Sherritt Reports First-Quarter 2013 Results

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All amounts are Canadian dollars unless otherwise indicated

TORONTO, ONTARIO -- (Marketwired - April 24, 2013) - Sherritt International Corporation ("Sherritt" or the "Corporation") (TSX:S) today reported net earnings of $23.1 million ($0.08 per share, basic), compared to net earnings of $32.4 million ($0.11 per share, basic) for first-quarter 2012.

Earnings were lower quarter-over-quarter due to lower reference pricing and sales volumes for nickel, cobalt, export coal, and oil, resulting from continued downward pressure on pricing and demand in these commodity markets.

Financial Highlights

- Operating cash flow for first-quarter 2013 was $48.0 million, compared to $100.4 million in first-quarter 2012.

- Spending on capital and intangibles relating to operations totaled $51.6 million for first-quarter 2013, compared to $40.9 million in first-quarter - Cash, cash equivalents and short-term investments were $442.2 million at March 31, 2013.

Sales Volumes

- Sales volumes for first-quarter 2013 (Sherritt's share) totaled 8.6 million pounds of finished nickel, 0.9 million pounds of finished cobalt, 6.3 million tonnes of thermal coal, 1.0 million barrels of oil and 160 GWh of electricity.

- Sales volumes in first-quarter 2013 do not include sales from the Ambatovy Joint Venture. Finished metal sold from the Ambatovy Joint Venture will not be categorized as sales volumes until the declaration of commercial production, defined as 70% of ore throughput of nameplate capacity in the Pressure Acid Leach (PAL) circuit over a thirty-day period.

Operating Highlights

- In Metals, record quarterly finished metal production (13,632 tonnes of finished nickel and 1,350 tonnes of cobalt, 100% basis) was achieved, due to the addition of production from the Ambatovy Joint Venture.

- At Ambatovy, the monthly average ore throughput in the Pressure Acid Leach (PAL) Circuit reached 53% in March 2013.

- The successful ramp-up of Ambatovy continued during the quarter, as all five autoclaves in the PAL circuit were operable during the quarter.

- In September 2012, Ambatovy received a six-month authorization (Operating Permit) to commercially operate the processing plant in Toamasina, Madagascar, which was to automatically convert to a life-of-mine Operating Permit. On March 12, 2013, Madagascar's Minister of Mines confirmed to Ambatovy its right to continue to operate in accordance with its Operating Permit.

- In Coal, full export capacity for Mountain Operations resumed during the quarter, as damage to Berth 1 at Westshore Terminals was repaired and operations at the berth resumed.

Accounting Change

- On January 1, 2013, new IFRS accounting provisions for joint arrangements came into effect (IFRS 11).

The main change as a result of adopting the new standard was the accounting treatment of the Moa Joint Venture in the Metals business. Under IFRS 11, proportionate consolidation of joint ventures is no longer permitted. As a result, from January 1, 2013 forward, the Moa Joint Venture will be classified as an "investment in a joint venture" and will be accounted for as an equity investment. In terms of presentation, there are two main changes:

1. The results of the Moa Joint Venture are no longer proportionately included in all of the line items of the statement of comprehensive income (income statement). Instead, the Corporation's share of the net operating results in the Moa Joint Venture (50%) is included in the "share of earnings (loss) of a joint venture" on the statement of comprehensive income. There is no significant change in the earnings as a result.

2. The Corporation's share of the assets and liabilities of the Moa Joint Venture (50%) were previously included in each line item of Sherritt's statement of financial position (balance sheet). Those items have been removed, and the net assets are now included in a single line item, "investment in a joint venture".

- To compensate for the Moa Joint Venture's proportionate financial statement information being removed from Sherritt's consolidated results, a new note in the financial statements (Note 8 - Joint Arrangements) has been added.

- The Metals business comparatives for historical performance have been restated to reflect the accounting change. A reconciliation of the consolidated statements as of January 1, 2012 is provided in Note 28 of the financial statements.

2013 Outlook

- There are no material changes to the 2013 Outlook on production, royalties and spending on capital presented in February 2013.

- In Power, as a result of delays encountered with equipment suppliers and with obtaining work visas in Cuba, the 150 MW Boca de Jaruco Combined Cycle Project is now scheduled to begin production in third-quarter 2013. Despite the change in the production start date, the Project is still expected to be fully operational by the end of the year and to remain within the total cost estimate of $271.0 million.

Summary Data
SUMMARY FINANCIAL DATA
($ millions unless otherwise noted) Q1 2013 Q1 2012
Revenue 286.5 359.4
Adjusted EBITDA(1) 98.9 145.9
Earnings from operations and associate and joint venture 60.5 86.2
Net earnings 23.1 32.4
Basic earnings per share ($ per share) 0.08 0.11
Diluted earnings per share ($ per share) 0.08 0.11
Net working capital balance(2) 850.1 964.1
Spending on capital and intangibles(3) 51.6 40.9
Total assets 6,664.7 6,478.3
Shareholders' equity 3,707.9 3,715.2
Long-term debt to total assets (%) 32 27
Weighted-average number of shares (millions)
Basic 296.5 296.2
Diluted 296.9 296.6
(1) For additional information see the 'Non-GAAP Measure - Adjusted EBITDA' section of this release.
(2) Net working capital is calculated as total current assets less total current liabilities.
(3) Spending on capital and intangibles includes accruals and does not include spending on the Ambatovy Joint Venture or service concession arrangements.

SUMMARY SALES DATA
(units as noted) Q1 2013 Q1 2012
Sales volumes
Nickel (thousands of pounds, 50% basis)(1) 8,631 9,555
Cobalt (thousands of pounds, 50% basis)(1) 909 1,017
Thermal coal - Prairie Operations (millions of tonnes) 5.7 8.1
Thermal coal - Mountain Operations (millions of tonnes) 0.6 0.8
Oil (boepd, net working-interest production) 10,871 11,455

Electricity (GWh, 33 1/3% basis) 160 155
Realized prices
Nickel ($/lb) (1) 7.85 8.66
Cobalt ($/lb) (1) 11.52 14.10
Thermal coal - Prairie Operations ($/tonne) 18.20 17.01
Thermal coal - Mountain Operations ($/tonne) 94.44 104.04
Oil ($/boe) 70.34 77.66
Electricity ($/MWh) 41.87 41.48
(1) Sales volumes and average realized prices do not include the impact of the Ambatovy Joint Venture.

Review of Operations
METALS
($ millions unless otherwise noted) Q1 2013 Q1 2012
Production
Mixed sulphides (Ni+Co contained, tonnes)
Moa Joint Venture (50% basis) 4,167 4,676
Ambatovy Joint Venture (40% basis) 3,121 -
Total 7,288 4,676
Nickel (tonnes)
Moa Joint Venture (50% basis) 3,902 4,299
Ambatovy Joint Venture (40% basis) 2,332 -
Total 6,234 4,299
Cobalt (tonnes)
Moa Joint Venture (50% basis) 405 477
Ambatovy Joint Venture (40% basis) 216 -
Total 621 477
Fertilizer (tonnes)
Moa Joint Venture (50% basis), Fort Site (100% basis) 59,395 66,121
Ambatovy Joint Venture (40% basis) 8,783 -
Total 68,178 66,121
Sales (1)
Nickel (thousands of pounds, 50% basis) 8,631 9,555
Cobalt (thousands of pounds, 50% basis) 909 1,017
Fertilizer (tonnes) 31,513 26,627
Reference prices(1)
Nickel (US$/lb) 7.85 8.91
Cobalt (US$/lb)(2) 11.95 14.59
Realized prices(1)
Nickel ($/lb) 7.85 8.66
Cobalt ($/lb) 11.52 14.10
Unit operating costs (US$/lb) (1)
Mining, processing and refining costs 7.00 6.50
Third-party feed costs 0.22 0.14
Cobalt by-product credits (1.20) (1.50)
Other (0.03) (0.01)
Net direct cash costs of nickel(3) 5.99 5.13
Natural gas ($/GJ) 3.21 2.14
Fuel oil (US$/tonne) 641 692
Sulphur (US$/tonne) 238 274
Sulphuric acid (US$/tonne) 163 198
Revenue ($ millions)
Nickel 67.8 82.8
Cobalt 10.5 14.4
Fertilizer, other 20.3 18.9
Metal marketing(4) 5.1 -
Total revenue 103.7 116.1
Adjusted EBITDA ($ millions)(5) 16.9 30.7
Depletion, depreciation and amortization 9.9 8.7
Earnings from operations and associate ($ millions) 7.0 22.0
Spending on capital ($ millions)(1) 4.7 5.8
(1) Sales volumes, reference and realized prices, unit operating costs and spending on capital do not include the impact of the Ambatovy Joint Venture.
(2) Average Metal Bulletin - Low Grade Cobalt published price.
(3) Net direct cash costs of nickel after cobalt and other by-product credits.
(4) Under the Ambatovy Joint Venture agreements, the Corporation established a marketing organization to buy, market and sell certain Ambatovy nickel production.
(5) For additional information see the 'Non-GAAP Measure - Adjusted EBITDA' section of this release.

Consolidated production of mixed sulphides (which is presented on a contained nickel + cobalt basis) of 16,136 tonnes (100% basis) was 73% (6,784 tonnes) higher than first-quarter 2012 as the addition of Ambatovy production in 2013 more than offset the production decline at Moa. Moa production during the quarter was affected by reduced haul truck availability, resulting from administrative delays in securing new trucks. Some haul trucks were delivered in first-quarter 2013 and the balance of the replacement fleet is expected to arrive in Moa by the end of June 2013. Outlook for full-year 2013 mixed sulphides production for the Moa Joint Venture remains unchanged, as the impact of the reduced haul truck availability is expected to be offset by increased production for the last half of the year.

First-quarter 2013 consolidated finished metal production was higher than the prior-year period as the addition of Ambatovy production more than offset the impact of reduced availability of Moa mixed sulphides. Consolidated finished nickel production of 13,632 tonnes (100% basis) was 59% (5,034 tonnes) higher than first-quarter 2012, and first-quarter 2013 finished cobalt production was 1,350 tonnes (100% basis), or 42% (396 tonnes) higher than the prior-year period.

Consolidated fertilizer production of 101,743 tonnes (100% basis) was 14% (12,469 tonnes) higher for first-quarter 2013 compared to the prior-year period, primarily reflecting the addition of Ambatovy production which more than offset lower ammonium sulphate production at the Fort Site that resulted from reduced Moa mixed sulphides processing.

Consolidated sales volumes of finished nickel, finished cobalt and fertilizer for first-quarter 2013 reflect sales only from the Moa Joint Venture and Fort Site operations. Finished metal and fertilizer sold from the Ambatovy Joint Venture will not be categorized as sales volumes until the declaration of commercial production, defined as 70% of ore throughput of nameplate capacity in the Pressure Acid Leach (PAL) circuit over a thirty-day period. First-quarter 2013 finished nickel sales volumes from the Moa Joint Venture were 10% (924,000 lbs, 50% basis), and finished cobalt sales volumes were 11% (108,000 lbs, 50% basis) lower than the prior-year period primarily due to reduced availability of Moa mixed sulphides, which could not be fully offset due to the limited availability of third-party feeds. Fertilizer sales volumes (50% Moa Joint Venture, 100% Fort Site), were 18% (4,886 tonnes) higher for first-quarter 2013 compared to the prior-year period, due to strong demand in anticipation of the spring application season in Western Canada.

For accounting purposes, all revenues from the sale of Ambatovy nickel and cobalt will be capitalized until commercial production is reached. Finished metals sales volumes for first-quarter 2013 at the Ambatovy Joint Venture included approximately 11.2 million pounds (100% basis) of finished nickel and 1.0 million pounds (100% basis) of finished cobalt.

Average metals reference prices were lower in first-quarter 2013 compared to the prior-year period. The average nickel reference price was 12% (US$1.06/lb) lower, and the average cobalt reference price was 18% (US$2.64/lb) lower for first-quarter 2013 compared to first-quarter 2012.

The net direct cash cost of nickel in the Moa Joint Venture for first-quarter 2013 was 17% (US$0.86/lb) higher than the prior-year period due to lower cobalt by-product credits, higher refining costs and higher third-party feed costs. While lower input commodity prices largely offset the unit cost impact of lower mixed sulphide production, refining costs were higher quarter-over-quarter, as certain maintenance work which was scheduled for later in the year, was moved to first-quarter 2013 to take advantage of the period of lower feed availability. Costs at the refinery during first-quarter 2013 were also affected by a 50% increase in natural gas prices compared to first-quarter 2012.

Spending on capital in first-quarter 2013 for the Moa Joint Venture was 19% ($1.1 million, 50% basis) lower than in the prior-year period, mainly due to the exclusion of capitalized interest relating to the Moa Joint Venture's Phase 2 expansion and acid plant construction, which ceased during first-quarter 2012 due to prolonged administrative delays.

Ambatovy Update

During first-quarter 2013, average ore throughput of approximately 43% of nameplate capacity was achieved in the PAL circuit, compared to 39% in fourth-quarter 2012. In March 2013, average ore throughput in the PAL circuit was approximately 53%. All five autoclaves in the PAL circuit were operable during the quarter and total autoclave operating hours in first-quarter 2013 were 5,327 hours.

In September 2012, Ambatovy received a six-month authorization (Operating Permit) to commercially operate the processing plant in Toamasina, Madagascar, which was to automatically convert to a life-of-mine Operating Permit. On March 12, 2013, Madagascar's Minister of Mines confirmed to Ambatovy its right to continue to operate in accordance with its Operating Permit.

Total capital costs for Ambatovy remained US$5.3 billion (100% basis), below the US$5.5 billion (100%

basis) estimate. Total project costs for first-quarter 2013 of US$139.8 million (100% basis) were 55% (US$173.0 million) lower than fourth-quarter 2012. Cumulative total project costs to March 31, 2013 were US$6.9 billion (100% basis), including financing charges, working capital and foreign exchange, and will continue to vary until commercial production is declared. The most significant variability in total project costs is most likely to arise from the working capital component and the offsetting production revenue component (which is netted from these costs).

During first-quarter 2013, a total of US$139.0 million (100% basis) in funding was provided by the Ambatovy Joint Venture partners, 56% ($173.5 million, 100% basis) lower than in fourth-quarter 2012. Sherritt's 40% share of funding (US$55.6 million) in first-quarter 2013 was sourced from cash on hand.

The Ambatovy operations are expected to reach commercial production in 2013. Commercial production is the point at which all operating costs, net of revenue, cease to be capitalized.
COAL
($ millions unless otherwise noted) Q1 2013 Q1 2012
Production (millions of tonnes)
Prairie Operations 5.6 8.6
Mountain Operations 0.8 1.0
Sales (millions of tonnes)
Prairie Operations 5.7 8.1
Mountain Operations 0.6 0.8
Realized prices ($/tonne)
Prairie Operations(1) 18.20 17.01
Mountain Operations 94.44 104.04
Unit operating costs ($/tonne)
Prairie Operations(1) 13.97 13.32
Mountain Operations 91.05 89.08
Revenue ($ millions)
Prairie Operations
Mining revenue 112.2 145.6
Coal royalties 7.5 10.8
Potash royalties 3.2 2.7
Mountain Operations and other assets 56.6 86.2
Total revenue 179.5 245.3
Adjusted EBITDA ($ millions)(2)
Prairie Operations 35.5 43.5
Mountain Operations and other assets 2.1 9.6
Total Adjusted EBITDA 37.6 53.1
Depletion, depreciation and amortization 26.2 27.3
Earnings (loss) from operations ($ millions) 33.4 25.8
Spending on capital ($ millions)
Prairie Operations 13.0 7.2
Mountain Operations and other assets 20.3 16.1
Total spending on capital 33.3 23.3
(1) Prairie Operations realized pricing and unit operating costs exclude royalties and the results of the char and activated carbon businesses.
(2) For additional information see the 'Non-GAAP Measure - Adjusted EBITDA' section of this release.

On January 17, 2013, Prairie Operations transferred operations of the Highvale mine to the customer/owner and the mining contract was terminated. While the customer/owner has assumed responsibility for direct mining activities, the transition process for certain other services is expected to be completed by the end of second-quarter 2013. In first-quarter 2013, the Corporation received $13.4 million in cash from the customer/owner upon transfer of mobile equipment at net book value following payment of the associated finance lease obligations and resulted in no accounting gain or loss. In addition, during the quarter, the Corporation recognized a non-cash gain of $39.3 million upon transfer of the hourly defined benefit pension plan to the customer/owner which was partially offset by a non-cash impairment of $17.3 million for intangible assets associated with this mining contract.

Production volumes for first-quarter 2013 in Prairie Operations were 35% (3.0 million tonnes) lower than the prior-year period, reflecting the transfer of the Highvale contract in January. Production volumes at Mountain Operations were 20% (0.2 million tonnes) lower for first-quarter 2013 compared to the prior-year period, as operations at the Obed Mountain mine were suspended in fourth-quarter 2012.

Sales volumes for first-quarter 2013 in Prairie Operations were 30% (2.4 million tonnes) lower than the prior-year period, reflecting the transfer of the Highvale contract in January. First-quarter 2013 sales volumes at Mountain Operations were 25% (0.2 million tonnes) lower than first-quarter 2012, the result of several factors, including: inadequate rail service from the operations to the port in first-quarter 2013, reduced shipping capacity at the port, and the suspension of Obed Mountain mine production in late 2012. In December 2012, damage to Berth 1 at Westshore Terminals reduced Sherritt's shipping capacity to approximately 46% until February 2013. Westshore is the primary port for Mountain Operations export. Inventory that accumulated during the period of restricted port capacity is expected to be sold over the course of the year, subject to the resumption of normal rail and port capacity.

Realized pricing (excluding royalties, char and activated carbon) for first-quarter 2013 at Prairie Operations was 7% ($1.19/tonne) higher than the prior-year period due to reduction in sales volumes from the termination of the Highvale contract and higher revenues at the Boundary Dam mine compared to the prior-year period, which was negatively affected by lower customer demand. Realized pricing at Mountain Operations for first-quarter 2013 was 9% ($9.60/tonne) lower for first-quarter 2013, compared to the prior-year period, due to weaker thermal export coal pricing, partially offset by a weaker Canadian dollar relative to the U.S. dollar.

Unit operating costs at Prairie Operations were 5% ($0.65/tonne) higher, compared to the prior-year period, due mainly to lower production volumes from the Boundary Dam mine and as a result of the transfer of the Highvale contract, as well as increased operating costs resulting from major dragline maintenance at the Poplar River and Genesee mines. The dragline maintenance work was completed during the quarter and both draglines have been returned to service.

While the volume associated with the Highvale contract declined, the financial contribution remained largely unchanged as the management fee continues to be earned for the first six months of 2013.

Unit operating costs at Mountain Operations were 2% ($1.97/tonne) higher than first-quarter 2012. Unit operating costs increased mainly due to lower production volumes resulting from the suspension of operations at the Obed Mountain mine in fourth-quarter 2012. At the Coal Valley mine, unit operating costs decreased quarter-over-quarter due to higher dragline productivities and higher plant yield from improved coal quality.

Royalties for first-quarter 2013 were 21% ($2.8 million) lower than the prior-year period, due to a decline in coal royalties resulting from the timing of mining activities in royalty assessable areas at two mines. Lower coal royalties during the period were partially offset by higher potash royalties arising from the addition of a new, long-term royalty stream from a potash producer.

Spending on capital at Prairie Operations for first-quarter 2013 was 81% ($5.8 million) higher than in the prior-year period, reflecting capital additions for Paintearth earth-moving equipment required to enter a new mining area, as well as major dragline repairs at the Genesee and Poplar River mines. Spending on capital at Mountain Operations was 26% ($4.2 million) higher for first-quarter 2013 compared to first-quarter 2012, due the arrival of haul trucks at the Coal Valley mine. This spending represents the majority of 2013 expected lease additions in Mountain Operations.
OIL AND GAS
($ millions unless otherwise noted) Q1 2013 Q1 2012
Production (boepd)(1)
Gross working-interest - Cuba(2), (3) 19,551 20,079
Net working-interest(4)
Cuba - cost recovery 2,631 3,069
Cuba - profit oil 7,614 7,655
Cuba - total 10,245 10,724
Spain 290 376
Pakistan 336 355
Total net working-interest 10,871 11,455
Reference prices (US$/bbl)
U.S. Gulf Coast Fuel Oil No.6 97.07 108.06
Brent crude 113.59 119.70
Realized prices
Cuba ($/bbl) 71.17 78.47
Spain ($/bbl) 112.99 120.21
Pakistan ($/boe) 8.26 8.08
Weighted average ($/boe) 70.34 77.66
Unit operating costs
Cuba ($/bbl) 12.24 13.06
Spain ($/bbl) 14.62 46.51
Pakistan ($/boe) 7.95 2.74
Weighted average ($/boe) 12.18 13.94
Revenue ($ millions) 71.1 82.2
Adjusted EBITDA ($ millions)(5) 57.4 65.2

Depletion, depreciation and amortization 16.0 18.8
Earnings from operations ($ millions) 41.4 46.4
Spending on capital ($ millions)(6) 11.5 9.4
(1) Oil production is stated in barrels of oil per day ("bopd"). Natural gas production is stated in barrels of oil equivalent per day ("boepd"), which is converted at 6,000 cubic feet per barrel.
(2) In Cuba, Oil and Gas delivers all of its gross working-interest oil production to Union Cubapetroleo (CUPET) at the time of production. Gross working-interest oil production excludes: (i) production from wells for which commercial viability has not been established in accordance with production-sharing contracts, and (ii) working-interest of other participants in the production sharing contracts.
(3) Gross working-interest oil production is allocated between Oil and Gas and CUPET in accordance with production-sharing contracts. The Corporation's share, referred to as 'net working-interest oil production', includes: (i) cost recovery oil (based upon the recoverable capital and operating costs incurred by Oil and Gas under each production-sharing contract), and (ii) a percentage of profit oil (gross working-interest production remaining after cost recovery oil is allocated to Oil and Gas). Cost recovery pools for each production-sharing contract include cumulative recoverable costs, subject to certification by CUPET, less cumulative proceeds from cost recovery oil allocated to Oil and Gas. Cost recovery revenue equals capital and operating costs eligible for recovery under the production-sharing contracts.
(4) Net working-interest production (equivalent to net sales volume) represents the Corporation's share of gross working-interest production.
(5) For additional information see the 'Non-GAAP Measure - Adjusted EBITDA' section of this release.
(6) Exploration and evaluation spending incurred prior to the technical feasibility and commercial viability of extracting the resources is recorded as an intangible asset.

Gross working-interest (GWI) oil production in Cuba was 3% (528 bopd) lower for first-quarter 2013 compared to the prior-year period, primarily due to natural reservoir declines, partially offset by production from a new well completed during the quarter, and the optimization of production from existing wells. Cost-recovery oil production in Cuba for first-quarter 2013 was 14% (438 bopd) lower than first-quarter 2012, primarily due to lower cost-recovery spending, partially offset by lower oil prices. Profit-oil production, which represents Sherritt's share of production after cost recovery volumes are deducted from GWI volumes, was relatively unchanged for the comparable periods. Net working-interest production in Spain and Pakistan was lower in first-quarter 2013 compared to the prior-year period due to natural reservoir declines.

The average-realized price for oil produced in Cuba was 9% ($7.30/bbl) lower in first-quarter 2013 compared to the prior-year period, primarily due to a lower U.S. Gulf Coast Fuel Oil No. 6 reference price, partially offset by a weaker Canadian dollar relative to the U.S. dollar. The average-realized price for oil produced in Spain was 6% ($7.22/bbl) lower in first-quarter 2013 compared to the prior-year period, primarily as a result of a lower Brent reference price, partially offset by a weaker Canadian dollar relative to the U.S. dollar.

Unit operating costs in Cuba during first-quarter 2013 were 6% ($0.82/bbl) lower than first-quarter 2012, primarily due to lower labour and maintenance costs, partly offset by higher production chemical costs and lower net production. Unit operating costs in Spain were 69% ($31.89/bbl) lower in first-quarter 2013, compared to the prior-year period primarily due to lower maintenance costs and a reduction in costs allocated to Sherritt following the addition of new third-party production to the production facility, partially offset by the effect of a weaker Canadian dollar relative to the Euro.

Spending on capital for first-quarter 2013 was 22% ($2.1 million) higher than in first-quarter 2012, primarily due to increased equipment and inventory purchases in Cuba. Development and facilities capital spending during first-quarter 2013 was composed primarily of $4.8 million for development drilling activities, $1.3 million related to facility improvements and $3.8 million related to equipment and inventory purchases. Exploration spending in 2013 continues to be focused in the United Kingdom North Sea prospect area and in the Alboran Sea prospect area off the southern coast of Spain. A seismic program is expected to commence in the North Sea in second-quarter 2013.

During first-quarter 2013, one development well was drilled and completed in Cuba, and has been put into production.
POWER
($ millions unless otherwise noted) Q1 2013 Q1 2012
Electricity sold (GWh, 33 1/3% basis) 160 155
Realized price ($/MWh) 41.87 41.48
Unit operating cost ($/MWh)
Base(1) 16.79 15.46
Non-base(2) 9.91 1.70
Total unit cash operating costs 26.70 17.16
Net capacity factor (%) 69 66
Revenue ($ millions) 16.0 16.6
Adjusted EBITDA ($ millions)(3) 3.5 5.9
Depletion, depreciation and amortization 2.6 2.6

Earnings from operations ($ millions) 0.9 3.3
Spending on capital ($ millions, 33 1/3% basis)(4) 1.8 1.3
Spending on projects ($ millions, 33 1/3% basis)(5) 6.1 7.0
Total spending on capital and projects 7.9 8.3
(1) Base costs relate to the operations in Cuba and do not include the impairment of receivables that relates to the operations in Madagascar.
(2) Costs incurred at the Boca de Jaruco and Puerto Escondido facilities that otherwise would have been capitalized if these facilities were not accounted for as service concession arrangements.
(3) For additional information see the 'Non-GAAP Measure - Adjusted EBITDA' section of this release.
(4) Spending on capital includes sustaining capital at the Varadero site as well as capitalized interest relating to the 150 MW Boca de Jaruco Combined Cycle Project.
(5) Sherritt provides 100% of the funding for the 150 MW Boca de Jaruco Combined Cycle Project and accounts for the Project as a "Service Concession Arrangement". As a result, two thirds of the project spending (relating to the non-Sherritt partners' share) is recorded as a loan receivable. The remaining one third of project spending (Sherritt's share) is recorded as a construction cost, and is offset by the same amount recorded as construction revenue.

Electricity production for first-quarter 2013 was consistent with the prior-year period.

The average realized price of electricity was 1% ($0.39/MWh) higher in first-quarter 2013 compared to the prior-year period, primarily due to a weaker Canadian dollar relative to the U.S. dollar.

Total unit operating costs increased 56% ($9.54/MWh) in first-quarter 2013, compared to the prior-year period. Base unit operating cost increased 9% ($1.33/MWh) primarily due to an increase in maintenance costs. Non-base unit operating cost increased 483% ($8.21/MWh) primarily due a scheduled, major inspection at Boca de Jaruco ($5.23/MWh) and pipeline costs to tie-in gas production to the Boca facilities ($3.52/MWh).

Spending on capital for first-quarter 2013 was 38% ($0.5 million) higher than the prior-year period, mainly due to an increase in capitalized interest on the 150 MW Boca de Jaruco Combined Cycle Project.

150 MW Boca de Jaruco Combined Cycle Project

Spending on the Project for the quarter was 13% ($2.7 million, 100% basis) lower than in first-quarter 2012, due to the Project nearing completion. Cumulative spending on the Project at March 31, 2013 was $264.7 million (100% basis). As a result of delays encountered with equipment suppliers and with obtaining work visas in Cuba, the Project is now scheduled to begin production in third-quarter 2013. Despite the change in the production start date, the Project is still expected to be fully operational by the end of the year and to remain within the total cost estimate of $271.0 million.

CASH, DEBT AND FINANCING

Cash, cash equivalents and short-term investments were $442.2 million at March 31, 2013. This does not include cash and cash equivalents of $53.9 million (100% basis) held by the Moa Joint Venture or cash, cash equivalents and short-term investments of $118.7 million (100% basis) held by the Ambatovy Joint Venture.

Total long-term debt at March 31, 2013 was $2.0 billion, including approximately $0.9 billion related to non-recourse Ambatovy partner loans to Sherritt. At March 31, 2013, Sherritt had approximately $0.6 billion of credit available under various facilities.

Outlook

Projected production volumes, royalties and spending on capital for full-year 2013 are shown below.
(units as noted) Projected for the year ending
December 31, 2013
Production volumes
Mixed sulphides (tonnes, Ni+Co contained, 100% basis)
Moa Joint Venture 38,000
Ambatovy Joint Venture 40,000
Total 78,000
Nickel, finished (tonnes, 100% basis)
Moa Joint Venture 34,000
Ambatovy Joint Venture 35,000
Total 69,000
Cobalt, finished (tonnes, 100% basis)
Moa Joint Venture 3,350
Ambatovy Joint Venture 3,000

Total 6,350
Coal - Prairie Operations (millions of tonnes) 22
Coal - Mountain Operations (millions of tonnes) 3.5
Oil - Cuba (gross working-interest, bopd) 18,000
Oil - All operations (net working-interest, boepd) 10,700
Electricity (GWh, 33 1/3% basis) 630
Royalties ($ millions)
Coal 40
Potash 11
Spending on capital ($ millions)
Metals - Moa Joint Venture (50% basis), Fort Site (100% basis)(1) 51
Metals - Ambatovy Joint Venture (40% basis) 29
Coal - Prairie Operations 76
Coal - Mountain Operations 52
Oil and Gas - Cuba(2) 54
Oil and Gas - Other(2) 18
Power (33 1/3% basis)(3) 5
Spending on capital (excluding Projects and Corporate) 285
Spending on projects
Power - 150 MW Boca de Jaruco ($ millions, 100% basis)(4) 25

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

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

(3) Spending on capital for Power includes sustaining capital at the Varadero site as well as capitalized interest in respect of the 150 MW Boca de Jaruco Combined Cycle Project.

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

There are no material changes to the 2013 Outlook on production, royalties and spending on capital presented in February 2013. Minor changes are noted below.

- In Metals-Sulawesi Project, approval to proceed with the exploration drilling program was received from the Indonesian Ministry of Energy and Mineral Resources in February 2013. During first-quarter 2013, the two helicopters supporting the drilling program began transporting construction materials to the exploration camp site and the forward supply base, and construction of the exploration camp and the forward supply base commenced. Exploration drilling to refine the definition of the deposit began in second-quarter 2013. The Corporation continues to advance work on the Sulawesi Project including environmental and social baseline studies and the Project prefeasibility study. To March 31, 2012, the Corporation has incurred a total of US$21.3 million of qualifying expenditures, or 19% of the funding requirements to obtain Sherritt's 46% economic interest in the Sulawesi Project.

- In Power, as a result of delays encountered with equipment suppliers and with obtaining work visas in Cuba, the 150 MW Boca de Jaruco Combined Cycle Project is now scheduled to begin production in third-quarter 2013. Despite the change in the production start date, the Project is still expected to be fully operational by the end of the year and to remain within the total cost estimate of $271.0 million. Expected spending on the Project for 2013 remains unchanged.

Non-GAAP Measure - Adjusted EBITDA

As a result of the change in accounting for the Moa Joint Venture under IFRS 11, the Corporation revised its definition of Adjusted EBITDA to include the results of the Corporation's share of earnings or loss in associate and joint venture, to provide a measure that is reasonable consistent with historical measures. As Adjusted EBITDA does not have a standardized meaning, it may not be comparable to similar measures provided by other companies.

The Corporation defines Adjusted EBITDA as earnings (loss) from operations, associate and joint venture as reported in the financial statements, adjusted for depletion, depreciation and amortization; impairment charges for property, plant and equipment, intangible assets, goodwill and investments; and gain or loss on disposal of property, plant and equipment of the Corporation, associate and joint venture.

About Sherritt

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

Forward-Looking Statements

This press release contains certain forward-looking statements. Forward-looking statements can generally be identified by the use of statements that include such words as "believe", "expect", "anticipate", "intend", "plan", "forecast", "likely", "may", "will", "could", "should", "suspect", "outlook", "projected", "continue" or other similar words or phrases. Specifically, forward-looking statements in this document include statements respecting certain future expectations about capital expenditures; capital project commissioning and completion dates; commodity and product prices and demand; production volumes; realized prices for production; future reserves and mine life; environmental rehabilitation provisions; availability of regulatory approvals; earnings and revenues; compliance with applicable environmental laws and regulations; debt repayments; compliance with financial covenants; sufficiency of working capital and capital project funding; the impact of regulations related to greenhouse gas emissions and credits; collection of accounts receivable; and certain corporate objectives, plans or goals for 2013, including development and exploratory wells and enhanced oil recovery in Cuba. These forward-looking statements are not based on historic facts, but rather on current expectations, assumptions and projections about future events. By their nature, forward-looking statements require the Corporation to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that those assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. The Corporation cautions readers of this press release not to place undue reliance on any forward-looking statement as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

Key factors that may result in material differences between actual results and developments and those contemplated by this press release include global economic conditions, and business, economic and political conditions in Canada, Cuba, Madagascar, Indonesia, and the principal markets for the Corporation's products. Other such factors include, but are not limited to, uncertainties in the development, construction and ramp-up of large mining, processing and refining projects; risks related to the availability of capital to undertake capital initiatives; changes in capital cost estimates in respect of the Corporation's capital initiatives; risks associated with the Corporation's joint-venture partners; future non-compliance with financial covenants; potential interruptions in transportation; political, economic and other risks of foreign operations; the Corporation's reliance on key personnel and skilled workers; the possibility of equipment and other unexpected failures; the potential for shortages of equipment and supplies; risks associated with mining, processing and refining activities; uncertainty of gas supply for electrical generation; uncertainties in oil and gas exploration; risks related to foreign exchange controls on Cuban government enterprises to transact in foreign currency; risks associated with the United States embargo on Cuba and the Helms-Burton legislation; risks related to the Cuban government's ability to make certain payments to the Corporation; drilling and development programs; uncertainties in reserve estimates; risks associated with access to reserves and resources; uncertainties in environmental rehabilitation provisions estimates; the Corporation's reliance on significant customers; risks related to the Corporation's corporate structure; foreign exchange and pricing risks; uncertainties in commodity pricing; credit risks; competition in product markets; the Corporation's ability to access markets; risks in obtaining insurance; uncertainties in labour relations; uncertainties in pension liabilities; the ability of the Corporation to enforce legal rights in foreign jurisdictions; risks associated with future acquisitions; the ability of the Corporation to obtain government permits; risks associated with government regulations and environmental, health and safety matters; uncertainties in growth management and other factors listed from time to time in the Corporation's continuous disclosure documents. Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve assessments based on certain estimates or assumptions. Readers are cautioned that the foregoing list of factors is not exhaustive and should be considered in conjunction with the risk factors described in this press release and the Corporation's other documents filed with the Canadian securities authorities.

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

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