9.3)	-	(0.8)	-	0.1	(10.0)	6.9	(3.1)
Intangible expenditures	-	-	(0.3)	-	-	(0.3)	-	(0.3)
Free cash flow	\$ 4.1	\$ (8.0)	\$ (6.4)	\$ 30.2	\$ (31.5)	\$ (11.6)	\$ 20.9	\$ 9.3

\$ millions, for the three months ended December 31 2019

	Moa JV and Fort Site	Metals Other	Oil and Gas	Power	Technologies and Corporate	Combined total	Adjustment for joint venture	Total derived from financial statements
Cash provided (used) by continuing operations	\$ 51.6	\$ 3.1	\$ 5.2	\$ 8.3	\$ (27.2)	\$ 41.0	\$ (33.7)	\$ 7.3
Less:								
Property, plant and equipment expenditures	(6.9)	-	(0.7)	0.4	-	(7.2)	6.3	(0.9)
Intangible expenditures	-	-	(5.7)	-	-	(5.7)	-	(5.7)
Free cash flow	\$ 44.7	\$ 3.1	\$ (1.2)	\$ 8.7	\$ (27.2)	\$ 28.1	\$ (27.4)	\$ 0.7

\$ millions, for the year ended December 31 2020

	Moa JV and Fort Site	Metals Other	Oil and Gas	Power	Technologies and Corporate	Combined total	Adjustment for joint venture	Total derived from financial statements
Cash (used) provided by continuing operations	\$ 53.7	\$ (1.0)	\$ (26.5)	\$ 77.8	\$ (50.8)	\$ 53.2	\$ (5.2)	\$ 48.0
Less:								
Property, plant and equipment expenditures	(29.2)	-	(4.2)	(0.7)	(0.1)	(34.2)	23.2	(11.0)
Intangible expenditures	-	-	(1.1)	-	-	(1.1)	-	(1.1)
Free cash flow	\$ 24.5	\$ (1.0)	\$ (31.8)	\$ 77.1	\$ (50.9)	\$ 17.9	\$ 18.0	\$ 35.9

\$ millions, for the year ended December 31 2019

	Moa JV and Fort Site	Metals Other	Oil and Gas	Power	Technologies and Corporate	Combined total	Adjustment for joint venture	Total derived from financial statements
Cash (used) provided by continuing operations	\$ 59.6	\$ 5.2	\$ 9.5	\$ 39.4	\$ (83.4)	\$ 30.3	\$ (41.2)	\$ (10.9)
Less:								
Property, plant and equipment expenditures	(25.9)	-	(9.0)	(0.4)	(0.1)	(35.4)	22.5	(12.9)
Intangible expenditures	-	-	(19.1)	-	-	(19.1)	-	(19.1)
Free cash flow	\$ 33.7	\$ 5.2	\$ (18.6)	\$ 39.0	\$ (83.5)	\$ (24.2)	\$ (18.7)	\$ (42.9)

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements. Forward-looking statements can generally be identified by the use of statements that include such words as “believe”, “expect”, “anticipate”, “intend”, “plan”, “forecast”, “likely”, “may”, “will”, “could”, “should”, “suspect”, “outlook”, “potential”, “projected”, “continue” or other similar words or phrases. Specifically, forward-looking statements in this document include, but are not limited to, statements set out in the “Outlook” section of this MD&A and certain expectations regarding production volumes, operating costs and capital spending; supply, demand and pricing outlook in the nickel and cobalt markets; the impact of COVID-19; continued qualification for the Canada Emergency Wage Subsidy (CEWS); anticipated payments of outstanding receivables; the impact of Title III of the Helms-Burton Act on operations; and amounts of certain other commitments.

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

The Corporation cautions readers of this MD&A not to place undue reliance on any forward-looking statement as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, the impact of the COVID-19 pandemic, changes in the global price for nickel, cobalt, oil and gas, fertilizers or certain other commodities; security market fluctuations and price volatility; level of liquidity; access to capital; access to financing; the risk to Sherritt's entitlements to future distributions from the Moa Joint Venture; risk of future non-compliance with debt restrictions and covenants and mandatory repayments; Sherritt's ability to replace depleted mineral reserves; risks associated with the Corporation's joint venture partners; variability in production at Sherritt's operations in Cuba; risks related to Sherritt's operations in Cuba; risks related to the U.S. government policy toward Cuba, including the U.S. embargo on Cuba and the Helms-Burton legislation; potential interruptions in transportation; uncertainty of gas supply for electrical generation; the Corporation's reliance on key personnel and skilled workers; the possibility of equipment and other failures; risks associated with mining, processing and refining activities; uncertainty of resources and reserve estimates; the potential for shortages of equipment and supplies, including diesel; supplies quality issues; risks related to environmental liabilities including liability for reclamation costs, tailings facility failures and toxic gas releases; risks related to the Corporation's corporate structure; political, economic and other risks of foreign operations; risks associated with Sherritt's operation of large projects generally; risks related to the accuracy of capital and operating cost estimates; foreign exchange and pricing risks; compliance with applicable environment, health and safety legislation and other associated matters; risks associated with governmental regulations regarding climate change and greenhouse gas emissions; risks relating to community relations and maintaining the Corporation's social license to grow and operate; credit risks; competition in product markets; future market access; interest rate changes; risks in obtaining insurance; uncertainties in labour relations; uncertainty in the ability of the Corporation to enforce legal rights in foreign jurisdictions; uncertainty regarding the interpretation and/or application of the applicable laws in foreign jurisdictions; legal contingencies; risks related to the Corporation's accounting policies; identification and management of growth opportunities; uncertainty in the ability of the Corporation to obtain government permits; risks to information technologies systems and cybersecurity; failure to comply with, or changes to, applicable government regulations; bribery and corruption risks, including failure to comply with the Corruption of Foreign Public Officials Act or applicable local anti-corruption law; the ability to accomplish corporate objectives, goals and plans for 2021; and the Corporation's ability to meet other factors listed from time to time in the Corporation's continuous disclosure documents. Additional risks, uncertainties and other factors include, but are not limited to, the ability of the Corporation to achieve its financial goals; the ability of the Corporation to continue to realize its assets and discharge its liabilities and commitments; the Corporation's future liquidity position, and access to capital, to fund ongoing operations and obligations (including debt obligations); the ability of the Corporation to stabilize its business and financial condition; the ability of the Corporation to implement and successfully achieve its business priorities; and the ability of the Corporation to comply with its contractual obligations, including without limitation, its obligations under debt arrangements. Readers are cautioned that the foregoing list of factors is not exhaustive and should be considered in conjunction with the risk factors described in the Corporation's other documents filed with the Canadian securities authorities, including without limitation the Annual Information Form of the Corporation dated March 19, 2020 for the period ending December 31, 2019, which is available on SEDAR at www.sedar.com.

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

CONSOLIDATED FINANCIAL STATEMENTS

As at and for the years ended December 31, 2020 and 2019

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Management's report

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

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

The consolidated financial statements are approved by the Board of Directors on the recommendation of the audit committee. The audit committee of the Board of Directors is composed entirely of independent directors. Sherritt's consolidated financial statements are reviewed by the audit committee with management before the consolidated financial statements are approved by the Board of Directors. In addition, the audit committee has the duty to review the accounting principles and practices applied and followed by the Corporation during the fiscal year, including critical accounting policies and significant estimates and judgments underlying the consolidated financial statements as presented by management. Deloitte LLP ("Deloitte") performs an audit of the consolidated financial statements, the results of which are reflected in their independent auditor's report for 2020 included on the next page. Deloitte has full and independent access to the audit committee to discuss their audit and related matters. In addition, Sherritt has an internal audit function that evaluates and formally reports to management and the audit committee on the adequacy and effectiveness of internal controls specified in the approved annual internal audit plan.

/s/ David V. Pathe

/s/ Nathan Reeve

David V. Pathe
President and Chief Executive Officer

Nathan Reeve
Interim Chief Financial Officer

February 10, 2021

Independent Auditor's Report

To the Shareholders of Sherritt International Corporation

Opinion

We have audited the consolidated financial statements of Sherritt International Corporation (the "Corporation"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessment of Whether Indicators of Impairment Exist – Refer to Notes 7 and 17 of the Financial Statements

Key Audit Matter Description

The Corporation's determination of whether or not an indicator of impairment exists requires significant management judgment.

Consolidated financial statements

While there are several inputs that are required to determine whether or not an indicator of impairment exists, the judgments with the highest degree of subjectivity are the inputs to the Corporation's market capitalization deficiency assessment (specifically, control premiums, industry-specific factors and corporation-specific factors), cash collections in Cuba, future commodity prices and considerations related to the potential impact of the COVID-19 pandemic, if any. Auditing these judgments required a high degree of subjectivity in applying audit procedures and in evaluating the results of those procedures. This resulted in an increased extent of audit effort, including the involvement of valuation specialists.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to inputs to the Corporation's market capitalization deficiency assessment (specifically, control premiums, industry-specific factors and corporation-specific factors), cash collections in Cuba, and future commodity prices included considerations related to the potential impact of the COVID-19 pandemic, if any. These procedures included the following, among others:

- With the assistance of valuation specialists:
 - Performed an assessment of the market capitalization to the carrying value of the cash generating units ("CGUs") which included assessing control premiums, industry-specific factors, and corporation-specific factors.
 - Evaluated the reasonableness of future commodity prices by comparing management's forecasts to third party forecasts.
- Evaluated the reasonableness of management's assessment of the timing and amounts of future cash flows relating to cash collections in Cuba by comparing the information to internal communication to management and the board of directors, third party research reports, and any underlying agreements and negotiations.

Impairment - Impairment Assessment of Non-Financial Assets – Moa Joint Venture and Fort Site Cash Generating Unit ("CGU") – Refer to Notes 7 and 17 of the financial statements

Key Audit Matter Description

When an impairment indicator has been identified for a CGU, the Corporation estimates the recoverable amount for the CGU and an impairment loss is recognized if the carrying amount exceeds the recoverable amount. The recoverable amount is determined based on the higher of value in use and fair value less costs to sell using a discounted cash flow model. An impairment indicator was identified and the determined recoverable amount for the Moa Joint Venture and Fort Site CGU exceeded its carrying value as of the measurement date and, therefore, no impairment was recognized.

While there are several inputs that are required to determine the recoverable amount for the Moa Joint Venture and Fort Site CGU, the estimates and assumptions with the highest degree of subjectivity and judgment uncertainty are future commodity prices (for both nickel and cobalt), future foreign exchange rates and the discount rate. Auditing these estimates and assumptions required a high degree of subjectivity in applying audit procedures and in evaluating the results of those procedures. This resulted in an increased extent of audit effort, including involvement of valuation specialists.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to future commodity prices (for both nickel and cobalt), future foreign exchange rates and the discount rate in the determination of the recoverable amount of the Moa Joint Venture and Fort Site CGU included the following, among others:

- With the assistance of valuation specialists evaluated the reasonableness of:
 - Future commodity prices (for both nickel and cobalt) and future foreign exchange rates by comparing management's forecasts to third-party forecasts.
 - The discount rate used by testing the source information underlying the determination of the discount rate and developing a range of independent estimates for the discount rate and comparing to the discount rate selected by management.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Consolidated financial statements

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Antonio Ciciretto.

/s/ Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
February 10, 2021

Consolidated statements of comprehensive income (loss)

Canadian \$ millions, except per share amounts, for the years ended December 31	Note	2020	2019
Revenue	7	\$ 119.8	\$ 136.3
Cost of sales	8, 9	(157.9)	(159.7)
Administrative expenses	8, 9	(42.5)	(42.5)
Impairment of Oil assets	17	(115.6)	-
Impairment of Power assets	17	(9.4)	(20.3)
Share of earnings of a joint venture, net of tax	10	8.5	0.3
Loss from operations and joint venture		(197.1)	(85.9)
Gain on debenture exchange	11	142.3	-
Interest income on financial assets measured at amortized cost	11	19.6	25.0
Revaluation of allowances for expected credit losses	11	3.4	(9.0)
Other financing items	11	(3.1)	(2.7)
Financing expense	11	(52.0)	(66.6)
Net finance income (expense)		110.2	(53.3)
Loss before tax		(86.9)	(139.2)
Income tax recovery (expense)	12	1.2	(3.2)
Net loss from continuing operations		(85.7)	(142.4)
Earnings (loss) from discontinued operations, net of tax	5	107.9	(225.3)
Net earnings (loss) for the year		\$ 22.2	\$ (367.7)
Other comprehensive loss			
Items that may be subsequently reclassified to profit or loss:			
Foreign currency translation differences on foreign operations, net of tax (nil and nil, respectively)	20	(6.5)	(40.9)
Items that will not be subsequently reclassified to profit or loss:			
Actuarial losses on pension plans, net of tax (nil and nil, respectively)	20	(0.9)	(0.5)
Other comprehensive loss		(7.4)	(41.4)
Total comprehensive income (loss)		\$ 14.8	\$ (409.1)
Net loss from continuing operations per common share:			
Basic and diluted	13	\$ (0.22)	\$ (0.36)
Net earnings (loss) per common share:			
Basic and diluted	13	\$ 0.06	\$ (0.93)

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

Consolidated statements of financial position

Canadian \$ millions, as at	Note	2020 December 31	2019 December 31
ASSETS			
Current assets			
Cash and cash equivalents	14	\$ 167.4	\$ 166.1
Restricted cash	14	5.3	5.5
Advances, loans receivable and other financial assets	15	37.6	13.0
Trade accounts receivable, net, and unbilled revenue	14	140.3	154.9
Inventories	16	27.0	35.3
Prepaid expenses		3.7	2.9
		381.3	377.7
Non-current assets			
Advances, loans receivable and other financial assets	15	169.6	588.0
Property, plant and equipment	17	166.4	208.6
Investment in a joint venture	10	597.4	382.9
Investment in an associate	5	-	39.3
Intangible assets	17	37.5	141.6
		970.9	1,360.4
Total assets		\$ 1,352.2	\$ 1,738.1
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Loans and borrowings	18	\$ 8.0	\$ 159.5
Trade accounts payable and accrued liabilities		135.0	148.1
Income taxes payable	12	12.3	1.3
Other financial liabilities	18	4.8	9.3
Deferred revenue	7	7.5	7.5
Provisions	19	1.9	5.0
		169.5	330.7
Non-current liabilities			
Loans and borrowings	18	433.4	554.1
Other financial liabilities	18	24.7	13.5
Other non-financial liabilities		6.2	2.8
Provisions	19	110.2	99.4
Deferred income taxes	12	1.4	15.5
		575.9	685.3
Total liabilities		745.4	1,016.0
Shareholders' equity			
Capital stock	20	2,894.9	2,894.9
Deficit		(2,880.1)	(2,902.3)
Reserves	20	233.3	233.7
Accumulated other comprehensive income	20	358.7	495.8
		606.8	722.1
Total liabilities and shareholders' equity		\$ 1,352.2	\$ 1,738.1
Commitments for expenditures (note 26)			

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

Approved by the Board of Directors,

/s/ Lisa Pankratz

Lisa Pankratz
Director

/s/ Sir Richard Lapthorne

Sir Richard Lapthorne
Director

Consolidated statements of cash flow

Canadian \$ millions, for the years ended December 31	Note	2020	2019
Operating activities			
Net loss from continuing operations		\$ (85.7)	\$ (142.4)
Add (deduct):			
Depletion, depreciation and amortization	7, 8	45.8	47.5
Share of earnings of a joint venture, net of tax	10	(8.5)	(0.3)
Impairment of Oil assets	17	115.6	-
Impairment of Power assets	17	9.4	20.3
Impairment losses	8	0.2	2.3
Net finance (income) expense (net of accretion expense)	11	(110.5)	53.0
Income tax (recovery) expense	12	(1.2)	3.2
Net change in non-cash working capital	22	4.6	8.3
Interest received	22	46.0	5.7
Interest paid	22	(7.3)	(47.5)
Income tax paid		(1.6)	(2.3)
Distributions received from joint venture	10	39.6	43.3
Purchase of commodity put options	15	(9.3)	-
Other operating items	22	10.9	(2.0)
Cash provided (used) by continuing operations		48.0	(10.9)
Cash (used) provided by discontinued operations	5, 19	(7.3)	9.4
Cash provided (used) by operating activities		40.7	(1.5)
Investing activities			
Property, plant and equipment expenditures	7	(11.0)	(12.9)
Intangible asset expenditures	7	(1.1)	(19.1)
Receipts of advances, loans receivable and other financial assets		0.7	0.6
Proceeds from short-term investments		-	0.1
Cash used by continuing operations		(11.4)	(31.3)
Cash used by investing activities		(11.4)	(31.3)
Financing activities			
Repayment of other financial liabilities	18	(1.8)	(3.3)
Fees paid on debenture exchange	11	(24.6)	-
Cash used by continuing operations		(26.4)	(3.3)
Cash used by financing activities		(26.4)	(3.3)
Effect of exchange rate changes on cash and cash equivalents		(1.6)	(4.7)
Increase (decrease) in cash and cash equivalents		1.3	(40.8)
Cash and cash equivalents at beginning of the year		166.1	206.9
Cash and cash equivalents at end of the year	14	\$ 167.4	\$ 166.1

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

Consolidated statements of changes in shareholders' equity

Canadian \$ millions

	Note	Capital stock	Deficit	Reserves	Accumulated other comprehensive income (loss)	Total
Balance as at December 31, 2018		\$ 2,894.9	\$ (2,534.6)	\$ 233.4	\$ 537.2	\$ 1,130.9
Total comprehensive loss:						
Net loss for the year		-	(367.7)	-	-	(367.7)
Foreign currency translation differences on foreign operations	20	-	-	-	(40.9)	(40.9)
Actuarial losses on pension plans, net of tax	20	-	-	-	(0.5)	(0.5)
		-	(367.7)	-	(41.4)	(409.1)
Stock option plan expense	20	-	-	0.3	-	0.3
Balance as at December 31, 2019		2,894.9	(2,902.3)	233.7	495.8	722.1
Total comprehensive income (loss):						
Net earnings for the year		-	22.2	-	-	22.2
Foreign currency translation differences on foreign operations	20	-	-	-	(6.5)	(6.5)
Actuarial losses on pension plans, net of tax	20	-	-	-	(0.9)	(0.9)
		-	22.2	-	(7.4)	14.8
Reclassification of accumulated other comprehensive income on disposal of foreign operation	5, 20	-	-	-	(129.7)	(129.7)
Stock option plan recovery	20	-	-	(0.4)	-	(0.4)
Balance as at December 31, 2020		\$ 2,894.9	\$ (2,880.1)	\$ 233.3	\$ 358.7	\$ 606.8

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

Notes to the consolidated financial statements

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

1. NATURE OF OPERATIONS AND CORPORATE INFORMATION

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

The Corporation is domiciled in Ontario, Canada and its registered office is 22 Adelaide Street West, Toronto, Ontario, M5H 4E3. These consolidated financial statements were approved and authorized for issuance by the Board of Directors of Sherritt on February 10, 2021. The Corporation is listed on the Toronto Stock Exchange.

2. BASIS OF PRESENTATION AND GOING CONCERN

2.1 Basis of presentation and going concern

The consolidated financial statements of the Corporation are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). All financial information is presented in Canadian dollars rounded to the nearest hundred thousand, except as otherwise noted.

The consolidated financial statements are prepared on a going concern basis, under the historical cost convention, except for certain financial assets and liabilities and cash-settled share-based payments, which have been measured at fair value. The going concern basis assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Corporation has consistently applied the same accounting policies and methods of computation to all 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. These estimates and judgments are continuously evaluated and are based on management’s experience and knowledge of relevant facts and circumstances. Actual results may differ from estimates.

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

Notes to the consolidated financial statements

Note	Topic	Accounting policies	Critical accounting estimates and judgments	Page
5	Discontinued operations	x		84
7	Reportable segments	x	x	86
7	Revenue recognition	x		86
9	Government grants	x		91
10	Joint arrangements	x		92
12	Income taxes	x	x	95
14	Financial instruments	x	x	99
16	Inventories	x		107
17	Property, plant and equipment	x	x	107
17	Intangible assets	x	x	107
17	Impairment of non-financial assets	x	x	107
19	Provisions	x	x	117
21	Share-based compensation	x		121
22	Statement of cash flows	x		124
25	Leases	x	x	131

2.2 Principles of consolidation

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

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

	Relationship	Economic interest	Basis of accounting
Moa Joint Venture Composed of the following operating companies: International Cobalt Company Inc. Moa Nickel S.A. The Cobalt Refinery Company Inc.	Joint venture	50%	Equity method
Ambatovy Joint Venture Composed of the following operating companies: Ambatovy Minerals S.A. Dynatec Madagascar S.A.	Associate	12%, nil ⁽¹⁾	Discontinued operations ⁽¹⁾
Oil and Gas Composed of the following operating companies: Sherritt International (Cuba) Oil and Gas Ltd. Sherritt International Oil and Gas Ltd.	Subsidiary Subsidiary	100% 100%	Consolidation Consolidation
Power Energas S.A. (Energas)	Joint operation	33⅓%	Share of assets, liabilities, revenues and expenses

(1) On August 31, 2020, the Corporation's economic interest in the Ambatovy Joint Venture was reduced from 12% to nil as part of the Transaction (note 4) and as a result, the equity method of accounting ceased and the Ambatovy Joint Venture was reclassified to discontinued operations (note 5).

Subsidiaries

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

Joint arrangements

A joint arrangement is an arrangement whereby two or more parties have joint control. Joint control is considered to be when all parties to the joint arrangement, which share control, are required to reach unanimous consent over decisions about relevant business activities pertaining to the contractual arrangement. The Corporation has two types of joint arrangements: a joint venture and joint operations. See note 10 for details.

Associate

An associate is an entity over which the Corporation has significant influence. Significant influence is the power to participate in operating and financial decisions of the investee, but is not control or joint control over those policies. The Corporation is presumed to have significant influence over an entity if it holds, directly or indirectly, 20 percent or more of the voting power of the entity or if significant influence can be clearly demonstrated. The Corporation had one associate until August 31, 2020 (notes 4 and 5).

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

At each reporting date, the Corporation assesses whether there is any indication that the carrying amounts of the Corporation's investment in a joint venture and investment in an associate may be impaired.

The investment is impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events and that loss event (or events) has an impact on the estimated future cash flows from the investment that can be reliably estimated.

Objective evidence that the investment is impaired includes observable data that comes to the attention of the entity about the following loss events: (a) significant financial difficulty of the joint venture or associate; (b) a breach of contract, such as a default or delinquency in payments by the joint venture or associate; (c) the entity, for economic or legal reasons relating to its joint venture's or associate's financial difficulty, granting to the joint venture or associate a concession that the entity would not otherwise consider; (d) it becoming probable that the joint venture or associate will enter bankruptcy or other financial reorganization; or (e) the disappearance of an active market for the investment because of financial difficulties of the joint venture or associate.

If there is an indication of impairment, then the impairment test applied follows the principles of impairment for non-financial assets described in note 17.

Critical accounting judgments

Interests in other entities

The Corporation applies judgment in determining the classification of its interest in other entities, such as: (i) the determination of the level of control or significant influence held by the Corporation; (ii) the legal structure and contractual terms of the arrangement; (iii) concluding whether the Corporation has rights to assets and liabilities or to net assets of the arrangement; and (iv) when relevant, other facts and circumstances. The Corporation has determined that Energas S.A. represents a joint operation, while the Moa Joint Venture represents a joint venture as described in IFRS 11, "Joint Arrangements". The Corporation concluded that the Ambatovy Joint Venture represented an associate as described in IAS 28, "Investments in Associates and Joint Ventures" until approval of the Transaction (note 4) on August 31, 2020. All other interests in other entities have been determined to be subsidiaries as described in IFRS 10, "Consolidated Financial Statements".

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

The Corporation accounts for its investment in a joint venture using the equity method. The Corporation previously accounted for its investment in an associate using the equity method, which ceased upon approval of the Transaction (note 4) on August 31, 2020. The Corporation assesses the carrying amount of its investments at each reporting date to determine whether there are any indicators that the carrying amount of the investments may be impaired.

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

Notes to the consolidated financial statements

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

2.3 Foreign currency translation

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

Translation of foreign entities

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

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

Translation of transactions and balances

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

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

3. ACCOUNTING PRONOUNCEMENTS

Adoption of new and amended accounting pronouncements

During the year ended December 31, 2020, there have been no new or amended accounting pronouncements that have had a material impact on the Corporation's consolidated financial statements.

Accounting pronouncements issued but not yet effective

The Corporation has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective and no material impact is expected on the Corporation's consolidated financial statements.

Interest Rate Benchmark Reform – Phase 2

In August 2020, the IASB issued Interest Rate Benchmark Reform – Phase 2, which amends IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases. The amendments apply for annual periods beginning on or after January 1, 2021. Earlier application is permitted.

The Phase 2 amendments address issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate.

The Corporation does not expect a material impact from the application of the Phase 2 amendments given that the contractual cash flows of its financial instruments and lease liabilities are not dependent upon any interest rate benchmarks under the scope of the reform and the Corporation does not apply hedge accounting.

The Corporation's secured and unsecured notes have fixed interest rates that are not based on a benchmark. Borrowings drawn against the syndicated revolving-term credit facility mature monthly and are renewed up to a maximum of three months using one-, two- or three-month bankers' acceptance rates, which will continue to be published after the six- and twelve-month rates cease to be published in 2021.

4. BALANCE SHEET INITIATIVE

Exchange of senior unsecured debentures and Ambatovy Joint Venture partner loans

In February 2020, the Corporation announced a transaction (the "Transaction" or "Balance Sheet Initiative") to be implemented pursuant to a plan of arrangement (the "Plan of Arrangement") under the Canada Business Corporations Act (the "CBCA"), and in June and July 2020, it announced amended terms to the Transaction. The Plan of Arrangement received approval by debtholders on July 23, 2020 and by the Ontario Superior Court of Justice (Commercial List) ("the Court") on August 6, 2020, and the Transaction was completed on August 31, 2020.

The Transaction resulted in the extinguishment of the Corporation's previously existing senior unsecured debentures due in 2021, 2023 and 2025 (the "Old Notes") in the aggregate principal amount of \$588.1 million, together with all accrued and unpaid interest thereon, in exchange for, in the aggregate (i) new 8.50% second lien secured notes due in 2026 (the "New Second Lien Notes") in an aggregate principal amount of \$357.5 million (note 18), (ii) new 10.75% unsecured payment-in-kind ("PIK") option notes due in 2029 (the "New Junior Notes") in an aggregate principal amount of \$75.0 million (note 18) and (iii) early consent cash consideration of \$15.5 million. The Transaction resulted in a reduction of loans and borrowings in respect of the Corporations' debenture obligations by \$155.6 million and an extension of the 2021, 2023 and 2025 maturities under the Old Notes to a maturity of 2026 under the New Second Lien Notes and a maturity of 2029 under the New Junior Notes. Refer to note 11 for the calculation of the gain on debenture exchange within net finance income (expense).

The Transaction also resulted in the extinguishment of all of Sherritt's obligations under the Corporation's Ambatovy Joint Venture partner loans, plus all accrued and unpaid interest in respect thereof, in exchange for the Corporation's remaining 12% interest in the Ambatovy Joint Venture and its loans and operator fee receivable from the Ambatovy Joint Venture (collectively, the "Ambatovy Joint Venture Interests"). This resulted in a further reduction of recourse loans and borrowings of \$145.2 million. As of August 31, 2020, as a result of the implementation of the Transaction the Corporation no longer had an interest in the Ambatovy Joint Venture. Refer to note 5 for the calculation of the gain on disposal of the Ambatovy Joint Venture Interests, net of tax, included in the earnings (loss) from discontinued operations, net of tax.

In aggregate, the Transaction reduced total debt by \$300.8 million.

The Ambatovy Joint Venture Interests met the criteria to be classified and presented as discontinued operations during the year ended December 31, 2020. As a result of the classification as discontinued operations, equity accounting was discontinued and the share of loss of an associate, net of tax, and other components of comprehensive income (loss) related to the Ambatovy Joint Venture were reclassified to the loss from discontinued operations, net of tax, in the current and comparative periods. Refer to note 5 for the calculation of the loss from discontinued operations, net of tax included in the earnings (loss) from discontinued operations, net of tax.

Subject to execution of certain documentation with the Ambatovy Joint Venture, Sherritt will cease being the operator of the Ambatovy Joint Venture.

5. DISCONTINUED OPERATIONS

Accounting policies

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

- The assets or disposal groups represent a separate major line of business or geographical area of operations;
- The assets or disposal groups are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- The assets or disposal groups are a subsidiary acquired exclusively with a view to resale.

Earnings (loss) from discontinued operations is shown separately in the consolidated statements of comprehensive income (loss) and consolidated statements of cash flow, and comparative figures are restated.

Supporting information

Ambatovy Joint Venture

On August 31, 2020, the Corporation completed the Transaction (note 4), resulting in the extinguishment of the Ambatovy Joint Venture partner loans in exchange for the Ambatovy Joint Venture Interests and resulted in a gain on disposal of \$258.7 million for the year ended December 31, 2020 (for the year ended December 31, 2019 – nil).

The gain on disposal of the Ambatovy Joint Venture Interests, net of tax is composed of the following gain (loss) components:

Canadian \$ millions, for the years ended December 31	2020	2019
Investment in an associate ⁽¹⁾	\$ -	\$ -
Ambatovy Joint Venture subordinated loans receivable ⁽²⁾	-	-
Ambatovy Joint Venture subordinated loans receivable - post-financial completion ⁽³⁾	(0.4)	-
Ambatovy Joint Venture operator fee receivable	(15.8)	-
Reclassification of accumulated other comprehensive income on disposal of foreign operation ⁽⁴⁾	129.7	-
Ambatovy Joint Venture partner loans and accrued interest ⁽⁵⁾	145.6	-
Other non-cash items	10.3	-
Transaction and other closing costs	(10.7)	-
Income tax expense on disposal	-	-
Gain on disposal of the Ambatovy Joint Venture Interests, net of tax	\$ 258.7	\$ -

(1) The carrying value of the investment in an associate was reduced to nil as at June 30, 2020 (December 31, 2019 - \$39.3 million) due to losses incurred by the associate during the six months ended June 30, 2020. As a result, the de-recognition of the investment in an associate upon completion of the Transaction on August 31, 2020 did not contribute to the gain on disposal of the Ambatovy Joint Venture Interests, net of tax.

(2) The carrying value of the Ambatovy Joint Venture subordinated loans receivable was reduced to nil as at June 30, 2020 (December 31, 2019 - \$61.0 million) due to conversions recognized by the Ambatovy Joint Venture of its subordinated loans payable to equity during the six months ended June 30, 2020. As a result, the de-recognition of the Ambatovy Joint Venture subordinated loans receivable upon completion of the Transaction on August 31, 2020 did not contribute to the gain on disposal of the Ambatovy Joint Venture Interests, net of tax.

(3) The carrying value of the Ambatovy Joint Venture subordinated loans receivable – post-financial completion was reduced to \$0.4 million immediately preceding the completion of the Transaction on August 31, 2020 (December 31, 2019 - \$41.3 million) due to conversions recognized by the Ambatovy Joint Venture of its subordinated loans payable – post-financial completion to equity during the eight months ended August 31, 2020. As a result, the de-recognition of the Ambatovy Joint Venture subordinated loans receivable – post-financial completion upon completion of the Transaction on August 31, 2020 contributed a loss of \$0.4 million to the gain on disposal of the Ambatovy Joint Venture Interests, net of tax.

(4) As a result of the Corporation's exchange of its 12% ownership interest in the Ambatovy Joint Venture, \$129.7 million of accumulated other comprehensive income relating to the Ambatovy Joint Venture was reclassified to the gain on disposal of the Ambatovy Joint Venture Interests, net of tax. All accumulated other comprehensive income related to the Ambatovy Joint Venture was reclassified to net earnings (loss) for the year in the consolidated statements of comprehensive income (loss). This amount was previously recognized in other comprehensive income (loss) and accumulated within shareholders' equity prior to the reclassification.

(5) Included in the Ambatovy Joint Venture partner loans and accrued interest of \$145.6 million is \$145.2 million of previously outstanding principal and \$0.4 million of accrued interest.

During the year ended December 31, 2020, the Ambatovy Joint Venture Interests met the criteria to be classified as discontinued operations and as a result, the share of loss of an associate, net of tax, and other components of comprehensive income (loss) related to the Ambatovy Joint Venture were reclassified to the loss from discontinued operations, net of tax in the current and comparative periods.

The loss from discontinued operations, net of tax is composed of the following earnings (loss) components reclassified from continuing operations:

Canadian \$ millions, for the years ended December 31	2020	2019
Share of loss of an associate, net of tax	\$ (49.9)	\$ (65.0)
Impairment of investment in an associate	-	(31.0)
Interest income on Ambatovy Joint Venture subordinated loans receivable	4.4	12.5
Revaluation of allowance for expected credit losses on Ambatovy Joint Venture subordinated loans receivable	(68.7)	(105.3)
Interest income on Ambatovy Joint Venture subordinated loans receivable - post-financial completion	3.6	6.4
Revaluation of allowance for expected credit losses on Ambatovy Joint Venture subordinated loans receivable - post-financial completion	(47.4)	(33.2)
Revenue on Ambatovy Joint Venture operator fee receivable	1.2	1.3
Revaluation of Ambatovy Joint Venture operator fee receivable	1.8	2.7
Realized foreign exchange gain (loss) on monetary assets	4.2	(10.7)
Loss from discontinued operations, net of tax	\$ (150.8)	\$ (222.3)

The aforementioned gain on disposal of the Ambatovy Joint Venture Interests, net of tax and loss from discontinued operations, net of tax are presented net in the consolidated statements of comprehensive income (loss) within earnings (loss) from discontinued operations, net of tax as follows:

Canadian \$ millions, for the years ended December 31	2020	2019
Gain on disposal of the Ambatovy Joint Venture Interests, net of tax	\$ 258.7	\$ -
Loss from discontinued operations, net of tax	(150.8)	(222.3)
Earnings (loss) from discontinued operations, net of tax - Ambatovy Joint Venture	\$ 107.9	\$ (222.3)

The Corporation's consolidated statements of cash flow include cash (used) provided by discontinued operations. Included in cash (used) provided by discontinued operations are cash transaction costs related to the exchange of the Ambatovy Joint Venture Interests of \$3.0 million for the year ended December 31, 2020. An additional \$7.7 million of transaction costs has been accrued in the consolidated statements of financial position as at December 31, 2020, which will be paid after that date.

Other discontinued operations

For the year ended December 31, 2020, the Corporation recognized nil earnings (loss) from discontinued operations, net of tax, in respect of a provision retained by the Corporation following the sale of its Coal operations in 2014 (\$3.0 million loss for the year ended December 31, 2019). Also included in cash (used) provided by discontinued operations is \$4.3 million of payments made in respect of this provision (note 19) (\$9.4 million in cash provided by discontinued operations for the year ended December 31, 2019, which includes insurance proceeds received).

The earnings (loss) from discontinued operations, net of tax is presented net in the consolidated statements of comprehensive income (loss) and is composed of the following discontinued operations components:

Canadian \$ millions, for the years ended December 31	2020	2019
Earnings (loss) from discontinued operations, net of tax - Ambatovy Joint Venture	\$ 107.9	\$ (222.3)
Loss from discontinued operations, net of tax - Other discontinued operations	-	(3.0)
Earnings (loss) from discontinued operations, net of tax	\$ 107.9	\$ (225.3)

6. COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a novel coronavirus ("COVID-19") as a pandemic. In response to health risks associated with the spread of COVID-19, Sherritt implemented a number of additional health and safety measures and work processes designed to protect employees at its operations around the world. As of the date of issuance of these consolidated financial statements, the Corporation's operations have not been significantly impacted, other than the items described below.

Finished nickel and cobalt production at the Moa Joint Venture and Fort Site during the year ended December 31, 2020 were not materially impacted by the onset and spread of COVID-19 aside from deferring the annual maintenance shutdown of the Corporation's refinery from June to July 2020 so that proper COVID-19 safety measures could be followed.

Notes to the consolidated financial statements

Receipts of Cuban energy payments from the Oil and Gas and Power segments were limited by the spread of COVID-19 and the ongoing impact of U.S. sanctions limited Cuba's access to foreign currency during the year ended December 31, 2020. The timing and amount of receipts of Cuban energy payments is dependent upon Cuba's economy and access to foreign currency.

As a result of the COVID-19 pandemic, the Corporation's financial position, financial performance and cash flows could be further impacted by COVID-19, the full extent of the impact cannot be reasonably estimated at this time. The Corporation discloses further information regarding the risks caused by COVID-19 in note 23.

7. SEGMENTED INFORMATION

Accounting policies

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

Reportable segments

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

- The Moa JV and Fort Site segment is comprised of mining, processing and refining activities of nickel and cobalt for the Corporation's 50% interest in the Moa Joint Venture in Cuba and Canada and the production and sale of agricultural fertilizers for its 100% interest in the utility and fertilizer operations in Fort Saskatchewan;
- The Metals Other segment is comprised of the Corporation's two wholly-owned subsidiaries established to buy, market and sell certain of Moa Joint Venture's nickel and cobalt production;
- The Oil and Gas segment is comprised of the oil and gas operations in Cuba, Spain and Pakistan (sold during the year ended December 31, 2019), as well as the exploration and development of oil and gas in Cuba;
- The Power segment represents the power operations in Cuba, which construct and operate power generation facilities that provide electricity in Cuba; and,
- The Technologies and Corporate segment represents the Corporation's metallurgical technology business and general corporate activities, including management of cash, short-term investments and debt. The Technologies and Corporate segment was renamed during the year ended December 31, 2020 from Corporate and Other, with no change to the operating segments included in this reportable segment. In the prior year, the Technologies and Corporate segment also included the operations of wholly-owned subsidiaries of the Corporation established to finance the Ambatovy Joint Venture.

Revenue recognition

Revenue from the sale of goods and services is recognized when the Corporation transfers control of the good or service to the customer, reflecting the amount of consideration to which the Corporation expects to be entitled in exchange for those goods or services. Control generally transfers to the customer upon shipment or delivery to the destination, as specified in the sales contract.

Moa JV and Fort Site and Ambatovy JV

Certain product sales at the Moa JV and Ambatovy JV 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 revalued based on forecast reference prices at that time. The adjustment to trade accounts receivable, net, is recorded as an adjustment to 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.

Payment for fertilizer sales at Fort Site is generally received before shipment and recognized as deferred revenue until shipment.

Oil and Gas

Revenue from Oil and Gas is recognized when control transfers at the time of production and the amount of revenue recognized is determined based on the Corporation's working interest. In Cuba, all oil production is sold to an agency of the Government of Cuba and delivery coincides with production. The Corporation is allocated a share of Cuban oil production pursuant to its production-sharing contracts.

Revenue from cost recovery oil, up to the total recoverable costs incurred in connection with oil activities, is recognized when entitlement to the cost recovery oil component of production is established. The production-sharing contracts limit cost recovery oil to a maximum percentage of total production in a calendar quarter, which is 60% of total production for the Puerto Escondido/Yumuri production-sharing contract. 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.

Revenue from profit oil represents the Corporation's share of oil production after cost recovery oil production is deducted.

Payment terms for oil sales to an agency of the Cuban government are based on U.S. Gulf Coast High Sulphur Fuel Oil (USGC HSFO) reference prices and range from 90 days to 180 days from the date of invoice.

Power

Substantially all of Power's revenue is from agencies of the Government of Cuba.

The facilities located in Boca de Jaruco and Puerto Escondido, Cuba operate under a service concession arrangement. Revenue from Power on operational facilities is recognized at the time electricity is delivered or services are performed. The consideration to be received is subject to variability as the quantity of power to be generated is not fixed and the rate for the power generated declines once construction costs are repaid. Management estimates the transaction price based on expected power generation and the forecasted repayment schedule for construction costs and reassesses this estimate each reporting period.

Payment terms for electricity and by-product sales to agencies of the Government of Cuba are 60 days from the date of invoice.

Critical accounting judgments

Determination of reportable segments

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

Notes to the consolidated financial statements

Supporting information

Canadian \$ millions, for the year ended December 31

2020

	Moa JV and Fort Site	Metals Other ⁽¹⁾	Oil and Gas	Power	Technologies and Corporate ^{(1), (2)}	Adjustments for Joint Venture ⁽³⁾	Total
Revenue ⁽⁴⁾	\$ 425.5	\$ 8.2	\$ 24.9	\$ 37.2	\$ 1.2	\$ (377.2)	\$ 119.8
Cost of sales	(411.7)	(10.4)	(39.4)	(31.3)	(10.6)	345.5	(157.9)
Administrative expenses	(9.9)	0.2	(6.3)	(2.1)	(30.7)	6.3	(42.5)
Impairment of Oil assets	-	-	(115.6)	-	-	-	(115.6)
Impairment of Power assets	-	-	-	(9.4)	-	-	(9.4)
Share of earnings of a joint venture, net of tax	-	-	-	-	-	8.5	8.5
Earnings (loss) from operations and joint venture	3.9	(2.0)	(136.4)	(5.6)	(40.1)	(16.9)	(197.1)
Gain on debenture exchange							142.3
Interest income on financial assets measured at amortized cost							19.6
Revaluation of allowances for expected credit losses							3.4
Other financing items							(3.1)
Financing expense							(52.0)
Net finance income							110.2
Loss before tax							(86.9)
Income tax recovery							1.2
Net loss from continuing operations							(85.7)
Earnings from discontinued operations, net of tax (note 5)							107.9
Net earnings for the year							\$ 22.2

Supplementary information

Depletion, depreciation and amortization	\$ 64.6	\$ 0.2	\$ 7.1	\$ 20.9	\$ 1.1	\$ (48.1)	\$ 45.8
Property, plant and equipment expenditures	29.2	-	4.2	0.7	0.1	(23.2)	11.0
Intangible asset expenditures	-	-	1.1	-	-	-	1.1

Canadian \$ millions, as at December 31

2020

Non-current assets ⁽⁵⁾	\$ 652.6	\$ 0.6	\$ 18.5	\$ 35.4	\$ 8.2	\$ (511.4)	\$ 203.9
Total assets	897.8	71.3	71.9	327.4	102.1	(118.3)	1,352.2

Canadian \$ millions, for the year ended December 31 2019
(Restated)

	Moa JV and Fort Site	Metals Other ⁽¹⁾	Oil and Gas ⁽¹⁾	Power	Technologies and Corporate ^{(1), (2)}	Adjustments for Joint Venture and Associate ⁽³⁾	Total
Revenue ⁽⁴⁾	\$ 461.0	\$ 7.5	\$ 29.7	\$ 45.3	\$ 1.4	\$ (408.6)	\$ 136.3
Cost of sales	(440.4)	(10.1)	(46.9)	(41.0)	(11.3)	390.0	(159.7)
Administrative expenses	(9.6)	0.2	(7.5)	(2.5)	(28.2)	5.1	(42.5)
Impairment of Power assets	-	-	-	(20.3)	-	-	(20.3)
Share of earnings of a joint venture, net of tax	-	-	-	-	-	0.3	0.3
Earnings (loss) from operations and joint venture	11.0	(2.4)	(24.7)	(18.5)	(38.1)	(13.2)	(85.9)
Interest income on financial assets measured at amortized cost							25.0
Revaluation of allowances for expected credit losses							(9.0)
Other financing items							(2.7)
Financing expense							(66.6)
Net finance expense							(53.3)
Loss before tax							(139.2)
Income tax expense							(3.2)
Net loss from continuing operations							(142.4)
Loss from discontinued operations, net of tax (note 5)							(225.3)
Net loss for the year							\$ (367.7)

Supplementary information

Depletion, depreciation and amortization	\$ 56.4	\$ 0.2	\$ 9.3	\$ 26.2	\$ 2.2	\$ (46.8)	\$ 47.5
Property, plant and equipment expenditures	25.9	-	9.0	0.4	0.1	(22.5)	12.9
Intangible asset expenditures	-	-	19.1	-	-	-	19.1

Canadian \$ millions, as at December 31 2019
(Restated)

Non-current assets ⁽⁵⁾	\$ 679.5	\$ 0.7	\$ 133.2	\$ 65.2	\$ 9.1	\$ (537.5)	\$ 350.2
Total assets	953.7	73.5	176.8	410.0	462.7	(338.6)	1,738.1

- (1) During the year ended December 31, 2020, eliminations were included in determining reported segment earnings (loss) from operations and joint venture given a change to the measure of the segment earnings (loss) that is used by the chief operating decision maker. The prior period has been restated for this change.
- (2) The Technologies and Corporate segment was renamed during the year ended December 31, 2020 from Corporate and Other, with no change to the operating segments included in this reportable segment.
- (3) The Adjustments for Joint Venture reflect the adjustments for equity-accounted investment in the Moa Joint Venture. In the prior year, the Adjustments for Joint Venture and Associate reflect the adjustments for equity-accounted investments in the Moa Joint Venture and the Ambatovy Joint Venture.
- (4) Revenue in the Metals Other segment includes \$3.4 million of intersegment revenue, net of elimination, with the Moa JV and Fort Site segment related to marketing of nickel and cobalt for the year ended December 31, 2020 (\$3.4 million for the year ended December 31, 2019).
- (5) Non-current assets are composed of property, plant and equipment and intangible assets.

Geographic information

Canadian \$ millions, as at	2020 December 31		2019 December 31	
	Non-current assets ⁽¹⁾	Total assets ⁽²⁾	Non-current assets ⁽¹⁾	Total assets ⁽²⁾
North America	\$ 156.1	\$ 408.9	\$ 156.3	\$ 416.8
Cuba	47.7	849.6	193.8	1,041.3
Madagascar	-	2.0	-	173.4
Europe	0.1	28.0	0.1	34.5
Asia	-	19.5	-	25.9
Other	-	44.2	-	46.2
	\$ 203.9	\$ 1,352.2	\$ 350.2	\$ 1,738.1

- (1) Non-current assets are composed of property, plant and equipment and intangible assets and exclude the non-current assets of equity-accounted investments.
- (2) For its geographic information, the Corporation has allocated assets based on their physical location or location of the customer/payer.

Notes to the consolidated financial statements

Canadian \$ millions, for the years ended December 31	2020		2019	
		Total revenue ⁽¹⁾		Total revenue ⁽¹⁾
North America	\$	57.3	\$	60.9
Cuba		60.2		71.0
Madagascar		0.3		0.4
Europe		2.0		3.1
Asia		-		0.9
	\$	119.8	\$	136.3

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

Disaggregation of revenue by product type

Revenue in the below table excludes the revenue of equity-accounted investments in the Moa Joint Venture and Ambatovy Joint Venture:

Canadian \$ millions, for the years ended December 31	2020		2019	
		Total revenue		Total revenue
Fertilizer	\$	51.1	\$	54.1
Oil and gas		21.8		25.2
Power generation ⁽¹⁾		34.4		41.1
Other		12.5		15.9
	\$	119.8	\$	136.3

(1) Included in power generation revenue for the year ended December 31, 2020 is \$25.5 million of revenue from service concession arrangements (\$28.8 million for the year ended December 31, 2019).

Deferred revenue primarily relates to payments for fertilizer sales received before shipment in the Moa JV and Fort Site segment. All of the deferred revenue as at December 31, 2019 was recognized during the year ended December 31, 2020.

Subsequent to December 31, 2020, the Corporation received a \$20.3 million prepayment against nickel deliveries in 2021, which will be recognized as deferred revenue within the consolidated statements of financial position.

Significant customers

The Oil and Gas segment derived \$23.0 million of its revenue for the year ended December 31, 2020 (\$25.1 million for the year ended December 31, 2019) directly and indirectly from agencies of the Government of Cuba.

The Power segment derived \$37.2 million of its revenue for the year ended December 31, 2020 (\$45.3 million for the year ended December 31, 2019) directly and indirectly from agencies of the Government of Cuba.

The Moa JV and Fort Site segment derived \$18.8 million of its revenue for the year ended December 31, 2020 (\$16.6 million for the year ended December 31, 2019) from a Fort Site customer that purchases and sells agriculture products.

No other single customer contributed 10% or more to the Corporation's revenue in 2020 or 2019.

8. EXPENSES

Cost of sales includes the following:

Canadian \$ millions, for the years ended December 31	2020	2019
Employee costs ⁽¹⁾	\$ 53.9	\$ 60.5
Severance	2.7	1.8
Depletion, depreciation and amortization of property, plant and equipment and intangible assets	44.0	44.3
Raw materials and consumables	35.6	39.6
Repairs and maintenance	47.8	44.8
Shipping and treatment costs	3.1	4.2
Impairment losses ⁽²⁾	0.2	2.3
Inventory obsolescence	2.9	1.4
Share-based compensation expense	1.3	0.3
Changes in inventories and other	(33.6)	(39.5)
	\$ 157.9	\$ 159.7

Administrative expenses⁽³⁾ include the following:

Canadian \$ millions, for the years ended December 31	2020	2019
Employee costs ⁽¹⁾	\$ 25.4	\$ 27.2
Severance	1.7	1.4
Depreciation	1.8	3.2
Share-based compensation expense	6.9	0.3
Consulting services and audit fees	3.9	6.2
Other	2.8	4.2
	\$ 42.5	\$ 42.5

(1) Included in employee costs for the year ended December 31, 2020 is the Canada Emergency Wage Subsidy (note 9) within cost of sales of \$5.0 million and within administrative expenses of \$1.5 million (nil for the year ended December 31, 2019).

(2) During the year ended December 31, 2020, the Corporation revised the presentation of expenses within cost of sales to separately present impairment losses. In the prior year, these amounts were presented within changes in inventories and other. The Corporation revised its presentation to better allow the users of the financial statements to identify trends within the expenses note disclosure. For consistency with the current period presented, the comparative amount has been reclassified. For the year ended December 31, 2019, changes in inventories and other has decreased by \$2.3 million as a result of this change.

(3) Included in administrative expenses is \$30.7 million related to Corporate within the Technologies and Corporate segment for the year ended December 31, 2020, which includes \$5.9 million of share-based compensation expense (\$28.2 million and \$0.2 million, respectively, for the year ended December 31, 2019).

9. GOVERNMENT GRANTS

Accounting policies

Government grants are not recognized until there is reasonable assurance that the Corporation has complied with the conditions attached to the grant and the grant has been received.

Government grants that are received 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) as a reduction in the related expense.

Supporting information

In response to the COVID-19 pandemic, the Government of Canada announced the Canada Emergency Wage Subsidy (“CEWS”) program effective for the period of March 15 to August 29, 2020, which was extended to June 2021 on October 14, 2020. The CEWS covers up to 75% of eligible employee remuneration, subject to limits per employee, during the periods covering March 15 to September 26, 2020, up to 65% of eligible employee remuneration during the periods covering September 27, 2020 to December 19, 2020 and up to 75% of eligible employee remuneration during the periods covering December 20, 2020 to March 13, 2021. During the year ended December 31, 2020, the Corporation qualified for and received \$6.5 million in subsidies, covering qualifying periods from March 15 to August 29, 2020. These amounts are included in cost of sales and administrative expenses as a reduction in employee costs (note 8) and within the consolidated statements of cash flow as cash provided by operating activities. Subsequent to December 31, 2020, the Corporation received an additional \$0.1 million in subsidies, covering qualifying periods from August 30 to October 24, 2020. In addition, the Moa Joint Venture qualified for and received \$8.8 million in subsidies (100% basis) during the year ended December 31, 2020 (note 10), and an additional \$0.8 million (100% basis) subsequent to December 31, 2020, covering qualifying periods as described above. These amounts are included within the Corporation’s share of earnings (loss) of a joint venture, net of tax and within the consolidated statements of cash flow as distributions received from joint venture, as received. There are no unfulfilled conditions or other contingencies attached to the CEWS and additional grants will be recognized when received.

10. JOINT ARRANGEMENTS**Investment in a joint venture****Accounting policies**

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

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

Supporting information

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

During the year ended December 31, 2020, the Moa Joint Venture paid distributions of \$79.1 million, of which \$39.6 million were paid to the Corporation representing its 50% ownership interest (\$86.6 million and \$43.3 million, respectively, for the year ended December 31, 2019). Of the \$79.1 million in distributions paid by the Moa Joint Venture, \$79.1 million were in the form of dividends and nil were in the form of advances repayable to the Moa Joint Venture until declared as dividends (\$76.7 million and \$9.9 million, respectively, for the year ended December 31, 2019). During the year ended December 31, 2020, General Nickel Company S.A., Sherritt’s joint venture partner, redirected US\$20.0 million of its share of distributions from the Moa Joint Venture to the Corporation to be applied against amounts owing to Sherritt from Energas (nil for the year ended December 31, 2019). The redirection was secured through negotiations between Sherritt and its Cuban partners.

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

Statements of financial position

Canadian \$ millions, 100% basis, as at	2020		2019	
	December 31		December 31	
Current assets ⁽¹⁾	\$	401.2	\$	441.8
Non-current assets		1,116.4		1,169.3
Current liabilities ⁽²⁾		85.8		81.9
Non-current liabilities ⁽³⁾		151.5		674.6
Net assets of Moa Joint Venture	\$	1,280.3	\$	854.6
Proportion of Sherritt's ownership interest		50%		50%
Total		640.2		427.3
Intercompany capitalized interest elimination		(42.8)		(44.4)
Investment in a joint venture	\$	597.4	\$	382.9

(1) Included in current assets is \$26.2 million of cash and cash equivalents (December 31, 2019 - \$80.9 million).

(2) Included in current liabilities is \$22.4 million of financial liabilities (December 31, 2019 - \$21.6 million), including lease liabilities of \$6.7 million (December 31, 2019 - \$8.5 million) and a \$9.5 million loan for the purchase of mining equipment (December 31, 2019 - \$7.9 million)

(3) Included in non-current liabilities is \$20.9 million of financial liabilities (December 31, 2019 - \$551.9 million), including lease liabilities of \$0.9 million (December 31, 2019 - \$7.1 million), a \$4.5 million loan for the purchase of mining equipment (December 31, 2019 - \$7.7 million) and nil in expansion loans (December 31, 2019 - \$518.0 million, \$259.0 million of which was with the Corporation). During the year ended December 31, 2020, US\$402.1 million (\$548.0 million) of the Moa Joint Venture expansion loans payable was converted to equity. The Corporation recognized its share of the related expansion loans receivable conversion within advances, loans receivable and other financial assets (note 15). There was no change to the Corporation's ownership interest as a result of the conversion.

Statements of comprehensive income (loss)

Canadian \$ millions, 100% basis, for the years ended December 31	2020		2019	
Revenue	\$	754.4	\$	817.3
Cost of sales ^{(1), (2)}		(690.9)		(780.0)
Administrative expenses ⁽²⁾		(12.6)		(10.1)
Earnings from operations		50.9		27.2
Financing income		0.5		0.8
Financing expense ⁽³⁾		(28.1)		(45.1)
Net finance expense		(27.6)		(44.3)
Earnings (loss) before tax		23.3		(17.1)
Income tax expense ⁽⁴⁾		(23.5)		(8.5)
Net loss and comprehensive loss of Moa Joint Venture	\$	(0.2)	\$	(25.6)
Proportion of Sherritt's ownership interest		50%		50%
Total		(0.1)		(12.8)
Intercompany elimination		8.6		13.1
Share of earnings of a joint venture, net of tax	\$	8.5	\$	0.3

(1) Included in cost of sales for the year ended December 31, 2020 is depreciation and amortization of \$96.3 million (\$93.5 million for the year ended December 31, 2019).

(2) Included in cost of sales and administrative expenses for the year ended December 31, 2020 is a recovery for the Canada Emergency Wage Subsidy (note 9) of \$8.4 million and \$0.4 million, respectively (nil for the year ended December 31, 2019).

(3) Included in financing expense for the year ended December 31, 2020 is accretion of \$12.3 million on the Moa Joint Venture expansion loans (for the year ended December 31, 2019 - \$34.1 million). The decrease in accretion since the comparative period is due to the Moa Joint Venture expansion loans payable conversion to equity described above.

(4) Income tax expense for the year ended December 31, 2020 increased to the comparative period primarily due to an increase in taxable earnings by the operating companies in the Moa Joint Venture. Included in income tax expense for the years ended December 31, 2020 and 2019, respectively, is a recovery of \$0.3 million and \$2.6 million, respectively, reflecting a remeasurement of deferred tax liabilities as a result of a decrease in the Government of Alberta's general corporate income tax rate in the current and prior years. On June 29, 2020, the Government of Alberta announced that it was accelerating the reduction in the general corporate income tax rate by reducing the rate to 8% from 10%, effective July 1, 2020. This measure became substantively enacted on October 20, 2020.

Joint operations

Accounting policies

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

Notes to the consolidated financial statements

Supporting information

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

The following provides information relating to the Corporation's interest in Energas S.A. (Energas) on a 33⅓% basis:

Canadian \$ millions, 33⅓% basis, as at	2020		2019	
	December 31		December 31	
Current assets ⁽¹⁾	\$	89.2	\$	99.0
Non-current assets ⁽²⁾		30.6		58.2
Current liabilities		15.9		10.4
Non-current liabilities		85.8		112.0
Net assets	\$	18.1	\$	34.8

(1) Included in current assets is \$75.0 million of cash and cash equivalents (December 31, 2019 - \$79.8 million).

(2) During the year ended December 31, 2020, the Corporation recognized an impairment of \$9.4 million on the Varadero power generation facility included in non-current assets (note 17). During the year ended December 31, 2019, the Corporation recognized an impairment of \$20.3 million on the Boca de Jaruco power generation facility included in non-current assets (note 17).

Canadian \$ millions, 33⅓% basis, for the years ended December 31	2020		2019	
	December 31		December 31	
Revenue	\$	37.2	\$	45.3
Expenses ⁽¹⁾		(46.5)		(73.1)
Net loss	\$	(9.3)	\$	(27.8)

(1) During the year ended December 31, 2020, the Corporation recognized an impairment of \$9.4 million on the Varadero power generation facility included in non-current assets (note 17). During the year ended December 31, 2019, the Corporation recognized an impairment of \$20.3 million on the Boca de Jaruco power generation facility included in non-current assets (note 17).

11. NET FINANCE INCOME (EXPENSE)

On August 31, 2020, the Corporation completed the Transaction (note 4) resulting in the extinguishment of the Corporation's previously existing senior unsecured debentures due in 2021, 2023 and 2025 in the aggregate principal amount of \$588.1 million, together with all accrued and unpaid interest thereon, in exchange for, in the aggregate (i) New Second Lien Notes in an aggregate principal amount of \$357.5 million (note 18), (ii) New Junior Notes in an aggregate principal amount of \$75.0 million (note 18) and (iii) early consent cash consideration of \$15.5 million. The Corporation incurred an aggregate \$20.0 million of transaction costs related to the Transaction, of which \$9.3 million has been apportioned to the debenture exchange and \$10.7 million has been apportioned to the disposal of the Ambatovy Joint Venture Interests (note 5). Included in fees paid on debenture exchange within the Corporation's consolidated statements of cash flow are cash transaction costs related to the debenture exchange of \$24.6 million for the year ended December 31, 2020. An additional \$0.2 million of transaction costs has been accrued in the consolidated statements of financial position as at December 31, 2020, which will be paid after that date.

Net finance income (expense) is composed of the following gain (loss) components, inclusive of the gain on debenture exchange:

Canadian \$ millions, for the years ended December 31	Note	2020	2019
Extinguishment of 8.00% senior unsecured debentures due 2021		\$ 166.2	\$ -
Extinguishment of 7.50% senior unsecured debentures due 2023		189.5	-
Extinguishment of 7.875% senior unsecured debentures due 2025		203.6	-
Extinguishment of accrued, unpaid interest		40.3	-
Issuance of new 8.50% second lien secured notes due 2026		(357.5)	-
Issuance of new 10.75% unsecured PIK option notes due 2029		(75.0)	-
Payment of early consent cash consideration		(15.5)	-
Transaction costs		(9.3)	-
Gain on debenture exchange		142.3	-
Interest income on trade accounts receivable, net		0.8	1.8
Interest income on advances and loans receivable		15.8	14.7
Interest income on accretion of advances and loans receivable ⁽¹⁾		3.0	8.5
Interest income on financial assets measured at amortized cost		19.6	25.0
Revaluation of allowances for expected credit losses:			
Trade accounts receivable, net	14	(3.0)	(2.2)
Moa Joint Venture expansion loans receivable	14	6.4	(6.8)
Revaluation of allowances for expected credit losses		3.4	(9.0)
Revaluation of cobalt-linked warrants	14, 18	0.5	2.1
Unrealized losses on commodity put options		(3.4)	-
Revaluation of Ambatovy Joint Venture partner loans		-	(2.5)
Other interest income and unrealized losses on financial instruments		(0.2)	(2.3)
Other financing items		(3.1)	(2.7)
Interest expense and accretion on loans and borrowings		(53.8)	(58.5)
Unrealized foreign exchange gain (loss)		4.4	(3.8)
Realized foreign exchange gain (loss)	22	0.5	(1.0)
Other interest expense and finance charges		(2.8)	(3.0)
Accretion expense on environmental rehabilitation provisions	19, 22	(0.3)	(0.3)
Financing expense		(52.0)	(66.6)
Net finance income (expense)		\$ 110.2	\$ (53.3)

(1) Interest income on accretion of advances and loan receivable relates to the Moa Joint Venture expansion loans receivable, which is recognized to the extent of Sherritt's economic interest (note 15). Interest income on accretion of advances and loan receivable for the year ended December 31, 2020 decreased compared to the comparative period as the Moa Joint Venture expansion loans payable was fully converted to equity reducing the Corporation's expansion loans receivable to nil.

12. INCOME TAXES

Accounting policies

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

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

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

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

Notes to the consolidated financial statements

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

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

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

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

Critical accounting estimates

Effective tax rate

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.

Deferred taxes

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

Critical accounting judgments

Realization of deferred tax assets

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

Supporting information

Canadian \$ millions, for the years ended December 31

	2020	2019
Current income tax expense⁽¹⁾		
Current period	\$ 13.8	\$ 3.2
	13.8	3.2
Deferred income tax (recovery) expense⁽¹⁾		
Origination and reversal of temporary differences	(43.4)	(24.8)
Non-recognition of tax assets	28.4	24.8
	(15.0)	-
Income tax (recovery) expense	\$ (1.2)	\$ 3.2

(1) During the year ended December 31, 2020, a deferred income tax liability of \$11.6 million was reclassified to current income taxes payable as a result of certain tax payments due during the second quarter of 2021. These tax payments relate to taxes owed upon the relinquishment of the Puerto Escondido/Yumuri oil field in April 2021 in the Oil and Gas segment. The reclassification resulted in a current income tax expense of \$11.6 million and a corresponding deferred income tax recovery of \$11.6 million during the year ended December 31, 2020.

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

	2020	2019
Loss before tax from continuing operations	\$ (86.9)	\$ (139.2)
Less: share of earnings of equity accounted investment	(8.5)	(0.3)
Parent companies and subsidiaries loss before tax	(95.4)	(139.5)
Income tax recovery at the combined basic rate of 24.3% (2019 - 26.5%)	(23.2)	(37.0)
(Decrease) increase in taxes resulting from:		
Difference between Canadian and foreign tax rates	(1.2)	2.9
Non-deductible expenses and losses	3.3	11.5
Non-recognition of tax assets	28.4	24.8
Impairment of Oil assets	26.0	-
Gain on debenture exchange	(34.6)	-
Other items	0.1	1.0
	\$ (1.2)	\$ 3.2

The change in the basic tax rate to 24.3% from 26.5% in 2019 is due to the decrease in the Government of Alberta's tax rate that was enacted in 2020. On June 29, 2020, the Government of Alberta announced that it was accelerating the reduction in the general corporate income tax rate by reducing the rate to 8% from 10%, effective July 1, 2020. This measure became substantively enacted on October 20, 2020.

In respect of the Ambatovy Joint Venture presented as discontinued operations (note 5), income tax expense relating to the gain on disposal of the Ambatovy Joint Venture Interests, net of tax, is nil for the year ended December 31, 2020. The Ambatovy Joint Venture recognized income tax expense of \$1.6 million for the year ended December 31, 2020 (100% basis) (for the year ended December 31, 2019 - \$4.4 million (100% basis)), which is included in the share of loss of an associate, net of tax, reclassified to loss from discontinued operations, net of tax in the current and comparative periods.

Notes to the consolidated financial statements

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

Canadian \$ millions, for the year ended December 31, 2020

	Opening Balance	Recognized in net income	Recognized in total com- rehensive income	Closing Balance
Deferred tax assets				
Property, plant and equipment	\$ 0.7	\$ 0.5	\$ -	\$ 1.2
Other financial reserves	0.7	-	-	0.7
Deferred tax assets	1.4	0.5	-	1.9
Set off against deferred tax liabilities	(1.4)			(1.9)
	\$ -		\$ -	
Deferred tax liabilities				
Property, plant and equipment and intangible assets	\$ (3.6)	\$ 2.4	\$ -	\$ (1.2)
Cuban tax contingency reserve	(11.7)	11.6	(0.9)	(1.0)
Other financial reserves	(1.6)	0.5	-	(1.1)
Deferred tax liabilities	(16.9)	14.5	(0.9)	(3.3)
Set off against deferred tax assets	1.4			1.9
Net deferred tax (liabilities) assets	\$ (15.5)	\$ 15.0	\$ (0.9)	\$ (1.4)

Canadian \$ millions, for the year ended December 31, 2019

	Opening Balance	Recognized in net income	Recognized in total com- rehensive income	Closing Balance
Deferred tax assets				
Property, plant and equipment	\$ 0.1	\$ 0.5	\$ 0.1	\$ 0.7
Other financial reserves	0.6	0.1	-	0.7
Deferred tax assets	0.7	0.6	0.1	1.4
Set off against deferred tax liabilities	(0.7)			(1.4)
	\$ -		\$ -	
Deferred tax liabilities				
Property, plant and equipment and intangible assets	\$ (4.7)	\$ 1.0	\$ 0.1	\$ (3.6)
Cuban tax contingency reserve	(12.1)	(0.1)	0.5	(11.7)
Other financial reserves	(0.1)	(1.5)	-	(1.6)
Deferred tax liabilities	(16.9)	(0.6)	0.6	(16.9)
Set off against deferred tax assets	0.7			1.4
Net deferred tax (liabilities) assets	\$ (16.2)	\$ -	\$ 0.7	\$ (15.5)

As at December 31, 2020, the Corporation had temporary differences of \$384.6 million (December 31, 2019 - \$730.5 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, 2020, the Corporation had non-capital losses of \$870.8 million (December 31, 2019 - \$876.2 million) and capital losses of \$1,128.6 million (December 31, 2019 - \$1,166.7 million) which may be used to reduce future taxable income. The Corporation has not recognized a deferred tax asset on \$870.8 million of non-capital losses, \$1,128.6 million (December 31, 2019 - \$1,166.7 million) of capital losses and \$195.0 million (December 31, 2019 - \$191.6 million) of other deductible temporary differences since the realization of any related tax benefit through future taxable profits is not probable. The capital losses have no expiry dates and the other deductible temporary differences do not expire under current tax legislation.

The non-capital losses are located in the following countries and expire as follows:

Canadian \$ millions, as at December 31, 2020	Expiry	Non-capital losses
Canada	2026-2040 \$	669.6
Other jurisdictions	Various	201.2

13. EARNINGS (LOSS) PER SHARE

Canadian \$ millions, except share amounts in millions and per share amounts in dollars, for the years ended December 31	2020	2019
Net loss from continuing operations	\$ (85.7)	\$ (142.4)
Earnings (loss) from discontinued operations, net of tax	107.9	(225.3)
Net earnings (loss) for the year - basic and diluted	\$ 22.2	\$ (367.7)
Weighted-average number of common shares - basic and diluted⁽¹⁾	397.3	397.3
Net loss from continuing operations per common share:		
Basic and diluted	\$ (0.22)	\$ (0.36)
Earnings (loss) from discontinued operations, net of tax, per common share:		
Basic and diluted	\$ 0.27	\$ (0.57)
Net earnings (loss) per common share:		
Basic and diluted	\$ 0.06	\$ (0.93)

(1) The determination of the weighted-average number of common shares - diluted excludes 9.0 million shares related to stock options, 10.4 million shares related to the warrants from the 2016 debenture extension (note 20) and 47.2 million shares related to the cobalt-linked warrants (note 18) that were anti-dilutive for the year ended December 31, 2020 (9.4 million, 10.4 million and 47.2 million, respectively, for the year ended December 31, 2019).

14. FINANCIAL INSTRUMENTS

Accounting policies

Classification and measurement of financial instruments

Management determines the classification of financial assets and financial liabilities at initial recognition and, except in limited circumstances, the classification is not changed subsequent to initial recognition. The classification of financial assets is based on the Corporation's business models for managing these financial assets and their contractual cash flow characteristics. Transaction costs with respect to financial instruments not classified as fair value through profit or loss are recognized as an adjustment to the cost of the underlying instruments and amortized using the effective interest method.

The Corporation's financial assets are classified into one of the following three measurement categories:

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

The Corporation's financial liabilities are measured at amortized cost, except for financial liabilities measured at FVPL.

Financial assets measured at amortized cost:

- Cash held in banks; restricted cash; advances, loans receivable and other financial assets; trade accounts receivable, net, and unbilled revenue

Financial assets measured at FVOCI:

- Cash equivalents; short-term investments

Notes to the consolidated financial statements

Financial assets measured at FVPL:

- Commodity put options; Ambatovy Joint Venture operator fee receivable

Financial liabilities measured at amortized cost:

- Trade accounts payable and accrued liabilities; loans and borrowings

Financial liabilities measured at FVPL:

- Cobalt-linked warrant liability

Financial assets and liabilities, measured at amortized cost

Financial assets and liabilities included in this category are initially recognized at fair value (net of transaction costs, if applicable) and are subsequently measured at amortized cost using the effective interest method less allowances for expected credit losses (“ACL”).

Financial assets measured at fair value through other comprehensive income (loss)

Financial assets included in this category are initially recognized at fair value and transaction costs are recognized in net earnings (loss). Subsequent to initial recognition, unrealized gains and losses on these instruments are recognized in other comprehensive income (loss). Upon derecognition, realized gains and losses are reclassified from other comprehensive income (loss) and recognized in net earnings (loss). Interest income and dividends from these instruments are recognized in net earnings (loss).

Financial assets and liabilities measured at fair value through profit or loss

Financial instruments included in this category are initially recognized at fair value and transaction costs are recognized in net earnings (loss), along with gains and losses arising from changes in fair value.

Derivative instruments are recorded at fair value unless exempted from derivative treatment as a normal purchase and sale. All changes in their fair value are recognized in net earnings (loss) within net finance income (expense).

Derecognition of financial assets and liabilities

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

Modifications of financial instruments

When the Corporation modifies a financial instrument and that modification does not result in derecognition, the Corporation revises the gross carrying value of the financial instrument and recognizes a modification gain or loss in net earnings (loss).

Impairment of financial assets

The Corporation applies a three-stage approach to measure an ACL, using an expected credit loss (“ECL”) approach as required under IFRS 9 for financial assets measured at amortized cost.

The ECL approach reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on the credit deterioration from inception. The ACL reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

- Stage 1 – Where there has not been a significant increase in credit risk since initial recognition of a financial instrument, an amount equal to twelve months expected credit loss is recorded. The ECL is computed using a probability of default occurring over the next twelve months. For instruments with a remaining maturity of less than twelve months, a probability of default corresponding to the remaining term to maturity is used.

- Stage 2 – When a financial instrument experiences a significant increase in credit risk subsequent to origination but is not considered to be in default, it is included in Stage 2. The ECL is computed using a probability of default occurring over the remaining life of the financial instrument. When contractual payments are more than 30 days past due, it is presumed that credit risk has increased significantly subsequent to origination unless the Corporation has reasonable and supportable information that demonstrates that the credit risk has not increased significantly since origination.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. The Corporation considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. Similar to Stage 2, the ACL captures the lifetime ECL. When contractual payments are more than 90 days past due, it is presumed that default has occurred unless the Corporation has reasonable and supportable information that demonstrates that a more lagging default criterion is more appropriate.

The Corporation assesses whether there has been a significant increase in credit risk since initial recognition of a financial instrument and its ACL measurement at each reporting date. Increases or decreases in the ACL are recognized as impairment gains or losses within net finance income (expense) in net earnings (loss).

For trade receivables and contract assets that result from transactions that are within the scope of IFRS 15 and finance lease receivables that result from transactions that are within the scope of IFRS 16, IFRS 9 allows the Corporation to take a simplified approach where the ACL is always measured at the lifetime ECL.

The Corporation's financial assets measured at amortized cost are presented net of the ACL in the consolidated statements of financial position.

Financial instrument measurement hierarchy

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

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

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

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

Critical accounting estimates

Forward-looking information

The measurement of the ECL for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

Multiple forward-looking scenarios

The Corporation estimates an ACL using probability-weighted forward-looking scenarios. The Corporation considers both internal and external sources of information in order to achieve an unbiased measure of the scenarios used. The Corporation determines an ECL in each scenario and uses external sources and judgment to apply a probability-weighting to each scenario. The ACL is measured as the present value of the probability-weighted ECL in each scenario, discounted using the original effective interest rate of the instrument.

Notes to the consolidated financial statements

Critical accounting judgments

Business model assessment

The Corporation applies judgment in determining whether financial assets are managed in order to generate cash flows from the collection of contractual cash flows, selling financial assets or both. For the assessment of business models, the Corporation takes into consideration whether the financial asset is held for trading purposes and the frequency and volume of sales in prior periods and expectations about future sales activity.

Cash flow characteristics assessment

The Corporation applies judgment in assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are SPPI.

In performing this assessment, the Corporation takes into consideration contractual features that could change the amount or timing of contractual cash flows, such that the cash flows are no longer consistent with a basic lending arrangement. If the Corporation identifies any contractual features that could modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

Supporting information

Cash, cash equivalents and short-term investments

Cash and cash equivalents consist of:

Canadian \$ millions, as at	2020 December 31	2019 December 31
Cash equivalents	\$ 41.0	\$ 15.8
Cash held in banks	126.4	150.3
	\$ 167.4	\$ 166.1

The Corporation's cash balances are deposited with major financial institutions rated A- or higher by Standard and Poor's except for institutions located in Cuba that are not rated. The total cash held in Cuban bank deposit accounts was \$80.0 million as at December 31, 2020 (December 31, 2019 – \$85.3 million).

As at December 31, 2020, \$75.0 million of the Corporation's cash and cash equivalents was held by Energas (December 31, 2019 – \$79.8 million). These funds are for use locally by the joint operation and will be transferred to the Corporation upon foreign exchange approval.

The Corporation's cash equivalents consist of Government of Canada treasury bills and demand deposits redeemable upon 31 days request. The demand deposits are with major financial institutions. As at December 31, 2020, the Corporation had \$25.0 million in Government of Canada treasury bills and \$16.0 million in demand deposits (December 31, 2019 - nil and \$15.8 million, respectively) included in cash and cash equivalents.

Cuban currency unification

Subsequent to the end of the reporting period, on January 1, 2021, the Cuban government unified its two currencies and discontinued use of the Cuban convertible peso (CUC). The Cuban peso (CUP) remains as the sole Cuban currency at an exchange rate of 24 CUP:US\$1. The Corporation is currently evaluating the impact of currency unification on its consolidated financial statements.

Fair value measurement

As at December 31, 2020, the carrying amounts of cash and cash equivalents; short-term investments; restricted cash; trade accounts receivable, net, and unbilled revenue; current portion of advances, loans receivable and other financial assets; current portion of loans and borrowings; current portion of other financial liabilities; and trade accounts payable and accrued liabilities are at fair value or approximate fair value due to their immediate or short terms to maturity.

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

The following table presents financial instruments with carrying values different from their fair values:

Canadian \$ millions, as at	Note	Hierarchy level	2020		2019	
			December 31	December 31	December 31	December 31
			Carrying value	Fair value	Carrying value	Fair value
Liabilities:						
8.50% second lien secured notes due 2026 ⁽¹⁾	18	1	\$ 358.4	\$ 185.9	\$ -	\$ -
10.75% unsecured PIK option notes due 2029 ⁽¹⁾	18	1	\$ 75.0	\$ 16.9	\$ -	\$ -

(1) The fair values of the 8.50% second lien secured notes due 2026 and 10.75% unsecured PIK option notes due 2029 are based on market closing prices.

The following table presents financial instruments, measured at fair value through profit or loss and fair value through other comprehensive income (loss), on a recurring basis:

Canadian \$ millions, as at	Note	Hierarchy level	2020		2019	
			December 31	December 31	December 31	December 31
Fair value through profit or loss						
Assets:						
Ambatovy Joint Venture operator fee receivable ⁽¹⁾	15	3	\$ -	\$ 12.7		
Commodity put options ⁽²⁾⁽³⁾	15	2	\$ 5.7	\$ -		
Liabilities:						
Cobalt-linked warrant liability ⁽³⁾⁽⁴⁾	18	1	\$ 0.2	\$ 0.7		
Fair value through other comprehensive income (loss)						
Cash equivalents		1	\$ 41.0	\$ 15.8		

(1) During the year ended December 31, 2020, the Corporation completed the Transaction (note 4) and the Ambatovy Joint Venture Interests met the criteria to be classified and presented as discontinued operations (note 5). As a result of the Transaction, the Corporation's operator fee receivable was extinguished reducing the receivable to nil (note 15) and components of comprehensive income (loss) related to the Ambatovy Joint Venture were reclassified to the loss from discontinued operations, net of tax (note 5).

(2) The commodity put options are measured at fair value using indicative bid prices based on the Black-Scholes model using observable inputs as at each reporting date, as follows: average monthly London Metal Exchange (LME) nickel price, exercise price, risk-free rate, volatility and time to expiry. As at December 31, 2020, the closing bid prices of the commodity put options were US\$0.19/lb. (exercise price of US\$6.50/lb., expiry from January to December 2021) and US\$0.41/lb. (exercise price of US\$7.00/lb., expiry from April to December 2021).

(3) Changes in fair value are recognized within other financing items within net finance income (expense) (note 11).

(4) The cobalt-linked warrants are measured at fair value using the closing market price as at each reporting date. As at December 31, 2020, the closing price of the cobalt-linked warrants was \$0.005 per warrant (note 18) (December 31, 2019 - \$0.015 per warrant).

The following is a reconciliation of the beginning to ending balance for the Ambatovy Joint Venture operator fee receivable included in Level 3:

Canadian \$ millions, for the years ended December 31	2020	2019
Balance, beginning of the year	\$ 12.7	\$ 8.6
Additions	1.2	1.5
Revaluation included within loss from discontinued operations, net of tax ⁽¹⁾	1.8	3.0
Effect of movements in exchange rates	0.1	(0.4)
Extinguishment ⁽²⁾	(15.8)	-
Balance, end of the year	\$ -	\$ 12.7

(1) The fair value of the Ambatovy Joint Venture operator fee receivable is calculated by discounting future cash flows using a rate that is based on a market rate adjusted for the borrowers' credit quality. As a result of the Transaction (note 4), components of comprehensive income (loss) related to the Ambatovy Joint Venture were reclassified to the loss from discontinued operations, net of tax (note 5).

(2) As a result of the Transaction, the Corporation's operator fee receivable was extinguished (note 5).

Notes to the consolidated financial statements

Trade accounts receivable, net, and unbilled revenue

Trade accounts receivable, net, and unbilled revenue consist of:

Canadian \$ millions, as at	2020		2019	
	December 31		December 31	
Trade accounts receivable, net	\$	139.8	\$	154.9
Unbilled revenue		0.5		-
	\$	140.3	\$	154.9

Trade accounts receivable, net

Canadian \$ millions, as at	2020		2019	
	December 31		December 31	
Trade accounts receivable	\$	128.7	\$	128.4
Allowance for expected credit losses		(21.4)		(19.1)
Accounts receivable from joint operations		0.3		0.1
Accounts receivable from joint venture		13.8		15.8
Other ⁽¹⁾		18.4		29.7
	\$	139.8	\$	154.9

(1) Other receivables includes \$1.6 million in accounts receivable from the Ambatovy Joint Venture (December 31, 2019 - \$11.8 million).

Aging of trade accounts receivable, net

Canadian \$ millions, as at	2020		2019	
	December 31		December 31	
Not past due	\$	108.5	\$	125.7
Past due no more than 30 days		2.6		7.9
Past due for more than 30 days but no more than 60 days		2.2		0.8
Past due for more than 60 days		26.5		20.5
	\$	139.8	\$	154.9

Allowance for expected credit losses

Financial assets measured at amortized cost are presented net of their allowances for expected credit losses within the consolidated statements of financial position.

Canadian \$ millions	For the year ended December 31, 2020				
	As at	Revaluation	Debt-to-equity conversion	Foreign exchange and other non-cash items	As at
	2019				2020
	December 31				December 31
Lifetime expected credit losses					
Trade accounts receivable, net ⁽¹⁾	\$ (19.1)	\$ (3.0)	\$ -	\$ 0.7	\$ (21.4)
Ambatovy Joint Venture subordinated loans receivable ⁽²⁾⁽⁴⁾	(71.2)	(68.7)	144.7	(4.8)	-
Ambatovy Joint Venture subordinated loans receivable - post-financial completion ⁽³⁾⁽⁴⁾	(33.2)	(47.4)	81.7	(1.1)	-
Moa Joint Venture expansion loans receivable ⁽¹⁾⁽⁵⁾	(6.8)	6.4	-	0.4	-

(1) Revaluation of allowances for expected credit losses are recognized within net finance income (expense) (note 11).

(2) During the year ended December 31, 2020, the Ambatovy Joint Venture converted the balance of its subordinated loans payable to equity, which resulted in a decrease in the Corporation's subordinated loans receivable and corresponding decrease in the Corporation's allowance for expected credit losses. As a result of the conversion, the Corporation's subordinated loans receivable was fully converted to equity reducing the loans receivable and the allowance for expected credit losses to nil (note 15).

(3) During the eight months ended August 31, 2020, the Ambatovy Joint Venture converted the majority of the balance of its subordinated loans payable – post-financial completion to equity, which resulted in a decrease in the Corporation's subordinated loans receivable – post-financial completion and corresponding decrease in the Corporation's allowance for expected credit losses. As a result of the conversion, the Corporation's subordinated loans receivable – post-financial completion and the allowance for expected losses was reduced to \$0.4 million and nil, respectively, as at August 31, 2020. As a result of the completion of the Transaction on August 31, 2020 (note 4), the Ambatovy Joint Venture subordinated loans receivable – post-financial completion contributed a loss of \$0.4 million to the gain on disposal of the Ambatovy Joint Venture Interests, net of tax (note 5).

(4) During the year ended December 31, 2020, the Corporation completed the Transaction (note 4). As a result of the Transaction, the revaluations of allowances for expected credit losses on the Corporation's subordinated loans receivable and subordinated loans receivable – post-financial completion were reclassified to the loss from discontinued operations, net of tax, in the current and comparative periods (note 5).

(5) During the year ended December 31, 2020, the Moa Joint Venture converted US\$402.1 million (\$548.0 million) of its expansion loans payable to equity (note 10) which, at the Corporation's 50% share, resulted in a US\$201.1 million (\$274.0 million) decrease in the Corporation's expansion loans receivable. As a result of the conversion, the Corporation's expansion loans receivable was fully converted to equity reducing the loans receivable and the allowance for expected credit losses to nil (note 15).

Canadian \$ millions	For the year ended December 31, 2019				As at 2019 December 31
	As at 2018 December 31	Revaluation	Debt-to-equity conversion	Foreign exchange and other non-cash items	
Lifetime expected credit losses					
Trade accounts receivable, net	\$ (17.9)	\$ (2.2)	\$ -	\$ 1.0	\$ (19.1)
Ambatovy Joint Venture subordinated loans receivable	(44.9)	(105.3)	76.8	2.2	(71.2)
Ambatovy Joint Venture subordinated loans receivable - post-financial completion	-	(33.2)	-	-	(33.2)
Moa Joint Venture expansion loans receivable	-	(6.8)	-	-	(6.8)

15. ADVANCES, LOANS RECEIVABLE AND OTHER FINANCIAL ASSETS

Canadian \$ millions, as at	Note	2020 December 31	2019 December 31
Advances and loans receivable			
Ambatovy Joint Venture subordinated loans receivable ⁽¹⁾	5	\$ -	\$ 61.0
Ambatovy Joint Venture subordinated loans receivable - post-financial completion ⁽¹⁾	5	-	41.3
Ambatovy Joint Venture operator fee receivable	5, 14	-	12.7
Energas conditional sales agreement ⁽¹⁾		197.0	228.4
Moa Joint Venture expansion loans receivable ⁽¹⁾		-	252.2
Other financial assets			
Commodity put options		5.7	-
Other		4.5	5.4
		207.2	601.0
Current portion of advances, loans receivable and other financial assets		(37.6)	(13.0)
Non-current portion of advances, loans receivable and other financial assets		\$ 169.6	\$ 588.0

(1) As at December 31, 2020, the non-current portions of the Ambatovy subordinated loans receivable, Ambatovy subordinated loans receivable – post-financial completion, Energas conditional sales agreement and the Moa Joint Venture expansion loans receivable are nil, nil, \$165.9 million and nil, respectively (December 31, 2019 – \$61.0 million, \$41.3 million, \$216.0 million and \$252.2 million, respectively).

Ambatovy Joint Venture subordinated loans receivable

The Ambatovy Joint Venture subordinated loans receivable was a funding agreement between the Corporation and the Ambatovy Joint Venture to finance the development of the Ambatovy Project. During the six months ended June 30, 2020, the Ambatovy Joint Venture converted the balance of its subordinated loans payable to equity, which resulted in a decrease in the Corporation's subordinated loans receivable and corresponding decrease in the Corporation's allowance for expected credit losses. As a result of the conversion, the Corporation's subordinated loans receivable was fully converted to equity reducing the loans receivable and the allowance for expected credit losses to nil (note 14).

During the year ended December 31, 2019, the Ambatovy Joint Venture converted US\$484.7 million of its subordinated loans payable to equity which, at the Corporation's 12% share, resulted in a US\$58.2 million (\$76.8 million) decrease in the Corporation's subordinated loans receivable. There was no change to the Corporation's ownership interest as a result of the conversions. As at December 31, 2019, the Ambatovy Joint Venture subordinated loans receivable is presented net of an ACL of \$71.2 million within the consolidated statements of financial position.

Ambatovy Joint Venture subordinated loans receivable – post-financial completion

The Ambatovy subordinated loans receivable – post-financial completion was comprised of funding from the Corporation to the Ambatovy Joint Venture as part of the Ambatovy Joint Venture restructuring. During the year ended December 31, 2020, the Corporation completed the Transaction (note 4). As a result of the Transaction, the Corporation's subordinated loans receivable – post-financial completion, along with other Ambatovy Joint Venture Interests, were exchanged for the Ambatovy Joint Venture partner loans, reducing this loans receivable to nil (note 14).

For the year ended December 31, 2019, no post-financial completion cash funding was provided to the Ambatovy Joint Venture. As at December 31, 2019, the Ambatovy Joint Venture subordinated loans receivable – post-financial completion is presented net of an ACL of \$33.2 million within the consolidated statements of financial position.

Notes to the consolidated financial statements

Energas conditional sales agreement

A conditional sales agreement was entered into by the Corporation with Energas to finance construction activity on specific power generating assets in Cuba. The agreement directs the Corporation to arrange for the performance of certain construction activity on behalf of Energas, and contains design specifications for each new construction phase. The Corporation retains title to the constructed assets until the loan is fully repaid. The facility bears interest at 8.0%. Income generated by the constructed assets will be used to repay the facilities. Until the loan is fully repaid, all of the income generated by these assets is paid to the Corporation. The amount of advances and loans receivable from Energas are presented net of the elimination of the 33⅓% proportionately consolidated intercompany balances.

Moa Joint Venture expansion loans receivable

The Moa Joint Venture expansion loans receivable was a funding agreement entered into by the Corporation to finance expansion. During the year ended December 31, 2020, the Moa Joint Venture converted US\$402.1 million (\$548.0 million) of its expansion loans payable to equity (notes 10 and 14) which, at the Corporation's 50% share, resulted in a US\$201.1 million (\$274.0 million) decrease in the Corporation's expansion loans receivable. As a result of the conversion, the Corporation's expansion loans receivable was fully converted to equity reducing the loans receivable to nil.

During the year ended December 31, 2019, interest was suspended for 10 months on the expansion loans, which resulted in a decrease to the Moa Joint Venture expansion loans receivable of \$14.3 million. During the year ended December 31, 2019, the Moa Joint Venture expansion loans receivable increased \$17.0 million due to accretion. As at December 31, 2019, the Moa Joint Venture expansion loans receivable is presented net of an ACL of \$6.8 million within the consolidated statements of financial position.

Moa Joint Venture working capital facility

The Moa Joint Venture working capital facility is a working capital facility for use by the Moa Joint Venture. On December 21, 2018, the maturity of the Moa Joint Venture working capital facility was extended to April 30, 2020 and the maximum credit available remained at \$45.0 million. The interest rates were prime plus 3.00% or bankers' acceptance plus 4.00%.

During the year ended December 31, 2020, the Moa Joint Venture working capital facility was renewed and its maturity extended to April 30, 2022. The maximum credit available remained at \$45.0 million and the interest rates remained at prime plus 3.00% or bankers' acceptance plus 4.00%. As at December 31, 2020 and December 31, 2019, no amounts were drawn on the facility.

Commodity put options

During the year ended December 31, 2020, the Corporation purchased \$5.8 million of put options on 4,125 metric tonnes of nickel, or 344 metric tonnes per month, at a strike price of US\$6.50/lb. These put options are in effect for a 12-month period starting January 1, 2021. The Corporation also purchased \$3.5 million of put options on 3,094 metric tonnes of nickel, or 344 metric tonnes per month, at a strike price of US\$7.00/lb. These put options are in effect for a nine-month period starting April 1, 2021. Any cash settlements will be completed on a monthly basis against the average monthly nickel price on the LME and will involve no physical delivery. The hedging strategy is designed to provide Sherritt with cash flow security in 2021 against downward changes in nickel prices by providing a floor but no cap on 25% of Sherritt's share of 2021 nickel production in the first quarter and 50% of Sherritt's share of 2021 nickel production in the second to fourth quarter of 2021. The put options are derivatives measured at fair value through profit or loss.

Other financial assets

As at December 31, 2020, included in other financial assets is \$4.4 million related to finance lease receivables (note 25) (December 31, 2019 - \$5.1 million).

16. INVENTORIES

Accounting policies

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

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

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

Supporting information

Canadian \$ millions, as at	2020		2019	
	December 31		December 31	
Raw materials	\$	-	\$	-
Materials in process		0.3		-
Finished products		4.1		10.8
		4.4		10.8
Spare parts and operating materials		22.6		24.5
	\$	27.0	\$	35.3

For the year ended December 31, 2020, the cost of inventories included in cost of sales was \$58.7 million (\$53.1 million for the year ended December 31, 2019).

17. NON-FINANCIAL ASSETS

Accounting policies

Property, plant and equipment

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

Plant and equipment

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

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

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

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

Notes to the consolidated financial statements

Right-of-use assets – Plant and equipment

The Corporation recognizes a right-of-use asset if a contract is or contains a lease based on the definition of a lease. Right-of-use assets – plant and equipment include the underlying assets in leases for office space; machinery and equipment; and computer and telecommunications hardware. The Corporation's accounting policies for leases in accordance with IFRS 16 are described in note 25.

Oil and Gas properties

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

Capitalization of borrowing costs

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

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

Derecognition

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

Intangible assets

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

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

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

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

Exploration and evaluation

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

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

Service concession arrangements

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

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

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

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

Amortization

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

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

Impairment of non-financial assets

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

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

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

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

Impairment of exploration and evaluation expenditures at Oil and Gas

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

Critical accounting estimates**Property, plant and equipment**

The capitalization of costs, the determination of estimated recoverable amounts and the depletion and depreciation of these assets have a significant impact on the Corporation's financial results.

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

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

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

Reserves for Oil and Gas properties

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

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

Critical accounting judgments**Exploration and evaluation**

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

Service concession arrangements

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

Commercial viability

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

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

Impairment of non-financial assets

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

There are a number of potential indicators that could trigger an impairment or impairment reversal, which may require critical accounting judgments to determine the extent to which external and/or internal factors may impact the assets' recoverable amount. Such internal factors include changes to estimated recoverable production, commodity or contracted prices, cash costs of production, capital and reclamation costs. External factors include the Corporation's market capitalization deficiency and changes in economic conditions, including uncertainty as a result of the COVID-19 pandemic, such as its potential impact on commodity prices, and collection of Cuban receivables.

For purposes of determining fair value, management assesses the recoverable amount of the asset using the net present value of expected future cash flows and an appropriate discount rate. Projections of future cash flows are based on factors relevant to the asset and could include estimated recoverable production, commodity or contracted prices, foreign exchange rates, production levels, cash costs of production, capital and reclamation costs. Projections inherently require assumptions and judgments to be made about each of the factors affecting future cash flows. Changes in any of these assumptions or judgments could result in a significant difference between the carrying amount and fair value of these assets. In the event that management's estimate of future cash flows is not representative of actual events, impairments may be identified, which could have a material impact on the Corporation's consolidated financial statements. Where necessary, management engages qualified third-party professionals to assist in the determination of fair values.

Supporting information

Property, plant and equipment

Canadian \$ millions, for the year ended December 31

2020

	Oil and Gas properties	Plant, equipment and land	Right-of-use assets - Plant, equipment and land	Total
Cost				
Balance, beginning of the year	\$ 164.7	\$ 682.2	\$ 13.3	\$ 860.2
Additions	0.9	10.1	4.7	15.7
Additions and changes in estimates to environmental rehabilitation provisions	(1.4)	10.0	-	8.6
Disposals and derecognition	1.8	(16.1)	(4.5)	(18.8)
Effect of movements in exchange rates	2.6	(7.2)	-	(4.6)
Balance, end of the year	\$ 168.6	\$ 679.0	\$ 13.5	\$ 861.1
Depletion, depreciation and impairment losses				
Balance, beginning of the year	\$ 164.4	\$ 483.9	\$ 3.3	\$ 651.6
Depletion and depreciation	0.6	28.6	1.7	30.9
Impairments	-	30.2	-	30.2
Disposals and derecognition	-	(10.2)	(2.6)	(12.8)
Effect of movements in exchange rates	2.8	(8.0)	-	(5.2)
Balance, end of the year	\$ 167.8	\$ 524.5	\$ 2.4	\$ 694.7
Net book value	\$ 0.8	\$ 154.5	\$ 11.1	\$ 166.4

Notes to the consolidated financial statements

Canadian \$ millions, for the year ended December 31

2019

	Oil and Gas properties	Plant, equipment and land	Right-of-use assets - Plant, equipment and land	Total
Cost				
Balance, beginning of the year	\$ 192.3	\$ 692.4	\$ -	\$ 884.7
Reclassified from plant, equipment and land to right-of-use assets - plant, equipment and land ⁽¹⁾	-	(1.4)	1.4	-
Additions	8.1	4.4	11.3	23.8
Additions and changes in estimates to environmental rehabilitation provisions	(12.7)	10.2	-	(2.5)
Disposals and derecognition	(14.2)	(8.0)	-	(22.2)
Effect of movements in exchange rates	(8.8)	(19.4)	0.6	(27.6)
Reclassified from assets held for sale	-	4.0	-	4.0
Balance, end of the year	\$ 164.7	\$ 682.2	\$ 13.3	\$ 860.2
Depletion, depreciation and impairment losses				
Balance, beginning of the year	\$ 180.7	\$ 476.1	\$ -	\$ 656.8
Reclassified from plant, equipment and land to right-of-use assets - plant, equipment and land ⁽¹⁾	-	(0.2)	0.2	-
Depletion and depreciation	1.1	23.7	3.1	27.9
Impairments	-	2.3	-	2.3
Disposals and derecognition	(7.9)	(5.0)	-	(12.9)
Effect of movements in exchange rates	(9.5)	(16.1)	-	(25.6)
Reclassified from assets held for sale	-	3.1	-	3.1
Balance, end of the year	\$ 164.4	\$ 483.9	\$ 3.3	\$ 651.6
Net book value	\$ 0.3	\$ 198.3	\$ 10.0	\$ 208.6

(1) The reclassification from plant, equipment and land to right-of-use assets - plant, equipment and land relates to the initial application of IFRS 16.

Impairment of Oil assets

During the year ended December 31, 2020, the Corporation recognized a total impairment loss of \$115.6 million in the Oil and Gas segment, consisting of a \$95.0 million impairment loss on exploration and evaluation assets included within intangible assets and a \$20.6 million impairment loss on capital spare parts included within property, plant and equipment. The impairment loss on exploration and evaluation assets is discussed within the intangible assets section below.

During the year ended December 31, 2020, the Corporation completed its analysis and testing of samples obtained from the Block 10 well. Testing confirmed that water is present and entering the well from the loss circulation zone, which is located at a depth of approximately 5,300 meters and above the target oil reservoir. The analysis also confirmed that no viable technical solution to prevent the further flow of water into the existing well is possible. As a result, the Corporation decided to suspend the well.

The impairment loss of \$20.6 million on capital spare parts was due to the well suspension noted above and uncertainty on the timing of future exploration activities in Cuba. The recoverable amount was measured based on value in use using the present value of expected future cash flows of the capital spare parts, which resulted in a recoverable amount of nil.

Impairment of Power assets

During the year ended December 31, 2020, the Corporation recognized an impairment of \$9.4 million on the Varadero power generation facility, a cash-generating unit in the Power segment, as a result of a forecasted decline in gas supply. The impairment was determined by calculating the recoverable amount of the cash-generating unit based on value in use using the present value of expected future cash flows. A discount rate of 6.6% was used to discount cash flows in the valuation model and the recoverable amount was calculated to be \$3.2 million. Key assumptions in the valuation model included operating cash flows, capital expenditures, available gas supply and discount rate.

Expiry of the Puerto Escondido/Yumuri production-sharing contract

The Puerto Escondido/Yumuri production-sharing contract with an agency of the Government of Cuba expires in March 2021. As a result, the end of the useful life of property, plant and equipment related to the Puerto Escondido/Yumuri production-sharing contract is March 2021 and no further depreciation will be recognized after March 31, 2021.

Canadian \$ millions

Assets under construction, included in above

As at December 31, 2020	\$ 9.1
As at December 31, 2019	9.6

Intangible assets

Canadian \$ millions, for the year ended December 31

2020

	Contractual arrange- ments	Exploration and Evaluation	Service concession arrange- ments	Other	Total
Cost					
Balance, beginning of the year	\$ 27.0	\$ 107.7	\$ 225.7	\$ 9.1	\$ 369.5
Additions through internal development	-	3.4	-	-	3.4
Effects of movements in exchange rates	-	2.3	(4.4)	-	(2.1)
Balance, end of the year	\$ 27.0	\$ 113.4	\$ 221.3	\$ 9.1	\$ 370.8
Amortization and impairment losses					
Balance, beginning of the year	\$ 25.9	\$ 12.3	\$ 180.6	\$ 9.1	\$ 227.9
Amortization	0.3	-	14.3	-	14.6
Impairments	-	95.0	-	-	95.0
Effect of movements in exchange rates	-	-	(4.2)	-	(4.2)
Balance, end of the year	\$ 26.2	\$ 107.3	\$ 190.7	\$ 9.1	\$ 333.3
Net book value	\$ 0.8	\$ 6.1	\$ 30.6	\$ -	\$ 37.5

Canadian \$ millions, for the year ended December 31

2019

	Contractual arrange- ments	Exploration and Evaluation	Service concession arrange- ments	Other	Total
Cost					
Balance, beginning of the year	\$ 27.0	\$ 82.0	\$ 236.8	\$ 9.1	\$ 354.9
Additions through internal development	-	29.7	-	-	29.7
Effect of movements in exchange rates	-	(4.0)	(11.1)	-	(15.1)
Balance, end of the year	\$ 27.0	\$ 107.7	\$ 225.7	\$ 9.1	\$ 369.5
Amortization and impairment losses					
Balance, beginning of the year	\$ 25.4	\$ 12.3	\$ 147.6	\$ 9.1	\$ 194.4
Amortization	0.5	-	20.4	-	20.9
Impairments	-	-	20.3	-	20.3
Effect of movements in exchange rates	-	-	(7.7)	-	(7.7)
Balance, end of the year	\$ 25.9	\$ 12.3	\$ 180.6	\$ 9.1	\$ 227.9
Net book value	\$ 1.1	\$ 95.4	\$ 45.1	\$ -	\$ 141.6

Exploration and evaluation

Exploration and evaluation assets include three production-sharing contracts (PSCs) with the Government of Cuba, respectively referred to as Block 6A, Block 8A and Block 10. The three PSCs have terms of 26 to 28 years. Exploration and evaluation assets include capitalized expenditures on these three blocks, and primarily consist of exploration drilling performed on Block 10.

Notes to the consolidated financial statements

During the year ended December 31, 2020, the Corporation recognized an impairment loss of \$95.0 million on exploration and evaluation assets in the Oil and Gas segment, as discussed within the property, plant and equipment section above. The recoverable amount was measured based on value in use using the present value of the well's expected future cash flows, which resulted in a recoverable amount of nil. The impairment loss consists of all exploration and evaluation assets related to the well asset, including drilling materials and equipment, as well as geological and engineering expenses.

Sherritt is currently reviewing its options with respect to Block 10, including seeking an earn-in partner. Sherritt has committed to making no further investments in Block 10 without first securing an earn-in partner.

Service concession arrangements

Service concession arrangements include the Puerto Escondido/Yumuri pipeline and the Energas Boca de Jaruco power generation facility.

During the year ended December 31, 2019, the Corporation recognized an impairment of \$20.3 million on the Boca de Jaruco power generation facility, a cash-generating unit in the Power segment, as a result of a forecasted decline in gas supply. The impairment was determined by calculating the recoverable amount of the cash-generating unit based on value in use using the present value of expected future cash flows. A discount rate of 7.2% was used to discount cash flows in the valuation model and the recoverable amount was calculated to be \$48.1 million. Key assumptions in the valuation model included operating cash flows, capital expenditures, available gas supply and discount rate.

18. LOANS, BORROWINGS AND OTHER FINANCIAL LIABILITIES

Loans and borrowings

Canadian \$ millions	Note	As at 2019 December 31	For the year ended December 31, 2020			As at 2020 December 31
			Recognition/ (Extinguish -ment)	Effect of movement in exchange rates	Other	
8.00% senior unsecured debentures due 2021 ^{(1), (2)}	4, 11	\$ 164.4	\$ (166.2)	\$ -	\$ 1.8	\$ -
7.50% senior unsecured debentures due 2023 ^{(1), (2)}	4, 11	187.8	(189.5)	-	1.7	-
7.875% senior unsecured debentures due 2025 ^{(1), (2)}	4, 11	201.9	(203.6)	-	1.7	-
Ambatovy Joint Venture partner loans ^{(2), (3)}	4, 5	151.5	(155.5)	0.4	3.6	-
8.50% second lien secured notes due 2026 ^{(4), (5)}	14	-	357.5	-	0.9	358.4
10.75% unsecured PIK option notes due 2029 ⁽⁴⁾	14	-	75.0	-	-	75.0
Syndicated revolving-term credit facility		8.0	-	-	-	8.0
		\$ 713.6	\$ (282.3)	\$ 0.4	\$ 9.7	\$ 441.4
Current portion of loans and borrowings		(159.5)				(8.0)
Non-current portion of loans and borrowings		\$ 554.1				\$ 433.4

(1) Other non-cash changes consists of accretion.

(2) During the year ended December 31, 2020, the Corporation completed the Transaction (note 4), resulting in the extinguishment of the Corporation's previously existing senior unsecured debentures due 2021, 2023 and 2025 and the Ambatovy Joint Venture partner loans (notes 5 and 11).

(3) Other non-cash changes on the Ambatovy Joint Venture partner loans consists of accretion and accrued interest.

(4) As at December 31, 2020, the outstanding principal amounts of the 8.50% second lien secured notes due 2026 and 10.75% unsecured PIK option notes due 2029 are \$357.5 million and \$75.0 million, respectively.

(5) Other non-cash changes consists of the accretion of a 7% premium on the outstanding principal of the 8.5% second lien secured notes due 2026. This premium is due upon the earlier of optional redemption and maturity of the 8.5% second lien secured notes due 2026. This premium is accreted over the life of the instrument.

For the year ended December 31,
2019

Non-cash changes

Canadian \$ millions	As at 2018 December 31	Effect of movement in exchange rates	Other	As at 2019 December 31
8.00% senior unsecured debentures due 2021	\$ 162.1	\$ -	\$ 2.3	\$ 164.4
7.50% senior unsecured debentures due 2023	185.8	-	2.0	187.8
7.875% senior unsecured debentures due 2025	199.6	-	2.3	201.9
Ambatovy Joint Venture partner loans	150.2	(7.0)	8.3	151.5
Syndicated revolving-term credit facility	8.0	-	-	8.0
	\$ 705.7	\$ (7.0)	\$ 14.9	\$ 713.6
Current portion of loans and borrowings	(8.0)			(159.5)
Non-current portion of loans and borrowings	\$ 697.7			\$ 554.1

Senior unsecured debentures and Ambatovy Joint Venture partner loans

As at June 30, 2020, the Old Notes were classified as current liabilities due to events of default as a result of non-payment of certain interest payments thereon and the expiry of the applicable cure periods pursuant to the indenture governing the Old Notes (the "Old Notes Indenture"), and the Ambatovy Joint Venture partner loans were classified as current liabilities due to events of default as a result of the commencement of the CBCA proceedings and Sherritt being a non-funding shareholder of the Ambatovy Joint Venture. During the CBCA proceedings, these events of defaults were stayed pursuant to the Interim Order granted by the Court in the CBCA proceedings. As a result of the Transaction being completed on August 31, 2020, pursuant to the Plan of Arrangement and the Final Order granted by the Court approving the Plan of Arrangement, the Old Notes and the Ambatovy Joint Venture partner loans were terminated, and all claims in respect thereof were fully and finally extinguished and released. As of August 31, 2020, the holders of the previously existing Old Notes and the Ambatovy Joint Venture partners have no further rights or remedies with respect to any previously triggered events of default under the Old Notes Indenture and the Ambatovy Joint Venture partner loans, respectively.

8.50% second lien secured notes due 2026

As a result of the Transaction (note 4), the Corporation issued 8.50% second lien secured notes with a principal amount of \$357.5 million maturing on November 30, 2026. Interest is payable semi-annually in cash. The indenture governing the New Second Lien Notes (the "New Second Lien Notes Indenture") requires mandatory redemptions from excess cash (subject to the minimum liquidity condition noted below and the other terms and conditions set forth in the New Second Lien Notes Indenture). The mandatory excess cash flow redemption provision is in effect beginning with the two-quarter period ending June 30, 2021 and mandatory redemptions are based on excess cash flow (a measure calculated based on cash provided by (used in) operating activities excluding Energas, less sustaining property, plant and equipment expenditures excluding Energas, plus all cash distributed by Energas to the Corporation held in Canada), which mandatory redemption shall be required to be made only if the Corporation has minimum liquidity of \$75.0 million calculated in accordance with the New Second Lien Notes Indenture. Refer to note 23 for a maturity analysis of the Corporation's contractual obligations and commitments, which includes expected mandatory excess cash flow redemptions. Expected mandatory excess cash flow redemptions have been included in the calculation of the effective interest rate of the New Second Lien Notes.

The 8.50% second lien secured notes due 2026 also include an option for the Corporation to redeem all or part of the notes outstanding prior to maturity at a price equal to 107% of the principal amount so redeemed, which was determined to be an embedded derivative. The fair value of this embedded derivative was nominal at inception and has not been presented separately from the New Second Lien Notes within the Corporation's consolidated statements of financial position.

The New Second Lien Notes Indenture provides for a 7% premium on (i) any optional early redemptions made at the election of the Corporation prior to maturity as mentioned above, and (ii) on repayment on the maturity date, provided that the aggregate amount of all premium payments paid by Sherritt with respect to the foregoing shall collectively not be less than \$25.0 million. Mandatory redemptions do not incur a premium and ultimately do not affect the timing of when this 7% premium is paid.

Notes to the consolidated financial statements

Under the New Second Lien Notes Indenture, the Corporation is subject to various restrictions, which limit, among other things, the incurrence of indebtedness, liens, asset sales and payment of distributions and other restricted payments, unless certain financial ratios are met and subject to certain customary carve-outs and permissions, often referred to as “baskets”. If the ratio of earnings before interest, taxes, depreciation and amortization (“EBITDA”)-to-interest expense, both as defined in the agreement, is above 2.5:1, debt can be incurred without the use of a basket and additional restricted payments can be made to the extent the Corporation has sufficient room in the restricted payment “builder basket” as calculated under the New Second Lien Notes Indenture.

As at December 31, 2020, the New Second Lien Notes are classified as non-current liabilities within the Corporation’s consolidated statements of financial position as a result of its maturity in 2026.

10.75% unsecured PIK option notes due 2029

As a result of the Transaction (note 4), the Corporation issued 10.75% unsecured PIK option notes with a principal amount of \$75.0 million maturing on August 31, 2029. Interest is payable semi-annually in cash or in-kind, at Sherritt’s election. Expected payments of interest in-kind until the maturity of the note have been included in the calculation of the effective interest rate.

As at December 31, 2020, the New Junior Notes are classified as non-current liabilities within the Corporation’s consolidated statements of financial position as a result of its maturity in 2029.

Syndicated revolving-term credit facility

During the year ended December 31, 2020, the syndicated revolving-term credit facility was renewed and its maturity extended to April 30, 2022. The maximum credit available remained at \$70.0 million and the interest rates are bankers’ acceptance plus 4.00%, which remain unchanged. The total available draw is based on eligible receivables and inventories, which are pledged as collateral. Certain cash held in banks in Canada is also pledged as collateral.

The facility is subject to the following financial covenants and restrictions as of December 31, 2020:

- Net Available Cash covenant, as defined in the agreement, of \$25.0 million. The amount compared against this covenant is comprised of cash and cash equivalents and short-term investments of the Corporation and its wholly-owned subsidiaries held in Canada, plus undrawn amounts on the credit facility;
- Senior Secured Net Debt-to-EBITDA covenant, as defined in the agreement, of less than 2:1. Senior Secured Net Debt is calculated as first-lien debt, or amounts drawn on the credit facility, any derivative liability and any additional security ranked equal to first-lien debt, less cash and cash equivalents and short-term investments of the Corporation and its wholly-owned subsidiaries held in Canada up to \$25.0 million. EBITDA is calculated on a 12-month trailing basis with Energas included on a cash basis.
- EBITDA-to-Interest Expense covenant, as defined in the agreement, of not less than 1.5:1. EBITDA is calculated on a 12-month trailing basis with Energas included on a cash basis. Interest expense excludes the payment-in-kind (PIK) interest on the Corporation’s 10.75% unsecured PIK option notes due 2029; and
- Minimum Tangible Net Worth covenant, as defined in the agreement, of \$600.0 million plus 50% of positive net earnings, beginning with the three months ended December 31, 2020 and for all future periods. Tangible Net Worth is calculated as total assets, less intangible assets, less amounts drawn on the credit facility, less the principal amount of the 8.50% second lien secured notes due in 2026, less the principal amount of the 10.75% unsecured PIK option notes due in 2029, less any derivative liability and less any additional secured financing ranked equal to first-lien debt.

The amended credit facility also includes an accordion feature that allows any existing lender to increase its commitment or other lenders to join the syndicate pending appropriate approvals. The increase is limited to \$10.0 million which would increase the total facility amount to \$80.0 million.

As at December 31, 2020, the Corporation has \$2.5 million of letters of credit outstanding pursuant to this facility (December 31, 2019 - \$45.3 million). As at December 31, 2020, \$8.0 million was drawn on this facility (December 31, 2019 - \$8.0 million).

Effective June 30, 2020, the Corporation did not renew a \$47.0 million letter of credit issued to support its share of the environmental rehabilitation obligations held by its Spanish operations. The Corporation continues to be in discussions with its partners to replace the letter of credit with a potential alternative arrangement.

Covenants

As at December 31, 2020, the Corporation was in compliance with all syndicated revolving-term credit facility covenants.

Other financial liabilities

Canadian \$ millions, as at	Note	2020		2019
		December 31	December 31	December 31
Lease liabilities		\$ 15.7	\$	14.8
Cobalt-linked warrant liability	14	0.2		0.7
Share-based compensation liability		10.5		2.2
Other financial liabilities		3.1		5.1
		29.5		22.8
Current portion of other financial liabilities		(4.8)		(9.3)
		\$ 24.7	\$	13.5

Lease liabilities

Canadian \$ millions	As at 2019 December 31	For the year ended December 31, 2020				As at 2020 December 31
		Cash flows		Non-cash changes		
		Principal repayments (note 25)	Interest paid (notes 22 and 25)	Effect of movement in exchange rates	Other ⁽¹⁾	
Lease liabilities	\$ 14.8	\$ (1.8)	\$ (0.9)	\$ -	\$ 3.6	\$ 15.7

(1) Other non-cash changes consists of the initial recognition of lease liabilities, remeasurements of lease liabilities for lease modifications and interest expense.

Canadian \$ millions	As at 2018 December 31	For the year ended December 31, 2019				As at 2019 December 31
		Cash flows		Non-cash changes		
		Principal repayments	Interest paid	Effect of movement in exchange rates	Other ⁽¹⁾	
Lease liabilities	\$ 0.8	\$ (3.3)	\$ (1.0)	\$ -	\$ 18.3	\$ 14.8

(1) Other non-cash changes consists of the initial recognition of lease liabilities during the year, interest expense and the effect of initial application of IFRS 16 on January 1, 2019.

Cobalt-linked warrant liability

In January 2018, the Corporation issued 47.2 million cobalt-linked warrants as part of a unit offering that also included common shares. The cobalt-linked warrants have an exercise price of \$1.95 for a period of 36 months, effective January 25, 2018, and are listed on the Toronto Stock Exchange. As at December 31, 2020, 47.2 million cobalt-linked warrants related to the 2018 unit offering were outstanding (December 31, 2019 - 47.2 million). These warrants expired on January 25, 2021.

19. PROVISIONS AND CONTINGENCIES

Accounting policies

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

Notes to the consolidated financial statements

Environmental rehabilitation

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

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

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

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

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

Critical accounting estimates

Environmental rehabilitation provision costs

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

Environmental rehabilitation provision discount rates

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

Supporting information

Canadian \$ millions, as at	2020 December 31	2019 December 31
Environmental rehabilitation provisions	\$ 109.9	\$ 97.9
Other provisions ⁽¹⁾	2.2	6.5
	112.1	104.4
Current portion of provisions	(1.9)	(5.0)
Non-current portion of provisions	\$ 110.2	\$ 99.4

(1) Other provisions relates to obligations retained by the Corporation after the disposition of the Coal operations in 2014.

Environmental rehabilitation provisions

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

The following is a reconciliation of the environmental rehabilitation provisions:

Canadian \$ millions, for the years ended December 31	Note	2020	2019
Balance, beginning of the year		\$ 97.9	\$ 107.7
Change in estimates ⁽¹⁾		8.6	(2.5)
Gain on settlement of environmental rehabilitation provisions		(0.3)	(0.7)
Accretion	11	0.3	0.3
Effect of movement in exchange rates		3.4	(6.9)
Balance, end of the year		\$ 109.9	\$ 97.9

(1) Change in estimates for the year ended December 31, 2020, increased compared to the comparative period primarily as a result of changes in rates used in discounting the expected future cash flows and revisions to the estimated future costs to rehabilitate property.

The Corporation has estimated that it will require approximately \$131.1 million in undiscounted cash flows to settle these obligations. The payments are expected to be funded by cash generated from operations. Discount rates from 0.60% to 5.03% were applied to expected future cash flows to determine the carrying value of the environmental rehabilitation provisions.

Notes to the consolidated financial statements

Other provisions

The following is a reconciliation of other provisions:

Canadian \$ millions, for the years ended December 31	2020		2019	
Balance, beginning of the year	\$	6.5	\$	9.5
Change in estimates		-		3.6
Utilized during the year		(4.3)		(6.6)
Balance, end of the year	\$	2.2	\$	6.5

For the year ended December 31, 2020, the Corporation recognized \$4.3 million in cash used by discontinued operations in the consolidated statements of cash flow, representing cash paid to settle obligations retained by the Corporation after the disposition of the Coal operations in 2014 (\$9.4 million in cash provided by discontinued operations for the year ended December 31, 2019 due to an insurance claim reimbursement net of cash paid to settle retained obligations).

Contingencies

A number of the Corporation's subsidiaries have operations located in Cuba. The Corporation will continue to be affected by the difficult political relationship between the United States and Cuba. The former U.S. administration had announced that it would no longer suspend the right of claimants to bring lawsuits under Title III of the Helms-Burton Act, effective May 2, 2019. The Corporation has received letters in the past from U.S. nationals claiming ownership of certain Cuban properties or rights in which the Corporation has an indirect interest, however, no lawsuits against Sherritt have been initiated or threatened. In the event that any such lawsuits were to be filed, Sherritt does not believe that its operations would be materially affected because Sherritt's minimal contacts with the United States would likely deprive any U.S. court of personal jurisdiction over Sherritt. Furthermore, even if personal jurisdiction were exercised, any successful U.S. claimant would have to seek enforcement of the U.S. court judgment outside the U.S. in order to reach material Sherritt assets. The Corporation believes it unlikely that a court in any country in which Sherritt has material assets would enforce a Helms-Burton Act judgment against it.

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

20. SHAREHOLDERS' EQUITY

Capital stock

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

Canadian \$ millions, except share amounts, for the years ended December 31	2020		2019	
	Number	Capital stock	Number	Capital stock
Balance, beginning of the year	397,282,785	\$ 2,894.9	397,281,686	\$ 2,894.9
Warrants exercised - 2016 debenture extension ⁽¹⁾	1,867	-	1,099	-
Balance, end of the year	397,284,652	\$ 2,894.9	397,282,785	\$ 2,894.9

(1) During the year ended December 31, 2016, 19.1 million warrants were granted to Noteholders of the previously existing senior unsecured debentures with a fair value of \$0.43 per warrant which totaled \$8.2 million. As at December 31, 2020, 10.4 million warrants related to the 2016 debenture extension were outstanding (December 31, 2019 - 10.4 million).

Reserves

Canadian \$ millions, for the years ended December 31	2020	2019
Stated capital reserve		
Balance, beginning of the year	\$ 222.2	\$ 222.2
Balance, end of the year	222.2	222.2
Share-based compensation reserve⁽¹⁾		
Balance, beginning of the year	\$ 11.5	\$ 11.2
Stock option plan (recovery) expense	(0.4)	0.3
Balance, end of the year	11.1	11.5
Total reserves, end of the year	\$ 233.3	\$ 233.7

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

Accumulated other comprehensive income

Canadian \$ millions, for the years ended December 31	2020	2019
Foreign currency translation reserve		
Balance, beginning of the year	\$ 500.9	\$ 541.8
Foreign currency translation differences on foreign operations	(6.5)	(40.9)
Reclassification of accumulated other comprehensive income on disposal of foreign operation ⁽¹⁾	(129.7)	-
Balance, end of the year	364.7	500.9
Actuarial losses on pension plans		
Balance, beginning of the year	(5.1)	(4.6)
Actuarial losses on pension plans, net of tax	(0.9)	(0.5)
Balance, end of the year	(6.0)	(5.1)
Total accumulated other comprehensive income	\$ 358.7	\$ 495.8

(1) During the year ended December 31, 2020, the Corporation completed the Transaction (note 4). As a result of the Transaction, \$129.7 million of accumulated other comprehensive income relating to the Ambatovy Joint Venture was reclassified to the gain on disposal of the Ambatovy Joint Venture Interests, net of tax within earnings (loss) from discontinued operations, net of tax (note 5).

21. SHARE-BASED COMPENSATION PLANS

Accounting policies

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

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

The fair value of the RSU liability at the date of grant and at each subsequent reporting date until settlement is based on the market value of the Corporation's shares. If the Corporation's share price changes between reporting dates then the fair value of the RSU liability is adjusted and an offsetting expense or recovery is recognized in the consolidated statements of comprehensive income (loss). The adjusted fair value of the RSU liability is then amortized over the remaining vesting period.

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

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

Notes to the consolidated financial statements

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

The Corporation has one equity-settled compensation plan that is comprised of its stock option plan. Stock option obligations are settled by the issuance of shares from treasury. The fair value of grants issued under the stock option plan are determined at the date of grant using the Black-Scholes option valuation model. They are only re-measured if there is a modification to the terms of the option, such as a change in exercise price or legal life. The fair value of the stock option plan is recognized as an expense over the expected vesting period with a corresponding entry to shareholders' equity.

Supporting information

Cash-settled share-based compensation plans

On an annual basis, the Corporation's Board of Directors approves the grant of cash-settled share-based units to certain employees. The units are in the form of: i) RSUs with no performance conditions, which vest at the end of three years and ii) PSUs subject to performance conditions, which vest at the end of three years.

Restricted Share Units (RSUs)

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

Under the plan, each RSU awarded is equivalent to a common share. A liability is accrued related to the units awarded and a compensation expense is recognized in the consolidated statements of comprehensive income (loss) over the service period required for employees to become fully entitled to the award. At the maturity date, the participant receives cash representing the value of the units. The number of RSUs subject to no performance conditions outstanding at December 31, 2020 was 29,404,740 (December 31, 2019 – 12,469,485).

Performance Share Units (PSUs)

PSUs represent a right to receive a cash amount payable by the Corporation to a participant at the end of the vesting period determined by reference to the market price of the common shares multiplied by the number of PSUs held by the participant as adjusted for dividend equivalents credited, if any. Under the plan, each PSU awarded is equivalent to a common share. A liability is accrued related to the units awarded and a compensation expense is recognized in the consolidated statements of comprehensive income (loss) over the 3-year service period required for employees to become fully entitled to the award. The PSUs are issued subject to vesting conditions, including performance conditions, which are set by the Human Resources Committee. The vesting of PSUs will be subject to the achievement of two equally-weighted performance conditions measured over the 3-year vesting period: (i) the Corporation's total shareholder return relative to benchmark indices comprised of mining and oil and gas companies (a market condition); and (ii) unit cost of production compared to budget (a non-market condition). The value of PSUs that vest will vary from 0% to 200% based on the achievement of the market and non-market performance conditions. The number of PSUs subject to these performance conditions outstanding at December 31, 2020 was 30,070,740 (December 31, 2019 – 14,567,709).

Deferred Share Units (DSUs)

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

A summary of the RSU, PSU and DSU units outstanding as at December 31, 2020 and 2019 and changes during the year ended is as follows:

For the year ended December 31				2020
	RSU	PSU	DSU	
Outstanding, beginning of the year	12,469,485	14,567,709	3,051,329	
Granted	22,459,993	22,459,993	1,160,068	
Exercised	(2,241,657)	(1,130,342)	-	
Forfeited	(3,283,081)	(5,826,620)	-	
Outstanding, end of the year	29,404,740	30,070,740	4,211,397	
Units exercisable, end of the year	n/a	n/a	4,211,397	

For the year ended December 31				2019
	RSU	PSU	DSU	
Outstanding, beginning of the year	14,940,646	6,994,360	2,029,748	
Granted	8,006,947	8,006,947	1,622,917	
Exercised	(8,035,608)	-	(601,336)	
Forfeited	(2,442,500)	(433,598)	-	
Outstanding, end of the year	12,469,485	14,567,709	3,051,329	
Units exercisable, end of the year	n/a	n/a	3,051,329	

For cash-settled share-based compensation plans, the Corporation recorded a compensation expense of \$8.6 million for the year ended December 31, 2020 (compensation expense of \$0.3 million for the year ended December 31, 2019). The carrying amount of liabilities associated with cash-settled share-based compensation plans is \$10.5 million as at December 31, 2020 (December 31, 2019 - \$2.2 million).

Measurement of fair values at grant date

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

Canadian \$, for the years ended December 31				2020	2019
RSU	\$	0.14	\$	0.49	
PSU		0.14		0.49	
DSU		0.16		0.32	

The intrinsic value of cash-settled share-based compensation awards vested and outstanding as at December 31, 2020 was \$10.5 million (December 31, 2019 - \$2.7 million).

Equity-settled stock option plan and options with tandem stock appreciation rights

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

Notes to the consolidated financial statements

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

The maximum number of stock options issuable is 17,500,000. The remaining number of options which may be issued under the stock option plan is 2,113,173 at December 31, 2020. Under the stock option plan, the exercise price of each option equals the volume-weighted average trading price over the five days prior to the date the option is granted. An option's maximum term is 10 years. Options vest on such terms as the Committee determines, generally in three equal instalments on the annual anniversary date of the grant of the options. When options with or without Tandem SARs are exercised, the related options are cancelled and the shares underlying such options are issued and are no longer available for issuance under the stock option plan.

The following is a summary of stock option activity:

	2020		2019	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Outstanding, beginning of the year	9,432,219	\$ 2.17	9,897,219	\$ 2.31
Forfeited	(143,799)	1.25	-	-
Expired	(310,389)	8.33	(465,000)	5.16
Outstanding, end of the year	8,978,031	\$ 1.97	9,432,219	\$ 2.17
Options exercisable, end of the year	8,824,930	\$ 1.98	8,569,533	\$ 2.27

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

Range of exercise prices	Number outstanding	2020		Number exercisable	Exercisable weighted-average exercise price
		Weighted-average remaining contractual life (years)	Weighted-average exercise price		
\$0.68 - \$1.20	4,769,514	5.4	\$ 0.82	4,769,514	\$ 0.82
\$1.21 - \$2.11	2,066,317	4.9	1.89	1,913,216	1.94
\$2.12 - \$3.00	1,032,200	3.3	3.00	1,032,200	3.00
\$3.01 - \$5.14	559,300	2.2	5.06	559,300	5.06
\$5.15 - \$9.10	550,700	0.8	7.21	550,700	7.21
Total	8,978,031	4.6	\$ 1.97	8,824,930	\$ 1.98

As at December 31, 2020, nil options with tandem SARs (December 31, 2019 – 310,389) and 8,978,031 options without tandem SARs (December 31, 2019 – 9,121,830) remained outstanding for which the Corporation has recognized a compensation recovery of \$0.4 million for the year ended December 31, 2020 (compensation expense of \$0.3 million for the year ended December 31, 2019). The carrying amount of liabilities associated with stock options with tandem SARs is nil as at December 31, 2020 (December 31, 2019 – nil).

22. SUPPLEMENTAL CASH FLOW INFORMATION

Accounting policies

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

Supporting information

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

Canadian \$ millions, for the years ended December 31		2020	2019
Trade accounts receivable, net, and unbilled revenue	\$	12.0	\$ 65.8
Inventories		6.6	(2.7)
Prepaid expenses		(1.0)	(0.2)
Trade accounts payable and accrued liabilities		(15.7)	(37.3)
Deferred revenue		2.7	(17.3)
	\$	4.6	\$ 8.3

Interest received includes the following:

Canadian \$ millions, for the years ended December 31		2020	2019
Interest received on finance lease receivables	\$	0.3	\$ 0.3
Interest received on the Energas conditional sales agreement ⁽¹⁾		44.6	2.9
Other interest received		1.1	2.5
	\$	46.0	\$ 5.7

(1) During the year ended December 31, 2020, General Nickel Company S.A., Sherritt's joint venture partner, redirected US\$20.0 million of its share of distributions from the Moa Joint Venture to the Corporation to be applied against amounts owing to Sherritt from Energas (note 10) (nil for the year ended December 31, 2019). Interest received on the Energas conditional sales agreement reflects this redirection net of a 33⅓% elimination.

Interest paid includes the following:

Canadian \$ millions, for the years ended December 31	Note	2020	2019
Interest paid on lease liabilities	18, 25	\$ (0.9)	\$ (1.0)
Interest paid on senior unsecured debentures		-	(45.8)
Interest paid on 8.50% second lien secured notes due 2026		(5.0)	-
Other interest paid		(1.4)	(0.7)
		\$ (7.3)	\$ (47.5)

Other operating items includes the following:

Canadian \$ millions, for the years ended December 31	Note	2020	2019
Add (deduct) non-cash items:			
Accretion expense on environmental rehabilitation provisions	11, 19	\$ 0.3	\$ 0.3
Share-based compensation expense	8	8.2	0.6
Other items		3.0	-
Cash flows arising from changes in:			
Other finance charges		(1.1)	(1.9)
Realized foreign exchange gain (loss)	11	0.5	(1.0)
		\$ 10.9	\$ (2.0)

23. FINANCIAL RISK AND CAPITAL RISK MANAGEMENT

COVID-19 and other pandemic risk

The Corporation's operations are subject to the risk of emerging infectious diseases or the threat of outbreaks of viruses or other contagions or epidemic diseases, including the novel COVID-19 pandemic. Management is currently monitoring and regularly assessing the short and medium-term impacts of COVID-19, including for example supply chain, mobility, workforce, market and trade flow impacts, as well as the resilience of Canadian, Cuban and other global financial markets to support recovery. Any longer term impacts are also being considered and monitored, as appropriate. However, this pandemic continues to evolve and its full effects on our own operations are uncertain. It is possible that in the future operations may be temporarily shut down or suspended for indeterminate amounts of time, any of which may, individually or in the aggregate, have a material and adverse impact on our business, results of operations and financial performance. The extent to which COVID-19 may impact the Corporation's business and operations will depend on future developments that are highly uncertain and cannot be accurately predicted, including new information which may emerge concerning the severity of and the actions required to contain COVID-19 or remedy its impact.

The global response to the COVID-19 pandemic has resulted in, among other things, border closures, severe travel restrictions, as well as quarantine, self-isolation and other emergency measures imposed by various governments. Additional government or regulatory actions or inactions around the world in jurisdictions where the Corporation operates may also have potentially significant economic and social impacts. If the business operations of the Corporation are disrupted or suspended as a result of these or other measures, it may have a material adverse effect on the Corporation's business, results of operations and financial performance. There are potentially significant adverse impacts of COVID-19 which may include decreased demand or the inability to sell nickel or cobalt or declines in the price of nickel and cobalt or other unknown but potentially significant impacts. COVID-19 and efforts to contain it may have a significant effect on commodity prices, and the possibility of a prolonged global economic downturn may further impact commodity demand and prices.

Risk management policies and hedging activities

The Corporation is sensitive to changes in commodity prices, foreign exchange rates and interest rates. The Corporation's Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Corporation reduces the business-cycle risks inherent in its commodity operations through industry diversification and the limited use of options, discussed below in the liquidity risk and commodity price risk sections.

Credit risk

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

Cuba

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

Canadian \$ millions, as at	2020		2019	
	December 31		December 31	
Cash	\$	82.9	\$	89.8
Trade accounts receivable, net, and unbilled revenue		47.5		43.0
Advances and loans receivable		295.5		594.8
Total	\$	425.9	\$	727.6

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

Allowance for expected credit losses

The Corporation uses a three-stage approach to measure an ACL, using an ECL approach as required under IFRS 9 for financial assets measured at amortized cost as described in note 14.

The following table presents the Corporation's financial assets measured at amortized cost, the stage that they are in for ACL measurement and the balance of the ACL as at December 31, 2020. The gross carrying value of the financial asset best represents the maximum exposure to credit risk at the reporting date:

Canadian \$ millions	Note	ECL stage ⁽¹⁾	Gross carrying value	ACL	Net carrying value
Trade accounts receivable, net ⁽²⁾	14	n/a	\$ 161.2	\$ (21.4)	\$ 139.8
Energas conditional sales agreement ⁽³⁾	15	2	197.0	-	197.0
Other financial assets ⁽²⁾	15	1	4.5	-	4.5

- (1) The Corporation's financial assets that are in stage 2 have experienced significant increases in credit risk since initial recognition. The Corporation's assessment that a significant increase in credit risk since initial recognition has occurred is based on a combination of factors that are expected to adversely impact the borrower's ability to meet its debt obligations, which include but are not limited to changes in: the business of the borrower, market and economic conditions, financial and regulatory environment, loan documentation and past due information.
- (2) For trade accounts receivable, net, and finance lease receivables included in other financial assets, the Corporation has applied the simplified approach in IFRS 9 to measure the ACL at lifetime ECL. The Corporation determines the ACL based on the past due status of the debtors, adjusted as appropriate to reflect current and estimated future economic conditions.
- (3) For the Energas conditional sales agreement, contractual payments on this financial asset are more than 90 days past due. However, based on historical experience with the borrower repaying similarly structured agreements with similar past due status and the Corporation's current estimate of forecasted cash flows indicating full repayment is expected to occur, this financial asset is in stage 2 with an ACL of nil.

Liquidity risk

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

The main factors that affect liquidity include realized sales prices, collection of receivables, production levels, cash production costs, working capital requirements, capital expenditure requirements, scheduled repayments of non-current 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, derivatives and debt and equity capital markets.

Based on management's assessment of its financial position and liquidity profile as at December 31, 2020, the Corporation will be able to satisfy its current and non-current obligations as they come due.

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

Notes to the consolidated financial statements

Financial obligation maturity analysis

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

Canadian \$ millions, as at December 31, 2020	Total	Falling due within 1 year	Falling due between 1-2 years	Falling due between 2-3 years	Falling due between 3-4 years	Falling due between 4-5 years	Falling due in more than 5 years
Trade accounts payable and accrued liabilities	\$ 135.0	\$ 135.0	\$ -	\$ -	\$ -	\$ -	\$ -
Income taxes payable	12.3	12.3	-	-	-	-	-
8.50% second lien secured notes due 2026	561.3	30.4	30.4	30.4	43.0	57.1	370.0
10.75% unsecured PIK option notes due 2029	194.2	-	-	-	-	-	194.2
Syndicated revolving-term credit facility	8.5	-	8.5	-	-	-	-
Provisions	133.3	2.5	3.4	5.0	-	0.5	121.9
Lease liabilities	20.6	2.4	2.6	2.5	2.4	2.4	8.3
Other	0.3	-	-	0.3	-	-	-
Total	\$ 1,065.5	\$ 182.6	\$ 44.9	\$ 38.2	\$ 45.4	\$ 60.0	\$ 694.4

As a result of the Corporation's 50% interest in the Moa Joint Venture, its proportionate share of significant undiscounted commitments of the joint venture include accounts payable of \$25.7 million, income taxes payable of \$6.0 million, loans and borrowings of \$16.2 million, environmental rehabilitation commitments of \$85.7 million and lease commitments of \$3.7 million.

Market risk

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

Foreign exchange risk

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

Based on financial instrument balances as at December 31, 2020, a weakening or strengthening of \$0.05 of the Canadian dollar to the U.S. dollar with all other variables held constant could have a unfavourable or favourable impact of approximately \$2.1 million, respectively, on the Corporation's net earnings (loss).

Based on financial instrument balances as at December 31, 2020, a weakening or strengthening of \$0.05 of the Canadian dollar to the U.S. dollar with all other variables held constant could have a favourable or unfavourable impact of approximately \$3.9 million, respectively, on the Corporation's other comprehensive income (loss).

Commodity price risk

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

The Corporation has the ability to address its price-related exposures through the limited use of options, future and forward contracts, and entered into put options on nickel during the year ended December 31, 2020 (nil for the year ended December 31, 2019). Sherritt also reduces the business-cycle risks inherent in its commodity operations through industry diversification.

The Corporation's commodity put options will result in gains and cash inflows if the LME monthly average nickel price is below US\$6.50/lb. and/or US\$7.00/lb. and the options are exercised. If the LME monthly average nickel price is above US\$6.50/lb. and/or US\$7.00/lb., the options will not be exercised and will result in losses and no cash inflows. The Corporation discloses further information regarding commodity put options in note 15.

Based on the balance of commodity put options as at December 31, 2020, a US\$2.00 decrease in the nickel price could increase the Corporation's net earnings (loss) by approximately \$19.3 million if this price were sustained during 2021, as all of the options would be in-the-money. A US\$2.00 increase in the nickel price could decrease the Corporation's net earnings (loss) by approximately \$5.7 million if this price were sustained during 2021, as all of the options would be out-of-the-money.

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

Interest rate risk

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

Based on the balance of current and non-current loans and borrowings, cash equivalents, short-term investments, and current and non-current advances and loans receivable at December 31, 2020, excluding interest capitalized to project costs, a 1.0% decrease or increase in the market interest rate would not have a material impact on the Corporation's net earnings (loss). The Corporation does not engage in hedging activities to mitigate its interest rate risk.

Share-based compensation risk

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

Potential fluctuations in the price of Sherritt's common shares would have an impact on share-based compensation expense. Based on balances at December 31, 2020, a \$0.50 decrease in the price of the Corporation's common shares could increase the Corporation's net earnings (loss) by approximately \$10.1 million. A \$0.50 increase in the price of the Corporation's common shares could decrease the Corporation's net earnings (loss) by approximately \$12.6 million. This impact on the Corporation's net earnings (loss) is not reflective of the share-based compensation risk exposure during the year, as the sensitivity analysis was performed using the Corporation's share price as at December 31, 2020, which was significantly higher than the price of the Corporation's common shares during the majority of the year ended December 31, 2020.

Capital risk management

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

Canadian \$ millions, as at	2020		2019	
	December 31		December 31	
Capital stock	\$	2,894.9	\$	2,894.9
Deficit		(2,880.1)		(2,902.3)
Loans and borrowings		441.4		713.6
Other financial liabilities		29.5		22.8
Available credit facilities		59.5		16.7

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

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

Notes to the consolidated financial statements

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

Refer to note 18 for the Corporation's compliance with financial covenants as at December 31, 2020.

24. RELATED PARTY TRANSACTIONS

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

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

A description of the Corporation's interests in jointly controlled entities is included in note 10. As a result of the Transaction (note 4), the Ambatovy Joint Venture ceased to be a related party of the Corporation on August 31, 2020 (note 5).

Canadian \$ millions, for the years ended December 31	2020	2019
Total value of goods and services:		
Provided to joint operations	\$ 12.7	\$ 14.0
Provided to joint venture	204.1	240.6
Provided to associate ⁽¹⁾	1.2	1.9
Purchased from joint venture	618.2	681.0
Net financing income from joint operations	14.4	14.4
Net financing income from joint venture	4.4	8.7
Net financing income from associate ⁽¹⁾	8.0	18.9

(1) During the year ended December 31, 2020, the Corporation completed the Transaction (note 4) and the Ambatovy Joint Venture Interests met the criteria to be classified and presented as discontinued operations (note 5). As a result of the Transaction, components of comprehensive income (loss) related to the Ambatovy Joint Venture were reclassified to the loss from discontinued operations, net of tax (note 5).

Canadian \$ millions, as at	Note	2020 December 31	2019 December 31
Accounts receivable from joint operations	14	\$ 0.3	\$ 0.1
Accounts receivable from joint venture	14	13.8	15.8
Accounts receivable from associate		-	11.8
Accounts payable to joint venture		66.7	68.8
Accounts payable to associate		-	5.1
Advances and loans receivable from joint operations	15	197.0	228.4
Advances and loans receivable from joint venture	15	-	252.2
Advances, loans and other receivables from associate	5, 15	-	115.3

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

Key management personnel

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

Canadian \$ millions, for the years ended December 31	2020	2019
Short-term benefits	\$ 10.5	\$ 9.1
Post-employment benefits ⁽¹⁾	0.3	0.4
Share-based payments	4.0	5.2
	\$ 14.8	\$ 14.7

(1) Post-employment benefits include a non-registered defined contribution executive supplemental pension plan. The total cash pension contribution for key management personnel was \$0.3 million for the year ended December 31, 2020 (\$0.3 million for the year ended December 31, 2019). The total pension expense that is attributable to key management personnel was nil for the year ended December 31, 2020 (nil for the year ended December 31, 2019).

25. LEASES

Accounting policies

At inception of a contract, the Corporation assesses whether a contract is or contains a lease based on the definition of a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Corporation as a lessee

The Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises: the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date; less, any lease incentives received; plus, any initial direct costs incurred; plus, an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, unless those costs are incurred to produce inventories.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term. The estimated useful life of the underlying asset is determined on the same basis as that of property, plant and equipment. The lease term is the non-cancellable period of a lease, including periods covered by an option to extend the lease if the Corporation is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Corporation is reasonably certain not to exercise that option. The carrying amount of the right-of-use asset is periodically reduced by impairment losses when an impairment indicator is present and an impairment loss is identified, if any, and adjusted for certain remeasurements of the lease liability, if any.

The lease liability is initially measured at the present value of future lease payments not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the lessee's incremental borrowing rate. Generally, the Corporation uses the lessee's incremental borrowing rate as the discount rate.

The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a lease modification, a change in future lease payments arising from a change in an index or rate, if there is a change in the Corporation's estimate of the amount expected to be payable under a residual value guarantee, or if the Corporation changes its assessment of whether it will exercise a purchase, extension, or termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the Corporation. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the consolidated statements of comprehensive income (loss) if the carrying amount of the right-of-use asset is zero. When a lease modification results in a decrease in scope, the carrying amount of the right-of-use asset is reduced on remeasurement and any gains or losses are recognized in the consolidated statements of comprehensive income (loss).

The Corporation presents right-of-use assets in property, plant and equipment and lease liabilities in other financial liabilities in the consolidated statements of financial position.

Non-lease components

The Corporation has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component for all classes of assets.

Notes to the consolidated financial statements

Leases of intangible assets

The Corporation, as a lessee, elected not to apply IFRS 16 to leases of intangible assets. Intangible assets are accounted for in accordance with IAS 38 Intangible Assets.

Short-term leases and leases of low-value assets

The Corporation has elected not to recognize right-of-use assets and lease liabilities for short-term leases with a lease term of 12 months or less and leases of low-value assets. The Corporation recognizes the lease payments associated with these leases as an expense in the consolidated statements of comprehensive income (loss) on a straight-line basis over the lease term.

Corporation as a lessor

When the Corporation acts a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Corporation makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Corporation considers certain indicators such as whether the lease is for a major part of the economic life of the asset.

When the Corporation is an intermediate lessor, it accounts for its interest in the head lease and sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Corporation applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Corporation applies IFRS 15 Revenue from contracts with customers (IFRS 15) to allocate the consideration in the contract.

The Corporation recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of other revenue presented in revenue in the consolidated statements of comprehensive income (loss).

Revenue is recognized over the lease term of a finance lease. The present value of the lease payments is recognized as a finance lease receivable presented in advances, loans receivable and other financial assets in the consolidated statements of financial position. The difference between the gross finance lease receivable and the present value of the lease payments is initially recognized as unearned interest and presented as a deduction to the gross finance lease receivable. Interest income is recognized in the consolidated statements of comprehensive income (loss) over the lease term to reflect a constant periodic rate of return on the Corporation's net investment in the lease.

Critical accounting estimates

Incremental borrowing rate used to determine the present value of the Corporation's lease liabilities

The measurement of the Corporation's lease liabilities depends on the interest rate implicit in the lease used to discount the remaining lease payments. If the interest rate implicit in the lease cannot be readily determined, the lease payments are discounted using the incremental borrowing rate. The incremental borrowing rate is the rate of interest that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Significant assumptions are required to be made on the basis for which the rate is derived. These assumptions are considered to be a key source of estimation uncertainty as relatively small changes in the assumptions used may have a significant effect on the Corporation's financial statements.

Supporting information

Corporation as a lessee

The Corporation's portfolio of leases primarily consists of office space, machinery and equipment and computer and telecommunications hardware. The Corporation's lease liabilities are disclosed in notes 18 and 23.

Amounts recognized in the consolidated statements of comprehensive income (loss):

Canadian \$ millions, for the years ended December 31		2020	2019
Expenses for variable lease payments not included in the measurement of lease liabilities	\$	1.7	\$ 1.7
Expenses relating to short-term leases		3.3	6.0
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets		-	0.2

Amounts recognized in the consolidated statements of cash flows:

Canadian \$ millions, for the years ended December 31	Note	2020	2019
Interest paid on lease liabilities	18, 22	\$ 0.9	\$ 1.0
Principal repayments on lease liabilities	18	1.8	3.3
Included in net loss from continuing operations:			
Variable lease payments not included in initial measurement of lease liability		1.7	1.7
Payments for short-term leases (for which no lease liability is recognized)		3.3	6.0
Payments for low-value asset leases (for which no lease liability is recognized)		-	0.2
		\$ 7.7	\$ 12.2

Corporation as a lessor

The Corporation acts as a lessor in an operating lease of office space and in finance sub-leases of office and storage space. The Corporation's finance lease receivables are disclosed in note 15.

The Corporation's undiscounted lease payments to be received on finance lease receivables are presented in the following table:

Canadian \$ millions, as at December 31, 2020	Receivable						Total	Unearned finance income	Net investment in the lease (note 15)
	in 1 year	in 1-2 years	in 2-3 years	in 3-4 years	in 4-5 years	in 5 years			
Undiscounted lease receipts on finance leases	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.1	\$ -	\$ 5.1	\$ 0.7	\$ 4.4

26. COMMITMENTS FOR EXPENDITURES

Canadian \$ millions, as at December 31	2020
Property, plant and equipment commitments	\$ 4.9
Joint venture:	
Property, plant and equipment commitments	16.3

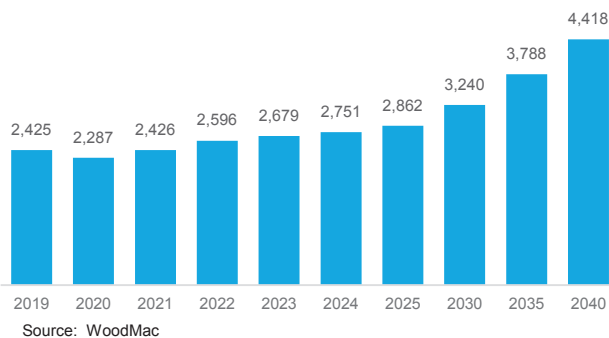
The future of nickel has never looked brighter

2020 was a volatile year for the mining industry – the COVID-19 pandemic has caused tremendous uncertainty and tragedy; the geopolitical situation was one of turmoil as governments dealt with trade wars, economic uncertainty and an erratic U.S. political environment; and the mining industry was forced to address production and supply issues as mines and traditional markets shutdown in the wake of the pandemic.

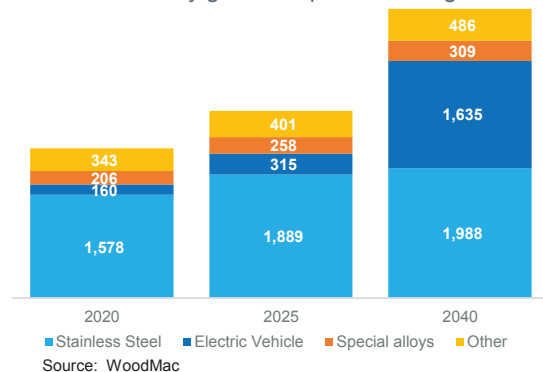
2021 and beyond, however, continues to look positive for nickel as markets begin to look to continuing long-term growth in stainless steel, exponential growth in the electric vehicle/battery markets, and a looming nickel supply deficit continues to make the future of nickel bright.

As a low-cost, high purity producer of high purity nickel, Sherritt is poised to take advantage of growing demand as it continues to capitalize on its operational excellence initiatives and produce nickel and cobalt to feed the expanding stainless steel and EV battery markets.

82% nickel demand growth expected through 2040



900%+ EV battery growth expected through 2040



2021 Guidance

Moa JV (100%)

Finished nickel production	32,000 – 34,000 tonnes
Finished cobalt production	3,300 – 3,600 tonnes
Net direct cash cost:	US\$4.25 - \$4.75/lb
Capital Spending	US\$44M*

Power (33 1/3%)

Electricity production	450 – 500 GWh
Unit Cost per MWh:	US\$30.50 - \$32.00
Capital Spending	US\$1M

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

Shareholder Information

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