Sherritt Reports Fourth Quarter and Year End 2017 Results

12.02.2018 | Business Wire

Sherritt International Corp. :

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

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

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

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

Q4 HIGHLIGHTS

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

2017 HIGHLIGHTS

- Sherritt ended the year with cash, cash equivalents and short-term investments of $203.0 million after reflecting payments related to the Ambatovy JV restructuring, interest payments related to outstanding debentures and the $35.0 million repayment of a syndicated revolving-term loan.
- Sherritt’s share of finished nickel and finished cobalt production at the Moa JV were 15,762 tonnes and 1,801 tonnes, respectively. The production totals were in line with guidance for the year.

- NDCC at the Moa Joint Venture was US$2.35 per pound of finished nickel, below the US$2.80 - $3.30 per pound guidance that the Company provided for the year.
- Adjusted EBITDA was $149.8 million, up from $40.0 million in 2016.
- Including the gain related to the Ambatovy JV restructuring, net earnings were $293.8 million, or $0.99 per share outstanding, up from a net loss of $378.9 million, or $1.29 per share outstanding, in 2016.
- Sherritt’s efforts to strengthen its balance sheet were reflected in a number of improved financial ratios at year end. Net debt to Adjusted EBITDA reduced from 48.9 at the end 2016 to 4.4 at December 31, 2017 while total debt to shareholders’ equity improved from 2.1 at the end of 2016 to 0.8 at December 31, 2017.(2)

HIGHLIGHTS SUBSEQUENT TO YEAR END

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

(1) For additional information see the Non-GAAP measures section of this press release.
(2) Net debt is defined as debt due within one year plus the book value of long-term debt, less cash, cash equivalents and short-term investments, as shown in Sherritt’s consolidated statement of financial position. Total debt is defined as debt due within one year plus the book value of long-term debt plus the non-recourse debt.

Q4 AND 2017 FINANCIAL HIGHLIGHTS

	For the three months ended			For the years ended	
	2017	2016		2017	201
$ millions, except per share amount	December 31	December 31	Change	December 31	Decem
Revenue	54.8	70.5	(22%)	$ 267.3	$ 262.
Combined Revenue(1)	223.8	240.3	(7%)	917.5	820.
Net earnings (loss) for the period	537.8	(106.7)	604%	293.8	(378
Adjusted EBITDA(1)	49.6	37.4	33%	149.8	40.0
Cash provided (used) by continuing operations	(33.9)	(22.6)	(50%)	(9.6)	1.6
Combined free cash flow (1)	(41.2)	(45.5)	9%	(62.1)	(111
Net earnings (loss) from continuing operations per share	1.85	(0.37)	600%	1.04	(1.3

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

$ millions, except as otherwise noted, as at December 31	2017	201
Cash, cash equivalents and short-term investments	203.0	308.
Non-recourse loans and borrowings	-	1,36
Other loans and borrowings	824.1	860.

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

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

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

Adjusted earnings (loss) from continuing operations[1]

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

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

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

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

REVIEW OF OPERATIONS

METALS

$ millions except as otherwise noted, for the three months ended December 31				2017		
	Moa JV & Fort Site[1] (50%)	Ambatovy JV[2] (12%)	Other[3]	Total	Moa JV and Fort Site[1] (50%)	Ambat JV[2] (40%)
FINANCIAL HIGHLIGHTS						
Revenue	$ 122.9	$ 58.1	$ 3.0	$ 184.0	$ 92.5	$ 88.2
Earnings (loss) from operations	19.9	(7.7)	-	12.2	(7.6)	(15.0)
Adjusted EBITDA[4]	32.1	18.1	-	50.2	5.6	24.4
Cash provided (used) by operations	32.5	(3.4)	(0.5)	28.6	(6.1)	(0.8)
Free cash flow[4]	24.9	(20.7)	(0.5)	3.7	(9.8)	(10.6)

PRODUCTION VOLUMES (tonnes)						
Mixed Sulphides	4,090	3,329	-	7,419	3,674	6,036
Finished Nickel	4,134	3,111	-	7,245	3,782	5,111
Finished Cobalt	465	245	-	710	382	404
Fertilizer	61,923	10,011	-	71,934	61,460	16,650
NICKEL RECOVERY (%)	79%	84%			85%	87%
SALES VOLUMES (tonnes)						
Finished Nickel	4,129	2,602	-	6,731	3,975	4,935
Finished Cobalt	480	225	-	705	487	360
Fertilizer	51,141	8,114	-	59,255	45,698	15,485
AVERAGE EXCHANGE RATE (CAD/US)				1.271		
AVERAGE REFERENCE PRICES (US$ per pound)						
Nickel				$ 5.25		
Cobalt				31.60		
AVERAGE-REALIZED PRICES[4]						
Nickel ($ per pound)	$ 6.72	$ 6.56	$ -	$ 6.66	$ 6.39	$ 6.50
Cobalt ($ per pound)	38.78	39.03	-	38.86	16.85	18.73
Fertilizer ($ per tonne)	348	173	-	324	326	160
UNIT OPERATING COSTS[4] (US$ per pound)						
Nickel - net direct cash cost	$ 1.80	$ 3.27	-	2.37	$ 3.80	$ 3.10
SPENDING ON CAPITAL						
Sustaining	$ 7.7	$ 10.0	$ -	$ 17.7	$ 4.7	$ 19.0
Expansion	-	-	-	-	(2.1)	-
	$ 7.7	$ 10.0	$ -	$ 17.7	$ 2.6	$ 19.0

(1) Includes results for certain 100% owned assets at Fort Saskatchewan plant.
(2) Sherritt’s share for Ambatovy Joint Venture reflects its interest at 40% to December 10, 2017 and 12% thereafter.
(3) Includes results for Sherritt’s marketing organizations for certain Ambatovy and Moa Joint Venture sales.
(4) For additional information, see the Non-GAAP measures section of this release.

$ millions, except as otherwise noted, for the years ended December 31				2017		
	Moa JV and Fort Site[1] (50%)	Ambatovy JV[2] (12%)	Other[3]	Total	Moa JV and Fort Site[1] (50%)	Ambatovy JV[2] (40%)
FINANCIAL HIGHLIGHTS						
Revenue	$ 417.0	$ 279.2	$ 43.1	$ 739.3	$ 339.3	$ 264.8
Earnings (loss) from operations	31.3	(109.5)	0.9	(77.3)	(28.4)	(150.9)
Adjusted EBITDA[4]	80.5	26.0	0.9	107.4	19.6	(7.0)
Cash provided (used) by operations	58.3	(26.7)	3.0	34.6	(2.7)	(34.6)
Free cash flow[4]	37.4	(55.6)	3.0	(15.2)	(33.9)	(55.9)
PRODUCTION VOLUMES (tonnes)						
Mixed Sulphides	17,297	14,836	-	32,133	16,923	18,271
Finished Nickel	15,762	13,618	-	29,380	16,464	16,842
Finished Cobalt	1,801	1,173	-	2,974	1,847	1,309
Fertilizer	243,682	43,118	-	286,800	256,812	53,908
NICKEL RECOVERY (%)	85%	85%			87%	86%
SALES VOLUMES (tonnes)						
Finished Nickel	15,679	13,694	-	29,373	16,402	16,844
Finished Cobalt	1,783	1,220	-	3,003	1,846	1,281
Fertilizer	178,491	42,016	-	220,507	167,525	52,482
AVERAGE EXCHANGE RATE (CAD/USD)				1.299		
AVERAGE REFERENCE PRICES (US$ per pound)						
Nickel				$ 4.72		
Cobalt				26.53		
AVERAGE-REALIZED PRICES[4]						

Nickel ($ per pound)	$ 6.14	$ 6.05	$ -	$ 6.10	$ 5.63	$ 5.66
Cobalt ($ per pound)	32.98	33.35	-	33.13	14.82	16.08
Fertilizer ($ per tonne)	361	168	-	325	377	164
UNIT OPERATING COSTS (US$ per pound)(4)						
Nickel - net direct cash cost	$ 2.35	$ 3.83	$ -	$ 3.04	$ 3.42	$ 4.27
SPENDING ON CAPITAL						
Sustaining	$ 20.9	$ 44.2	$ -	$ 65.1	$ 22.6	$ 33.1
Expansion	-	-	-	-	10.3	-
	$ 20.9	$ 44.2	$ -	$ 65.1	$ 32.9	$ 33.1

(1) Includes results for certain 100% owned assets at Fort Saskatchewan plant.
(2) Sherritt’s share for Ambatovy Joint Venture reflects its interest at 40% to December 10, 2017 and 12% thereafter.
(3) Includes results for Sherritt’s marketing organizations for certain Ambatovy and Moa Joint Venture sales.
(4) For additional information, see the Non-GAAP measures section of this release.

METAL MARKETS

Nickel

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

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

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

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

Cobalt

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OIL AND GAS

	For the three months ended			For the years ended		
	2017	2016		2017	2016	
$ millions, except as otherwise noted	December 31	December 31	Change	December 31	December 31	Cl
FINANCIAL HIGHLIGHTS						
Revenue	$ 27.7	$ 30.6	(9%)	$ 127.0	$ 108.6	17
Earnings (loss) from operations	7.9	2.8	182%	33.6	(16.3)	30
Adjusted EBITDA(1)	10.5	11.6	(9%)	61.9	35.6	74
Cash provided by operations	(2.3)	11.4	(120%)	30.8	76.4	(6
Free cash flow(1)	(9.9)	3.3	(400%)	8.9	50.4	(8
PRODUCTION AND SALES (bopd)						
Gross working-interest (GWI) - Cuba	10,378	14,470	(28%)	13,479	15,452	(1
Total net working-interest (NWI)	6,101	8,163	(25%)	7,856	9,483	(1
AVERAGE EXCHANGE RATE (CAD/USD)	1.271	1.334	(5%)	1.299	1.325	(2
AVERAGE REFERENCE PRICE (US$ per barrel)						
West Texas Intermediate (WTI)	$ 55.19	$ 49.21	12%	$ 50.78	$ 43.37	17
Gulf Coast Fuel Oil No. 6	52.81	41.12	28%	47.02	32.13	46
Brent	61.77	48.53	27%	54.18	43.31	25
AVERAGE-REALIZED PRICE(1) (NWI)						
Cuba ($ per barrel)	$ 48.82	$ 39.75	23%	$ 43.81	$ 29.93	46
UNIT OPERATING COSTS(1) (GWI)						
Cuba ($ per barrel)	$ 12.24	$ 10.95	12%	$ 9.78	$ 9.75	-
SPENDING ON CAPITAL(2)						
Development, facilities and other	$ (1.4)	$ 0.4	(450%)	$ (1.7)	$ 8.9	(1
Exploration	8.6	7.8	10%	21.1	17.0	24
	$ 7.2	$ 8.2	(12%)	$ 19.4	$ 25.9	(2

(1) For additional information, see the Non-GAAP measures section of this release.
(2) Spending on capital includes accruals.

Gross working-interest oil production in Q4 2017 in Cuba was 10,378 barrels of oil per day (bopd), down from 14,470 bopd for the comparable period of 2016. The decrease was primarily due to the expiration of the

Varadero West Production Sharing Contract (PSC) in November 2017 and natural reservoir declines. Gross working-interest oil production on a 12-month basis for 2017 was 13,479 bopd, in line with guidance for the year.

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

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

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

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

POWER	For the three months ended			For the years ended	
	2017	2016		2017	20
$ millions (33 ?% basis), except as otherwise noted	December 31	December 31	Change	December 31	Dece
FINANCIAL HIGHLIGHTS					
Revenue	$ 12.0	$ 13.7	(12%)	$ 51.2	$ 58
Earnings (loss) from operations	(0.6)	(1.3)	54%	5.2	(5.
Adjusted EBITDA(1)	5.5	7.4	(26%)	30.1	29
Cash provided by operations	5.4	(3.3)	264%	44.5	8.0
Free cash flow(1)	5.3	(3.7)	243%	43.0	7.0
PRODUCTION AND SALES					
Electricity (GWh)	201	224	(10%)	848	89
AVERAGE-REALIZED PRICE(1)					
Electricity ($/MWh)	$ 54.01	$ 56.24	(4%)	$ 55.15	$ 56
UNIT OPERATING COSTS(1) ($/MWh)					
Base	20.66	22.39	(8%)	16.48	17
Non-base(2)	2.77	2.34	18%	2.81	5.2
	23.43	24.73	(5%)	19.29	22
NET CAPACITY FACTOR (%)	62	66	(6%)	67	70
SPENDING ON CAPITAL AND SERVICE CONCESSION ARRANGEMENTS(3)					
Sustaining	$ 0.1	$ 0.4	(75%)	$ 1.5	$ 1.0
Service concession arrangements	-	0.1	(100%)	-	4.0
	$ 0.1	$ 0.5	(80%)	$ 1.5	$ 5.6

(1) For additional information see the Non-GAAP measures section of this release.
(2) Costs incurred at the Boca de Jaruco and Puerto Escondido facilities that otherwise would have been capitalized if these facilities were not accounted for as service concession arrangements.
(3) Spending on capital includes accruals.

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

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

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

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

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

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

2017 REVIEW OF STRATEGIC PRIORITIES

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

Strategic Priorities	2017 Actions
PRESERVE LIQUIDITY AND BUILD BALANCE SHEET STRENGTH	Finalize long-terr
	Optimize working
	Operate Metals a
OPTIMIZE OPPORTUNITIES IN CUBAN ENERGY BUSINESS	Determine future
UPHOLD GLOBAL OPERATIONAL LEADERSHIP IN FINISHED NICKEL LATERITE PRODUCTION	Further reduce N of global nickel c
	Increase Ambato
	Achieve peer lea

2018 STRATEGIC PRIORITIES

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

Strategic Priorities	2018 Actions

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

OUTLOOK
2018 PRODUCTION, UNIT OPERATING COST AND CAPITAL SPENDING GUIDANCE

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

	Guidance at 2017	Actual 2017	Guida 2018
Production volumes, unit operating costs and spending on capital			
Production volumes			
Nickel, finished (tonnes, 100% basis)			
Moa Joint Venture	31,500-32,500	31,524	31,50
Ambatovy Joint Venture	36,000-39,000	35,474	40,00
Cobalt, finished (tonnes, 100% basis)			
Moa Joint Venture	3,500-3,800	3,601	3,500
Ambatovy Joint Venture	3,300-3,600	3,053	3,900
Oil – Cuba (gross working-interest, bopd)	13,000-14,000	13,479	4,300
Oil and Gas – All operations (net working-interest, boepd)	7,500-8,000	7,855	1,900
Electricity (GWh, 33?% basis)	850-900	848	750-8
Unit operating costs			
NDCC (US$ per pound)			
Moa Joint Venture	2.80-3.30	2.35	2.50-3
Ambatovy Joint Venture	3.10-3.70	3.83	3.00-3
Oil and Gas - Cuba (unit operating costs, $ per barrel)	11.00-12.00	9.78	22.00
Electricity (unit operating cost, $ per MWh)	18.75-19.50	19.29	20.75
Spending on capital (US$ millions)			
Metals – Moa Joint Venture (50% basis), Fort Site (100% basis)(1)	US$28 (CDN$38)	US$17 (CDN$21)	US$4
Metals – Ambatovy Joint Venture (40% basis then 12% basis)(2)	US$45 (CDN$61)	US$35 (CDN$44)	US$1
Oil and Gas	US$35 (CDN$47)	US$15 (CDN$19)	US$3
Power (33?% basis)	US$1 (CDN$2)	US$1 (CDN$2)	US$1
Spending on capital (excluding Corporate)	US$109 ($CDN148)	US$68 (CDN$86)	US$9

(1) Spending is 50% of US$ expenditures for Moa JV and 100% expenditures for Fort Site fertilizer and utilities.
(2) Sherritt’s share for Ambatovy Joint Venture reflects its interest at 40% to December 10, 2017 and 12% thereafter.

NON-GAAP MEASURES

The Corporation uses combined results, Adjusted EBITDA, average-realized price, unit operating cost, and adjusted operating cash flow, and free cash flow to monitor the performance of the Corporation and its operating divisions and believes these measures enable investors and analysts to compare the Corporation’s financial performance with its competitors and evaluate the results of its underlying business. These measures do not have a standard definition under IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. As these measures do not have a standardized meaning, they may not be comparable to similar measures provided by other companies. See Sherritt’s Management’s Discussion and Analysis for the period ended December 31, 2017 for further information.

CONFERENCE CALL AND WEBCAST

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

Conference Call and Webcast:	February 12, 2018, 10:30 a.m. ET
North American callers, please dial:	1-800-281-7829
International callers, please dial:	647-794-1827
Live webcast:	www.sherritt.com

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

COMPLETE FINANCIAL STATEMENTS AND MANAGEMENT’S DISCUSSION AND ANALYSIS

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

ABOUT SHERRITT

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

FORWARD-LOOKING STATEMENTS

This press release contains certain forward-looking statements. Forward-looking statements can generally be identified by the use of statements that include such words as “believe”, “expect”, “anticipate”, “intend”, “plan”, “forecast”, “likely”, “may”, “will”, “could”, “should”, “suspect”, “outlook”, “potential”, “projected”, “continue” or other similar words or phrases. Specifically, forward-looking statements in this document include, but are not limited to, statements set out in the “Outlook” sections of this press release and certain expectations regarding production volumes, operating costs and capital spending; supply, demand and pricing outlook in the nickel and cobalt markets; Ambatovy plant reliability and production stability; strategic priorities and 2018 actions;

and drill results for the second well on Block 10.

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

The Corporation cautions readers of this press release not to place undue reliance on any forward looking statement as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward looking statements. These risks, uncertainties and other factors include, but are not limited to, changes in the global price for nickel, cobalt, oil and gas or certain other commodities; share price volatility; level of liquidity; access to capital; access to financing; risks related to the liquidity of the Ambatovy Joint Venture; the risk to Sherritt’s entitlements to future distributions from the Ambatovy Joint Venture; risk of future non-compliance with debt restrictions and covenants; risks associated with the Corporation’s joint venture partners; variability in production at Sherritt’s operations in Madagascar and Cuba; potential interruptions in transportation; uncertainty of gas supply for electrical generation; uncertainty of exploration results and Sherritt’s ability to replace depleted mineral and oil and gas reserves; the Corporation’s reliance on key personnel and skilled workers; the possibility of equipment and other failures; the potential for shortages of equipment and supplies; risks associated with mining, processing and refining activities; uncertainty of resources and reserve estimates; uncertainties in environmental rehabilitation provisions estimates; risks related to the Corporation’s corporate structure; political, economic and other risks of foreign operations; risks related to Sherritt’s operations in Cuba; risks related to the U.S. government policy toward Cuba, including the U.S. embargo on Cuba and the Helms-Burton legislation; risks related to Sherritt’s operations in Madagascar; risks associated with Sherritt’s development, construction and operation of large projects generally; risks related to the accuracy of capital and operating cost estimates; reliance on significant customers; foreign exchange and pricing risks; compliance with applicable environment, health and safety legislation and other associated matters; risks associated with governmental regulations regarding greenhouse gas emissions; maintaining the Corporation’s social license to grow and operate; risks relating to community relations; credit risks; shortage of equipment and supplies; competition in product markets; future market access; interest rate changes; risks in obtaining insurance; uncertainties in labour relations; uncertainty in the ability of the Corporation to enforce legal rights in foreign jurisdictions; uncertainty regarding the interpretation and/or application of the applicable laws in foreign jurisdictions; legal contingencies; risks related to the Corporation’s accounting policies; risks associated with future acquisitions; uncertainty in the ability of the Corporation to obtain government permits; risks to information technologies systems and cybersecurity; failure to comply with, or changes to, applicable government regulations; bribery and corruption risks, including failure to comply with the Corruption of Foreign Public Officials Act or applicable local anti-corruption law; uncertainties in growth management.

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

View source version on businesswire.com: http://www.businesswire.com/news/home/20180212005426/en/

Contact

Sherritt International Corp.

Joe Racanelli, Director of Investor Relations
Telephone: 416.935.2451
Toll-free: 1.800.704.6698
E-mail: investor@sherritt.com