
Management's discussion and analysis

For the three and six months ended June 30, 2010

This Management's Discussion and Analysis (MD&A) has been prepared for the three and six months ended June 30, 2010 as of July 26, 2010 and it should be read in conjunction with the Corporation's audited consolidated financial statements and the MD&A for the year ended December 31, 2009. Additional information related to the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at www.sedar.com or on the Corporation's web site at www.sherritt.com.

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

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

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Key financial and operational data

\$ millions	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30 ⁽²⁾	2010 June 30	2009 June 30 ⁽²⁾
Financial highlights				
Revenue	\$ 430.9	\$ 358.5	\$ 824.2	\$ 708.1
EBITDA ⁽¹⁾	149.9	111.4	293.0	207.9
Operating earnings ⁽¹⁾	86.9	51.6	169.5	79.4
Net earnings (loss)	15.7	24.4	75.4	(18.5)
Net earnings (loss) per share, basic (\$ per share)	0.05	0.08	0.26	(0.07)
Net earnings (loss) per share, diluted (\$ per share)	0.05	0.08	0.25	(0.07)
Cash flow				
Cash provided by operating activities	\$ 84.0	\$ 47.0	\$ 229.5	\$ 142.3
Capital expenditures				
	\$ 352.7	\$ 388.2	\$ 714.8	\$ 805.1
Production volumes				
Nickel (tonnes)(50% basis)	3,740	4,261	8,005	8,334
Cobalt (tonnes)(50% basis)	404	470	872	939
Coal - Prairie Operations (millions of tonnes)	7.2	8.4	16.0	16.9
Coal - Mountain Operations (millions of tonnes)(50% basis)	0.6	0.5	1.0	1.0
Oil - Cuba - net production (barrels per day)	11,546	12,099	11,503	12,878
Electricity (gigawatt hours)	513	515	1,028	1,056
Unit operating costs				
Nickel (US\$ per pound) ⁽³⁾	\$ 3.09	\$ 2.85	\$ 3.32	\$ 3.43
Coal - Prairie Operations (\$ per tonne)	14.92	11.19	12.85	11.41
Coal - Mountain Operations (\$ per tonne)	68.05	63.17	72.86	61.01
Oil - Cuba (\$ per barrel)	7.20	7.87	7.58	8.48
Electricity (\$ per megawatt hour)	13.12	15.14	11.47	16.49
Averaged-realized sales prices				
Nickel (\$ per pound)	\$ 10.65	\$ 6.86	\$ 9.88	\$ 6.30
Cobalt (\$ per pound)	18.96	16.62	19.53	16.43
Coal - Prairie Operations (\$ per tonne)	17.46	14.35	16.02	14.68
Coal - Mountain Operations (\$ per tonne)	92.47	85.86	81.64	92.72
Oil - Cuba (\$ per barrel)	51.21	43.18	52.10	39.40
Electricity (\$ per megawatt hour)	42.22	47.93	42.43	49.23

\$ millions, except as noted, as at	2010	2009
	June 30	December 31
Financial condition		
Current ratio ⁽⁴⁾	2.28:1	3.16:1
Net working capital balance ⁽⁴⁾	\$ 777.8	\$ 1,027.3
Cash, cash equivalents and short-term investments	707.6	861.6
Total assets	10,564.3	9,899.4
Total long-term debt	3,216.6	2,993.9
Non-controlling interests	2,288.0	2,110.8
Shareholders' equity	3,537.1	3,454.4
Long-term debt-to-capitalization ⁽⁵⁾	36%	35%

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

(2) Amounts for the three and six months ended June 30, 2009 have been amended to include the results of Mineral Products which had previously been accounted for as a discontinued operation.

(3) Net direct cash cost is inclusive of by-product credits and third-party feed costs.

(4) Working capital at June 30, 2010 included \$64.3 million (100% basis) of cash and cash equivalents held by the Ambatovy Joint Venture and \$60.4 million (50% basis) held by the Moa Joint Venture. All cash held by the Ambatovy Joint Venture and Moa Joint Venture is for the use of those joint ventures. Not including the cash held by these joint ventures, the Corporation's current ratio was 2.07:1.

(5) Calculated as Total long-term debt divided by the sum of Total long-term debt, Non-controlling interests and Shareholders' equity. For the purposes of this calculation, Total long-term debt does not include other long-term liabilities.

Executive summary

Highlights of the second quarter of 2010:

- Net earnings for the second quarter of 2010 were \$15.7 million compared to net earnings of \$24.4 million in the same period in the prior year. Higher operating earnings were more than offset by foreign-exchange losses arising from the revaluation of U.S. dollar-denominated loans payable as a result of the weaker Canadian dollar at June 30, 2010 compared to December 31, 2009, and due to an increase in the provision for future taxes;
- Revenue of \$430.9 million and EBITDA⁽¹⁾ of \$149.9 million in the second quarter of 2010 compared to revenue of \$358.5 million and EBITDA of \$111.4 million in the same period in the prior year. Higher revenue and EBITDA were primarily a result of higher nickel and oil prices and higher export coal sales volumes, partially offset by the impact of an average weaker U.S. dollar during the quarter compared to the same period in the prior year and higher operating costs at Coal Mountain Operations;
- On June 30, 2010, Sherritt purchased the remaining 50% interest in the Coal Valley Partnership (CVP) from the Ontario Teachers' Pension Plan Board (OTPPB) that it did not previously own for \$45.0 million. The cash consideration of \$45.0 million included two components; \$34.9 million for the 50% partnership interest in CVP and \$10.1 million for a loan that was owed to OTPPB by CVP. The purchase added approximately 2.6 million tonnes of export thermal coal annual capacity, the associated reserves and resources, and completed the process of consolidating ownership of the production assets in the Coal business;
- The Ambatovy Project continued to progress towards mechanical completion scheduled for early 2011 with an additional \$297.3 million spent in the quarter. Demobilization of civil and earthworks personnel began as facilities at the minesite, port and sulphuric acid plant were completed. Total cumulative project expenditures at June 30, 2010 were US\$4.0 billion, excluding financing charges, foreign exchange and working capital requirements, and represents approximately 89% of the projected total expenditures; and
- The Corporation continued to maintain a strong liquidity position with a current ratio of 2.28:1, a net working capital balance of \$777.8 million and cash, cash equivalents, and short-term investments of \$707.6 million. These amounts include \$64.3 million (100% basis) of cash and cash equivalents held by the Ambatovy Joint Venture and \$60.4 million (50% basis) held by the Moa Joint Venture. All cash held by the Ambatovy Joint Venture and Moa Joint Venture is for the use of those joint ventures. The Corporation's long-term debt-to-capitalization ratio was 36%.

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

Management's discussion and analysis

\$ millions, except per share amounts	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Revenue by segment				
Metals	\$ 138.1	\$ 111.1	\$ 253.9	\$ 190.8
Coal	198.7	165.7	387.0	354.6
Oil and Gas	63.7	50.2	123.0	96.8
Power	28.2	28.6	56.2	59.0
Corporate and other	2.2	2.9	4.1	6.9
	430.9	358.5	824.2	708.1
EBITDA⁽¹⁾ by segment				
Metals	\$ 50.7	\$ 26.5	\$ 98.8	\$ 25.1
Coal	43.8	41.9	85.8	101.9
Oil and Gas	48.0	33.6	91.1	60.8
Power	19.9	19.7	41.2	39.4
Corporate and other	(12.5)	(10.3)	(23.9)	(19.3)
	149.9	111.4	293.0	207.9
Operating earnings (loss)⁽¹⁾ by segment				
Metals	\$ 42.8	\$ 20.0	\$ 82.7	\$ 11.2
Coal	17.0	17.9	34.3	52.7
Oil and Gas	28.7	13.3	52.5	13.3
Power	11.4	12.0	24.7	24.1
Corporate and other	(13.0)	(11.6)	(24.7)	(21.9)
	86.9	51.6	169.5	79.4
Loss on disposal of property, plant and equipment	-	-	-	79.5
Net financing expense	34.5	16.4	29.5	14.3
Other items	-	(0.7)	-	1.5
Non-controlling interests	2.6	5.6	7.5	11.7
Income taxes	34.1	5.9	57.1	(9.1)
Net earnings (loss)	\$ 15.7	\$ 24.4	\$ 75.4	\$ (18.5)
Net earnings (loss) per share				
Basic	\$ 0.05	\$ 0.08	\$ 0.26	\$ (0.07)
Diluted	\$ 0.05	\$ 0.08	\$ 0.25	\$ (0.07)
Effective Tax Rate	68%	16%	43%	66%

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

Sherritt's operating results in the second quarter of 2010 were significantly impacted by market-driven commodity prices of nickel, cobalt and oil produced in Cuba when compared to the same period in the prior year. During the second quarter of 2010, the average-realized price for nickel continued to strengthen compared to prior quarters. The average-realized prices of cobalt and oil produced in Cuba also increased from the same period in the prior year, but were lower compared to the first quarter of 2010. The first two quarters of 2009 were affected more by the global financial crisis.

The average-realized prices of nickel, and cobalt, and oil produced in Cuba in the second quarter of 2010 were 55%, 14%, and 19% higher than in the same period in the prior year, respectively. The approximate impact of these higher average-realized prices was a \$59 million increase in second-quarter 2010 operating earnings compared to the same period in the prior year.

The average Canadian to U.S. dollar exchange rate was \$1.03 for the second quarter of 2010 compared to \$1.17 in the same period in the prior year. The negative impact of a weaker U.S. dollar significantly reduced Sherritt's second-quarter operating earnings as most commodity prices are quoted in U.S. dollars.

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

- Metals' operating earnings of \$42.8 million and \$82.7 million for the second quarter and first six months of 2010 were \$22.8 million and \$71.5 million higher than in the same periods in 2009, respectively, primarily due to higher average-realized nickel and cobalt prices, partially offset by the scheduled refinery shutdown and the impact of a weaker U.S. dollar;

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- Coal's operating earnings of \$17.0 million and \$34.3 million for the second quarter and first six months of 2010 were \$0.9 million and \$18.4 million lower than in the same periods in 2009, respectively, primarily due to lower earnings at Mountain Operations mainly due to higher operating costs and the impact of a weaker U.S. dollar, offset partially by higher export sales volumes;
 - Oil and Gas' operating earnings of \$28.7 million and \$52.5 million for the second quarter and first six months of 2010 were \$15.4 million and \$39.2 million higher than in the same periods in 2009, respectively, primarily due to higher average-realized price for oil produced in Cuba, partially offset by a decrease in net working-interest production and the impact of a weaker U.S. dollar;
 - Power's operating earnings of \$11.4 million and \$24.7 million for the second quarter and first six months of 2010 were \$0.6 million lower and \$0.6 million higher than in the same periods in 2009, respectively, primarily due to lower average-realized sale prices being offset by higher by-product prices and lower operating costs;
 - The Corporation has decided to close the Mineral Products division on August 27, 2010. The Mineral Products division will continue to be reported in continuing operations until the mine and plant are closed, at which point it will be classified into discontinued operations. As at June 30, 2010, the Corporation wrote down assets of \$2.4 million and accrued additional liabilities of \$1.4 million. (See the *Review of Operations – Other* section for more information);
 - Net financing expense of \$34.5 million and \$29.5 million for the second quarter and for the first six months of 2010 was \$18.1 and \$15.2 million higher than in the same periods in the prior year primarily due to foreign exchange losses. These foreign exchange losses were mainly a result of a weaker Canadian dollar relative to the U.S. dollar at June 30, 2010 compared to December 31, 2009. The foreign-exchange losses arising from the revaluation of U.S. dollar-denominated loans payable was partially offset by foreign-exchange gains arising from the revaluation of U.S. dollar-denominated advances and loans receivable. In addition, during the second quarter of 2010, the Corporation recorded foreign exchange losses due to the timing of collection of Euro-denominated sales as the Euro weakened relative to the U.S. dollar;
 - The effective consolidated tax rates for the second quarter and first six months of 2010 were 68% and 43% respectively, compared to 16% and 66% in the same periods in the prior year. These 2010 effective tax rates have been impacted primarily by two significant items. Firstly, a \$15.3 million future tax expense was recognized on the Cuban tax contingency reserve noted below. Secondly, no tax benefit was recognized on the loss incurred by the Mineral Products division as it is uncertain that the loss could ever be used in a future period to reduce taxable income. After adjusting for these items, the normalized effective tax rates for the second quarter and first six months of 2010 were 24% and 26%, respectively. The normalized effective tax rate for the six months ended June 30, 2009 was 20%. The normalized 2009 tax rate reflects the removal of the tax that was associated with the \$79.5 million loss on disposal of assets realized by Oil and Gas in 2009. The difference between the 20% normalized 2009 effective tax rate and the 26% normalized 2010 effective tax rate for the six months ending June 30 of each year, was primarily due to changes in the relative mix of earnings and losses incurred by each division which were carried out in different tax rate jurisdictions; and
 - In prior years, Oil and Gas and Power deducted a 5% contingency reserve in computing current taxes under Cuban tax legislation. The Corporation had previously determined that this reserve would not be taxable. However, based on new information and developments during the quarter ended June 30, 2010, it was concluded that the contingency reserve would more likely than not be taxable in a future period. Based on this determination, Oil and Gas and Power have recorded a future tax expense of \$15.3 million in the quarter ended June 30, 2010.

Review of operations

Metals

FINANCIAL REVIEW

\$ millions	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Revenue				
Nickel	\$ 88.2	\$ 65.7	\$ 174.6	\$ 115.4
Cobalt	19.2	17.9	37.5	34.1
Fertilizers	28.0	25.5	36.5	37.6
Other	2.7	2.0	5.3	3.7
	138.1	111.1	253.9	190.8
Operating costs ⁽¹⁾				
Mining, processing and refining	47.0	51.3	93.3	107.5
Third-party feed costs	2.6	1.5	6.3	5.3
Fertilizers	24.5	21.9	32.8	34.2
Other	7.0	4.2	12.2	9.3
	81.1	78.9	144.6	156.3
Selling costs	4.9	4.2	7.7	7.0
General and administrative costs	1.4	1.5	2.8	2.4
EBITDA ⁽²⁾	50.7	26.5	98.8	25.1
Depletion, amortization and accretion	7.9	6.5	16.1	13.9
Operating earnings ⁽²⁾	\$ 42.8	\$ 20.0	\$ 82.7	\$ 11.2

(1) Excluding depreciation and amortization for the three and six months ended June 30, 2010 of \$5.7 million and \$12.0 million, respectively (\$6.4 million and \$10.9 million for the three and six months ended June 30, 2009, respectively).

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

The change in operating earnings between 2010 and 2009 is detailed below:

\$ millions	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Higher realized nickel prices	\$ 38.1		\$ 79.9	
Higher realized cobalt prices	4.2		10.1	
Lower finished metals sales volumes net of higher fertilizer sales volumes	(3.7)		(3.1)	
Higher mining, processing, refining and third party feed costs	(6.7)		(4.1)	
Impact of weaker U.S. dollar	(2.9)		(5.5)	
Other	(6.2)		(5.8)	
Change in operating earnings, compared to 2009	\$ 22.8		\$ 71.5	

METAL PRICES

Prices \$ millions	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Nickel - average-realized (\$/lb)	\$ 10.65	\$ 6.86	\$ 9.88	\$ 6.30
Cobalt - average-realized (\$/lb)	18.96	16.62	19.53	16.43
Nickel - average-reference (US\$/lb)	10.15	5.89	9.62	5.31
Cobalt - average-reference (US\$/lb) ⁽¹⁾	19.36	13.53	19.73	13.91

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

During the second quarter of 2010, the average nickel and cobalt reference prices increased by US\$4.26 per pound and US\$5.83 per pound, respectively, as global demand for finished metals improved compared to the second quarter of 2009. For the first six months of 2010, average nickel and cobalt reference prices increased US\$4.31 per pound and US\$5.82 per pound, respectively, compared to the same period in the prior year.

PRODUCTION AND SALES

Production (tonnes) (50% basis)	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Mixed sulphides	4,684	4,639	9,343	9,325
Finished nickel	3,740	4,261	8,005	8,334
Finished cobalt	404	470	872	939

Sales (50% basis)				
	2010	2009	2010	2009
Finished nickel (thousands of pounds)	8,270	9,582	17,662	18,318
Finished cobalt (thousands of pounds)	1,015	1,078	1,922	2,076
Fertilizer (tonnes)	85,063	68,787	111,757	100,438

Production of contained nickel and cobalt in mixed sulphides was marginally higher in the second quarter and for the first six months of 2010 compared to the same periods in the prior year. Finished nickel production of 7,481 tonnes (100% basis) was 1,041 tonnes lower and finished cobalt production of 808 tonnes (100% basis) was 132 tonnes lower, respectively, in the second quarter of 2010 compared to the same period in the prior year as finished metals production was affected by a scheduled total shutdown of the refinery compared to the series of maintenance windows that occurred throughout the prior year. Finished nickel production of 16,010 tonnes (100% basis) was 658 tonnes lower and finished cobalt production of 1,744 tonnes (100% basis) was 133 tonnes lower, respectively, for the first six months of 2010 than the same period in the prior year as the impact of the maintenance outage was partially offset by increased feed availability and the benefit of the autoclave replacement program at Fort Saskatchewan that was completed in the fourth quarter of 2009. Nickel and cobalt production is expected to be similar to levels achieved in 2009 (See the *Outlook for 2010* section below for more information).

Sales of finished nickel were 1,312,000 pounds (50% basis) and 656,000 pounds (50% basis) lower in the second quarter and the first six months of 2010, respectively, compared to the same period in the prior year, reflecting lower production levels. Sales of cobalt were 63,000 pounds (50% basis) and 154,000 pounds (50% basis) lower in the second quarter and the first six months of 2010, respectively, also due to lower finished metals production. Fertilizer sales volumes were 16,276 tonnes (Sherritt's share) and 11,319 tonnes (Sherritt's share) higher in the second quarter and the first six months of 2010, respectively, compared to the same period in the prior year reflecting strong spring season demand this year and the poor spring weather conditions and the extended acid plant maintenance outage in Fort Saskatchewan which reduced sales in 2009.

Management's discussion and analysis**OPERATING COSTS**

	For the three months ended		For the six months ended	
	2010	2009	2010	2009
Unit operating costs	June 30	June 30	June 30	June 30
Mining, processing and refining costs	\$ 5.59	\$ 4.34	\$ 5.11	\$ 4.65
Third-party feed costs	0.31	0.13	0.35	0.24
Cobalt by-product credits	(2.27)	(1.61)	(2.05)	(1.55)
Other ⁽¹⁾	(0.54)	(0.01)	(0.09)	0.09
Net direct cash cost (US\$/lb of nickel)	\$ 3.09	\$ 2.85	\$ 3.32	\$ 3.43
Natural gas costs (\$/gigajoule)	4.06	4.01	4.40	4.01
Sulphur (US\$/tonne)	145.98	184.43	129.06	168.62
Sulphuric acid (US\$/tonne)	134.77	134.76	132.53	159.85

(1) Includes fertilizer profit or loss, marketing costs, premiums or discounts to the reference price, and other by-product credits.

	For the three months ended		For the six months ended	
	2010	2009	2010	2009
Components of mining, processing and refining costs	June 30	June 30	June 30	June 30
Fixed costs	19%	23%	20%	22%
Sulphur	5%	9%	6%	9%
Sulphuric acid	17%	20%	16%	20%
Fuel oil	19%	14%	19%	13%
Maintenance	16%	12%	15%	12%
Other variables ⁽¹⁾	24%	22%	24%	24%
	100%	100%	100%	100%

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

Net direct cash cost of nickel was US\$0.24 per pound higher in the second quarter of 2010 compared to the same period in the prior year reflecting increased mining, processing, refining and third-party feed costs partially offset by increased cobalt and fertilizer by-product credits. Net direct cash cost of nickel was US\$0.11 lower in the first six months of 2010 compared to the same period in the prior year as higher mining, processing, refining and third-party feed costs were more than offset by increased cobalt and fertilizer by-product credits. Increased mining, processing and refining costs in 2010 primarily reflect higher fuel oil costs at Moa and higher utilities costs and the timing of maintenance activities at Fort Saskatchewan. Increased third-party feed costs primarily reflect the impact of higher metals prices.

CAPITAL SPENDING

	For the three months ended		For the six months ended	
	2010	2009	2010	2009
Capital Expenditures ⁽¹⁾	June 30	June 30	June 30	June 30
\$ millions				
Moa Joint Venture				
Sustaining	\$ 4.8	\$ 3.9	\$ 9.0	\$ 6.8
Expansion	2.9	3.4	4.2	6.0
	7.7	7.3	13.2	12.8
Ambatovy Joint Venture	297.3	326.8	613.2	703.7
Total	\$ 305.0	\$ 334.1	\$ 626.4	\$ 716.5

(1) Capital expenditures relate to the Corporation's 50% interest in the Moa Joint Venture, its 100% interest in the utility and fertilizer operations in Fort Saskatchewan and 100% of the Ambatovy Joint Venture.

Capital spending for the Moa Joint Venture, which continues to include capitalized interest related to financing of the Phase 2 expansion and the Moa acid plant, was comparable to the second quarter and first six months of 2009.

Capital spending for the Ambatovy Project was primarily for site-based construction activities.

AMBATOVY PROJECT UPDATE

- The projected capital cost of the project remains unchanged at US\$4.52 billion, excluding financing charges, foreign exchange and working capital requirements;
- Capital spending for the project was \$297.3 million for the quarter;
- A total of \$199.6 million was provided by the Ambatovy Joint Venture partners during the quarter. Sherritt's share of shareholder funding was composed of \$28.2 million directly from Sherritt and \$51.6 million through the additional partner loans;
- The additional partner loans were entered into during the global financial crisis in June 2009. With improving economic conditions, Sherritt has agreed in principle to provide at least US\$80 million in direct pro-rata shareholder funding prior to further drawdowns on the additional partner loans. Consequently, Sherritt will receive a proportionate share of distributions from the Ambatovy Project;
- A total of \$69.9 million was drawn from the Ambatovy Joint Venture senior debt financing in the second quarter of 2010;
- Mechanical completion is expected in early 2011;
- Over 15,000 people are engaged in all areas of the project. Demobilization of civil and earthworks personnel began in the second quarter and will continue through the third quarter as the mine site, port and ammonia storage facilities and the sulphuric acid plant are completed;
- A significant amount of equipment and materials arrived on site during the second quarter of 2010. The majority of the equipment and materials required for the completion of the project will be received on site early in the third quarter;
- Expediting of materials and equipment will continue through to the end of the project but will begin winding down in the third quarter;
- Construction of the power plant, being performed under a lump-sum turnkey contract, has encountered some delays and is now critical to maintaining the overall project schedule. Sherritt and the EPCM contractor are providing management assistance to the power plant contractor to ensure that the commissioning dates are maintained;
- Plant systems and sub-systems continue to be turned over from construction to the commissioning teams as they are completed. This process will continue throughout 2010;
- Operational readiness activities continue and are on schedule for completion prior to operational startup of the plant;
- Mining activities commenced in July 2010. Ore will be stockpiled in preparation for the startup of the ore preparation plant at the mine site and the pressure acid leach circuits at the plant site; and
- The project has not experienced any material disruptions as a result of the political uncertainties in Madagascar. The Corporation actively monitors the political climate in Madagascar and continues its communication with officials of the Transitional Government and with multilateral institutions and key embassies.

Management's discussion and analysis**OUTLOOK FOR 2010**

	Actual	Projected
	2010	2010
For the six and twelve months ended	June 30	December 31
Production (tonnes, 100% basis)		
Mixed sulphides	18,686	37,000
Finished Nickel	16,010	33,500
Finished Cobalt	1,744	3,600
Capital expenditures (\$ millions)		
Moa Joint Venture (50% basis)	\$ 13	\$ 54
Ambatovy (100% basis, US\$)	\$ 596	\$ 1,100

Full-year 2010 production of mixed sulphides and finished nickel remains unchanged from the last quarter. Finished cobalt production estimates reflect decreased availability of third-party feeds in the second half of 2010. Capital expenditure guidance is 22% (\$12 million) lower than previously disclosed. The decrease reflects an anticipated delay in the construction of the 2,000 tonne per day sulphuric acid plant at Moa, which remains subject to securing adequate financing.

At Ambatovy, mechanical completion is expected in early 2011. In third-quarter 2010, the majority of equipment and material required for the Ambatovy Project will be on-site and mining activities will begin. Ore stockpiles will be developed in advance of the startup of the Ore Preparation Plant in fourth-quarter 2010.

Coal

FINANCIAL REVIEW

\$ millions	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Prairie Operations				
Mining revenue	\$ 131.5	\$ 116.7	\$ 270.0	\$ 244.6
Coal royalties	9.9	13.2	21.0	26.1
Potash royalties	3.2	2.3	6.5	6.6
	144.6	132.2	297.5	277.3
Operating costs ⁽¹⁾	112.4	91.0	216.6	190.2
General and administrative costs	1.0	6.9	2.0	8.5
EBITDA ⁽²⁾	31.2	34.3	78.9	78.6
Depletion, amortization and accretion	22.7	20.2	42.9	42.3
Operating earnings ⁽²⁾	\$ 8.5	\$ 14.1	\$ 36.0	\$ 36.3
Mountain Operations and coal development assets (50% basis)				
Revenue	\$ 54.1	\$ 33.5	\$ 89.5	\$ 77.3
Operating costs ⁽³⁾	39.9	24.6	79.8	50.9
General and administrative costs	1.6	1.3	2.8	3.1
EBITDA ⁽²⁾	12.6	7.6	6.9	23.3
Depletion, amortization and accretion	4.1	3.8	8.6	6.9
Operating earnings (loss) ⁽²⁾	\$ 8.5	\$ 3.8	\$ (1.7)	\$ 16.4

(1) Excluding depreciation and amortization for the three and six months ended June 30, 2010 of \$12.4 million and \$21.7 million, respectively (\$11.4 million and \$23.8 million for the three and six months ended June 30, 2009, respectively).

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

(3) Excluding depreciation and amortization for the three and six months ended June 30, 2010 of \$3.6 million and \$7.6 million, respectively (\$3.3 million and \$6.0 million for the three and six months ended June 30, 2009, respectively).

On June 30, 2010, Sherritt purchased the remaining 50% interest in the Coal Valley Partnership (CVP) from the Ontario Teachers' Pension Plan Board (OTPPB) that it did not previously own for \$45.0 million. The Corporation will fully consolidate the earnings of CVP beginning July 1, 2010.

Management's discussion and analysis

The change in operating earnings between 2010 and 2009 is detailed below:

\$ millions	For the three months ended		For the six months ended	
	2010		2010	
	June 30		June 30	
Prairie Operations				
Lower royalties	\$	(2.4)	\$	(5.2)
Higher operating costs, net of mining revenue		(6.6)		(1.0)
Higher depletion, amortization and accretion		(2.5)		(0.6)
Lower pension expense		5.2		5.2
Other		0.7		1.3
Change in operating earnings, compared to 2009	\$	(5.6)	\$	(0.3)
Mountain Operations and coal development assets				
Higher (lower) export coal prices, denominated in U.S. dollars	\$	5.2	\$	(1.4)
Impact of weaker U.S. dollar		(4.5)		(10.9)
Impact of higher export sales volumes		14.2		19.1
Higher domestic coal prices		3.3		3.1
Impact of higher domestic sales volumes		1.5		1.4
Higher operating costs		(15.2)		(28.8)
Other		0.2		(0.6)
Change in operating earnings, compared to 2009	\$	4.7	\$	(18.1)

COAL PRICES

Prices (\$/tonne)	For the three months ended		For the six months ended	
	2010	2009	2010	2009
	June 30	June 30	June 30	June 30
Prairie Operations - average-realized ⁽¹⁾	\$ 17.46	\$ 14.35	\$ 16.02	\$ 14.68
Mountain Operations - average-realized	92.47	85.86	81.64	92.72

(1) Excludes royalty revenue.

In Prairie operations, the average-realized price of coal increased \$3.11 per tonne during the second quarter of 2010 and \$1.34 per tonne for the first six months of 2010 compared to the same periods in the prior year primarily due to higher revenue from the Boundary Dam, Genesee and Highvale mines. Boundary Dam mine's fixed and variable prices increased as a result of a renewal of a coal supply agreement which became effective at the beginning of 2010. The changes in average-realized prices at the Genesee and Highvale mines reflected index-adjusted prices and higher cost and capital recoveries.

In Mountain Operations, the average-realized price increased \$6.61 per tonne for the second quarter of 2010 compared to the same period in the prior year primarily due to higher thermal export coal pricing and the inclusion of a retroactive price settlement discussed below which were partially offset by a weaker U.S. dollar relative to the Canadian dollar. For the first six months of 2010, the average-realized price decreased \$11.08 per tonne compared to the same period in the prior year primarily due to the impact of the weaker U.S. dollar relative to the Canadian dollar on thermal coal contract prices entered into at record prices that carried into the first quarter of 2009.

In May 2010, Mountain Operations received an arbitrator's decision related to a contract dispute with a domestic customer under which Mountain Operations will receive significantly higher prices for coal under the remaining term of the five-year contract extension that commenced February 1, 2009. As a result of this decision, a payment of \$9.0 million (100%) was received that represents a retroactive adjustment that was determined by using the higher price at the beginning of the contract extension.

ROYALTY REVENUE

\$ millions	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Prairie Operations				
Coal royalties	\$ 9.9	\$ 13.2	\$ 21.0	\$ 26.1
Potash royalties	\$ 3.2	2.3	\$ 6.5	6.6

In Prairie Operations, coal royalties decreased as expected during the second quarter and the first six months of 2010 due to the timing of mining in royalty assessable areas. Potash royalties increased in the second quarter of 2010 due to higher mined tonnes, which more than offset weakening global potash prices.

PRODUCTION AND SALES

Production (millions of tonnes)	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Prairie Operations (100%)	7.2	8.4	16.0	16.9
Mountain Operations (50% basis)	0.6	0.5	1.0	1.0
Sales (millions of tonnes)				
Prairie Operations (100%)	7.6	8.2	16.9	16.7
Mountain Operations (50% basis)	0.6	0.4	1.1	0.8

In Prairie Operations, lower production and sales volumes during the second quarter of 2010 compared to the same period in the prior year were mostly related to the Sheerness, Genesee and Highvale mines. Volumes at Sheerness were lower for the first six months of 2010 due to lower demand from its main customer which reduced supply at its power generating station due to lower electricity prices. Volumes at the Genesee and Highvale mines were lower due to reduced customer demand.

In Mountain Operations, production volumes were largely unchanged for the second quarter and the first six months of 2010 compared to the same periods in the prior year as reduced plant yields from mining poor quality coal as a result of delays receiving permits for Mercoal West at Coal Valley mine were offset by Obed Mountain mine production which commenced in July 2009. The first coal deliveries from Mercoal West, an area with higher quality coal, began in early June. Sales volumes during the second quarter and for the first six months of 2010 were higher due to Obed Mountain mine sales.

A dispute relating to an off-take contract for increased production resulting from the re-opening of Obed Mountain mine was resolved in the fourth quarter of 2009 and shipments began in January 2010. The delays caused by this dispute reduced Coal Valley Resources Inc.'s (CVRI) working capital and tangible net worth as it was unable to record expected levels of revenue in 2009. CVRI is owned 100% by CVP. As a result of this and lower production volumes mainly as a result of delays receiving permits in the first half of 2010, CVRI was not in compliance with two financial covenants applicable to a \$38.0 million (100% basis) 3-year non-revolving term facility. The financial institution granted a waiver of these covenants for the quarter ended June 30, 2010. See the *Liquidity and capital resources* section for more information.

Management's discussion and analysis**OPERATING COSTS**

Unit operating costs (\$ per tonne)	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Prairie Operations	\$ 14.92	\$ 11.19	\$ 12.85	\$ 11.41
Mountain Operations	68.05	63.17	72.86	61.01

Components of operating costs (%)	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Prairie Operations				
Labour	39%	43%	40%	42%
Repairs and maintenance	36%	29%	33%	28%
Fuel	11%	11%	12%	12%
Other ⁽¹⁾	14%	17%	15%	18%
Total	100%	100%	100%	100%
Mountain Operations				
Labour	23%	26%	23%	24%
Repairs and maintenance	14%	17%	13%	14%
Fuel	10%	11%	10%	11%
Rentals and contractors	15%	15%	15%	14%
Ex-Mine ⁽²⁾	34%	31%	34%	36%
Other ⁽³⁾	4%	0%	5%	1%
Total	100%	100%	100%	100%

(1) Composed of rentals, subcontracts, explosives, power, taxes, tires, licenses and other miscellaneous expenses.

(2) Composed largely of commissions, royalties, freight and port fees.

(3) Composed of tires, explosives, power, taxes, licenses, other miscellaneous expenses.

In Prairie Operations, operating costs per tonne increased for both the second quarter and first six months of 2010 compared to the same periods in the prior year, primarily due to lower production volumes at the Sheerness and Highvale mines as well as the timing of repairs to major pieces of mining equipment at the Boundary Dam and Paintearth mines.

In Mountain Operations, operating costs per tonne increased in both the second quarter and first six months of 2010 compared to the same periods in the prior year primarily due to reduced plant yields at both the Coal Valley and Obed Mountain mines. Both mines were forced to operate in areas of lower quality coal because of delays receiving permits that prevented them from mining in other areas. The delays in receiving permits were resolved in the second quarter of 2010 as described in the previous section.

CAPITAL SPENDING

Capital Expenditures \$ millions	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Prairie Operations				
Sustaining (100% basis) ⁽¹⁾	\$ 7.4	\$ 29.2	\$ 15.4	\$ 38.3
Growth (50% basis)	6.2	3.8	13.4	5.6
Mountain Operations (50% basis)				
Sustaining ⁽²⁾	6.2	6.7	7.3	9.9
Growth ⁽³⁾	-	9.5	-	10.7
Total	\$ 19.8	\$ 49.2	\$ 36.1	\$ 64.5

(1) Includes leased expenditures for the three and six months ended June 30, 2010 of \$1.8 million and \$7.3 million, respectively (\$12.8 million and \$13.3 million for the three and six months ended June 30, 2009, respectively).

(2) Includes leased expenditures for the three and six months ended June 30, 2010 of \$2.9 million (\$1.0 million and \$3.0 million for the three and six months ended June 30, 2009, respectively).

(3) Includes leased expenditures for the three and six months ended June 30, 2010 of nil (\$1.9 million for the three and six months ended June 30, 2009).

Coal leases the majority of its mobile equipment under long-term mine-support equipment agreements entered into in 2004. In the second quarter of 2010, in addition to the acquisition of \$1.8 million of leased equipment, Prairie Operations incurred capital costs of \$5.6 million for infrastructure development and capital repairs on mobile equipment.

In the second quarter of 2010, \$6.2 million (50%) was spent on the construction of the activated carbon plant at Bienfait. The plant commenced start-up activities in June 2010 as part of an expected three-month ramp-up process.

In Mountain Operations, capital spending for infrastructure was lower as capital spending at the Coal Valley and Obed Mountain mines was restricted to match cash flows. The reduction in growth capital spending relative to the prior year period was related to the completion of the re-opening of the Obed Mountain mine in July 2009.

OUTLOOK FOR 2010

Production volumes, royalties and capital expenditures For the six and twelve months ended	Actual	Projected
	2010 June 30	2010 December 31
Production		
Prairie Operations (millions of tonnes)	16	35
Mountain Operations (millions of tonnes, 100% basis)	2	5
Royalties (\$ millions)		
Coal	\$ 21	\$ 38
Potash	\$ 7	\$ 11
Capital expenditures (\$ millions)		
Prairie Operations	\$ 15	\$ 63
Mountain Operations (50% basis)	\$ 7	\$ 23
Activated carbon project (50% basis)	\$ 13	\$ 13

In Prairie Operations, production guidance remains relatively unchanged from the previous quarter and from 2009 levels. Potash royalties are expected to return to 2009 levels largely due to production curtailments in the industry in second-half 2010. Guidance on 2010 coal royalties remains unchanged as they are still expected to be below 2009 performance based on 2010 mining plans that have less overlap with royalty assessable areas. Full-year 2010 capital expenditures at Prairie Operations have been reduced by approximately 18% from the prior estimate, but are still expected to be higher than full-year 2009. Current estimates reflect the reassessment of the cyclical timing of equipment purchases. Start-up of the Activated Carbon Plant began in

Management's discussion and analysis

June 2010 and capital spending has largely been completed for 2010.

In Mountain Operations, production guidance remains consistent with last quarter. Production could fall short of these estimates however, if coal yields and production volumes do not improve consistently over the last half of the year. Approximately 70% of Coal Valley mine's contract-year production is expected to be linked to the Newcastle FOB settlement price. The average Newcastle FOB settlement reference price for contracted export thermal coal sales related to the April 2010 to March 2011 contract year has now settled at approximately US\$97.75 per tonne. Settlements are approximately 40% higher than in the prior year. These contracts are denominated in U.S. dollars, and therefore the results will be impacted by the relative movement of the Canadian and U.S. currencies.

Oil and Gas

FINANCIAL REVIEW

\$ millions	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Revenue				
Cuba	\$ 53.8	\$ 47.5	\$ 108.5	\$ 91.8
Spain	4.1	1.8	8.0	3.3
Pakistan	0.3	0.3	0.5	0.6
Processing and other	5.5	0.6	6.0	1.1
	63.7	50.2	123.0	96.8
Operating costs	9.5	10.7	19.1	23.4
General and administrative costs	6.2	5.9	12.8	12.6
EBITDA ⁽¹⁾	48.0	33.6	91.1	60.8
Depletion, amortization and accretion	19.3	20.3	38.6	47.5
Operating earnings ⁽¹⁾	\$ 28.7	\$ 13.3	\$ 52.5	\$ 13.3

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

The change in operating earnings between 2010 and 2009 is detailed below:

\$ millions	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Higher realized oil and gas prices	\$ 16.2		\$ 41.8	
Lower revenue due to decrease in volumes	(1.6)		(7.9)	
Lower operating costs	3.4		3.4	
Impact of weaker U.S. dollar	(2.7)		(3.0)	
Decrease in depletion, amortization and accretion	(1.3)		1.9	
Other	1.4		3.0	
Change in operating earnings, compared to 2009	\$ 15.4		\$ 39.2	

OIL PRICES

Prices	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Average-realized prices				
Cuba (\$/barrel)	\$ 51.21	\$ 43.18	\$ 52.10	\$ 39.40
Spain (\$/barrel)	80.29	70.75	80.00	62.92
Pakistan (\$/boe) ⁽¹⁾	7.37	7.90	7.38	8.41
Reference price (US\$/barrel)				
Gulf Coast Fuel Oil No. 6	68.67	51.68	69.52	45.38
Brent	78.37	58.89	77.45	51.85

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

Management's discussion and analysis

The average-realized price for oil production in Cuba increased by \$8.03 per barrel in the second quarter and by \$12.70 in the first six months of 2010 compared with the same periods in the prior year as a result of higher oil reference prices, partially offset by a weaker U.S. dollar relative to the Canadian dollar. The average-realized price for oil produced in Spain was higher in 2010 for the same reasons.

PRODUCTION AND SALES

	For the three months ended		For the six months ended	
	2010	2009	2010	2009
Daily Production Volumes ⁽¹⁾	June 30	June 30	June 30	June 30
Gross working-interest oil production in Cuba ^{(2) (3)}	21,237	20,167	21,626	20,923
Net working-interest production ⁽⁴⁾				
Cuba (heavy oil)				
Cost recovery	3,620	6,589	3,654	7,380
Profit oil	7,926	5,510	7,849	5,498
Total	11,546	12,099	11,503	12,878
Spain (light/ medium oil) ⁽⁴⁾	564	276	555	290
Pakistan (natural gas) ⁽⁴⁾	364	382	365	376
Total	12,474	12,757	12,423	13,544

- (1) Oil production is stated in barrels per day (bpd). Natural gas production is stated in barrels of oil equivalent per day (boepd), which is converted at 6,000 cubic feet per barrel.
- (2) In Cuba, Oil and Gas delivered all of its gross working-interest oil production to CUPET at the time of production. Gross working-interest oil production excludes (i) production from wells for which commerciality has not been established in accordance with production-sharing contracts, and (ii) working interests of other participants in the production-sharing contracts.
- (3) Gross working-interest oil production is allocated between Oil and Gas and CUPET in accordance with production-sharing contracts. The Corporation's share, referred to as 'net working-interest production', includes (i) cost recovery oil (based upon the recoverable capital and operating costs incurred by Oil and Gas under each production-sharing contract) and (ii) a percentage of profit oil (gross working-interest production remaining after cost recovery oil is allocated to Oil and Gas). Cost recovery pools for each production-sharing contract include cumulative recoverable costs, subject to certification by CUPET, less cumulative proceeds from cost recovery oil allocated to Oil and Gas. Cost recovery revenue equals capital and operating costs eligible for recovery under the production-sharing contracts.
- (4) Net working-interest production (equivalent to net sales volume) represents the Corporation's share of gross working-interest production. In Spain and Pakistan, net working-interest production volumes equal 100% of gross working-interest production volumes.

Gross working-interest (GWI) oil production in Cuba increased by 1,070 bpd in the second quarter and by 703 bpd in the first six months of 2010 compared with the same periods in the prior year as production increases from recent drilling and workovers more than offset natural reservoir declines and the loss of production from the Varadero production-sharing contract which expired on March 18, 2010. The Varadero production-sharing contract accounted for 2,518 bpd of GWI production in the second quarter of 2009 and 2,545 bpd for the first six months of 2009.

Cost recovery oil production decreased in the second quarter and the first six months of 2010 by 2,969 bpd and 3,726 bpd, respectively, compared to the same periods in the prior year primarily due to significantly higher oil prices in 2010 and lower cost recovery expenditures in the second quarter due primarily to the reclassification of \$5.5 million of treatment costs from cost recovery to processing revenue. The first quarter of 2009 also included \$4 million of non-recurring facility costs. As a result of the increase in gross working-interest production and the decrease in cost recovery oil production, profit-oil production increased by 2,416 bpd in the second quarter and by 2,351 bpd in the first six months of 2010. Sherritt's share of profit-oil production under production-sharing contracts in Cuba was 45%.

Production in Spain was higher due to the impact of a series of workovers performed during 2009.

OPERATING COSTS

Unit operating costs (\$/boe)	For the three months ended		For the six months ended	
	2010	2009	2010	2009
	June 30	June 30	June 30	June 30
Cuba ⁽¹⁾	\$ 7.20	\$ 7.87	\$ 7.58	\$ 8.48
Spain	23.29	81.49	25.15	67.99
Pakistan	22.22	1.12	11.76	1.22
Weighted-average	\$ 8.40	\$ 9.26	\$ 8.50	\$ 9.55

(1) 2009 excludes the impact of loss on disposal of Block 7 assets.

Components of operating costs - Cuba (%)	For the three months ended		For the six months ended	
	2010	2009	2010	2009
	June 30	June 30	June 30	June 30
Cuba				
Labour	7%	2%	7%	3%
Maintenance	7%	10%	7%	9%
Treatment and transportation	32%	42%	39%	44%
Other ⁽¹⁾	54%	46%	47%	44%
	100%	100%	100%	100%

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

Unit operating costs in Cuba decreased by \$0.67 per barrel in the second quarter and \$0.90 per barrel in the first six months of 2010, respectively, primarily due to a weaker U.S. dollar relative to the Canadian dollar and as a result of efficiencies introduced during the previous twelve months. The first quarter of 2009 also included a retroactive adjustment related to 2008 treatment and transportation rates. Unit operating costs in Spain decreased as a result of workovers performed in 2009. Unit operating costs in Pakistan increased significantly as a result of a \$0.7 million write down of property in the second quarter of 2010.

CAPITAL SPENDING

Capital Spending \$ millions	For the three months ended		For the six months ended	
	2010	2009	2010	2009
	June 30	June 30	June 30	June 30
Development and facilities	\$ 16.2	\$ 8.8	\$ 27.1	\$ 19.2
Exploration	0.4	1.5	2.7	3.2
Total	\$ 16.6	\$ 10.3	\$ 29.8	\$ 22.4

In the second quarter of 2010, development and facilities capital spending included \$6.0 million for development drilling, \$3.2 million for equipment and inventory purchases, and \$2.9 million related to facilities. In the first six months of 2010, capital spending included \$11.8 million for development drilling, \$5.7 million for equipment and inventory purchases, and \$3.2 million related to facilities.

During the second quarter of 2010, four development wells commenced drilling in Cuba and three development wells were completed.

Management's discussion and analysis**OUTLOOK FOR 2010**

	Actual	Projected
	2010	2010
For the six and twelve months ended	June 30	December 31
Production		
Gross working-interest oil (Cuba) (bpd)	21,626	20,500
Net working-interest production, all operations (boepd) ⁽¹⁾	12,423	12,400
Capital expenditures (\$ millions)		
Cuba	\$ 29	\$ 85
Other	\$ 1	\$ 33

(1) Net production outlook is predicted on the Fuel Oil No.6 price remaining consistent with recent historical levels.

Guidance relating to GWI oil production in Cuba remains consistent with last quarter. Capital expenditures in Cuba are expected to be 13% (\$13 million) lower than previously estimated, reflecting the lower costs on wells drilled to-date as well as lower costs in workovers completed to-date. In total, nine development wells and two exploration wells will be drilled in 2010.

Power

FINANCIAL REVIEW

\$ millions	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Revenue				
Electricity sales	\$ 21.6	\$ 25.0	\$ 43.6	\$ 52.3
By-products and other	6.6	3.6	12.6	6.7
	28.2	28.6	56.2	59.0
Operating costs	6.7	7.8	11.8	17.4
General and administrative costs	1.6	1.1	3.2	2.2
EBITDA ⁽¹⁾	19.9	19.7	41.2	39.4
Depletion, amortization and accretion	8.5	7.7	16.5	15.3
Operating earnings ⁽¹⁾	\$ 11.4	\$ 12.0	\$ 24.7	\$ 24.1

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

The change in operating earnings between 2010 and 2009 is detailed below:

\$ millions	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Lower realized electricity prices, denominated in Canadian dollars	\$ (3.0)		\$ (7.0)	
Higher by-products prices	1.3		3.0	
Lower operating costs	1.1		5.6	
Other	-		(1.0)	
Change in operating earnings, compared to 2009	\$ (0.6)		\$ 0.6	

ELECTRICITY PRICES

Prices (\$/MWh) ⁽¹⁾	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Average-realized price	\$ 42.22	\$ 47.93	\$ 42.43	\$ 49.23

(1) Megawatt hours (MWh).

The average-realized price of electricity was \$5.71 per MWh lower in the second quarter of 2010 and \$6.80 per MWh lower in the first six months of 2010, respectively, primarily due to the impact of a weaker U.S. dollar relative to the Canadian dollar, offset partially by a higher proportion of electricity generated at facilities with higher tariffs.

By-product revenue in 2010 increased compared with the same periods in the prior year primarily as a result of higher prices, which are linked to market prices for petroleum products.

Management's discussion and analysis**PRODUCTION AND SALES**

Production/Sales	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Electricity sold ⁽¹⁾ GWh ⁽²⁾	513	515	1,028	1,056

(1) Including non-controlling interests' share.

(2) Gigawatt hours (GWh).

Production was consistent in the second quarter of 2010 compared to same period in the prior year. Production was 28 GWh lower for the first six month of 2010 compared with the same period in the prior year primarily due to gas supply shortages.

The Corporation's lease on a power plant in Varadero, Cuba (20 MW) expired in March 2010. As the power plant only operated during peak demand when sufficient supplies of gas were available, the impact on production was minimal.

OPERATING COSTS

Unit operating costs (\$ per MWh)	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Operating cost	\$ 13.12	\$ 15.14	\$ 11.47	\$ 16.49

Components of unit operating costs (%)	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Labour	36%	36%	38%	33%
Maintenance	43%	49%	44%	57%
Other ⁽¹⁾	21%	15%	18%	10%
Total	100%	100%	100%	100%

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

Unit operating costs were \$2.02 per MWh lower in the second quarter of 2010 and \$5.02 per MWh lower for the first six months of 2010 compared with same periods in the prior year primarily due to higher costs in 2009 related to turbine failures and an increase in scheduled maintenance. In addition, operating costs were partially offset in the first quarter of 2010 by an insurance recovery related to a separate turbine failure.

CAPITAL SPENDING

Capital Expenditures \$ millions	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Sustaining	\$ 0.3	\$ 6.8	\$ 3.1	\$ 8.1
Growth	6.3	3.2	9.8	10.9
Total	\$ 6.6	\$ 10.0	\$ 12.9	\$ 19.0

Sustaining capital expenditures for the first six months of 2010 were primarily for equipment. Growth capital spending relates mainly to components and capitalized interest for the 150 MW Boca de Jaruco Combined Cycle project, for which project activity has accelerated following an internal review and is now expected to be operational in the first quarter of 2014.

For the first six months of 2010, sustaining capital expenditures relate mainly to equipment and infrastructure and growth capital mainly related to the 150 MW Boca de Jaruco Combined Cycle.

OUTLOOK FOR 2010

Production volumes and capital expenditures For the six and twelve months ended	Actual 2010 June 30	Projected 2010 December 31
Production		
Electricity (GWh)	1,028	2,000
Capital expenditures (\$ millions) ⁽¹⁾		
Cuba	\$ 13	\$ 78

(1) For projected December 31, 2010, capital expenditures include \$5 million of progress payments that will be recorded as other assets.

Production levels in 2010 are expected to remain largely consistent with first-half 2010 levels, based on current gas availability. The increase in capital expenditures for 2010 relative to the estimate in first-quarter 2010 is based on the decision to accelerate construction and engineering expenditures for the 150 MW Boca de Jaruco Combined Cycle project in Cuba for the remainder of 2010. The \$247 million project is on schedule for completion in early 2014.

Other – Technologies

FINANCIAL REVIEW

For the three and six months ended June 30, 2010, Technologies' revenue was \$2.8 million and \$4.8 million, respectively (\$2.1 million and \$5.5 million for the three and six months ended June 30, 2009, respectively).

Other – Mineral Products

CLASSIFICATION AND RESULTS OF MINERAL PRODUCTS

In 2007, the Corporation acquired Mineral Products through the acquisition of the Dynatec Corporation. Immediately after the acquisition, the Corporation determined it would sell this division. During the third quarter of 2009, the Corporation determined that the division no longer met the criteria to be classified and accounted for as a discontinued operation as the Corporation was no longer actively marketing the division for sale. The prior periods were restated accordingly to include the assets and results of the business.

The division incurred losses for the three and six months ended June 30, 2010 of \$4.2 million and \$5.0 million, respectively (\$1.3 million and \$2.1 million for the three and six months ended June 30, 2009, respectively).

ANNOUNCEMENT OF CLOSURE

During the second quarter of 2010, the Corporation made a decision to close Mineral Products on August 27, 2010. Mineral Products will continue to be reported in continuing operations until the mine and plant are closed, at which point it will be classified into discontinued operations.

As at June 30, 2010, the Corporation wrote down inventory and other asset balances in the amount of \$2.4 million. Termination benefits of \$1.6 million are expected to be paid, of which \$0.4 million was accrued at June 30, 2010. In addition, the asset retirement obligation was increased by \$1.0 million to \$2.3 million. The higher obligation was primarily due to an acceleration of the cash outflows required for reclamation activities because of the shortened mine and plant life. Remediation is expected to occur over the next two years.

Management has engaged an engineering and environmental services company to assist in estimating the final site restoration costs associated with the mine and plant, which may result in a higher obligation.

Liquidity and capital resources

Although economic conditions and commodity prices have improved, Sherritt continued to focus on effectively managing liquidity. The primary factors affecting liquidity and how Sherritt manages capital are described in detail in the annual MD&A. Management believes that, based on the financial position and liquidity profile at June 30, 2010, the Corporation should be able to fund the working capital requirements of its operations, to fund capital assets, and to make all of its short- and long-term debt repayments and other obligations.

Cash requirements

The following table provides a summary of consolidated liquidity and capital commitments based on existing commitments and debt obligations:

\$ millions, as at	Total	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6 and thereafter
Long-term debt							
repayment obligations	\$ 3,375.8	\$ 67.2	\$ 87.3	\$ 338.2	\$ 132.7	\$ 382.3	\$ 2,368.1
Capital commitments	490.4	401.7	71.1	17.6	-	-	-
Capital leases and other	123.6	42.6	34.6	26.0	16.8	3.6	-
Operating leases	105.1	24.9	20.3	17.0	13.6	7.0	22.3
Pension obligations	77.7	8.0	8.1	8.2	7.9	8.1	37.4
Asset-retirement obligations	524.0	26.8	31.3	29.8	30.1	30.3	375.7
Total	\$ 4,696.6	\$ 571.2	\$ 252.7	\$ 436.8	\$ 201.1	\$ 431.3	\$ 2,803.5

Investment liquidity

At June 30, 2010, cash, cash equivalents and short-term and long-term investments were located in the following countries:

\$ millions, as at June 30, 2010	Cash and cash equivalents	Short-term investments	Long-term investments	Total
Canada	\$ 146.7	\$ 449.0	\$ 41.8	\$ 637.5
Cuba	29.3	-	117.9	147.2
England	42.1	-	-	42.1
Other	40.5	-	-	40.5
Total	\$ 258.6	\$ 449.0	\$ 159.7	\$ 867.3

CASH AND SHORT-TERM INVESTMENTS

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

At June 30, 2010, included in cash, cash equivalents and short-term investments was \$64.3 million (100% basis) of cash held by the Ambatovy Joint Venture and \$60.4 million (50% basis) held by the Moa Joint Venture. All cash held by the Ambatovy Joint Venture and Moa Joint Venture is for the use of those joint ventures.

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

Management's discussion and analysis**LONG-TERM INVESTMENTS**

As a result of an agreement in January 2009 with Oil and Gas and Power's Cuban customers, Sherritt acquired approximately US\$159.1 million in certificates of deposit (CDs). These CDs were issued by a Cuban bank and bear interest at a rate of 30-day LIBOR plus 5%. In the event of default, Sherritt has the right to receive payment from the cash flows payable by the Moa Joint Venture to its Cuban beneficiaries. At June 30, 2010, the balance of the CD's was \$117.9 million.

At June 30, 2010, Sherritt held MAV notes with a fair value of \$36.1 million. A majority of these notes are held as an investment. Sherritt has used these notes as collateral for its MAV note loans. Under the terms of the loans, proceeds from the sale of the MAV notes would be used to repay any outstanding principal amounts of the loans, if any and/or reduce the amount available under the loans.

Sources and uses of cash

The Corporation's cash flows from operating, investing and financing activities are summarized in the following table as derived from the Corporation's Consolidated Statements of Cash Flow.

\$ millions	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Cash from operating activities				
Cash from operating activities before change in non-cash working capital	\$ 115	\$ 104	\$ 222	\$ 190
Change in non-cash working capital	(31)	(57)	8	(48)
Cash provided by operating activities	\$ 84	\$ 47	\$ 230	\$ 142
Cash from investing and financing				
Capital spending	\$ (346)	\$ (321)	\$ (645)	\$ (730)
Short-term debt borrowings, net of repayments	3	(1)	5	52
Acquisition of loan from OTPPB	(10)	-	(10)	-
Long-term debt borrowings, net of repayments	109	296	140	376
Dividends paid on common shares	(11)	(11)	(21)	(21)
Funding from Ambatovy Joint Venture partners	120	216	143	571
Acquisition of CVP	(32)	-	(32)	-
Advances, loans receivable and other assets	17	1	34	3
Other	9	(1)	2	16
	\$ (141)	\$ 179	\$ (384)	\$ 267
Increase (decrease) in cash and short-term investments	\$ (57)	\$ 226	\$ (154)	\$ 409
Cash, cash equivalents, and short-term investments:				
Beginning of the period	\$ 765	\$ 790	\$ 862	\$ 607
End of the period	\$ 708	\$ 1,016	\$ 708	\$ 1,016

Operating cash flow for the second quarter and first six months of 2010 was significantly impacted by an increase in earnings. Changes in non-cash working capital in the second quarter of 2010 were primarily due to interest payments on debt and prepaid insurance premiums.

Cash used toward capital expenditures for the second quarter and first six months of 2010 was \$346 million and \$645 million, respectively. The majority of this spending related to the development of the Ambatovy Project. A discussion of capital expenditures is included in the Review of operations sections for each division.

Long-term debt proceeds (net of payments) in the second quarter and first six months of 2010 were \$109 million and \$140 million, respectively. The majority of the proceeds were received under the Ambatovy Joint Venture senior debt financing. Also, the remaining 50% or \$15.1 million of the three-year non-revolving term loan was acquired through the acquisition of CVP (See the *Available credit facilities - Covenants* section for more information).

In addition, \$120 million and \$143 million was received by the Ambatovy Joint Venture in the second quarter and first six months of 2010, respectively, from the other Ambatovy Joint Venture partners as their share of the joint venture funding requirements.

In the second quarter of 2010, Sherritt contributed \$28.2 million directly to the Ambatovy project.

In the second quarter of 2010, \$32.1 million (net of the cash acquired) was used to acquire the remaining 50% interest in CVP that the Corporation did not previously own. An additional \$10.1 million was used to purchase a loan (including accrued interest) that was owed to OTPPB by CVP.

In the second quarter and first six months of 2010, proceeds of \$17.4 million and \$34.2 million, respectively, were received for repayment of advances, loans receivables and other assets, primarily related to the CD's and the funding agreement between the Corporation and certain Moa Joint Venture entities within the Metals segment.

During the first quarter of 2009, the Corporation received \$74.1 million as its share of proceeds related to the termination of the Block 7 production-sharing contract in Oil and Gas.

In the first quarter of 2009, US\$161.1 million collected on overdue 2008 receivables from Oil and Gas and Power had a minimal impact on the overall cash position as the Corporation agreed to purchase a similar amount of certificates of deposit.

Available credit facilities

At June 30, 2010, the Corporation and its divisions had borrowed \$3.2 billion under available long-term credit facilities. Total credit available under these facilities was \$873 million, inclusive of approximately \$442 million (US\$417 million) (100% basis) available under the Ambatovy Joint Venture senior debt financing.

The following table outlines the maximum amount and amounts available to the Corporation under its credit facilities as at June 30, 2010 and December 31, 2009.

\$ millions, as at	2010		2009	
	June 30		December 31	
	Maximum	Available	Maximum	Available
Short-term				
Syndicated 364-day revolving term credit facility	\$ 115	\$ 109	\$ 140	\$ 117
MAV liquidity line of credit	20	20	20	20
Long-term				
Ambatovy Project financing (US\$) (100%)	\$ 2,100	\$ 417	\$ 2,100	\$ 507
Ambatovy J.V. partner loans (US\$) ⁽¹⁾⁽²⁾	213	128	213	128
Ambatovy J.V. additional partner loans (US\$) ⁽²⁾	23	-	23	-
Senior credit facility agreement	235	135	235	135
MAV note loans	33	33	33	33
Total Canadian equivalent	\$ 2,881	\$ 873	\$ 2,874	\$ 971
Capital leases ⁽³⁾	\$ 190	\$ 64	\$ 140	\$ 46
Proportionate share of credit facility⁽⁴⁾				
Ambatovy Project financing (US\$) (40%)	\$ 840	\$ 167	\$ 840	\$ 203
Total Canadian equivalent	\$ 891	\$ 177	\$ 879	\$ 212

(1) The availability under this loan has been reduced by US\$22.9 million, the amount repaid to Korea Resources Corporation.

(2) The Ambatovy Joint Venture additional partner loans are uncommitted except for a commitment of US\$22.9 million. The US\$22.9 million is committed to offset the reduction in amounts available under the original Ambatovy Joint Venture partner loans. (See footnote 1, above)

(3) Capital leases include only those that have been committed by lenders.

(4) To illustrate Sherritt's 40% proportion of the available credit under the Ambatovy Project financing. On a proportionate basis, at June 30, 2010, Sherritt had drawn a total of \$714 million.

Management's discussion and analysis

COVENANTS

At June 30, 2010, CVRI was not in compliance with two of its financial covenants applicable to the 3-year non-revolving term loan that requires CVRI to maintain a current ratio of not less than 1:1 and a debt-to-tangible-net-worth ratio of not greater than 2.5. The loan provides total liquidity of \$38.0 million. CVRI was, however, granted a waiver of these covenants for the quarter ended June 30, 2010.

CVRI has classified the \$30.1 million balance on this loan in current liabilities as there is uncertainty that CVRI will be in compliance with the working capital covenant and debt-to-tangible-net-worth covenant for the next 12 months. This potential reduction in liquidity is not expected to preclude the Corporation from satisfying its current and long-term obligations as they come due.

The Corporation and its divisions were in compliance with all of their other financial covenants as at June 30, 2010. Other than the two covenants applicable to the 3-year non-revolving term loan discussed above, the Corporation expects to remain in compliance with all of its other financial covenants during the next 12 months, based on current market conditions. Other than the covenants required for the debt facilities, the Corporation is not subject to any externally imposed capital restrictions.

COMMON SHARES

As at July 26, 2010, the Corporation had 294,090,133 common shares outstanding. An additional 5,179,146 common shares are issuable upon exercise of outstanding stock options granted to employees and directors pursuant to the Corporation's stock option plan.

An additional 1,886,555 common shares are issuable in relation to the cross-guarantees provided by certain Ambatovy Joint Venture partners. These shares are to be issued in approximately equal amounts on December 31, 2010 and December 31, 2011.

In June 2010, the Board of Directors of the Corporation approved a quarterly dividend of \$0.036 per share that was payable on July 14, 2010 to shareholders of record at the close of business on June 30, 2010.

Managing risk

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

Accounting pronouncements

Convergence with International Financial Reporting Standards

BACKGROUND

The Canadian Accounting Standards Board (AcSB) requires all Canadian publicly accountable entities to adopt IFRS for years beginning on or after January 1, 2011. Sherritt's first filing under IFRS will be for the period ending March 31, 2011 and will include 2010 IFRS comparative figures. Accordingly, Sherritt's adoption date for IFRS is January 1, 2011, but Sherritt's effective transition date is January 1, 2010 (Transition Date) in order to accommodate IFRS comparative figures in Sherritt's 2011 financial statements.

IFRS uses a conceptual framework similar to Canadian GAAP; however, there are significant differences in recognition, measurement and disclosure. Adoption of IFRS will require the Corporation to make certain policy choices that could materially impact the reported financial position and results of operations; however, it is not expected that IFRS will change the actual cash flows the Corporation generates or change its business activities. To the extent possible, Sherritt will make these choices with a view to providing meaningful information to stakeholders that is also comparable to industry peers.

PROJECT PLAN

As previously disclosed, the Corporation is managing its IFRS Conversion Project in three phases; Phase 1 - the scoping and planning phase, Phase 2 - the design and build phase, and Phase 3 - the implementation and review phase.

Management provides regular progress reports on the status of Sherritt's IFRS Conversion Project to the IFRS Conversion Project Steering Committee and to the Audit Committee of the Board of Directors.

Phase 1, the scoping and planning phase, is complete. This phase mainly consisted of establishing a project management structure including the formation of a Steering Committee and business unit project teams; approving the project charter and a detailed project plan; performing a high-level diagnostic assessment of potential differences between Canadian GAAP and IFRS in addition to identifying certain exemptions available for first time adopters; and the completion of preliminary training for key members of the IFRS Conversion Project.

Phase 2, the design and build phase, involves performing the conversion to IFRS. Significant progress has been made under Phase 2 which is described further in the 'Project Update' section below.

During Phase 2, in late 2009, Management determined that additional resources were required to meet the implementation deadline. As a result, the Corporation engaged additional professional advisors and added resources to its finance group. The additional resources in the finance group will also support the increased demands of on-going reporting under IFRS.

Phase 3 is the implementation and review phase. This phase, which will continue to January 1, 2011 and beyond, is the execution phase which will focus on enabling continued IFRS reporting and facilitating knowledge transfer. Phase 3 involves the following key elements: preparation of full IFRS interim and annual financial statements for the transition period ending December 31, 2010 for comparative disclosure; preparation of interim and annual IFRS financial statements for the year ending December 31, 2011; continued IFRS compliance by developing new accounting policies, accounting manuals, guidelines, and processes for reporting to management and shareholders; development of detailed training and knowledge transfer to appropriate staff; and development of revised processes for disclosure controls and procedures and internal controls over financial reporting including updating key controls as required and performing testing and addressing any internal or disclosure control deficiencies.

PROJECT UPDATE

Phase 2 is well underway. In the second quarter of 2010, the focus of the Corporation's IFRS conversion efforts was on resolving accounting related issues. Some of these issues are quite complex and unique to the Corporation and as a result are taking longer to resolve. Management's preliminary assessments of significant differences between Canadian GAAP and IFRS are identified below. Going forward, as issues are resolved, the focus of the conversion efforts will be directed towards training, development of an accounting policy manual, and finalizing the design of the control framework necessary to support the IFRS reporting environment.

Management's discussion and analysis

Progress to date is highlighted below:

Making policy choices and choosing exemptions – A preliminary determination of the significant accounting policies under IFRS has been made as well as the initial determinations of the optional exemptions available under IFRS 1, *First-time Adoption of IFRS*. Management is selecting policies consistent with industry peers to the extent appropriate. Sherritt continues the process of quantifying the impacts of accounting policy choices and exemptions for the purpose of preparing the transitional Consolidated Statement of Financial Position as at January 1, 2010 under IFRS;

Financial systems – A scoping study was completed that identified changes to the financial systems necessary to support IFRS. In addition, a strategy was developed for dual internal Canadian GAAP and IFRS reporting during 2010 and changeover to IFRS in 2011;

Financial statement disclosures – Illustrative IFRS financial statements and disclosures have been prepared based on a preliminary determination of accounting policies and optional exemptions available under IFRS 1;

Accounting policy manual – A review of accounting policies throughout the Corporation to ensure consistency and appropriateness is in progress. This work will support the development of a Sherritt IFRS Accounting Policy Manual;

Internal controls – The design of the control framework necessary to support the IFRS reporting environment has been initiated with a view to updating the CEO/CFO certification process by the fourth quarter of 2010;

Training – Training has continued for stakeholders involved in the implementation process. Training activities are expected to increase during the third and fourth quarters of 2010; and

Other – Preliminary discussions on an approach to determine the impact of IFRS on business policies, compensation, debt, and other contractual agreements have begun. The Treasury group has initiated discussions with creditors with respect to debt covenant ratios under IFRS.

PRELIMINARY ASSESSMENTS

To date, the Corporation has identified some significant differences between Canadian GAAP and IFRS in its current form which could potentially impact its consolidated financial statements. A number of projects underway by standard-setting bodies could materially change IFRS. Management's analysis and preliminary assessments are underway based on current facts and circumstances, which could change prior to the transition to IFRS.

These are the most significant differences identified by the Corporation that could impact the consolidated financial statements. The differences identified could result in additional volatility in Net earnings as described below.

The most significant impact, identified to date, on the consolidated financial statements arising from a difference between Canadian GAAP and IFRS could potentially be a change in the method of accounting for the Corporation's investments in the Ambatovy Joint Venture and Energas, which are described below.

Joint Ventures and Associated entities

Under Canadian GAAP, the Ambatovy Joint Venture and Energas are considered investments in variable interest entities as defined by Accounting Guideline 15, *Consolidation of Variable Interest Entities* (AcG-15) and are fully consolidated with non-controlling interests in the net assets reported separately. In accordance with IAS 28, *Investment in Associates*, and IAS 31, *Interests in Joint Ventures*, it is possible that Ambatovy may have to be treated as an associated entity that is accounted for using the equity method of accounting and Energas may have to be treated as a jointly-controlled entity that is accounted for using proportionate consolidation. If this is determined to be the appropriate accounting treatment, Sherritt may be required to deconsolidate these entities, thereby eliminating Non-controlling interest at the Transition Date and significantly reducing assets and liabilities on a line-by-line basis. The Ambatovy Joint Venture would be reported as an "investment in an associated entity," a single line item on the Consolidated Statement of Financial Position and the Corporation's proportionate share of results would be reported in a single line on its Consolidated Statement of Comprehensive Income (Loss). For Energas, the Corporation would recognize its proportionate share of assets, liabilities and earnings (loss) on a line-by-line basis in its consolidated financial statements.

The potential accounting treatment for Energas is based on current IFRS standards, and does not assume the adoption of Exposure Draft 9 (ED9), *Joint Arrangements*, which is currently under discussion by the International Accounting Standard Board. If adopted in its current form, ED9 would, among other things, eliminate the use of proportionate consolidation for entities determined to be joint ventures and require them to be accounted for as equity investments in most circumstances. If this exposure draft is adopted, it could have a further material impact on Sherritt's financial statements. In addition to Energas,

Sherritt's other significant joint venture, the Moa Joint Venture, would also be impacted by the adoption of ED 9.

If the Corporation's investment in the Ambatovy Joint Venture is accounted for as an equity investment under IFRS, it would not be considered to be a qualified asset as defined under IAS 23, *Borrowing Costs*, for the capitalization of certain borrowing costs. As a result, certain previously capitalized borrowing costs would be written off to retained earnings, and future interest relating to the non-qualifying loans would be expensed as incurred.

Accounting for a certain coal mine

Under Canadian GAAP, the Corporation accounts for its 50% interest in a certain coal mine as Property, plant and equipment. Under IFRS, the Corporation could be required to account for this mine as an investment in associate using the equity method of accounting if it determines that the Corporation has significant influence. Similar to the accounting described above, the Corporation would be required to report the mine as a single line on its Consolidated Statement of Financial Position and Comprehensive Income (Loss). The Corporation is in the process of evaluating the facts and circumstances in order to determine the appropriate accounting.

Foreign currency translation

Under IFRS, the concept of an integrated or self-sustaining foreign operation does not exist as it does under Canadian GAAP. Although similar to Canadian GAAP, the indicators used to determine the functional currency of a foreign operation under IFRS, IAS 21, *The Effects of Changes in Foreign Exchange Rates*, are based on a hierarchy for analyzing the transactions in the entities' primary economic environment. Based on Management's preliminary analysis, the Corporation may conclude that the functional currency of Energas is the U.S. dollar under IFRS. If this were the case, Energas' operations would be translated using the current rate method from inception which translates foreign denominated assets, liabilities and transactions at the exchange rate at the reporting date with all exchange gains and losses included in comprehensive income (loss) and deferred in Accumulated other comprehensive income (loss).

In addition, the Corporation may determine that a certain U.S. dollar loan receivable relating to the Ambatovy Joint Venture may no longer meet the criteria to be classified as part of the Corporation's net investment in Ambatovy. As a result, the loan receivable would no longer be eliminated on consolidation and potentially be classified on a separate line on the Consolidated Statement of Financial Position. All foreign exchange gains (losses) would be recorded through the Consolidated Statement of Comprehensive Income (Loss) creating additional volatility in future periods. Furthermore, the Corporation would recognize interest revenue on the loan receivable.

Impairment of assets

Under IFRS, IAS 39, *Impairments*, provides for a one-step approach to test for and measure impairments by comparing asset carrying values directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This compares with Canadian GAAP which involves a two-step approach, first comparing carrying value of an asset with undiscounted future cash flows and, if an impairment is indicated, comparing the carrying value with the fair value (generally based on discounted cash flows). Application of the IFRS guidelines may result in more write downs, as carrying values of assets that may have been supported based on an undiscounted basis under Canadian GAAP may not be supported on a discounted basis under IFRS.

IFRS also requires a full or partial reversal of previous impairment losses, except on goodwill, where circumstances have changed such that the impairments have been reduced. Canadian GAAP prohibits the reversal of impairment losses.

In addition, where Canadian GAAP assesses impairments on a reporting unit basis, IFRS requires impairment analyses to be performed on a cash generating unit basis which is defined as the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows from other assets or group of assets. This difference could also result in higher additional impairment losses.

IFRIC 4 - Lease arrangements

IFRS 1 provides an exemption from retrospectively applying the guidance provided in IFRIC 4, *Determining whether an Arrangement contains a Lease*, if, in certain circumstances, a lease was previously accounted for in accordance with Emerging Issues Abstract 150 (EIC-150) under Canadian GAAP. EIC-150 permitted an entity to not revisit arrangements that existed prior to the issuance date of the standard, January 1, 2005. The Corporation may apply the exemption that would allow it to apply IFRIC 4 only to arrangements existing at the Transition Date that were entered into prior to January 1, 2005, based on the facts and circumstances at that date and were analyzed in accordance with EIC-150. The Corporation has a number of arrangements at Prairie Operations that may be in scope of IFRIC 4. The Corporation is analyzing its agreements to determine if the criteria to

Management's discussion and analysis

classify certain arrangements as leases are met. If the criteria for a finance lease are met, the Property, plant and equipment would be derecognized and replaced with a Finance Lease receivable equal to the net investment in the lease. The difference between the original carrying amount of the assets and the net investment would be recognized in the Consolidated Statement of Comprehensive Income (Loss). Lease principal payments would be recorded as lease revenue and interest payments would be recorded as finance income. If the criteria for an operating lease are met, the Corporation would continue to account for the Property, plant and equipment as such on its Consolidated Statement of Financial Position and would record the income as lease revenue.

Service Concession Arrangements

Under IFRS, IFRIC 12 provides guidance on the accounting by private sector entities (operators) for public-to-private service concessions whereby the private sector entity provides a service to the public sector entity, which controls or regulates the services provided with the infrastructure and their prices, and controls any significant residual interest in the infrastructure. Canadian GAAP has no specific guidance applicable to service concession arrangements. Sherritt has entered into certain agreements that could require the Corporation to account for such arrangements in accordance with IFRIC 12. The Corporation is currently analyzing these arrangements to determine if IFRIC 12 applies to an arrangement; if it does, Sherritt as the operator would derecognize the property, plant, and equipment it has recorded and recognize these assets as either a financial or intangible asset on its Consolidated Statement of Financial Position. The depreciation of the asset would be recognized in the corresponding account on the Consolidated Statement of Comprehensive Income (Loss). There would be no further impact to the Consolidated Statement of Comprehensive Income (Loss).

First time adoption of IFRS

First time adoption of International Financial Reporting Standards (IFRS 1) provides certain exemptions that could be used when the Corporation first adopts IFRS. The Corporation's analysis of these exemptions is ongoing; however, the following exemptions would likely be the most significant exemptions that could apply to Sherritt on adoption of IFRS:

- **Business combinations** – IFRS 1 provides an exemption not to apply IFRS 3R, *Business Combinations*, retrospectively to business combinations that occurred before the Corporation's Transition Date. The Corporation may choose this exemption and not restate any business combinations that occurred prior to its Transition Date.
- **Cumulative translation adjustment** – IFRS 1 provides an exemption to not apply the guidance of IAS 21, *The Effects of Changes in Foreign Exchange Rates*, retrospectively for cumulative translation differences relating to foreign operations that existed at the Transition Date. Retrospective application of IAS 21 would require the Corporation to determine cumulative currency translation differences from the date a subsidiary or other investee was formed or acquired. The Corporation may elect this exemption and reset all cumulative translation gains and losses to zero at its Transition Date.
- **Exploration and evaluation** - IFRS 1 provides an exemption from retrospectively applying the full cost method of accounting for Oil and Gas assets in accordance with IFRS 6, *Exploration for and Evaluation of Mineral Resources*.

The Corporation may elect this exemption which would permit the following capitalization measurement basis to be retained for exploration and evaluation costs incurred prior to the Transition Date:

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

Accounting pronouncements - Canadian Generally Accepted Accounting Policies

BUSINESS COMBINATIONS/CONSOLIDATED FINANCIAL STATEMENTS/NON-CONTROLLING INTERESTS

In January 2009, the CICA issued Sections 1582, "Business Combinations", 1601, "Consolidated Financial Statements", and 1602, "Non-Controlling Interests", which superseded Sections 1581, "Business Combinations", and 1600 "Consolidated Financial Statements". These new sections replaced existing guidance on business combinations and consolidated financial statements to harmonize Canadian accounting for business combinations with IFRS. These sections will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Corporation will not early adopt these standards.

MULTIPLE DELIVERABLE REVENUE ARRANGEMENTS

In December 2009, the CICA issued EIC-175, "Multiple Deliverable Revenue Arrangements", which provides guidance for determining whether an arrangement involving multiple deliverables contains one or more units of accounting. The accounting treatments provided in EIC-175 are effective for the first annual reporting period beginning on or after January 1, 2011. Early adoption is permitted. The Corporation will not early adopt this standard.

Summary of quarterly results

The following table presents a summary of the segments and consolidated operating results for each of the eight quarters ended September 2008 to June 2010.

\$ millions,
except per share amounts,
for the three months ended

	2010 June 30	2010 March 31	2009 December 31	2009 September 30	2009 June 30	2009 March 31	2008 December 31	2008 September 30
Revenue ⁽¹⁾								
Metals	\$ 138.1	\$ 115.8	\$ 110.6	\$ 114.3	\$ 111.1	\$ 79.7	\$ 96.0	\$ 137.5
Coal ⁽²⁾	198.7	188.3	174.9	181.2	165.7	188.9	200.7	189.9
Oil and Gas	63.7	59.3	63.0	59.9	50.2	46.6	44.9	112.9
Power	28.2	28.0	28.5	30.6	28.6	30.4	31.8	30.9
Corporate and other	2.2	1.9	2.8	3.6	2.9	4.0	6.5	7.1
	\$ 430.9	\$ 393.3	\$ 379.8	\$ 389.6	\$ 358.5	\$ 349.6	\$ 379.9	\$ 478.3
Net earnings (loss)	15.7	59.7	48.3	55.9	24.4	(42.9)	(592.1)	133.1
Net earnings (loss) per share								
Basic	\$ 0.05	\$ 0.20	\$ 0.16	\$ 0.19	\$ 0.08	\$ (0.15)	\$ (2.03)	\$ 0.45
Diluted	\$ 0.05	\$ 0.20	\$ 0.16	\$ 0.19	\$ 0.08	\$ (0.15)	\$ (2.03)	\$ 0.45

(1) Revenue has been amended for the three months ended June 30, 2009, March 31, 2009, December 31, 2008 and September 30, 2008 to include the results of Mineral Products which had previously been accounted for as a discontinued operation.

(2) Coal's results include Sherritt's 100% interest in Royal Utilities from the date of acquisition, May 2, 2008. In the periods prior to May 2, 2008, Royal Utilities was equity-accounted.

Net earnings (loss) for the Corporation before the inclusion of unusual items were affected primarily by changes in commodity prices and exchange rates that impact revenue and costs. The Corporation's results have been positively impacted by an increase in nickel and oil prices, which have been trending higher in recent quarters compared to the quarters that were impacted to a greater degree by the global financial crisis that began in late 2008. In the first quarter of 2009, the Corporation recognized a loss on the disposal of Block 7 assets of \$79.5 million (\$57.4 million after-tax). As a result of the weakened economic environment in the fourth quarter of 2008, the Corporation recognized \$590.7 million in unusual costs, including the impairment of goodwill related to the Ambatovy Joint Venture and impairment of certain Cuban accounts receivable balances.

Transactions with related parties

During the second quarter and first six months of 2010, the Corporation entered into the following related-party transactions resulting in the balances at June 30, 2010 below:

\$ millions	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Total value of goods and services				
Provided to joint ventures and affiliates	\$ 19.4	\$ 29.9	\$ 34.4	\$ 57.2
Purchased from joint ventures and affiliates	15.5	9.3	21.5	28.3
\$ millions, as at			2010 June 30	2009 December 31
Accounts receivable from joint ventures			\$ 6.5	\$ 4.4
Accounts payable to joint ventures			1.0	1.7
Advances and loans receivable from certain Moa Joint Venture entities			192.8	210.0
Loans receivable from Coal Valley Resources Inc.			-	5.0

The Corporation and its subsidiaries provide goods, labour, advisory and other administrative services to joint ventures and affiliates at exchange amounts (cost, commercial rates and other various contractual terms). The Corporation and its subsidiaries also market, pursuant to sales agreements, a portion of the nickel, cobalt, and certain by-products produced by certain jointly-owned entities in Metals. The above transactions arise in the normal course of the Corporation's relationships with the joint venture entities.

Advances and loans receivable include two loans provided pursuant to a funding agreement and advances on a working-capital facility provided by the Corporation to certain Moa Joint Venture entities. The funding arrangement was created in order to finance the expansion activities at the Moa Joint Venture. All amounts are recorded at the proportionately consolidated amounts.

Controls and procedures

Disclosure controls and procedures

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

Internal controls over financial reporting

Internal control over financial reporting means a process designed by or under the supervision of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The internal controls are not expected to prevent and detect all misstatements due to error or fraud.

As at June 30, 2010, the Corporation's CEO and CFO have certified that the disclosure controls and procedures were effective and that during the quarter ended June 30, 2010 the Corporation did not make any material changes in the internal controls over financial reporting that materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

Supplementary information

Sensitivity analysis

The following table shows the approximate impact on the Corporation's second quarter 2010 net earnings and earnings per share (EPS) of a change in selected key variables. The impact is measured changing one variable at a time and may not necessarily be indicative of sensitivities on future results.

Factor	Approximate change in Q2 net earnings (\$ millions)		Approximate quarterly change in basic EPS
	Increase	Increase/ (decrease)	Increase/ (decrease)
Prices			
Nickel - LME price per pound	US\$ 0.50	2	0.01
Cobalt - Metal Bulletin price per pound	US\$ 5.00	3	0.01
Oil - U.S. Gulf Coast Fuel Oil No. 6 price per barrel	US\$ 5.00	1	-
Volume			
Nickel - tonnes	1,000	4	0.01
Cobalt - tonnes	250	3	0.01
Oil - barrels per day	1,000	1	-
Electricity production - MWh	25,000	1	-
Exchange rate			
Weakening of the Canadian dollar	\$ 0.05	(13)	(0.04)
Operating costs			
Natural gas - cost per gigajoule (Metals)	\$ 1.00	(1)	-
Sulphuric acid - cost per tonne (Metals)	US\$ 25.00	(1)	-

Non-GAAP measures

EBITDA AND OPERATING EARNINGS

The Corporation's definition of EBITDA is earnings or loss from operations as reported in the GAAP financial statements, excluding net earnings or net loss related to any non-controlling interests, amounts included in net earnings or net loss for income taxes, interest expense, depletion, amortization, accretion, depreciation, impairment charges for property, plant and equipment, goodwill and investments, and gain or loss on disposal of property, plant and equipment.

The Corporation's definition of Operating earnings is EBITDA less depletion, amortization and accretion expense and depreciation included in operating expenses.

The table below presents EBITDA and Operating earnings and reconciles these non-GAAP measures to earnings from operations before income taxes and non-controlling interests.

\$ millions	For the three months ended		For the six months ended	
	2010 June 30	2009 June 30	2010 June 30	2009 June 30
Revenue	\$ 430.9	\$ 358.5	\$ 824.2	\$ 708.1
Operating, selling, general and administrative expenses	302.7	268.2	572.5	540.9
	128.2	90.3	251.7	167.2
Add: Depreciation included in operating expenses	21.7	21.1	41.3	40.7
EBITDA	149.9	111.4	293.0	207.9
Less:				
Depreciation included in operating expenses	21.7	21.1	41.3	40.7
Depletion, amortization and accretion	41.3	38.7	82.2	87.8
Operating earnings	86.9	51.6	169.5	79.4
Loss on disposal of property, plant and equipment	-	-	-	79.5
Net financing expense	34.5	16.4	29.5	14.3
Other items	-	(0.7)	-	1.5
Earnings (loss) from operations before income taxes and non-controlling interests	\$ 52.4	\$ 35.9	\$ 140.0	\$ (15.9)

ADJUSTED BALANCE SHEET

The Corporation is the primary beneficiary of two Variable Interest Entities (VIEs) as defined under CICA Accounting Guideline 15. The Corporation holds an indirect 40% interest in the equity of a VIE, the Ambatovy Joint Venture, and in accordance with Canadian GAAP, the accounts of the Ambatovy Joint Venture are consolidated and the 60% equity interests of the other shareholders are accounted for as non-controlling interests. The Corporation also holds an indirect one-third interest in the equity of another VIE, Energas S.A., and in accordance with Canadian GAAP, the accounts of Energas S.A. are consolidated. The two-thirds equity interests of the other shareholders are accounted for as non-controlling interests.

Given the magnitude of these VIEs relative to the Corporation's total asset base, certain shareholders and other stakeholders have requested additional information that will help them better understand the Corporation's economic interest in and exposure to these VIEs.

To address these concerns, the Corporation has prepared an adjusted balance sheet that includes the Corporation's proportionate interest in these VIEs. The adjusted balance sheet has been prepared using an arithmetic formula and does not represent proportionate consolidation under Canadian GAAP. The adjusted balance sheet has also been condensed in order to better illustrate key financial statement line items of interest to investors and management. The adjusted balance sheet does not have a standardized meaning under Canadian GAAP and is not to be used to compare the Corporation to other companies. An investor may find this information useful in analyzing Sherritt's financial information but it should not be considered in isolation or as a substitute for any information prepared in accordance with Canadian GAAP.

The adjusted balance sheet provides both investors and management with information to help them better understand the Corporation's economic interest in key financial statement line items. Management also reviews key financial statement line items on this adjusted basis.

The adjusted balance sheet has been reconciled to the condensed Canadian GAAP balance sheet as at June 30, 2010. This reconciliation provides a concise view of the impact of these VIEs on the Corporation's balance sheet by clearly identifying the adjustments related to each VIE by financial statement line item.

	GAAP Balance Sheet	Less:		Add:		Adjusted Balance Sheet
		Consolidated amount Ambatovy 100%	Energas S.A. 100%	Proportionate Interest Ambatovy 40%	Energas S.A. 33 ¹ / ₃ %	
\$ millions, as at June 30, 2010						
ASSETS						
Cash, cash equivalents, short-term investments	\$ 707.6	\$ (64.3)	\$ (20.6)	\$ 25.7	\$ 6.9	\$ 655.3
Other current assets	679.7	(20.5)	(29.8)	8.2	9.9	647.5
Property, plant and equipment	7,994.8	(5,804.4)	(449.0)	2,321.7	149.7	4,212.8
Other	1,182.2	(8.5)	(17.0)	3.5	5.6	1,165.8
	\$ 10,564.3	\$ (5,897.7)	\$ (516.4)	\$ 2,359.1	\$ 172.1	\$ 6,681.4
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities	\$ 609.5	\$ (369.1)	\$ (10.3)	\$ 147.5	\$ 3.4	381.0
Long-term debt and other long-term liabilities	3,385.0	(1,736.2)	(181.2)	694.5	60.4	2,222.5
Other	744.7	(337.0)	(2.5)	134.8	0.8	540.8
	4,739.2	(2,442.3)	(194.0)	976.8	64.6	3,144.3
Non-controlling interests	2,288.0	(2,073.1)	(214.9)	-	-	-
Shareholders' equity	3,537.1	(1,382.3)	(107.5)	1,382.3	107.5	3,537.1
	\$ 10,564.3	\$ (5,897.7)	\$ (516.4)	\$ 2,359.1	\$ 172.1	\$ 6,681.4

Forward-looking statements

This discussion contains certain forward-looking statements. Forward-looking statements generally can be identified by the use of statements that include words such as "believe", "expect", "anticipate", "intend", "plan", "forecast", "likely", "may", "will", "could", "should", "suspect", "outlook", "projected", "continue" or other similar words or phrases. Specifically, forward-looking statements in this document include statements respecting certain future expectations about the Corporation's capital expenditures; capital project commissioning and completion dates; production volumes; royalty revenues; debt repayments; compliance with financial covenants; sufficiency of working capital; conversion plan for the adoption of IFRS; accounting treatment; and other corporate objectives, plans or goals for 2010. These forward-looking statements are not based on historic facts, but rather on current expectations, assumptions and projections about future events. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that those assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. Sherritt cautions readers of this MD&A not to place undue reliance on any forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. By their nature, forward-looking statements require Sherritt to make assumptions and are subject to inherent risks and uncertainties.

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

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