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# 2013 SECOND QUARTER REPORT

Sherritt International Corporation

For the three months ended June 30, 2013

# PRESS RELEASE

## Sherritt reports second-quarter 2013 results

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*All amounts are Canadian dollars unless otherwise indicated*

# Sherritt International Corporation Reports Second-Quarter 2013 Results

*All amounts are Canadian dollars unless otherwise indicated*

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

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

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

**Consolidated Highlights**

- Spending on capital and intangibles relating to operations totaled $53.5 million for second-quarter 2013, compared to $62.8 million in second-quarter 2012.
- Cash, cash equivalents and short-term investments were $406.0 million at June 30, 2013.
- Sales volumes for second-quarter 2013 (Sherritt's share) totaled 8.6 million pounds of finished nickel, 0.8 million pounds of finished cobalt, 6.4 million tonnes of thermal coal, 1.0 million barrels of oil and 153 GWh of electricity.
- Sales volumes in second-quarter 2013 do not include sales from the Ambatovy Joint Venture. Finished metal sold from the Ambatovy Joint Venture will not be categorized as sales volumes until the declaration of commercial production, defined as 70% of ore throughput of nameplate capacity in the Pressure Acid Leach (PAL) circuit over a thirty-day period. During second-quarter 2013, Ambatovy had pre-commercial sales of 16.5 million pounds (100% basis) of finished nickel and 1.5 million pounds (100% basis) of finished cobalt.

**Operating Highlights**

- Ambatovy second-quarter finished metal production was substantially higher than first-quarter 2013. Finished nickel production for second-quarter 2013 was 22% (1,306 tonnes, 100% basis) higher than first-quarter 2013. Finished cobalt production was 16% (84 tonnes, 100% basis) higher than the previous quarter.
- Second-quarter 2013 consolidated finished metal production was higher than the prior-year period as the addition of Ambatovy production more than offset the impact of lower volumes at the Moa Joint Venture. Consolidated finished nickel production of 14,871 tonnes (100% basis) was 66% (5,901 tonnes) higher than second-quarter 2012, and second-quarter 2013 finished cobalt production was 1,372 tonnes (100% basis), or 38% (379 tonnes) higher than the prior-year period.
- The net direct cash cost of nickel at the Moa Joint Venture of US$5.58 per pound for second-quarter 2013 was 7% (US$0.41/lb) lower than first-quarter 2013.
- Coal - Prairie Operations production volumes at owned-mines were up 25% compared to second-quarter 2012, due to

increased demand at the Sheerness and Genesee mines.

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

**2013 Outlook Highlights**

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

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

# Summary Data

## SUMMARY FINANCIAL DATA

| ($ millions unless otherwise noted) | Q2 2013 | Q2 2012 | Six months ended June 30, 2013 | 2012 |
|---|---|---|---|---|
| Revenue | **338.5** | 377.1 | **625.0** | 736.5 |
| Adjusted EBITDA[1] | **87.1** | 138.2 | **186.0** | 284.1 |
| Earnings from operations and associate and joint venture | **19.0** | 72.4 | **79.5** | 158.6 |
| Net earnings (loss) | **(10.7)** | 40.8 | **12.4** | 73.2 |
| Basic and diluted earnings (loss) per share ($ per share) | **(0.04)** | 0.14 | **0.04** | 0.25 |
| Net working capital balance[2] | **797.5** | 854.9 | **797.5** | 854.9 |
| Spending on capital and intangibles[3] | **53.5** | 62.8 | **105.1** | 103.7 |
| Total assets | **6,715.5** | 6,385.7 | **6,715.5** | 6,385.7 |
| Shareholders' equity | **3,769.7** | 3,768.3 | **3,769.7** | 3,768.3 |
| Long-term debt to total assets (%) | **33** | 28 | **33** | 28 |
| Weighted-average number of shares (millions) | | | | |
| Basic | **296.6** | 296.1 | **296.5** | 296.1 |
| Diluted | **296.7** | 296.4 | **296.9** | 296.4 |

(1) For additional information see the 'Non-GAAP Measure – Adjusted EBITDA' section of this release.
(2) Net working capital is calculated as total current assets less total current liabilities.
(3) Spending on capital and intangibles includes accruals and does not include spending on the Ambatovy Joint Venture or service concession arrangements.

## SUMMARY SALES DATA

| (units as noted) | Q2 2013 | Q2 2012 | Six months ended June 30, 2013 | 2012 |
|---|---|---|---|---|
| **Sales volumes** | | | | |
| Nickel – Moa Joint Venture (thousands of pounds, 50% basis)[1] | **8,612** | 9,915 | **17,243** | 19,470 |
| Cobalt – Moa Joint Venture (thousands of pounds, 50% basis)[1] | **833** | 1,130 | **1,742** | 2,147 |
| Thermal coal – Prairie Operations (millions of tonnes) | **5.2** | 6.8 | **10.9** | 14.9 |
| Thermal coal – Mountain Operations (millions of tonnes) | **1.2** | 1.0 | **1.8** | 1.8 |
| Oil (boepd, net working-interest production) | **11,485** | 11,671 | **11,181** | 11,563 |
| Electricity (GWh, 33 1/3% basis) | **153** | 157 | **313** | 312 |
| **Realized prices** | | | | |
| Nickel ($/lb)[1] | **6.85** | 7.88 | **7.35** | 8.26 |
| Cobalt ($/lb)[1] | **12.82** | 13.87 | **12.14** | 13.98 |
| Thermal coal – Prairie Operations ($/tonne) | **18.19** | 18.27 | **18.20** | 17.58 |
| Thermal coal – Mountain Operations ($/tonne) | **87.31** | 103.47 | **89.74** | 103.73 |
| Oil ($/boe) | **66.98** | 70.82 | **68.61** | 74.21 |
| Electricity ($/MWh) | **42.28** | 41.79 | **42.07** | 41.63 |

(1) Sales volumes and average realized prices do not include the impact of the Ambatovy Joint Venture.

# Review of Operations

## METALS

| ($ millions unless otherwise noted) | Q2 2013 | Q2 2012 | Six months ended June 30, 2013 | 2012 |
|---|---|---|---|---|
| **Production** | | | | |
| Mixed sulphides (Ni+Co contained, tonnes) | | | | |
| Moa Joint Venture (50% basis) | **4,569** | 4,859 | **8,736** | 9,535 |
| Ambatovy Joint Venture (40% basis) | **2,312** | 280 | **5,433** | 280 |
| Total | **6,881** | 5,139 | **14,169** | 9,815 |
| Nickel (tonnes) | | | | |
| Moa Joint Venture (50% basis) | **3,868** | 4,485 | **7,770** | 8,784 |
| Ambatovy Joint Venture (40% basis) | **2,854** | - | **5,186** | - |
| Total | **6,722** | 4,485 | **12,956** | 8,784 |
| Cobalt (tonnes) | | | | |
| Moa Joint Venture (50% basis) | **374** | 497 | **779** | 974 |
| Ambatovy Joint Venture (40% basis) | **250** | - | **466** | - |
| Total | **624** | 497 | **1,245** | 974 |
| Fertilizer (tonnes) | | | | |
| Moa Joint Venture (50% basis) | **22,443** | 26,258 | **42,832** | 49,411 |
| Fort Site (100% basis) | **44,789** | 41,506 | **83,795** | 84,474 |
| Ambatovy Joint Venture (40% basis) | **6,350** | - | **15,132** | - |
| Total | **73,582** | 67,764 | **141,759** | 133,885 |
| **Sales** [1] | | | | |
| Nickel (thousands of pounds, 50% basis) | **8,612** | 9,915 | **17,243** | 19,470 |
| Cobalt (thousands of pounds, 50% basis) | **833** | 1,130 | **1,742** | 2,147 |
| Fertilizer (tonnes) | | | | |
| Moa Joint Venture (50%) | **28,659** | 35,006 | **38,654** | 44,973 |
| Fort Site (100%) | **41,271** | 36,288 | **62,789** | 52,948 |
| Total | **69,930** | 71,294 | **101,443** | 97,921 |
| **Reference prices**[1] | | | | |
| Nickel (US$/lb) | **6.79** | 7.78 | **7.32** | 8.36 |
| Cobalt (US$/lb)[2] | **13.06** | 14.24 | **12.51** | 14.42 |
| **Realized prices**[1] | | | | |
| Nickel ($/lb) | **6.85** | 7.88 | **7.35** | 8.26 |
| Cobalt ($/lb) | **12.82** | 13.87 | **12.14** | 13.98 |
| **Unit operating costs** (US$/lb) [1] | | | | |
| Mining, processing and refining costs | **7.09** | 6.56 | **7.05** | 6.58 |
| Third-party feed costs | **0.13** | 0.09 | **0.18** | 0.11 |
| Cobalt by-product credits | **(1.21)** | (1.56) | **(1.21)** | (1.53) |
| Other | **(0.43)** | (0.93) | **(0.24)** | (0.37) |
| Net direct cash costs of nickel[3] | **5.58** | 4.16 | **5.78** | 4.79 |
| Natural gas ($/GJ) | **3.52** | 1.93 | **3.35** | 2.05 |
| Fuel oil (US$/tonne) | **620** | 706 | **630** | 699 |
| Sulphur (US$/tonne) | **229** | 260 | **234** | 267 |
| Sulphuric acid (US$/tonne) | **146** | 183 | **153** | 190 |
| **Revenue** ($ millions) | | | | |
| Nickel | **58.9** | 78.1 | **126.7** | 160.9 |
| Cobalt | **10.7** | 15.6 | **21.2** | 30.0 |
| Fertilizer, other | **46.1** | 47.5 | **66.4** | 66.4 |
| Metal marketing[4] | **4.9** | - | **10.0** | - |
| Total revenue | **120.6** | 141.2 | **224.3** | 257.3 |
| **Adjusted EBITDA** ($ millions)[5] | **17.3** | 46.2 | **34.2** | 76.9 |
| **Depletion, depreciation and amortization** | **10.6** | 8.6 | **20.5** | 17.3 |
| **Earnings from operations and associate** ($ millions) | **6.7** | 37.6 | **13.7** | 59.6 |
| **Spending on capital** ($ millions)[1] | **9.8** | 6.2 | **14.5** | 12.0 |

(1) Sales volumes, reference and realized prices, unit operating costs and spending on capital do not include the impact of the Ambatovy Joint Venture.
(2) Average Metal Bulletin – Low Grade Cobalt published price.
(3) Net direct cash costs of nickel after cobalt and other by-product credits.
(4) Under the Ambatovy Joint Venture agreements, the Corporation established a marketing organization to buy, market and sell certain Ambatovy nickel production.
(5) For additional information see the 'Non-GAAP Measure – Adjusted EBITDA' section of this release.

**Consolidated production** of mixed sulphides (which is presented on a contained nickel + cobalt basis) of 14,918 tonnes (100% basis) was 43% (4,500 tonnes) higher than second-quarter 2012 as the addition of Ambatovy production more than offset the lower production at Moa. Mixed sulphides production at Moa during the period was affected by minor mechanical issues which were rectified during the quarter. The haul trucks that Moa was awaiting delivery of at the end of the first quarter were delivered as scheduled in second-quarter 2013. The impact of reduced haul truck availability during the first half of 2013 is expected to be offset by higher production for the last half of the year.

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

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

**Consolidated sales volumes** of finished nickel, finished cobalt and fertilizer for second-quarter 2013 reflect sales only from the Moa Joint Venture and Fort Site operations. Finished metal and fertilizer sold from the Ambatovy Joint Venture will not be categorized as sales volumes until the declaration of commercial production, defined as 70% of ore throughput of nameplate capacity in the Pressure Acid Leach (PAL) circuit over a thirty-day period. Second-quarter 2013 finished nickel sales volumes from the Moa Joint Venture were 13% (1,303,000 lbs, 50% basis), and finished cobalt sales volumes were 26% (297,000 lbs, 50% basis) lower than the prior-year period primarily due to lower production. Fertilizer sales volumes (50% Moa Joint Venture, 100% Fort Site), were marginally (2% or 1,364 tonnes) lower for second-quarter 2013 compared to the prior-year period, reflecting another strong spring fertilizer season in Western Canada.

For accounting purposes, all revenues from the sale of Ambatovy nickel and cobalt will be capitalized until commercial production is reached. During second-quarter 2013, Ambatovy sold 16,486 thousand pounds (100% basis) of finished nickel and 1,515 thousand pounds (100% basis) of finished cobalt.

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

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

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

**Ambatovy Update**

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

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

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

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

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

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

Total project costs (including operating costs, financing charges, working capital and foreign exchange, net of pre-commercial sales revenue) in second-quarter 2013 were (US$10.4 million) (100% basis) and were net of pre-commercial sales revenue of US$129.8 million (100% basis). This compares to total project costs of US$139.8 million (100% basis) in first-quarter 2013, net of US$101.0 million (100% basis) of pre-commercial sales revenue. Cumulative total project costs to June 30, 2013 were US$6.9 billion (100% basis), including financing charges, working capital and foreign exchange, and will continue to vary until commercial production is declared. The most significant variability in total project costs is most likely to arise from the working capital component and the offsetting production revenue component (which is netted from these costs).

In second-quarter 2013, a total of US$55.0 million (100% basis) in funding was provided by the Ambatovy Joint Venture partners. Sherritt's 40% share of the funding was US$22.0 million ($22.5 million), and was sourced from cash on hand.

The Ambatovy operations are expected to reach commercial production in 2013. Commercial production is the point at which all operating costs, net of revenue, cease to be capitalized.

| COAL | | | Six months ended June 30, | |
|---|---|---|---|---|
| ($ millions unless otherwise noted) | **Q2 2013** | Q2 2012 | **2013** | 2012 |
| **Production** (millions of tonnes) | | | | |
| Prairie Operations – owned mines | **5.5** | 4.4 | **10.6** | 10.4 |
| Prairie Operations – contract mine | - | 2.6 | **0.5** | 5.2 |
| Mountain Operations | **0.8** | 0.8 | **1.6** | 1.8 |
| Total production | **6.3** | 7.8 | **12.7** | 17.4 |
| **Sales** (millions of tonnes) | | | | |
| Prairie Operations – owned mines | **5.2** | 4.2 | **10.4** | 9.7 |
| Prairie Operations – contract mine | - | 2.6 | **0.5** | 5.2 |
| Mountain Operations | **1.2** | 1.0 | **1.8** | 1.8 |
| Total sales | **6.4** | 7.8 | **12.7** | 16.7 |
| **Realized prices** ($/tonne) | | | | |
| Prairie Operations(1) | **18.19** | 18.27 | **18.20** | 17.58 |
| Mountain Operations | **87.31** | 103.47 | **89.74** | 103.73 |
| **Unit operating costs** ($/tonne) | | | | |
| Prairie Operations(1) | **13.57** | 16.59 | **13.78** | 14.81 |
| Mountain Operations | **89.41** | 87.61 | **89.97** | 88.27 |
| **Revenue** ($ millions) | | | | |
| Prairie Operations | | | | |
| Mining revenue | **99.6** | 131.7 | **211.8** | 277.3 |
| Coal royalties | **12.3** | 10.0 | **19.8** | 20.8 |
| Potash royalties | **3.6** | 4.1 | **6.8** | 6.8 |
| Mountain Operations and other assets | **101.3** | 104.8 | **157.9** | 191.0 |
| Total revenue | **216.8** | 250.6 | **396.3** | 495.9 |
| **Adjusted EBITDA** ($ millions)(2) | | | | |
| Prairie Operations | **37.9** | 26.3 | **73.4** | 69.8 |
| Mountain Operations and other assets | **(4.0)** | 14.1 | **(1.9)** | 23.7 |
| Total Adjusted EBITDA | **33.9** | 40.4 | **71.5** | 93.5 |
| **Depletion, depreciation and amortization** | **29.5** | 30.7 | **55.7** | 58.0 |
| **Earnings from operations** ($ millions) | **4.4** | 9.7 | **37.8** | 35.5 |
| **Spending on capital** ($ millions) | | | | |
| Prairie Operations | **19.5** | 19.5 | **32.5** | 26.7 |
| Mountain Operations and other assets | **9.9** | 23.8 | **30.2** | 39.9 |
| Total spending on capital | **29.4** | 43.3 | **62.7** | 66.6 |

(1) Prairie Operations realized pricing and unit operating costs exclude royalties and the results of the char and activated carbon businesses.

(2) For additional information see the 'Non-GAAP Measure – Adjusted EBITDA' section of this release.

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

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

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

quarter 2012, reflecting weaker international thermal export coal prices.

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

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

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

## OIL AND GAS

| | | | Six months ended June 30, | |
|---|---|---|---|---|
| ($ millions unless otherwise noted) | **Q2 2013** | Q2 2012 | **2013** | 2012 |
| **Production** (boepd)[1] | | | | |
| Gross working-interest – Cuba[2], [3] | **20,425** | 20,806 | **19,990** | 20,443 |
| Net working-interest[4] | | | | |
| Cuba – cost recovery | **2,971** | 2,909 | **2,802** | 2,989 |
| Cuba – profit oil | **7,854** | 8,054 | **7,735** | 7,854 |
| Cuba – total | **10,825** | 10,963 | **10,537** | 10,843 |
| Spain | **330** | 356 | **311** | 366 |
| Pakistan | **330** | 352 | **333** | 354 |
| Total net working-interest | **11,485** | 11,671 | **11,181** | 11,563 |
| **Reference prices** (US$/bbl) | | | | |
| U.S. Gulf Coast Fuel Oil No.6 | **90.87** | 97.99 | **93.92** | 102.91 |
| Brent crude | **103.16** | 109.20 | **108.29** | 114.30 |
| **Realized prices** | | | | |
| Cuba ($/bbl) | **67.64** | 71.70 | **69.34** | 75.05 |
| Spain ($/bbl) | **104.11** | 105.68 | **108.24** | 113.13 |
| Pakistan ($/boe) | **8.31** | 8.28 | **8.28** | 8.18 |
| Weighted average ($/boe) | **66.98** | 70.82 | **68.61** | 74.21 |
| **Unit operating costs** | | | | |
| Cuba ($/bbl) | **12.70** | 12.28 | **12.48** | 12.67 |
| Spain ($/bbl) | **25.20** | 46.90 | **20.28** | 46.70 |
| Pakistan ($/boe) | **3.98** | 4.16 | **5.97** | 3.45 |
| Weighted average ($/boe) | **12.81** | 13.21 | **12.50** | 13.57 |
| **Revenue** ($ millions) | **71.2** | 76.3 | **142.3** | 158.5 |
| **Adjusted EBITDA** ($ millions)[5] | **55.7** | 58.4 | **113.1** | 123.6 |
| **Depletion, depreciation and amortization** | **17.9** | 16.5 | **33.9** | 35.3 |
| **Earnings from operations** ($ millions) | **37.8** | 41.9 | **79.2** | 88.3 |
| **Spending on capital** ($ millions)[6] | **11.8** | 11.5 | **23.3** | 20.9 |

(1) Oil production is stated in barrels of oil per day (“bopd”). Natural gas production is stated in barrels of oil equivalent per day (“boepd”), which is converted at 6,000 cubic feet per barrel.

(2) In Cuba, Oil and Gas delivers all of its gross working-interest oil production to Union Cubapetroleo (CUPET) at the time of production. Gross working-interest oil production excludes: (i) production from wells for which commercial viability has not been established in accordance with production-sharing contracts, and (ii) working-interest of other participants in the production-sharing contracts.

(3) Gross working-interest oil production is allocated between Oil and Gas and CUPET in accordance with production-sharing contracts. The Corporation’s share, referred to as ‘net working-interest oil production’, includes: (i) cost recovery oil (based upon the recoverable capital and operating costs incurred by Oil and Gas under each production-sharing contract), and (ii) a percentage of profit oil (gross working-interest production remaining after cost recovery oil is allocated to Oil and Gas). Cost recovery pools for each production-sharing contract include cumulative recoverable costs, subject to certification by CUPET, less cumulative proceeds from cost recovery oil allocated to Oil and Gas. Cost recovery revenue equals capital and operating costs eligible for recovery under the production-sharing contracts.

(4) Net working-interest production (equivalent to net sales volume) represents the Corporation’s share of gross working-interest production.

(5) For additional information see the 'Non-GAAP Measure – Adjusted EBITDA' section of this release.
(6) Exploration and evaluation spending incurred prior to the technical feasibility and commercial viability of extracting the resources is recorded as an intangible asset.

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

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

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

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

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

## POWER

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

(1) Base costs relate to the operations in Cuba and do not include the impairment of receivables that relates to the operations in Madagascar.
(2) Costs incurred at the Boca de Jaruco and Puerto Escondido facilities that otherwise would have been capitalized if these facilities were not accounted for as service concession arrangements.
(3) For additional information see the 'Non-GAAP Measure – Adjusted EBITDA' section of this release.
(4) Spending on capital includes sustaining capital at the Varadero site as well as capitalized interest relating to the 150 MW Boca de Jaruco Combined Cycle Project.
(5) Sherritt provides 100% of the funding for the 150 MW Boca de Jaruco Combined Cycle Project and accounts for the Project as a "Service Concession Arrangement". As a result, two thirds of the project spending (relating to the non-Sherritt partners' share) is recorded as a loan receivable. The remaining one third of project spending (Sherritt's share) is recorded as a construction cost, and is offset by the same amount recorded as construction revenue.

**Electricity production** for second-quarter 2013 remained consistent with the comparable period in the prior year.

**The average realized price** of electricity was 1% ($0.49 per MWh) higher in second-quarter 2013, compared to the prior-year period, primarily due to a weaker Canadian dollar relative to the U.S. dollar.

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

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

### 150 MW Boca de Jaruco Combined Cycle Project

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

### Power - Other

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

## OTHER

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

## CASH, DEBT AND FINANCING

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

Total long-term debt at June 30, 2013 was $2.1 billion, including approximately $0.9 billion related to non-recourse Ambatovy partner loans to Sherritt. At June 30, 2013, Sherritt had approximately $0.6 billion of credit available under various facilities.

# Outlook

Projected production volumes, royalties and spending on capital for full-year 2013 are shown below.

| (units as noted) | Projected for the year ending December 31, 2013 |
|---|---|
| **Production volumes** | |
| Mixed sulphides (tonnes, Ni+Co contained, 100% basis) | |
| Moa Joint Venture | 38,000 |
| Ambatovy Joint Venture | 34,000 |
| Total | 72,000 |
| Nickel, finished (tonnes, 100% basis) | |
| Moa Joint Venture | 34,000 |
| Ambatovy Joint Venture | 31,000 |
| Total | 65,000 |
| Cobalt, finished (tonnes, 100% basis) | |
| Moa Joint Venture | 3,350 |
| Ambatovy Joint Venture | 2,800 |
| Total | 6,150 |
| Coal – Prairie Operations (millions of tonnes) | 22 |
| Coal – Mountain Operations (millions of tonnes) | 3.2 |
| Oil – Cuba (gross working-interest, bopd) | 19,500 |
| Oil – All operations (net working-interest, boepd) | 11,200 |
| Electricity (GWh, 33 1/3% basis) | 630 |
| **Royalties** ($ millions) | |
| Coal | 35 |
| Potash | 12 |
| **Spending on capital** ($ millions) | |
| Metals – Moa Joint Venture (50% basis), Fort Site (100% basis)(1) | 38 |
| Metals – Ambatovy Joint Venture (40% basis) | 29 |
| Coal – Prairie Operations | 58 |
| Coal – Mountain Operations | 48 |
| Oil and Gas – Cuba(2) | 54 |
| Oil and Gas – Other(2) | 13 |
| Power (33 1/3% basis)(3) | 8 |
| Spending on capital (excluding Projects and Corporate) | 248 |
| **Spending on projects** | |
| Power – 150 MW Boca de Jaruco ($ millions, 100% basis)(4) | 51 |

(1) Spending on capital relating to the Corporation's 50% share of the Moa Joint Venture and to the Corporation's 100% interest in the fertilizer and utilities assets in Fort Saskatchewan.
(2) Exploration and evaluation spending incurred prior to the technical feasibility and commercial viability of extracting the resources is recorded as an intangible asset.
(3) Spending on capital for Power includes sustaining capital at the Varadero site as well as capitalized interest in respect of the 150 MW Boca de Jaruco Combined Cycle Project.
(4) Sherritt provides 100% of the funding for the 150 MW Boca de Jaruco Combined Cycle Project and accounts for the Project as a "Service Concession Arrangement". As a result, two thirds of the project spending (relating to the non-Sherritt partners' share) is recorded as a loan receivable. The remaining one third of project spending (Sherritt's share) is recorded as a construction cost.

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

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

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

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

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

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

# Non-GAAP Measure – Adjusted EBITDA

As a result of the change in accounting for the Moa Joint Venture under IFRS 11, the Corporation revised its definition of Adjusted EBITDA to include the results of the Corporation's share of earnings or loss in associate and joint venture, to provide a measure that is reasonable consistent with historical measures. As Adjusted EBITDA does not have a standardized meaning, it may not be comparable to similar measures provided by other companies.

The Corporation defines Adjusted EBITDA as earnings (loss) from operations, associate and joint venture as reported in the financial statements, adjusted for depletion, depreciation and amortization; impairment charges for property, plant and equipment, intangible assets, goodwill and investments; and gain or loss on disposal of property, plant and equipment of the Corporation, associate and joint venture.

# About Sherritt

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

# Forward-Looking Statements

This press release contains certain forward-looking statements. Forward-looking statements can generally be identified by the use of statements that include such words as “believe”, “expect”, “anticipate”, “intend”, “plan”, “forecast”, “likely”, “may”, “will”, “could”, “should”, “suspect”, “outlook”, “projected”, “continue” or other similar words or phrases. Specifically, forward-looking statements in this document include statements respecting certain future expectations about capital expenditures; sufficiency of working capital and capital project funding; capital project commissioning and completion dates; earnings and revenues; and production volumes. These forward-looking statements are not based on historic facts, but rather on current expectations, assumptions and projections about future events. By their nature, forward-looking statements require the Corporation to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that those assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. The Corporation cautions readers of this press release not to place undue reliance on any forward-looking statement as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

Key factors that may result in material differences between actual results and developments and those contemplated by this press release include global economic conditions, and business, economic and political conditions in Canada, Cuba, Madagascar, Indonesia, and the principal markets for the Corporation’s products. Other such factors include, but are not limited to, uncertainties in the development, construction and ramp-up of large mining, processing and refining projects; risks related to the availability of capital to undertake capital initiatives; changes in capital cost estimates in respect of the Corporation’s capital initiatives; risks associated with the Corporation’s joint-venture partners; future non-compliance with financial covenants; potential interruptions in transportation; political, economic and other risks of foreign operations; the Corporation’s reliance on key personnel and skilled workers; the possibility of equipment and other unexpected failures; the potential for shortages of equipment and supplies; risks associated with mining, processing and refining activities; uncertainty of gas supply for electrical generation; uncertainties in oil and gas exploration; risks related to foreign exchange controls on Cuban government enterprises to transact in foreign currency; risks associated with the United States embargo on Cuba and the Helms-Burton legislation; risks related to the Cuban government’s ability to make certain payments to the Corporation; drilling and development programs; uncertainties in reserve estimates; risks associated with access to reserves and resources; uncertainties in environmental rehabilitation provisions estimates; the Corporation’s reliance on significant customers; risks related to the Corporation’s corporate structure; foreign exchange and pricing risks; uncertainties in commodity pricing; credit risks; competition in product markets; the Corporation’s ability to access markets; risks in obtaining insurance; uncertainties in labour relations; uncertainties in pension liabilities; the ability of the Corporation to enforce legal rights in foreign jurisdictions; risks associated with future acquisitions; the ability of the Corporation to obtain government permits; risks associated with government regulations and environmental, health and safety matters; uncertainties in growth management and other factors listed from time to time in the Corporation’s continuous disclosure documents. Statements relating to “reserves” or “resources” are deemed to be forward-looking statements, as they involve assessments based on certain estimates or assumptions. Readers are cautioned that the foregoing list of factors is not exhaustive and should be considered in conjunction with the risk factors described in this press release and the Corporation’s other documents filed with the Canadian securities authorities.

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

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2013

This Management's Discussion and Analysis (MD&A) is intended to help the reader understand Sherritt International Corporation's operations, financial performance and the present and future business environment. This MD&A, which has been prepared as of July 30, 2013, should be read in conjunction with Sherritt's unaudited interim consolidated financial statements for the three and six months ended June 30, 2013 and the MD&A for the year ended December 31, 2012. 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 website 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, except as otherwise noted | For the three months ended 2013 June 30 | 2012 June 30 | Change | For the six months ended 2013 June 30 | 2012 June 30 | Change |
|---|---|---|---|---|---|---|
| **Financial highlights** | | | | | | |
| Revenue | **$ 338.5** | $ 377.1 | (10%) | **$ 625.0** | $ 736.5 | (15%) |
| Adjusted EBITDA[1] | **87.1** | 138.2 | (37%) | **186.0** | 284.1 | (35%) |
| Earnings from operations, associate and joint venture | **19.0** | 72.4 | (74%) | **79.5** | 158.6 | (50%) |
| Net (loss) earnings for the period | **(10.7)** | 40.8 | (126%) | **12.4** | 73.2 | (83%) |
| Net (loss) earnings per share, basic and diluted ($ per share) | **(0.04)** | 0.14 | (129%) | **0.04** | 0.25 | (84%) |
| **Cash flow** | | | | | | |
| Cash provided by operating activities | **$ 49.0** | $ 1.3 | 3669% | **$ 97.0** | $ 101.7 | (5%) |
| **Spending on capital and intangible assets[2]** | **$ 53.5** | $ 62.8 | (15%) | **$ 105.1** | $ 103.7 | 1% |
| **Production volumes** | | | | | | |
| Finished nickel (tonnes) | | | | | | |
| Moa Joint Venture (50% basis) | **3,868** | 4,485 | (14%) | **7,770** | 8,784 | (12%) |
| Ambatovy Joint Venture (40% basis) | **2,854** | - | - | **5,186** | - | - |
| Finished cobalt (tonnes) | | | | | | |
| Moa Joint Venture (50% basis) | **374** | 497 | (25%) | **779** | 974 | (20%) |
| Ambatovy Joint Venture (40% basis) | **250** | - | - | **466** | - | - |
| Coal (millions of tonnes) | | | | | | |
| Prairie Operations | **5.5** | 7.0 | (21%) | **11.1** | 15.6 | (29%) |
| Mountain Operations | **0.8** | 0.8 | - | **1.6** | 1.8 | (11%) |
| Oil - Cuba - net working-interest (barrels per day) | **10,825** | 10,963 | (1%) | **10,537** | 10,843 | (3%) |
| Electricity (gigawatt hours) (33⅓% basis) | **153** | 157 | (3%) | **313** | 312 | - |
| **Average-realized prices[1]** | | | | | | |
| Nickel - Moa Joint Venture ($ per pound) | **$ 6.85** | $ 7.88 | (13%) | **$ 7.35** | $ 8.26 | (11%) |
| Cobalt - Moa Joint Venture ($ per pound) | **12.82** | 13.87 | (8%) | **12.14** | 13.98 | (13%) |
| Coal ($ per tonne) | | | | | | |
| Prairie Operations[3] | **18.19** | 18.27 | - | **18.20** | 17.58 | 4% |
| Mountain Operations | **87.31** | 103.47 | (16%) | **89.74** | 103.73 | (13%) |
| Oil - Cuba ($ per barrel) | **67.64** | 71.70 | (6%) | **69.34** | 75.05 | (8%) |
| Electricity ($ per megawatt hour) | **42.28** | 41.79 | 1% | **42.07** | 41.63 | 1% |
| **Unit operating costs[1]** | | | | | | |
| Nickel - Moa Joint Venture (US$ per pound)[4][5] | **$ 5.58** | $ 4.16 | 34% | **$ 5.78** | $ 4.79 | 21% |
| Coal ($ per tonne) | | | | | | |
| Prairie Operations[3] | **13.57** | 16.59 | (18%) | **13.78** | 14.81 | (7%) |
| Mountain Operations | **89.41** | 87.61 | 2% | **89.97** | 88.27 | 2% |
| Oil - Cuba ($ per barrel) | **12.70** | 12.28 | 3% | **12.48** | 12.67 | (1%) |
| Electricity ($ per megawatt hour) | **28.92** | 16.86 | 72% | **27.78** | 17.01 | 63% |

| $ millions, except as noted, as at | 2013 June 30 | 2012 December 31 | Change |
|---|---|---|---|
| **Financial condition** | | | |
| Current ratio | **3.76:1** | 4.08:1 | (8%) |
| Net working capital balance | **$ 797.5** | $ 908.4 | (12%) |
| Cash, cash equivalents and short-term investments | **406.0** | 503.2 | (19%) |
| Total assets | **6,715.5** | 6,587.8 | 2% |
| Total loans and borrowings | **2,092.1** | 2,039.8 | 3% |
| Shareholders' equity | **3,769.7** | 3,645.9 | 3% |
| Long-term debt to total assets[6] | **33%** | 32% | 3% |

(1) For additional information see the Non-GAAP measures section.
(2) Spending on capital and intangible assets includes accruals and does not include spending on the Ambatovy Joint Venture or service concession arrangements.
(3) Excludes royalties, activated carbon and char operating costs and revenue.
(4) Unit operating costs do not include the impact of Ambatovy Joint Venture.
(5) Net direct cash cost is inclusive of by-product credits and third-party feed costs.
(6) Calculated as total loans and borrowings divided by total assets excluding goodwill. This leverage ratio is monitored by management and lenders.

# Executive summary

- On January 1, 2013, the Corporation was required to change the way it accounted for the Moa Joint Venture on adoption of IFRS 11, changing from proportionate consolidation to equity accounting. Under this accounting treatment, Sherritt is required to present the Moa Joint Venture as a single line item on the statement of financial position and its share of operating results in share of earnings (loss) of a joint venture on the statement of comprehensive income. This accounting change has significantly reduced the Corporation's assets, liabilities, revenues and expenses on a line-by-line basis with no significant change to net assets or earnings. The Corporation has adjusted its comparative information to reflect this revised accounting treatment.

## Q2 2013 HIGHLIGHTS

- Revenue for the three months ended June 30, 2013 was $338.5 million compared to $377.1 million in the same period in the prior year. With the inclusion of the Moa Joint Venture, revenue for the three months ended June 30, 2013 was $423.8 million compared to $488.9 million in the same period in the prior year. Revenue was lower primarily due to lower sales volumes in Coal's Prairie Operations as a result of the termination of the mining contract at the Highvale mine at the beginning of 2013; lower nickel and cobalt prices and volumes at Metals; and lower realized prices and sales volumes for oil. Export thermal coal volumes in Coal's Mountain Operations were higher as a result of improved rail service and port through-put levels as well as the sale of coal inventory that had accumulated after the Westshore incident; however, revenue was relatively unchanged due to lower realized prices.
- Adjusted EBITDA[1] for the three months ended June 30, 2013 was $87.1 million compared to $138.2 million in the same period in the prior year. Lower Adjusted EBITDA was primarily due to lower nickel and cobalt prices and volumes and higher mining and processing costs in Metals, lower sales prices in Mountain Operations, and lower oil volumes and reference price, partly offset by higher Adjusted EBITDA in Prairie Operations. In addition, Adjusted EBITDA includes the impact of a provision for Madagascar receivables in Power, and higher exploration and evaluation expenditures related to the Sulawesi Project.
- The net loss for the three months ended June 30, 2013 was $10.7 million compared to earnings of $40.8 million in the same period in the prior year primarily as a result of lower Adjusted EBITDA and the impact of an impairment of a Madagascar electricity generation facility in Power.
- Operating cash flow for the three months ended June 30, 2013 was $49.0 million compared to $1.3 million in the same period in the prior year. Higher operating cash flow resulted from a higher change in non-cash working capital which more than offset lower net earnings.
- During the second quarter of 2013, Ambatovy produced 5,780 tonnes (100% basis) of nickel and cobalt contained in mixed sulphides, 7,135 tonnes (100% basis) of finished nickel and 624 tonnes (100% basis) of finished cobalt. Higher finished metals production volumes over and above the metal contained in mixed sulphides reflect a drawdown of bagged mixed sulphide inventory on hand at the end of the first quarter.
- In June 2013, average ore throughput in the PAL circuit was approximately 53% of capacity, and exceeded 75% for a consecutive ten-day period during the month. Autoclave operating hours during second-quarter 2013 were 5,529 hours, compared to 5,327 hours in first-quarter 2013. As a result of both acid plants being taken off line to perform maintenance work on refractory brick and superheater tubes, the average throughput of ore during the second quarter was approximately 41% of nameplate capacity, compared to 43% in first-quarter 2013.
- At June 30, 2013, total available liquidity was approximately $1.0 billion. Total debt at June 30, 2013 was $2.1 billion, including $920.3 million related to non-recourse Ambatovy Partner Loans to Sherritt. The Corporation's liquidity profile includes a current ratio of 3.76:1; a net working capital balance of $797.5 million; and cash, cash equivalents and short-term investments of $406.0 million. The Corporation's long-term debt to total assets ratio was 33%.

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[1] For additional information, see the Non-GAAP measures section.

## ADOPTION OF IFRS 11 AND AMENDMENTS TO IAS 19

### IFRS 11 – Accounting for the Moa Joint Venture

- As of January 1, 2013, the Corporation was required to adopt IFRS 11, "Joint arrangements" (IFRS 11) issued by the IASB in May 2011 which superseded IAS 31, "Interest in joint ventures" and SIC 13, "Jointly controlled entities – non-monetary contributions by venturers". Under IFRS 11, joint arrangements must be classified as either joint operations or joint ventures. The structure of the joint arrangement is no longer the most significant factor when classifying the joint arrangement as either a joint operation or a joint venture. The standard removes the option to account for joint ventures using proportionate consolidation and requires equity accounting.
- As a result of adopting IFRS 11, the Corporation classified the Moa Joint Venture as an investment in joint venture and changed the accounting from proportionate consolidation to equity accounting. Under this accounting treatment, Sherritt was required to deconsolidate the proportionate results of the Moa Joint Venture and present this arrangement as a single line item on the statement of financial position. The Corporation's investment share of operating results in the Moa Joint Venture is included in share of earnings (loss) of a joint venture on the statement of comprehensive income.
- This accounting change has significantly reduced the Corporation's assets, liabilities, revenues and expenses on a line-by-line basis with no significant change to net assets or earnings. The impact of this accounting change is reflected in the financial statements for the three and six months ended June 30, 2013, including restatement of the prior year periods and the revised opening statement of financial position. The change in accounting for the Moa Joint Venture did not impact shareholders' equity on adoption. See Note 28 - Transition note of the condensed consolidated interim financial statements for the three and six months ended June 30, 2013 for a full reconciliation of the impact of this change.
- As there has been no change in the economic substance, nor business structure associated with the change in accounting policy, this MD&A continues to provide operating information and discussion related to the Corporation's share (50%) of the Moa Joint Venture in the Metals business unit with reconciliation to financial statement amounts where applicable consistent with note 4 – Segmented information of the interim financial statements.

### IAS 19 (Revised) – Accounting for employee benefits

- As of January 1, 2013, the amended IAS 19, "Employee benefits" (IAS 19) issued by the IASB in June 2011 resulted in a change in the accounting of defined benefit obligations for the Corporation. The amendment requires the recognition of changes in defined benefit obligations and fair value of plan assets when they occur, and eliminates the use of the "corridor approach" permitted under the previous version of IAS 19. The amendment also requires the Corporation's actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension liability to reflect the full amount of a plan's obligations or assets in the consolidated statement of financial position. See Note 28 - Transition note of the condensed consolidated interim financial statements for the three and six months ended June 30, 2013 for a full reconciliation of the impact of this change.

## CONSOLIDATED FINANCIAL RESULTS

| $ millions, except per share amounts | For the three months ended 2013 June 30 | 2012 June 30 | Change | For the six months ended 2013 June 30 | 2012 June 30 | Change |
|---|---|---|---|---|---|---|
| **Revenue by segment** | | | | | | |
| Metals[1] | **$ 120.6** | $ 141.2 | (15%) | **$ 224.3** | $ 257.3 | (13%) |
| Coal | **216.8** | 250.6 | (13%) | **396.3** | 495.9 | (20%) |
| Oil and Gas | **71.2** | 76.3 | (7%) | **142.3** | 158.5 | (10%) |
| Power | **13.5** | 17.6 | (23%) | **29.5** | 34.2 | (14%) |
| Corporate and other | **1.7** | 3.2 | (47%) | **2.9** | 6.5 | (55%) |
| | **423.8** | 488.9 | (13%) | **795.3** | 952.4 | (16%) |
| Adjust joint venture and associate revenue | **(85.3)** | (111.8) | | **(170.3)** | (215.9) | |
| Financial statement revenue | **338.5** | 377.1 | (10%) | **625.0** | 736.5 | (15%) |
| **Adjusted EBITDA[2] by segment** | | | | | | |
| Metals[1] | **$ 17.3** | $ 46.2 | (63%) | **$ 34.2** | $ 76.9 | (56%) |
| Coal | **33.9** | 40.4 | (16%) | **71.5** | 93.5 | (24%) |
| Oil and Gas | **55.7** | 58.4 | (5%) | **113.1** | 123.6 | (8%) |
| Power | **(5.5)** | 5.8 | (195%) | **(2.0)** | 11.7 | (117%) |
| Corporate and other | **(14.3)** | (12.6) | 13% | **(30.8)** | (21.6) | 43% |
| | **87.1** | 138.2 | (37%) | **186.0** | 284.1 | (35%) |
| **Earnings (loss) from operations by segment** | | | | | | |
| Metals[1] | **$ 6.7** | $ 37.6 | (82%) | **$ 13.7** | $ 59.6 | (77%) |
| Coal | **4.4** | 9.7 | (55%) | **37.8** | 35.5 | 6% |
| Oil and Gas | **37.8** | 41.9 | (10%) | **79.2** | 88.3 | (10%) |
| Power | **(15.5)** | 3.1 | (600%) | **(14.6)** | 6.4 | (328%) |
| Corporate and other | **(15.6)** | (13.3) | 17% | **(33.0)** | (22.9) | 44% |
| | **17.8** | 79.0 | (77%) | **83.1** | 166.9 | (50%) |
| Adjust earnings from joint venture and associate | **1.2** | (6.6) | | **(3.6)** | (8.3) | |
| Financial statement earnings from operations, associate and joint venture | **19.0** | 72.4 | (74%) | **79.5** | 158.6 | (50%) |
| Net finance expense | **22.7** | 28.4 | (20%) | **50.8** | 73.7 | (31%) |
| Income tax expense | **7.0** | 7.9 | (11%) | **16.3** | 16.1 | 1% |
| Earnings from discontinued operation, net of tax | **-** | (4.7) | (100%) | **-** | (4.4) | (100%) |
| **Net (loss) earnings** | **$ (10.7)** | $ 40.8 | (126%) | **$ 12.4** | $ 73.2 | (83%) |
| **Net (loss) earnings per share** | | | | | | |
| Basic and diluted | **$ (0.04)** | $ 0.14 | (129%) | **$ 0.04** | $ 0.25 | (84%) |
| **Effective tax rate** | **(191%)** | 18% | (1161%) | **57%** | 19% | 200% |

(1) Consistent with note 4 – Segmented information of the interim condensed consolidated financial statement, Metal's operating results in the above table include the Corporation's 50% interest in the Moa Joint Venture, 100% interest in the utility and fertilizer operations in Fort Saskatchewan, 40% interest in Ambatovy Joint Venture, and 100% interest in a wholly-owned subsidiary established to buy, market and sell certain Ambatovy nickel production. The Moa Joint Venture and Ambatovy are accounted for using the equity method of accounting which recognizes the Corporation's share of earnings (loss) from joint venture and associate, respectively.

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

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

- Metals' earnings from operations of $6.7 million and $13.7 million for the three and six months ended June 30, 2013 were $30.9 million and $45.9 million lower than in the same periods in the prior year. Earnings from operations were lower primarily due to lower nickel and cobalt prices and volumes and higher mining and processing costs;
- Coal's earnings from operations of $4.4 million and $37.8 million for the three and six months ended June 30, 2013 were $5.3 million lower and $2.3 million higher, respectively, than in the same periods in the prior year. Included in earnings from operations for the six months ended June 30, 2013 is a net non-cash gain on termination of the Highvale contract of $22.0 million. For ongoing operations in Prairie Operations for the three months ended June 30, 2013, earnings from operations were higher despite lower sales volumes. For the six

months ended June 30, 2013, earnings from ongoing operations were relatively unchanged. In Mountain Operations, for the three months ended June 30, 2013, losses from operations were higher as the impact of higher sales volumes was more than offset by lower realized prices. The loss from operations for the six month period ended June 30, 2013 was higher primarily due to lower realized prices. In both periods, unit operating cost was relatively unchanged;

- Oil and Gas' earnings from operations of $37.8 million and $79.2 million for the three and six months ended June 30, 2013 were $4.1 million and $9.1 million lower than in the same periods in the prior year primarily as a result of a reduction in the reference price of oil and lower production volumes related to natural reservoir declines;
- Power's losses from operations were $15.5 million and $14.6 million for the three and six months ended June 30, 2013, respectively, compared to earnings of $3.1 million and $6.4 million in the same periods in the prior year. The reduction in earnings is primarily due to the recognition of a provision on receivables and an impairment on a electricity generation facility in Madagascar recognized in the second quarter of 2013;
- Net finance expense of $22.7 million and $50.8 million for the three and six months ended June 30, 2013 were $5.7 million and $22.9 million lower than in the same periods in the prior year. For the three and six months ended June 30, 2013, the fair value adjustments for the Ambatovy call option resulted in gains of $2.7 million and $1.2 million compared to a losses of $1.1 million and $12.9 million in the same periods in the prior year. The Corporation recognized foreign exchange gains of $7.0 million and $12.1 million compared to a lower gain and loss respectively in the same periods in the prior year. These reductions in net finance expense were partly offset by higher interest and accretion expense primarily due to higher loans and borrowing balances. The Ambatovy call option relates to the right of the Corporation and Sumitomo Corporation to acquire SNC-Lavalin Inc.'s 5% equity interest in the Ambatovy Joint Venture at any time over a two-year period following the satisfaction of certain completion tests. The movement in the fair value of the Ambatovy call option is a result of changes in various inputs used in the Black-Scholes model, including the time to expiration of the option and volatility, which is based on a blend of historical commodity prices and publicly traded stock prices of companies with comparable projects; and
- The effective consolidated tax rates for the three and six months ended June 30, 2013 were (191%) and 57%, respectively compared to 18% and 19% in the same periods in the prior year. The effective tax rates for the three and six month periods ended June 30, 2013 were impacted by the recognition of a $16.6 million provision on overdue receivables and an impairment on a electricity generation facility in Madagascar during the second quarter of 2013 neither of which were deductible for tax purposes. The effective tax rates for the three and six month periods ended June 30, 2012 were favourably impacted by the recognition of tax benefits on certain tax losses that had not previously been recognized. Adjusted for these items, the normalized effective tax rates for the three and six months ended June 30, 2013, were 52% and 36%, respectively, compared to 32% and 26% for the same period in the prior year. These higher effective tax rates in 2013 relative to 2012 are primarily the result of two factors: first, the share of earnings of the Moa Joint Venture, which is a net of tax figure, comprised a smaller proportion of consolidated net income in the three and six months ended June 30, 2013 compared to the same periods in the prior year; second, a greater proportion of net losses, including foreign exchange gains and losses, were incurred in lower tax rate jurisdictions relative to the amount of earnings generated in higher tax rate jurisdictions in the three and six months ended June 30, 2013, compared to the same periods in the prior year.

# Review of operations

## METALS

### Financial review

| $ millions, except as otherwise noted | For the three months ended 2013 June 30 | For the three months ended 2012 June 30 | Change | For the six months ended 2013 June 30 | For the six months ended 2012 June 30 | Change |
|---|---|---|---|---|---|---|
| **Financial highlights**[1] | | | | | | |
| Revenue [1][2] | **$ 120.6** | $ 141.2 | (15%) | **$ 224.3** | $ 257.3 | (13%) |
| Cost of sales[1][2][4] | **101.2** | 93.6 | 8% | **185.9** | 176.9 | 5% |
| | **19.4** | 47.6 | (59%) | **38.4** | 80.4 | (52%) |
| Administrative expenses[1][4] | **2.1** | 1.4 | 50% | **4.2** | 3.5 | 20% |
| Adjusted EBITDA[3] | **17.3** | 46.2 | (63%) | **34.2** | 76.9 | (56%) |
| Depletion, depreciation and amortization | **10.6** | 8.6 | 23% | **20.5** | 17.3 | 18% |
| Earnings from operations | **6.7** | 37.6 | (82%) | **13.7** | 59.6 | (77%) |
| **Production volumes (tonnes)**[1] | | | | | | |
| **Mixed Sulphides** | | | | | | |
| Moa Joint Venture (50% basis) | **4,569** | 4,859 | (6%) | **8,736** | 9,535 | (8%) |
| Ambatovy (40% basis) | **2,312** | 280 | 726% | **5,433** | 280 | 1840% |
| | **6,881** | 5,139 | 34% | **14,169** | 9,815 | 44% |
| **Finished Nickel** | | | | | | |
| Moa Joint Venture (50% basis) | **3,868** | 4,485 | (14%) | **7,770** | 8,784 | (12%) |
| Ambatovy (40% basis) | **2,854** | - | - | **5,186** | - | - |
| | **6,722** | 4,485 | 50% | **12,956** | 8,784 | 47% |
| **Finished Cobalt** | | | | | | |
| Moa Joint Venture (50% basis) | **374** | 497 | (25%) | **779** | 974 | (20%) |
| Ambatovy (40% basis) | **250** | - | - | **466** | - | - |
| | **624** | 497 | 25% | **1,245** | 974 | 28% |
| **Fertilizer** | | | | | | |
| Moa Joint Venture (50% basis), Fort Site (100% basis) | **67,232** | 67,764 | (1%) | **126,627** | 133,885 | (5%) |
| Ambatovy (40% basis) | **6,350** | - | - | **15,132** | - | - |
| | **73,582** | 67,764 | 9% | **141,759** | 133,885 | 6% |
| **Sales volumes**[1] | | | | | | |
| **Moa Joint Venture and Fort Site** | | | | | | |
| Finished nickel (thousands of pounds)(50% basis) | **8,612** | 9,915 | (13%) | **17,243** | 19,470 | (11%) |
| Finished cobalt (thousands of pounds)(50% basis) | **833** | 1,130 | (26%) | **1,742** | 2,147 | (19%) |
| Fertilizer (tonnes) | **69,930** | 71,294 | (2%) | **101,443** | 97,921 | 4% |
| **Average-reference prices (US$ per pound)** | | | | | | |
| Nickel | **$ 6.79** | $ 7.78 | (13%) | **$ 7.32** | $ 8.36 | (12%) |
| Cobalt[5] | **13.06** | 14.24 | (8%) | **12.51** | 14.42 | (13%) |
| **Average-realized prices[3]($ per pound)** | | | | | | |
| **Moa Joint Venture** | | | | | | |
| Nickel | **$ 6.85** | $ 7.88 | (13%) | **$ 7.35** | $ 8.26 | (11%) |
| Cobalt | **12.82** | 13.87 | (8%) | **12.14** | 13.98 | (13%) |
| **Unit operating costs[3](US$ per pound)** | | | | | | |
| **Moa Joint Venture** | | | | | | |
| Nickel - net direct cash cost | **$ 5.58** | $ 4.16 | 34% | **$ 5.78** | $ 4.79 | 21% |
| **Spending on capital** | | | | | | |
| Moa Joint Venture[1] | **$ 9.8** | $ 6.2 | 58% | **$ 14.5** | $ 12.0 | 21% |

(1) The Moa Joint Venture and Ambatovy are accounted for using the equity method of accounting which recognizes the Corporation's share of earnings (loss) in earnings (loss) from joint venture and associate, respectively. Operating results, production/sales volumes and spending on capital for the Moa Joint Venture in the above table include the Corporation's 50% interest in the Moa Joint Venture and its 100% interest in the utility and fertilizer operations in Fort Saskatchewan (Fort Site), as applicable. Operating results and production volumes for Ambatovy include the Corporation's 40% interest in the Ambatovy Joint Venture consistent with note 4 – Segmented information of the interim condensed consolidated financial statements.

(2) Revenue and cost of sales includes $4.9 million and $10.0 million for the three and six months ended June 30, 2013, respectively, recognized by a subsidiary of the Corporation established to buy, market and sell certain Ambatovy nickel production. The metals marketing company is reimbursed by Ambatovy for administration and selling costs. The impact on Adjusted EBITDA and earnings from operations is immaterial.

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

(4) Excludes depletion, depreciation and amortization.

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

The change in earnings from operations for the joint venture and associate between 2013 and 2012 is detailed below:

| $ millions | For the three months ended 2013 June 30 | For the six months ended 2013 June 30 |
|---|---|---|
| Lower U.S. dollar denominated realized nickel prices | $ **(10.8)** | $ **(19.1)** |
| Lower U.S. dollar denominated realized cobalt prices | **(1.5)** | **(4.2)** |
| (Lower) higher fertilizer prices | **(0.3)** | **0.5** |
| Lower metal sales volumes net of fertilizer sales volumes | **(2.2)** | **(2.9)** |
| Higher mining, processing and refining, third-party feed and fertilizer costs | **(15.0)** | **(18.9)** |
| Weaker Canadian dollar relative to the U.S. dollar | **1.5** | **3.3** |
| Other | **(2.6)** | **(4.6)** |
| Change in earnings from operations, compared to 2012 | $ **(30.9)** | $ **(45.9)** |

## Moa Joint Venture and Fort Site

The following operating results include the Corporation's 50% interest in the Moa Joint Venture and its 100% interest in the utility and fertilizer operations in Fort Saskatchewan (Fort Site).

Revenue for the three and six months ended June 30, is composed of the following:

| | For the three months ended | | | For the six months ended | | |
|---|---|---|---|---|---|---|
| $ millions | **2013 June 30** | 2012 June 30 | Change | **2013 June 30** | 2012 June 30 | Change |
| Nickel | $ **58.9** | $ 78.1 | (25%) | $ **126.7** | $ 160.9 | (21%) |
| Cobalt | **10.7** | 15.6 | (31%) | **21.2** | 30.0 | (29%) |
| Fertilizers | **42.4** | 43.7 | (3%) | **59.6** | 58.7 | 2% |
| Other | **2.5** | 2.8 | (11%) | **4.3** | 5.4 | (20%) |
| | $ **114.5** | $ 140.2 | (18%) | $ **211.8** | $ 255.0 | (17%) |

Average reference prices for nickel and cobalt decreased in 2013 compared to the same periods in the prior year as global production continued to outpace demand. The average-realized nickel price decreased $1.03 per pound in the second quarter and $0.91 per pound in the first six months of 2013 compared to the same periods in the prior year while the average cobalt realized price decreased $1.05 per pound in the second quarter and $1.84 per pound in the first six months of 2013 compared to the same periods in the prior year. The impact of lower reference prices was partly offset by the weaker Canadian dollar relative to the U.S. dollar.

Finished nickel and cobalt sales volumes were lower compared to the same periods in the prior year primarily due to lower production. Fertilizer sales volumes decreased 1,364 tonnes in the second quarter and increased 3,522 tonnes in the first six months of 2013 compared to the same periods in the prior year reflecting greater availability of product as a result of higher opening inventory in 2013 and the timing of spring season sales.

Production of 9,139 tonnes (100% basis) of contained nickel and cobalt in mixed sulphides in the second quarter was 578 tonnes (100% basis) lower than the same period in the prior year as mechanical issues, which were rectified late in the period, prevented the processing plant from reaching capacity. Finished nickel production of 7,736 tonnes (100% basis) and finished cobalt production of 748 tonnes (100% basis) in the second quarter were lower by 1,233 tonnes and 245 tonnes, respectively, than in the prior year primarily due to the timing of the annual maintenance turnaround for the refinery, which occurred in the second quarter of 2013 compared to the third quarter of 2012. The timing of the annual turnaround generally occurs in the second or third quarter of a year depending upon the availability of manpower in the Alberta region as well as the timing of critical equipment availability. Additional third-party feed was processed as compared to prior periods, but sufficient volumes were not available to significantly compensate for the lower mixed sulphides volumes.

Cost of sales[1] for the three and six months ended June 30 is composed of the following:

| $ millions | For the three months ended 2013 June 30 | 2012 June 30 | Change | For the six months ended 2013 June 30 | 2012 June 30 | Change |
|---|---|---|---|---|---|---|
| Mining, processing and refining | **$ 62.3** | $ 66.8 | (7%) | **$ 123.0** | $ 131.9 | (7%) |
| Third-party feed costs | **1.3** | 0.9 | 44% | **3.2** | 2.2 | 45% |
| Fertilizers | **25.1** | 18.1 | 39% | **34.7** | 27.6 | 26% |
| Selling costs | **4.6** | 4.3 | 7% | **8.4** | 7.4 | 14% |
| Other | **2.1** | 2.4 | (13%) | **4.9** | 5.3 | (8%) |
| | **$ 95.4** | $ 92.5 | 3% | **$ 174.2** | $ 174.4 | - |

(1) Excludes depletion, depreciation and amortization.

Net direct cash cost is composed of the following:

| Net direct cash cost[1] | For the three months ended 2013 June 30 | 2012 June 30 | Change | For the six months ended 2013 June 30 | 2012 June 30 | Change |
|---|---|---|---|---|---|---|
| Mining, processing and refining costs | **$ 7.09** | $ 6.56 | 8% | **$ 7.05** | $ 6.58 | 7% |
| Third-party feed costs | **0.13** | 0.09 | 44% | **0.18** | 0.11 | 64% |
| Cobalt by-product credits | **(1.21)** | (1.56) | (22%) | **(1.21)** | (1.53) | (21%) |
| Other[2] | **(0.43)** | (0.93) | (54%) | **(0.24)** | (0.37) | (35%) |
| Net direct cash cost (US$ per pound of nickel) | **$ 5.58** | $ 4.16 | 34% | **$ 5.78** | $ 4.79 | 21% |
| Natural gas costs ($ per gigajoule) | **3.52** | 1.93 | 82% | **3.35** | 2.05 | 63% |
| Fuel oil (US$ per tonne) | **620** | 706 | (12%) | **630** | 699 | (10%) |
| Sulphur (US$ per tonne) | **229** | 260 | (12%) | **234** | 267 | (12%) |
| Sulphuric acid (US$ per tonne) | **146** | 183 | (20%) | **153** | 190 | (20%) |

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

(2) Includes the Moa Joint Venture refinery by-product fertilizer profit or loss and marketing costs, discounts, and other by-product credits.

Mining, processing and refining costs are composed of the following:

| Components of mining, processing and refining costs[1] | For the three months ended 2013 June 30 | 2012 June 30 | For the six months ended 2013 June 30 | 2012 June 30 |
|---|---|---|---|---|
| Fixed costs | **22%** | 20% | **22%** | 20% |
| Sulphur | **7%** | 8% | **8%** | 9% |
| Sulphuric acid | **18%** | 17% | **16%** | 18% |
| Fuel oil | **19%** | 21% | **20%** | 21% |
| Maintenance | **16%** | 10% | **15%** | 11% |
| Other variable | **18%** | 24% | **19%** | 21% |
| | **100%** | 100% | **100%** | 100% |

(1) Approximate breakdown of mining, processing and refining costs based on 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 increased US$1.42 per pound in the second quarter of 2013 compared to the same period in the prior year primarily due to higher refining costs, lower cobalt by-product credits, and higher fertilizer production costs. Increased refining and fertilizer production costs largely reflected lower production and increased maintenance in the period combined with the impact of higher natural gas and power prices. Increased maintenance costs in the period were largely due to the timing of the annual maintenance turnaround for the refinery, which occurred in the second quarter of 2013 compared to the third quarter of 2012. The impact of lower mixed sulphide production on the unit costs of mining and processing were partly offset by the impact of lower input commodity prices. Net direct cash cost of nickel increased $0.99 per pound in the first six months of 2013 compared to the same period in the prior year reflecting similar trends.

Capital spending is composed of the following:

| | For the three months ended | | | For the six months ended | | |
|---|---|---|---|---|---|---|
| | **2013** | 2012 | | **2013** | 2012 | |
| $ millions | **June 30** | June 30 | Change | **June 30** | June 30 | Change |
| Sustaining[1] | **$ 9.3** | $ 6.0 | 55% | **$ 14.0** | $ 10.9 | 28% |
| Expansion | **0.5** | 0.2 | 150% | **0.5** | 1.1 | (55%) |
| Total | **$ 9.8** | $ 6.2 | 58% | **$ 14.5** | $ 12.0 | 21% |

(1) Includes assets acquired under finance leases of $4.2 million and $4.4 million for the three and six months ended June 30, 2013, respectively (2012 - $nil million and $0.9 million, respectively).

Capital spending for the Moa Joint Venture focused on sustaining activities and was higher as compared to prior year periods due to the timing of capital spending initiatives, including mining equipment additions.

## Ambatovy

For the three and six month periods ended June 30, 2013, losses were $0.7 million for both periods, compared to $2.4 million and $1.2 million, respectively, for the same periods in the prior year. The Corporation recognizes earnings (losses) from Ambatovy in its share of earnings from associate. Until commercial production is declared (defined as 70% of ore throughput of nameplate capacity in the Pressure Acid Leach (PAL) circuit on average over a thirty-day period), the Corporation's share of earnings primarily consists of its non-capitalized administrative costs and foreign exchange gains or losses.

During the second quarter of 2013, Ambatovy produced 5,780 tonnes (100% basis) of nickel and cobalt contained in mixed sulphides, 7,135 tonnes (100% basis) of finished nickel and 624 tonnes (100% basis) of finished cobalt. Higher finished metals production volumes over and above the metal contained in mixed sulphides reflect a drawdown of bagged mixed sulphide inventory on hand at the end of the first quarter. Annual nameplate capacity is 60,000 tonnes of nickel and 5,600 tonnes of cobalt.

During the second quarter, Ambatovy sold 16,486 thousand pounds (100% basis) of nickel and 1,515 thousand pounds (100% basis) of cobalt. For accounting purposes, all revenue from the sale of nickel and cobalt is capitalized until commercial production is reached.

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

The Ambatovy operations are expected to reach commercial production in 2013. Commercial production is the point at which all revenue and operating costs cease to be capitalized.

Total capital costs for Ambatovy are expected to remain within the US$5.5 billion (100% basis) estimate. Cumulative spending on capital at Ambatovy to June 30, 2013 was US$5.3 billion (100% basis), excluding financing charges, working capital and foreign exchange.

Total project costs (including operating costs, financing charges, working capital and foreign exchange, and net of sales revenue) in the second quarter of 2013 were a credit of US$10.4 million (100% basis) largely due to the impact on working capital of the availability of repatriated funds maintained in local bank accounts which were used to fund operations, compared to US$139.8 million (100% basis) for the first quarter. Cumulative total project costs to June 30, 2013 were US$6.9 billion (100% basis). Total project costs will vary until commercial production is declared. The most significant variability in total project costs is likely to arise from the working capital requirements, operating costs and sales revenue (which are netted from these costs).

In the second quarter of 2013, a total of US$55.0 million (100% basis) in funding was provided by the Ambatovy Joint Venture partners. Sherritt's 40% share of funding for the second quarter of 2013 was US$22.0 million ($22.5 million), sourced from cash on hand.

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

The Transitional Government of Madagascar continues to progress the "Roadmap", which was designed by the Southern African Development Community to facilitate Madagascar's return to democratic rule. It is uncertain at this time if the Malagasy Transitional Authority will hold presidential elections in 2013. Ambatovy continues to regularly monitor the political climate in Madagascar and continues to engage in ongoing communication with representatives of the national, regional and local governments as well as multilateral institutions and key embassies.

## Outlook for 2013

| Production volumes and spending on capital<br>For the six and twelve months ended | Actual<br>**2013**<br>**June 30** | Projected<br>2013<br>December 31 |
|---|---|---|
| **Production** | | |
| Mixed sulphides (tonnes, 100% basis): | | |
| Moa Joint Venture | **17,472** | 38,000 |
| Ambatovy Joint Venture | **13,583** | 34,000 |
| | **31,055** | 72,000 |
| Finished nickel (tonnes, 100% basis): | | |
| Moa Joint Venture | **15,540** | 34,000 |
| Ambatovy Joint Venture | **12,964** | 31,000 |
| | **28,504** | 65,000 |
| Finished cobalt (tonnes, 100% basis): | | |
| Moa Joint Venture | **1,558** | 3,350 |
| Ambatovy Joint Venture | **1,164** | 2,800 |
| | **2,722** | 6,150 |
| **Spending on capital** ($ millions): | | |
| Moa Joint Venture (50% basis), Fort Site[1] | **15** | 38 |
| Ambatovy (40% basis) | **14** | 29 |

(1) Spending on capital related to the Corporation's 50% interest in the Moa Joint Venture and its 100% interest in the utility and fertilizer operations in Fort Saskatchewan.

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

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

## COAL

## Financial review

| $ millions, except as otherwise noted | For the three months ended 2013 June 30 | 2012 June 30 | Change | For the six months ended 2013 June 30 | 2012 June 30 | Change |
|---|---|---|---|---|---|---|
| **Financial highlights** | | | | | | |
| **Revenue** | | | | | | |
| Prairie Operations | **$ 115.5** | $ 145.8 | (21%) | **$ 238.4** | $ 304.9 | (22%) |
| Mountain Operations[1] | **101.3** | 104.8 | (3%) | **157.9** | 191.0 | (17%) |
| | **216.8** | 250.6 | (13%) | **396.3** | 495.9 | (20%) |
| **Cost of sales[2]** | | | | | | |
| Prairie Operations | **$ 75.1** | $ 117.2 | (36%) | **$ 160.4** | $ 230.7 | (30%) |
| Mountain Operations[1] | **103.0** | 89.1 | 16% | **155.5** | 163.7 | (5%) |
| | **178.1** | 206.3 | (14%) | **315.9** | 394.4 | (20%) |
| **Administrative expenses[2]** | | | | | | |
| Prairie Operations | **$ 2.5** | $ 2.3 | 9% | **$ 4.6** | $ 4.4 | 5% |
| Mountain Operations[1] | **2.3** | 1.6 | 44% | **4.3** | 3.6 | 19% |
| | **4.8** | 3.9 | 23% | **8.9** | 8.0 | 11% |
| **Adjusted EBITDA[3]** | | | | | | |
| Prairie Operations | **$ 37.9** | $ 26.3 | 44% | **$ 73.4** | $ 69.8 | 5% |
| Mountain Operations[1] | **(4.0)** | 14.1 | (128%) | **(1.9)** | 23.7 | (108%) |
| | **33.9** | 40.4 | (16%) | **71.5** | 93.5 | (24%) |
| **Depletion, depreciation and amortization** | | | | | | |
| Prairie Operations | **$ 18.1** | $ 16.1 | 12% | **$ 33.5** | $ 30.1 | 11% |
| Mountain Operations[1] | **11.4** | 14.6 | (22%) | **22.2** | 27.9 | (20%) |
| | **29.5** | 30.7 | (4%) | **55.7** | 58.0 | (4%) |
| **Earnings (loss) from operations** | | | | | | |
| Prairie Operations[4] | **$ 19.8** | $ 10.2 | 94% | **$ 61.9** | $ 39.7 | 56% |
| Mountain Operations[1] | **(15.4)** | (0.5) | 2980% | **(24.1)** | (4.2) | 474% |
| | **4.4** | 9.7 | (55%) | **37.8** | 35.5 | 6% |
| **Production volumes (millions of tonnes)** | | | | | | |
| Prairie Operations | **5.5** | 7.0 | (21%) | **11.1** | 15.6 | (29%) |
| Mountain Operations | **0.8** | 0.8 | - | **1.6** | 1.8 | (11%) |
| | **6.3** | 7.8 | (19%) | **12.7** | 17.4 | (27%) |
| **Sales volumes (millions of tonnes)** | | | | | | |
| Prairie Operations | **5.2** | 6.8 | (24%) | **10.9** | 14.9 | (27%) |
| Mountain Operations | **1.2** | 1.0 | 20% | **1.8** | 1.8 | - |
| | **6.4** | 7.8 | (18%) | **12.7** | 16.7 | (24%) |
| **Average-realized prices[3] ($ per tonne)** | | | | | | |
| Prairie Operations[5] | **$ 18.19** | $ 18.27 | - | **$ 18.20** | $ 17.58 | 4% |
| Mountain Operations | **87.31** | 103.47 | (16%) | **89.74** | 103.73 | (13%) |
| **Unit operating costs[2] ($ per tonne)** | | | | | | |
| Prairie Operations | **$ 13.57** | $ 16.59 | (18%) | **$ 13.78** | $ 14.81 | (7%) |
| Mountain Operations | **89.41** | 87.61 | 2% | **89.97** | 88.27 | 2% |
| **Spending on capital** | | | | | | |
| Prairie Operations | **$ 19.5** | $ 19.5 | - | **$ 32.5** | $ 26.7 | 22% |
| Mountain Operations | **9.9** | 23.8 | (58%) | **30.2** | 39.9 | (24%) |
| | **29.4** | 43.3 | (32%) | **62.7** | 66.6 | (6%) |

(1) Includes results for coal development assets which the Corporation proportionately consolidates its 50% interest.
(2) Excludes depletion, depreciation and amortization.
(3) For additional information see the Non-GAAP measures section.
(4) Including a $22.0 million net non-cash gain on termination of the Highvale mining contract.
(5) For Prairie Operations average-realized price, revenue excludes royalties, activated carbon, char and other of $23.1 million and $42.0 million for three and six months ended June 30, 2013, respectively (2012 - $21.9 million and $43.2 million, respectively) and tonnes sold excludes activated carbon and char of 24.4 thousand tonnes and 60.3 thousand tonnes for three and six months ended June 30, 2013, respectively (2012 – 35.6 thousand tonnes and 63.6 thousand tonnes, respectively). Average-realized price may not calculate based on amounts presented due to rounding.

# Prairie Operations

Prairie Operations revenue is composed of the following:

| | | For the three months ended | | | | For the six months ended | | |
|---|---|---|---|---|---|---|---|---|
| | | **2013** | | 2012 | | **2013** | | 2012 | |
| $ millions | | **June 30** | | June 30 | Change | **June 30** | | June 30 | Change |
| Mining revenue | **$** | **99.6** | $ | 131.7 | (24%) | **$ 211.8** | $ | 277.3 | (24%) |
| Coal royalties | | **12.3** | | 10.0 | 23% | **19.8** | | 20.8 | (5%) |
| Potash royalties | | **3.6** | | 4.1 | (12%) | **6.8** | | 6.8 | - |
| | **$** | **115.5** | $ | 145.8 | (21%) | **$ 238.4** | $ | 304.9 | (22%) |

For the three and six month periods ended June 30, 2013 revenue decreased by $30.3 million and $66.5 million, respectively, due to the removal of the contract mining business at Highvale. Excluding the contract mining business, Prairie Operations revenue increased by 20% and 13% for the same periods, and unit operating costs increased by 4% and 11% for the same periods.

The change in earnings from operations between 2013 and 2012 is detailed below:

| $ millions | For the three months ended **2013 June 30** | For the six months ended **2013 June 30** |
|---|---|---|
| Gain on termination of contract | **$ -** | **$ 22.0** |
| Higher mining margin, net of lower sales volumes | **10.0** | **4.8** |
| Higher (lower) coal royalties, net of lower potash royalties | **1.8** | **(1.0)** |
| Higher depletion, depreciation and amortization | **(2.0)** | **(3.4)** |
| Other | **(0.2)** | **(0.2)** |
| Change in earnings from operations, compared to 2012 | **$ 9.6** | **$ 22.2** |

Largely as a result of the removal of the Highvale contract mining business, overall mining margin increased $1.65 per tonne to $4.42 per tonne for the first six months of 2013.

Average-realized price for the three and six month period ended June 30, 2013 compared to the prior year benefited from higher revenue earned at the Paintearth and Sheerness mines. At the Paintearth mine, revenue increased due to higher pricing in 2013; while at the Sheerness mine, revenue increased due to plant maintenance activity in June 2012.

Coal royalties for both the second quarter and first six months of 2013 compared to the same periods in the prior year generally reflected the timing of mining activities in royalty assessable areas.

Unit operating cost is composed of the following:

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Components of unit operating cost (%) | **June 30** | June 30 | **June 30** | June 30 |
| Labour | **43%** | 41% | **45%** | 41% |
| Repairs and maintenance | **32%** | 29% | **31%** | 28% |
| Fuel | **15%** | 15% | **15%** | 15% |
| Other [(1)] | **10%** | 15% | **9%** | 16% |
| **Total** | **100%** | 100% | **100%** | 100% |

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

Per tonne unit operating costs decreased $3.02 per tonne in the second quarter of 2013 and $1.03 per tonne in the first six months of 2013 compared to the same periods in the prior year due primarily to the removal of the Highvale contract mining business.

For the three and six month periods ended June 30, 2013, overall Prairie Operations Adjusted EBITDA increased as a result of higher mining margins.

Spending on capital is composed of the following:

| $ millions | For the three months ended 2013 June 30 | 2012 June 30 | Change | For the six months ended 2013 June 30 | 2012 June 30 | Change |
|---|---|---|---|---|---|---|
| **Sustaining** | | | | | | |
| Assets acquired under finance lease | **$ 13.8** | $ 7.9 | 75% | **$ 17.2** | $ 10.8 | 59% |
| Cash capital | **5.7** | 11.6 | (51%) | **15.3** | 15.9 | (4%) |
| | **$ 19.5** | $ 19.5 | - | **$ 32.5** | $ 26.7 | 22% |

For the six month period in June 30, 2013, Prairie Operations capital spending increased as compared to the same period in the prior year due to leased capital additions for mining equipment at the Paintearth mine which are required to enter a new mining area. In addition, cash capital spending for the six month period in 2013 was higher due to dragline maintenance at the Genesee and Poplar River mines in the first quarter of 2013.

## Mountain Operations

The change in earnings from operations between 2013 and 2012 is detailed below:

| $ millions | For the three months ended 2013 June 30 | For the six months ended 2013 June 30 |
|---|---|---|
| Lower export coal prices, denominated in U.S. dollars | **$ (18.2)** | **$ (27.8)** |
| Higher (lower) export sales volumes | **11.1** | **(7.2)** |
| Higher (lower) mining costs on change in sales volume | **(10.2)** | **7.2** |
| Lower depletion, depreciation and amortization | **3.2** | **5.7** |
| Other | **(0.8)** | **2.2** |
| Change in earnings from operations, compared to 2012 | **$ (14.9)** | **$ (19.9)** |

For the second quarter and first six months of 2013, Mountain Operations' results were largely impacted by weaker thermal export coal prices compared to the same periods in the prior year. Strong sales volumes in the second quarter of 2013 from improved rail service and port through-put levels partially offset the reduced revenue from weaker pricing. In so doing, coal inventory that had accumulated after the Westshore incident on December 7, 2012 has been significantly reduced.

Unit operating cost is composed of the following:

| Components of unit operating cost (%) | For the three months ended 2013 June 30 | 2012 June 30 | For the six months ended 2013 June 30 | 2012 June 30 |
|---|---|---|---|---|
| Labour | **23%** | 23% | **23%** | 23% |
| Repairs and maintenance | **11%** | 13% | **12%** | 15% |
| Fuel | **12%** | 12% | **12%** | 12% |
| Rentals and contractors | **8%** | 15% | **9%** | 16% |
| Ex-Mine[(1)] | **30%** | 35% | **31%** | 29% |
| Other [(2)] | **16%** | 2% | **13%** | 5% |
| **Total** | **100%** | 100% | **100%** | 100% |

(1) Primarily composed of commissions, royalties, freight and port fees.

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

Unit operating costs increased slightly due to suspended operations at the Obed Mountain mine which had no production and reduced production at the Coal Valley mine to manage accumulated coal inventory resulting from the Westshore incident.

Spending on capital consists of the following:

| | For the three months ended | | | For the six months ended | | |
|---|---|---|---|---|---|---|
| | **2013** | 2012 | | **2013** | 2012 | |
| $ millions | **June 30** | June 30 | Change | **June 30** | June 30 | Change |
| **Sustaining** | | | | | | |
| Assets acquired under finance lease | **$ 1.1** | $ 17.6 | (94%) | **$ 16.8** | $ 19.5 | (14%) |
| Cash capital | **8.8** | 6.2 | 42% | **13.4** | 20.4 | (34%) |
| | **$ 9.9** | $ 23.8 | (58%) | **$ 30.2** | $ 39.9 | (24%) |

For the first six months of 2013, capital spending decreased by $9.7 million compared to the same period last year primarily due to $9.8 million of loading equipment purchased in the first quarter of 2012. As expected, lease acquisitions in the second quarter of 2013 were lower compared to the same period in the prior year as most lease acquisitions arrived in the first quarter of 2013.

## Outlook for 2013

| | Actual | Projected |
|---|---|---|
| Production volumes and spending on capital | **2013** | 2013 |
| For the six and twelve months ended | **June 30** | December 31 |
| **Production** | | |
| Prairie Operations (millions of tonnes) | **11** | 22 |
| Mountain Operations (millions of tonnes) | **1.6** | 3.2 |
| **Royalties** ($ millions) | | |
| Coal | **20** | 35 |
| Potash | **7** | 12 |
| **Spending on capital** ($ millions) | | |
| Prairie Operations | **33** | 58 |
| Mountain Operations | **30** | 48 |

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

## OIL AND GAS

### Financial review

| $ millions, except as otherwise noted | | For the three months ended 2013 June 30 | | 2012 June 30 | Change | | For the six months ended 2013 June 30 | | 2012 June 30 | Change |
|---|---|---|---|---|---|---|---|---|---|---|
| **Financial highlights** | | | | | | | | | | |
| Revenue | **$** | **71.2** | $ | 76.3 | (7%) | **$** | **142.3** | $ | 158.5 | (10%) |
| Cost of sales[1] | | **13.4** | | 13.9 | (4%) | | **25.3** | | 28.4 | (11%) |
| | | **57.8** | | 62.4 | (7%) | | **117.0** | | 130.1 | (10%) |
| Administrative expenses[1] | | **2.1** | | 4.0 | (48%) | | **3.9** | | 6.5 | (40%) |
| Adjusted EBITDA[2] | | **55.7** | | 58.4 | (5%) | | **113.1** | | 123.6 | (8%) |
| Depletion, depreciation and amortization | | **17.9** | | 16.5 | 8% | | **33.9** | | 35.3 | (4%) |
| Earnings from operations | | **37.8** | | 41.9 | (10%) | | **79.2** | | 88.3 | (10%) |
| **Production and sales[3] (net working-interest)** | | | | | | | | | | |
| Cuba (heavy oil) | | **10,825** | | 10,963 | (1%) | | **10,537** | | 10,843 | (3%) |
| Spain (light/medium oil) | | **330** | | 356 | (7%) | | **311** | | 366 | (15%) |
| Pakistan (natural gas) | | **330** | | 352 | (6%) | | **333** | | 354 | (6%) |
| | | **11,485** | | 11,671 | (2%) | | **11,181** | | 11,563 | (3%) |
| **Average-reference prices (US$ per barrel)** | | | | | | | | | | |
| Gulf Coast Fuel Oil No. 6 | **$** | **90.87** | $ | 97.99 | (7%) | **$** | **93.92** | $ | 102.91 | (9%) |
| Brent | | **103.16** | | 109.20 | (6%) | | **108.29** | | 114.30 | (5%) |
| **Average-realized prices[2]** | | | | | | | | | | |
| Cuba ($ per barrel) | **$** | **67.64** | $ | 71.70 | (6%) | **$** | **69.34** | $ | 75.05 | (8%) |
| Spain ($ per barrel) | | **104.11** | | 105.68 | (1%) | | **108.24** | | 113.13 | (4%) |
| Pakistan ($ per boe)[4] | | **8.31** | | 8.28 | - | | **8.28** | | 8.18 | 1% |
| **Unit operating costs[2] ($ per net boe)** | | | | | | | | | | |
| Cuba | **$** | **12.70** | $ | 12.28 | 3% | **$** | **12.48** | $ | 12.67 | (1%) |
| Spain | | **25.20** | | 46.90 | (46%) | | **20.28** | | 46.70 | (57%) |
| Pakistan | | **3.98** | | 4.16 | (4%) | | **5.97** | | 3.45 | 73% |
| Weighted-average | | **12.81** | | 13.21 | (3%) | | **12.50** | | 13.57 | (8%) |
| **Spending on capital** | **$** | **11.8** | $ | 11.5 | 3% | **$** | **23.3** | $ | 20.9 | 11% |

(1) Excludes depletion, depreciation and amortization.
(2) For additional information see the Non-GAAP measures section.
(3) Oil production is stated in barrels of oil per day (bopd). Natural gas production is stated in barrels of oil equivalent per day (boepd), which is converted at 6,000 cubic feet per barrel.
(4) 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.

Oil and Gas revenue is composed of the following:

| $ millions | | For the three months ended 2013 June 30 | | 2012 June 30 | Change | | For the six months ended 2013 June 30 | | 2012 June 30 | Change |
|---|---|---|---|---|---|---|---|---|---|---|
| Cuba | **$** | **66.7** | $ | 71.5 | (7%) | **$** | **132.2** | $ | 148.1 | (11%) |
| Spain | | **3.1** | | 3.4 | (9%) | | **6.1** | | 7.5 | (19%) |
| Pakistan | | **0.2** | | 0.2 | - | | **0.5** | | 0.5 | - |
| Processing | | **1.2** | | 1.2 | - | | **3.5** | | 2.4 | 46% |
| | **$** | **71.2** | $ | 76.3 | (7%) | **$** | **142.3** | $ | 158.5 | (10%) |

The change in earnings from operations between 2013 and 2012 is detailed below:

| $ millions | For the three months ended 2013 June 30 | For the six months ended 2013 June 30 |
|---|---|---|
| Lower realized oil and gas prices | $ **(4.6)** | $ **(11.1)** |
| Lower gross working-interest volumes | **(1.4)** | **(4.7)** |
| Lower cost recovery revenue due to lower recoverable spending | **(0.3)** | **(3.2)** |
| Lower operating costs | **0.6** | **3.3** |
| Lower administrative costs | **1.9** | **2.6** |
| (Higher) lower depletion, depreciation and amortization | **(1.2)** | **1.7** |
| Weaker Canadian dollar relative to the U.S. dollar | **0.8** | **1.4** |
| Other | **0.1** | **0.9** |
| Change in earnings from operations, compared to 2012 | $ **(4.1)** | $ **(9.1)** |

The average-realized price for oil produced in Cuba decreased by $4.06 per barrel in the second quarter and by $5.71 per barrel in the first six months of 2013 compared to the same periods in the prior year primarily as a result of a lower Gulf Coast Fuel Oil No. 6 reference price, partially offset by a weaker Canadian dollar relative to the U.S. dollar.

The average-realized price for oil produced in Spain decreased by $1.57 per barrel in the second quarter and by $4.89 per barrel in the first six months of 2013 compared to the same periods in the prior year, primarily as a result of a lower Brent reference price, partially offset by a weaker Canadian dollar relative to the U.S. dollar.

Production and sales volumes were as follows:

| | For the three months ended | | | For the six months ended | | |
|---|---|---|---|---|---|---|
| Daily production volumes[1] | **2013 June 30** | 2012 June 30 | Change | **2013 June 30** | 2012 June 30 | Change |
| **Gross working-interest oil production in Cuba [2][3]** | **20,425** | 20,806 | (2%) | **19,990** | 20,443 | (2%) |
| **Net working-interest oil production** | | | | | | |
| Cuba (heavy oil) | | | | | | |
| Cost recovery | **2,971** | 2,909 | 2% | **2,802** | 2,989 | (6%) |
| Profit oil | **7,854** | 8,054 | (2%) | **7,735** | 7,854 | (2%) |
| Total | **10,825** | 10,963 | (1%) | **10,537** | 10,843 | (3%) |
| Spain (light/medium oil)[4] | **330** | 356 | (7%) | **311** | 366 | (15%) |
| Pakistan (natural gas)[4] | **330** | 352 | (6%) | **333** | 354 | (6%) |
| Total | **11,485** | 11,671 | (2%) | **11,181** | 11,563 | (3%) |

(1) Oil production is stated in barrels of oil per day (bopd). Natural gas production is stated in barrels of oil equivalent per day (boepd), which is converted at 6,000 cubic feet per barrel.

(2) In Cuba, Oil and Gas 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) For further information on gross working-interest oil production in Cuba, cost recovery, and profit oil see page 41 of the 2012 annual report.

(4) Net working-interest production (equivalent to net sales volume) represents the Corporation's share of gross working-interest production.

Gross working-interest (GWI) oil production in Cuba decreased 381 bopd in the second quarter and by 453 bopd in the first six months of 2013 compared to the same periods in the prior year primarily due to natural reservoir declines, partly offset by production increases from new wells drilled and the optimization of production from existing wells.

Cost-recovery oil production in Cuba increased 62 bopd in the second quarter and decreased 187 bopd in the first six months of 2013 compared to the same periods in the prior year. The increase in the second quarter was primarily due to lower oil prices. The decrease in the first six months of 2013 was primarily due to lower cost-recovery spending, partially offset by lower oil prices. Profit-oil production, which represents Sherritt's share of production after cost recovery volumes are deducted from GWI volumes, decreased by 200 bopd in the second quarter and by 119 bopd in the first six months of 2013.

Production in Spain and Pakistan was lower due to natural reservoir declines.

Unit operating cost for Cuba is composed of the following:

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Components of unit operating cost (%) | **June 30** | June 30 | **June 30** | June 30 |
| Labour | **22%** | 21% | **22%** | 24% |
| Maintenance | **12%** | 11% | **11%** | 11% |
| Treatment and transportation | **18%** | 19% | **18%** | 18% |
| Freight and duty | **6%** | 5% | **6%** | 5% |
| Production chemicals | **8%** | 8% | **8%** | 7% |
| Fuel and electricity | **9%** | 9% | **9%** | 9% |
| Insurance | **3%** | 3% | **3%** | 3% |
| Other | **22%** | 24% | **23%** | 23% |
| | **100%** | 100% | **100%** | 100% |

Unit operating cost in Cuba increased $0.42 per barrel in the second quarter and decreased by $0.19 per barrel in the first six months of 2013 compared to the same periods in the prior year. In the second quarter unit cost was higher primarily due to lower net production and an increase in maintenance costs. Unit cost decreased in the first six months primarily due to lower labour costs, partly offset by higher production chemical costs, freight and duty costs and lower net production.

Unit operating cost in Spain decreased $21.70 per barrel in the second quarter and by $26.42 per barrel in the first six months of 2013 compared to the same periods in the prior year, primarily due to a reduction in costs allocated to Sherritt following the addition of new third-party production to the production facility, partly offset by the effect of a weaker Canadian dollar relative to the Euro.

Spending on capital is composed of the following:

| | For the three months ended | | | For the six months ended | | |
|---|---|---|---|---|---|---|
| | **2013** | 2012 | | **2013** | 2012 | |
| $ millions | **June 30** | June 30 | Change | **June 30** | June 30 | Change |
| Development, facilities and other | **$ 11.6** | $ 9.6 | 21% | **$ 22.4** | $ 17.4 | 29% |
| Exploration | **0.2** | 1.9 | (89%) | **0.9** | 3.5 | (74%) |
| Total | **$ 11.8** | $ 11.5 | 3% | **$ 23.3** | $ 20.9 | 11% |

Spending on capital was $0.3 million higher in the second quarter and $2.4 million higher in the first six months of 2013 compared to the same periods in the prior year, primarily due to increased equipment and inventory purchases for Cuba, partly offset by a decrease in development drilling costs.

In the second quarter of 2013, development and facilities capital spending was composed primarily of $5.5 million for development drilling activities, $0.6 million related to facility improvements and $3.8 million related to equipment and inventory purchases. In the first six months of 2013, development and facilities capital spending was composed primarily of $10.3 million for development drilling activities, $1.9 million related to facility improvements and $7.6 million related to equipment and inventory purchases.

During the second quarter of 2013, one development well was initiated in Cuba and was completed in July 2013. In the first six months of 2013, one development well was completed and is producing oil.

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

## Outlook for 2013

| Production volumes and spending on capital<br>For the six and twelve months ended | Actual<br>**2013**<br>**June 30** | Projected<br>2013<br>December 31 |
|---|---|---|
| **Production** | | |
| Gross working-interest oil (Cuba) (bopd) | **19,990** | 19,500 |
| Net working-interest production, all operations (boepd) | **10,537** | 11,200 |
| **Spending on capital** ($ millions) | | |
| Cuba | **20** | 54 |
| Other | **3** | 13 |

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

## POWER

### Financial review

| $ millions, except as otherwise noted | For the three months ended 2013 June 30 | 2012 June 30 | Change | For the six months ended 2013 June 30 | 2012 June 30 | Change |
|---|---|---|---|---|---|---|
| **Financial highlights** | | | | | | |
| Revenue | **$ 13.5** | $ 17.6 | (23%) | **$ 29.5** | $ 34.2 | (14%) |
| Cost of sales[1] | **25.2** | 10.6 | 138% | **36.2** | 20.3 | 78% |
| | **(11.7)** | 7.0 | (267%) | **(6.7)** | 13.9 | (148%) |
| Administrative expenses[1] | **1.1** | 1.2 | (8%) | **2.6** | 2.2 | 18% |
| Add: Impairment of property, plant and equipment | **(7.3)** | - | - | **(7.3)** | - | - |
| Adjusted EBITDA[2] | **(5.5)** | 5.8 | (195%) | **(2.0)** | 11.7 | (117%) |
| Depletion, depreciation and amortization | **2.7** | 2.7 | - | **5.3** | 5.3 | - |
| Impairment of property, plant and equipment | **7.3** | - | - | **7.3** | - | - |
| (Loss) earnings from operations | **(15.5)** | 3.1 | (600%) | **(14.6)** | 6.4 | (328%) |
| **Production and sales (33⅓% basis)** | | | | | | |
| Electricity (GWh[3]) | **153** | 157 | (3%) | **313** | 312 | - |
| **Average-realized prices[2]** | | | | | | |
| Electricity (per MWh[4]) | **$ 42.28** | $ 41.79 | 1% | **$ 42.07** | $ 41.63 | 1% |
| **Unit operating costs[2](per MWh)** | | | | | | |
| Base[5] | **$ 18.24** | $ 15.45 | 18% | **$ 17.50** | $ 15.46 | 13% |
| Non-base[6] | **10.68** | 1.41 | 657% | **10.28** | 1.55 | 563% |
| | **28.92** | 16.86 | 72% | **27.78** | 17.01 | 63% |
| **Spending on capital and service concession arrangements** | | | | | | |
| Capital (33⅓% basis) | **$ 1.9** | $ 1.3 | 46% | **$ 3.8** | $ 2.5 | 52% |
| Service concession arrangements (33⅓% basis) | **4.2** | 7.9 | (47%) | **10.3** | 14.9 | (31%) |
| | **6.1** | 9.2 | (34%) | **14.1** | 17.4 | (19%) |

(1) Excludes depletion, depreciation and amortization.
(2) For additional information see the Non-GAAP measures section.
(3) Gigawatt hours (GWh).
(4) Megawatt hours (MWh).
(5) Excludes the impact of impairment of receivables and property, plant and equipment.
(6) Costs incurred at the Boca de Jaruco and Puerto Escondido facilities that otherwise would have been capitalized if these facilities were not accounted for as service concession arrangements.

Power revenue is composed of the following:

| $ millions (33⅓% basis) | For the three months ended 2013 June 30 | 2012 June 30 | Change | For the six months ended 2013 June 30 | 2012 June 30 | Change |
|---|---|---|---|---|---|---|
| Electricity sales | **$ 6.5** | $ 6.6 | (2%) | **$ 13.2** | $ 13.0 | 2% |
| By-products and other | **1.5** | 1.9 | (21%) | **3.4** | 3.8 | (11%) |
| Fixed-price lease contracts[1] | **1.3** | 1.2 | 8% | **2.6** | 2.5 | 4% |
| Construction activity[2] | **4.2** | 7.9 | (47%) | **10.3** | 14.9 | (31%) |
| | **$ 13.5** | $ 17.6 | (23%) | **$ 29.5** | $ 34.2 | (14%) |

(1) In relation to the 25 MW power plant in Madagascar.
(2) Construction activity revenue relates to the costs of construction, enhancement or upgrading activity of the Boca de Jaruco and Puerto Escondido facilities. The contractual arrangements related to the activities of these facilities are treated as service concession arrangements for accounting purposes.

The change in earnings from operations between 2013 and 2012 is detailed below:

| $ millions | For the three months ended 2013 June 30 | For the six months ended 2013 June 30 |
|---|---|---|
| (Lower) higher electricity volumes | $ **(0.2)** | $ **0.1** |
| Lower realized by-product prices | **(0.2)** | **(0.5)** |
| Provision on receivables and impairment related to Madagascar assets | **(16.6)** | **(17.2)** |
| Higher scheduled maintenance costs | **(1.4)** | **(2.7)** |
| (Lower) higher administrative expenses | **(0.1)** | **0.4** |
| Weaker Canadian dollar relative to the U.S. dollar | **0.1** | **0.2** |
| Other | **(0.2)** | **(1.3)** |
| Change in earnings from operations, compared to 2012 | $ **(18.6)** | $ **(21.0)** |

Production remained consistent compared to the comparable periods in the prior year. The average-realized price of electricity was $0.49 per MWh higher in the second quarter of 2013 and $0.44 per MWh higher in the first six months of 2013 compared to the same periods in the prior year primarily due to a weaker Canadian dollar relative to the U.S. dollar.

Payment has not been received on overdue receivables from Power's leased electricity generation facility in Madagascar since the second quarter of 2011. As a result, included in cost of sales are impairments in the amount of $16.6 million in the second quarter of 2013 and $17.2 million in the first six months of 2013. The impairment charges related to a provision on overdue receivables of $9.3 million in the second quarter of 2013 and $9.9 million in the six months ended June 30, 2013 as well as a $7.3 million impairment of a power facility in the second quarter. Management continues to pursue collection of the overdue receivables.

Unit operating cost is composed of the following:

| Components of unit operating cost (%) | For the three months ended 2013 June 30 | For the three months ended 2012 June 30 | For the six months ended 2013 June 30 | For the six months ended 2012 June 30 |
|---|---|---|---|---|
| Labour | **22%** | 34% | **21%** | 34% |
| Maintenance | **44%** | 15% | **44%** | 19% |
| Freight and duty | **9%** | 3% | **8%** | 5% |
| Insurance | **5%** | 10% | **6%** | 9% |
| Other | **20%** | 38% | **21%** | 33% |
| Total | **100%** | 100% | **100%** | 100% |

Overall, unit operating cost increased by $12.06 per MWh in the second quarter of 2013 and by $10.77 per MWh in the first six months of 2013 compared to the same periods in the prior year. Base unit operating cost increased by $2.79 per MWh in the second quarter of 2013 and by $2.04 per MWh in the first six months of 2013 compared to the same periods in the prior year primarily due to an increase in scheduled maintenance costs. Non-base unit operating cost increased by $9.27 per MWh in the second quarter of 2013 compared to the same period in the prior year primarily due to a scheduled major inspection at Boca de Jaruco, pipeline construction costs to tie-in gas production to the Boca facilities, and major equipment replacements which accounted for $6.27 per MWh, $1.69 per MWh, and $1.84 per MWh, respectively. Non-base unit operating cost increased by $8.73 per MWh in the first six months of 2013 compared to the same period in the prior year primarily due to scheduled major inspections at Boca de Jaruco and pipeline costs to tie-in gas production to the Boca facilities which accounted for $5.98 per MWh, and $2.63 per MWh, respectively.

Spending on capital and service concession arrangements is composed of the following:

| $ millions (33⅓% basis) | For the three months ended 2013 June 30 | 2012 June 30 | Change | For the six months ended 2013 June 30 | 2012 June 30 | Change |
|---|---|---|---|---|---|---|
| Sustaining | **$ 0.1** | $ 0.1 | - | **$ 0.3** | $ 0.3 | - |
| Growth | **1.8** | 1.2 | 50% | **3.5** | 2.2 | 59% |
| Total | **$ 1.9** | $ 1.3 | 46% | **$ 3.8** | $ 2.5 | 52% |

Sustaining capital expenditures were primarily related to the purchase of equipment. Growth spending is capitalized interest on the 150 MW Boca de Jaruco Combined Cycle Project.

| $ millions (33⅓% basis) | For the three months ended 2013 June 30 | 2012 June 30 | Change | For the six months ended 2013 June 30 | 2012 June 30 | Change |
|---|---|---|---|---|---|---|
| Service concession arrangements | **$ 4.2** | $ 7.9 | (47%) | **$ 10.3** | $ 14.9 | (31%) |

Service concession arrangement expenditures relate to the 150 MW Boca de Jaruco Combined Cycle Project. The project is now scheduled to begin production in the fourth quarter of 2013, as delays encountered with equipment and material suppliers and delays obtaining work visas in Cuba have had an impact on the schedule. The project is expected to be fully operational by the end of the year with a total cost estimate of $297 million.

## Outlook for 2013

| Production volumes and spending on capital (33⅓% basis) and project<br>For the six and twelve months ended | Actual **2013 June 30** | Projected 2013 December 31 |
|---|---|---|
| **Production** | | |
| Electricity (GWh) | **313** | 630 |
| **Spending on capital** ($ millions) | | |
| Cuba[1] | **4** | 8 |
| **Project capital spending** ($ millions) | | |
| 150 MW Boca de Jaruco (100% basis) | **31** | 51 |

(1) Spending on capital for Power includes sustaining capital at the Varadero site as well as capitalized interest in respect of the 150 MW Boca de Jaruco Combined Cycle Project.

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

## OTHER

### Technologies

Technologies continued to support Ambatovy's production ramp-up both on site in Madagascar and by providing consulting support from Sherritt Technologies' office in Fort Saskatchewan. Technologies also provided technical services to other Sherritt and Coal operations as well as to the Sulawesi Project in Indonesia. The division continued to advance Sherritt's initiatives in coal pre-combustion beneficiation, coal gasification and coal to liquid technologies.

Technologies is actively engaged in projects for third-party clients related to the development of commercial facilities for gold, copper and zinc projects in China, Colombia, Canada, Europe and Chile, and in the development and application of hydrometallurgical and associated technologies for application to other resource-based industries.

### Sulawesi Project update

The Sulawesi Project is a large, high-grade undeveloped lateritic nickel deposit on the Indonesian island of Sulawesi. Under the terms of its earn-in and shareholders' agreement, with a subsidiary of Rio Tinto, the Corporation may elect to acquire a 57.5% interest in a holding company that owns the Sulawesi Project in Indonesia upon funding expenditures of US$30.0 million and meeting certain other conditions by April 1, 2014. The Corporation expects to meet this funding requirement in 2013. In addition, upon meeting the above conditions, the Corporation may elect to spend an additional US$80.0 million by December 31, 2017 towards producing a feasibility study from which a development decision will be made. If the Corporation elects not to spend the US$80.0 million it would forfeit its interest in the Sulawesi Project companies.

In compliance with Indonesia's mining law, Rio Tinto has concluded agreements to divest a 20% interest in the Sulawesi Project to Indonesian interests. Following such divestiture, which is expected to occur prior to production, Sherritt and Rio Tinto will have a 46% and 34% economic interest, respectively.

Exploration drilling to refine the definition of the deposit beyond the level of definition undertaken by Rio Tinto in their previous drilling program began in April 2013. Cores from the drilling program are being currently being analyzed in Indonesia. Ore settling tests and other tests will also be conducted on core material in the Corporation's facilities in Fort Saskatchewan, Alberta. Construction of the exploration camp was completed during the quarter. The Corporation continues to advance work on the project including environmental and social baseline studies and the project prefeasibility study.

To June 30, 2013, the Corporation has incurred a total of US$27.6 million in qualifying expenditures or 25% of the funding requirements to obtain Sherritt's 46% economic interest in the project.

# Liquidity and capital resources

Based on the Corporation's financial position and liquidity at June 30, 2013 and projected future earnings, management expects to be able to fund its working capital and project needs, and meet its other obligations including debt repayments.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table provides a summary of consolidated liquidity and capital commitments based on existing commitments and debt obligations (including accrued interest):

| $ millions, as at June 30, 2013 | Total | Falling due within 1 year | Falling due between 1-2 years | Falling due between 2-3 years | Falling due between 3-4 years | Falling due between 4-5 years | Falling due in more than 5 years |
|---|---|---|---|---|---|---|---|
| Trade accounts payable and accrued liabilities | $ 160.0 | $ 160.0 | $ - | $ - | $ - | $ - | $ - |
| Income taxes payable | 43.9 | 43.9 | - | - | - | - | - |
| Loans and borrowings[(1)] | 3,318.7 | 91.2 | 91.2 | 458.0 | 144.9 | 280.6 | 2,252.8 |
| Finance leases and other equipment financing | 178.6 | 54.7 | 41.0 | 38.7 | 34.2 | 10.0 | - |
| Environmental rehabilitation provisions | 351.6 | 27.8 | 22.4 | 22.6 | 16.5 | 16.5 | 245.8 |
| Operating leases | 31.8 | 9.0 | 3.4 | 2.8 | 2.8 | 2.9 | 10.9 |
| Pensions | 24.9 | 3.2 | 3.3 | 3.4 | 3.1 | 2.2 | 9.7 |
| Capital commitments | 4.2 | 4.2 | - | - | - | - | - |
| Total | $ 4,113.7 | $ 394.0 | $ 161.3 | $ 525.5 | $ 201.5 | $ 312.2 | $ 2,519.2 |

(1) The interest and principal on the loans from the Ambatovy Joint Venture partners will be repaid from the Corporation's share of distributions from the Ambatovy Joint Venture. Amounts are based on management's best estimate of future cash flows including estimating assumptions such as commodity prices, production levels, cash costs of production, capital and reclamation costs. These loans are non-recourse to Sherritt unless there is a direct breach of certain restrictions stipulated in the loan documents. The maturity analysis table includes an estimate of interest repayments.

## OTHER COMMITMENTS

The following commitments are not reflected in the table above:

### Moa Joint Venture

As a result of the Corporation's 50% interest in the Moa Joint Venture, its proportionate share of significant commitments of the joint venture includes the following:

- Environmental rehabilitation commitments of $75.2 million, with no significant repayments due in the next four years;
- Advances and loans payable of $130.9 million; and
- Other commitments of $6.2 million.

### Ambatovy Joint Venture

As a result of the Corporation's 40% interest in Ambatovy Joint Venture, its proportionate share of significant commitments of the Joint Venture includes the following:

- Environmental rehabilitation commitments of $161.8 million, with no significant repayments due in the next four years;
- Other contractual commitments of $39.0 million; and
- Ambatovy Joint Venture senior debt financing of US$815.6 million ($857.4 million), with principal repayments which began in June 2013. On an undiscounted basis, principal and interest repayments are $973.0 million.

## 150 MW Boca de Jaruco Combined Cycle Project

The Corporation expects to fund $19.6 million (100% basis) related to the remainder of its service concession arrangement commitment for the 150 MW Boca de Jaruco Combined Cycle Project which is scheduled to begin production the fourth quarter of 2013.

## INVESTMENT LIQUIDITY

At June 30, 2013, cash and cash equivalents and investments were located in the following countries:

| $ millions, as at June 30, 2013 | Cash | Cash equivalents and Short-term investments | Investments | Total |
|---|---|---|---|---|
| Canada | $ 8.3 | $ 370.6 | $ - | $ 378.9 |
| Cuba | 18.9 | - | 19.9 | 38.8 |
| Other | 8.2 | - | - | 8.2 |
| Total | $ 35.4 | $ 370.6 | $ 19.9 | $ 425.9 |

## Cash and short-term investments

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

At June 30, 2013, cash equivalents included $321.3 million in Government of Canada treasury bills having original maturity dates of less than three months and short-term investments included $49.3 million in Government of Canada treasury bills having original maturity dates of greater than three months and less than one year.

The table above does not include cash, cash equivalents and short-term investments of $72.3 million (100% basis) held by the Moa Joint Venture, nor $33.9 million (100% basis) held by the Ambatovy Joint Venture. These amounts are for the exclusive use of the joint ventures and the Corporation's share is included as part of the investment in an joint venture and associate balances in the consolidated statement of financial position. The cash and short-term investments amounts are deposited with or issued by financial institutions whose parent company is rated A- or higher by Standard and Poor's.

## Investments

As a result of the 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, 2013, the balance of the CDs was $19.9 million.

## AVAILABLE CREDIT FACILITIES

At June 30, 2013, the Corporation and its divisions had borrowed $2.1 billion under available credit facilities. Total credit available under these facilities was $579 million.

The following table outlines the maximum amount and amounts available to the Corporation for credit facilities that had amounts available at June 30, 2013 and December 31, 2012. A detailed description of these facilities is provided in the Loans, borrowings and other liabilities note in the Corporation's audited consolidated financial statements for the year ended December 31, 2012.

| $ millions, as at | **2013 June 30** | | 2012 December 31 | |
|---|---|---|---|---|
| | **Maximum** | **Available** | Maximum | Available |
| **Short-term** | | | | |
| Syndicated 364-day revolving-term credit facility [(1)] | **$ 90** | **$ 69** | $ 90 | $ 90 |
| Line of credit | **20** | **20** | 20 | 20 |
| **Long-term** | | | | |
| Ambatovy Joint Venture partner loans (US$) [(2)] | **213** | **127** | 213 | 127 |
| Coal revolving credit facility [(3)] | **525** | **356** | 525 | 325 |
| Total Canadian equivalent | **$ 859** | **$ 579** | $ 847 | $ 562 |
| **Supplementary information** | | | | |
| Ambatovy Project financing (US$) (40%) [(4)] | **$ 816** | **$ -** | $ 840 | $ - |
| Finance leases [(5)] | **190** | **45** | 191 | 56 |

(1) Available for general corporate purposes. Total available draw is based on eligible receivables and inventory. At June 30, 2013, the Corporation had $21.0 million of letters of credit outstanding on this facility.

(2) Available to fund Sherritt's contributions to the Ambatovy Joint Venture.

(3) Available to Prairie Mines & Royalty Ltd. (PMRL) and CVRI. At June 30, 2013, a total of $15.0 million has been drawn on this facility and $154.2 million of letters of credit are outstanding.

(4) Due to the equity accounting for Ambatovy Joint Venture, this loan is not included in loans and borrowings on the Corporation's statement of financial position.

(5) Finance leases include only those that have been committed by lenders.

## Covenants

Certain of the Corporation's credit facilities, loans and debentures have financial tests and other covenants with which the Corporation and its affiliates must comply. Non-compliance with such covenants could result in accelerated repayment of the related debt or credit facilities and reclassification of the amounts to current. The Corporation monitors its covenants on an ongoing basis and reports on its compliance with the covenants to its lenders on a quarterly basis.

At June 30, 2013, the Corporation and its divisions were in compliance with all of their financial covenants. The Corporation expects to remain in compliance with all of its 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.

## 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 Sherritt's consolidated statements of cash flow.

| | For the three months ended | | | For the six months ended | | |
|---|---|---|---|---|---|---|
| | **2013** | 2012 | | **2013** | 2012 | |
| $ millions | **June 30** | June 30 | Change | **June 30** | June 30 | Change |
| **Cash from operating activities** | | | | | | |
| Cash from operating activities before change in non-cash working capital | **$ 52** | $ 61 | (15%) | **$ 111** | $ 153 | (27%) |
| Change in non-cash working capital | **(3)** | (59) | (95%) | **(14)** | (51) | (73%) |
| | **$ 49** | $ 2 | 2350% | **$ 97** | $ 102 | (5%) |
| **Cash provided by (used for) investing and financing activities** | | | | | | |
| Property, plant, equipment and intangible expenditures expenditures | **$ (28)** | $ (34) | (18%) | **$ (58)** | $ (54) | 7% |
| Net repayment of loans, borrowings and other financial liabilities financial liabilities | **(25)** | 19 | (232%) | **(64)** | (27) | 137% |
| Net repayment of finance lease receivables | **3** | 4 | (25%) | **29** | 10 | 190% |
| Loans to an associate | **(23)** | (59) | (61%) | **(66)** | (82) | (20%) |
| Investment in an associate | **-** | (52) | (100%) | **(13)** | (122) | (89%) |
| Decrease in investments | **7** | 7 | - | **14** | 14 | - |
| Dividends paid on common shares | **(13)** | (12) | 8% | **(24)** | (23) | 4% |
| Other | **(6)** | 1 | (700%) | **(12)** | 7 | (271%) |
| | **$ (85)** | $ (126) | (33%) | **$ (194)** | $ (277) | (30%) |
| | **(36)** | (124) | (71%) | **(97)** | (175) | (45%) |
| **Cash, cash equivalents and short-term investments:** | | | | | | |
| Beginning of the period | **442** | 550 | (20%) | **503** | 601 | (16%) |
| End of the period | **$ 406** | $ 426 | (5%) | **$ 406** | $ 426 | (5%) |

The significant items affecting the sources and uses of cash during the three and six months ended June 30, 2013 are described below:

- Cash from operating activities before change in non-cash working capital for the three and six months ended June 30, 2013 were lower than the same periods in the prior year primarily as a result of lower net earnings. Earnings for the six months includes a non-cash gain on termination of the Highvale mining contract;
- The change in non-cash working capital in the three and six months ended June 30, 2013 is favorable compared to the same periods in prior year primarily due to strong receivable collections at Oil and Gas in the second quarter of 2013, and a significant increase in cash in the second quarter of 2013 relating to a drawdown of Coal inventory that had accumulated after the Westshore incident in December 2012. This compares to a significant use in cash in 2012 relating to an increase in accounts receivable and inventories at Coal, primarily due to the timing of shipments at Coal's Mountain Operations and production at Coal's Prairie Operations exceeding demand;
- Cash used for spending on property, plant, equipment and intangibles in the three and six months ended June 30, 2013 was $28 million and $58 million, respectively. A discussion of these expenditures is included in the Review of operations sections for each division;
- A total of $23 million and $79 million (US$22 million and US$78 million) was provided in cash to the Ambatovy Joint Venture as Sherritt's share of the joint venture funding requirements in the three and six months ended June 30, 2013. Of the funding provided, $23 million and $66 million, respectively, was provided as a loan and the remaining funding was a direct contribution to Sherritt's investment in the joint venture;
- The net repayment of loans and borrowings for the three and six months ended June 30, 2013 related primarily to the repayment of the Corporation's Coal revolving credit facility and finance lease obligations;
- The net repayment of finance leases receivable in the first six months ended of 2013 primarily related to the leases repaid on the removal of the contract mining business at Highvale;
- The decrease in investments was primarily related to amounts collected by the Corporation on the Cuban certificates of deposit.

### COMMON SHARES

As at July 30, 2013, the Corporation had 296,939,426 common shares outstanding. An additional 4,964,917 common shares are issuable upon exercise of outstanding stock options granted to employees and directors pursuant to the Corporation's stock option plan.

On June 12, 2013, the Corporation's Board of Directors approved a quarterly dividend of $0.043 per common share paid on July 12, 2013 to shareholders of record as of the close of business on June 28, 2013.

# Managing risk

Sherritt manages a number of risks in each of its businesses in order to achieve an acceptable level of risk without appreciably hindering its ability to maximize returns. Management has procedures to identify and manage significant operational and financial risks. A comprehensive list of the Corporation's significant business risks and strategies designed to manage these risks can be found in the Corporation's Annual Information Form.

# Accounting pronouncements

There have been no new accounting pronouncements issued in the first six months of 2013 that are expected to impact the Corporation. For a summary of accounting pronouncements, see the Accounting pronouncements note in the Corporation's audited consolidated financial statements for the year ended December 31, 2012.

# Summary of quarterly results

The following table presents a summary of the segment revenue and consolidated operating results for each of the eight quarters ended September 30, 2011 to June 30, 2013.

| $ millions, except per share amounts, for the three months ended | **2013 June 30** | 2013 Mar 31 | 2012 Dec. 31 | 2012 Sept. 30 | 2012 June 30 | 2012 Mar. 31 | 2011[(1)] Dec. 31 | 2011[(1)] Sept. 30 |
|---|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | | |
| Metals | **$ 120.6** | $ 103.7 | $ 138.4 | $ 88.4 | $ 140.2 | $ 116.1 | $ 137.7 | $ 122.9 |
| Coal | **216.8** | 179.5 | 242.0 | 237.1 | 250.6 | 245.3 | 303.3 | 247.2 |
| Oil and Gas | **71.2** | 71.1 | 68.2 | 74.2 | 76.3 | 82.2 | 74.4 | 78.5 |
| Power | **13.5** | 16.0 | 17.0 | 18.8 | 17.6 | 16.6 | 18.6 | 14.0 |
| Corporate and other | **1.7** | 1.2 | 2.3 | 3.7 | 3.2 | 3.3 | 2.8 | 3.8 |
| | **$ 423.8** | $ 371.5 | $ 467.9 | $ 422.2 | $ 487.9 | $ 463.5 | $ 536.8 | $ 466.4 |
| Adjust joint venture and associate revenue | **(85.3)** | (85.0) | (95.6) | (80.7) | (110.8) | (104.1) | - | - |
| Financial statement revenue | **$ 338.5** | $ 286.5 | $ 372.3 | $ 341.5 | $ 377.1 | $ 359.4 | $ 536.8 | $ 466.4 |
| Net (loss) earnings | **$ (10.7)** | $ 23.1 | $ (16.9) | $ (22.6) | $ 40.8 | $ 32.4 | $ 28.1 | $ 45.5 |
| Net earnings (loss) per share | | | | | | | | |
| Basic | **$ (0.04)** | $ 0.08 | $ (0.06) | $ (0.08) | $ 0.14 | $ 0.11 | $ 0.10 | $ 0.16 |
| Diluted | **(0.04)** | 0.08 | (0.06) | (0.08) | 0.14 | 0.11 | 0.09 | 0.15 |

(1) The adoption date of IFRS 11 was January 1, 2013 which resulted in the Corporation changing the accounting for the Moa Joint Venture from proportionate consolidation to equity accounting effective January 1, 2012. Comparative period figures for 2012 have been restated to comply with these requirements. The 2011 period figures have not been restated to reflect the impact of adoption of this IFRS.

Net (loss) earnings for the Corporation are primarily affected by commodity prices, sales volumes and exchange rates that impact revenue and

costs. The average Canadian dollar cost to purchase one U.S. dollar for the above quarters has been relatively consistent, ranging from $0.98 to $1.02. In addition to the impact of commodity prices, sales volumes and exchange rates, net (loss) earnings was impacted by the following significant items (pre-tax):

- The second quarter of 2013 included a non-cash provision on accounts receivable and impairment on Madagascar assets of $16.6 million;
- the first quarter of 2013 included a non-cash gain on termination of the Highvale mining contract of $22.0 million;
- the fourth quarter of 2012 included the recognition of total impairments of $18.7 million;
- the quarters ended September, 30 2012 and December 31, 2011 each included early redemption premiums on the redemption/repurchase of debentures;
- the quarter ended June 30, 2012 included a gain on sale related to Mineral Products; and
- the quarter ended March 31, 2012 included an $11.8 million downward adjustment in the fair value of the Ambatovy call option.

# Off-balance sheet arrangements

The Corporation has no foreign exchange or commodity options, futures or forward contracts. The Corporation has made a completion guarantee to the Ambatovy Joint Venture lenders and has letters of credit issued under the Coal revolving credit facility.

# Transactions with related parties

The Corporation and subsidiaries provide goods, labour, advisory and other administrative services to joint operations and an associate at fair value. The Corporation and its subsidiaries also market, pursuant to sales agreements, a portion of the nickel, cobalt and certain by-products produced by certain joint operations and an associate in the Metals business.

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| $ millions | **June 30** | June 30 | **June 30** | June 30 |
| Total value of goods and services: | | | | |
| Provided to joint operations | **$ 9.1** | $ 8.2 | **$ 14.3** | $ 14.0 |
| Provided to joint venture | **78.4** | 34.9 | **113.1** | 65.1 |
| Provided to associate | **-** | 1.3 | **5.7** | 2.4 |
| Purchased from joint operations | **-** | - | **0.9** | - |
| Purchased from joint venture | **36.8** | 35.0 | **57.5** | 48.6 |
| Net financing income from joint operations | **6.2** | 4.5 | **11.9** | 8.7 |
| Net financing income from joint venture | **1.9** | 2.1 | **3.5** | 4.3 |

| | **2013** | 2012 |
|---|---|---|
| $ millions, as at | **June 30** | December 31 |
| Accounts receivable from joint operations | **$ 0.4** | $ - |
| Accounts receivable from joint venture | **8.9** | 5.8 |
| Accounts receivable from associate | **45.2** | 31.1 |
| Accounts payable to joint venture | **1.9** | 0.9 |
| Accounts payable to associate | **1.3** | 11.8 |
| Advances and loans receivable from associate | **1,464.9** | 1,279.1 |
| Advances and loans receivable from joint operations | **254.1** | 223.9 |
| Advances and loans receivable from joint venture entities | **243.5** | 235.6 |

All transactions between related parties are based on standard commercial terms. All amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received on the outstanding amounts. No expense has been recognized in the current or prior year for bad debts in respect of amounts owed by related parties.

# Controls and procedures

## DISCLOSURE CONTROLS AND PROCEDURES

The Corporation's disclosure controls and procedures are designed to ensure that all important information about Sherritt, 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 IFRS.

The internal controls are not expected to prevent and detect all misstatements due to error or fraud.

As at June 30, 2013, the Corporation's CEO and CFO have certified that the disclosure controls and procedures are effective and that during the quarter ended June 30, 2013 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 net earnings and earnings per share for the second quarter of 2013 from 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[1] | Increase | Approximate change in Q2 net earnings ($ millions) Increase/(decrease) | Approximate change in Q2 basic EPS Increase/(decrease) |
|---|---|---|---|
| **Prices** | | | |
| Nickel - LME price per pound (50% basis) | US$ 0.50 | $ 3 | $ 0.01 |
| Cobalt - Metal Bulletin price per pound (50% basis) | US$ 5.00 | 2 | 0.01 |
| Export thermal coal - price per tonne | US$ 15.00 | 4 | 0.01 |
| Oil -U.S. Gulf Coast Fuel Oil No. 6 price per barrel | US$ 5.00 | 2 | 0.01 |
| **Volume** | | | |
| Nickel - tonnes (50% basis)[2] | 1,000 | 1 | - |
| Cobalt - tonnes (50% basis)[2] | 250 | 2 | 0.01 |
| Oil - gross working-interest barrels per day | 1,000 | 1 | - |
| **Exchange rate** | | | |
| Strengthening of the Canadian dollar relative to the U.S. dollar | US$ 0.05 | (15) | (0.05) |
| **Operating costs** | | | |
| Natural gas - cost per gigajoule (Metals) (50% basis) | $ 1.00 | (1) | - |
| Sulphuric acid - cost per tonne (Metals) (50% basis) | US$ 25.00 | (1) | - |
| Fuel - WTI oil price (Coal) | US$ 10.00 | (1) | - |

(1) Changes in factors/net earnings do not include the impact related to Ambatovy.

(2) Reflects volume increase on 100% basis for an approximate change in net earnings and basic EPS on a 50% basis.

## NON-GAAP MEASURES

Management uses Adjusted EBITDA, average-realized price and unit operating cost to monitor the financial performance of the Corporation's operating divisions and believes these measures enable investors and analysts to compare the Corporation's financial performance with its competitors and evaluate the results of its underlying business. These measures do not have a standard definition under IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. As these measures do not have a standardized meaning, they may not be comparable to similar measures provided by other companies.

### Adjusted EBITDA

As a result of the change in accounting for the Moa Joint Venture under IFRS 11, the Corporation revised its definition of Adjusted EBITDA in the first quarter of 2013 to include the results of the Corporation's earnings or loss in joint venture and associate to provide a measure that is reasonably consistent with historical measures.

The Corporation defines Adjusted EBITDA as earnings (loss) from operations, associate and joint venture as reported in the financial statements for the period adjusted for depletion, depreciation and amortization; impairment charges for property, plant and equipment, intangible assets, goodwill and investments; and gain or loss on disposal of property, plant and equipment of the Corporation, associate and joint venture.

The table below reconciles Adjusted EBITDA to net earnings (loss) from operations, associate and joint venture:

| $ millions, for the three months ended June 30, 2013 | Metals | Coal | Oil and Gas | Power | Corporate and Other | Adjustment for Joint Venture and Associate | Total |
|---|---|---|---|---|---|---|---|
| Earnings (loss) from operations, associate and joint venture per financial statements (note 4) | **$ 6.7** | **$ 4.4** | **$ 37.8** | **$ (15.5)** | **$ (15.6)** | **$ 1.2** | **$ 19.0** |
| Add (deduct): | | | | | | | |
| Depletion, depreciation and amortization | **2.6** | **29.5** | **17.9** | **2.7** | **1.3** | **-** | **54.0** |
| Gain on termination of contract | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Impairment of property, plant and equipment | **-** | **-** | **-** | **7.3** | **-** | **-** | **7.3** |
| Adjustments for share of associate and joint venture: | | | | | | | |
| Associate | | | | | | | |
| Depletion, depreciation and amortization | **0.9** | **-** | **-** | **-** | **-** | **-** | **0.9** |
| Net finance expense | **-** | **-** | **-** | **-** | **-** | **0.8** | **0.8** |
| Income tax recovery | **-** | **-** | **-** | **-** | **-** | **(0.7)** | **(0.7)** |
| Joint venture | | | | | | | |
| Depletion, depreciation and amortization | **7.1** | **-** | **-** | **-** | **-** | **-** | **7.1** |
| Net finance expense | **-** | **-** | **-** | **-** | **-** | **3.3** | **3.3** |
| Income tax recovery | **-** | **-** | **-** | **-** | **-** | **(4.6)** | **(4.6)** |
| Adjusted EBITDA | **$ 17.3** | **$ 33.9** | **$ 55.7** | **$ (5.5)** | **$ (14.3)** | **$ -** | **$ 87.1** |

| $ millions, for the three months ended June 30, 2012 | Metals | Coal | Oil and Gas | Power | Corporate and Other | Adjustment for Joint Venture and Associate | Total |
|---|---|---|---|---|---|---|---|
| Earnings (loss) from operations, associate and joint venture per financial statements (note 4) | $ 37.6 | $ 9.7 | $ 41.9 | $ 3.1 | $ (13.3) | $ (6.6) | $ 72.4 |
| Add: | | | | | | | |
| Depletion, depreciation and amortization | 2.4 | 30.7 | 16.5 | 2.7 | 0.7 | - | 53.0 |
| Adjustments for share of associate and joint venture: | | | | | | | - |
| Associate | | | | | | | - |
| Depletion, depreciation and amortization | (0.4) | - | - | - | - | - | (0.4) |
| Net finance expense | - | - | - | - | - | 1.8 | 1.8 |
| Income tax expense | - | - | - | - | - | 0.1 | 0.1 |
| Joint venture | | | | | | - | - |
| Depletion, depreciation and amortization | 6.6 | - | - | - | - | - | 6.6 |
| Net finance expense | - | - | - | - | - | 4.5 | 4.5 |
| Income tax expense | - | - | - | - | - | 0.2 | 0.2 |
| Adjusted EBITDA | $ 46.2 | $ 40.4 | $ 58.4 | $ 5.8 | $ (12.6) | $ - | $ 138.2 |

| $ millions, for the six months ended June 30, 2013 | Metals | Coal | Oil and Gas | Power | Corporate and Other | Adjustment for Joint Venture and Associate | Total |
|---|---|---|---|---|---|---|---|
| Earnings (loss) from operations, associate and joint venture per financial statements (note 4) | **$ 13.7** | **$ 37.8** | **$ 79.2** | **$ (14.6)** | **$ (33.0)** | **$ (3.6)** | **$ 79.5** |
| Add (deduct): | | | | | | | |
| Depletion, depreciation and amortization | **4.8** | **55.7** | **33.9** | **5.3** | **2.2** | **-** | **101.9** |
| Gain on termination of contract | **-** | **(22.0)** | **-** | | **-** | **-** | **(22.0)** |
| Impairment of property, plant and equipment | **-** | **-** | **-** | **7.3** | **-** | **-** | **7.3** |
| Adjustments for share of associate and joint venture: | | | | | | | |
| Associate | | | | | | | |
| Depletion, depreciation and amortization | **1.6** | **-** | **-** | **-** | **-** | **-** | **1.6** |
| Net finance expense | **-** | **-** | **-** | **-** | **-** | **0.8** | **0.8** |
| Income tax recovery | **-** | **-** | **-** | **-** | **-** | **(0.7)** | **(0.7)** |
| Joint venture | | | | | | | |
| Depletion, depreciation and amortization | **14.1** | **-** | **-** | **-** | **-** | **-** | **14.1** |
| Net finance expense | **-** | **-** | **-** | **-** | **-** | **7.2** | **7.2** |
| Income tax recovery | **-** | **-** | **-** | **-** | **-** | **(3.7)** | **(3.7)** |
| Adjusted EBITDA | **$ 34.2** | **$ 71.5** | **$ 113.1** | **$ (2.0)** | **$ (30.8)** | **$ -** | **$ 186.0** |

| $ millions, for the six months ended June 30, 2012 | Metals | Coal | Oil and Gas | Power | Corporate and Other | Adjustment for Joint Venture and Associate | Total |
|---|---|---|---|---|---|---|---|
| Earnings (loss) from operations, associate and joint venture per financial statements (note 4) | $ 59.6 | $ 35.5 | $ 88.3 | $ 6.4 | $ (22.9) | $ (8.3) | $ 158.6 |
| Add: | | | | | | | |
| Depletion, depreciation and amortization | 4.5 | 58.0 | 35.3 | 5.3 | 1.3 | - | 104.4 |
| Adjustments for share of associate and joint venture: | | | | | | | |
| Associate | | | | | | | |
| Depletion, depreciation and amortization | - | - | - | - | - | - | - |
| Net finance income | - | - | - | - | - | (0.5) | (0.5) |
| Income tax recovery | - | - | - | - | - | 0.1 | 0.1 |
| Joint venture | | | | | | | - |
| Depletion, depreciation and amortization | 12.8 | - | - | - | - | - | 12.8 |
| Net finance expense | - | - | - | - | - | 4.5 | 4.5 |
| Income tax expense | - | - | - | - | - | 4.2 | 4.2 |
| Adjusted EBITDA | $ 76.9 | $ 93.5 | $ 123.6 | $ 11.7 | $ (21.6) | $ - | $ 284.1 |

## Average-realized price

Average-realized price is calculated by dividing revenue by sales volume for the given product. For Metals, the average-realized price calculation does not include revenue of the metals marketing company.

For Coal's Prairie Operations, average-realized price excludes the impact related to royalties, activated carbon and char activities.

## Unit operating cost

With the exception of Metals, which uses net direct cash cost, unit operating cost is generally calculated by dividing cost of sales as reported in the IFRS financial statements, less depreciation, depletion and amortization in cost of sales and certain non-production related costs by the number of units sold.

The Moa Joint Venture's net direct cash cost is calculated by dividing its cost of sales adjusted for the following: amortization in cost of sales; cobalt by-product, fertilizer and other revenue; and other costs primarily related to the impact of opening and closing inventory values, by the number of finished nickel pounds sold in the period, translated to U.S. dollars using an average exchange rate for the respective period.

For Coal's Prairie Operations, the unit operating cost excludes the impact related to royalties, activated carbon and char activities.

The table below reconciles unit operating cost to cost of sales per the financial statements:

$ millions, except unit cost and sales volume, for the three months ended June 30, 2013

| | | Coal | | | | |
|---|---|---|---|---|---|---|
| | Metals | Prairie | Mountain | Total | Oil and Gas | Power |
| Cost of sales per financial statements (note 4) | $ 111.7 | $ 93.4 | $ 114.4 | $ 207.8 | $ 31.1 | $ 27.9 |
| Less: | | | | | | |
| Depletion, depreciation and amortization in cost of sales | (10.5) | (18.3) | (11.4) | (29.7) | (17.7) | (2.7) |
| Cost of sales per review of operations | 101.2 | 75.1 | 103.0 | 178.1 | 13.4 | 25.2 |
| Adjustments to cost of sales: | | | | | | |
| Cobalt by-product, fertilizer and other revenue | (55.6) | - | - | - | - | - |
| Net impact of non-joint venture fertilizer sales | 11.7 | - | - | - | - | - |
| Impact of opening/closing inventory and other | (2.0) | - | - | - | - | - |
| Cost of sales – royalties, activated carbon and char | - | (5.7) | - | (5.7) | - | - |
| Cost of sales – Ambatovy, metal marketing company and other | (5.8) | - | - | - | - | - |
| Service concession arrangements – Cost of construction | - | - | - | - | - | (4.2) |
| Other | - | 0.3 | 0.5 | 0.8 | - | (16.6) |
| Cost of sales for purposes of unit cost calculation | 49.5 | 69.7 | 103.5 | 173.2 | 13.4 | 4.4 |
| Sales volume for the period | 8.6 | 5.2 | 1.2 | | 1.0 | 153 |
| Volume units | Millions of pounds | Millions of tonnes | Millions of tonnes | | Millions of barrels[1] | Gigawatts |
| Unit operating cost[2][3][4] | $ 5.69 | $ 13.57 | $ 89.41 | | $ 12.81 | $ 28.92 |
| Unit operating cost (U.S. dollars) | $ 5.58 | | | | | |

(1) Net working-interest oil production
(2) Metals: Net direct cash cost, inclusive of by-product credits and third-party feed costs. Sales volume based on pounds of finished nickel.
(3) Unit operating costs may not calculate based on amounts presented due to rounding.
(4) Power, unit operating cost per MWh

$ millions, except unit cost and sales volume, for the three months ended June 30, 2012

| | Metals | Coal | | | Oil and Gas | Power |
|---|---|---|---|---|---|---|
| | | Prairie | Mountain | Total | | |
| Cost of sales per financial statements (note 4) | $ 101.9 | $ 132.8 | $ 103.7 | $ 236.5 | $ 30.3 | $ 13.3 |
| Less: | | | | | | |
| Depletion, depreciation and amortization in cost of sales | (8.3) | (15.6) | (14.6) | (30.2) | (16.4) | (2.7) |
| Cost of sales per review of operations | 93.6 | 117.2 | 89.1 | 206.3 | 13.9 | 10.6 |
| Adjustments to cost of sales: | | | | | | |
| Cobalt by-product, fertilizer and other revenue | (62.1) | - | - | - | - | - |
| Net impact of non-joint venture fertilizer sales | 16.2 | - | - | - | - | - |
| Impact of opening/closing inventory and other | (4.9) | - | - | - | - | - |
| Cost of sales – royalties, activated carbon and char | - | (5.2) | - | (2.7) | - | - |
| Cost of sales – Ambatovy, metal marketing company and other | (2.5) | - | - | - | - | - |
| Service concession arrangements - Cost of construction | - | - | - | - | - | (7.9) |
| Other | 1.5 | 0.5 | (0.6) | (2.6) | - | - |
| Cost of sales for purposes of unit cost calculation | 41.8 | 112.5 | 88.5 | 201.0 | 13.9 | 2.7 |
| Sales volume for the period | 9.9 | 6.8 | 1.0 | | 1.1 | 157 |
| Volume units | Millions of pounds | Millions of tonnes | Millions of tonnes | | Millions of barrels[1] | Gigawatts |
| Unit operating cost[2][3][4] | $ 4.20 | $ 16.59 | $ 87.61 | | $ 13.21 | $ 16.86 |
| Unit operating cost (U.S. dollars) | $ 4.16 | | | | | |

(1) Net working-interest oil production

(2) Metals: Net direct cash cost, inclusive of by-product credits and third-party feed costs. Sales volume based on pounds of finished nickel.

(3) Unit operating costs may not calculate based on amounts presented due to rounding.

(4) Power, unit operating cost per MWh

$ millions, except unit cost and sales volume, for the six months ended June 30, 2013

| | **Metals** | **Coal** | | | **Oil and Gas** | **Power** |
|---|---|---|---|---|---|---|
| | | **Prairie** | **Mountain** | **Total** | | |
| Cost of sales per financial statements (note 4) | **$ 206.3** | **$ 193.9** | **$ 177.7** | **$ 371.6** | **$ 59.0** | **$ 41.5** |
| Less: | | | | | | |
| Depletion, depreciation and amortization in cost of sales | **(20.4)** | **(33.5)** | **(22.2)** | **(55.7)** | **(33.7)** | **(5.3)** |
| Cost of sales per review of operations | **185.9** | **160.4** | **155.5** | **315.9** | **25.3** | **36.2** |
| Adjustments to cost of sales: | | | | | | |
| Cobalt by-product, fertilizer and other revenue | **(85.1)** | **-** | **-** | **-** | **-** | **-** |
| Net impact of non-joint venture fertilizer sales | **17.3** | **-** | **-** | **-** | **-** | **-** |
| Impact of opening/closing inventory and other | **(4.7)** | **-** | **-** | **-** | **-** | **-** |
| Cost of sales – royalties, activated carbon and char | **-** | **(10.0)** | **-** | **(10.0)** | **-** | **-** |
| Cost of sales – Ambatovy, metal marketing company and other | **(11.7)** | **-** | **-** | **-** | **-** | **-** |
| Service concession arrangements – Cost of construction | **-** | **-** | **-** | **-** | **-** | **(10.3)** |
| Other | **-** | **(0.8)** | **2.4** | **1.6** | **-** | **(17.2)** |
| Cost of sales for purposes of unit cost calculation | **101.7** | **149.6** | **157.9** | **307.5** | **25.3** | **8.7** |
| Sales volume for the period | **17.2** | **10.9** | **1.8** | | **2.0** | **313** |
| Volume units | **Millions of pounds** | **Millions of tonnes** | **Millions of tonnes** | | **Millions of barrels[1]** | **Gigawatts** |
| Unit operating cost[2][3][4] | **$ 5.90** | **$ 13.78** | **$ 89.97** | | **$ 12.50** | **$ 27.78** |
| Unit operating cost (U.S. dollars) | **$ 5.78** | | | | | |

(1) Net working-interest oil production

(2) Metals: Net direct cash cost, inclusive of by-product credits and third-party feed costs. Sales volume based on pounds of finished nickel.

(3) Unit operating costs may not calculate based on amounts presented due to rounding.

(4) Power, unit operating cost per MWh

$ millions, except unit cost and sales volume, for the six months ended June 30, 2012

| | | Coal | | | | |
|---|---|---|---|---|---|---|
| | Metals | Prairie | Mountain | Total | Oil and Gas | Power |
| Cost of sales per financial statements (note 4) | $ 193.9 | $ 259.7 | $ 191.6 | $ 451.3 | $ 63.5 | $ 25.6 |
| Less: | | | | | | |
| Depletion, depreciation and amortization in cost of sales | (17.0) | (29.0) | (27.9) | (56.9) | (35.1) | (5.3) |
| Cost of sales per review of operations | 176.9 | 230.7 | 163.7 | 394.4 | 28.4 | 20.3 |
| Adjustments to cost of sales: | | | | | | |
| Cobalt by-product, fertilizer and other revenue | (94.1) | - | - | - | - | - |
| Net impact of non-joint venture fertilizer sales | 20.2 | - | - | - | - | - |
| Impact of opening/closing inventory and other | (6.7) | - | - | - | - | - |
| Cost of sales – royalties, activated carbon and char | - | (10.5) | - | (10.5) | - | - |
| Cost of sales – Ambatovy, metal marketing company and other | (2.5) | - | - | - | - | - |
| Service concession arrangements - Cost of construction | - | - | - | - | - | (14.9) |
| Other | - | 0.2 | (1.5) | (1.3) | - | - |
| Cost of sales for purposes of unit cost calculation | 93.8 | 220.4 | 162.2 | 382.6 | 28.4 | 5.4 |
| Sales volume for the period | 19.5 | 14.9 | 1.8 | | 2.1 | 312 |
| Volume units | Millions of pounds | Millions of tonnes | Millions of tonnes | | Millions of barrels(1) | Gigawatts |
| Unit operating cost(2)(3)(4) | $ 4.82 | $ 14.81 | $ 88.27 | | $ 13.57 | $ 17.01 |
| Unit operating cost (U.S. dollars) | $ 4.79 | | | | | |

(1) Net working-interest oil production
(2) Metals: Net direct cash cost, inclusive of by-product credits and third-party feed costs. Sales volume based on pounds of finished nickel.
(3) Unit operating costs may not calculate based on amounts presented due to rounding.
(4) Power, unit operating cost per MWh

## FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements. Forward-looking statements can generally be identified by the use of statements that include such words as “believe”, “expect”, “anticipate”, “intend”, “plan”, “forecast”, “likely”, “may”, “will”, “could”, “should”, “suspect”, “outlook”, “projected”, “continue” or other similar words or phrases. Specifically, forward-looking statements in this document include statements respecting certain expectations of future and total capital expenditures; capital project commissioning and completion dates; expectations of the timing of commercial production at Ambatovy; production and sales volumes; revenue, costs, and earnings; compliance with financial covenants; sufficiency of working capital and capital project funding, including new exploration and development activities.

Forward-looking statements are not based on historic facts, but rather on current expectations, assumptions and projections about future events, including commodity and product prices and demand; realized prices for production; earnings and revenues; development and exploratory wells and enhance oil recovery in Cuba; environmental rehabilitation provisions; availability of regulatory approvals; compliance with applicable environmental laws and regulations; the impact of regulations related to greenhouse gas emissions and credits; debt repayments; collection of accounts receivable; and certain corporate objectives, goals and plans for 2013. By their nature, forward-looking statements require the Corporation to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that those assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. The Corporation cautions readers of this MD&A not to place undue reliance on any forward-looking statement as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

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

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

# INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2013


| | |
|---|---|
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# Condensed consolidated statements of comprehensive income

| Unaudited Canadian $ millions, except per share amounts | Note | For the three months ended 2013 June 30 | 2012 June 30 (note 28) | For the six months ended 2013 June 30 | 2012 June 30 (note 28) |
|---|---|---|---|---|---|
| **Revenue** | | **$ 338.5** | $ 377.1 | **$ 625.0** | $ 736.5 |
| Cost of sales | 5 | **302.4** | 299.3 | **531.8** | 573.9 |
| **Gross profit** | | **36.1** | 77.8 | **93.2** | 162.6 |
| Administrative expenses | | **17.4** | 22.4 | **35.8** | 39.9 |
| **Operating profit** | | **18.7** | 55.4 | **57.4** | 122.7 |
| Gain on termination of contract | 6 | **-** | - | **22.0** | - |
| Share of loss of an associate, net of tax | 7 | **(0.7)** | (2.4) | **(0.7)** | (1.2) |
| Share of earnings of a joint venture, net of tax | 8 | **1.0** | 19.4 | **0.8** | 37.1 |
| **Earnings from operations, associate and joint venture** | | **19.0** | 72.4 | **79.5** | 158.6 |
| Financing income | 9 | **(9.8)** | (8.0) | **(16.3)** | (5.8) |
| Financing expense | 9 | **32.5** | 36.4 | **67.1** | 79.5 |
| **Net finance expense** | | **22.7** | 28.4 | **50.8** | 73.7 |
| **(Loss) earnings before tax** | | **(3.7)** | 44.0 | **28.7** | 84.9 |
| Income tax expense | 10 | **7.0** | 7.9 | **16.3** | 16.1 |
| **Net (loss) earnings from continuing operations** | | **(10.7)** | 36.1 | **12.4** | 68.8 |
| Earnings from discontinued operation, net of tax | 11 | **-** | 4.7 | **-** | 4.4 |
| **Net (loss) earnings for the period** | | **$ (10.7)** | $ 40.8 | **$ 12.4** | $ 73.2 |
| **Other comprehensive income** | | | | | |
| Items that may be subsequently reclassified to profit or loss: | | | | | |
| Foreign currency translation differences on foreign operations | 19 | **84.9** | 42.9 | **133.0** | 6.1 |
| Items that will not be subsequently reclassified to profit or loss: | | | | | |
| Actuarial (losses) gains on pension plans, net of tax | 19 | **(0.5)** | (1.7) | **2.4** | 0.4 |
| **Other comprehensive income** | | **84.4** | 41.2 | **135.4** | 6.5 |
| **Total comprehensive income** | | **$ 73.7** | $ 82.0 | **$ 147.8** | $ 79.7 |
| **Net earnings from continuing operations per common share, basic and diluted** | 12 | **$ (0.04)** | $ 0.12 | **$ 0.04** | $ 0.23 |
| **Net earnings per common share, basic and diluted** | 12 | **$ (0.04)** | $ 0.14 | **$ 0.04** | $ 0.25 |

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

# Condensed consolidated statements of financial position

| Unaudited, Canadian $ millions, as at | Note | **2013 June 30** | 2012 December 31 (note 28) | 2012 January 1 (note 28) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | 13 | **$ 356.7** | $ 147.1 | $ 144.6 |
| Restricted cash | | **1.0** | 1.1 | 1.1 |
| Short-term investments | 13 | **49.3** | 356.1 | 456.8 |
| Investments | | **19.9** | 26.8 | 29.1 |
| Advances, loans receivable and other financial assets | 14 | **92.9** | 93.7 | 121.5 |
| Other non-financial assets | 14 | **0.7** | 0.8 | 0.2 |
| Finance lease receivables | 14 | **16.7** | 24.8 | 23.3 |
| Trade accounts receivable, net | 13 | **366.9** | 371.9 | 348.1 |
| Income taxes receivable | | **4.7** | 5.0 | 19.1 |
| Inventories | 15 | **163.7** | 163.8 | 129.0 |
| Prepaid expenses | | **14.2** | 12.7 | 11.1 |
| | | **1,086.7** | 1,203.8 | 1,283.9 |
| **Non-current assets** | | | | |
| Advances, loans receivable and other financial assets | 14 | **1,923.2** | 1,695.2 | 1,367.8 |
| Other non-financial assets | 14 | **9.2** | 10.8 | 20.5 |
| Finance lease receivables | 14 | **160.9** | 182.2 | 196.0 |
| Property, plant and equipment | 16 | **899.9** | 908.9 | 906.3 |
| Investments | | **-** | 4.9 | 34.7 |
| Investment in an associate | 7 | **1,118.4** | 1,089.5 | 1,053.1 |
| Investment in a joint venture | 8 | **376.9** | 365.8 | 357.5 |
| Goodwill | | **307.9** | 307.9 | 307.9 |
| Intangible assets | | **784.0** | 790.1 | 786.2 |
| Deferred income taxes | | **48.4** | 28.7 | 3.3 |
| | | **5,628.8** | 5,384.0 | 5,033.3 |
| Assets of discontinued operation | 11 | **-** | - | 1.5 |
| **Total Assets** | | **$ 6,715.5** | $ 6,587.8 | $ 6,318.7 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **Current liabilities** | | | | |
| Loans and borrowings | 17 | **$ -** | $ - | $ 56.9 |
| Trade accounts payable and accrued liabilities | | **160.0** | 171.4 | 158.1 |
| Income taxes payable | | **43.9** | 16.8 | 25.5 |
| Other financial liabilities | 17 | **53.3** | 56.8 | 55.4 |
| Other non-financial liabilities | 17 | **5.9** | 16.0 | 8.1 |
| Environmental rehabilitation provisions | 18 | **26.1** | 34.4 | 31.9 |
| | | **289.2** | 295.4 | 335.9 |
| **Non-current liabilities** | | | | |
| Loans and borrowings | 17 | **2,092.1** | 2,039.8 | 1,687.8 |
| Other financial liabilities | 17 | **117.1** | 122.6 | 107.7 |
| Other non-financial liabilities | 17 | **13.4** | 49.7 | 46.2 |
| Intangible liability | | **3.8** | 4.6 | 9.1 |
| Environmental rehabilitation provisions | 18 | **216.0** | 228.8 | 203.4 |
| Deferred income taxes | | **214.2** | 201.0 | 209.3 |
| | | **2,656.6** | 2,646.5 | 2,263.5 |
| Liabilities of discontinued operation | 11 | **-** | - | 8.2 |
| **Total liabilities** | | **2,945.8** | 2,941.9 | 2,607.6 |
| **Shareholders' equity** | | | | |
| Capital stock | 19 | **2,806.9** | 2,806.1 | 2,803.1 |
| Retained earnings | | **738.6** | 774.5 | 786.0 |
| Reserves | 19 | **195.5** | 194.9 | 195.1 |
| Accumulated other comprehensive income (loss) | 19 | **28.7** | (129.6) | (73.1) |
| | | **3,769.7** | 3,645.9 | 3,711.1 |
| **Total liabilities and shareholders' equity** | | **$ 6,715.5** | $ 6,587.8 | $ 6,318.7 |

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

# Condensed consolidated statements of cash flow

| Unaudited, Canadian $ millions | Note | For the three months ended 2013 June 30 | 2012 June 30 (note 28) | For the six months ended 2013 June 30 | 2012 June 30 (note 28) |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Net (loss) earnings for the period | | **$ (10.7)** | $ 40.8 | **$ 12.4** | $ 73.2 |
| Add (deduct): | | | | | |
| Depletion, depreciation and amortization | | **54.0** | 53.0 | **101.9** | 104.4 |
| Share of loss of an associate, net of tax | 7 | **0.7** | 2.4 | **0.7** | 1.2 |
| Share of earnings of a joint venture, net of tax | 8 | **(1.0)** | (19.4) | **(0.8)** | (37.1) |
| Gain on termination of contract | | **-** | - | **(22.0)** | - |
| Loss on impairment of assets | 5 | **18.1** | 5.8 | **18.1** | 6.9 |
| Finance costs (less accretion expenses) | | **21.9** | 27.4 | **49.0** | 71.7 |
| Income tax expense | 10 | **7.0** | 7.9 | **16.3** | 16.1 |
| Loss on settlement of environmental rehabilitation provisions | | **0.6** | 0.9 | **2.0** | 2.6 |
| Service concession arrangement | | **(4.2)** | (7.9) | **(10.3)** | (14.9) |
| Gain on sale of discontinued operation | 11 | **-** | (4.7) | **-** | (4.7) |
| Net change in non-cash working capital | 21 | **(3.2)** | (58.4) | **(14.6)** | (50.9) |
| Interest received | | **7.2** | 10.0 | **14.6** | 24.0 |
| Interest paid | | **(28.6)** | (38.2) | **(49.9)** | (39.8) |
| Income tax paid | | **(0.1)** | (13.8) | **(0.6)** | (34.0) |
| Dividends received from Joint Venture | | **2.3** | - | **2.3** | - |
| Liabilities settled for environmental rehabilitation provisions | | **(4.8)** | (5.7) | **(11.0)** | (14.4) |
| Other operating items | 21 | **(10.2)** | 1.2 | **(11.1)** | (2.6) |
| **Cash provided by operating activities** | | **49.0** | 1.3 | **97.0** | 101.7 |
| **Investing activities** | | | | | |
| Property, plant and equipment expenditures | 4 | **(25.9)** | (30.0) | **(53.1)** | (47.8) |
| Intangible expenditures | 4 | **(2.0)** | (3.1) | **(4.5)** | (5.8) |
| Increase in advances, loans receivable and other financial assets | | **(12.6)** | (16.6) | **(23.7)** | (29.3) |
| Repayment of advances, loans receivable and other financial assets | | **3.3** | 16.8 | **8.4** | 35.9 |
| Investments | | **6.9** | 6.9 | **13.8** | 13.7 |
| Loans to an associate | | **(22.5)** | (59.3) | **(65.3)** | (82.0) |
| Investment in an associate | | **-** | (52.5) | **(13.2)** | (122.4) |
| Net proceeds from sale of property, plant and equipment | | **0.7** | 1.3 | **0.7** | 2.0 |
| Short-term investments | | **137.7** | 242.5 | **306.8** | 270.3 |
| **Cash provided by investing activities** | | **85.6** | 106.0 | **169.9** | 34.6 |
| **Financing activities** | | | | | |
| Repayment of loans and borrowings and other financial liabilities | | **(24.5)** | (34.7) | **(64.0)** | (80.8) |
| Increase in loans and borrowings and other financial liabilities | | **-** | 54.2 | **-** | 54.2 |
| Increase in finance lease receivables | | **(1.4)** | (2.0) | **(5.6)** | (2.6) |
| Repayment of finance lease receivables | | **4.6** | 6.2 | **35.0** | 12.4 |
| Treasury stock - restricted stock plan | | **-** | (0.1) | **-** | (1.6) |
| Dividends paid on common shares | 19 | **(12.7)** | (11.3) | **(24.0)** | (22.6) |
| **Cash (used for) provided by financing activities** | | **(34.0)** | 12.3 | **(58.6)** | (41.0) |
| **Effect of exchange rate changes on cash and cash equivalents** | | **0.9** | 0.1 | **1.3** | - |
| **Increase in cash and cash equivalents** | | **101.5** | 119.7 | **209.6** | 95.3 |
| **Cash and cash equivalents at beginning of the period** | | **255.2** | 120.2 | **147.1** | 144.6 |
| **Cash and cash equivalents at end of the period** | | **$ 356.7** | $ 239.9 | **$ 356.7** | $ 239.9 |

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

# Condensed consolidated statements of changes in shareholders' equity

Unaudited, Canadian $ millions

| | Note | Capital stock (notes 19, 28) | Retained earnings (note 28) | Reserves (notes 19, 28) | Accumulated other comprehensive income (loss) (notes 19, 28) | Total |
|---|---|---|---|---|---|---|
| **Balance as at January 1, 2012** | | **$ 2,803.1** | **$ 786.0** | **$ 195.1** | **$ (73.1)** | **$ 3,711.1** |
| Total comprehensive income: | | | | | | |
| Net earnings for the period | | - | 73.2 | - | - | 73.2 |
| Foreign currency translation differences on foreign operations | 19 | - | - | - | 6.1 | 6.1 |
| Actuarial gains on defined benefit obligation | 19 | - | - | - | 0.4 | 0.4 |
| | | - | 73.2 | - | 6.5 | 79.7 |
| Shares issued for: | | | | | | |
| Treasury stock - restricted stock plan | 19 | (1.6) | - | - | - | (1.6) |
| Restricted stock plan (vested) | 19 | 0.2 | - | (0.2) | - | - |
| Restricted stock plan amortization | 20 | - | - | 0.8 | - | 0.8 |
| Employee share purchase plan expense | 20 | - | - | 0.2 | - | 0.2 |
| Stock option plan expense | 20 | - | - | 0.7 | - | 0.7 |
| Dividends declared to common shareholders | | - | (22.6) | - | - | (22.6) |
| **Balance as at June 30, 2012** | | **$ 2,801.7** | **$ 836.6** | **$ 196.6** | **$ (66.6)** | **$ 3,768.3** |
| Total comprehensive income: | | | | | | |
| Net earnings for the period | | - | (39.5) | - | - | (39.5) |
| Foreign currency translation differences on foreign operations | 19 | - | - | - | (55.9) | (55.9) |
| Actuarial losses on defined benefit obligation | 19 | - | - | - | (7.1) | (7.1) |
| | | - | (39.5) | - | (63.0) | (102.5) |
| Shares issued for: | | | | | | |
| Restricted stock plan (vested) | 19 | 0.7 | - | (0.7) | - | - |
| Employee share purchase plan | 19 | 3.7 | - | (2.4) | - | 1.3 |
| Restricted stock plan amortization | 20 | - | - | 0.5 | - | 0.5 |
| Stock option plan expense | 20 | - | - | 0.9 | - | 0.9 |
| Dividends declared to common shareholders | | - | (22.6) | - | - | (22.6) |
| **Balance as at December 31, 2012** | | **$ 2,806.1** | **$ 774.5** | **$ 194.9** | **$ (129.6)** | **$ 3,645.9** |
| Total comprehensive income: | | | | | | |
| Net earnings for the period | | - | **12.4** | - | - | **12.4** |
| Foreign currency translation differences on foreign operations | 19 | - | - | - | **133.0** | **133.0** |
| Reclassification on settlement of pension obligation | | - | **(22.9)** | - | **22.9** | - |
| Actuarial gains on defined benefit obligation | 19 | - | - | - | **2.4** | **2.4** |
| | | - | **(10.5)** | - | **158.3** | **147.8** |
| Shares issued for: | | | | | | |
| Restricted stock plan (vested) | 19 | **0.8** | - | **(0.8)** | - | - |
| Restricted stock plan amortization | 20 | - | - | **0.4** | - | **0.4** |
| Employee share purchase plan expense | 20 | - | - | **0.3** | - | **0.3** |
| Stock option plan expense | 20 | - | - | **0.7** | - | **0.7** |
| Dividends declared to common shareholders | | - | **(25.4)** | - | - | **(25.4)** |
| **Balance as at June 30, 2013** | | **$ 2,806.9** | **$ 738.6** | **$ 195.5** | **$ 28.7** | **$ 3,769.7** |

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

# Notes to the interim condensed consolidated financial statements

## 1. NATURE OF OPERATIONS AND CORPORATE INFORMATION

Sherritt International Corporation (the "Corporation" or "Sherritt") is a diversified Canadian natural resource company that operates principally in Canada, Cuba and Madagascar. The Corporation, either directly or through its subsidiaries, has significant interests in nickel and cobalt mining, processing and refining; thermal coal technology and production; oil and gas exploration, development and production; and, electricity generation. The Corporation also licenses its proprietary technologies to other mining companies.

The Corporation is domiciled in Ontario, Canada and its registered office is 1133 Yonge Street, Toronto, Ontario, M4T 2Y7. These interim condensed consolidated financial statements were approved and authorized for issuance by the Audit Committee on behalf of the Board of Directors of Sherritt on July 30, 2013. The Corporation is listed on the Toronto Stock Exchange.

## 2. BASIS OF PRESENTATION

The interim condensed consolidated financial statements of the Corporation are prepared in accordance with IAS 34, "Interim Financial Reporting" (IAS 34), as issued by the International Accounting Standards Board (IASB). Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the IASB, have been omitted or condensed. These financial statements include the financial results of the Corporation's interest in its subsidiaries, joint arrangements and an associate.

The interim condensed consolidated financial statements are prepared on a going concern basis, under the historical cost convention, except for certain financial assets which are presented at fair value in Canadian dollars, the Corporation's reporting currency. All financial information is presented in Canadian dollars except as otherwise noted.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of Sherritt as at and for the year ended December 31, 2012, with the exception of the impact of certain amendments to accounting standards or new interpretations issued by the IASB, which were applicable from January 1, 2013. The adoption of these amendments and standards have not had a material impact on the accounting policies, methods of computation or presentation applied by the Corporation, with the exception of IFRS 11, "Joint Arrangements" and IAS 19 (2011), "Employee Benefits" for which the effects of adoption are included in note 28.

Accordingly, the interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2012.

### Joint Arrangements

The Corporation adopted IFRS 11, "Joint Arrangements" effective January 1, 2013. This standard replaces IAS 31, "Interests in Joint Ventures" and SIC 13, "Jointly controlled entities – non-monetary contributions by venturers". The standard is applicable to all entities that have an interest in arrangements that are jointly controlled. Joint control is considered to be when all parties to the joint arrangement are required to reach unanimous consent over decisions about relevant business activities pertaining to the contractual arrangement. In accordance with the transition requirements, interests, previously defined as jointly controlled entities that were proportionately consolidated, are re-measured using the carrying amount of the assets and liabilities at the beginning of the immediately preceding period, that is, January 1, 2012, in order to arrive at the initial equity investment. The Corporation has two types of joint arrangements:

(i) Joint Ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control and whereby each party has rights to the net assets of the arrangement. Interests in joint ventures are recognized as an investment and accounted for using the equity method of accounting.

(ii) Joint Operations

A joint operation is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control and whereby each party has rights to the assets and liabilities relating to the arrangement. Interests in joint operations are accounted for by recognizing the Corporation's share of assets, liabilities, revenues, and expenses incurred jointly.

## Post-employment benefits

The Corporation adopted IAS 19 (2011), "Employee Benefits" effective January 1, 2013. On adoption of this standard, which has been applied retrospectively, the Corporation now recognizes changes in defined benefit obligations and plan assets when they occur rather than utilizing the corridor approach. Actuarial gains and losses are recognized immediately through other comprehensive income. Additionally, net interest on plan assets is calculated using the discount rate used to measure the defined benefit obligations and is recognized in the consolidated statements of comprehensive income (loss).

## Disclosures of Interests in Other Entities

The Corporation adopted IFRS 12, "Disclosures of Interests in Other Entities" effective January 1, 2013. This standard requires an entity to disclose information related to interests in subsidiaries, joint arrangements, associates, and other unconsolidated structured entities and enables users to evaluate the risks associated with these interests and the effects of those interests on an entity's financial position, financial performance, and cash flows. The requirements of IFRS 12 apply for annual periods beginning on or after January 1, 2013. Accordingly, these disclosure requirements will be fully incorporated, as necessary, in the Corporation's annual financial statements for the year ended December 31, 2013.

## Judgments and estimates

**Interests in other entities**

As part of its process in determining the classification of its interests in other entities, the Corporation applies judgment in interpreting these interests such as (i) the determination of the level of control or significant influence held by the Corporation (ii) the standard's applicability to the operations, (iii) the legal structure and contractual terms of the arrangement, (iv) concluding whether the Corporation has rights to assets and liabilities or to net assets of the arrangement, and (v) when relevant, other facts and circumstances. The Corporation has determined that Energas S.A., Carbon Development Partnership, and Bienfait Activated Carbon Joint Venture represent joint operations while the Moa Joint Venture represents a joint venture as described in IFRS 11, "Joint Arrangements". The Corporation has also concluded that the Ambatovy Joint Venture continues to represent an investment in associate as described in IAS 28 "Investments in Associates and Joint Ventures".

## 4. SEGMENTED INFORMATION

### Business segments

Canadian $ millions, for the three months ended June 30 — **2013**

| | Metals [1] | Coal | Oil and Gas | Power | Corporate and Other | Adjustments for Joint Venture and Associate [2] | Total |
|---|---|---|---|---|---|---|---|
| Revenue | $ 120.6 | $ 216.8 | $ 71.2 | $ 13.5 | $ 1.7 | $ (85.3) | $ 338.5 |
| Cost of sales | 111.7 | 207.8 | 31.1 | 27.9 | 9.1 | (85.2) | 302.4 |
| Gross profit (loss) | 8.9 | 9.0 | 40.1 | (14.4) | (7.4) | (0.1) | 36.1 |
| Administrative expenses | 2.2 | 4.6 | 2.3 | 1.1 | 8.2 | (1.0) | 17.4 |
| Operating profit (loss) | 6.7 | 4.4 | 37.8 | (15.5) | (15.6) | 0.9 | 18.7 |
| Share of loss of associate, net of tax | - | - | - | - | - | (0.7) | (0.7) |
| Share of earnings of joint venture, net of tax | - | - | - | - | - | 1.0 | 1.0 |
| Earnings (loss) from operations, associate and joint venture | 6.7 | 4.4 | 37.8 | (15.5) | (15.6) | 1.2 | 19.0 |
| Financing income | (2.3) | (3.5) | (0.5) | (0.2) | (2.9) | (0.4) | (9.8) |
| Financing expense | (0.7) | 4.8 | 24.4 | (13.0) | 20.7 | (3.7) | 32.5 |
| Net finance (income) expense | (3.0) | 1.3 | 23.9 | (13.2) | 17.8 | (4.1) | 22.7 |
| Earnings (loss) before tax | 9.7 | 3.1 | 13.9 | (2.3) | (33.4) | 5.3 | (3.7) |
| Income tax (recovery) expense | (5.3) | (3.3) | 12.4 | 1.2 | (3.3) | 5.3 | 7.0 |
| Net earnings (loss) for the period | $ 15.0 | $ 6.4 | $ 1.5 | $ (3.5) | $ (30.1) | $ - | $ (10.7) |
| **Supplementary information** | | | | | | | |
| Depletion, depreciation and amortization | $ 10.6 | $ 29.5 | $ 17.9 | $ 2.7 | $ 1.3 | $ (8.0) | $ 54.0 |
| Property, plant and equipment expenditures | 13.2 | 10.6 | 11.9 | 0.2 | 0.5 | (10.5) | 25.9 |
| Intangible asset expenditures | - | - | 0.2 | 1.8 | - | - | 2.0 |

Canadian $ millions, as at June 30 — **2013**

| | Metals [1] | Coal | Oil and Gas | Power | Corporate and Other | Adjustments for Joint Venture and Associate [2] | Total |
|---|---|---|---|---|---|---|---|
| Non-current assets [3] | $ 4,187.8 | $ 1,427.0 | $ 198.2 | $ 208.9 | $ 17.3 | $ (4,047.4) | $ 1,991.8 |
| Total assets | 6,114.0 | 1,879.6 | 1,100.1 | 476.6 | 60.1 | (2,914.9) | 6,715.5 |

Canadian $ millions, for the three months ended June 30 — 2012

| | Metals [1] | Coal | Oil and Gas | Power | Corporate and Other | Adjustments for Joint Venture and Associate [2] | Total |
|---|---|---|---|---|---|---|---|
| Revenue | $ 141.2 | $ 250.6 | $ 76.3 | $ 17.6 | $ 3.2 | $ (111.8) | $ 377.1 |
| Cost of sales | 101.9 | 236.5 | 30.3 | 13.3 | 3.3 | (86.0) | 299.3 |
| Gross profit (loss) | 39.3 | 14.1 | 46.0 | 4.3 | (0.1) | (25.8) | 77.8 |
| Administrative expenses | 1.7 | 4.4 | 4.1 | 1.2 | 13.2 | (2.2) | 22.4 |
| Operating profit (loss) | 37.6 | 9.7 | 41.9 | 3.1 | (13.3) | (23.6) | 55.4 |
| Share of loss of associate, net of tax | - | - | - | - | - | (2.4) | (2.4) |
| Share of earnings of joint venture, net of tax | - | - | - | - | - | 19.4 | 19.4 |
| Earnings (loss) from operations, associate and joint venture | 37.6 | 9.7 | 41.9 | 3.1 | (13.3) | (6.6) | 72.4 |
| Financing income | 0.9 | (1.7) | (1.3) | (0.5) | (5.6) | 0.2 | (8.0) |
| Financing expense | 21.1 | 3.6 | 9.4 | (6.2) | 15.0 | (6.5) | 36.4 |
| Net finance expense (income) | 22.0 | 1.9 | 8.1 | (6.7) | 9.4 | (6.3) | 28.4 |
| Earnings (loss) before tax | 15.6 | 7.8 | 33.8 | 9.8 | (22.7) | (0.3) | 44.0 |
| Income tax expense (recovery) | 0.3 | (0.7) | 14.5 | 0.3 | (6.2) | (0.3) | 7.9 |
| Net earnings (loss) from continuing operations | 15.3 | 8.5 | 19.3 | 9.5 | (16.5) | 0.0 | 36.1 |
| Earnings from discontinued operation | - | - | - | - | 4.7 | - | 4.7 |
| Net earnings (loss) for the period | $ 15.3 | $ 8.5 | $ 19.3 | $ 9.5 | $ (11.8) | $ 0.0 | $ 40.8 |
| **Supplementary information** | | | | | | | |
| Depletion, depreciation and amortization | $ 8.6 | $ 30.7 | $ 16.5 | $ 2.7 | $ 0.7 | $ (6.2) | $ 53.0 |
| Property, plant and equipment expenditures | 12.8 | 19.7 | 9.8 | 0.1 | 0.4 | (12.8) | 30.0 |
| Intangible asset expenditures | - | - | 1.9 | 1.2 | - | - | 3.1 |

Canadian $ millions, as at December 31 — 2012

| | Metals [1] | Coal | Oil and Gas | Power | Corporate and Other | Adjustments for Joint Venture and Associate [2] | Total |
|---|---|---|---|---|---|---|---|
| Non-current assets [3] | $ 3,892.5 | $ 1,436.9 | $ 203.9 | $ 197.0 | $ 18.3 | $ (3,741.7) | $ 2,006.9 |
| Total assets | 5,638.4 | 1,911.6 | 1,007.7 | 462.3 | 221.5 | (2,653.7) | 6,587.8 |

| Canadian $ millions, for the six months ended June 30 | | | | | | | 2013 |
|---|---|---|---|---|---|---|---|
| | Metals[1] | Coal | Oil and Gas | Power | Corporate and Other | Elimination of Joint Venture and Associate[2] | Total |
| Revenue | $ 224.3 | $ 396.3 | $ 142.3 | $ 29.5 | $ 2.9 | $ (170.3) | $ 625.0 |
| Cost of sales | 206.3 | 371.6 | 59.0 | 41.5 | 18.0 | (164.6) | 531.8 |
| Gross profit (loss) | 18.0 | 24.7 | 83.3 | (12.0) | (15.1) | (5.7) | 93.2 |
| Administrative expenses | 4.3 | 8.9 | 4.1 | 2.6 | 17.9 | (2.0) | 35.8 |
| Operating profit (loss) | 13.7 | 15.8 | 79.2 | (14.6) | (33.0) | (3.7) | 57.4 |
| Gain on termination of contract | - | 22.0 | - | - | - | - | 22.0 |
| Share of loss of associate, net of tax | - | - | - | - | - | (0.7) | (0.7) |
| Share of earnings of joint venture, net of tax | - | - | - | - | - | 0.8 | 0.8 |
| Earnings (loss) from operations, associate and joint venture | 13.7 | 37.8 | 79.2 | (14.6) | (33.0) | (3.6) | 79.5 |
| Financing income | (0.9) | (7.4) | (1.3) | (0.8) | (5.6) | (0.3) | (16.3) |
| Financing expense | 8.9 | 9.9 | 36.4 | (21.5) | 41.1 | (7.7) | 67.1 |
| Net finance expense (income) | 8.0 | 2.5 | 35.1 | (22.3) | 35.5 | (8.0) | 50.8 |
| Earnings (loss) before tax | 5.7 | 35.3 | 44.1 | 7.7 | (68.5) | 4.4 | 28.7 |
| Income tax (recovery) expense | (4.4) | 1.3 | 22.0 | 1.8 | (8.8) | 4.4 | 16.3 |
| Net earnings (loss) for the period | $ 10.1 | $ 34.0 | $ 22.1 | $ 5.9 | $ (59.7) | $ - | $ 12.4 |
| **Supplementary information** | | | | | | | |
| Depletion, depreciation and amortization | $ 20.5 | $ 55.7 | $ 33.9 | $ 5.3 | $ 2.2 | $ (15.7) | $ 101.9 |
| Property, plant and equipment expenditures | 22.9 | 22.1 | 24.2 | 0.3 | 0.8 | (17.2) | 53.1 |
| Intangible asset expenditures | - | - | 0.9 | 3.6 | - | - | 4.5 |

| Canadian $ millions, as at June 30 | | | | | | | 2013 |
|---|---|---|---|---|---|---|---|
| Non-current assets[3] | $ 4,187.8 | $ 1,427.0 | $ 198.2 | $ 208.9 | $ 17.3 | $ (4,047.4) | $ 1,991.8 |
| Total assets | 6,114.0 | 1,879.6 | 1,100.1 | 476.6 | 60.1 | (2,914.9) | 6,715.5 |

| Canadian $ millions, for the six months ended June 30 | Metals[1] | Coal | Oil and Gas | Power | Corporate and Other | Elimination of Joint Venture and Associate[2] | Total 2012 |
|---|---|---|---|---|---|---|---|
| Revenue | $ 257.3 | $ 495.9 | $ 158.5 | $ 34.2 | $ 6.5 | $ (215.9) | $ 736.5 |
| Cost of sales | 193.9 | 451.3 | 63.5 | 25.6 | 7.7 | (168.1) | 573.9 |
| Gross profit (loss) | 63.4 | 44.6 | 95.0 | 8.6 | (1.2) | (47.8) | 162.6 |
| Administrative expenses | 3.8 | 9.1 | 6.7 | 2.2 | 21.7 | (3.6) | 39.9 |
| Operating profit (loss) | 59.6 | 35.5 | 88.3 | 6.4 | (22.9) | (44.2) | 122.7 |
| Share of loss of associate, net of tax | - | - | - | - | - | (1.2) | (1.2) |
| Share of earnings of joint venture, net of tax | - | - | - | - | - | 37.1 | 37.1 |
| Earnings (loss) from operations, associate and joint venture | 59.6 | 35.5 | 88.3 | 6.4 | (22.9) | (8.3) | 158.6 |
| Financing income | 12.7 | (6.1) | (2.7) | (1.1) | (8.8) | 0.2 | (5.8) |
| Financing expense | 43.1 | 7.4 | 4.6 | (8.6) | 37.2 | (4.2) | 79.5 |
| Net finance expense (income) | 55.8 | 1.3 | 1.9 | (9.7) | 28.4 | (4.0) | 73.7 |
| Earnings (loss) before tax | 3.8 | 34.2 | 86.4 | 16.1 | (51.3) | (4.3) | 84.9 |
| Income tax expense (recovery) | 4.3 | 2.1 | 28.0 | 1.1 | (15.1) | (4.3) | 16.1 |
| Net (loss) earnings from continuing operations | (0.5) | 32.1 | 58.4 | 15.0 | (36.2) | (0.0) | 68.8 |
| Earnings from discontinued operation | - | - | - | - | 4.4 | - | 4.4 |
| Net (loss) earnings for the period | $ (0.5) | $ 32.1 | $ 58.4 | $ 15.0 | $ (31.8) | $ (0.0) | $ 73.2 |
| Supplementary information | | | | | | | |
| Depletion, depreciation and amortization | $ 17.3 | $ 58.0 | $ 35.3 | $ 5.3 | $ 1.3 | $ (12.8) | $ 104.4 |
| Property, plant and equipment expenditures | 17.6 | 26.3 | 18.4 | 0.3 | 1.5 | (16.3) | 47.8 |
| Intangible asset expenditures | - | - | 3.5 | 2.3 | - | - | 5.8 |
| Canadian $ millions, as at December 31 | | | | | | | 2012 |
| Non-current assets[3] | $ 3,892.5 | $ 1,436.9 | $ 203.9 | $ 197.0 | $ 18.3 | $ (3,741.7) | $ 2,006.9 |
| Total assets | 5,638.4 | 1,911.6 | 1,007.7 | 462.3 | 221.5 | (2,653.7) | 6,587.8 |

(1) Included in the Metals segment are the operations of the Corporation's 50% interest in the Moa Joint Venture, its 100% interest in the utility and fertilizer operations in Fort Saskatchewan and its 40% interest in the Ambatovy Joint Venture. Also included in the Metals segment are revenues and cost of sales of $4.9 million and $10.0 million for the three and six months ended June 30, 2013, respectively (for the three and six months ended June 30, 2012 - $nil) recognized by a subsidiary of the Corporation established to buy, market and sell certain of Ambatovy's nickel production.

(2) The adjustments for Joint Venture and Associate reflect the adjustments for equity-accounted investments in the Moa and Ambatovy Joint Ventures that are included within the Metals segment above.

(3) Non-current assets are composed of property, plant and equipment, goodwill, and intangible assets.

## Geographic segments

| Canadian $ millions, as at | 2013 June 30 Non-current assets [1] | 2013 June 30 Total assets [2] | 2012 December 31 Non-current assets[1] | 2012 December 31 Total assets[2] |
|---|---|---|---|---|
| Canada | $ 1,595.0 | $ 2,975.5 | $ 1,617.1 | $ 3,060.1 |
| Cuba | 383.4 | 1,109.0 | 368.9 | 1,077.2 |
| Madagascar | 2.2 | 2,590.7 | 10.0 | 2,387.0 |
| Europe | 10.3 | 19.0 | 9.6 | 33.5 |
| Asia | 0.9 | 2.0 | 1.3 | 2.3 |
| Other | - | 19.3 | - | 27.7 |
| | $ 1,991.8 | $ 6,715.5 | $ 2,006.9 | $ 6,587.8 |

(1) Non-current assets are composed of property, plant and equipment, goodwill, and intangible assets.

(2) For its geographic segments, the Corporation has allocated assets based on their physical location.

| Canadian $ millions | For the three months ended 2013 June 30 Total revenue [1] | For the three months ended 2012 June 30 Total revenue[1] | For the six months ended 2013 June 30 Total revenue [1] | For the six months ended 2012 June 30 Total revenue[1] |
|---|---|---|---|---|
| Canada | $ 144.3 | $ 171.0 | $ 276.8 | $ 340.6 |
| Cuba | 79.9 | 89.0 | 162.5 | 182.1 |
| Madagascar | 1.8 | 2.6 | 3.8 | 5.0 |
| Europe | 3.2 | 3.5 | 6.2 | 7.6 |
| Asia | 84.7 | 54.1 | 124.4 | 89.0 |
| Other | 24.6 | 56.9 | 51.3 | 112.2 |
| | $ 338.5 | $ 377.1 | $ 625.0 | $ 736.5 |

(1) For its geographic segments, the Corporation has allocated revenue based on the location of the customer.

## Revenue segments

Revenue includes the following significant categories:

| Canadian $ millions | For the three months ended 2013 June 30 | For the three months ended 2012 June 30 | For the six months ended 2013 June 30 | For the six months ended 2012 June 30 |
|---|---|---|---|---|
| Commodity and electricity | $ 314.4 | $ 350.9 | $ 579.8 | $ 678.7 |
| Royalty | 16.1 | 14.2 | 27.1 | 27.9 |
| Other | 8.0 | 12.0 | 18.1 | 29.9 |
| | $ 338.5 | $ 377.1 | $ 625.0 | $ 736.5 |

## 5. COST OF SALES

Cost of sales includes the following select information:

| Canadian $ millions | For the three months ended 2013 June 30 | For the three months ended 2012 June 30 | For the six months ended 2013 June 30 | For the six months ended 2012 June 30 |
|---|---|---|---|---|
| Employee costs | $ 67.6 | $ 84.8 | $ 135.6 | $ 168.5 |
| Depletion, depreciation and amortization of property, plant and equipment and intangible assets | 53.0 | 52.0 | 99.9 | 102.3 |
| Exploration and evaluation expenses | 9.6 | 1.4 | 16.8 | 4.0 |
| Impairment losses [1] | 18.1 | 5.8 | 18.1 | 6.9 |

(1) In 2013 impairment losses are primarily comprised of a provision on overdue receivables and an impairment of an electricity generation facility that is leased to the local electricity utility in Madagascar of $9.3 million and $7.3 million respectively, for both the three and six months ended June 30, 2013. In 2012 impairment losses relate to a write down of inventory.

The exploration and evaluation expenses incurred by the Corporation relate to the Sulawesi Project in Indonesia. The Corporation expensed $9.6 million and $16.8 million relating to this project for the three and six months ended June 30, 2013, respectively ($1.4 million and $4.0 million for the three and six months ended June 30, 2012, respectively).

## 6. GAIN ON TERMINATION OF CONTRACT

On January 17, 2013, the Corporation and its customer, the owner of the Highvale mine, agreed to transfer the mine operations to the customer and terminate the Highvale mining contract. The termination resulted in a non-cash gain of $22.0 million recognized in the first quarter of 2013 relating to the transfer of the defined benefit pension obligation to the customer of $39.3 million which was partially offset by a non-cash write-off of $17.3 million for intangible assets associated with the mining contract.

## 7. INVESTMENT IN AN ASSOCIATE

The Corporation indirectly holds a 40% interest in Ambatovy Minerals S.A. and Dynatec Madagascar S.A (collectively the Ambatovy Joint Venture). Sherritt is the operator of the Ambatovy Joint Venture and has as its partners, Sumitomo Corporation (Sumitomo), Korea Resources Corporation (Kores) and SNC-Lavalin Inc. (SNC-Lavalin). The Ambatovy Joint Venture has two nickel deposits located near Moramanga, Madagascar. The ore from these deposits are delivered via pipeline to a processing plant and refinery located near the Port of Toamasina. The Ambatovy Joint Venture commenced production in September 2012.

### Statement of financial position

The following provides additional information relating to the Corporation's investment in the Ambatovy Joint Venture:

| Canadian $ millions, 100% basis, as at | **2013 June 30** | 2012 December 31 | 2012 January 1 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents (1) | **$ 33.9** | $ 51.5 | $ 34.3 |
| Short-term investments (1) | **-** | 79.5 | - |
| Other current assets | **24.0** | 13.5 | 15.5 |
| Trade accounts receivable, net | **92.2** | 119.3 | 80.5 |
| Inventories | **333.5** | 265.3 | 139.3 |
| Other non-current assets (2) | **4.8** | 4.8 | 6.0 |
| Property, plant and equipment | **8,816.7** | 8,079.3 | 7,519.3 |
| Total assets | **9,305.1** | 8,613.2 | 7,794.9 |
| **Liabilities** | | | |
| Trade accounts payable and accrued liabilities | **292.5** | 227.8 | 248.8 |
| Other financial liabilities | **21.1** | 20.0 | 16.3 |
| Current portion of loans and borrowings (3) | **163.2** | 121.5 | - |
| Loans and borrowings | | | |
| Ambatovy revolving credit facility (4) | **38.5** | 8.8 | - |
| Ambatovy Joint-Venture financing (3) | **1,945.8** | 1,935.5 | 2,097.3 |
| Ambatovy Subordinated loan payable (5) | **3,662.3** | 3,197.8 | 2,422.3 |
| Environmental rehabilitation provision | **80.5** | 87.0 | 81.0 |
| Other long-term liabilities | **0.2** | 0.3 | 0.3 |
| Deferred income taxes | **305.1** | 290.8 | 296.2 |
| Total liabilities | **6,509.2** | 5,889.5 | 5,162.2 |
| **Net assets (6)** | **$ 2,795.9** | $ 2,723.7 | $ 2,632.7 |

(1) In accordance with *La loi établissant un régime special pour les grands investissements dans le secteur minier Malagasay* (LGIM), Madagascar's large scale mining investment act, the Ambatovy Joint Venture is required to (a) maintain foreign currency in local bank accounts sufficient to pay 90 days of local expenses or (b) repatriate all revenue from export sales of mining products, less authorized debt service costs, to local bank accounts within 90 days. As at June 30, 2013, the Ambatovy joint venture has elected to repatriate revenue from export sales, less authorized debt service costs, in compliance with the requirements of the LGIM.

(2) As at June 30, 2013, the Ambatovy Joint Venture has earned investment tax credits of $502.2 million (December 31, 2012 - $432.8 million) for which a deferred income tax asset has not been recognized. The investment tax credits have an indefinite carry forward period and may be used to partially offset Malagasy income tax otherwise payable by the Ambatovy Joint Venture in subsequent years.

(3) The Ambatovy Joint Venture financing totalling US$2,100.0 million is limited recourse project financing with a group of international lenders that matures June 15, 2024. The first repayment of US$ 61.0 million was made in June 2013. The project financing is guaranteed by the project sponsors until the project passes certain completion tests at which point the project financing is secured by the project assets. Failure to pass such completion tests would

be an event of default. Interest is payable based on LIBOR rates plus applicable margins, depending on the lenders. Interest is currently payable based on LIBOR rates plus applicable margins of approximately 1.4%. As part of the project financing, Sherritt is required to demonstrate its financial capacity to fund its share of the project. Sherritt is required to have available cash or un-drawn partner loans equal to three months of its shareholder contributions. If Sherritt's net tangible assets fall below $1,600.0 million or the ratio of debt-to-total-capitalization on a three-year rolling average basis is equal to or greater than 0.55:1, Sherritt will be required to set aside its remaining shareholder contributions. At June 30, 2013 the Ambatovy Joint Venture had borrowed US$2,039.0 million (December 31, 2012 - US$2,100.0 million) under the project financing.

(4) The Ambatovy revolving credit facility is comprised of an approximate US$36.6 million revolving and US$9.0 million overdraft credit facility agreement with local financial institutions. The facilities bear interest rates between 9.00% and 11.85% and expire on December 6, 2013. The facilities are subordinated to the Ambatovy Joint Venture financing. As at June 30, 2013, US$36.6 million and US$nil were drawn on the revolving and overdraft credit facilities (December 31, 2012 - US$8.8 million and $nil).

(5) The subordinated loan payable is comprised of pro-rata contributions provided by the Ambatovy Joint Venture partners. The debt bears interest at LIBOR plus 6%. Repayments of principal or interest will not be made prior to certain conditions of the finance agreements being satisfied. Unpaid interest is accrued monthly and capitalized to the principal balance semi-annually. Interest expense capitalized to property, plant and equipment is eliminated on consolidation. The Corporation has recorded its share of subordinated loan receivable in advances, loans receivable, other financial assets and finance lease receivables (note 14).

(6) Net assets include the elimination of certain items the most significant of which is the capitalization of interest relating to the subordinated loans payable to the Ambatovy Joint Venture partners. As at June 30, 2013 $548.5 million of capitalized interest was eliminated (December 31, 2012 - $438.2 million; January 1, 2012 - $256.9 million).

## Results of operations

For the three and six months ended June 30, 2013, the Corporation recognized net losses of $0.7 million for both periods, representing its 40% interest in the Ambatovy Joint Venture (net losses of $2.4 million and $1.2 million for the three and six months ended June 30, 2012, respectively). The Ambatovy Joint Venture generated pre-commercial production revenue of $53.1 million and $94.0 million for the three and six months ended June 30, 2013 ($nil for the three and six months ended June 30, 2012). The operating revenue and expenses are capitalized until commercial production is declared. For the Ambatovy Joint Venture commercial production is defined as achieving 70% of ore throughput of nameplate capacity in the Pressure Acid Leach circuits over a thirty-day period.

# 8. JOINT ARRANGEMENTS

## Investment in a Joint Venture

The Corporation indirectly holds a 50% interest in the Moa Joint Venture. The Moa Joint Venture mines, processes and refines nickel and cobalt for sale worldwide (except in the United States). The Moa Joint Venture has mining operations and associated processing facilities in Moa, Cuba; refining facilities in Fort Saskatchewan, Alberta; and an international marketing and sales organization.

The following provides additional information relating to the Corporation's investment in the Moa Joint Venture:

### Statement of financial position

| Canadian $ millions, 100% basis, as at | 2013 June 30 | 2012 December 31 | 2012 January 1 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | $ 72.3 | $ 47.1 | $ 60.0 |
| Other current assets | 18.6 | 8.8 | 4.2 |
| Trade accounts receivable, net | 54.0 | 74.6 | 84.5 |
| Inventories | 182.1 | 169.0 | 172.3 |
| Other non-current assets | 10.9 | 10.6 | 6.3 |
| Property, plant and equipment | 1,038.3 | 1,017.3 | 1,048.2 |
| Total assets | 1,376.2 | 1,327.4 | 1,375.5 |
| **Liabilities** | | | |
| Trade accounts payable and accrued liabilities | 75.8 | 57.3 | 51.1 |
| Other current financial liabilities | 100.5 | 98.0 | 130.4 |
| Other current liabilities | - | 3.0 | 0.8 |
| Environmental rehabilitation provision | 57.8 | 66.0 | 64.8 |
| Other long-term financial liabilities | 359.6 | 338.4 | 380.9 |
| Deferred income taxes | 28.8 | 33.1 | 32.5 |
| Total liabilities | 622.5 | 595.8 | 660.5 |
| **Net assets**(1) | $ 753.7 | $ 731.6 | $ 715.0 |

(1) Net assets include the elimination of certain items, the most significant of which is the capitalization of interest relating to advances and loans payable due to the Moa Joint Venture partners. As at June 30, 2013, $79.6 million of capitalized interest was eliminated (December 31, 2012 - $75.8 million; January 1, 2012 - $77.0 million).

### Results of operations

| Canadian $ millions, 100% basis | For the three months ended 2013 June 30 | 2012 June 30 | For the six months ended 2013 June 30 | 2012 June 30 |
|---|---|---|---|---|
| **Revenue** | **$ 170.7** | $ 223.4 | **$ 340.6** | $ 431.8 |
| Cost of sales | **170.1** | 173.6 | **328.1** | 336.8 |
| **Gross profit** | **0.6** | 49.8 | **12.5** | 95.0 |
| Administrative expenses | **2.0** | 1.6 | **4.0** | 3.4 |
| **Operating (loss) profit** | **(1.4)** | 48.2 | **8.5** | 91.6 |
| Financing income | **(0.1)** | (0.2) | **(0.3)** | (0.3) |
| Financing expense | **6.2** | 9.3 | **14.6** | 9.4 |
| **Net finance expense** | **6.1** | 9.1 | **14.3** | 9.1 |
| **(Loss) earnings before tax** | **(7.5)** | 39.1 | **(5.8)** | 82.5 |
| Income (recovery) tax expense | **(9.5)** | 0.4 | **(7.4)** | 8.4 |
| **Net earnings for the period[(1)]** | **$ 2.0** | $ 38.7 | **$ 1.6** | $ 74.1 |
| **Other comprehensive income** | | | | |
| Foreign currency translation differences on foreign operations | **23.0** | 13.3 | **36.6** | 1.8 |
| **Total comprehensive income** | **$ 25.0** | $ 52.0 | **$ 38.2** | $ 75.9 |

(1) Net earnings includes the elimination of certain items the most significant of which is interest expense relating to advances and loans payable due to the Moa Joint Venture partners. For the three and six months ended June 30, 2013, $3.2 million and $6.8 million, respectively, of interest expense was eliminated ($4.4 million and $7.2 million for the three and six months ended June 30, 2012, respectively).

For the three and six months ended June 30, 2013, the Corporation recognized net earnings of $1.0 million and $0.8 million, respectively, representing its 50% interest in the Moa Joint Venture (net earnings of $19.4 million and $37.1 million for the three and six months ended June 30, 2012, respectively).

For the three and six months ended June 30, 2013, the Moa Joint Venture (50% basis) issued $2.3 million of dividends ($ nil for the three and six months ended June 30, 2012).

## Joint Operations

The following is a summary of the Corporation's economic interests in joint operations, all of which have a December 31 reporting date:

| As at<br>Entity | Principal activities | Economic Interest<br>2013 June 30 | 2012 December 31 | 2012 January 1 |
|---|---|---|---|---|
| Carbon Development Partnership | Coal recovery and coal gasification project | **50%** | 50% | 50% |
| Energas | Power generation | **33⅓%** | 33⅓% | 33⅓% |
| Bienfait Activated Carbon | Operator of activated carbon plant facilities | **50%** | 50% | 50% |

As a result, the Corporation recognizes all applicable assets, liabilities, revenues and expenses relating to its interest in the above noted joint operations in accordance with IFRS.

The following table is a summary of the Corporation's interests in its joint operations:

| Canadian $ millions, as at June 30 | 2013<br>Bienfait Activated Carbon | Carbon Development Partnership | Energas |
|---|---|---|---|
| | **50%** | **50%** | **33⅓%** |
| Current assets | **$ 3.8** | **$ 1.2** | **$ 27.4** |
| Non-current assets | **33.6** | **12.8** | **175.7** |
| Current liabilities | **25.4** | **1.1** | **12.0** |
| Non-current liabilities | **0.7** | **0.4** | **119.3** |
| Net assets | **$ 11.3** | **$ 12.5** | **$ 71.8** |

| Canadian $ millions, as at December 31 | | | | 2012 |
|---|---|---|---|---|
| | | Bienfait Activated Carbon | Carbon Development Partnership | Energas |
| | | 50% | 50% | 33⅓% |
| Current assets | $ | 5.3 | $ 1.1 | $ 24.4 |
| Non-current assets | | 34.2 | 12.9 | 156.3 |
| Current liabilities | | 29.2 | 1.0 | 11.4 |
| Non-current liabilities | | 0.8 | 0.4 | 104.2 |
| Net assets | $ | 9.5 | $ 12.6 | $ 65.1 |

| Canadian $ millions, as at January 1 | | | | 2012 |
|---|---|---|---|---|
| | | Bienfait Activated Carbon | Carbon Development Partnership | Energas |
| | | 50% | 50% | 33⅓% |
| Current assets | $ | 5.1 | $ 0.9 | $ 21.2 |
| Non-current assets | | 35.2 | 29.6 | 131.2 |
| Current liabilities | | 36.2 | 1.1 | 11.4 |
| Non-current liabilities | | 0.8 | 0.5 | 75.4 |
| Net assets | $ | 3.3 | $ 28.9 | $ 65.6 |

| Canadian $ millions, for the three months ended June 30 | | | | **2013** |
|---|---|---|---|---|
| | | **Bienfait Activated Carbon** | **Carbon Development Partnership** | **Energas** |
| | | **50%** | **50%** | **33⅓%** |
| Revenue | **$** | **2.6** | **$ 0.2** | **$ 12.1** |
| Expense | | **2.3** | **0.2** | **8.0** |
| Net earnings | **$** | **0.3** | **$ -** | **$ 4.1** |

| Canadian $ millions, for the six months ended June 30 | | | | **2013** |
|---|---|---|---|---|
| | | **Bienfait Activated Carbon** | **Carbon Development Partnership** | **Energas** |
| | | **50%** | **50%** | **33⅓%** |
| Revenue | **$** | **6.2** | **$ 0.4** | **$ 26.8** |
| Expense | | **4.4** | **0.5** | **18.7** |
| Net earnings (loss) | **$** | **1.8** | **$ (0.1)** | **$ 8.1** |

| Canadian $ millions, for the three months ended June 30 | | | | 2012 |
|---|---|---|---|---|
| | | Bienfait Activated Carbon | Carbon Development Partnership | Energas |
| | | 50% | 50% | 33⅓ |
| Revenue | $ | 3.5 | $ 0.1 | $ 16.1 |
| Expense | | 2.4 | 0.2 | 11.3 |
| Net earnings (loss) | $ | 1.1 | $ (0.1) | $ 4.8 |

| Canadian $ millions, for the six months ended June 30 | | | | 2012 |
|---|---|---|---|---|
| | Bienfait Activated Carbon | Carbon Development Partnership | Energas |
| | 50% | 50% | 33⅓% |
| Revenue | $ 7.7 | $ 0.3 | $ 31.4 |
| Expense | 4.8 | 0.6 | 25.2 |
| Net earnings (loss) | $ 2.9 | $ (0.3) | $ 6.2 |

## 9. NET FINANCE EXPENSE

| Canadian $ millions | Note | For the three months ended **2013** **June 30** | 2012 June 30 | For the six months ended **2013** **June 30** | 2012 June 30 |
|---|---|---|---|---|---|
| Net unrealized gain (loss) on financial instruments | 13 | **$ 2.7** | $ (1.1) | **$ 1.2** | $ (12.9) |
| Interest income on cash, cash equivalents and short-term investments | | **0.9** | 0.9 | **2.1** | 2.0 |
| Interest income on investments | | **0.8** | 1.7 | **2.0** | 3.6 |
| Interest income on advances and loans receivable | | **1.9** | 2.3 | **3.6** | 4.5 |
| Interest income on finance leases | | **3.5** | 4.2 | **7.4** | 8.6 |
| Total financing income | | **9.8** | 8.0 | **16.3** | 5.8 |
| Interest expense and accretion on loans and borrowings | | **32.9** | 28.8 | **65.6** | 57.7 |
| Interest expense on finance lease obligations | | **2.0** | 2.1 | **3.9** | 4.1 |
| Unrealized foreign exchange (gain)/loss | | **(6.2)** | (2.2) | **(11.2)** | 2.5 |
| Realized foreign exchange gain | | **(0.8)** | (0.2) | **(0.9)** | - |
| Cross-guarantee fee amortization | | **-** | 3.0 | **-** | 6.0 |
| Other finance charges | | **3.8** | 3.9 | **7.9** | 7.2 |
| Accretion expense on environmental rehabilitation provisions | 18 | **0.8** | 1.0 | **1.8** | 2.0 |
| Total financing expense | | **32.5** | 36.4 | **67.1** | 79.5 |
| **Net finance expense** | | **$ 22.7** | $ 28.4 | **$ 50.8** | $ 73.7 |

## 10. INCOME TAXES

| Canadian $ millions | For the three months ended **2013** **June 30** | 2012 June 30 | For the six months ended **2013** **June 30** | 2012 June 30 |
|---|---|---|---|---|
| **Current income tax expense** | | | | |
| Current period | **$ 14.2** | $ 13.9 | **$ 26.2** | $ 28.4 |
| | **14.2** | 13.9 | **26.2** | 28.4 |
| **Deferred income tax (recovery) expense** | | | | |
| Origination and reversal of temporary differences | **(12.7)** | (0.1) | **(16.0)** | (2.4) |
| Reduction in tax rate | **-** | (0.1) | **-** | (0.4) |
| Non-recognition/(recognition) of tax assets previously recognized | **5.5** | (5.8) | **6.1** | (9.5) |
| | **(7.2)** | (6.0) | **(9.9)** | (12.3) |
| Income tax expense | **$ 7.0** | $ 7.9 | **$ 16.3** | $ 16.1 |

## 11. DISCONTINUED OPERATION

In 2007, the Corporation acquired Mineral Products, which included a talc mine and plant, through the acquisition of the Dynatec Corporation (Dynatec). During 2010, the Corporation closed the talc mine and plant and classified Mineral Products as a discontinued operation. Mineral Products is included in the Corporate and Other business segment (note 4).

In the second quarter of 2012, the Corporation closed the sale of its talc plant to a third party. The Corporation recorded a gain of $4.7 million at that time, primarily as a result of transferring the reclamation liability to the purchaser. As at June 30, 2012, the remaining net assets with respect to the talc mine were reclassified into continuing operations.

## 12. EARNINGS PER SHARE

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

| Canadian $ millions, except per share amounts | For the three months ended 2013 June 30 | 2012 June 30 | For the six months ended 2013 June 30 | 2012 June 30 |
|---|---|---|---|---|
| Net (loss) earnings from continuing operations | **$ (10.7)** | $ 36.1 | **$ 12.4** | $ 68.8 |
| Earnings from discontinued operation, net of tax | **-** | 4.7 | **-** | 4.4 |
| **Net (loss) earnings - basic** | **$ (10.7)** | $ 40.8 | **$ 12.4** | $ 73.2 |
| Net (loss) earnings from continuing operations | **$ (10.7)** | $ 36.1 | **$ 12.4** | $ 68.8 |
| Earnings from discontinued operation | **-** | 4.7 | **-** | 4.4 |
| **Net (loss) earnings - diluted** | **$ (10.7)** | $ 40.8 | **$ 12.4** | $ 73.2 |
| Weighted-average number of common shares - basic | **296.6** | 296.1 | **296.5** | 296.1 |
| Weighted-average effect of dilutive securities (1): | | | | |
| Restricted stock plan | **0.4** | 0.3 | **0.4** | 0.3 |
| **Weighted-average number of common shares - diluted** | **297.0** | 296.4 | **296.9** | 296.4 |
| **Net (loss) earnings from continuing operations per common share:** | | | | |
| Basic and diluted | **$ (0.04)** | $ 0.12 | **$ 0.04** | $ 0.23 |
| **Earnings from discontinued operation per common share:** | | | | |
| Basic and diluted | **$ -** | $ 0.02 | **$ -** | $ 0.02 |
| **Net (loss) earnings per common share:** | | | | |
| Basic and diluted | **$ (0.04)** | $ 0.14 | **$ 0.04** | $ 0.25 |

(1) The determination of the weighted-average number of common shares - diluted excludes 5.0 million shares related to stock options that were anti-dilutive for the three and six months ended June 30, 2013 (3.9 million for the three and six months ended June 30, 2012). There were 0.6 million shares related to the employee share purchase plan that were anti-dilutive for the three and six months ended June 30, 2013 (0.6 million shares for the three and six months ended June 30, 2012).

## 13. FINANCIAL INSTRUMENTS

### Financial instrument hierarchy

| Canadian $ millions, as at | Note | Hierarchy level | 2013 June 30 | 2012 December 31 | 2012 January 1 |
|---|---|---|---|---|---|
| Recurring financial assets held for trading, measured at fair value: | | | | | |
| Cash equivalents | | 1 | **$ 321.3** | $ 108.3 | $ 54.9 |
| Short-term investments | | 1 | **49.3** | 356.1 | 456.8 |
| Ambatovy call option | 14 | 3 | **23.9** | 21.5 | 38.0 |

The following is a reconciliation of the beginning to ending balance for the Ambatovy call option included in Level 3:

| Canadian $ millions | Note | For the six months ended 2013 June 30 | For the year ended 2012 December 31 |
|---|---|---|---|
| Balance, beginning of the period | | **$ 21.5** | $ 38.0 |
| Total gain (loss) in net earnings (1) | 9 | **1.2** | (15.8) |
| Effect of movements in exchange rates | | **1.2** | (0.7) |
| Balance, end of the period | | **$ 23.9** | $ 21.5 |

(1) Gains and losses are recognized in net finance expense (note 9).

During the three and six months ended June 30, 2013, the Corporation recognized upward fair value adjustments of $2.7 million and $1.2 million, respectively (downward fair value adjustments of $1.1 million and $12.9 million for the three and six months ended June 30, 2012, respectively) in financing income on the Ambatovy call option primarily as a result of changes in various inputs in the Black-Scholes model, including volatility, which is based on a blend of historical commodity prices and publicly traded stock prices of companies with comparable projects, the estimated fair value of the Ambatovy project based on forecasted cash flows, and the reduced time to expiration of the option.

## Fair values

Financial instruments with carrying amounts different from their fair values include the following[1]:

| Canadian $ millions, as at | Note | 2013 June 30 Carrying value | 2013 June 30 Fair value | 2012 December 31 Carrying value | 2012 December 31 Fair Value | 2012 January 1 Carrying value | 2012 January 1 Fair Value |
|---|---|---|---|---|---|---|---|
| 8.25% senior unsecured debentures due 2014 | 17 | $ - | $ - | $ - | $ - | $ 223.0 | $ 233.0 |
| 7.75% senior unsecured debentures due 2015 | 17 | 273.7 | 292.9 | 273.4 | 295.6 | 272.9 | 283.1 |
| 8.00% senior unsecured debentures due 2018 | 17 | 392.8 | 407.0 | 392.2 | 426.0 | 391.2 | 408.4 |
| 7.50% senior unsecured debentures due 2020 | 17 | 490.3 | 498.6 | 489.8 | 517.5 | - | - |
| Ambatovy Joint Venture Additional Partner loans [2] | 17 | 822.2 | 894.1 | 749.3 | 865.4 | 708.5 | 797.4 |
| Ambatovy Joint Venture Partner loans [2] | 17 | 98.1 | 84.5 | 92.1 | 77.5 | 92.2 | 71.5 |

(1) The carrying values are net of financing costs. Fair values exclude financing costs and are based on market closing prices.

(2) The fair value for the Ambatovy Partner loans and Ambatovy Additional Partner loans is calculated by discounting future cash flows by 7.72% and 7.65%, respectively. These rates are based on market rates adjusted for the Corporation's credit quality for instruments with similar maturity horizons.

As at June 30, 2013, the carrying amounts of cash and cash equivalents, restricted cash, short-term investments, trade accounts receivable, current portion of advances and loans receivable, current portion of other financial assets, current portion of finance lease receivables, current portion of loans and borrowings, current portion of other financial liabilities, trade 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 non-current loans and borrowings and other financial liabilities approximate their carrying amount except as indicated above. The fair value of a financial instrument on initial recognition is normally the transaction price, the fair value of the consideration given or received. The fair values of non-current advances and loans receivable and finance lease receivables are estimated based on discounted cash flows. Due to the use of judgment and uncertainties in the determination of the estimated fair values, these values should not be interpreted as being realizable in the immediate term.

As at June 30, 2013, the carrying amount of the lenders' conversion option under the Ambatovy Joint Venture additional partner loan agreements is approximately equal to its fair value.

## Cash, cash equivalents and short-term investments

Cash and cash equivalents consist of:

| Canadian $ millions, as at | 2013 June 30 | 2012 December 31 | 2012 January 1 |
|---|---|---|---|
| Cash equivalents | $ 321.3 | $ 108.3 | $ 54.9 |
| Cash on hand and balances with banks | 35.4 | 38.8 | 89.7 |
| | $ 356.7 | $ 147.1 | $ 144.6 |

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 $18.9 million at June 30, 2013 (December 31, 2012 – $20.1 million).

As at June 30, 2013, $12.1 million of cash on the Corporation's consolidated statements of financial position was held by Energas (December 31, 2012 – $8.6 million). These funds are for the use of the joint operation.

As at June 30, 2013, the Corporation had $370.6 million in Government of Canada treasury bills (December 31, 2012 - $464.4 million) included in cash and cash equivalents and short-term investments.

## Trade accounts receivable

The Corporation's trade accounts receivable are composed of the following:

| Canadian $ millions, as at | Note | 2013 June 30 | 2012 December 31 | 2012 January 1 |
|---|---|---|---|---|
| Trade accounts receivable | | **$ 305.6** | $ 322.4 | $ 303.8 |
| Allowance for doubtful accounts | | **(12.7)** | (2.3) | (0.1) |
| Accounts receivable from joint operations | 23 | **0.4** | - | 0.1 |
| Accounts receivable from joint venture | 23 | **8.9** | 5.8 | 7.8 |
| Accounts receivable from associate | 23 | **45.2** | 31.1 | 22.1 |
| Other | | **19.5** | 14.9 | 14.4 |
| | | **$ 366.9** | $ 371.9 | $ 348.1 |

Aging of receivables:

| Canadian $ millions, as at | 2013 June 30 | 2012 December 31 | 2012 January 1 |
|---|---|---|---|
| Not past due | **$ 311.0** | $ 290.0 | $ 285.5 |
| Past due no more than 30 days | **29.9** | 31.6 | 33.2 |
| Past due for more than 30 days but no more than 60 days | **19.3** | 19.0 | 19.5 |
| Past due for more than 60 days | **19.4** | 33.6 | 10.0 |
| | **$ 379.6** | $ 374.2 | $ 348.2 |

Current payment terms for oil sales to an agency of the Cuban government are based on West Texas Intermediate (WTI) reference prices. As the WTI price exceeds US$29.50, payment terms are 180 days from the date of invoice.

Payment terms for electricity and by-product sales to Cuban state enterprises are 60 days from the date of invoice.

# 14. ADVANCES, LOANS RECEIVABLE, OTHER FINANCIAL ASSETS AND FINANCE LEASE RECEIVABLES

## Advances, loans receivable and other financial assets

| Canadian $ millions, as at | Note | 2013 June 30 | 2012 December 31 | 2012 January 1 |
|---|---|---|---|---|
| **Advances, loans receivable** | | | | |
| Ambatovy subordinated loans receivable | 23 | **$ 1,464.9** | $ 1,279.1 | $ 968.9 |
| Energas conditional sales agreement | 23 | **254.1** | 223.9 | 166.9 |
| Moa Joint Venture loans receivable | 23 | **243.5** | 235.6 | 285.6 |
| Other | | **19.0** | 19.8 | 20.9 |
| **Other financial assets** | | | | |
| Ambatovy call option | 13 | **23.9** | 21.5 | 38.0 |
| Deferred reclamation recoveries | | **8.8** | 9.0 | 9.0 |
| Other | | **1.9** | - | - |
| | | **2,016.1** | 1,788.9 | 1,489.3 |
| Current portion of advances, loan receivable and other financial assets | | **(92.9)** | (93.7) | (121.5) |
| | | **$ 1,923.2** | $ 1,695.2 | $ 1,367.8 |

## Other non-financial assets

| Canadian $ millions, as at | Note | 2013 June 30 | 2012 December 31 | 2012 January 1 |
|---|---|---|---|---|
| Cross-guarantee fee asset | | **$ -** | $ - | $ 10.6 |
| Pension assets | 24 | **5.8** | 5.3 | 5.8 |
| Other | | **4.1** | 6.3 | 4.3 |
| | | **9.9** | 11.6 | 20.7 |
| Current portion of other non-financial assets | | **(0.7)** | (0.8) | (0.2) |
| | | **$ 9.2** | $ 10.8 | $ 20.5 |

## Finance lease receivables

| Canadian $ millions, as at | | | 2013 June 30 | | | 2012 December 31 | | | 2012 January 1 |
|---|---|---|---|---|---|---|---|---|---|
| | **Future minimum lease payments** | **Interest** | **Present value of minimum lease payments** | Future minimum lease payments | Interest | Present value of minimum lease payments | Future minimum lease payments | Interest | Present value of minimum lease payments |
| Less than one year | **$ 28.7** | **$ 12.0** | **$ 16.7** | $ 38.5 | $ 13.7 | $ 24.8 | $ 38.3 | $ 15.0 | $ 23.3 |
| Between one and five years | **99.7** | **35.2** | **64.5** | 120.6 | 39.6 | 81.0 | 122.8 | 45.8 | 77.0 |
| More than five years | **120.2** | **23.8** | **96.4** | 127.8 | 26.6 | 101.2 | 149.5 | 30.5 | 119.0 |
| | **$ 248.6** | **$ 71.0** | **$ 177.6** | $ 286.9 | $ 79.9 | $ 207.0 | $ 310.6 | $ 91.3 | $ 219.3 |

## 15. INVENTORIES

| Canadian $ millions, as at | 2013 June 30 | 2012 December 31 | 2012 January 1 |
|---|---|---|---|
| Uncovered coal | **$ 9.5** | $ 8.3 | $ 8.5 |
| Raw materials | **5.4** | 6.6 | 2.7 |
| Materials in process | **0.3** | 0.1 | 0.2 |
| Finished products | **70.2** | 77.5 | 51.0 |
| | **85.4** | 92.5 | 62.4 |
| Spare parts and operating materials | **78.3** | 71.3 | 66.6 |
| | **$ 163.7** | $ 163.8 | $ 129.0 |

For the three and six months ended June 30, 2013, the cost of inventories recognized as an expense and included in cost of sales was $215.0 million and $373.5 million, respectively ($188.1 million and $346.5 million for the three and six months ended June 30, 2012, respectively).

## 16. PROPERTY, PLANT AND EQUIPMENT

| Canadian $ millions, for the six months ended June 30 | | | | 2013 |
|---|---|---|---|---|
| | **Mining properties** | **Oil and Gas properties** | **Plant, equipment and land** | **Total** |
| **Cost** | | | | |
| Balance, beginning of the period | **$ 439.5** | **$ 1,056.9** | **$ 1,310.6** | **$ 2,807.0** |
| Additions | **10.1** | **14.4** | **60.1** | **84.6** |
| Capitalized closure costs | **8.9** | **(0.1)** | **(13.3)** | **(4.5)** |
| Disposals | **0.2** | **-** | **(0.5)** | **(0.3)** |
| Effect of movements in exchange rates | **-** | **55.1** | **16.4** | **71.5** |
| **Balance, end of the period** | **$ 458.7** | **$ 1,126.3** | **$ 1,373.3** | **$ 2,958.3** |
| **Depletion, depreciation and impairment losses** | | | | |
| Balance, beginning of the period | **$ 298.4** | **$ 957.7** | **$ 642.0** | **$ 1,898.1** |
| Depletion and depreciation | **17.0** | **31.0** | **42.5** | **90.5** |
| Impairments | **-** | **-** | **7.3** | **7.3** |
| Disposals | **0.2** | **-** | **2.0** | **2.2** |
| Effect of movements in exchange rates | **-** | **51.6** | **8.7** | **60.3** |
| **Balance, end of period** | **315.6** | **1,040.3** | **702.5** | **2,058.4** |
| **Net book value** | **$ 143.1** | **$ 86.0** | **$ 670.8** | **$ 899.9** |

| Canadian $ millions, for the year ended December 31 | Mining properties | Oil and Gas properties | Plant, equipment and land | Total |
|---|---|---|---|---|
| | | | | 2012 |
| **Cost** | | | | |
| Balance, beginning of the year | $ 389.7 | $ 1,047.0 | $ 1,294.3 | $ 2,731.0 |
| Additions | 21.1 | 30.5 | 122.7 | 174.3 |
| Capitalized closure costs (recoveries) | 41.9 | (1.4) | 5.2 | 45.7 |
| Disposals and derecognition | (13.2) | - | (105.0) | (118.2) |
| Effect of movements in exchange rates | - | (19.2) | (6.6) | (25.8) |
| **Balance, end of the year** | $ 439.5 | $ 1,056.9 | $ 1,310.6 | $ 2,807.0 |
| **Depletion, depreciation and impairment losses** | | | | |
| Balance, beginning of the year | $ 241.0 | $ 917.0 | $ 666.7 | $ 1,824.7 |
| Depletion and depreciation | 59.6 | 57.9 | 82.7 | 200.2 |
| Impairments | 10.9 | - | - | 10.9 |
| Disposals and derecognition | (13.1) | - | (103.7) | (116.8) |
| Effect of movements in exchange rates | - | (17.2) | (3.7) | (20.9) |
| **Balance, end of the year** | 298.4 | 957.7 | 642.0 | 1,898.1 |
| **Net book value** | $ 141.1 | $ 99.2 | $ 668.6 | $ 908.9 |

| Canadian $ millions | **Plant, equipment and land** |
|---|---|
| **Assets held under finance lease at net book value, included in above** | |
| **As at June 30, 2013** | **$ 154.7** |
| As at December 31, 2012 | 142.8 |
| As at January 1, 2012 | 115.6 |
| **Assets under construction, included in above** | |
| **As at June 30, 2013** | **$ 27.7** |
| As at December 31, 2012 | 24.7 |
| As at January 1, 2012 | 28.8 |

## 17. LOANS, BORROWINGS AND OTHER LIABILITIES

### Loans and borrowings

| Canadian $ millions, as at | Note | **2013 June 30** | 2012 December 31 | 2012 January 1 |
|---|---|---|---|---|
| **Long-term loans** | | | | |
| 8.25% senior unsecured debentures due 2014 | 13 | **$ -** | $ - | $ 223.0 |
| 7.75% senior unsecured debentures due 2015 | 13 | **273.7** | 273.4 | 272.9 |
| 8.00% senior unsecured debentures due 2018 | 13 | **392.8** | 392.2 | 391.2 |
| 7.50% senior unsecured debentures due 2020 | 13 | **490.3** | 489.8 | - |
| Ambatovy Joint Venture Additional Partner loans | 13 | **822.2** | 749.3 | 708.5 |
| Ambatovy Joint Venture Partner loans | 13 | **98.1** | 92.1 | 92.2 |
| Coal revolving credit facility | | **15.0** | 43.0 | - |
| Senior credit facility | | **-** | - | 43.0 |
| 3-year non-revolving term loan | | **-** | - | 11.2 |
| Loan from financial institution | | **-** | - | 2.7 |
| | | **2,092.1** | 2,039.8 | 1,744.7 |
| Current portion of loans and borrowings | | **-** | - | (56.9) |
| | | **$ 2,092.1** | $ 2,039.8 | $ 1,687.8 |

## Syndicated 364-day revolving-term credit facility

In May 2013, the Corporation amended the terms of the syndicated 364-day revolving-term credit facility to extend the maturity date to September 30, 2013 and increase the net financial debt-to-EBITDA financial covenant from 2.5:1 to 3.5:1. The facility continues to be subject to all other pre-existing financial covenants. The maximum credit available under the facility is $90.0 million and the total available draw is based on eligible receivables and inventory. As at June 30, 2013, the Corporation had drawn on the facility US$20.0 million of letters of credit (December 31, 2012 - $nil).

## Line of credit

In May 2013, the Corporation amended the terms of the $20.0 million line of credit to extend the maturity date to September 30, 2013. This facility is subject to the same financial covenants as the syndicated 364-day revolving-term credit facility. There were no amounts drawn on this facility as at June 30, 2013 (December 31, 2012 - $nil).

## Other financial liabilities

| Canadian $ millions, as at | Note | **2013 June 30** | 2012 December 31 | 2012 January 1 |
|---|---|---|---|---|
| Finance lease obligations | | **$ 156.4** | $ 155.1 | $ 139.5 |
| Other long-term financial liabilities | | **7.1** | 12.4 | 12.4 |
| Stock compensation liability | 20 | **6.9** | 11.9 | 11.2 |
| | | **170.4** | 179.4 | 163.1 |
| Current portion of other financial liabilities | | **(53.3)** | (56.8) | (55.4) |
| | | **$ 117.1** | $ 122.6 | $ 107.7 |

## Finance lease obligations

| Canadian $ millions, as at | **2013 June 30** | | | 2012 December 31 | | | 2012 January 1 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Future minimum lease payments** | **Interest** | **Present value of minimum lease payments** | Future minimum lease payments | Interest | Present value of minimum lease payments | Future minimum lease payments | Interest | Present value of minimum lease payments |
| Less than one year | **$ 52.6** | **$ 6.6** | **$ 46.0** | $ 51.8 | $ 7.0 | $ 44.8 | $ 49.4 | $ 6.5 | $ 42.9 |
| Between one and five years | **119.0** | **8.6** | **110.4** | 119.7 | 9.4 | 110.3 | 105.8 | 9.2 | 96.6 |
| | **$ 171.6** | **$ 15.2** | **$ 156.4** | $ 171.5 | $ 16.4 | $ 155.1 | $ 155.2 | $ 15.7 | $ 139.5 |

## Other long-term financial liabilities

| Canadian $ millions, as at | **2013 June 30** | 2012 December 31 | 2012 January 1 |
|---|---|---|---|
| Less than one year | **$ 2.0** | $ 2.4 | $ 3.7 |
| Between one and five years | **5.1** | 5.6 | 7.0 |
| More than five years | **-** | 4.4 | 1.7 |
| | **$ 7.1** | $ 12.4 | $ 12.4 |

## Other non-financial liabilities

| Canadian $ millions, as at | Note | **2013 June 30** | 2012 December 31 | 2012 January 1 |
|---|---|---|---|---|
| Pension liability | 24 | **$ 8.3** | $ 48.9 | $ 45.2 |
| Deferred revenue | | **11.0** | 16.8 | 9.1 |
| | | **19.3** | 65.7 | 54.3 |
| Current portion of other non-financial liabilities | | **(5.9)** | (16.0) | (8.1) |
| | | **$ 13.4** | $ 49.7 | $ 46.2 |

## 18. ENVIRONMENTAL REHABILITATION PROVISIONS, CONTINGENCIES AND GUARANTEES

The following is a reconciliation of the environmental rehabilitation provision:

| Canadian $ millions | Note | **For the six months ended 2013 June 30** | For the year ended 2012 December 31 |
|---|---|---|---|
| Balance, beginning of the period | | **$ 263.2** | $ 235.3 |
| Additions | | **6.1** | 23.3 |
| Change in estimates | | **(21.6)** | 22.6 |
| Utilized during the period | | **(9.0)** | (21.2) |
| Accretion | 9 | **1.8** | 3.5 |
| Foreign exchange translation | | **1.6** | (0.3) |
| Balance, end of the period | | **242.1** | 263.2 |
| Current portion | | **(26.1)** | (34.4) |
| | | **$ 216.0** | $ 228.8 |

The 2013 change in estimates, noted in the table above, is primarily the result of discount rates increasing by approximately 0.5% during the period due to higher government bond yields.

### Contingencies

On June 4, 2013 Coal Valley Resources Inc. ("CVRI") received a favourable ruling in the first phase of an arbitration process for a contract dispute with a port operator. CVRI will now proceed to the final phase of arbitration where a settlement amount will be determined. At June 30, 2013 management could not reasonably estimate the financial impact of this settlement.

## 19. SHAREHOLDERS' EQUITY

### Capital Stock

The Corporation's common shares have no par value and the authorized share capital is composed of an unlimited number of common shares. The changes in the Corporation's outstanding common shares were as follows:

| Canadian $ millions, except share amounts | | **For the six months ended 2013 June 30** | | For the year ended 2012 December 31 | |
|---|---|---|---|---|---|
| | Note | **Number** | **Capital stock** | Number | Capital stock |
| Balance, beginning of the period | | **296,490,635** | **$ 2,806.1** | 296,390,692 | $ 2,803.1 |
| Treasury stock - restricted stock plan | 20 | **-** | **-** | (287,400) | (1.6) |
| Restricted stock plan (vested) | 20 | **90,026** | **0.8** | 106,848 | 0.9 |
| Employee share purchase plan | 20 | **-** | **-** | 280,495 | 3.7 |
| Balance, end of the period | | **296,580,661** | **$ 2,806.9** | 296,490,635 | $ 2,806.1 |

The following dividends were paid or were declared but unpaid:

| Canadian $ millions, except per share amounts | **For the six months ended 2013 June 30** | | For the six months ended 2012 June 30 | |
|---|---|---|---|---|
| | **Per share** | **Total** | Per share | Total |
| Dividends paid during the period | **$ 0.081** | **$ 24.0** | $ 0.076 | $ 22.6 |
| Dividends declared but unpaid | **0.043** | **12.7** | 0.038 | 11.3 |

## Reserves

| Canadian $ millions | Note | For the six months ended 2013 June 30 | For the year ended 2012 December 31 |
|---|---|---|---|
| **Stated capital reserve** | | | |
| **Balance, beginning and end of the period** | | **$ 190.3** | $ 190.3 |
| **Stock-based compensation reserve** [1] | | | |
| Balance, beginning of the period | | **$ 4.6** | $ 4.8 |
| Restricted stock plan (vested) | 20 | **(0.8)** | (0.9) |
| Restricted stock plan amortization | 20 | **0.4** | 1.3 |
| Employee share purchase plan (vested) | 20 | **-** | (2.4) |
| Employee share purchase plan expense | 20 | **0.3** | 0.2 |
| Stock option plan expense | 20 | **0.7** | 1.6 |
| **Balance, end of the period** | | **5.2** | 4.6 |
| **Total reserves, end of the period** | | **$ 195.5** | $ 194.9 |

(1) Stock-based compensation reserve relates to equity-settled compensation plans issued by the Corporation to its directors, officers and employees.

## Accumulated other comprehensive income (loss)

| Canadian $ millions | Note | For the six months ended 2013 June 30 | For the year ended 2012 December 31 |
|---|---|---|---|
| Balance, beginning of the period | | **$ (101.2)** | $ (51.4) |
| Foreign currency translation differences on foreign operations | | **133.0** | (49.8) |
| **Balance, end of the period** | | **$ 31.8** | $ (101.2) |
| **Actuarial gains (losses) on defined benefit obligation** | | | |
| Balance, beginning of the period | | **$ (28.4)** | $ (21.7) |
| Reclassification due to settlement of pension obligation | 6 | **22.9** | - |
| Actuarial gains (losses) on defined benefit obligation | 24 | **2.4** | (6.7) |
| **Balance, end of the period** | | **(3.1)** | (28.4) |
| **Total accumulated other comprehensive income (loss)** | | **$ 28.7** | $ (129.6) |

### Accumulated foreign currency translation reserve

Accumulated other comprehensive income (loss) includes a reserve pertaining to the accumulated foreign currency translation adjustment which relates to deferred exchange gains and losses arising from the translation of the financial statements of the Corporation’s foreign operations which have a foreign dollar functional currency.

### Accumulated actuarial gains and losses on defined benefit obligations reserve

Accumulated other comprehensive income (loss) also includes a reserve relating to changes in defined benefit obligations and plan assets.

The Corporation has elected to reclassify actuarial losses, included in accumulated other comprehensive loss, to retained earnings upon settlement of a pension obligation.

## 20. STOCK-BASED COMPENSATION PLANS

### Stock options and options with tandem stock appreciation rights

The following is a summary of stock option activity:

| For the three months ended June 30 | | 2013 | | 2012 |
|---|---|---|---|---|
| | Options | Weighted-average exercise price | Options | Weighted-average exercise price |
| Outstanding, beginning of the period | **4,979,917** | **$ 8.82** | 4,224,317 | $ 9.49 |
| Forfeited | **(15,000)** | **15.02** | - | - |
| **Outstanding, end of the period** | **4,964,917** | **$ 8.80** | 4,224,317 | $ 9.49 |
| **Options exercisable, end of the period** | **3,521,948** | **$ 10.03** | 3,001,899 | $ 10.46 |

| For the six months ended June 30 | | 2013 | | 2012 |
|---|---|---|---|---|
| | Options | Weighted-average exercise price | Options | Weighted-average exercise price |
| Outstanding, beginning of the period | **4,244,317** | **$ 9.49** | 4,976,817 | $ 10.38 |
| Granted | **888,300** | **5.14** | 692,500 | 6.04 |
| Forfeited | **(167,700)** | **6.92** | (1,425,000) | 10.92 |
| Outstanding, end of the period | **4,964,917** | **$ 8.80** | 4,244,317 | $ 9.49 |
| Options exercisable, end of the period | **3,521,948** | **$ 10.03** | 3,001,899 | $ 10.46 |

The following table summarizes information on stock options outstanding and exercisable at June 30, 2013:

| Range of exercise prices | Number outstanding | Weighted-average remaining contractual life | Weighted-average exercise price | Exercisable number | Exercisable weighted-average exercise price |
|---|---|---|---|---|---|
| $3.05 - $5.05 | **40,000** | **5.4** | **$ 3.69** | **40,000** | **$ 3.69** |
| $5.06 - $9.77 | **3,281,582** | **7.7** | **6.54** | **1,838,613** | **7.14** |
| $9.78 - $11.64 | **543,335** | **2.4** | **10.26** | **543,335** | **10.26** |
| $11.65 - $15.23 | **1,100,000** | **4.1** | **14.99** | **1,100,000** | **14.99** |
| **Total** | **4,964,917** | **6.3** | **$ 8.80** | **3,521,948** | **$ 10.03** |

As at June 30, 2013, 2,969,017 Options with Tandem SARs (June 30, 2012 – 2,984,017) and 1,995,900 options (June 30, 2012 – 1,260,300) remained outstanding for which the Corporation has recognized a compensation recovery of $0.9 million and $1.7 million for the three and six months ended June 30, 2013, respectively (compensation recovery of $0.2 million and $1.4 million for the three and six months ended June 30, 2012, respectively). The carrying amount of liabilities associated with cash-settled compensation arrangements is $1.8 million at June 30, 2013 (December 31, 2012 – $4.2 million).

#### Inputs for measurement of grant date fair values

The fair value at the grant date of the stock options and Options with Tandem SARs was measured using Black-Scholes. The following summarizes the fair value measurement factors for options granted during the period:

| Canadian $, for the six months ended June 30 | 2013 | 2012 |
|---|---|---|
| Share price at grant date | **$5.22** | $5.96 |
| Exercise price | **$5.14** | $6.04 |
| Risk-free interest rates (based on 10-year Government of Canada bonds) | **1.94%** | 1.95% |
| Expected volatility | **48.81%** | 49.00% |
| Expected dividend yield | **2.91%** | 2.55% |
| Expected life of options | **10 years** | 10 years |
| Weighted-average fair value of options granted during the period | **$2.11** | $2.52 |

## Other stock-based compensation

A summary of the Share Purchase Plan units, RSUs, DSUs and RSP units outstanding as at June 30, 2013 and 2012 and changes during the period is as follows:

| For the three months ended June 30 | | | | **2013** |
|---|---|---|---|---|
| | **Share Purchase Plan** | **RSU** | **DSU** | **RSP** |
| Outstanding, beginning of the period | **765,626** | **2,842,003** | **554,456** | **360,900** |
| Dividends credited | - | **24,192** | **4,714** | - |
| Forfeited | **(117,370)** | **(14,566)** | - | - |
| **Outstanding, end of the period** | **648,256** | **2,851,629** | **559,170** | **360,900** |
| **Units exercisable, end of the period** | **n/a** | **n/a** | **559,170** | **n/a** |

| For the three months ended June 30 | | | | 2012 |
|---|---|---|---|---|
| | **Share Purchase Plan** | **RSU** | **DSU** | **RSP** |
| Outstanding, beginning of the period | 752,615 | 2,530,419 | 424,101 | 510,926 |
| Issued | - | - | - | 27,000 |
| Dividends credited | - | 19,311 | 3,286 | - |
| Forfeited | (170,269) | (42,000) | - | - |
| **Outstanding, end of the period** | 582,346 | 2,507,730 | 427,387 | 537,926 |
| **Units exercisable, end of the period** | n/a | n/a | 427,387 | n/a |

| For the six months ended June 30 | | | | **2013** |
|---|---|---|---|---|
| | **Share Purchase Plan** | **RSU** | **DSU** | **RSP** |
| Outstanding, beginning of the period | **822,491** | **1,934,701** | **430,649** | **450,926** |
| Issued | - | **1,522,310** | **120,900** | - |
| Dividends credited | - | **37,208** | **7,621** | - |
| Exercised | - | **(605,076)** | - | - |
| Forfeited | **(174,235)** | **(37,514)** | - | - |
| Vested | - | - | - | **(90,026)** |
| **Outstanding, end of the period** | **648,256** | **2,851,629** | **559,170** | **360,900** |
| **Units exercisable, end of the period** | **n/a** | **n/a** | **559,170** | **n/a** |

| For the six months ended June 30 | | | | 2012 |
|---|---|---|---|---|
| | **Share Purchase Plan** | **RSU** | **DSU** | **RSP** |
| Outstanding, beginning of the period | 769,055 | 1,754,529 | 336,160 | 270,374 |
| Issued | - | 758,375 | 85,000 | 287,400 |
| Dividends credited | - | 36,826 | 6,227 | - |
| Forfeited | (186,709) | (42,000) | - | - |
| Vested | - | - | - | (19,848) |
| **Outstanding, end of the period** | 582,346 | 2,507,730 | 427,387 | 537,926 |
| **Units exercisable, end of the period** | n/a | n/a | 427,387 | n/a |

The Corporation recorded a compensation expense of $0.1 million and $1.2 million for the three and six months ended June 30, 2013, respectively, for other stock-based compensation plans (compensation recovery of $1.0 million and $3.0 million for the three and six months ended June 30, 2012, respectively). The carrying amount of liabilities associated with cash-settled compensation arrangements is $5.1 million at June 30, 2013 (December 31, 2012 - $7.7 million).

**Measurement of fair values at grant date**

The fair value of the Share Purchase Plan, RSUs, DSUs and RSPs are determined by reference to the market value and performance conditions, as applicable, of the shares at the time of grant.

Beginning in 2013, the Corporation began issuing performance based RSUs to certain employees, all of which vest at the end of three years. Under the plan, each unit awarded is equivalent to a common share. A liability is accrued related to the units awarded and a compensation expense is recognized in the Consolidated Statement of Comprehensive Income over the service period required for employees to become fully entitled to the award. At the maturity date, the participant receives cash representing the value of the units. The final number of units that vest will vary from 80% to 120% of the initial number awarded (plus additional units for dividend equivalents) based on the Corporation's total shareholder return relative to a benchmark index comprised of mining and oil and gas companies. The number of units subject to the performance condition outstanding at June 30, 2013 was 1,529,361 (June 30, 2012 – nil).

The following summarizes the fair value measurement factor for the Share Purchase Plan, RSU, DSU and RSP grants during the period:

| Canadian $, for the six months ended June 30 | | 2013 | | 2012 |
|---|---|---|---|---|
| RSU | $ | 5.22 | $ | 5.96 |
| DSU | | 5.91 | | 6.15 |
| RSP | | - | | 5.87 |

The intrinsic value of cash-settled stock-based compensation awards vested and outstanding as at June 30, 2013 was $5.0 million (December 31, 2012 - $8.2 million).

## 21. CASH FLOWS

### Other operating items

| | | | For the three months ended | | | | For the six months ended | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | 2013 | | 2012 | | 2013 | | 2012 |
| Canadian $ millions | Note | | June 30 | | June 30 | | June 30 | | June 30 |
| Add (deduct) non-cash items: | | | | | | | | | |
| Accretion expense on environmental rehabilitation provisions | 9 | $ | 0.8 | $ | 1.0 | $ | 1.8 | $ | 2.0 |
| Stock-based compensation expense, net | 20 | | (0.8) | | 0.8 | | (0.5) | | 1.6 |
| Other items | | | (7.2) | | 3.1 | | (5.4) | | 1.0 |
| Cash flow arising from changes in: | | | | | | | | | |
| Other finance charges | | | (3.8) | | (3.9) | | (7.9) | | (7.2) |
| Realized foreign exchange (gain) loss | | | 0.8 | | 0.2 | | 0.9 | | - |
| | | $ | (10.2) | $ | 1.2 | $ | (11.1) | $ | (2.6) |

### Net change in non-cash working capital

| | | For the three months ended | | | | For the six months ended | | |
|---|---|---|---|---|---|---|---|---|
| | | 2013 | | 2012 | | 2013 | | 2012 |
| Canadian $ millions | | June 30 | | June 30 | | June 30 | | June 30 |
| Trade accounts receivable | $ | 26.3 | $ | (10.4) | $ | 13.6 | $ | (3.4) |
| Inventories | | 20.5 | | (0.4) | | 4.0 | | (25.5) |
| Prepaid expenses | | (4.4) | | (8.6) | | (7.9) | | (11.2) |
| Trade accounts payable and accrued liabilities | | (2.2) | | 1.1 | | (14.0) | | (6.5) |
| Deferred revenue | | (43.4) | | (40.1) | | (10.3) | | (4.3) |
| | $ | (3.2) | $ | (58.4) | $ | (14.6) | $ | (50.9) |

## 22. FINANCIAL RISK AND CAPITAL RISK MANAGEMENT

## Credit risk

### Cuba

The Corporation has credit risk exposure related to its share (50% basis) of cash, accounts receivable, advances and loans receivable and certificates of deposit associated with its businesses located in Cuba or businesses which have Cuban joint venture partners as follows:

| | 2013 | 2012 | 2012 |
|---|---|---|---|
| Canadian $ millions, as at | June 30 | December 31 | January 1 |
| Cash | $ 18.9 | $ 22.2 | $ 14.8 |
| Trade accounts receivable, net | 200.2 | 216.1 | 218.7 |
| Advances and loans receivable | 624.7 | 574.9 | 539.4 |
| Cuban certificates of deposit | 19.9 | 31.7 | 58.2 |
| **Total** | $ 863.7 | $ 844.9 | $ 831.1 |

The table above reflects the Corporation's maximum credit exposure to Cuban counterparties which may differ from balances in the consolidated results due to eliminations in accordance with accounting principles for subsidiaries and joint ventures.

### Madagascar

The Corporation has credit risk exposure in Madagascar related to its share (40% basis) of cash and cash equivalents of $13.6 million and net accounts receivable of $36.9 million associated with the Ambatovy Joint Venture including value added tax (VAT) receivables of $20.8 million from the government of Madagascar. A provision on VAT receivables of $28.8 million (40% basis) was recognized during the quarter to reflect expected delays in the receipt of these amounts. Total overdue accounts receivable including VAT (net of provision) for the Ambatovy Joint Venture amount to $11.7 million.

## Liquidity risk

### Financial obligation maturity analysis

The Corporation's significant contractual commitments, obligations, and interest and principal repayments on its financial liabilities are presented in the following table:

| Canadian $ millions, as at June 30, 2013 | Total | Falling due within 1 year | Falling due beween 1-2 years | Faliing due between 2-3 years | Falling due between 3-4 years | Falling due between 4-5 years | Falling due in more than 5 years |
|---|---|---|---|---|---|---|---|
| Trade accounts payable and accrued liabilities | $ 160.0 | $ 160.0 | $ - | $ - | $ - | $ - | $ - |
| Income taxes payable | 43.9 | 43.9 | - | - | - | - | - |
| Loans and borrowings[(1)] | 3,318.7 | 91.2 | 91.2 | 458.0 | 144.9 | 280.6 | 2,252.8 |
| Finance leases and other equipment financing | 178.6 | 54.7 | 41.0 | 38.7 | 34.2 | 10.0 | - |
| Environmental rehabilitation provisions | 351.6 | 27.8 | 22.4 | 22.6 | 16.5 | 16.5 | 245.8 |
| Operating leases[(2)] | 31.8 | 9.0 | 3.4 | 2.8 | 2.8 | 2.9 | 10.9 |
| **Total** | **$4,084.6** | **$ 386.6** | **$ 158.0** | **$ 522.1** | **$ 198.4** | **$ 310.0** | **$2,509.5** |

(1) Loans and borrowings is composed primarily of $1,156.8 million in three public issues of senior unsecured debentures having interest rates of between 7.5% and 8.0% and maturities in 2015, 2018 and 2020, and $822.2 million and $98.1 million in loans provided by the Ambatovy Joint Venture partners to finance Sherritt's portion of the funding requirements of the Joint Venture bearing interest of LIBOR plus a margin of 7.0% and 1.125%, respectively. These partner loans are to be repaid from the Corporation's share of cash distributions from the Ambatovy Joint Venture (note 17). The amounts above are based on management's best estimate of future cash flows including estimating assumptions such as commodity prices, production levels, cash costs of production, capital and reclamation costs. These loans are non-recourse to Sherritt unless there is a direct breach of certain restrictions stipulated in the loan documents. The maturity analysis table includes an estimate of interest repayments.

(2) Operating lease payments recognized as an expense in the consolidated statement of comprehensive income were $2.5 million and $6.1 million for the three and six months ended June 30, 2013, respectively ($4.4 million and $9.2 million for the three and six months ended June 30, 2012, respectively).

As a result of the Corporation's 40% interest in the Ambatovy Joint Venture, its proportionate share of significant undiscounted commitments of the Joint Venture include environmental rehabilitation commitments of $161.8 million, other contractual commitments of $39.0 million and senior debt financing of $973.0 million.

As a result of the Corporation's 50% interest in the Moa Joint Venture, its proportionate share of significant undiscounted commitments of the Joint Venture include advances and loans payable of $130.9 million, environmental rehabilitation commitments of $75.2 million and other commitments of $6.2 million.

## Market risk

### Foreign exchange risk

Many of Sherritt's businesses transact in currencies other than the Canadian dollar. The Corporation is sensitive to foreign exchange exposure when commitments are made to deliver products quoted in foreign currencies or when the contract currency is different from the product price currency. Derivative financial instruments are not used to reduce exposure to fluctuations in foreign exchange rates. The Corporation is also sensitive to foreign exchange risk arising from the translation of subsidiaries with a functional currency other than the Canadian dollar impacting other comprehensive income (loss).

Based on financial instrument balances as at June 30, 2013, a strengthening or weakening of $0.05 of the Canadian dollar to the U.S. dollar with all other variables held constant could have an unfavourable or favourable impact of approximately $9.0 million, respectively, on net earnings, and $28.4 million on other comprehensive income.

### Interest rate risk

The Corporation is exposed to interest rate risk based on its outstanding loans and borrowings and short-term and other investments. A change in interest rates could affect future cash flows or the fair value of financial instruments.

Based on the balance of short-term and long-term loans and borrowings, cash equivalents, short-term and long-term investments, and advances and loans receivable as at June 30, 2013, 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 $4.8 million, respectively. The Corporation does not engage in hedging activities to mitigate its interest rate risk.

## Capital risk management

In the definition of capital, the Corporation includes, as disclosed on its consolidated statements of financial position and notes of the financial statements: capital stock, retained earnings and un-drawn credit facilities.

| Canadian $ millions, as at | 2013 June 30 | 2012 December 31 | 2012 January 1 |
|---|---|---|---|
| Capital stock | $ 2,806.9 | $ 2,806.1 | $ 2,803.1 |
| Retained earnings | 738.6 | 774.5 | 786.0 |
| Un-drawn credit facilities | 579.1 | 562.1 | 423.6 |

## 23. RELATED PARTY TRANSACTIONS

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| Canadian $ millions | 2013 June 30 | 2012 June 30 | 2013 June 30 | 2012 June 30 |
| Total value of goods and services: | | | | |
| Provided to joint operations | $ 9.1 | $ 8.2 | $ 14.3 | $ 14.0 |
| Provided to joint venture | 78.4 | 34.9 | 113.1 | 65.1 |
| Provided to associate | - | 1.3 | 5.7 | 2.4 |
| Purchased from joint operations | - | - | 0.9 | - |
| Purchased from joint venture | 36.8 | 35.0 | 57.5 | 48.6 |
| Net financing income from joint operations | 6.2 | 4.5 | 11.9 | 8.7 |
| Net financing income from joint venture | 1.9 | 2.1 | 3.5 | 4.3 |

| Canadian $ millions, as at | Note | 2013 June 30 | 2012 December 31 | 2012 January 1 |
|---|---|---|---|---|
| Accounts receivable from joint operations | 13 | $ 0.4 | $ - | $ 0.1 |
| Accounts receivable from joint venture | 13 | 8.9 | 5.8 | 7.8 |
| Accounts receivable from associate | 13 | 45.2 | 31.1 | 22.1 |
| Accounts payable to joint venture | | 1.9 | 0.9 | - |
| Accounts payable to associate | | 1.3 | 11.8 | 0.3 |
| Advances and loans receivable from associate | 14 | 1,464.9 | 1,279.1 | 968.9 |
| Advances and loans receivable from joint operations | 14 | 254.1 | 223.9 | 166.9 |
| Advances and loans receivable from joint venture entities | 14 | 243.5 | 235.6 | 285.6 |

All transactions between related parties are based on standard commercial terms. All amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received on the outstanding amounts. No expense has been recognized in the current or prior period for bad debts in respect of amounts owed by related parties.

## 24. POST-EMPLOYMENT BENEFITS

The Corporation sponsors defined benefit and defined contribution pension arrangements covering substantially all employees. The following table summarizes the significant actuarial assumptions used to calculate the pension expense and obligations under the defined benefit pension plans:

| As at | 2013 June 30 | 2012 December 31 |
|---|---|---|
| **Accrued benefit obligation** | | |
| Discount rate | 4.0% | 4.0% |
| Rate of compensation increases | 3.5% | 3.5% |
| Inflation rate | 2.5% | 2.5% |
| **Benefit costs** | | |
| Expected long-term rate of return on plan assets | 4.0% - 6.25% | 4.0% - 4.6% |
| Discount rate | 4.0% | 4.0% |
| **Plan assets** | | |
| Expected return on plan assets | 4.0% - 6.25% | 4.0% - 4.6% |

Actuarial reports and updates are prepared by independent actuaries for funding and accounting purposes. Net pension plan expense was:

| Canadian $ millions | Note | For the three months ended 2013 June 30 | 2012 June 30 | For the six months ended 2013 June 30 | 2012 June 30 |
|---|---|---|---|---|---|
| **Current service cost:** | | | | | |
| Defined benefit | | **$ 0.4** | $ 1.4 | **$ 1.1** | $ 3.4 |
| Defined contribution | | **3.7** | 3.9 | **7.7** | 8.1 |
| Interest cost on obligation | | **1.1** | 1.8 | **1.5** | 3.6 |
| Interest income (expense) on asset | | **1.1** | (1.3) | **0.4** | (2.6) |
| Settlement gain | 6 | **-** | - | **(39.3)** | - |
| **Net pension plan expense (income)** | | **$ 6.3** | $ 5.8 | **$ (28.6)** | $ 12.5 |

Information on defined benefit plans, in aggregate, is set out below:

| Canadian $ millions | Note | For the six months ended 2013 June 30 | For the year ended 2012 December 31 |
|---|---|---|---|
| **Accrued benefit obligation** | | | |
| Balance, beginning of the period | | **$ 174.5** | $ 157.5 |
| Current service cost | | **1.4** | 6.7 |
| Interest cost | | **1.4** | 7.3 |
| Benefits paid | | **(2.3)** | (11.2) |
| Actuarial loss | | **0.1** | 14.2 |
| Settlement gain | 6 | **(111.2)** | - |
| **Balance, end of the period** | | **$ 63.9** | $ 174.5 |

| Canadian $ millions | Note | For the six months ended 2013 June 30 | For the year ended 2012 December 31 |
|---|---|---|---|
| **Plan assets** | | | |
| Fair value, beginning of the period | | **$ 125.6** | $ 112.8 |
| Employer contributions | | **2.2** | 13.7 |
| Interest on assets | | **0.7** | 5.4 |
| Benefits paid | | **(2.3)** | (11.2) |
| Administrative costs | | **-** | (0.1) |
| Actuarial gain | | **1.3** | 5.0 |
| Settlement decrease | 6 | **(71.9)** | - |
| **Fair value, end of the period** | | **$ 55.6** | $ 125.6 |

| Canadian $ millions, as at | Note | 2013 June 30 | 2012 December 31 | 2012 January 1 |
|---|---|---|---|---|
| Pension asset | 14 | **$ 5.8** | $ 5.3 | $ 5.8 |
| Pension liability | 17 | **(8.3)** | (48.9) | (45.2) |
| | | **$ (2.5)** | $ (43.6) | $ (39.4) |

Total cash payments for post-retirement benefits for the three and six months ended June 30, 2013, consisting of contributions to defined benefit and defined contribution pension plans, were $4.5 million and $9.9 million respectively ($6.0 million and $12.8 million for the three and six months ended June 30, 2012, respectively).

As at June 30, 2013 for pension plans with an accrued benefit obligation in excess of plan assets, the accrued benefit obligation was $21.8 million (December 31, 2012 - $160.1 million) and the fair value of the plan assets was $18.5 million (December 31, 2012 - $108.5 million).

The measurement date for the plan assets and the accrued benefit obligations for the Corporation's defined benefit pension plans is December 31. Actuarial valuations are performed at least every three years and rendered to date using current salary levels to determine the actuarial present value of the accrued benefit obligation. An actuarial valuation was performed on certain plans as at December 31, 2010. The next required actuarial valuation for funding purposes for certain plans will be December 31, 2013.

The following table summarizes the history and experience adjustments of the plan obligations and plan assets:

| Canadian $ millions, as at | **2013 June 30** | 2012 December 31 | 2012 January 1 |
|---|---|---|---|
| Present value of plan obligations | **$ (63.9)** | $ (174.5) | $ (157.5) |
| Fair value of plan assets | **55.6** | 125.6 | 112.8 |
| **Deficit** | **$ (8.3)** | $ (48.9) | $ (44.7) |

| Canadian $ millions | **For the six months ended 2013 June 30** | For the year ended 2012 December 31 |
|---|---|---|
| Experience losses on plan obligations | **$ (0.1)** | $ (14.2) |
| Experience gains on plan assets | **1.3** | 5.0 |

| Canadian $ millions | Note | **For the six months ended 2013 June 30** | For the year ended 2012 December 31 |
|---|---|---|---|
| **Amounts recognized in other comprehensive income** | | | |
| Acturial losses, beginning of the period | 19 | **$ (28.4)** | $ (21.7) |
| Actuarial gains (losses) on pension plans, net of tax | | **2.4** | (6.7) |
| Settlement gain | 19 | **22.9** | - |
| Actuarial losses, end of the period | | **$ (3.1)** | $ (28.4) |

Approximate asset allocations, by asset category, of the Corporation's defined benefit pension plans were as follows:

| As at | **2013 June 30** | 2012 December 31 |
|---|---|---|
| Equity securities | **53%** | 55% |
| Debt securities | **35%** | 39% |
| Other | **12%** | 6% |

## 25. NON-CASH TRANSACTIONS

The Corporation entered into the following non-cash investing and financing activities which are not reflected in the consolidated statements of cash flow:

| | For the three months ended | | For the six months ended | |
|---|---|---|---|---|
| Canadian $ millions | **2013 June 30** | 2012 June 30 | **2013 June 30** | 2012 June 30 |
| Acquisition of property, plant and equipment under finance leases | **$ 14.9** | $ 25.5 | **$ 34.0** | $ 30.3 |

## 26. OPERATING LEASE ARRANGEMENTS

### Corporation acts as a lessor

The Corporation acts as a lessor in operating leases related to the Power facilities in Madagascar and in Varadero, Cuba. The following table summarizes future minimum lease payments relating to the Madagascar operating lease receivable:

| Canadian $ millions, as at | | **2013 June 30 (1)** | | 2012 December 31 | | 2012 January 1 |
|---|---|---|---|---|---|---|
| Less than one year | $ | - | $ | 5.1 | $ | 5.1 |
| Between one and five years | | - | | 4.2 | | 9.3 |
| | $ | - | $ | 9.3 | $ | 14.4 |

(1) During the quarter, the Corporation recorded an impairment related to its electricity generating facility located in Madagascar. Accordingly, the future minimum lease payments have been determined to be $nil.

All operating lease payments related to the Varadero facility are contingent on power generation and therefore excluded from the table above. The term of the lease is 20 years ending in February 2018. At the end of the lease term, the leased assets will be sold at fair market value with the Corporation retaining its share of the net proceeds. For the three and six months ended June 30, 2013, contingent revenue was $3.2 million and $6.7 million, respectively ($3.4 million and $6.7 million for the three and six months ended June 30, 2012, respectively).

### Corporation acts as a lessee

Operating lease payments recognized as an expense in the consolidated statement of comprehensive (loss) income for the three and six months ended June 30, 2013 were $2.5 million and $6.1 million, respectively ($4.4 million and $9.2 million for the three and six months ended June 30, 2012, respectively).

## 27. COMMITMENTS FOR EXPENDITURES

| Canadian $ millions, for the period ended June 30 | | **2013** |
|---|---|---|
| Property, plant and equipment commitments | $ | **4.3** |
| Jointly controlled operations: | | |
| Property, plant and equipment commitments | | **4.5** |
| Construction commitments relating to service concession arrangements (100% basis) | | **19.6** |

## 28. TRANSITION NOTE

Effective January 1, 2013, the Corporation adopted IFRS 11, "Interests in Joint Ventures" ("IFRS 11") which replaces IAS 31, "Interests in Joint Ventures" and SIC 13, "Jointly controlled entities – non-monetary contributions by venturers". The most significant result from the adoption is the change in the method of accounting for the Corporation's investment in the Moa Joint Venture. Under the previous standards, the Moa Joint Venture was proportionately consolidated whereas under IFRS 11, the Corporation is required to account for the investment using the equity method of accounting. In accordance with the transition requirements, the initial equity investment is measured as the aggregate of the carrying amount of the assets and liabilities that the entity had previously proportionately consolidated as at the beginning of the immediately preceding period, that is, January 1, 2012.

Effective January 1, 2013, the Corporation also adopted amendments to IAS 19, "Employee Benefits". The adoption results in all actuarial gains and losses being immediately recognized in other comprehensive income rather than net earnings. The amendments eliminate the use of the "corridor method" which allowed the deferral and amortization of actuarial gains and losses. The adoption of this amendment has been applied retrospectively to the Corporation's consolidated financial statements, effective from January 1, 2012.

In order for users of the consolidated financial statements to better understand the impact of the adoption of these new standards, the Corporation's consolidated Statements of Financial Position, Statements of Comprehensive (Loss) Income, and Statements of Cash Flow have been reconciled to reflect the new standards and amendments. The following reconciliations have been provided:

i. Reconciliation of consolidated statements of financial position as at:
   - January 1, 2012;
   - June 30, 2012; and
   - December 31, 2012.

ii. Reconciliation of the change in consolidated shareholders' equity as at:
   - January 1, 2012;
   - June 30, 2012; and
   - December 31, 2012.

iii. Reconciliation of consolidated statement of comprehensive income (loss) for:
   - Three and six months ended June 30, 2012; and
   - The year ended December 31, 2012.

iv. Reconciliation of consolidated statement of cash flow for:
   - Three and six months ended June 30, 2012; and
   - The year ended December 31, 2012.

## Transition date statements

### Reconciliation of consolidated statement of financial position as at January 1, 2012

| Unaudited, Canadian $ millions, as at January 1, 2012 | As Reported | IFRS 11 Adjustment | IAS 19 Adjustment | Adjusted |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | $ 174.6 | $ (30.0) | $ - | $ 144.6 |
| Restricted cash | 1.1 | - | - | 1.1 |
| Short-term investments | 456.8 | - | - | 456.8 |
| Investments | 29.1 | - | - | 29.1 |
| Advances, loans receivable and other financial assets | 71.1 | 50.4 | - | 121.5 |
| Other non-financial assets | 0.2 | - | - | 0.2 |
| Finance lease receivables | 23.3 | - | - | 23.3 |
| Trade accounts receivable, net | 386.5 | (38.4) | - | 348.1 |
| Income taxes receivable | 19.1 | - | - | 19.1 |
| Inventories | 215.1 | (86.1) | - | 129.0 |
| Prepaid expenses | 12.1 | (1.0) | - | 11.1 |
| | 1,389.0 | (105.1) | - | 1,283.9 |
| **Non-current assets** | | | | |
| Advances, loans receivable and other financial assets | 1,278.8 | 89.0 | - | 1,367.8 |
| Other non-financial assets | 17.1 | - | 3.4 | 20.5 |
| Finance lease receivables | 196.0 | - | - | 196.0 |
| Property, plant and equipment | 1,430.4 | (524.1) | - | 906.3 |
| Investments | 34.7 | - | - | 34.7 |
| Investment in an associate | 1,053.1 | - | - | 1,053.1 |
| Investment in a joint venture | - | 357.5 | - | 357.5 |
| Goodwill | 307.9 | - | - | 307.9 |
| Intangible assets | 786.2 | - | - | 786.2 |
| Deferred income taxes | 2.8 | - | 0.5 | 3.3 |
| | 5,107.0 | (77.6) | 3.9 | 5,033.3 |
| Assets of discontinued operation | 1.5 | - | - | 1.5 |
| **Total Assets** | $ 6,497.5 | $ (182.7) | $ 3.9 | $ 6,318.7 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **Current liabilities** | | | | |
| Loans and borrowings | $ 56.9 | $ - | $ - | $ 56.9 |
| Trade accounts payable and accrued liabilities | 179.8 | (21.7) | - | 158.1 |
| Income taxes payable | 25.9 | (0.4) | - | 25.5 |
| Other financial liabilities | 69.8 | (14.4) | - | 55.4 |
| Other non-financial liabilities | 8.0 | 0.1 | - | 8.1 |
| Environmental rehabilitation provisions | 31.9 | - | - | 31.9 |
| | 372.3 | (36.4) | - | 335.9 |
| **Non-current liabilities** | | | | |
| Loans and borrowings | 1,687.8 | - | - | 1,687.8 |
| Other financial liabilities | 205.4 | (97.7) | - | 107.7 |
| Other non-financial liabilities | 15.1 | - | 31.1 | 46.2 |
| Intangible liability | 9.1 | - | - | 9.1 |
| Environmental rehabilitation provisions | 235.8 | (32.4) | - | 203.4 |
| Deferred income taxes | 232.1 | (16.2) | (6.6) | 209.3 |
| | 2,385.3 | (146.3) | 24.5 | 2,263.5 |
| Liabilities of discontinued operation | 8.2 | - | - | 8.2 |
| **Total liabilities** | 2,765.8 | (182.7) | 24.5 | 2,607.6 |
| **Shareholders' equity** | | | | |
| Capital stock | 2,803.1 | - | - | 2,803.1 |
| Retained earnings | 784.9 | - | 1.1 | 786.0 |
| Reserves | 195.1 | - | - | 195.1 |
| Accumulated other comprehensive loss | (51.4) | - | (21.7) | (73.1) |
| | 3,731.7 | - | (20.6) | 3,711.1 |
| **Total liabiities and shareholders' equity** | $ 6,497.5 | $ (182.7) | $ 3.9 | $ 6,318.7 |

Reconciliation of change in consolidated shareholders' equity as at January 1, 2012

| Canadian $ millions, as at January 1, 2012 | | |
|---|---|---|
| Shareholders' equity reported | $ | 3,731.7 |
| Post-employment benefits | | (20.6) |
| Total shareholders' equity adjusted | $ | 3,711.1 |

## Reconciliation of consolidated statement of financial position as at June 30, 2012

| Canadian $ millions, as at June 30, 2012 | As Reported | IFRS 11 Adjustment | IAS 19 Adjustment | Adjusted |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | $ 292.1 | $ (52.2) | $ - | $ 239.9 |
| Restricted cash | 1.2 | (0.1) | - | 1.1 |
| Short-term investments | 186.5 | - | - | 186.5 |
| Investments | 28.3 | - | - | 28.3 |
| Advances, loans receivable and other financial assets | 66.3 | 43.2 | - | 109.5 |
| Other non-financial assets | - | - | - | - |
| Finance lease receivables | 24.5 | - | - | 24.5 |
| Trade accounts receivable, net | 381.0 | (39.0) | - | 342.0 |
| Income taxes receivable | 18.0 | (1.1) | - | 16.9 |
| Inventories | 228.0 | (78.1) | - | 149.9 |
| Prepaid expenses | 18.3 | (2.1) | - | 16.2 |
| | 1,244.2 | (129.4) | - | 1,114.8 |
| **Non-current assets** | | | | |
| Advances, loans receivable and other financial assets | 1,399.1 | 84.0 | - | 1,483.1 |
| Other non-financial assets | 14.0 | - | 3.4 | 17.4 |
| Finance lease receivables | 188.7 | - | - | 188.7 |
| Property, plant and equipment | 1,440.2 | (522.4) | - | 917.8 |
| Investments | 23.0 | - | - | 23.0 |
| Investment in an associate | 1,143.2 | - | - | 1,143.2 |
| Investment in a joint venture | - | 391.0 | - | 391.0 |
| Goodwill | 307.9 | - | - | 307.9 |
| Intangible assets | 790.7 | - | - | 790.7 |
| Deferred income taxes | 7.6 | - | 0.5 | 8.1 |
| | 5,314.4 | (47.4) | 3.9 | 5,270.9 |
| Assets of discontinued operation | - | - | - | - |
| **Total Assets** | $ 6,558.6 | $ (176.8) | $ 3.9 | $ 6,385.7 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **Current liabilities** | | | | |
| Trade accounts payable and accrued liabilities | $ 167.1 | $ (18.4) | $ - | $ 148.7 |
| Income taxes payable | 19.7 | (2.2) | - | 17.5 |
| Other financial liabilities | 69.8 | (14.0) | - | 55.8 |
| Other non-financial liabilities | 3.8 | 0.1 | - | 3.9 |
| Environmental rehabilitation provisions | 34.0 | - | - | 34.0 |
| | 294.4 | (34.5) | - | 259.9 |
| **Non-current liabilities** | | | | |
| Loans and borrowings | 1,776.3 | - | - | 1,776.3 |
| Other financial liabilities | 204.9 | (91.7) | - | 113.2 |
| Other non-financial liabilities | 14.8 | - | 30.6 | 45.4 |
| Intangible liability | 6.9 | - | - | 6.9 |
| Environmental rehabilitation provisions | 248.0 | (34.1) | - | 213.9 |
| Deferred income taxes | 224.9 | (16.5) | (6.6) | 201.8 |
| | 2,475.8 | (142.3) | 24.0 | 2,357.5 |
| **Total liabilities** | 2,770.2 | (176.8) | 24.0 | 2,617.4 |
| **Shareholders' equity** | | | | |
| Capital stock | 2,801.7 | - | - | 2,801.7 |
| Retained earnings | 835.4 | - | 1.2 | 836.6 |
| Reserves | 196.6 | - | - | 196.6 |
| Accumulated other comprehensive loss | (45.3) | - | (21.3) | (66.6) |
| | 3,788.4 | - | (20.1) | 3,768.3 |
| **Total liabilities and shareholders' equity** | $ 6,558.6 | $ (176.8) | $ 3.9 | $ 6,385.7 |

### Reconciliation of change in consolidated shareholders' equity as at June 30, 2012

| Canadian $ millions, as at June 30, 2012 | | |
|---|---|---|
| Shareholders' equity reported | $ | 3,788.4 |
| Post-employment benefits | | (20.1) |
| Total shareholders' equity adjusted | $ | 3,768.3 |

### Reconciliation of consolidated statement of comprehensive income (loss) for the three and six months ended June 30, 2012

| Canadian $ millions, except per share amounts, for the three months ended June 30, 2012 | | As Reported | | IFRS 11 Adjustment | | IAS 19 Adjustment | | Adjusted |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | $ | 487.9 | $ | (110.8) | $ | - | $ | 377.1 |
| Cost of sales | | 385.2 | | (85.9) | | - | | 299.3 |
| **Gross profit** | | 102.7 | | (24.9) | | - | | 77.8 |
| Administrative expenses | | 23.2 | | (0.8) | | - | | 22.4 |
| **Operating profit** | | 79.5 | | (24.1) | | - | | 55.4 |
| Share of loss of an associate, net of tax | | (2.4) | | - | | - | | (2.4) |
| Share of earnings of a joint venture, net of tax | | - | | 19.4 | | - | | 19.4 |
| **Earnings from operations, associate and joint venture** | | 77.1 | | (4.7) | | - | | 72.4 |
| Financing income | | (8.2) | | 0.2 | | - | | (8.0) |
| Financing expense | | 41.1 | | (4.7) | | - | | 36.4 |
| **Net finance expense** | | 32.9 | | (4.5) | | - | | 28.4 |
| **Earnings before tax** | | 44.2 | | (0.2) | | - | | 44.0 |
| Income tax expense | | 8.1 | | (0.2) | | - | | 7.9 |
| **Net earnings from continuing operations** | | 36.1 | | - | | - | | 36.1 |
| Earnings from discontinued operation, net of tax | | 4.7 | | - | | - | | 4.7 |
| **Net earnings for the period** | $ | 40.8 | $ | - | $ | - | $ | 40.8 |
| **Other comprehensive income (loss)** | | | | | | | | |
| Items that may be subsequently reclassified to profit or loss: | | | | | | | | |
| Foreign currency translation differences on foreign operations | | 42.9 | | - | | - | | 42.9 |
| Items that will not be subsequently reclassified to profit or loss: | | | | | | | | |
| Actuarial losses on pension plans, net of tax | | - | | - | | (1.7) | | (1.7) |
| **Other comprehensive income (loss)** | | 42.9 | | - | | (1.7) | | 41.2 |
| **Total comprehensive income (loss)** | $ | 83.7 | $ | - | $ | (1.7) | $ | 82.0 |
| **Net earnings from continuing operations per common share, basic and diluted** | $ | 0.12 | $ | - | $ | - | $ | 0.12 |
| **Net earnings per common share, basic and diluted** | $ | 0.14 | $ | - | $ | - | $ | 0.14 |

| Canadian $ millions, except per share amounts, for the six months ended June 30, 2012 | As Reported | IFRS 11 Adjustment | IAS 19 Adjustment | Adjusted |
|---|---|---|---|---|
| **Revenue** | $ 950.1 | $ (213.6) | $ - | $ 736.5 |
| Cost of sales | 740.0 | (166.1) | - | 573.9 |
| **Gross profit** | 210.1 | (47.5) | - | 162.6 |
| Administrative expenses | 41.7 | (1.7) | (0.1) | 39.9 |
| **Operating profit** | 168.4 | (45.8) | 0.1 | 122.7 |
| Share of loss of an associate, net of tax | (1.2) | - | - | (1.2) |
| Share of earnings of a joint venture, net of tax | - | 37.1 | - | 37.1 |
| **Earnings from operations, associate and joint venture** | 167.2 | (8.7) | 0.1 | 158.6 |
| Financing income | (6.0) | 0.2 | - | (5.8) |
| Financing expense | 84.2 | (4.7) | - | 79.5 |
| **Net finance expense** | 78.2 | (4.5) | - | 73.7 |
| **Earnings before tax** | 89.0 | (4.2) | 0.1 | 84.9 |
| Income tax expense | 20.3 | (4.2) | - | 16.1 |
| **Net earnings from continuing operations** | 68.7 | - | 0.1 | 68.8 |
| Earnings from discontinued operation, net of tax | 4.4 | - | - | 4.4 |
| **Net earnings for the period** | $ 73.1 | $ - | $ 0.1 | $ 73.2 |
| **Other comprehensive income** | | | | |
| Items that may be subsequently reclassified to profit or loss: | | | | |
| Foreign currency translation differences on foreign operations | 6.1 | - | - | 6.1 |
| Items that will not be subsequently reclassified to profit or loss: | | | | |
| Actuarial gains on pension plans | - | - | 0.4 | 0.4 |
| **Other comprehensive income** | 6.1 | - | 0.4 | 6.5 |
| **Total comprehensive income** | $ 79.2 | $ - | $ 0.5 | $ 79.7 |
| **Net earnings from continuing operations per common share, basic and diluted** | $ 0.23 | $ - | $ - | $ 0.23 |
| **Net earnings per common share, basic and diluted** | $ 0.25 | $ - | $ - | $ 0.25 |

## Reconciliation of consolidated statement of cash flow for the three and six months ended June 30, 2012

| Canadian $ millions, for the three months ended June 30, 2012 | As Reported | IFRS 11 Adjustments | IAS 19 Adjustments | As Adjusted |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net earnings for the period | $ 40.8 | $ - | $ - | $ 40.8 |
| Add (deduct): | | | | |
| Depletion, depreciation and amortization | 59.9 | (6.9) | - | 53.0 |
| Share of loss of an associate, net of tax | 2.4 | - | - | 2.4 |
| Share of earnings of a joint venture, net of tax | - | (19.4) | - | (19.4) |
| Loss on impairment of assets | 5.8 | - | - | 5.8 |
| Finance costs (less accretion expenses) | 31.7 | (4.3) | - | 27.4 |
| Income tax expense | 8.1 | (0.2) | - | 7.9 |
| Loss on settlement of environmental rehabilitation provisions | 1.0 | (0.1) | - | 0.9 |
| Service concession arrangement | (7.9) | - | - | (7.9) |
| Gain on sale of discontinued operation | (4.7) | - | - | (4.7) |
| Net change in non-cash working capital | (53.8) | (4.6) | - | (58.4) |
| Interest received | 8.1 | 1.9 | - | 10.0 |
| Interest paid | (39.8) | 1.6 | - | (38.2) |
| Income tax paid | (16.9) | 3.1 | - | (13.8) |
| Liabilities settled for environmental rehabilitation provisions | (5.8) | 0.1 | - | (5.7) |
| Other operating items | (1.1) | 2.3 | - | 1.2 |
| **Cash provided by operating activities** | 27.8 | (26.5) | - | 1.3 |
| **Investing activities** | | | | |
| Property, plant and equipment expenditures | (40.6) | 10.6 | - | (30.0) |
| Intangible expenditures | (3.1) | - | - | (3.1) |
| Increase in advances, loans receivable and other financial assets | (16.6) | - | - | (16.6) |
| Repayment of advances, loans receivable and other financial assets | 8.6 | 8.2 | - | 16.8 |
| Investments | 6.9 | - | - | 6.9 |
| Loans to an associate | (59.3) | - | - | (59.3) |
| Investment in an associate | (52.5) | - | - | (52.5) |
| Net proceeds from sale of property, plant and equipment | 1.5 | (0.2) | - | 1.3 |
| Short-term investments | 242.5 | - | - | 242.5 |
| **Cash provided by investing activities** | 87.4 | 18.6 | - | 106.0 |
| **Financing activities** | | | | |
| Repayment of loans and borrowings and other financial liabilities | (35.5) | 0.8 | - | (34.7) |
| Increase in loans and borrowings and other financial liabilities | 54.2 | - | - | 54.2 |
| Increase in finance lease receivables | (2.0) | - | - | (2.0) |
| Repayment of finance lease receivables | 6.2 | - | - | 6.2 |
| Treasury stock - restricted stock plan | (0.1) | - | - | (0.1) |
| Dividends paid on common shares | (11.3) | - | - | (11.3) |
| **Cash provided by financing activities** | 11.5 | 0.8 | - | 12.3 |
| **Effect of exchange rate changes on cash and cash equivalents** | 1.5 | (1.4) | - | 0.1 |
| **Decrease in cash and cash equivalents** | 128.2 | (8.5) | - | 119.7 |
| **Cash and cash equivalents at beginning of the period** | 163.9 | (43.7) | - | 120.2 |
| **Cash and cash equivalents at end of the period** | $ 292.1 | $ (52.2) | $ - | $ 239.9 |
| **Cash and cash equivalents consist of:** | | | | |
| Cash on hand and balances with banks | $ 165.3 | $ (21.2) | $ - | $ 144.1 |
| Cash equivalents | 126.8 | (31.0) | - | 95.8 |

| Canadian $ millions, for the six months ended June 30, 2012 | As Reported | IFRS 11 Adjustments | IAS 19 Adjustments | As Adjusted |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net earnings for the period | $ 73.1 | $ - | $ 0.1 | $ 73.2 |
| Add (deduct): | | | | |
| Depletion, depreciation and amortization | 117.4 | (13.0) | - | 104.4 |
| Share of loss of an associate, net of tax | 1.2 | - | - | 1.2 |
| Share of earnings of a joint venture, net of tax | - | (37.1) | - | (37.1) |
| Loss on impairment of assets | 7.0 | (0.1) | - | 6.9 |
| Finance costs (less accretion expenses) | 75.7 | (4.0) | - | 71.7 |
| Income tax expense | 20.3 | (4.2) | - | 16.1 |
| Loss on settlement of environmental rehabilitation provisions | 2.9 | (0.3) | - | 2.6 |
| Service concession arrangement | (14.9) | - | - | (14.9) |
| Gain on sale of discontinued operation | (4.7) | - | - | (4.7) |
| Net change in non-cash working capital | (47.5) | (3.4) | - | (50.9) |
| Interest received | 18.4 | 5.6 | - | 24.0 |
| Interest paid | (43.4) | 3.6 | - | (39.8) |
| Income tax paid | (37.3) | 3.3 | - | (34.0) |
| Liabilities settled for environmental rehabilitation provisions | (14.7) | 0.3 | - | (14.4) |
| Other operating items | (2.9) | 0.4 | (0.1) | (2.6) |
| **Cash provided by operating activities** | 150.6 | (48.9) | - | 101.7 |
| **Investing activities** | | | | |
| Property, plant and equipment expenditures | (60.0) | 12.2 | - | (47.8) |
| Intangible expenditures | (5.8) | - | - | (5.8) |
| Increase in advances, loans receivable and other financial assets | (29.3) | - | - | (29.3) |
| Repayment of advances, loans receivable and other financial assets | 22.0 | 13.9 | - | 35.9 |
| Investments | 13.7 | - | - | 13.7 |
| Loans to an associate | (82.0) | - | - | (82.0) |
| Investment in an associate | (122.4) | - | - | (122.4) |
| Restricted cash | (0.1) | 0.1 | - | - |
| Net proceeds from sale of property, plant and equipment | 2.2 | (0.2) | - | 2.0 |
| Short-term investments | 270.3 | - | - | 270.3 |
| **Cash provided by investing activities** | 8.6 | 26.0 | - | 34.6 |
| **Financing activities** | | | | |
| Repayment of loans and borrowings and other financial liabilities | (82.3) | 1.5 | - | (80.8) |
| Increase in loans and borrowings and other financial liabilities | 54.2 | - | - | 54.2 |
| Increase in finance lease receivables | (2.6) | - | - | (2.6) |
| Repayment of finance lease receivables | 12.4 | - | - | 12.4 |
| Treasury stock - restricted stock plan | (1.6) | - | - | (1.6) |
| Dividends paid on common shares | (22.6) | - | - | (22.6) |
| **Cash used for financing activities** | (42.5) | 1.5 | - | (41.0) |
| **Effect of exchange rate changes on cash and cash equivalents** | 0.8 | (0.8) | - | - |
| **Decrease in cash and cash equivalents** | 117.5 | (22.2) | - | 95.3 |
| **Cash and cash equivalents at beginning of the period** | 174.6 | (30.0) | - | 144.6 |
| **Cash and cash equivalents at end of the period** | $ 292.1 | $ (52.2) | $ - | $ 239.9 |
| **Cash and cash equivalents consist of:** | | | | |
| Cash on hand and balances with banks | $ 165.3 | $ (21.2) | $ - | $ 144.1 |
| Cash equivalents | 126.8 | (31.0) | - | 95.8 |

**Reconciliation of consolidated statement of financial position as at December 31, 2012**

| Canadian $ millions, as at December 31, 2012 | As Reported | IFRS 11 Adjustments | IAS 19 Adjustments | As Adjusted |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets** | | | | |
| Cash and cash equivalents | $ 170.7 | $ (23.6) | $ - | $ 147.1 |
| Restricted cash | 1.1 | - | - | 1.1 |
| Short-term investments | 356.1 | - | - | 356.1 |
| Investments | 26.8 | - | - | 26.8 |
| Advances, loans receivable and other financial assets | 57.8 | 35.9 | - | 93.7 |
| Other non-financial assets | 0.8 | - | - | 0.8 |
| Finance lease receivables | 24.8 | - | - | 24.8 |
| Trade accounts receivable, net | 405.9 | (34.0) | - | 371.9 |
| Income taxes receivable | 7.7 | (2.7) | - | 5.0 |
| Inventories | 248.2 | (84.4) | - | 163.8 |
| Prepaid expenses | 14.1 | (1.4) | - | 12.7 |
| | 1,314.0 | (110.2) | - | 1,203.8 |
| **Non-current assets** | | | | |
| Advances, loans receivable and other financial assets | 1,616.8 | 78.4 | - | 1,695.2 |
| Other non-financial assets | 7.2 | - | 3.6 | 10.8 |
| Finance lease receivables | 182.2 | - | - | 182.2 |
| Property, plant and equipment | 1,417.5 | (508.6) | - | 908.9 |
| Investments | 4.9 | - | - | 4.9 |
| Investment in an associate | 1,089.5 | - | - | 1,089.5 |
| Investment in a joint venture | - | 365.8 | - | 365.8 |
| Goodwill | 307.9 | - | - | 307.9 |
| Intangible assets | 790.1 | - | - | 790.1 |
| Deferred income taxes | 28.2 | - | 0.5 | 28.7 |
| | 5,444.3 | (64.4) | 4.1 | 5,384.0 |
| Assets of discontinued operation | - | - | - | - |
| **Total assets** | $ 6,758.3 | $ (174.6) | $ 4.1 | $ 6,587.8 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **Current liabilities** | | | | |
| Trade accounts payable and accrued liabilities | $ 196.6 | $ (25.2) | $ - | $ 171.4 |
| Income taxes payable | 18.3 | (1.5) | - | 16.8 |
| Other financial liabilities | 69.7 | (12.9) | - | 56.8 |
| Other non-financial liabilities | 15.9 | 0.1 | - | 16.0 |
| Environmental rehabilitation provisions | 34.4 | - | - | 34.4 |
| | 334.9 | (39.5) | - | 295.4 |
| **Non-current liabilities** | | | | |
| Loans and borrowings | 2,039.8 | - | - | 2,039.8 |
| Other financial liabilities | 208.1 | (85.5) | - | 122.6 |
| Other non-financial liabilities | 9.9 | - | 39.8 | 49.7 |
| Intangible liability | 4.6 | - | - | 4.6 |
| Environmental rehabilitation provisions | 261.8 | (33.0) | - | 228.8 |
| Deferred income taxes | 226.5 | (16.6) | (8.9) | 201.0 |
| | 2,750.7 | (135.1) | 30.9 | 2,646.5 |
| Liabilities of discontinued operation | - | - | - | - |
| **Total liabilities** | 3,085.6 | (174.6) | 30.9 | 2,941.9 |
| **Shareholders' equity** | | | | |
| Capital stock | 2,806.1 | - | - | 2,806.1 |
| Retained earnings | 772.9 | - | 1.6 | 774.5 |
| Reserves | 194.9 | - | - | 194.9 |
| Accumulated other comprehensive loss | (101.2) | - | (28.4) | (129.6) |
| | 3,672.7 | - | (26.8) | 3,645.9 |
| **Total liabilities and shareholders' equity** | $ 6,758.3 | $ (174.6) | $ 4.1 | $ 6,587.8 |

### Reconciliation of change in consolidated shareholders' equity as at December 31, 2012

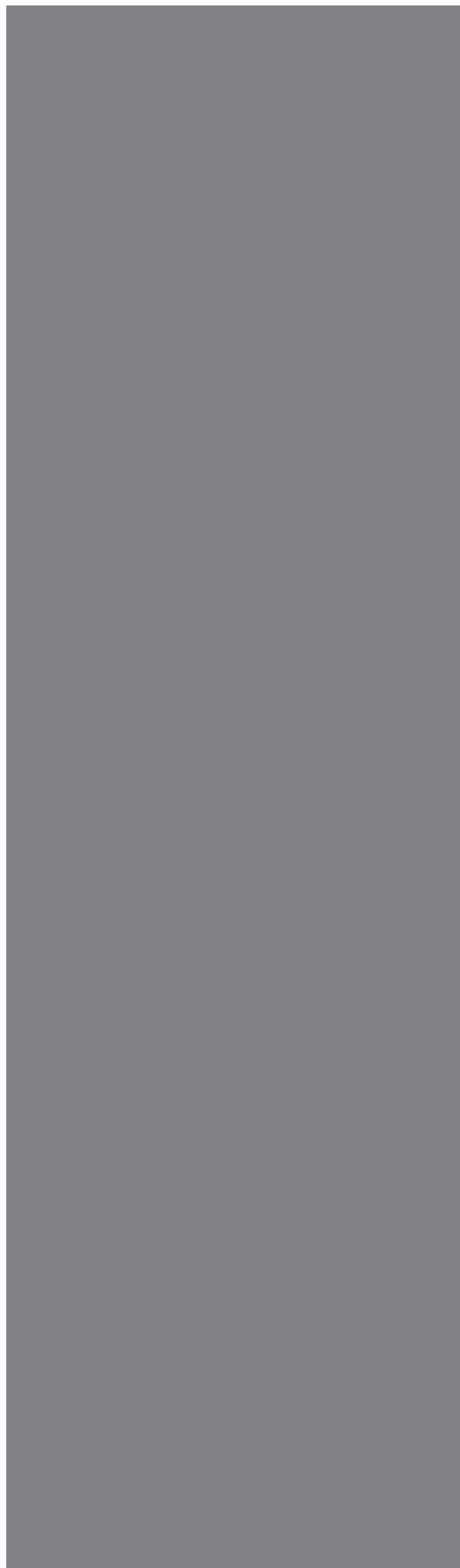
| Canadian $ millions, as at December 31, 2012 | | |
|---|---|---|
| Shareholders' equity reported | $ | 3,672.7 |
| Post-employment benefits | | (26.8) |
| Total shareholders' equity adjusted | $ | 3,645.9 |

### Reconciliation of consolidated statement of comprehensive income (loss) for the year ended December 31, 2012

| Canadian $ millions, except per share amounts, for the year ended December 31, 2012 | | As Reported | | IFRS 11 Adjustments | | IAS 19 Adjustments | | As Adjusted |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | $ | 1,840.2 | $ | (389.9) | $ | - | $ | 1,450.3 |
| Cost of sales | | 1,506.0 | | (321.2) | | - | | 1,184.8 |
| **Gross profit** | | 334.2 | | (68.7) | | - | | 265.5 |
| Administrative expenses | | 84.7 | | (4.0) | | (0.6) | | 80.1 |
| **Operating profit** | | 249.5 | | (64.7) | | 0.6 | | 185.4 |
| Loss on impairment of investment | | (5.6) | | - | | - | | (5.6) |
| Share of loss of an associate, net of tax | | (2.1) | | - | | - | | (2.1) |
| Share of earnings of a joint venture, net of tax | | - | | 52.8 | | - | | 52.8 |
| **Earnings from operations, associate and joint venture** | | 241.8 | | (11.9) | | 0.6 | | 230.5 |
| Financing income | | (21.2) | | 0.4 | | - | | (20.8) |
| Financing expense | | 204.3 | | (8.3) | | - | | 196.0 |
| **Net finance expense** | | 183.1 | | (7.9) | | - | | 175.2 |
| **Earnings before tax** | | 58.7 | | (4.0) | | 0.6 | | 55.3 |
| Income tax expense | | 29.9 | | (4.0) | | 0.1 | | 26.0 |
| **Net earnings from continuing operations** | | 28.8 | | - | | 0.5 | | 29.3 |
| Earnings from discontinued operation, net of tax | | 4.4 | | - | | - | | 4.4 |
| **Net earnings for the year** | $ | 33.2 | $ | - | $ | 0.5 | $ | 33.7 |
| **Other comprehensive loss** | | | | | | | | |
| Items that may be subsequently reclassified to profit or loss: | | | | | | | | |
| Foreign currency translation differences on foreign operations | | (49.8) | | - | | - | | (49.8) |
| Items that will not be subsequently reclassified to profit or loss: | | | | | | | | |
| Actuarial losses on pension plans, net of tax | | - | | - | | (6.7) | | (6.7) |
| **Other comprehensive loss** | | (49.8) | | - | | (6.7) | | (56.5) |
| **Total comprehensive loss** | $ | (16.6) | $ | - | $ | (6.2) | $ | (22.8) |
| **Net earnings from continuing operations per common share, basic and diluted:** | $ | 0.10 | $ | - | $ | - | $ | 0.10 |
| **Net earnings per common share, basic and diluted:** | $ | 0.11 | $ | - | $ | - | $ | 0.11 |

## Reconciliation of consolidated statement of cash flow for the year ended December 31, 2012

| Canadian $ millions, for the year ended December 31, 2012 | As Reported | IFRS 11 Adjustments | IAS 19 Adjustments | As Adjusted |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net earnings for the year | $ 33.2 | $ - | $ 0.5 | $ 33.7 |
| Add (deduct): | | | | |
| Depletion, depreciation and amortization | 252.9 | (26.7) | - | 226.2 |
| Share of loss of an associate, net of tax | 2.1 | - | - | 2.1 |
| Share of earnings of a joint venture, net of tax | - | (52.8) | - | (52.8) |
| Loss on impairment of assets | 20.3 | (0.2) | - | 20.1 |
| Loss on impairment of investments | 5.6 | - | - | 5.6 |
| Finance costs (less accretion expenses) | 178.6 | (6.9) | - | 171.7 |
| Income tax expense | 29.9 | (4.0) | 0.1 | 26.0 |
| Loss on settlement of environmental rehabilitation provisions | 4.6 | (0.5) | - | 4.1 |
| Service concession arrangement | (32.0) | - | - | (32.0) |
| Net change in non-cash working capital | (59.9) | (6.7) | - | (66.6) |
| Interest received | 34.0 | 8.9 | - | 42.9 |
| Interest paid | (86.3) | 6.6 | - | (79.7) |
| Income tax paid | (55.4) | 5.2 | - | (50.2) |
| Dividends received from joint venture | - | 29.6 | - | 29.6 |
| Liabilities settled for environmental rehabilitation provisions | (26.0) | 0.7 | - | (25.3) |
| Other operating items | (31.7) | - | (0.6) | (32.3) |
| **Cash provided by operating activities** | 269.9 | (46.8) | - | 223.1 |
| **Investing activities** | | | | |
| Property, plant and equipment expenditures | (137.5) | 20.9 | - | (116.6) |
| Intangible expenditures | (9.8) | - | - | (9.8) |
| Increase in advances, loans receivable and other financial assets | (66.5) | - | - | (66.5) |
| Repayment of advances, loans receivable and other financial assets | 36.4 | 28.7 | - | 65.1 |
| Investments | 27.2 | - | - | 27.2 |
| Loans to an associate | (260.4) | - | - | (260.4) |
| Investment in an associate | (135.6) | - | - | (135.6) |
| Net proceeds from sale of property, plant and equipment | 3.3 | (0.2) | - | 3.1 |
| Short-term investments | 100.7 | - | - | 100.7 |
| **Cash used for investing activities** | (442.2) | 49.4 | - | (392.8) |
| **Financing activities** | | | | |
| Repayment of loans and borrowings and other financial liabilities | (158.4) | 2.6 | - | (155.8) |
| Increase in loans and borrowings and other financial liabilities | 90.6 | - | - | 90.6 |
| Issuance of senior unsecured debentures, net of finacing cost | 489.6 | - | - | 489.6 |
| Repayment of senior unsecured debentures | (225.0) | - | - | (225.0) |
| Increase in finance lease receivables | (6.9) | - | - | (6.9) |
| Repayment of finance lease receivables | 25.5 | - | - | 25.5 |
| Issuance of common shares | 1.3 | - | - | 1.3 |
| Treasury stock - restricted stock plan | (1.6) | - | - | (1.6) |
| Dividends paid on common shares | (45.2) | - | - | (45.2) |
| **Cash provided by financing activities** | 169.9 | 2.6 | - | 172.5 |
| **Effect of exchange rate changes on cash and cash equivalents** | (1.5) | 1.2 | - | (0.3) |
| **Increase (decrease) in cash and cash equivalents** | (3.9) | 6.4 | - | 2.5 |
| **Cash and cash equivalents at beginning of the year** | 174.6 | (30.0) | - | 144.6 |
| **Cash and cash equivalents at end of the year** | $ 170.7 | $ (23.6) | $ - | $ 147.1 |
| **Cash and cash equivalents consist of:** | | | | |
| Cash on hand and balances with banks | $ 48.4 | $ (9.6) | $ - | $ 38.8 |
| Cash equivalents | 122.3 | (14.0) | - | 108.3 |



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