Interim consolidated financial statements (unaudited)

As at and for the three and six months ended June 30, 2010

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Consolidated balance sheets

Unaudited, Canadian $ millions, as at	Note	2010 June 30	2009 December 31
ASSETS			
Current assets			
Cash and cash equivalents	21	$ 258.6	$ 440.8
Restricted cash		1.1	1.8
Short-term investments		449.0	420.8
Current portion of long-term investments	8	39.6	40.5
Current portion of other assets	9	63.6	66.0
Accounts receivable, net	21	338.3	321.2
Inventories	6	193.1	171.0
Prepaid expenses		18.2	11.8
Future income taxes		25.8	29.1
		1,387.3	1,503.0
Long-term receivables	21	36.3	21.2
Property, plant and equipment	7	7,994.8	7,162.9
Investments	8	120.1	125.8
Other assets	9	224.3	286.9
Goodwill		307.9	307.9
Intangible assets		476.3	483.4
Future income taxes		7.1	8.3
Unallocated purchase price	3	10.2	-
		$ 10,564.3	$ 9,899.4
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		$ 486.0	$ 371.4
Deferred revenue		1.2	2.0
Current portion of long-term debt and other long-term liabilities	10	92.7	77.4
Current portion of asset-retirement obligations	11	29.6	24.1
Future income taxes		-	0.8
		609.5	475.7
Long-term debt and other long-term liabilities	10	3,385.0	3,167.7
Asset-retirement obligations	11	170.2	138.3
Future income taxes		574.5	552.5
		4,739.2	4,334.2
Non-controlling interests	12	2,288.0	2,110.8
Shareholders' equity			
Capital stock	13	2,772.3	2,771.9
Contributed surplus	14	218.6	218.1
Retained earnings		603.5	549.3
Accumulated other comprehensive loss	16	(57.3)	(84.9)
		546.2	464.4
		3,537.1	3,454.4
		$ 10,564.3	$ 9,899.4

The accompanying notes are an integral part of these interim consolidated financial statements.

Consolidated statements of operations

Unaudited, Canadian $ millions, except per share amounts	Note	For the three months ended 2010 June 30	For the three months ended 2009 June 30	For the six months ended 2010 June 30	For the six months ended 2009 June 30
Revenue		**$ 430.9**	$ 358.5	**$ 824.2**	$ 708.1
Operating, selling, general and administrative expenses [1]		**302.7**	268.2	**572.5**	540.9
Earnings before undernoted items		**128.2**	90.3	**251.7**	167.2
Depletion, amortization and accretion		**41.3**	38.7	**82.2**	87.8
Loss on disposal of property, plant and equipment	7	**-**	-	**-**	79.5
Net financing expense	17	**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)
Non-controlling interests		**2.6**	5.6	**7.5**	11.7
Income taxes	19	**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	13	**$ 0.05**	$ 0.08	**$ 0.26**	$ (0.07)
Diluted	13	**$ 0.05**	$ 0.08	**$ 0.25**	$ (0.07)

(1) Includes depreciation on production related depreciable assets for the three and six months ended June 30, 2010 of $21.7 million and $41.3 million, respectively ($21.1 million and $40.7 million for the three and six months ended June 30, 2009, respectively).

Consolidated statements of retained earnings

Unaudited, Canadian $ millions	For the three months ended 2010 June 30	For the three months ended 2009 June 30	For the six months ended 2010 June 30	For the six months ended 2009 June 30
Beginning of period	**$ 598.4**	$ 452.4	**$ 549.3**	$ 505.8
Net earnings (loss)	**15.7**	24.4	**75.4**	(18.5)
Dividends on common shares	**(10.6)**	(10.6)	**(21.2)**	(21.1)
End of period	**$ 603.5**	$ 466.2	**$ 603.5**	$ 466.2

Consolidated statements of comprehensive income (loss)

Unaudited, Canadian $ millions	Note	For the three months ended 2010 June 30	For the three months ended 2009 June 30	For the six months ended 2010 June 30	For the six months ended 2009 June 30
Net earnings (loss)		**$ 15.7**	$ 24.4	**$ 75.4**	$ (18.5)
Other comprehensive income (loss)					
Unrealized foreign currency gain (loss) on self-sustaining foreign operations	16	**94.3**	(243.7)	**27.6**	(100.8)
Comprehensive income (loss)		**$ 110.0**	$ (219.3)	**$ 103.0**	$ (119.3)

The accompanying notes are an integral part of these interim consolidated financial statements.

Consolidated statements of cash flows

Unaudited, Canadian $ millions	Note	For the three months ended **2010 June 30**	2009 June 30	For the six months ended **2010 June 30**	2009 June 30
Operating activities					
Net earnings (loss)		**$ 15.7**	$ 24.4	**$ 75.4**	$ (18.5)
Add (deduct)					
Non-controlling interests		**2.6**	5.6	**7.5**	11.7
Depletion, amortization and accretion		**63.0**	59.8	**123.5**	128.5
Stock-based compensation (recovery) expense	15	**(0.5)**	1.9	**1.6**	2.1
Loss on disposal of property, plant and equipment	7	**-**	-	**-**	79.5
Fair value adjustment of MAV notes	21	**(2.2)**	(2.5)	**(7.3)**	(3.1)
Future income taxes	19	**18.0**	(2.9)	**18.6**	(20.4)
Unrealized foreign-exchange loss		**18.8**	14.1	**5.7**	5.4
Liabilities settled for asset-retirement obligations	11	**(3.2)**	(4.6)	**(6.2)**	(8.0)
Other Items		**2.6**	8.4	**3.1**	13.0
		114.8	104.2	**221.9**	190.2
Net change in non-cash working capital	5	**(30.8)**	(57.2)	**7.6**	(47.9)
Cash provided by operating activities		**84.0**	47.0	**229.5**	142.3
Investing activities					
Capital expenditures		**(352.7)**	(388.2)	**(714.8)**	(805.1)
Sale (purchase) of short-term investments		**72.8**	5.4	**(28.2)**	(237.3)
Advances, loans receivable and other assets		**17.4**	1.4	**34.2**	2.7
Restricted cash		**-**	2.9	**0.7**	9.7
Net proceeds from sale of property, plant and equipment		**0.5**	0.1	**0.7**	7.5
Proceeds from sale of investments		**-**	15.0	**-**	15.0
Acquisition of CVP, net of cash acquired	3	**(32.1)**	-	**(32.1)**	-
Net change in non-cash capital expenditures		**6.8**	67.4	**70.0**	75.0
Cash used for investing activities		**(287.3)**	(296.0)	**(669.5)**	(932.5)
Financing activities					
Short-term debt repayments		**-**	(1.8)	**-**	(1.9)
Acquisition of loan from OTPPB	3	**(10.1)**	-	**(10.1)**	-
Short-term debt borrowings		**2.5**	0.6	**5.0**	53.9
Long-term debt repayments		**(13.4)**	(68.4)	**(26.6)**	(79.5)
Long-term debt borrowings		**122.7**	364.4	**166.4**	456.2
Funding from Ambatovy Joint Venture partners		**119.6**	215.9	**143.1**	570.5
Treasury stock	13	**-**	-	**(0.8)**	-
Dividends paid to non-controlling interests		**-**	(12.1)	**-**	(12.1)
Dividends paid on common shares		**(10.6)**	(10.6)	**(21.2)**	(21.1)
Cash provided by financing activities		**210.7**	488.0	**255.8**	966.0
Effect of exchange rate changes on cash and cash equivalents		**8.2**	(7.3)	**2.0**	(4.6)
Increase in cash and cash equivalents		**15.6**	231.7	**(182.2)**	171.2
Cash and cash equivalents at beginning of period		**243.0**	440.4	**440.8**	500.9
Cash and cash equivalents at end of period		**$ 258.6**	$ 672.1	**$ 258.6**	$ 672.1
Cash and cash equivalents consist of:					
Cash on hand and balances with banks		**$ 172.1**	$ 454.2	**$ 172.1**	$ 454.2
Cash equivalents		**86.5**	217.9	**86.5**	217.9
Supplementary cash flow information					
Cash received for interest		**$ 6.9**	$ 12.0	**$ 14.8**	$ 17.7
Cash paid for interest on debt		**51.5**	56.6	**56.8**	60.4
Cash paid for income taxes		**42.0**	12.4	**56.0**	15.5

The accompanying notes are an integral part of these interim consolidated financial statements.

Notes to interim consolidated financial statements

(all tabular dollar amounts expressed in millions of Canadian dollars except per share amounts)

1 Summary of significant accounting policies

These interim consolidated financial statements have been prepared on a basis consistent with that followed in the consolidated financial statements of Sherritt International Corporation (the Corporation or Sherritt) for the year ended December 31, 2009. The disclosure contained in these interim consolidated financial statements does not include all requirements of Canadian generally accepted accounting principles for annual financial statements. Accordingly, the interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2009.

2 Accounting pronouncements

CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Accounting Standards Board (AcSB) requires all Canadian publicly accountable entities to adopt International Financial Reporting Standards (IFRS) for years beginning on or after January 1, 2011. The Corporation's first mandatory filing under IFRS, which will be the first quarter of 2011, will contain IFRS-compliant consolidated financial statements on a comparative basis, as well as reconciliations to Canadian GAAP for the comparative quarter and as at the January 1, 2010 transition date. Although IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure.

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.

3 Acquisition of Coal Valley Partnership

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 acquisition will be accounted for under the purchase method of accounting as a step acquisition. The Corporation will continue to carry its previously owned 50% interest in CVP at the carrying value and record the acquired amounts at their fair values. The purchase price will be allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. The Corporation is in the process of determining the estimated fair values of all identifiable assets and liabilities acquired and the amount of the purchase price that may be allocated to goodwill. The Corporation consolidated the underlying assets acquired and liabilities assumed as at the acquisition date June 30, 2010. The Corporation will fully consolidate (100%) the earnings of CVP beginning July 1, 2010.

The following table summarizes the components of the total purchase price and net assets acquired. The purchase price allocation is preliminary and subject to adjustment upon the completion of the valuation process. The final allocation of fair value to the assets acquired and liabilities assumed could differ materially from the amounts presented in these interim consolidated financial statements. The difference between the cost of acquisition and the book value of net assets acquired has been presented as "unallocated purchase price".

$ millions		
Purchase price		
Cash consideration	$	45.0
Transaction costs		0.3
Less: Loan owed to OTPPB by CVP		(10.1)
	$	35.2

$ millions		
Net assets acquired and liabilities assumed		
Cash and cash equivalents	$	3.1
Property, plant and equipment		83.7
Net working capital, excluding cash and cash equivalents		8.3
Future income tax liability		(0.9)
Current portion of long-term debt and other long-term liabilities		(29.6)
Long-term debt and other long-term liabilities		(10.3)
Asset-retirement obligations		(29.3)
Net assets acquired	$	25.0
Unallocated purchase price		10.2
	$	35.2

4 Mineral Products

CLASSIFICATION 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 this division for sale. The prior periods were restated to include the assets and results of operations of the business.

These interim consolidated financial statements include the net assets and results of operations of the division with prior periods restated accordingly. 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. These expenses were classified in Operating, selling, general and administrative expenses on the Consolidated statements of operations. 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.

5 Net change in non-cash working capital

	For the three months ended		For the six months ended	
	2010	2009	**2010**	2009
$ millions	**June 30**	June 30	**June 30**	June 30
Accounts receivable	**$ 10.0**	$ 57.3	**$ (15.3)**	$ 60.5
Inventories	**4.6**	4.9	**(6.5)**	7.5
Prepaid expenses	**(6.7)**	(1.7)	**(5.3)**	(2.3)
Accounts payable and accrued liabilities	**(38.7)**	(117.7)	**34.7**	(113.6)
	$ (30.8)	$ (57.2)	**$ 7.6**	$ (47.9)

6 Inventories

	2010	2009
$ millions, as at	**June 30**	December 31
Uncovered coal	**$ 8.7**	$ 5.4
Raw materials	**22.2**	23.1
Materials in process	**37.1**	31.4
Finished products	**36.3**	31.7
	104.3	91.6
Spare parts and operating materials	**88.8**	79.4
	$ 193.1	$ 171.0

For the three and six months ended June 30, 2010, the cost of inventories recognized as an expense and included in operating, selling, general and administrative expenses was $199.8 million and $376.1 million, respectively ($173.2 million and $346.3 million for the three and six months ended June 30, 2009, respectively).

7 Property, plant and equipment

$ millions, as at	**2010 June 30**			2009 December 31		
	Cost	**Accumulated amortization and depletion**	**Net book value**	Cost	Accumulated amortization and depletion	Net book value
Metals	**$ 6,566.9**	**$ 220.1**	**$ 6,346.8**	$ 5,849.2	$ 206.2	$ 5,643.0
Coal	**1,498.7**	**637.8**	**860.9**	1,378.1	600.4	777.7
Oil and Gas	**1,264.7**	**1,018.1**	**246.6**	1,254.8	1,001.7	253.1
Power	**646.7**	**184.7**	**462.0**	624.0	188.4	435.6
Other	**130.4**	**51.9**	**78.5**	113.3	59.8	53.5
	$ 10,107.4	**$ 2,112.6**	**$ 7,994.8**	$ 9,219.4	$ 2,056.5	$ 7,162.9

The Property, plant and equipment balance included development and pre-production expenditures attributable to the Ambatovy Project of $4,352.0 million (December 31, 2009 - $3,657.7 million). In addition to the capitalized Ambatovy Project expenditures, Property, plant and equipment included assets under construction of $354.7 million (December 31, 2009 - $342.0 million).

The Corporation recognized a loss on disposal of $79.5 million in the first quarter of 2009 as a result of the termination of the Block 7 production-sharing contract in Cuba.

The interest expense capitalized for the three and six months ended June 30, 2010 was $21.5 million and $43.5 million, respectively ($17.4 million and $42.8 million for the three and six months ended June 30, 2009, respectively).

8 Investments

$ millions, as at	Note	**2010 June 30**	2009 December 31
Cuban certificates of deposit		**$ 117.9**	$ 131.8
Master Asset Vehicle notes (MAV notes)	21	**36.1**	28.8
Other		**5.7**	5.7
		159.7	166.3
Current portion of Cuban certificates of deposit		**(39.6)**	(40.5)
		$ 120.1	$ 125.8

9 Other assets

$ millions, as at	2010 June 30	2009 December 31
Advances and loans receivable	$ 199.0	$ 221.7
Progress payments on equipment	22.1	54.3
Cross-guarantee fee asset	28.5	34.5
Note receivable	14.0	18.3
Pension asset	5.3	5.0
Put/call option - Ambatovy Joint Venture	7.5	7.5
Deferred reclamation recoveries	6.4	6.4
Deferred items	1.7	2.0
Other	3.4	3.2
	287.9	352.9
Current portion of other assets	(63.6)	(66.0)
	$ 224.3	$ 286.9

10 Short-term debt, long-term debt and other long-term liabilities

SHORT-TERM DEBT

In May 2010, the Corporation amended the terms of the syndicated 364-day revolving-term credit facility. The maximum available credit under the facility is $115.0 million; however, the total available draw is based on eligible receivables and inventory. As at June 30, 2010, no amounts were drawn on this facility (December 31, 2009 - $nil). This facility is subject to the following financial covenants: financial debt-to-equity of not more than 0.5:1; quarterly adjusted net financial debt-to-EBITDA not exceeding between 2.5:1 and 3.25:1 depending on the quarter; and EBITDA-to-interest expense of not less than 3:1. The interest rate on the syndicated 364-day revolving-term credit facility is prime plus 2.25% per annum or bankers' acceptances plus 3.25% and the facility expires on May 9, 2011. The covenants of the $40.0 million 364-day liquidity line of credit and the $20.0 million 6-month liquidity line of credit automatically track the covenants of the syndicated 364-day revolving-term credit facility.

LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES

$ millions, as at	2010 June 30	2009 December 31
7.875% senior unsecured debentures due 2012	$ 268.8	$ 267.8
8.25% senior unsecured debentures due 2014	222.1	221.8
7.75% senior unsecured debentures due 2015	272.2	272.0
Ambatovy Joint Venture financing	1,736.2	1,616.7
Ambatovy Joint Venture additional partner loans	514.6	422.0
Ambatovy Joint Venture partner loans	93.8	91.7
Senior credit facility agreement	65.7	65.6
Loan from financial institution	13.1	18.3
3-year non-revolving term loan	30.1	18.0
	3,216.6	2,993.9
Advances and loans payable	132.7	131.0
Capital lease obligations	99.2	88.6
Pension liability	10.0	11.4
Other long-term liabilities	19.2	20.2
	3,477.7	3,245.1
Current portion of long-term debt and other long-term liabilities	(92.7)	(77.4)
	$ 3,385.0	$ 3,167.7

3-year non-revolving term loan

At June 30, 2010, Coal Valley Resources Inc. (CVRI) was not in compliance with two financial covenants related to this loan. CVRI was, however, granted a waiver of these covenants for the quarter ended June 30, 2010 (note 22).

11 Asset-retirement obligations

$ millions	Note	For the six months ended 2010 June 30	For the year ended 2009 December 31
Balance, beginning of year		$ 162.4	$ 148.2
Acquisition of CVP	3	29.3	-
Additions to liabilities		13.1	28.5
Liabilities settled		(6.2)	(14.0)
Accretion expense		4.3	8.9
Change in foreign-exchange rates		(3.1)	(9.2)
Balance, end of period		199.8	162.4
Current portion of asset-retirement obligations		(29.6)	(24.1)
		$ 170.2	$ 138.3

12 Non-controlling interests

$ millions	For the six months ended 2010 June 30	For the year ended 2009 December 31
Ambatovy Joint Venture		
Balance, beginning of year	$ 1,906.9	$ 1,464.0
Share of net earnings (loss)	(3.5)	2.0
Increase in net assets	169.7	440.9
	2,073.1	1,906.9
Energas S.A.		
Balance, beginning of year	$ 203.9	$ 204.4
Share of net earnings	11.0	18.4
Dividends to non-controlling interests	-	(18.9)
	214.9	203.9
Total balance, end of period	$ 2,288.0	$ 2,110.8

13 Capital stock

The Corporation's authorized share capital consists of an unlimited number of common shares. The changes in the Corporation's outstanding common shares were as follows:

	Number		Stated Capital	
$ millions, except number of shares	For the six months ended 2010 June 30	For the year ended 2009 December 31	For the six months ended 2010 June 30	For the year ended 2009 December 31
Balance, beginning of year	293,981,277	293,051,276	$ 2,771.9	$ 2,758.3
Share purchase plan	-	95,580	-	0.5
Cross-guarantee	-	943,277	-	13.9
Treasury stock	(94,874)	(108,856)	(0.8)	(0.8)
Other	-	-	1.2	-
Balance, end of period	293,886,403	293,981,277	$ 2,772.3	$ 2,771.9

TREASURY STOCK

Shares granted under the Restricted Stock Plan are purchased on the open market and held in each participant's custodial account until the vesting conditions have been met, or the shares forfeited. The Corporation purchased 94,874 common shares during the six months ended June 30, 2010 for total consideration of $0.8 million. These shares are excluded from the calculation of weighted-average number of common shares used for the purposes of calculating basic earnings per share.

The following table presents the calculation of basic and diluted earnings per common share:

$ millions, except per share amounts	For the three months ended **2010 June 30**	2009 June 30	For the six months ended **2010 June 30**	2009 June 30
Net earnings (loss) - basic and diluted	**$ 15.7**	$ 24.4	**$ 75.4**	(18.5)
Weighted-average number of common shares - basic	**293.9**	293.1	**293.9**	293.1
Weighted-average effect of dilutive securities: (1)(2)				
Stock options	**0.4**	-	**0.4**	-
Restricted stock	**0.2**	-	**0.2**	-
Cross-guarantee	**1.9**	2.8	**1.9**	-
Weighted-average number of common shares - diluted	**296.4**	295.9	**296.4**	293.1
Net earnings (loss) per common share				
Basic	**$ 0.05**	$ 0.08	**$ 0.26**	$ (0.07)
Diluted	**$ 0.05**	$ 0.08	**$ 0.25**	$ (0.07)

(1) The determination of Weighted-average number of common shares-diluted excluded 4.3 million for the three and six months ended June 30, 2010 (4.7 million for the three and six months ended June 30, 2009), and 0.1 million shares related to the employee share purchase plan that were anti-dilutive for the three and six months ended June 30, 2010 (0.2 million for the three and six months ended June 30, 2009).

(2) As there was a loss for the six months ended June 30, 2009, the Corporation has excluded from the calculation of diluted loss per share all common shares potentially issuable for the stock options and the cross-guarantee because they would be anti-dilutive.

14 Contributed surplus

$ millions	**For the six months ended 2010 June 30**	For the year ended 2009 December 31
Balance, beginning of year	**$ 218.1**	$ 232.0
Restricted Stock Plan amortization	**0.5**	-
Issuance of common shares to cross-guarantors	**-**	(13.9)
Balance, end of period	**$ 218.6**	$ 218.1

15 Stock-based compensation plans

The following is a summary of stock option activity:

For the three months ended June 30	2010		2009	
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
Outstanding at beginning of period	**5,469,146**	**$ 10.35**	3,818,335	$ 12.19
Granted	**-**	**-**	930,000	5.16
Forfeited	**(275,000)**	**8.95**	(5,000)	15.02
Outstanding at end of period	**5,194,146**	**10.43**	4,743,335	10.81
Options exercisable, end of period	**2,924,645**	**$ 11.37**	1,916,001	$ 11.68

For the six months ended June 30	2010		2009	
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
Outstanding at beginning of year	**4,774,906**	**$ 10.69**	3,978,335	$ 12.30
Granted	**724,240**	**8.33**	930,000	5.16
Forfeited	**(305,000)**	**9.57**	(165,000)	14.86
Outstanding at end of period	**5,194,146**	**10.43**	4,743,335	10.81
Options exercisable, end of period	**2,924,645**	**$ 11.37**	1,916,001	$ 11.68

At June 30, 2010, 5,174,146 options (June 30, 2009 – 4,723,335) with a share appreciation right (SAR) attachment and 20,000 options (June 30, 2009 - 20,000) remained outstanding. For the three and six months ended June 30, 2010, there was a compensation recovery of $1.1 million and $0.2 million, respectively ($nil for the three and six months ended June 30, 2009).

A summary of SARs, RSUs, DSUs and RSP's outstanding as at June 30, 2010 and 2009 and changes during the period are as follows:

For the three months ended June 30				**2010**
	SAR	**RSU**	**DSU**	**RSP**
Balance, beginning of period	**140,000**	**1,762,628**	**279,066**	**203,730**
Issued	**-**	**10,836**	**1,767**	**-**
Exercised	**-**	**-**	**-**	**-**
Forfeited	**-**	**(40,013)**	**-**	**-**
Outstanding at end of period	**140,000**	**1,733,451**	**280,833**	**203,730**
Units exercisable, end of period	**140,000**	**n/a**	**280,833**	**n/a**
Weighted-average exercise price	**$ 5.56**	**n/a**	**n/a**	**n/a**

For the three months ended June 30				2009
	SAR	RSU	DSU	RSP
Balance, beginning of period	274,125	687,597	219,614	-
Issued	-	9,301	1,508	-
Exercised	-	-	-	-
Forfeited	-	(9,014)	-	-
Outstanding at end of period	274,125	687,884	221,122	-
Units exercisable, end of period	274,125	n/a	221,122	n/a
Weighted-average exercise price	$ 3.85	n/a	n/a	n/a

For the six months ended June 30				2010
	SAR	RSU	DSU	RSP
Balance, beginning of year	212,500	1,304,689	216,946	108,856
Issued	-	704,372	63,887	94,874
Exercised	(72,500)	(214,299)	-	-
Forfeited	-	(61,311)	-	-
Outstanding at end of period	140,000	1,733,451	280,833	203,730
Units exercisable, end of period	140,000	n/a	280,833	n/a
Weighted-average exercise price	$ 5.56	n/a	n/a	n/a

For the six months ended June 30				2009
	SAR	RSU	DSU	RSP
Balance, beginning of year	274,125	826,001	165,566	-
Issued	-	28,787	55,556	-
Exercised	-	(133,141)	-	-
Forfeited	-	(33,763)	-	-
Outstanding at end of period	274,125	687,884	221,122	-
Units exercisable, end of period	274,125	n/a	221,122	n/a
Weighted-average exercise price	$ 3.85	n/a	n/a	n/a

The Corporation recorded a compensation expense of $0.6 million and $1.8 million for the three and six months ended June 30, 2010 (compensation expense of $1.9 million and $2.1 million for the three and six months ended June 30, 2009, respectively) related to the SARs, RSUs, DSUs, and RSPs.

16 Accumulated other comprehensive loss

$ millions	For the six months ended 2010 June 30	For the year ended 2009 December 31
Balance, beginning of year	$ (84.9)	$ 231.0
Unrealized foreign currency gain (loss) on self-sustaining foreign operations	27.6	(315.9)
Balance, end of period	$ (57.3)	$ (84.9)

17 Net financing expense

$ millions	Note	For the three months ended 2010 June 30	2009 June 30	For the six months ended 2010 June 30	2009 June 30
Interest income on cash, cash equivalents, investments and loans receivable		$ (7.6)	$ (14.1)	$ (15.6)	$ (27.3)
Interest and accretion expense on debt		18.7	19.9	37.5	41.8
Foreign-exchange loss, net		24.1	13.3	13.7	2.9
Fair-value adjustment of MAV notes	21	(2.2)	(2.5)	(7.3)	(3.1)
Other		1.5	(0.2)	1.2	-
		$ 34.5	$ 16.4	$ 29.5	$ 14.3

18 Post-employment benefits

The Corporation's pension expense for the three and six months ended June 30, 2010 was $3.2 million and $6.6 million, respectively ($7.2 million and $10.5 million for the three and six months ended June 30, 2009, respectively).

19 Income taxes

	For the three months ended		For the six months ended	
	2010	2009	**2010**	2009
$ millions	**June 30**	June 30	**June 30**	June 30
Current	**$ 16.1**	$ 8.8	**$ 38.5**	$ 11.3
Future	**18.0**	(2.9)	**18.6**	(20.4)
	$ 34.1	$ 5.9	**$ 57.1**	$ (9.1)

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.

20 Related party transactions

	For the three months ended		For the six months ended	
	2010	2009	**2010**	2009
$ millions	**June 30**	June 30	**June 30**	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

	2010	2009
$ millions, as at	**June 30**	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
Loan receivable from Coal Valley Resources Inc.	**-**	5.0

21 Financial instruments and financial risk management

FINANCIAL INSTRUMENT HIERARCHY

	Hierarchy	**2010**	2009
$ millions, as at	Level	**June 30**	December 31
Financial assets			
Held for trading, measured at fair value:			
Cash and cash equivalents	1	**$ 258.6**	$ 440.8
Restricted cash	1	**1.1**	1.8
Short-term investments	1	**449.0**	420.8
MAV notes	3	**36.1**	28.8
Put/call option - Ambatovy Joint Venture	3	**7.5**	7.5

The following is a reconciliation of the beginning to ending balance for financial instruments included in Level 3:

	2010			2009		
$ millions, for the three months ended June 30	**Master Asset Vehicle Notes**	**Put/Call Option**	**Total**	Master Asset Vehicle Notes	Put/Call Option	Total
Balance, beginning of period	**$ 33.9**	**$ 7.5**	**$ 41.4**	$ 21.8	$ 7.5	$ 29.3
Total gains in Net earnings [1]	**2.2**	**-**	**2.2**	2.5	-	2.5
Redemptions	**-**	**-**	**-**	(1.0)	-	(1.0)
Gain on redemptions [1]	**-**	**-**	**-**	0.5	-	0.5
Balance, end of period	**$ 36.1**	**$ 7.5**	**$ 43.6**	$ 23.8	$ 7.5	$ 31.3

	2010			2009		
$ millions, for the six months ended June 30	**Master Asset Vehicle Notes**	**Put/Call Option**	**Total**	Master Asset Vehicle Notes	Put/Call Option	Total
Balance, beginning of period	**$ 28.8**	**$ 7.5**	**$ 36.3**	$ 21.2	$ 7.5	$ 28.7
Total gains in Net earnings [1]	**7.3**	**-**	**7.3**	3.1	-	3.1
Redemptions	**-**	**-**	**-**	(1.0)	-	(1.0)
Gain on redemptions [1]	**-**	**-**	**-**	0.5	-	0.5
Balance, end of period	**$ 36.1**	**$ 7.5**	**$ 43.6**	$ 23.8	$ 7.5	$ 31.3

(1) Gains included in Net earnings (loss) are recognized in Net financing expense.

MAV notes

In determining the fair value, the Corporation used credit spreads based on the current market bids available for A1, A2, B, C and Class 15 notes totaling $34.4 million. The remaining $1.7 million of notes held by the Corporation are not widely traded and the fair value was determined using discounted cash flows; the interest rate used was based on management's estimate of credit and other risk factors.

During the three and six months ended June 30, 2010, the Corporation recognized an upward fair-value adjustment of $2.2 million and $7.3 million, respectively on its MAV notes, primarily due to a decrease in credit spreads ($2.5 million and $3.1 million for the three and six months ended June 30, 2009, respectively).

A 1% increase or decrease in the yields or discount rate could decrease or increase the Corporation's determination of fair value by approximately $1.9 million, respectively.

FAIR VALUES

Financial instruments with carrying values different from their fair values include the following:

		2010 June 30		2009 December 31
$ millions, as at	**Carrying Value**	**Fair Value [1]**	Carrying Value	Fair Value
7.875% senior unsecured debentures due 2012	**$ 268.8**	**$ 279.4**	$ 267.8	$ 279.2
8.25% senior unsecured debentures due 2014	**222.1**	**230.8**	221.8	231.3
7.75% senior unsecured debentures due 2015	**272.2**	**282.9**	272.0	278.2

(1) Fair values of the senior unsecured debentures are based on market closing prices on June 30, 2010.

At June 30, 2010, the carrying values of Cash and cash equivalents, Restricted cash, Short-term investments, Accounts receivable, and Accounts payable and accrued liabilities are at fair value or approximate fair value due to their immediate or short terms to maturity.

The fair values of other long-term debts approximate their carrying value. At June 30, 2010, the carrying value for the Cuban certificates of deposit (CDs) was approximately equal to the fair value (note 8).

At June 30, 2010, the carrying value of the lenders' conversion option under the Ambatovy Joint Venture additional partner loan agreements was approximately equal to the fair value.

CASH, CASH EQUIVALENTS 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. The total cash held in Cuban bank deposit accounts was $29.3 million at June 30, 2010 (December 31, 2009 – $28.6 million).

At June 30, 2010, $64.3 million of cash on the Corporation's balance sheet was held by the Ambatovy Joint Venture and $60.4 million was held by the Moa Joint Venture (December 31, 2009 – $272.1 million and $14.2 million, respectively). These funds are for the use of each joint venture, respectively.

At June 30, 2010, the Corporation had $535.5 million in Government of Canada treasury bills (December 31, 2009 - $523.7 million) included in cash and cash equivalents and short-term investments.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES

The Corporation's Accounts receivable are composed of the following:

$ millions, as at	**2010 June 30**	2009 December 31
Trade receivables	**$ 288.7**	$ 283.3
Allowances for doubtful accounts	**(4.9)**	(6.6)
Other	**54.5**	44.5
	$ 338.3	$ 321.2
Long-term receivables	**$ 36.3**	$ 21.2

Of which:

$ million, as at	**2010 June 30**	2009 December 31
Not past due	**$ 301.8**	$ 306.3
Past due no more than 30 days	**42.1**	26.4
Past due for more than 30 days but no more than 60 days	**8.2**	2.4
Past due for more than 60 days	**22.5**	7.3
	$ 374.6	$ 342.4

At June 30, 2010, $25.3 million of Oil and Gas and $7.3 million of Power trade receivables were overdue. Of these overdue amounts, $23.2 million was collected in July 2010.

CREDIT RISK

The Corporation has credit risk exposure related to its share of Cash, Accounts receivable and Advances and loans associated with its businesses located in Cuba or businesses which have Cuban joint venture partners as follows:

$ millions, as at	**2010 June 30**	2009 December 31
Cash	**$ 14.8**	$ 22.7
Accounts receivable, net	**167.0**	157.2
Advances and loans receivable	**614.9**	664.6
Cuban certificates of deposit	**100.8**	112.6
	$ 897.5	$ 957.1

The table above reflects the Corporation's maximum credit exposure to Cuban counterparties; however, certain loan balances are eliminated in the consolidated results in accordance with accounting principles for subsidiaries and joint ventures.

CONTRACTUAL COMMITMENTS AND OBLIGATIONS

The Corporation's significant contractual commitments and obligations and the principal repayments thereon are presented in the following table:

$ 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

Significant capital commitments include:

- $302.8 million related to capital for the Ambatovy Joint Venture (December 31, 2009 - $518.8 million); and
- $416.3 million for purchases of capital equipment and services, capital leases, primarily for production equipment and operating leases for equipment, office space and vehicles (December 31, 2009 - $384.1 million).

FOREIGN-EXCHANGE SENSITIVITY

Based on financial instrument balances as at June 30, 2010, a strengthening or weakening of $0.05 of the Canadian dollar to the U.S. dollar with all other variables held constant could have a favourable or unfavourable impact of approximately $18.2 million, respectively, on net earnings. This amount excludes the foreign-exchange risk arising from the translation of the self-sustaining foreign subsidiaries to Canadian dollars impacting other comprehensive income, as this is limited to the net investment in these operations, which is not considered a financial instrument.

INTEREST RATE SENSITIVITY

Based on the debt at June 30, 2010, excluding interest capitalized to project costs, a 1% increase or decrease in the market interest rate could increase or decrease the Corporation's annual interest expense by approximately $0.8 million, respectively.

22 Capital disclosures

At June 30, 2010, CVRI was not in compliance with two of its financial covenants applicable to a 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 twelve 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 covenants required for the debt facilities, the Corporation is not subject to any externally imposed capital restrictions.

23 Segmented information

BUSINESS SEGMENTS

The results of the Corporation's reportable segments are as follows:

$ millions, for the three months ended June 30						2010
	Metals	Coal	Oil and Gas	Power	Corporate and Other	Consolidated
Revenue	$ 138.1	$ 198.7	$ 63.7	$ 28.2	$ 2.2	$ 430.9
Operating, selling, general and administrative expenses	93.1	170.9	15.7	8.3	14.7	302.7
Earnings (loss) before undernoted items	45.0	27.8	48.0	19.9	(12.5)	128.2
Depletion, amortization and accretion[1]	2.2	10.8	19.3	8.5	0.5	41.3
Net financing expense						34.5
Non-controlling interests						2.6
Income taxes						34.1
Net earnings						15.7
Capital expenditures	305.0	15.1	16.6	6.6	9.4	352.7
Goodwill and intangible assets	3.5	758.0	-	16.3	6.4	784.2
Total Assets	$ 6,609.1	$ 1,884.8	$ 778.7	$ 643.6	$ 648.1	$ 10,564.3

$ millions, for the three months ended June 30						2009
	Metals	Coal	Oil and Gas	Power	Corporate and Other[2]	Consolidated
Revenue	$ 111.1	$ 165.7	$ 50.2	$ 28.6	$ 2.9	$ 358.5
Operating, selling, general and administrative expenses	91.0	138.5	16.6	8.9	13.2	268.2
Earnings (loss) before undernoted items	20.1	27.2	33.6	19.7	(10.3)	90.3
Depletion, amortization and accretion[1]	0.1	9.3	20.3	7.7	1.3	38.7
Net financing expense						16.4
Other items						(0.7)
Non-controlling interests						5.6
Income taxes						5.9
Net earnings						24.4
Capital expenditures	334.1	33.5	10.3	10.0	0.3	388.2
Goodwill and intangible assets	3.8	770.2	-	18.5	7.3	799.8
Total Assets	$ 6,095.9	$ 1,858.3	$ 742.0	$ 612.5	$ 767.9	$ 10,076.6

(1) Includes depreciation on production related depreciable assets of $5.7 million in Metals and $16.0 million in Coal for the three months ended June 30, 2010 (June 30, 2009 - $6.4 million in Metals and $14.7 million in Coal).

(2) Amounts have been amended to include results of the Mineral Products division which had previously been accounted for as a discontinued operation.

$ millions, for the six months ended June 30						**2010**
	Metals	**Coal**	**Oil and Gas**	**Power**	**Corporate and Other**	**Consolidated**
Revenue	**$ 253.9**	**$ 387.0**	**$ 123.0**	**$ 56.2**	**$ 4.1**	**$ 824.2**
Operating, selling, general and administrative expenses	**167.1**	**330.5**	**31.9**	**15.0**	**28.0**	**572.5**
Earnings (loss) before undernoted items	**86.8**	**56.5**	**91.1**	**41.2**	**(23.9)**	**251.7**
Depletion, amortization and accretion [1]	**4.1**	**22.2**	**38.6**	**16.5**	**0.8**	**82.2**
Net financing expense						**29.5**
Non-controlling interests						**7.5**
Income taxes						**57.1**
Net earnings						**75.4**
Capital expenditures	**626.4**	**25.9**	**29.8**	**12.9**	**19.8**	**714.8**
Goodwill and intangible assets	**3.5**	**758.0**	**-**	**16.3**	**6.4**	**784.2**
Total Assets	**$ 6,609.1**	**$ 1,884.8**	**$ 778.7**	**$ 643.6**	**$ 648.1**	**$ 10,564.3**

$ millions, for the six months ended June 30						2009
	Metals	Coal	Oil and Gas	Power	Corporate and Other [2]	Consolidated
Revenue	$ 190.8	$ 354.6	$ 96.8	$ 59.0	$ 6.9	$ 708.1
Operating, selling, general and administraive expenses	176.6	282.5	36.0	19.6	26.2	540.9
Earnings (loss) before undernoted items	14.2	72.1	60.8	39.4	(19.3)	167.2
Depletion, amortization and accretion [1]	3.0	19.4	47.5	15.3	2.6	87.8
Loss on disposal of property, plant and equipment	-	-	79.5	-	-	79.5
Net financing expense						14.3
Other items						1.5
Non-controlling interests						11.7
Income taxes						(9.1)
Net loss						(18.5)
Capital expenditures	716.5	46.3	22.4	19.0	0.9	805.1
Goodwill and intangible assets	3.8	770.2	-	18.5	7.3	799.8
Total Assets	$ 6,095.9	$ 1,858.3	$ 742.0	$ 612.5	$ 767.9	$ 10,076.6

(1) Includes depreciation on production related depreciable assets of $12.0 million in Metals and $29.3 million in Coal for the six months ended June 30, 2010 (June 30, 2009 - $10.9 million in Metals and $29.8 million in Coal).

(2) Amounts have been amended to include results of the Mineral Products division which had previously been accounted for as a discontinued operation.

GEOGRAPHIC SEGMENTS

The Corporation carries on business in the following geographic areas:

$ millions, for the three months ended June 30	2010			2009		
	Goodwill and Intangible Assets	**Revenue**	**Property, Plant, and Equipment**	Goodwill and Intangible Assets	Revenue	Property, Plant, and Equipment
Canada	**$ 764.4**	**$ 99.4**	**$ 1,178.3**	$ 777.5	$ 155.8	$ 1,012.7
Cuba	**16.3**	**86.5**	**1,023.9**	18.5	76.8	1,140.2
Madagascar	**3.5**	**1.3**	**5,778.7**	3.8	-	4,889.8
Europe	**-**	**58.1**	**5.4**	-	27.6	5.6
Asia	**-**	**108.0**	**8.4**	-	79.9	6.8
Other foreign countries	**-**	**77.6**	**0.1**	-	18.4	0.1
	$ 784.2	**$ 430.9**	**$ 7,994.8**	$ 799.8	$ 358.5	$ 7,055.2

$ millions, for the six months ended June 30	2010			2009		
	Goodwill and Intangible Assets	**Revenue**	**Property, Plant, and Equipment**	Goodwill and Intangible Assets	Revenue	Property, Plant, and Equipment
Canada	**$ 764.4**	**$ 265.5**	**$ 1,178.3**	$ 777.5	$ 317.2	$ 1,012.7
Cuba	**16.3**	**169.0**	**1,023.9**	18.5	152.4	1,140.2
Madagascar	**3.5**	**2.7**	**5,778.7**	3.8	-	4,889.8
Europe	**-**	**107.6**	**5.4**	-	64.7	5.6
Asia	**-**	**179.3**	**8.4**	-	145.4	6.8
Other foreign countries	**-**	**100.1**	**0.1**	-	28.4	0.1
	$ 784.2	**$ 824.2**	**$ 7,994.8**	$ 799.8	$ 708.1	$ 7,055.2