Sherritt Reports Second-Quarter 2013 Results

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All amounts are Canadian dollars unless otherwise indicated.

TORONTO, ONTARIO -- (Marketwired - July 31, 2013) - Sherritt International Corporation ("Sherritt" or the "Corporation") (TSX:S) today reported a net loss of $10.7 million ($0.04 per share, basic), compared to net earnings of $40.8 million ($0.14 per share, basic) for second-quarter 2012. Adjusting for non-cash, exceptional items, the normalized loss for second -quarter 2013 was also $0.04 per share as gains (related to the Ambatovy call option adjustment, changes in ERO estimates, and unrealized foreign exchange) were offset by provisions in the Power business related to the receivables and assets for a 25 MW facility leased to a local Madagascar utility. Normalized earnings for second-quarter 2012 were $0.15 per share. Earnings were lower quarter-over-quarter primarily due to lower reference pricing for commodities, including nickel, cobalt, and export coal and lower sales volumes for nickel and cobalt.

Operating cash flow per share for second quarter 2013 was $0.18 per share, compared to $0.20 per share in second-quarter 2012.

Sherritt President and CEO David Pathe said, "The second quarter was characterized as one of operational stability in the face of continued downward pressure on the prices for all of our commodities. We continue to recognize a positive medium- and long- term outlook for all of our businesses, especially our base metals. In order to address the near-term volatility and pressure in commodity markets, we have chosen to reduce or defer our anticipated 2013 capital spending by approximately 13% ($37 million) to maintain our financial strength and flexibility. The spending reductions will be spread across the businesses and will not compromise the ability to operate safely and efficiently."

Consolidated Highlights

- Spending on capital and intangibles relating to operations totaled $53.5 million for second-quarter 2013, compared to $62.8 million in second-quarter 2012.

- Cash, cash equivalents and short-term investments were $406.0 million at June 30, 2013.

- Sales volumes for second-quarter 2013 (Sherritt's share) totaled 8.6 million pounds of finished nickel, 0.8 million pounds of finished cobalt, 6.4 million tonnes of thermal coal, 1.0 million barrels of oil and 153 GWh of electricity.

- Sales volumes in second-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. During second- quarter 2013, Ambatovy had pre-commercial sales of 16.5 million pounds (100% basis) of finished nickel and 1.5 million pounds (100% basis) of finished cobalt.

Operating Highlights

- Ambatovy second-quarter finished metal production was substantially higher than first-quarter 2013. Finished nickel production for second-quarter 2013 was 22% (1,306 tonnes, 100% basis) higher than first-quarter 2013. Finished cobalt production was 16% (84 tonnes, 100% basis) higher than the previous quarter.

- Second-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 lower volumes at the Moa Joint Venture. Consolidated finished nickel production of 14,871 tonnes (100% basis) was 66% (5,901 tonnes) higher than second-quarter 2012, and second-quarter 2013 finished cobalt production was 1,372 tonnes (100% basis), or 38% (379 tonnes) higher than the prior-year period.

- The net direct cash cost of nickel at the Moa Joint Venture of US$5.58 per pound for second-quarter 2013 was 7% (US$0.41/lb) lower than first-quarter 2013.

- Coal - Prairie Operations production volumes at owned-mines were up 25% compared to second-quarter 2012, due to increased demand at the Sheerness and Genesee mines.

- In Oil, gross-working interest production in Cuba was comparable to the prior-year period, as natural reservoir declines were largely offset by production increases from new wells and the optimization of production from existing wells.

2013 Outlook Highlights

- Estimated 2013 production volumes at the Ambatovy Joint Venture were reduced for mixed sulphides (15%, 6,000 tonnes, 100% basis), finished nickel (11%, 4,000 tonnes, 100% basis), and finished cobalt (7%, 200 tonnes, 100% basis), compared to the previous Outlook. The adjustments reflect lower-than expected production for the six months ended June 30, 2013.

- In Oil and Gas, the 8% (1,500 bopd) increase in estimated 2013 gross-working interest production and 5% (500 bopd) increase in estimated 2013 net-working interest production in Cuba, compared to the first-quarter Outlook, are based on positive drilling results and better than expected performance from producing wells for the first six months of 2013.

Summary Data
SUMMARY FINANCIAL DATA Six months ended June 30,
($ millions unless otherwise noted) Q2 2013 Q2 2012 2013 2012
Revenue 338.5 377.1 625.0 736.5
Adjusted EBITDA(1) 87.1 138.2 186.0 284.1
Earnings from operations and associate and joint venture 19.0 72.4 79.5 158.6
Net earnings (loss) (10.7) 40.8 12.4 73.2
Basic and diluted earnings (loss) per share ($ per share) (0.04) 0.14 0.04 0.25
Net working capital balance(2) 797.5 854.9 797.5 854.9
Spending on capital and intangibles(3) 53.5 62.8 105.1 103.7
Total assets 6,715.5 6,385.7 6,715.5 6,385.7
Shareholders' equity 3,769.7 3,768.3 3,769.7 3,768.3
Long-term debt to total assets (%) 33 28 33 28
Weighted-average number of shares (millions)
Basic 296.6 296.1 296.5 296.1
Diluted 296.7 296.4 296.9 296.4
(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 Six months ended June 30,
(units as noted) Q2 2013 Q2 2012 2013 2012
Sales volumes
Nickel - Moa Joint Venture (thousands of pounds, 50% basis)(1) 8,612 9,915 17,243 19,470
Cobalt - Moa Joint Venture (thousands of pounds, 50% basis)(1) 833 1,130 1,742 2,147
Thermal coal - Prairie Operations (millions of tonnes) 5.2 6.8 10.9 14.9
Thermal coal - Mountain Operations (millions of tonnes) 1.2 1.0 1.8 1.8
Oil (boepd, net working-interest production) 11,485 11,671 11,181 11,563
Electricity (GWh, 33 1/3% basis) 153 157 313 312
Realized prices
Nickel ($/lb) (1) 6.85 7.88 7.35 8.26
Cobalt ($/lb) (1) 12.82 13.87 12.14 13.98
Thermal coal - Prairie Operations ($/tonne) 18.19 18.27 18.20 17.58
Thermal coal - Mountain Operations ($/tonne) 87.31 103.47 89.74 103.73
Oil ($/boe) 66.98 70.82 68.61 74.21
Electricity ($/MWh) 42.28 41.79 42.07 41.63
(1) Sales volumes and average realized prices do not include the impact of the Ambatovy Joint Venture.

Review of Operations

METALS Six months ended June 30,
($ millions unless otherwise noted) Q2 2013 Q2 2012 2013 2012
Production

Mixed sulphides (Ni+Co contained, tonnes)
Moa Joint Venture (50% basis) 4,569 4,859 8,736 9,535
Ambatovy Joint Venture (40% basis) 2,312 280 5,433 280
Total 6,881 5,139 14,169 9,815
Nickel (tonnes)
Moa Joint Venture (50% basis) 3,868 4,485 7,770 8,784
Ambatovy Joint Venture (40% basis) 2,854 - 5,186 -
Total 6,722 4,485 12,956 8,784
Cobalt (tonnes)
Moa Joint Venture (50% basis) 374 497 779 974
Ambatovy Joint Venture (40% basis) 250 - 466 -
Total 624 497 1,245 974
Fertilizer (tonnes)
Moa Joint Venture (50% basis) 22,443 26,258 42,832 49,411
Fort Site (100% basis) 44,789 41,506 83,795 84,474
Ambatovy Joint Venture (40% basis) 6,350 - 15,132 -
Total 73,582 67,764 141,759 133,885
Sales (1)
Nickel (thousands of pounds, 50% basis) 8,612 9,915 17,243 19,470
Cobalt (thousands of pounds, 50% basis) 833 1,130 1,742 2,147
Fertilizer (tonnes)
Moa Joint Venture (50%) 28,659 35,006 38,654 44,973
Fort Site (100%) 41,271 36,288 62,789 52,948
Total 69,930 71,294 101,443 97,921
Reference prices(1)
Nickel (US$/lb) 6.79 7.78 7.32 8.36
Cobalt (US$/lb)(2) 13.06 14.24 12.51 14.42
Realized prices(1)
Nickel ($/lb) 6.85 7.88 7.35 8.26
Cobalt ($/lb) 12.82 13.87 12.14 13.98
Unit operating costs (US$/lb) (1)
Mining, processing and refining costs 7.09 6.56 7.05 6.58
Third-party feed costs 0.13 0.09 0.18 0.11
Cobalt by-product credits (1.21) (1.56) (1.21) (1.53)
Other (0.43) (0.93) (0.24) (0.37)
Net direct cash costs of nickel(3) 5.58 4.16 5.78 4.79
Natural gas ($/GJ) 3.52 1.93 3.35 2.05
Fuel oil (US$/tonne) 620 706 630 699
Sulphur (US$/tonne) 229 260 234 267
Sulphuric acid (US$/tonne) 146 183 153 190
Revenue ($ millions)
Nickel 58.9 78.1 126.7 160.9
Cobalt 10.7 15.6 21.2 30.0
Fertilizer, other 46.1 47.5 66.4 66.4
Metal marketing(4) 4.9 - 10.0 -
Total revenue 120.6 141.2 224.3 257.3
Adjusted EBITDA ($ millions)(5) 17.3 46.2 34.2 76.9
Depletion, depreciation and amortization 10.6 8.6 20.5 17.3
Earnings from operations and associate ($ millions) 6.7 37.6 13.7 59.6
Spending on capital ($ millions)(1) 9.8 6.2 14.5 12.0
(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 14,918 tonnes (100% basis) was 43% (4,500 tonnes) higher than second-quarter 2012 as the addition of Ambatovy production more than offset the lower production at Moa. Mixed sulphides production at Moa during the period was affected by minor mechanical issues which were rectified during the quarter. The haul trucks that Moa was awaiting delivery of at the end of the first quarter were delivered as scheduled in second-quarter 2013. The impact of reduced haul truck availability during the first half of 2013 is expected to be offset by higher production for the last half of the year.

Second-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 lower volumes at the Moa Joint Venture. Consolidated finished nickel production of 14,871 tonnes (100% basis) was 66% (5,901 tonnes) higher than second-quarter 2012, and second-quarter 2013 finished cobalt production was 1,372 tonnes (100% basis), or 38% (379 tonnes) higher than the prior-year period. Additional third-party feed was processed at the Moa Joint Venture compared to prior quarters, however the availability of spot volumes was insufficient to fully compensate for the lower mixed sulphides volumes. Moa Joint Venture finished metals production was primarily affected by the timing of the annual maintenance turnaround (in second-quarter 2013 versus third-quarter 2012). The annual turnaround at the Fort Saskatchewan refinery generally occurs in the second or third quarter, depending upon the availability of both manpower in Alberta and key equipment. At Ambatovy, finished metal production in second-quarter 2013 exceeded the metal contained in mixed sulphides produced during the quarter, reflecting a drawdown of mixed sulphides inventory on hand at the end of the first quarter.

Consolidated fertilizer production of 105,550 tonnes (100% basis) was 12% (11,528 tonnes) higher for second-quarter 2013 compared to the prior-year period, primarily reflecting the addition of Ambatovy production.

Consolidated sales volumes of finished nickel, finished cobalt and fertilizer for second-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. Second-quarter 2013 finished nickel sales volumes from the Moa Joint Venture were 13% (1,303,000 lbs, 50% basis), and finished cobalt sales volumes were 26% (297,000 lbs, 50% basis) lower than the prior-year period primarily due to lower production. Fertilizer sales volumes (50% Moa Joint Venture, 100% Fort Site), were marginally (2% or 1,364 tonnes) lower for second-quarter 2013 compared to the prior-year period, reflecting another strong spring fertilizer 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. During second-quarter 2013, Ambatovy sold 16,486 thousand pounds (100% basis) of finished nickel and 1,515 thousand pounds (100% basis) of finished cobalt.

Average metals reference prices were lower in second-quarter 2013 compared to the prior-year period, as global production continued to outpace demand. For second-quarter 2013, the average nickel reference price decreased 13% ($0.99 per pound) and the average cobalt reference price decreased 8% ($1.18 per pound) compared to the prior-year period. The impact of lower reference prices on realized prices was partially offset by the weaker Canadian dollar relative to the U.S. dollar.

The net direct cash cost of nickel in the Moa Joint Venture for second-quarter 2013 was 34% (US$1.42/lb) higher than the prior-year period mainly due to the unit impact of lower production as fixed costs are spread across fewer production units. The unit cost increase was mainly due to higher refining costs (volume related), lower cobalt by-product credits (market price and volume related), and higher fertilizer production costs (volume related). Non-volume related factors included increased maintenance in the period, and the impact of higher natural gas and power prices. As previously indicated, increased maintenance costs in the period were largely due the timing of the annual maintenance turnaround (in second-quarter 2013 versus third-quarter 2012). These factors were partially offset by the impact of lower input commodity prices compared to the prior-year period, led by sulphuric acid (20%, or US$37/tonne lower), sulphur (12%, or US$31/tonne lower) and fuel oil (12%, or US$86/tonne lower).

Spending on capital in second-quarter 2013 for the Moa Joint Venture was 58% ($3.6 million, 50% basis) higher than the prior year-period, due to the timing of some capital projects and mining equipment additions. The annual maintenance turnaround at the refinery provides the opportunity to more efficiently install certain capital projects. The turnaround occurred in second- quarter 2013 versus third-quarter 2012, and as a result, these capital projects occurred earlier in 2013 than in 2012.

Ambatovy Update

The ramp-up of the facilities advanced during the quarter, with finished metal production up substantially from first-quarter 2013. Finished nickel production for second-quarter 2013 was 22% (1,306 tonnes, 100% basis) higher than first-quarter 2013. Finished cobalt production was 16% (84 tonnes, 100% basis) higher than the previous quarter.

In June 2013, average ore throughput in the PAL circuit was approximately 53% of capacity, and exceeded 75% for a consecutive ten-day period during the month. Autoclave operating hours during second-quarter 2013 were 5,529 hours, compared to 5,327 hours in first-quarter 2013. As a result of both acid plants being taken off line to perform maintenance work on refractory brick and superheater tubes, the average throughput of ore during the second quarter was approximately 41% of nameplate capacity, compared to 43% in first-quarter 2013.

The refinery's design allowed for minimal impact on the production of finished metal during the maintenance process. The design, which incorporates multiple trains with surge capacity and redundancy, combined with the ability to store and drawdown mixed sulphides inventory during periods of disruption in the PAL circuit, allowed the refinery to operate at its highest rates to date. Additional scheduled maintenance activities on Acid Plant #1 are expected to be completed in October of 2013, along with the first scheduled major maintenance turnarounds on two of the five leach autoclaves. These factors have been considered in the production Outlook for 2013.

The gains in finished metal production during second-quarter 2013, described above, place the progress-to-date at Ambatovy at approximately 85% of earlier expectations. The level of throughput in the leach PAL circuit combined with the acid plant maintenance, described above, account for the majority of the variance from previous expectation.

At the end of June, the syndicate of Senior Lenders that provided Ambatovy's US$2.1 billion limited recourse project financing confirmed they are willing to provide a two-year extension to the financial completion date. The financial completion date, which marks the date by which Ambatovy must satisfy a variety of completion tests in order for the project financing to become non- recourse to all sponsors, will be extended from September 28, 2013 to September 30, 2015. The project financing matures in June 2024. In addition, in June 2013, Ambatovy made the first, semi-annual, principal repayment (US$61.0 million) on the limited recourse project financing.

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

Total project costs (including operating costs, financing charges, working capital and foreign exchange, net of pre-commercial sales revenue) in second-quarter 2013 were (US$10.4 million) (100% basis) and were net of pre-commercial sales revenue of US$129.8 million (100% basis). This compares to total project costs of US$139.8 million (100% basis) in first-quarter 2013, net of US$101.0 million (100% basis) of pre-commercial sales revenue. Cumulative total project costs to June 30, 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).

In second-quarter 2013, a total of US$55.0 million (100% basis) in funding was provided by the Ambatovy Joint Venture partners. Sherritt's 40% share of the funding was US$22.0 million ($22.5 million), and 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 Six months ended June 30,
($ millions unless otherwise noted) Q2 2013 Q2 2012 2013 2012
Production (millions of tonnes)
Prairie Operations - owned mines 5.5 4.4 10.6 10.4
Prairie Operations - contract mine - 2.6 0.5 5.2
Mountain Operations 0.8 0.8 1.6 1.8
Total production 6.3 7.8 12.7 17.4
Sales (millions of tonnes)
Prairie Operations - owned mines 5.2 4.2 10.4 9.7
Prairie Operations - contract mine - 2.6 0.5 5.2
Mountain Operations 1.2 1.0 1.8 1.8
Total sales 6.4 7.8 12.7 16.7
Realized prices ($/tonne)
Prairie Operations(1) 18.19 18.27 18.20 17.58
Mountain Operations 87.31 103.47 89.74 103.73
Unit operating costs ($/tonne)
Prairie Operations(1) 13.57 16.59 13.78 14.81
Mountain Operations 89.41 87.61 89.97 88.27
Revenue ($ millions)
Prairie Operations
Mining revenue 99.6 131.7 211.8 277.3
Coal royalties 12.3 10.0 19.8 20.8
Potash royalties 3.6 4.1 6.8 6.8

Mountain Operations and other assets 101.3 104.8 157.9 191.0
Total revenue 216.8 250.6 396.3 495.9
Adjusted EBITDA ($ millions)(2)
Prairie Operations 37.9 26.3 73.4 69.8
Mountain Operations and other assets (4.0) 14.1 (1.9) 23.7
Total Adjusted EBITDA 33.9 40.4 71.5 93.5
Depletion, depreciation and amortization 29.5 30.7 55.7 58.0
Earnings from operations ($ millions) 4.4 9.7 37.8 35.5
Spending on capital ($ millions)
Prairie Operations 19.5 19.5 32.5 26.7
Mountain Operations and other assets 9.9 23.8 30.2 39.9
Total spending on capital 29.4 43.3 62.7 66.6
(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.

Production volumes for second-quarter 2013 in Prairie Operations owned mines were 25% (1.1 million tonnes) higher than the prior-year period primarily due to higher demand at the Sheerness and Genesee mines. Total production (owned mines + contract mine) was 17% (1.5 million tonnes) lower than in second-quarter 2012, due to the exclusion of production volumes from the Highvale mine with the termination of the contract mining business in January 2013. Mountain Operations production volumes in second-quarter 2013 were unchanged from the prior-year quarter.

Sales volumes for second-quarter 2013 in Prairie Operations owned mines were 24% (1.0 million tonnes) higher compared to the prior-year period, primarily due to higher demand at the Sheerness and Genesee mines. Total sales volumes (owned mines + contract mine) were 18% (1.4 million tonnes) lower than in second-quarter 2012, due to the exclusion of sales volumes from the Highvale mine with the termination of the contract mining business in January 2013. Total Mountain Operations sales volumes in second-quarter 2013 were 20% (0.2 million tonnes) higher than in second-quarter 2012. The increase was primarily due to improved rail service and port through-put levels, combined with higher levels of coal inventory that accumulated during the three-month period in which the capacity of Mountain Operations' main port (Westshore Terminals) was reduced significantly due to an operational incident that occurred in December 2012.

Realized pricing (excluding royalties, char and activated carbon) for second-quarter 2013 at Prairie Operations was relatively unchanged from the prior-year period. Realized pricing at Mountain Operations was 16% ($16.16 per tonne) lower than second-quarter 2012, reflecting weaker international thermal export coal prices.

Unit operating costs at Prairie Operations were 18% ($3.02 per tonne) lower in second-quarter 2013 primarily due to exiting the contract mining business in January 2013. Excluding the impact of the contract mining business, unit operating costs increased marginally. Unit operating costs at Mountain Operations were relatively unchanged from the prior-year period.

Royalties for second-quarter 2013 were 13% ($1.8 million) higher than the prior-year period, as the increase in coal royalties during the period more than offset a decrease (12%, $0.5 million) in potash royalties. Higher coal royalties resulted from the timing of mining in royalty assessable areas, while potash royalties decreased due to lower reference pricing, which more than offset the volume impact of the addition of a new potash royalty stream in first-quarter 2013.

Spending on capital at Prairie Operations for second-quarter 2013 was unchanged from the prior-year period. Spending on capital at Mountain Operations was 58% ($13.9 million) lower in second-quarter 2013 as the majority of lease acquisitions for 2013 occurred in the first quarter.

OIL AND GAS Six months ended June 30,
($ millions unless otherwise noted) Q2 2013 Q2 2012 2013 2012
Production (boepd)(1)
Gross working-interest - Cuba(2), (3) 20,425 20,806 19,990 20,443
Net working-interest(4)
Cuba - cost recovery 2,971 2,909 2,802 2,989
Cuba - profit oil 7,854 8,054 7,735 7,854
Cuba - total 10,825 10,963 10,537 10,843
Spain 330 356 311 366
Pakistan 330 352 333 354
Total net working-interest 11,485 11,671 11,181 11,563
Reference prices (US$/bbl)
U.S. Gulf Coast Fuel Oil No.6 90.87 97.99 93.92 102.91

Brent crude 103.16 109.20 108.29 114.30
Realized prices
Cuba ($/bbl) 67.64 71.70 69.34 75.05
Spain ($/bbl) 104.11 105.68 108.24 113.13
Pakistan ($/boe) 8.31 8.28 8.28 8.18
Weighted average ($/boe) 66.98 70.82 68.61 74.21
Unit operating costs
Cuba ($/bbl) 12.70 12.28 12.48 12.67
Spain ($/bbl) 25.20 46.90 20.28 46.70
Pakistan ($/boe) 3.98 4.16 5.97 3.45
Weighted average ($/boe) 12.81 13.21 12.50 13.57
Revenue ($ millions) 71.2 76.3 142.3 158.5
Adjusted EBITDA ($ millions)(5) 55.7 58.4 113.1 123.6
Depletion, depreciation and amortization 17.9 16.5 33.9 35.3
Earnings from operations ($ millions) 37.8 41.9 79.2 88.3
Spending on capital ($ millions)(6) 11.8 11.5 23.3 20.9

(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 2% (381 bopd) lower in second-quarter 2013 compared to the prior- year period, primarily due to natural reservoir declines, which were partially offset by production increases from new wells and the optimization of production from existing wells. Both cost-recovery and profit oil production in Cuba were relatively unchanged from the prior-year period. Lower production in Spain (7% or 26 bopd) and Pakistan (6% or 21 boepd) for second- quarter 2013, relative to the prior-year period, were the result of natural reservoir declines.

The average-realized price for oil produced in Cuba was 6% ($4.06 per barrel) lower in second-quarter 2013 compared to the prior-year period, primarily as a result of a lower Gulf Coast Fuel Oil No. 6 reference price, partially offset by a weaker Canadian dollar relative to the U.S. dollar. Average-realized pricing for oil produced in Spain and gas in Pakistan was relatively unchanged from the prior-year period.

Unit operating costs in Cuba during second-quarter 2013 were 3% ($0.42 per barrel) higher in second-quarter 2013 compared to the prior-year period, due to lower net working-interest production and increased maintenance costs. The unit operating cost in Spain was 46% ($21.70 per barrel) lower in second-quarter compared to the prior-year period, primarily due to a reduction in costs allocated to Sherritt following the addition of new third-party production to the production facility, which was partially offset by the effect of a weaker Canadian dollar relative to the Euro.

Spending on capital for second-quarter 2013 was 3% ($0.3 million) higher in second-quarter 2013 compared to the prior-year period, primarily due to increased equipment and inventory purchases for Cuba, partially offset by a decrease in development drilling costs. In second-quarter 2013, development and facilities capital spending was directed toward development drilling activities ($5.5 million), equipment and inventory purchases ($3.8 million), and facility improvements ($0.6 million).

During second-quarter 2013, one development well was initiated in Cuba and was completed in July.

Exploration spending in 2013 is focused in the United Kingdom North Sea prospect area. A seismic program was completed in the North Sea in July 2013 for approximately $5 million.

POWER Six months ended June 30,
($ millions unless otherwise noted) Q2 2013 Q2 2012 2013 2012
Electricity sold (GWh, 33 1/3% basis) 153 157 313 312
Realized price ($/MWh) 42.28 41.79 42.07 41.63
Unit operating cost ($/MWh)
Base(1) 18.24 15.45 17.50 15.46
Non-base(2) 10.68 1.41 10.28 1.55
Total unit cash operating costs 28.92 16.86 27.78 17.01
Net capacity factor (%) 66 68 68 67
Revenue ($ millions) 13.5 17.6 29.5 34.2
Adjusted EBITDA ($ millions)(3) (5.5) 5.8 (2.0) 11.7
Depletion, depreciation and amortization 2.7 2.7 5.3 5.3
Earnings (loss) from operations ($ millions) (15.5) 3.1 (14.6) 6.4
Spending on capital ($ millions, 33 1/3% basis)(4) 1.9 1.3 3.8 2.5
Spending on projects ($ millions, 33 1/3% basis)(5) 4.2 7.9 10.3 14.9
Total spending on capital and projects 6.1 9.2 14.1 17.4

(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 second-quarter 2013 remained consistent with the comparable period in the prior year.

The average realized price of electricity was 1% ($0.49 per MWh) higher in second-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 72% ($12.06 per MWh) in second-quarter 2013 compared to the prior-year period; base unit operating costs increased by 18% ($2.79 per MWh) primarily due to an increase in scheduled maintenance costs; and non- base unit operating costs increased 657% ($9.27 per MWh). The increase in non-base unit operating costs was due to a scheduled major inspection at Boca de Jaruco ($6.27 per MWh), pipeline construction costs to tie-in gas production to the Boca facilities ($1.69 per MWh), and major equipment replacements ($1.84 per MWh).

Spending on capital for second-quarter 2013 was 46% ($0.6 million) higher than the prior-year period due to capitalized interest on the 150 MW Boca de Jaruco Combined Cycle Project. Sustaining capital (for equipment purchases) remained unchanged from the comparable, prior-year period.

150 MW Boca de Jaruco Combined Cycle Project

Spending on the Project was 47% ($11.1 million, 100% basis) lower in second-quarter 2013, compared to the prior-year period, since the rate of spending has declined as the project nears completion. The project is now scheduled to begin production in fourth-quarter 2013, as delays encountered with equipment and material suppliers and delays obtaining work visas in Cuba have had an impact on the schedule. The project is still expected to be fully operational by the end of the year with a total cost estimate of $297 million, an increase of 10% ($26 million) from the previous estimate.

Power - Other

Sherritt Power constructed a power facility in Antananarivo, Madagascar in 2009 that was leased to the local electricity utility. Payment has not been received from the leased power facility in Madagascar since second-quarter 2011. As a result, impairments have been taken relating to both the receivables from the utility as well as the facility assets. Total impairments (receivables and assets) are included in the cost of sales: $16.6 million in second-quarter 2013 and $17.2 million in year-to-date 2013. The impairment related to receivables in second-quarter 2013 was $9.3 million and $9.9 million in year-to-date 2013. The impairment related to the power facility assets in second-quarter 2013 was $7.3 million. Management continues to pursue the collection of the overdue receivables.

OTHER

Exploration drilling to refine the definition of the nickel deposit at the Sulawesi Project began in April 2013. Cores from the drilling program are currently being analyzed. To June 30, 2013, a total of US$27.6 million in qualifying expenditures had been completed. This represents 25% of the funding Sherritt is required to complete to obtain a 46% economic interest in the Project.

CASH, DEBT AND FINANCING

Cash, cash equivalents and short-term investments were $406.0 million at June 30, 2013. This does not include cash, cash equivalents and short-term investments of $72.3 million (100% basis) held by the Moa Joint Venture or $33.9 million (100% basis) held by the Ambatovy Joint Venture.

Total long-term debt at June 30, 2013 was $2.1 billion, including approximately $0.9 billion related to non-recourse Ambatovy partner loans to Sherritt. At June 30, 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.

Projected for the year ending
(units as noted) December 31, 2013

Production volumes
Mixed sulphides (tonnes, Ni+Co contained, 100% basis)
Moa Joint Venture 38,000
Ambatovy Joint Venture 34,000
Total 72,000
Nickel, finished (tonnes, 100% basis)
Moa Joint Venture 34,000
Ambatovy Joint Venture 31,000
Total 65,000
Cobalt, finished (tonnes, 100% basis)
Moa Joint Venture 3,350
Ambatovy Joint Venture 2,800
Total 6,150
Coal - Prairie Operations (millions of tonnes) 22
Coal - Mountain Operations (millions of tonnes) 3.2
Oil - Cuba (gross working-interest, bopd) 19,500
Oil - All operations (net working-interest, boepd) 11,200
Electricity (GWh, 33 1/3% basis) 630

Royalties ($ millions)
Coal 35
Potash ` 12

Spending on capital ($ millions)
Metals - Moa Joint Venture (50% basis), Fort Site (100% basis)(1) 38
Metals - Ambatovy Joint Venture (40% basis) 29
Coal - Prairie Operations 58
Coal - Mountain Operations 48
Oil and Gas - Cuba(2) 54

Oil and Gas - Other(2) 13
Power (33 1/3% basis)(3) 8
Spending on capital (excluding Projects and Corporate) 248

Spending on projects

Power - 150 MW Boca de Jaruco ($ millions, 100% basis)(4) 51

(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.

The last 2013 Outlook on production, royalties and spending on capital was presented in April 2013 (first-quarter Outlook). Any changes to that Outlook are noted below.

- In Metals-Moa Joint Venture, a 25% ($13 million; $7 million, Moa JV 50% basis + $6 million Fort Site, 100% basis) decrease in spending on capital for 2013 when compared to the first-quarter Outlook is based on expected deferrals in response to a lower nickel price environment.

- In Metals-Ambatovy Joint Venture, estimated 2013 production volumes were reduced for mixed sulphides (15%, 6,000 tonnes, 100% basis), finished nickel (11%, 4,000 tonnes, 100% basis), and finished cobalt (7%, 200 tonnes, 100% basis), compared to the first-quarter Outlook. The adjustments reflect lower-than expected production for the six months ended June 30, 2013.

- In Coal, estimated 2013 royalties are expected to be 8% ($4 million) lower than in the first-quarter Outlook, due to lower metallurgical coal pricing, mine plan changes at the Sheerness mine that have affected mining activity in royalty assessable areas, and lower potash pricing. Estimated 2013 production at Mountain Operations is 9% (0.3 million tonnes) lower than in the first-quarter Outlook, in response to sustained weak international thermal coal prices. Spending on capital for 2013 is expected to be 24% ($18 million) lower than previously estimated in Prairie Operations due to deferrals and cost-cutting reductions and 8% ($4 million) lower in Mountain Operations in response to continued downward pressure on reference pricing.

- In Oil and Gas, the 8% (1,500 bopd) increase in estimated 2013 gross-working interest production in Cuba and 5% (500 bopd) increase in estimated 2013 net-working interest production in all locations, compared to the first-quarter Outlook, are based on positive drilling results and better than expected performance from producing wells for the first six month of 2013. Compared to the first-quarter Outlook, spending on capital in other jurisdictions is expected to be 28% ($5 million) lower due to lower spending on the North Sea seismic program and deferred spending in Spain.

- In Power, a 60% ($3 million) increase in estimated 2013 spending on capital, compared to the first-quarter Outlook is due to an increase in capitalized interest related to the 150 MW Boca de Jaruco Combined Cycle Project. Estimated 2013 spending on the Project has increased 104% ($26 million) from the first-quarter Outlook due to delays in completing the Project.

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; sufficiency of working capital and capital project funding; capital project commissioning and completion dates; earnings and revenues; and production volumes. 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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