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# Press release

## Sherritt reports 2010 second-quarter results

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**TORONTO, JULY 28, 2010**

Sherritt International Corporation ("Sherritt" or the "Corporation") (TSX: S) today announced second-quarter 2010 results.

- **Net earnings** for second-quarter 2010 were \$15.7 million (\$0.05 per share), compared to \$24.4 million (\$0.08 per share) for second-quarter 2009.

Despite a 68% (\$35.3 million) increase in operating earnings in second-quarter 2010 compared with the prior-year period, net earnings were 36% (\$8.7 million or \$0.03 per share) lower for the same comparative period. Net earnings for second-quarter 2010 were significantly affected by an unrealized after-tax foreign exchange loss of \$18.1 million (\$0.06 per share) and a \$15.3 million (\$0.05 per share) provision for income taxes which more than offset the benefit of the strong operating performance during the period. The \$18.1 million unrealized after-tax foreign exchange loss was mainly due to the impact of the change over the quarter in the value of the Canadian dollar relative to the U.S. dollar on the Corporation's \$608.4 million of U.S. dollar denominated Ambatovy partner loans. The \$15.3 million provision for income taxes results from the Corporation taking a more conservative view of taxation with respect to the Oil and Gas and Power operations under Cuban tax legislation.

Net earnings for second-quarter 2010 include non-cash charges of \$37.2 million (after tax) for second-quarter 2010 as outlined below:

|  | Q2 2010<br>(\$ millions) | Q2 2010<br>(\$ per share) |
|--|--------------------------|---------------------------|
| Unrealized foreign-exchange loss, net <sup>(1)</sup> | \$ 18.1                  | \$ 0.06                   |
| Future income tax (FIT) expense <sup>(2)</sup>       | 15.3                     | 0.05                      |
| Mineral Products division closure expense            | 3.8                      | 0.02                      |
| Total adjustments                                    | \$ 37.2                  | \$ 0.13                   |

(1) Net of a tax recovery of approximately \$0.7 million on an unrealized net foreign-exchange loss of \$18.8 million.

(2) For further details, please refer to the Notes to the Interim Consolidated Financial Statements

Adjusted for these items, second-quarter 2010 net earnings were \$52.9 million, or \$0.18 per share.

- **Sales volumes** for second-quarter 2010 (Sherritt's share) totaled 8.3 million pounds of nickel, 1.0 million pounds of cobalt, 8.2 million tonnes of thermal coal, 1.1 million barrels of oil and 171 GWh of electricity.
- **Cash, cash equivalents and short-term investments** were \$707.6 million at June 30, 2010. Of the cash balance, \$60.4 million (50% basis) was held by the Moa Joint Venture and \$64.3 million (100% basis) was held by the Ambatovy Joint Venture.
- **Operating cash flow** was \$84.0 million for second-quarter 2010, and compares to operating cash flow of \$47.0 million for second-quarter 2009.
- **Capital expenditures** totaled \$352.7 million for second-quarter 2010, including \$297.3 million for the Ambatovy Project (100% basis).
- In **Madagascar**, demobilization of civil and earthworks personnel began, as facilities at the mine site, port and sulphuric acid plant were completed. Total cumulative project expenditures to June 30, 2010 were US\$4.0 billion, excluding financing charges, foreign exchange and working capital requirements, and represent approximately 89% of the projected total project expenditures.
- In June, Sherritt purchased for \$45.0 million the 50% interest of the **Coal Valley Partnership** (CVP) it did not already own. CVP owns 100% of Coal Valley Resources Inc. (CVRI), whose assets include the Coal Valley and Obed Mountain mines. The purchase adds approximately 2.6 million tonnes of export thermal coal annual capacity, the associated reserves and resources, and completes the process of consolidating ownership of the production assets in the Coal business.
- At June 30, 2010, **total debt** was \$3.2 billion, of which approximately \$1.7 billion (100% basis) related to the limited-recourse Ambatovy senior project finance and \$0.6 billion to the non-recourse partner loans to Sherritt.

## Summary Financial and Sales Data

| (\$ millions unless otherwise noted)                               | For the six months ended June 30, |          |                 |          |
|--|-----------------------------------|----------|-----------------|----------|
|  | Q2 2010                           | Q2 2009  | 2010            | 2009     |
| <b>Revenue</b>   | <b>\$ 430.9</b>                   | \$ 358.8 | <b>\$ 824.2</b> | \$ 708.1 |
| <b>EBITDA<sup>(1)</sup></b>  | <b>149.9</b>                      | 111.4    | <b>293.0</b>    | 207.9    |
| <b>Operating earnings</b>  | <b>86.9</b>                       | 51.6     | <b>169.5</b>    | 79.4     |
| <b>Net earnings (loss)</b>   | <b>15.7</b>                       | 24.4     | <b>75.4</b>     | (18.5)   |
| <b>Basic earnings (loss) per share (\$ per share)</b>              | <b>0.05</b>                       | 0.08     | <b>0.26</b>     | (0.07)   |
| <b>Diluted earnings (loss) per share (\$ per share)</b>            | <b>0.05</b>                       | 0.08     | <b>0.25</b>     | (0.07)   |
| <b>Net working capital<sup>(2)</sup></b>                           | <b>777.8</b>                      | 861.8    | <b>777.8</b>    | 861.8    |
| <b>Capital expenditures</b>  | <b>352.7</b>                      | 388.2    | <b>714.8</b>    | 805.1    |
| <b>Total assets</b>  | <b>10,564.3</b>                   | 10,076.6 | <b>10,564.3</b> | 10,076.6 |
| <b>Shareholders' equity</b>  | <b>3,537.1</b>                    | 3,586.7  | <b>3,537.1</b>  | 3,586.7  |
| <b>Long- term debt- to- capitalization (%)</b>                     | <b>36%</b>                        | 31%      | <b>36%</b>      | 31%      |
| <b>Weighted- average number of shares (millions)</b>               |                                   |          |                 |          |
| Basic  | <b>293.9</b>                      | 293.1    | <b>293.9</b>    | 293.1    |
| Diluted  | <b>296.4</b>                      | 295.9    | <b>296.4</b>    | 293.1    |
| <b>Sales volumes</b>   |                                   |          |                 |          |
| Nickel (thousands of pounds, 50% basis)                            | <b>8,270</b>                      | 9,582    | <b>17,662</b>   | 18,318   |
| Cobalt (thousands of pounds, 50% basis)                            | <b>1,015</b>                      | 1,078    | <b>1,922</b>    | 2,076    |
| Thermal coal – Prairie Operations (millions of tonnes)             | <b>7.6</b>                        | 8.2      | <b>16.9</b>     | 16.7     |
| Thermal coal – Mountain Operations (millions of tonnes, 50% basis) | <b>0.6</b>                        | 0.4      | <b>1.1</b>      | 0.8      |
| Oil (boepd, net production)  | <b>12,474</b>                     | 12,757   | <b>12,423</b>   | 13,544   |
| Electricity (GWh, 100% basis)                                      | <b>513</b>                        | 515      | <b>1,028</b>    | 1,056    |
| <b>Average realized prices</b>                                     |                                   |          |                 |          |
| Nickel (\$/lb)   | <b>\$ 10.65</b>                   | \$ 6.86  | <b>\$ 9.88</b>  | \$ 6.30  |
| Cobalt (\$/lb)   | <b>18.96</b>                      | 16.62    | <b>19.53</b>    | 16.43    |
| Thermal coal – Prairie Operations (\$/tonne)                       | <b>17.46</b>                      | 14.35    | <b>16.02</b>    | 14.68    |
| Thermal coal – Mountain Operations (\$/tonne)                      | <b>92.47</b>                      | 85.86    | <b>81.64</b>    | 92.72    |
| Oil (\$/boe)   | <b>51.25</b>                      | 42.72    | <b>52.03</b>    | 39.04    |
| Electricity (\$/MWh)   | <b>42.22</b>                      | 47.93    | <b>42.43</b>    | 49.23    |

(1) EBITDA is a non-GAAP measure. See the "Non-GAAP Measures" section at the end of this release.

(2) Net working capital is calculated as total current assets less total current liabilities.

## Review of Operations

### Metals

| (units as noted)                               | For the six months ended June 30, |          |          |          |
|--|-----------------------------------|----------|----------|----------|
|  | Q2 2010                           | Q2 2009  | 2010     | 2009     |
| <b>Production</b> (tonnes, 50% basis)          |                                   |          |          |          |
| Mixed sulphides                                | 4,684                             | 4,639    | 9,343    | 9,325    |
| Nickel   | 3,740                             | 4,261    | 8,005    | 8,334    |
| Cobalt   | 404                               | 470      | 872      | 939      |
| <b>Sales</b> (thousands of pounds, 50% basis)  |                                   |          |          |          |
| Nickel   | 8,270                             | 9,582    | 17,662   | 18,318   |
| Cobalt   | 1,015                             | 1,078    | 1,922    | 2,076    |
| <b>Reference prices</b> (US\$/lb)              |                                   |          |          |          |
| Nickel   | \$ 10.15                          | \$ 5.89  | \$ 9.62  | \$ 5.31  |
| Cobalt <sup>(1)</sup>                          | 19.36                             | 13.53    | 19.73    | 13.91    |
| <b>Realized prices</b> (\$/lb)                 |                                   |          |          |          |
| Nickel   | \$ 10.65                          | \$ 6.86  | \$ 9.88  | \$ 6.30  |
| Cobalt   | 18.96                             | 16.62    | 19.53    | 16.43    |
| <b>Unit operating costs</b> (US\$/lb)          |                                   |          |          |          |
| 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  | (0.54)                            | (0.01)   | (0.09)   | 0.09     |
| Net direct cash costs of nickel <sup>(2)</sup> | \$ 3.09                           | \$ 2.85  | \$ 3.32  | \$ 3.43  |
| <b>Revenue</b> (\$millions)                    |                                   |          |          |          |
| Nickel   | \$ 88.2                           | \$ 65.7  | \$ 174.6 | \$ 115.4 |
| Cobalt   | 19.2                              | 17.9     | 37.5     | 34.1     |
| Fertilizer and other                           | 30.7                              | 27.5     | 41.8     | 41.3     |
|  | \$ 138.1                          | \$ 111.1 | \$ 253.9 | \$ 190.8 |
| <b>EBITDA</b> (\$ millions) <sup>(3)</sup>     | \$ 50.7                           | \$ 26.5  | \$ 98.8  | \$ 25.1  |
| <b>Operating earnings</b> (\$ millions)        | \$ 42.8                           | \$ 20.0  | \$ 82.7  | \$ 11.2  |
| <b>Capital expenditures</b> (\$ millions)      |                                   |          |          |          |
| Moa Joint Venture (50% basis)                  | \$ 7.7                            | \$ 7.3   | \$ 13.2  | \$ 12.8  |
| Ambatovy Joint Venture (100% basis)            | 297.3                             | 326.8    | 613.2    | 703.7    |
| Total  | \$ 305.0                          | \$ 334.1 | \$ 626.4 | \$ 716.5 |

(1) Average Metal Bulletin: Low Grade cobalt published price.

(2) Net direct cash cost of nickel after cobalt and by-product credits.

(3) EBITDA is a non-GAAP measure. See the "Non-GAAP Measures" section at the end of this release. EBITDA excludes 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).

Mixed sulphides production for second-quarter 2010 and the six months ended June 30, 2010 was 9,369 tonnes (100% basis) and 18,687 tonnes (100% basis), respectively, largely unchanged from the comparable periods in 2009. Production of finished metal was impacted by the scheduled total shutdown of the refinery, which is generally undertaken every five years. As a result, second-quarter finished nickel production was 12% (1,041 tonnes, 100% basis) lower than the prior-year period and finished cobalt production was 14% (132 tonnes, 100% basis) lower than second-quarter 2009.

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Sales volumes of both nickel and cobalt during second-quarter 2010 reflected the lower production volumes resulting from the scheduled refinery shutdown. Nickel sales volumes were 14% (1,312 thousand pounds, 50% basis) lower, and cobalt sales volumes were 6% (63 thousand pounds, 50% basis) lower than the prior-year period.

The average nickel reference price in second-quarter 2010 was 72% (US\$4.26/lb) higher, and the average cobalt reference price was 43% (US\$5.83/lb) higher, than second-quarter 2009. The increases reflected the relative increase in the global market demand for finished metals.

The net direct cash cost of nickel for second-quarter 2010 was 8% (US\$0.24/lb) higher than second-quarter 2009, due to the combined impact of higher fuel costs at the mine, higher utilities costs at the refinery, and the timing of scheduled maintenance activities in Fort Saskatchewan, which more than offset the benefits of higher by-product credits.

Capital expenditures in second-quarter 2010 for the Moa Joint Venture were comparable to second-quarter 2009.

**The Ambatovy Project**

Ambatovy Project capital expenditures for second-quarter 2010 were \$297.3 million (100% basis), 9% (\$29.5 million) lower than the prior-year period. Total cumulative project expenditures to June 30, 2010 were US\$4.0 billion, excluding financing charges, foreign exchange and working capital requirements, and represent approximately 89% of the projected total project expenditures. The Corporation expects project spending to remain within the US\$4.52 billion estimate. During the quarter, demobilization of civil and earthworks personnel began, as facilities at the mine site, port and sulphuric acid plant were completed. During second-quarter 2010, the construction of the power plant, which is being executed under a turn-key contract, was identified as having high potential for delay in completion. Sherritt and the EPCM contractor are now providing assistance to the power plant contractor to ensure scheduled commissioning dates are achieved. During second-quarter 2010, \$199.6 million (100%) was provided by the Ambatovy Partners and \$69.9 million was drawn on the senior project financing to finance project expenditures. Sherritt financed \$51.6 million of its \$79.8 million funding obligation through loans from other joint venture partners. Agreements for 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. The Project is designed to produce 60,000 tonnes (100% basis) of nickel and 5,600 tonnes (100% basis) of cobalt annually at capacity. Mechanical completion is expected in early 2011.

**Coal**

| (units as noted)                                       | Q2 2010  | Q2 2009  | For the six months ended June 30, |          |
|--|----------|----------|-----------------------------------|----------|
|  |          |          | 2010                              | 2009     |
| <b>Production</b> (millions of tonnes)                 |          |          |                                   |          |
| Prairie Operations                                     | 7.2      | 8.4      | 16.0                              | 16.9     |
| Mountain Operations (50% basis) <sup>(1)</sup>         | 0.6      | 0.5      | 1.0                               | 1.0      |
| <b>Sales</b> (millions of tonnes)                      |          |          |                                   |          |
| Prairie Operations                                     | 7.6      | 8.2      | 16.9                              | 16.7     |
| Mountain Operations (50% basis) <sup>(1)</sup>         | 0.6      | 0.4      | 1.1                               | 0.8      |
| <b>Realized prices</b> (\$/tonne, excluding royalties) |          |          |                                   |          |
| Prairie Operations                                     | \$ 17.46 | \$ 14.35 | \$ 16.02                          | \$ 14.68 |
| Mountain Operations                                    | 92.47    | 85.86    | 81.64                             | 92.72    |
| <b>Unit operating costs</b> (\$/tonne)                 |          |          |                                   |          |
| Prairie Operations                                     | \$ 14.92 | \$ 11.19 | \$ 12.85                          | \$ 11.41 |
| Mountain Operations                                    | 68.05    | 63.17    | 72.86                             | 61.01    |

## Coal (cont'd)

| (units as noted)  | For the six months ended June 30, |                 |                 |                 |
|---|-----------------------------------|-----------------|-----------------|-----------------|
|   | Q2 2010                           | Q2 2009         | 2010            | 2009            |
| <b>Revenue (\$millions)</b>   |                                   |                 |                 |                 |
| 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             |
| Mountain Operations and Other Assets (50% basis) <sup>(1),(2)</sup>     | 54.1                              | 33.5            | 89.5            | 77.3            |
| <b>Total revenue</b>  | <b>\$ 198.7</b>                   | <b>\$ 165.7</b> | <b>\$ 387.0</b> | <b>\$ 354.6</b> |
| <b>EBITDA (\$ millions)</b>   |                                   |                 |                 |                 |
| Prairie Operations <sup>(3)</sup>                                       | \$ 31.2                           | \$ 34.3         | \$ 78.9         | \$ 78.6         |
| Mountain Operations and Other Assets (50% basis) <sup>(1),(2),(4)</sup> | 12.6                              | 7.6             | 6.9             | 23.3            |
| <b>Total</b>  | <b>\$ 43.8</b>                    | <b>\$ 41.9</b>  | <b>\$ 85.8</b>  | <b>\$ 101.9</b> |
| <b>Operating earnings (\$ millions)</b>                                 | <b>\$ 17.0</b>                    | <b>\$ 17.9</b>  | <b>\$ 34.3</b>  | <b>\$ 52.7</b>  |
| <b>Capital expenditures (\$ millions)</b>                               |                                   |                 |                 |                 |
| Prairie Operations  | \$ 13.6                           | \$ 33.0         | \$ 28.8         | \$ 43.9         |
| Mountain Operations (50% basis)   | 6.2                               | 16.2            | 7.3             | 20.6            |
| <b>Total</b>  | <b>\$ 19.8</b>                    | <b>\$ 49.2</b>  | <b>\$ 36.1</b>  | <b>\$ 64.5</b>  |

- (1) Mountain Operations include the results of the Coal Valley and Obed Mountain mines, which are primarily involved in the export of thermal coal, and are presented on a 50% basis.
- (2) Other Assets include certain undeveloped reserves, coal reserves that produce coal-bed methane and technologies under development, including the Dodds-Roundhill Coal Gasification Project, and are presented on a 50% basis.
- (3) EBITDA is a non-GAAP measure. See the "Non-GAAP Measures" section at the end of this release. EBITDA excludes 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).
- (4) EBITDA is a non-GAAP measure. See the "Non-GAAP Measures" section at the end of this release. EBITDA excludes 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).

Second-quarter 2010 production volumes at Prairie Operations were 14% (1.2 million tonnes) lower than the prior-year period largely in response to reduced customer demand at the Sheerness, Genesee and Highvale mines. Production volumes at Mountain Operations were 14% (0.1 million tonnes) higher than second-quarter 2009 due to incremental Obed Mountain mine production that commenced operations in July 2009 and which more than offset the impact of lower plant yields from mining poor quality coal at both the Obed Mountain and Coal Valley mines. Both mines had been operating in areas of lower coal quality due to delays receiving permits. These permit issues were resolved during second-quarter 2009 and mining activities in the new permit areas began in second-quarter 2010.

Sales volumes for second-quarter 2010 at Prairie Operations were 7% (0.6 million tonnes) lower than in the prior-year period primarily as a result of the reduced consumption at the Sheerness, Genesee and Highvale mines. At Mountain Operations, sales volumes for second-quarter 2010 were 50% (0.2 million tonnes) higher when compared to the prior-year period due to incremental sales from the Obed Mountain mine.

Realized pricing (excluding royalties) for second-quarter 2010 at Prairie Operations was 22% (\$3.11/tonne) higher than second-quarter 2009, due to the renewal of the Costello Coal Supply Agreement at the Boundary Dam mine at the beginning of 2010, as well as higher index-adjusted prices and higher cost and capital recoveries at the Genesee and Highvale mines. Realized pricing at Mountain Operations in second-quarter 2010 was 8% (\$6.61/tonne) higher than second-quarter 2009 due to increased export thermal coal pricing and a favourable retroactive price settlement related to a domestic contract dispute, which were partially offset by the foreign exchange impact of a stronger Canadian dollar relative to the U.S. dollar.

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Unit operating costs during second-quarter 2010 increased at both Prairie Operations (33%, \$3.73/tonne) and Mountain Operations (8%, \$4.88/tonne). At Prairie Operations, unit operating costs increased due to lower production volumes at the Sheerness and Highvale mines and the timing of repairs to major mining equipment at the Boundary Dam and Paintearth mines. At Mountain Operations, unit operating costs were higher due primarily to reduced plant yields at both the Coal Valley and Obed Mountain mines.

Total royalties for second-quarter 2010 were 15% (\$2.4 million) lower than the prior-year period as the impact of lower coal royalties resulting from decreased mining activity in royalty assessable areas more than offset higher potash royalties that resulted from an increase in the potash tonnage mined.

Capital expenditures in Prairie Operations were 59% (\$19.4 million) lower in second-quarter 2010 as the impact of second-quarter 2009 expenditures, including a tub replacement at the Sheerness mine and a shop expansion at the Genesee mine, exceeded increased spending on the Activated Carbon project in Bienfait, Saskatchewan. Start-up of the Activated Carbon plant began in June 2010 and ramp-up to capacity is expected to take three months. Sales are now expected to commence during third-quarter 2010. Capital expenditures in Mountain Operations were 62% (\$10.0 million) lower in second-quarter 2010 than in the prior-year period, as expenditures related to the Obed Mountain mine reopening were completed in second-quarter 2009.

In May 2010, Mountain Operations received an arbitrator's decision relating to a contract dispute with a long-term, domestic customer. The decision affects approximately 0.5 million tonnes (100% basis) annually and results in Mountain Operations receiving significantly higher prices for coal under the remaining term of the five-year contract extension that commenced February 1, 2009. As part of the decision, a retroactive pricing adjustment of \$9.0 million (100% basis) was received during second-quarter 2010.

On June 30, 2010, Sherritt purchased for \$45.0 million the 50% interest of the Coal Valley Partnership (CVP) it did not already own. CVP owns 100% of Coal Valley Resources Inc. (CVRI), whose assets include the Coal Valley and Obed Mountain mines. The purchase adds approximately 2.6 million tonnes of export thermal coal annual capacity, the associated reserves and resources, and completes the process of consolidating ownership of the production assets in the Coal business.

At June 30, 2010, CVRI was not in compliance with two financial covenants applicable to the \$38.0 million (100% basis) 3-year non-revolving term facility used to finance the reopening of the Obed Mountain mine. CVRI has been granted a waiver with respect to these covenants to June 30, 2010. The covenant breach resulted from shipment delays caused by a dispute relating to an off-take contract in late 2009 and lower production volumes resulting mainly from delays in receiving permits during the first half of 2010. Both issues have been resolved. However, since several quarters of historical results are utilized in the covenant calculations, the shipment delays and production volumes are expected to continue to have an impact on the outcome of covenant calculations in third-quarter 2010.

**Oil and Gas**

| (units as noted)                                 | Q2 2010       | Q2 2009 | For the six months ended June 30, |        |
|--|---------------|---------|-----------------------------------|--------|
|  |               |         | 2010                              | 2009   |
| <b>Production (boepd)<sup>(1)</sup></b>          |               |         |                                   |        |
| Gross working-interest - Cuba <sup>(2),(3)</sup> | <b>21,237</b> | 20,167  | <b>21,626</b>                     | 20,923 |
| Net working-interest <sup>(4)</sup>              |               |         |                                   |        |
| Cuba - cost recovery                             | <b>3,620</b>  | 6,589   | <b>3,654</b>                      | 7,380  |
| Cuba - profit oil                                | <b>7,926</b>  | 5,510   | <b>7,849</b>                      | 5,498  |
| Cuba - total                                     | <b>11,546</b> | 12,099  | <b>11,503</b>                     | 12,878 |
| Spain  | <b>564</b>    | 276     | <b>555</b>                        | 290    |
| Pakistan   | <b>364</b>    | 382     | <b>365</b>                        | 376    |
| <b>Total</b>                                     | <b>12,474</b> | 12,757  | <b>12,423</b>                     | 13,544 |

## Oil and Gas (cont'd)

| (units as noted)                          | For the six months ended June 30, |          |          |          |
|---|-----------------------------------|----------|----------|----------|
|   | Q2 2010                           | Q2 2009  | 2010     | 2009     |
| <b>Reference prices (US\$/bbl)</b>        |                                   |          |          |          |
| U.S. Gulf Coast Fuel Oil No. 6            | \$ 68.67                          | \$ 51.68 | \$ 69.52 | \$ 45.38 |
| Brent crude                               | 78.37                             | 58.89    | 77.45    | 51.85    |
| <b>Realized prices</b>                    |                                   |          |          |          |
| Cuba (\$/bbl)                             | \$ 51.21                          | \$ 43.18 | \$ 52.10 | \$ 39.40 |
| Spain (\$/bbl)                            | 80.29                             | 70.75    | 80.00    | 62.92    |
| Pakistan (\$/boe)                         | 7.37                              | 7.90     | 7.38     | 8.41     |
| Weighted average (\$/boe)                 | \$ 51.25                          | \$ 42.72 | \$ 52.03 | \$ 39.04 |
| <b>Unit operating costs</b>               |                                   |          |          |          |
| Cuba (\$/bbl)                             | \$ 7.20                           | \$ 7.87  | \$ 7.58  | \$ 8.48  |
| Spain (\$/bbl)                            | 23.29                             | 81.49    | 25.15    | 67.99    |
| Pakistan (\$/boe)                         | 22.22                             | 1.12     | 11.76    | 1.22     |
| Weighted average (\$/boe)                 | \$ 8.40                           | \$ 9.26  | \$ 8.50  | \$ 9.55  |
| <b>Revenue (\$millions)</b>               | \$ 63.7                           | \$ 50.2  | \$ 123.0 | \$ 96.8  |
| <b>EBITDA (\$ millions)<sup>(5)</sup></b> | \$ 48.0                           | \$ 33.6  | \$ 91.1  | \$ 60.8  |
| <b>Operating earnings (\$ millions)</b>   | \$ 28.7                           | \$ 13.3  | \$ 52.5  | \$ 13.3  |
| <b>Capital expenditures (\$ millions)</b> | \$ 16.6                           | \$ 10.3  | \$ 29.8  | \$ 22.4  |

- (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 delivers all of its gross working-interest oil production to Union Cubapetroleo (CUPET) at the time of production. Gross working-interest oil production excludes production from wells for which commerciality has not been established in accordance with production-sharing contracts.
- (3) Gross working-interest oil production is allocated between Oil and Gas and CUPET in accordance with production-sharing contracts. The Corporation's share, referred to as 'net working-interest oil production', includes (i) cost recovery oil (based upon the recoverable capital and operating costs incurred by Oil and Gas under each production-sharing contract) and (ii) a percentage of profit oil (gross working-interest production remaining after cost recovery oil is allocated to Oil and Gas). Cost recovery pools for each production-sharing contract include cumulative recoverable costs, subject to certification by CUPET, less cumulative proceeds from cost recovery oil allocated to Oil and Gas. Cost recovery revenue equals capital and operating costs eligible for recovery under the production-sharing contracts.
- (4) Net working-interest production (equivalent to net sales volume) represents the Corporation's share of gross working-interest production. In Spain and Pakistan, net working-interest production volumes equal 100% of gross working-interest production volumes.
- (5) EBITDA is a non-GAAP measure. See the "Non-GAAP Measures" section at the end of this release.

Gross working-interest (GWI) oil production in Cuba was 5% (1,070 bpd) higher in second-quarter 2010 than in the prior-year period as production increases from recent drilling and workovers exceeded natural reservoir declines and the loss of production from the Varadero production-sharing contract which expired in first-quarter 2010.

Net working-interest production in Cuba in second-quarter 2010 was 5% (553 bpd) lower than the prior-year period. This reflected significantly higher oil prices in 2010 and lower cost recovery expenditures in the period due to the reclassification of \$5.5 million of treatment costs from cost recovery to processing revenue. Sherritt's share of profit oil production from its two commercial production-sharing contracts in Cuba is 45%. Spanish production was 104% (288 bpd) higher in second-quarter 2010 compared to the prior-year period as a result of the production benefits from workovers completed in 2009.

Average realized prices in second-quarter 2010 were higher than second-quarter 2009 in Cuba (19%, \$8.03/bbl) and Spain (13%, \$9.54/bbl), due to higher oil reference prices that were only partially offset by a weaker U.S. dollar relative to the Canadian dollar.

Second-quarter 2010 unit operating costs were lower than the prior-year period in Cuba and Spain. In Cuba, the decline in unit operating costs (9%, \$0.67/bbl) was largely the result of recently implemented operating efficiencies and the

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impact of a relatively weaker U.S. dollar, while the reduction in unit operating costs in Spain (71%, \$58.20/bbl) was attributable to the benefit of the workovers performed in 2009. Pakistan unit operating costs increased significantly in the second quarter by \$21.10/boe as a result of a \$0.7 million ceiling-test write down of the Pakistan assets in the second quarter of 2010.

Capital expenditures in second-quarter 2010 were 61% (\$6.3 million) higher than in the prior-year period. The change largely reflects increased drilling activity in Cuba during second-quarter 2010 compared to the prior-year period, when available cash flow, and therefore drilling activity, was restricted due to the timing of the receipt of payment for receivables.

**Power**

| (units as noted)   | Q2 2010         | Q2 2009  | For the six months ended June 30, |          |
|--|-----------------|----------|-----------------------------------|----------|
|  |                 |          | 2010                              | 2009     |
| <b>Electricity sold</b> (GWh, 100% basis) <sup>(1)</sup> | <b>513</b>      | 515      | <b>1,028</b>                      | 1,056    |
| <b>Realized price</b> (\$/MWh)                           | <b>\$ 42.22</b> | \$ 47.93 | <b>\$ 42.43</b>                   | \$ 49.23 |
| <b>Unit cash operating cost</b> (\$/MWh)                 | <b>\$ 13.12</b> | \$ 15.14 | <b>\$ 11.47</b>                   | \$ 16.49 |
| <b>Net capacity factor</b> (%)                           | <b>71%</b>      | 69%      | <b>71%</b>                        | 72%      |
| <b>Revenue</b> (\$ millions)                             | <b>\$ 28.2</b>  | \$ 28.6  | <b>\$ 56.2</b>                    | \$ 59.0  |
| <b>EBITDA</b> (\$ millions) <sup>(2)</sup>               | <b>\$ 19.9</b>  | \$ 19.7  | <b>\$ 41.2</b>                    | \$ 39.4  |
| <b>Operating earnings</b> (\$ millions)                  | <b>\$ 11.4</b>  | \$ 12.0  | <b>\$ 24.7</b>                    | \$ 24.1  |
| <b>Capital expenditures</b> (\$ millions)                |                 |          |                                   |          |
| Cuba   | \$ <b>6.0</b>   | \$ 8.7   | \$ <b>12.3</b>                    | \$ 14.2  |
| Other  | <b>0.6</b>      | 1.3      | <b>0.6</b>                        | 4.8      |
| <b>Total</b>   | <b>\$ 6.6</b>   | \$ 10.0  | <b>\$ 12.9</b>                    | \$ 19.0  |

(1) Including non-controlling interests' share.

(2) EBITDA is a non-GAAP measure. See the "Non-GAAP Measures" section at the end of this release.

Electricity production and the net capacity factor for second-quarter 2010 were relatively unchanged from the prior-year period. Gas shortages continue to constrain electricity production in Cuba; however, CUPET is working to optimize existing gas production. If these measures are successful, incremental gas supply may be available by fourth-quarter 2010.

Second-quarter 2010 unit cash operating costs were 13% (\$2.02/MWh) lower than the prior-year period, as costs in second-quarter 2009 included higher maintenance costs and costs related to several turbine failures.

Capital expenditures were 34% (\$3.4 million) lower than the prior-year period, due to reduced sustaining capital expenditures in Cuba. Prior-year spending included the 25 MW project in Madagascar which was completed in November 2009. Capital spending in Cuba in second-quarter 2010 related mainly to the 150 MW Boca de Jaruco Combined Cycle project.

**Cash, Debt and Financing**

Cash, cash equivalents and short-term investments were \$707.6 million at June 30, 2010. Of that amount, \$60.4 million (50% basis) was held by the Moa Joint Venture and \$64.3 million (100% basis) was held by the Ambatovy Joint Venture. These funds are for the use of each joint venture, respectively.

At June 30, 2010, the amount of credit available under various facilities, inclusive of approximately US\$0.4 billion (100% basis) under the Ambatovy senior project financing, was \$0.9 billion.

## Outlook

Sherritt's projected production volumes, royalties and capital expenditures for the year 2010 are shown below.

| For the 12 months ending  | December 31,<br>2010 |
|---|----------------------|
| <b>Production volumes</b>   |                      |
| Mixed sulphides (tonnes, 100% basis)                              | 37,000               |
| Nickel (tonnes, 100% basis)                                       | 33,500               |
| Cobalt (tonnes, 100% basis)                                       | 3,600                |
| Coal – Prairie Operations (millions of tonnes)                    | 35                   |
| Coal – Mountain Operations (millions of tonnes, 100% basis)       | 5                    |
| Oil – Cuba (gross working-interest, bpd)                          | 20,500               |
| Oil – All operations (net working-interest, boepd) <sup>(1)</sup> | 12,400               |
| Electricity (GWh)   | 2,000                |
| <b>Royalties (\$ millions)</b>                                    |                      |
| Coal  | \$ 38                |
| Potash  | 11                   |
| <b>Capital expenditures (\$ millions)</b>                         |                      |
| Metals – Moa Joint Venture (50% basis)                            | \$ 54                |
| Coal – Prairie Operations   | 63                   |
| Coal – Mountain Operations (50% basis)                            | 23                   |
| Coal – Activated Carbon (50% basis)                               | 13                   |
| Oil and Gas – Cuba  | 85                   |
| Oil and Gas – Other   | 33                   |
| Power – Cuba <sup>(2)</sup>                                       | 78                   |
|   | <b>\$ 349</b>        |
| Metals – Ambatovy (US\$ millions, 100% basis)                     | <b>\$ 1,100</b>      |

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

(2) Includes \$5 million of progress payments that will be recorded as other assets.

- In Metals, 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 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.
- In Coal – 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 June 2010 and capital spending has largely

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been completed for 2010.

- In Coal – 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/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.
- In Oil and Gas, 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.
- In Power, 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.

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## **Non- GAAP Measures**

The Corporation discloses EBITDA in order to provide an indication of revenue less cash operating expenses. Operating earnings is a measure used by Sherritt to evaluate the operating performance of its businesses as it excludes interest charges, which are a function of the particular financing structure for the business, and certain other charges. EBITDA and operating earnings do not have any standardized meaning prescribed by Canadian generally accepted accounting principles and, therefore, they may or may not be comparable with similar measures presented by other issuers.

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## **About Sherritt**

Sherritt is a diversified natural resource company that produces nickel, cobalt, thermal coal, oil, gas and electricity. It also licenses its proprietary technologies to other metals companies. Sherritt’s common shares are listed on the Toronto Stock Exchange under the symbol “S”.

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## **Forward- Looking Statements**

This press release 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; oil and gas drilling activities; sales of activated carbon; 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 press release 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 press release 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.

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