sherritt

Q2

2016 SECOND QUARTER REPORT

Sherritt International Corporation

For the three months ended June 30, 2016

For immediate release

Sherritt Announces Q2 2016 Results

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

Toronto, Ontario – July 25, 2016 – Sherritt International Corporation ("Sherritt" or the "Corporation") (TSX: S), the world leader in the mining and refining of nickel from lateritic ores, today reported its financial results for the three and six months ended June 30, 2016.

"Our Moa JV operations performed well in the quarter with a Net Direct Cash Cost (NDCC) of US$2.94/lb, making Moa one of the few HPAL operations globally to perform near the lowest quartile of cash cost," said David Pathe, President and CEO, Sherritt International. "We are encouraged by the recent strengthening of the nickel price and continue to believe that having more than 60% of global nickel production underwater on a cash margin basis is not sustainable in the long term."

"We also made significant progress in the quarter in protecting our balance sheet as we reduced recourse debt levels and made progress on extending our bond maturities."

Q2 HIGHLIGHTS[1]

- Nickel prices remained under pressure in the quarter, with reference prices averaging US$4.00/lb. Signs of a rally are emerging with news of Philippine mine shutdowns in process or expected with the new government environmental regulation. LME nickel prices have averaged US$4.60 per pound in July to date, up 30% from the low of US$3.50/lb in the first quarter. Gulf Coast Fuel Oil 6 prices increased by 47% from the average reference price in the first quarter this year.
- Net direct cash costs (NDCC) of US$2.94/lb at the Moa JV and US$5.12/lb at Ambatovy are both improvements on a year over year basis, despite Ambatovy's lower production.
- Cash, cash equivalents and short-term investments at the end of the second quarter were $312.6 million, a drop of $57.3 million from the end of the first quarter. The main drivers were $17.4 million expended to repurchase debentures, $20 million in interest payments on the debentures, and lower than expected receipts from the Cuban energy business.
- Sherritt is in the process of extending the maturities of its debentures by three years to 2021, 2023, and 2025. The noteholder meeting to approve the transaction was held earlier today, and received the support of over 94% of noteholders, being more than 99% of votes cast as announced previously. A final court hearing for approval of the transaction pursuant to the CBCA proceedings is scheduled for July 27, 2016 and the transaction is expected to close on or about July 29, 2016.
- In July, the Moa JV commenced operation of the third acid plant, which is expected to further reduce NDCC by approximately US$0.50/lb starting in the fourth quarter this year, with the full benefit anticipated in 2017.

OUTLOOK AND SIGNIFICANT ITEMS

- With better than expected Cuban oil production in the first half of this year, and the results of a successful workover in the second quarter, Cuba oil production guidance has been increased on both a Gross Working Interest (GWI) and Net Working Interest (NWI) basis, to 15,000 bopd and 9,200 bopd respectively.
- Production guidance for Ambatovy has been reduced to a range of 42,000 – 45,000 tonnes finished nickel and 2,900 – 3,300 tonnes finished cobalt (100% basis), in light of year to date production.
- Capital spending guidance has been reduced by US$7 million, as seismic processing activity in Oil & Gas that was originally expected to be performed on Block 8A has been deferred to 2017, while the focus remains on drilling the first well in Block 10 this year.

All amounts are Canadian dollars unless otherwise indicated.
(1) For additional information see the Non-GAAP measures section of this press release.

Q2 2016 FINANCIAL HIGHLIGHTS

	For the three months ended			For the six months ended		
	2016	2015		**2016**	2015	
$ millions, except per share amount	**June 30**	June 30	Change	**June 30**	June 30	Change
Combined Revenue[1]	**204.1**	268.4	(24%)	$ **395.4**	$ 546.7	(28%)
Adjusted EBITDA[1]	**0.2**	40.2	(100%)	**(8.9)**	84.4	(111%)
Combined free cash flow [1]	**(55.3)**	(67.0)	17%	**(86.7)**	(55.8)	(55%)
Net loss from continuing operations per share	**(0.35)**	(0.16)	(119%)	**(0.52)**	(0.36)	(44%)
Combined adjusted operating cash flow per share [1]	**(0.12)**	0.09	(233%)	**(0.20)**	0.28	(171%)

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

	2016	2015	
$ millions, except as noted, as at	**June 30**	December 31	Change
Cash, cash equivalents and short term investments	**312.6**	435.4	(28%)
Non-recourse loans and borrowings	**1,273.3**	1,303.2	(2%)
Other loans and borrowings	**878.8**	959.9	(8%)

Sherritt has expended $62.4 million this year in repurchasing debt and repaying credit facilities. This is the main use of cash year to date. In addition, the cash balance has been reduced for negative working capital changes. Cuban overdue oil receivables have increased from approximately US$50 million at the end of 2015 to US$70 million at the end of June 2016, and discussions are underway regarding payment.

Payments from Energas year-to-date have been allocated to repayment of cost incurred by Sherritt at the end of 2015 and current year pipeline construction. Interest and principal repayments on the outstanding CSA receivable in the Power business unit were a significant source of cash last year, and are expected to resume in the second half of 2016. The payment schedule, as disclosed previously, contemplates $34 million in principal and interest payments in 2016.

Fertilizer cash flows tend to be weighted toward the second half of the year, when prepayments are received in advance of fertilizer deliveries (and revenue recognition) for the following year.

Adjusted earnings (loss) from continuing operations[1]

		2016		2015
For the three months ended June 30		**June 30**		June 30
	$ millions	**$/share**	$ millions	$/share
Net loss from continuing operations	**(103.6)**	**(0.35)**	(47.6)	(0.16)
Adjusting Items, net of tax	**(12.5)**	**(0.04)**	(27.6)	(0.09)
Adjusted net loss from continuing operations	**(116.1)**	**(0.39)**	(75.2)	(0.25)

		2016		2015
For the six months ended June 30		**June 30**		June 30
	$ millions	**$/share**	$ millions	$/share
Net loss from continuing operations	**(151.4)**	**(0.52)**	(104.4)	(0.36)
Adjusting Items, net of tax	**(92.3)**	**(0.31)**	(41.8)	(0.14)
Adjusted net loss from continuing operations	**(243.7)**	**(0.83)**	(146.2)	(0.50)

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

During the second quarter, $(12.5) million $(0.04) per share in adjusting items occurred, primarily a $12.6 million gain on the repurchase of $30 million principal value of 2018 debentures. This gain plus adjustments for Ambatovy VAT collected and $2.7 million in deferred consideration received in oil and gas pursuant to last year's North Sea asset sale was offset by a small unrealized foreign exchange loss and tax adjustments of $7.7 million, relating to the writedown of loss carry-forwards that are no longer usable at Moa Nickel.

REVIEW OF OPERATIONS

METALS

$ millions except as otherwise noted, for the three months ended June 30	2016				2015				
	Moa JV & Fort Site[(1)] (50%)	**Ambatovy JV (40%)**	**Other[(2)]**	**Total**	Moa JV and Fort Site[(1)] (50%)	Ambatovy JV (40%)	Other[(2)]	Total	Change
FINANCIAL HIGHLIGHTS									
Revenue	**$ 89.5**	**$ 60.5**	**$ 10.5**	**$ 160.5**	$ 109.4	$ 80.6	$ 14.2	$ 204.2	(21%)
Adjusted EBITDA[(3)]	**6.7**	**(14.1)**	**-**	**(7.4)**	14.2	(1.7)	-	12.5	(159%)
Cash provided (used) by operations	**(8.4)**	**(16.9)**	**1.0**	**(24.3)**	(11.4)	7.3	(0.7)	(4.8)	(406%)
Spending on capital	**11.4**	**2.9**	**-**	**14.3**	15.9	9.2	-	25.1	(43%)
Free cash flow[(3)]	**(20.0)**	**(18.0)**	**1.0**	**(37.0)**	(26.9)	5.1	(0.7)	(22.5)	(64%)
PRODUCTION VOLUMES (tonnes)									
Mixed Sulphides	**4,432**	**3,843**	**-**	**8,275**	4,702	4,533	-	9,235	(10%)
Finished Nickel	**4,145**	**3,620**	**-**	**7,765**	3,877	4,158	-	8,035	(3%)
Finished Cobalt	**477**	**270**	**-**	**747**	429	264	-	693	8%
Fertilizer	**57,552**	**10,797**	**-**	**68,349**	58,977	12,028	-	71,005	(4%)
NICKEL RECOVERY (%)	**87%**	**83%**			89%	86%			
SALES VOLUMES (tonnes)									
Finished Nickel	**4,068**	**4,251**	**-**	**8,319**	3,919	4,271	-	8,190	2%
Finished Cobalt	**473**	**361**	**-**	**834**	411	279	-	690	21%
Fertilizer	**59,947**	**13,764**	**-**	**73,711**	57,870	12,260	-	70,130	5%
AVERAGE REFERENCE PRICES (US$ per pound)									
Nickel				**$ 4.00**				$ 5.90	(32%)
Cobalt				**10.85**				13.61	(20%)
AVERAGE-REALIZED PRICES[(3)]									
Nickel ($ per pound)	**$ 5.06**	**$ 5.08**		**$ 5.07**	$ 7.16	$ 7.10		$ 7.13	(29%)
Cobalt ($ per pound)	**13.37**	**13.46**		**13.38**	16.40	18.08		17.10	(22%)
Fertilizer ($ per tonne)	**455**	**146**		**396**	503	194		449	(12%)
UNIT OPERATING COSTS[(3)] (US$ per pound)									
Nickel - net direct cash cost	**$ 2.94**	**$ 5.12**		**4.05**	$ 4.12	$ 5.48		4.83	(16%)

(1) Includes results for certain 100% owned assets at Fort Saskatchewan plant.
(2) Includes results for Sherritt's marketing organization for certain Ambatovy sales.
(3) For additional information, see the Non-GAAP measures section of this release.

$ millions, except as otherwise noted, for the six months ended June 30	**2016**				2015				
	Moa JV and Fort Site[1] (50%)	**Ambatovy JV (40%)**	**Other[2]**	**Total**	Moa JV and Fort Site[1] (50%)	Ambatov JV (40%)	Other[2]	Total	Change
FINANCIAL HIGHLIGHTS									
Revenue	**$ 166.2**	**$ 125.6**	**$ 21.7**	**$ 313.5**	$ 213.9	$ 181.3	$ 32.7	$ 427.9	(27%)
Adjusted EBITDA[3]	**6.5**	**(26.9)**	**0.3**	**(20.1)**	32.5	2.6	0.1	35.2	(157%)
Cash provided (used) by operations	**(11.4)**	**(22.4)**	**5.2**	**(28.6)**	18.8	19.8	(1.2)	37.4	(176%)
Spending on Capital[4]	**19.2**	**4.6**	**-**	**23.8**	24.0	15.6	-	39.6	(40%)
Free cash flow[3]	**(30.6)**	**(23.5)**	**5.2**	**(48.9)**	(4.6)	15.0	(1.2)	9.2	(632%)
PRODUCTION VOLUMES (tonnes)									
Mixed Sulphides	**8,753**	**8,413**	**-**	**17,166**	9,578	8,932	-	18,510	(7%)
Finished Nickel	**8,387**	**8,062**	**-**	**16,449**	8,234	8,814	-	17,048	(4%)
Finished Cobalt	**976**	**635**	**-**	**1,611**	855	608	-	1,463	10%
Fertilizer	**128,459**	**25,152**	**-**	**153,611**	119,506	23,690	-	143,196	7%
NICKEL RECOVERY (%)	**87%**	**85%**			89%	86%			
SALES VOLUMES (tonnes)									
Finished Nickel	**8,209**	**8,742**	**-**	**16,951**	8,194	9,215	-	17,409	(3%)
Finished Cobalt	**941**	**693**	**-**	**1,634**	820	620	-	1,440	13%
Fertilizer	**91,660**	**27,871**	**-**	**119,531**	88,712	25,387	-	114,099	5%
AVERAGE REFERENCE PRICES (US$ per pound)[3]									
Nickel				**$ 3.93**				$ 6.21	(37%)
Cobalt				**10.78**				13.67	(21%)
AVERAGE-REALIZED PRICES[3]									
Nickel ($ per pound)	**$ 5.11**	**$ 5.12**		**$ 5.12**	$ 7.55	$ 7.56		$ 7.55	(32%)
Cobalt ($ per pound)	**13.60**	**14.38**		**13.93**	16.32	16.06		16.22	(14%)
Fertilizer ($ per tonne)	**433**	**166**		**370**	459	192		399	(7%)
UNIT OPERATING COSTS[3] (US$ per pound)									
Nickel - net direct cash cost	**$ 3.15**	**$ 4.75**		**3.98**	$ 4.24	$ 5.63		4.98	(20%)

(1) Includes results for certain 100% owned assets at Fort Saskatchewan plant.
(2) Includes results for Sherritt's marketing organization for certain Ambatovy sales.
(3) For additional information, see the Non-GAAP measures section of this release.
(4) Spending on capital includes accruals.

METAL MARKETS

Nickel

Recent market activity has been bullish as market analysts have increased their projected deficits and forecast higher prices for 2016 and 2017 due in part to fundamental supply challenges that have emerged with the Philippines beginning environmental audits on all mining operations in the country. Prices have recovered significantly from the lows of US$3.50/lb reached in the first quarter this year, but the price recovery has not been enough to change the fundamental problem of more than 60% of the world's nickel production being underwater on a cash margin basis. There are reports of nickel ore operations in the Philippines being shut down for violations, with potential further shutdowns in the coming quarter. As the Philippines has replaced Indonesia as the largest supplier of ore to the Chinese NPI industry, any reduction in ore shipments would be expected to directly impact NPI production, and the overall nickel supply.

Cobalt

Cobalt is marketed in two distinct forms, being metal (cathode, metal powders or briquettes) or chemical (cobalt hydroxide, cobalt sulphate, or intermediates). Cobalt metal supply has contracted in 2016 with the announced suspension of production from Votorantim (Tocantins) in Brazil. Indications are that the metal market is approaching balance or slight deficit, which has resulted in stabilized prices, with average reference prices in the second quarter this year being US$10.85/lb, a slight improvement over the US$10.70/lb of the first quarter. Overall cobalt demand is supported by the longer term outlook for cobalt in rechargeable batteries, a market that will utilize either metal or chemical forms of cobalt, with purity being an important factor in the decision-making. Superalloy demand also remains strong, along with other applications such as magnets, diamond cutting tools, soaps and paint driers which are growing but at a slower rate. As a result of the positive medium term outlook for cobalt, speculative interest has picked up adding to improved pricing.

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

Adjusted EBITDA of $6.7 million in the quarter is an improvement from the breakeven result in first quarter this year, but cash used by operations was negative $8.4 million in the second quarter, mainly due to seasonality and timing of cash received versus revenue recognized in the fertilizer business. Cash prepayments for fertilizer sales were received in the fourth quarter last year and to a lesser extent, the first quarter this year.

Finished nickel production of 4,145 tonnes (50% basis) in the second quarter of 2016 was up from the comparable quarter a year ago reflecting a shorter planned annual refinery shutdown. The annual refinery shutdown also resulted in marginally lower finished nickel production than in the first quarter of 2016. Lower quality ore at Moa (increased deleterious elements in new mining concessions) coupled with some equipment reliability issues was the main cause of the lower mixed sulphide production in the first half this year. The impact of the lower mixed sulphides production in the first half was offset by processing third party feeds, which have been more cobalt-rich, and explain the 14% increase in cobalt production year over year.

The NDCC of US$2.94 per pound of nickel in the second quarter of 2016 was a significant improvement over last year's comparable quarter, and reflects mainly lower mining, processing and refining costs (driven by lower fuel oil, sulphuric acid and sulphur prices) and a higher fertilizer credit. The fertilizer credit of $0.77/lb is significantly higher than the $0.42/lb credit in the second quarter of 2015, mainly due to the lower planned maintenance costs in fertilizer production as the annual shutdown this year was less extensive than last year's shutdown.

Capital spending of $11.4 million in the quarter is down from its level a year ago consistent with plans to reduce spending. The expansion capital of $4.1 million (US$3 million) refers to the 50% share of the new Moa Nickel acid plant. Construction was completed in June, and commissioning activities have commenced, with first acid produced as announced last week. The acid plant was completed within the budgeted completion amount of US$65 million (100% basis).

Ambatovy Joint Venture (40% interest)

The Ambatovy Joint Venture senior debt financing of US$1.6 billion (100% basis) is non-recourse to the Joint Venture partners as a result of achieving financial completion in September 2015. As announced June 15, 2016, the Ambatovy Joint Venture financing lenders and the Ambatovy Joint Venture have entered into a temporary deferral agreement to defer the June 15, 2016 principal repayment due date to August 5, 2016. An agreement in principle has been reached on future principal payment deferrals. A semi-annual interest payment of US$28.0 million was made to the lenders during the three months ended June 30, 2016.

Total cash funding provided by Sumitomo and KORES was US$21 million and US$72 million for the three and six months ended June 30, 2016, respectively, pursuant to total cash calls of US$35 million and US$120 million for the same periods. Sherritt has not funded any portion of these cash calls, and continues not to fund. By agreement amongst the partners, Sherritt has not been considered to be a defaulting shareholder under the Ambatovy Joint Venture Shareholders Agreement as a consequence of such non-funding to date. However, new cash calls have been received for payment in early August and, while constructive discussions amongst the partners continue, in the event that a waiver is not agreed before the cash call due date, Sherritt would become a defaulting shareholder. Sherritt's unfunded amounts remain payable with accrued interest at LIBOR +3%. These amounts will be subtracted from future Ambatovy Joint Venture distributions, or may be set off against other amounts owed to Sherritt. Sherritt also has the option to pay the amounts in cash at any time, at Sherritt's election. Until the funding deficit is addressed, and subject to continued discussions with the Ambatovy partners, Sherritt will not exercise its Ambatovy voting rights.

Sherritt continues not to fund further cash calls at this time due to the structure of the Ambatovy partner loans, which, at current nickel prices, effectively reduce Sherritt's 40% interest in Ambatovy to a 12% economic interest. Sherritt continues to serve as operator, as constructive discussions are ongoing between partners.

Ambatovy production in the second quarter of 2016 was 9,050 tonnes finished nickel (100% basis), or 60% of design capacity, with PAL throughput in the same quarter of 976,765 tonnes or 67% of design capacity. Production was impacted by a tailings pipe blockage and subsequent decision to bring forward the planned third quarter total plant shutdown, as announced by press release June 24, 2016. This pipeline is a five kilometre span that transports tailings material from the plant to the tailings management facility. The blockage happened when thickened tailings slurry mixed with high concentrations of flocculent and lime and was then allowed to harden when an unplanned maintenance issue required a rapid shutdown of the tailings pumps. The blockage was cleared during the total shutdown, and preventive measures put in place to address any potential future process control events of this nature.

In addition to this event, plant equipment reliability issues that characterized the first quarter 2016 operations also affected second quarter production. Some of these issues were addressed during the total plant shutdown and further capital projects and asset management processes are currently underway to further improve plant reliability.

The total plant shutdown, originally planned for August this year, was brought forward in order to perform the required work on the air separation unit and hydrogen plant, along with inspections of pressure vessels in accordance with statutory engineering codes. These statutory inspections are required every three years, which eliminates the need for another total plant shutdown in the next three years, barring unexpected events. Other activities that were originally scheduled for the August planned shutdown will be postponed to 2017, but are expected to be performed during normal run time.

Nickel production is ramping up since the re-start of operations, with July finished nickel production expected to be approximately 1,500 tonnes (100% basis).

Taking into account year to date production, offset to some degree by no further planned major shutdowns for the balance of the year, production guidance has been reduced to 42,000-45,000 tonnes finished nickel (100% basis) and 2,900-3,300 tonnes finished cobalt (100% basis).

Adjusted EBITDA in the second quarter of 2016 was $(14.1) million compared to Adjusted EBITDA of $(1.7) million in the same quarter last year, due to the production shortfall and lower nickel prices.

Even with the production shortfall in the second quarter, the second quarter 2016 NDCC of US$5.12 was an improvement year over year, largely due to sales out of inventory in the quarter which did not get shipped in the first quarter this year. Finished nickel sales in the second quarter were down only 0.5% from last year, compared to production being down 13%.

OIL AND GAS

$ millions, except as otherwise noted	For the three months ended 2016 June 30	2015 June 30	Change	For the six months ended 2016 June 30	2015 June 30	Change
FINANCIAL HIGHLIGHTS						
Revenue	**$ 28.3**	$ 51.3	(45%)	**$ 50.7**	$ 93.6	(46%)
Adjusted EBITDA[1]	**8.9**	29.9	(70%)	**12.9**	51.4	(75%)
Cash provided by operations	**7.9**	6.4	23%	**10.5**	13.0	(19%)
Spending on Capital[2]	**4.9**	16.5	(70%)	**9.6**	43.5	(78%)
Free cash Flow[1]	**3.0**	(13.9)	122%	**0.6**	(27.9)	102%
PRODUCTION AND SALES (bopd)						
Gross working-interest (GWI) - Cuba	**16,200**	18,607	(13%)	**16,324**	19,160	(15%)
Total net working-interest (NWI)	**10,567**	11,948	(12%)	**10,537**	11,445	(8%)
AVERAGE REFERENCE PRICE (US$ per barrel)						
Gulf Coast Fuel Oil No. 6	**$ 31.02**	$ 50.92	(39%)	**$ 26.19**	$ 47.67	(45%)
Brent	**45.29**	61.17	(26%)	**39.51**	57.47	(31%)
AVERAGE-REALIZED PRICE[1] (NWI)						
Cuba ($ per barrel)	**$ 28.16**	$ 45.71	(38%)	**$ 24.98**	$ 43.69	(43%)
UNIT OPERATING COSTS[1] (GWI)						
Cuba ($ per barrel)	**$ 9.30**	$ 10.13	(8%)	**$ 9.42**	$ 9.17	3%

(1) For additional information, see the Non-GAAP measures section of this release.
(2) Spending on capital includes accruals.
(3) Average unit operating costs are calculated by dividing operating costs incurred by gross working-interest production.

Adjusted EBITDA in the second quarter of $8.9 million and $12.9 million in the first half of the year demonstrates the ability of the oil and gas operations to generate earnings even with Gulf Coast Fuel Oil 6 prices averaging US$26.19/barrel in the six month period.

The quarterly average Gulf Coast Fuel Oil 6 prices improved by 47% from US$21.13 per barrel in the first quarter to US$31.02 per barrel in the second quarter this year, although a stronger Canadian dollar this quarter mitigated the impact to average realized prices reported in Canadian dollars. Both WTI and Gulf Coast Fuel Oil 6 prices remain weak, with second quarter 2016 WTI average prices down 21% from their comparable quarter last year, and Gulf Coast Fuel Oil 6 prices down 39%. The spread between Gulf Coast Fuel Oil 6 and WTI prices has narrowed modestly since the first quarter this year, when Gulf Coast Fuel Oil 6 prices averaged only 63% of WTI. In the second quarter, the spread narrowed, with Gulf Coast Fuel Oil 6 averaging to 68% of WTI, which is still historically low compared to average ranges between 70 – 85%.

Gross working-interest (GWI) production in Cuba was a better than expected 16,200 bopd in the second quarter of 2016, down only marginally from first quarter 2016 production, due to better than expected performance from existing wells, helped by a successful workover in the quarter. GWI production is down 13% compared to the same period last year. With the better than expected production and a revaluation of the balance of the year, the Outlook for Cuba GWI production has been increased to 15,000 bopd from the original guidance of 14,500 bopd. Cuba net working-interest (NWI) production was 9,933 bopd in the second quarter this year, which was consistent with Cuba NWI production in the first quarter. Cuba NWI production guidance has been increased to 9,200 bopd from the original guidance of 8,900 bopd.

Unit operating costs continue to be competitive, at $10.57 on a weighted average basis (boepd, all ops) and $9.30 per barrel on a Cuba GWI basis in the second quarter. On a three and six month basis, the oil business has been free cash flow neutral even in the current oil price environment; however, most of the capital expenditure this year is expected to fall in the second half as Block 10 drilling is expected to commence in the third quarter. The outlook for capital spending in 2016 has been reduced to the current US$27 million from US$34 million at the end of the first quarter, as exploration spending on future development outside of Block 10 has been deferred.

POWER

	For the three months ended			For the six months ended		
	2016	2015		**2016**	2015	
$ millions (33 ⅓% basis), except as otherwise noted	**June 30**	June 30	Change	**June 30**	June 30	Change
FINANCIAL HIGHLIGHTS						
Revenue	**$ 14.9**	$ 12.7	17%	**$ 30.5**	$ 24.5	24%
Adjusted EBITDA(1)	**6.8**	7.6	(11%)	**15.5**	14.9	4%
Cash provided by operations	**4.9**	10.6	(54%)	**5.8**	34.7	(83%)
Spending on Capital(2)	**1.9**	0.8	138%	**3.9**	1.2	225%
Free cash flow(1)	**4.8**	9.6	(50%)	**5.6**	33.3	(83%)
PRODUCTION AND SALES						
Electricity (GWh)	**227**	224	1%	**444**	434	2%
AVERAGE-REALIZED PRICE(1)						
Electricity ($/MWh)	**$ 54.51**	$ 52.17	4%	**$ 56.35**	$ 52.39	8%
UNIT OPERATING COSTS(1) ($/MWh)						
Base	**15.64**	15.60	-	**15.26**	15.68	(3%)
Non-base(3)	**8.76**	1.26	595%	**5.45**	0.59	824%
	24.40	16.86	45%	**20.71**	16.27	27%
NET CAPACITY FACTOR (%)	**69**	69	-	**70**	68	3%

(1) For additional information see the Non-GAAP measures section of this release.
(2) Includes service concession arrangements and accruals.
(3) 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.

Quarterly Adjusted EBITDA of $6.8 million in the second quarter this year is down from its comparable period last year. Unit operating costs increased significantly, due to the major inspection on a gas turbine at Boca de Jaruco that occurred in the second quarter this year. No gas turbine major inspections are planned for the second half of this year, although other scheduled major maintenance expenditures will impact unit operating costs in the second half this year. Quarterly unit operating costs fluctuate significantly between quarters, although the full year average unit operating costs for 2016 are expected to be similar to the full year average in 2015 of $21.00 per MWh.

Production has been consistent on both a quarter over quarter basis, and year over year basis, and average realized prices are also consistent, excluding the impact of a weaker Canadian dollar in the first half of this year compared to last year.

Spending on capital and service concession agreements so far this year relates to the construction of a new pipeline that will conserve gas that is currently being flared, which will be processed at the Puerto Escondido facility. The pipeline is scheduled to be operational in the fourth quarter this year.

Free cash flow generation of $4.8 million in the quarter is low compared to its comparable quarter last year. The main difference in the quarter and in the first half this year is the absence of principal repayments and interest repayments received on the Energas conditional sales agreement. As disclosed previously, 2016 repayments are expected to be lower than 2015 due to higher capital spending while the pipeline is being constructed. Repayment in 2016 is expected to be $34 million based on a payment schedule that Energas provided at the beginning of the year. Discussions continue to address ongoing payments given the current liquidity concerns in Cuba.

STRATEGIC PRIORITIES

The table below lists Sherritt's strategic priorities for 2016. The 2016 Strategic Priorities reflect the continuing depressed commodity outlook and the Corporation's responsibility to preserve liquidity, continue to drive down costs, and execute rational capital allocation plans. Sherritt's purpose, originally communicated in 2014, continues ***to be a low-cost nickel producer that creates sustainable prosperity for our employees, investors and communities***.

Strategic Priorities	2016 Targets	Status
UPHOLD GLOBAL OPERATIONAL LEADERSHIP IN FINISHED NICKEL LATERITE PRODUCTION **1**	Complete and commission the acid plant at Moa in the second half of 2016	Acid plant construction completed in Q2 and commissioning underway
	Further reduce NDCC costs at Moa and Ambatovy towards the goal of being in the lowest quartile	Q2 NDCC of US$2.94/lb at Moa, and US$5.12/lb at Ambatovy
	Increase Ambatovy production over 2015, despite the major maintenance work scheduled for Q3	Ambatovy production was lower in the first half this year due to planned and unplanned impacts
	Maintain peer leading performance in environmental, health, safety and sustainability	Performance improved over 2015 and on track
EXTEND THE LIFE OF OUR CUBAN ENERGY BUSINESS **2**	Allocate capital to new drilling on Block 10, with future drilling to be contingent on results from 2016 activity	Drilling is expected to take place in the second half, and exploration spending outside Block 10 has been deferred. Results from the first well in Block 10 will dictate next steps
PRESERVE LIQUIDITY AND BUILD BALANCE SHEET STRENGTH **3**	Protect Sherritt's balance sheet and preserve cash	Recourse debt reduced by $81 million since end of 2015, and debenture maturities to be extended by 3 years in each series pending approval
	Establish clarity on long-term funding of Ambatovy	Ceased funding Ambatovy cash calls due to the "40 for 12" issue
	Run business units to be free cash flow neutral, and continue to optimize administrative costs	

OUTLOOK

2016 PRODUCTION AND CAPITAL SPENDING GUIDANCE

In 2016, Sherritt has made certain modifications to how guidance is presented. For example, capital spending estimates are presented in US dollars. In the quarterly reporting, actual capital spending is presented in Canadian dollars consistent with Sherritt's reporting currency, but estimates and forward looking information continue to be provided in US dollars. This change in presentation is intended to align with Sherritt's capital budgeting practices, and to mitigate the change to capital spending that arises from translation to the Canadian dollar reporting currency. In Sherritt's full year and Q4 2015 reporting, when guidance was first presented, the forecast exchange rate was Cdn$1.36 per US dollar. Capital projects in the Metals business are generally US dollar expenditures, while in Oil & Gas, the expenditures are roughly 50% Canadian dollar denominated and 50% US dollar denominated.

Production volumes and spending on capital	Previous Guidance 2016 March 31	Actual 2016 June 30	Revised Projected 2016
Production volumes			
Nickel, finished (tonnes, 100% basis)			
Moa Joint Venture	33,500-34,500	16,774	No change
Ambatovy Joint Venture	48,000-50,000	20,155	42,000-45,000
Total	81,500-84,500	36,929	75,500-79,500
Cobalt, finished (tonnes, 100% basis)			
Moa Joint Venture	3,300-3,800	1,952	No change
Ambatovy Joint Venture	3,300-3,800	1,588	2,900-3,300
Total	6,600-7,600	3,540	6,200-7,100
Oil – Cuba (gross working-interest, bopd)	14,500	16,324	15,000
Oil and Gas – All operations (net working-interest, boepd)	8,900	10,537	9,200
Electricity (GWh, 100% basis)	860	444	No change
Spending on capital (US$ millions)			
Metals – Moa Joint Venture (50% basis), Fort Site (100% basis)	US$38	US$14	No change
Metals – Ambatovy Joint Venture (40% basis)	US$25	US$4	No change
Oil and Gas	US$34	US$7	US$27
Power (33⅓% basis) Pipeline Construction on Service Concession Agreements	US$4	US$3	No change
Power (33⅓% basis)	US$1	-	No change
Spending on capital (excluding Corporate)	US$102	US$28	US$95

(1) Spending is 50% of US$ expenditures for Moa JV and 100% expenditures for Fort Site fertilizer and utilities.

NON-GAAP MEASURES

The Corporation uses combined results, Adjusted EBITDA, average-realized price, unit operating cost, and adjusted operating cash flow to monitor the performance of the Corporation and its operating divisions and believes these measures enable investors and analysts to compare the Corporation's financial performance with its competitors and evaluate the results of its underlying business. These measures do not have a standard definition under IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. As these measures do not have a standardized meaning, they may not be comparable to similar measures provided by other companies. See Sherritt's Management's Discussion and Analysis for the period ended June 30, 2016 for further information.

CONFERENCE CALL AND WEBCAST

Sherritt will hold its quarterly conference call and webcast tomorrow at 10:00 a.m. Eastern Time.

Conference Call and Webcast:	July 26, 2016, 10:00 a.m. ET
North American callers, please dial:	1-866-530-1553
International callers, please dial:	416-847-6330
Live webcast:	www.sherritt.com

An archive of the webcast will also be available on the website. The conference call will be available for replay until July 31, 2016 by calling 647-436-0148 or 1-888-203-1112, access code 2274449#.

COMPLETE FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

Sherritt's complete interim condensed consolidated financial statements and MD&A for the three and six months ended June 30, 2016 are available at www.sherritt.com and should be read in conjunction with this news release.

ABOUT SHERRITT

Sherritt is the world leader in the mining and refining of nickel from lateritic ores with operations in Canada, Cuba, and Madagascar. The Corporation 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 commercial metals operations worldwide. The Corporation's common shares are listed on the Toronto Stock Exchange under the symbol "S".

Source: Sherritt Investor Relations

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, but are not limited to, statements set out in the “Outlook” sections of this press release and certain expectations about capital costs and expenditures; production volumes; capital project completion and ramp up dates; future price of key commodities; sales volumes; revenue, costs, and earnings; sufficiency of working capital and capital project funding; results of on-going discussions regarding certain Ambatovy Joint Venture loans; completion of development and exploration wells; completion of the extension of the senior unsecured debentures and amounts of certain joint venture commitments.

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. These risks, uncertainties and other factors include, but are not limited to changes in the global price for nickel, cobalt, oil and gas or certain other commodities, share-price volatility, level of liquidity and access to capital resources, access to financing, risk of future non-compliance with debt restrictions and covenants; risks associated with the Corporation’s joint venture partners; discrepancies between actual and estimated production; variability in production at Sherritt’s operations in Madagascar and Cuba; risks associated with the ramp-up of Moa Joint Venture Acid Plant; potential interruptions in transportation; uncertainty of gas supply for electrical generation; uncertainty of exploration results and Sherritt’s ability to replace depleted mineral and oil and gas reserves; the Corporation’s reliance on key personnel and skilled workers; the possibility of equipment and other failures; the potential for shortages of equipment and supplies; risks associated with mining, processing and refining activities; uncertainty of resources and reserve estimates; uncertainties in environmental rehabilitation provisions estimates; risks related to the Corporation’s corporate structure; political, economic and other risks of foreign operations; risks related to Sherritt’s operations in Madagascar and Cuba; risks related to the U.S. government policy toward Cuba, including the U.S. embargo on Cuba and the Helms-Burton legislation; risks related to the accuracy of capital and operating cost estimates; reliance on significant customers; foreign exchange and pricing risks; compliance with applicable environment, health and safety legislation and other associated matters; risks associated with governmental regulations regarding greenhouse gas emissions; maintaining the Corporation’s social license to grow and operate; risks relating to community relations; credit risks; shortage of equipment and supplies; competition in product markets; future market access; interest rate changes; risks in obtaining insurance; uncertainties in labour relations; uncertainty in the ability of the Corporation to enforce legal rights in foreign jurisdictions; uncertainty regarding the interpretation and/or application of the applicable laws in foreign jurisdictions; legal contingencies; risks related to the Corporation’s accounting policies; risks associated with future acquisitions; uncertainty in the ability of the Corporation to obtain government permits; failure to comply with, or changes to, applicable government regulations; bribery and corruption risks, including failure to comply with the *Corruption of Foreign Public Officials Act* or applicable local anti-corruption law; uncertainties in growth management; and certain corporate objectives, goals and plans for 2016; and the Corporation’s ability to meet 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 the MD&A and in 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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For further investor information contact:
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Telephone: 416.935.2451
Toll-free: 1.800.704.6698
E-mail: investor@sherritt.com

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Toronto, Ontario, Canada, M5J 2T3
www.sherritt.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2016

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 25, 2016, should be read in conjunction with Sherritt's interim condensed consolidated financial statements for the three and six months ended June 30, 2016 and the MD&A for the year ended December 31, 2015. 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, joint ventures and associate, unless the context indicates otherwise. All amounts are in Canadian dollars, unless otherwise indicated. References to "US$" are to United States (U.S.) 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.

The business we manage

Sherritt manages its nickel, oil, gas and power operations through different legal structures including 100% owned subsidiaries, joint venture arrangements and production sharing contracts. With the exception of the Moa Joint Venture, which Sherritt operates jointly with its partner, Sherritt is the operator of these assets. The relationship Sherritt has with these operations and the economic interest recognized in the Corporation's financial statements are as follows:

	Relationship for accounting purposes	Economic interest	Basis of accounting
Metals			
Moa Joint Venture	Joint venture	50%	Equity method
Ambatovy Joint Venture	Associate	40%	Equity method
Oil and Gas	Subsidiary	100%	Full consolidation
Power	Joint operation	33⅓%	Economic interest recognized

The Financial results and review of operations sections in this MD&A present amounts by reporting segment, based on the Corporation's economic interest. For financial statement purposes, the Moa Joint Venture and Ambatovy Joint Venture are accounted for using the equity method of accounting which recognizes the Corporation's share of earnings (loss) from joint venture and associate, respectively. Metal's operating results include the Corporation's 50% interest in the Moa Joint Venture, 100% interest in the utility and fertilizer operations in Fort Saskatchewan (Fort Site), 40% interest in the Ambatovy Joint Venture, and 100% interest in a wholly-owned subsidiary established to buy, market and sell certain Ambatovy nickel production. The financial statements and review of operations in this MD&A include the Corporation's 100% interest in its Oil and Gas business and 33⅓% interest in its Power businesses.

Amounts presented in this MD&A can be reconciled to note 4 of the interim condensed consolidated financial statements for the three and six months ended June 30, 2016.

Strategic Priorities

The table below lists Sherritt's strategic priorities for 2016. The 2016 Strategic Priorities reflect the continuing depressed commodity outlook and the Corporation's responsibility to preserve liquidity, continue to drive down costs, and execute rational capital allocation plans. Sherritt's purpose, originally communicated in 2014, continues ***to be a low-cost nickel producer that creates sustainable prosperity for our employees, investors and communities***.

Strategic Priorities	2016 Targets	Status
UPHOLD GLOBAL OPERATIONAL LEADERSHIP IN FINISHED NICKEL LATERITE PRODUCTION **1**	Complete and commission the acid plant at Moa in the second half of 2016	Acid plant construction completed in Q2 and commissioning underway
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EXTEND THE LIFE OF OUR CUBAN ENERGY BUSINESS **2**	Allocate capital to new drilling on Block 10, with future drilling to be contingent on results from 2016 activity	Drilling is expected to take place in the second half, and exploration spending outside Block 10 has been deferred. Results from the first well in Block 10 will dictate next steps
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	Establish clarity on long-term funding of Ambatovy	Ceased funding Ambatovy cash calls due to the "40 for 12" issue
	Run business units to be free cash flow neutral, and continue to optimize administrative costs	

Highlights

OPERATIONS UPDATE

The Metals operations produced 7,765 tonnes of finished nickel (Sherritt's share) in the second quarter of 2016, representing a 3% decrease from the prior year period and an 11% decrease from the first quarter of 2016. This decrease is primarily due to a blockage in the tailings pipeline, equipment reliability issues and the early execution of the planned maintenance plant shutdown at Ambatovy, partly offset by increased production at Moa as a result of continued stable refinery operations and a shorter than planned annual refinery shutdown.

Despite lower production, Sherritt's Metals operations achieved a net direct cash cost (NDCC) of US$4.05/lb in the second quarter of 2016, a 16% reduction from the prior-year period. This decrease is due to lower input commodity costs and continued cost discipline. The 4% increase in Metals NDCC compared to the first quarter of 2016 is attributable to higher maintenance costs due to the Ambatovy shutdown.

MOA JOINT VENTURE ACID PLANT

In June 2016, construction of the third acid plant at the Moa Joint Venture was completed and commissioning activities commenced. In July 2016, the acid plant began producing sulphuric acid, with full performance testing scheduled in the coming weeks. It is anticipated that the plant will enhance the efficiency of operations by producing sufficient acid to eliminate all sulphuric acid purchases. Production of lower cost acid is expected to support higher acid consumption and better metallurgical recoveries in the pressure acid leach process in addition to generating steam that will displace a proportion of higher cost steam currently produced in oil-fired boilers. When in full operation, the third acid plant has the potential to reduce the Moa Joint Venture NDCC by approximately US$0.50/lb. Initial NDCC benefits will be realized in the fourth quarter this year with the full NDCC impact expected in 2017. The project was concluded within the established construction timeline and completion budget of US$65 million (100% basis), and was Moa Nickel's first capital project to be fully financed by a Cuban financial institution.

FINANCING UPDATE

During the quarter, the Corporation repurchased $30.0 million of the $250.0 million, 8.0% debentures due in 2018 for $17.4 million which resulted in a gain of $12.6 million recognized within financing income.

The Corporation sought noteholder consent to extend the maturities of each of the Corporation's debentures by three years from 2018, 2020 and 2022 to 2021, 2023 and 2025 respectively. The noteholder meeting to approve the extension was held on July 25, 2016 with 99.85% of the votes cast by noteholders, representing over 94% of the debentures, voting in favour of the plan. A final court hearing for approval of the extension pursuant to the Canadian Business Corporations Act (CBCA) proceedings is scheduled for July 27, 2016 and the transaction is expected to close on or about July 29, 2016.

Cash, cash equivalents and short-term investments at the end of the second quarter of 2016 were $312.6 million, a drop of $57.3 million from the end of the first quarter of 2016. The main drivers were $17.4 million used to repurchase debentures, $20.0 million in interest payments on the debentures and lower than expected receipts from the Cuban energy business.

AMBATOVY FUNDING

Total cash funding provided by Sumitomo and KORES was US$21.0 million and US$72.0 million for the three and six months ended June 30, 2016, respectively, pursuant to total cash calls of US$35.0 million and US$120.0 million for the three and six months ended June 30, 2016, respectively. Sherritt has not funded any portion of these cash calls, and continues not to fund. By agreement amongst the partners, Sherritt has not been considered to be a defaulting shareholder under the Ambatovy Joint Venture Shareholders Agreement as a consequence of such non-funding to date. However, new cash calls have been received for payment in early August and, while constructive discussions amongst the partners continue, in the event that a waiver is not agreed before the cash call due date, Sherritt would become a defaulting shareholder. Sherritt's unfunded amounts remain payable with accrued interest at LIBOR +3%. These amounts will be subtracted from future Ambatovy Joint Venture distributions, or may be set off against other amounts owed to Sherritt. Sherritt also has the option to pay the amounts in cash at any time, at Sherritt's election. Until the funding deficit is addressed, and subject to continued discussions with the Ambatovy partners, Sherritt will not exercise its Ambatovy voting rights.

Sherritt continues not to fund further cash calls at this time due to the structure of the Ambatovy partner loans, which, at current nickel prices, effectively reduces Sherritt's 40% interest in Ambatovy to a 12% economic interest. Sherritt continues to serve as operator, as constructive discussions are ongoing between partners. The outcome of these discussions is not certain – for additional information see the Risk Factors titled – "Ambatovy Liquidity and Funding Risks" and "Restrictions in Debt Instruments, Debt Covenants and Mandatory Repayments" in the 2015 Annual Information Form.

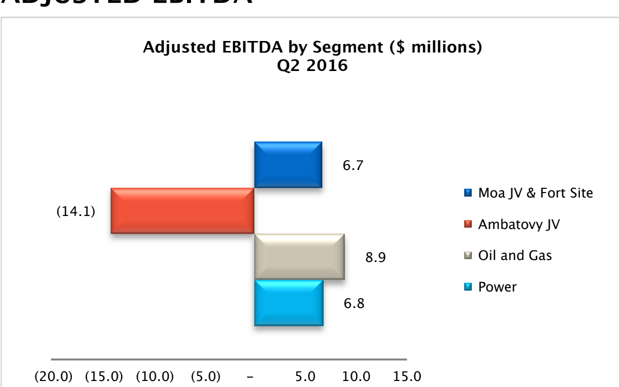
In addition, the Ambatovy Joint Venture financing lenders and the Ambatovy Joint Venture have entered into a temporary deferral agreement to defer the June 15, 2016 principal repayment due date to August 5, 2016. An agreement in principle has been reached on future principal payment deferrals. The temporary deferral agreement provides time to complete final documentation and approvals.

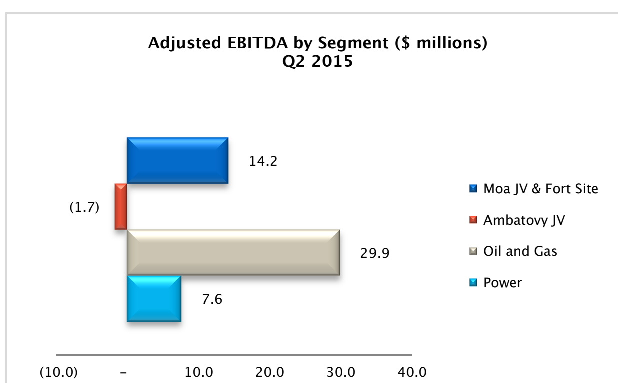
Financial results

$ millions, except as otherwise noted	For the three months ended 2016 June 30	2015 June 30	Change	For the six months ended 2016 June 30	2015 June 30	Change
FINANCIAL HIGHLIGHTS						
Revenue	**$ 74.9**	$ 99.6	(25%)	**$ 133.3**	$ 182.5	(27%)
Combined revenue[1]	**204.1**	268.4	(24%)	**395.4**	546.7	(28%)
Adjusted EBITDA[1]	**0.2**	40.2	(100%)	**(8.9)**	84.4	(111%)
Loss from operations, associate and joint venture	**(88.8)**	(40.7)	(118%)	**(186.5)**	(90.8)	(105%)
Loss from continuing operations	**(103.6)**	(47.6)	(118%)	**(151.4)**	(104.4)	(45%)
Loss from discontinued operations, net of tax	**–**	(5.0)	100%	**–**	(5.0)	100%
Net loss for the period	**(103.6)**	(52.6)	(97%)	**(151.4)**	(109.4)	(38%)
Adjusted loss from continuing operations[1]	**(116.1)**	(75.2)	(54%)	**(243.7)**	(146.2)	(67%)
Loss per share (basic and diluted)($ per share)						
Net loss from continuing operations	**(0.35)**	(0.16)	(117%)	**(0.52)**	(0.36)	(45%)
Net loss for the period	**(0.35)**	(0.18)	(97%)	**(0.52)**	(0.38)	(35%)
CASH FLOW						
Cash used by continuing operating activities	**$ (26.4)**	$ (41.1)	36%	**$ (36.1)**	$ (14.8)	(144%)
Combined free cash flow[1]	**(55.3)**	(67.0)	17%	**(86.7)**	(55.8)	(55%)
Combined adjusted operating cash flow[1]	**(35.8)**	25.6	(240%)	**(58.1)**	81.7	(171%)
Combined adjusted operating cash flow per share ($ per share)[1]	**(0.12)**	0.09	(233%)	**(0.20)**	0.28	(171%)
OPERATIONAL DATA						
SPENDING ON CAPITAL AND INTANGIBLE ASSETS[2]	**$ 19.4**	$ 44.5	(56%)	**$ 33.8**	$ 86.7	(61%)
PRODUCTION VOLUMES						
Finished nickel (tonnes)						
Moa Joint Venture (50% basis)	**4,145**	3,877	7%	**8,387**	8,234	2%
Ambatovy Joint Venture (40% basis)	**3,620**	4,158	(13%)	**8,062**	8,814	(9%)
Finished cobalt (tonnes)						
Moa Joint Venture (50% basis)	**477**	429	11%	**976**	855	14%
Ambatovy Joint Venture (40% basis)	**270**	264	2%	**635**	608	4%
Oil (boepd, NWI production)[3]	**10,567**	11,948	(12%)	**10,537**	11,445	(8%)
Electricity (gigawatt hours) (33 1/3% basis)	**227**	224	1%	**444**	434	2%
AVERAGE-REALIZED PRICES[1]						
Nickel ($ per pound)	**$ 5.07**	$ 7.13	(29%)	**$ 5.12**	$ 7.55	(32%)
Cobalt ($ per pound)	**13.38**	17.10	(22%)	**13.93**	16.22	(14%)
Oil ($ per boe, NWI)[3]	**28.35**	46.20	(39%)	**25.32**	44.10	(43%)
Electricity ($ per megawatt hour)	**54.51**	52.17	4%	**56.35**	52.39	8%
UNIT OPERATING COSTS[1]						
Nickel (US$ per pound)						
Moa Joint Venture	**$ 2.94**	$ 4.12	(29%)	**$ 3.15**	$ 4.24	(26%)
Ambatovy Joint Venture	**5.12**	5.48	(7%)	**4.75**	5.63	(16%)
Oil ($ per boe, GWI)[3]	**10.57**	11.27	(6%)	**10.46**	10.70	(2%)
Electricity ($ per megawatt hour)	**24.40**	16.86	45%	**20.71**	16.27	27%

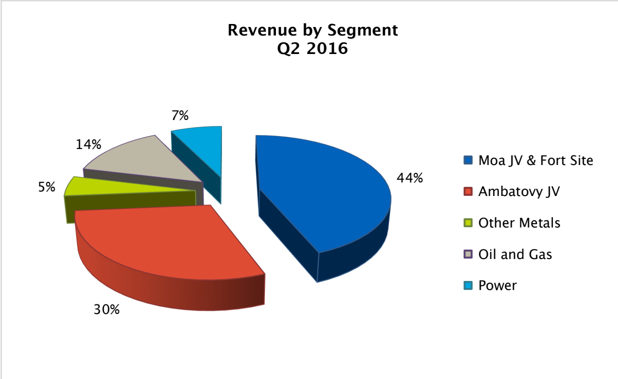
(1) For additional information see the Non-GAAP measures section.
(2) Spending on capital and intangible assets includes accruals and does not include spending on service concession arrangements.
(3) Net working-interest (NWI); gross working-interest (GWI); barrels of oil equivalent per day (boepd); barrels of oil equivalent (boe).

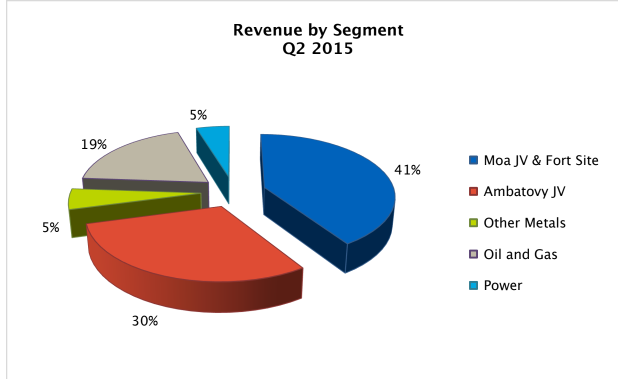
ADJUSTED EBITDA





REVENUE





	For the three months ended			For the six months ended		
	2016	2015		**2016**	2015	
$ millions	**June 30**	June 30	Change	**June 30**	June 30	Change
Revenue by segment						
Metals	**$ 160.5**	$ 204.2	(21%)	**$ 313.5**	$ 427.9	(27%)
Oil and Gas	**28.3**	51.3	(45%)	**50.7**	93.6	(46%)
Power	**14.9**	12.7	17%	**30.5**	24.5	24%
Corporate and Other	**0.4**	0.2	100%	**0.7**	0.7	–
Combined revenue[1]	**204.1**	268.4	(24%)	**395.4**	546.7	(28%)
Adjust joint venture and associate	**(129.2)**	(168.8)		**(262.1)**	(364.2)	
Financial statement revenue	**74.9**	99.6	(25%)	**133.3**	182.5	(27%)

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

Combined revenue for the three and six months ended June 30, 2016 was lower compared to the same periods in the prior year primarily due to lower nickel and oil prices partly offset by a weaker Canadian dollar relative to the U.S. dollar.

Revenue at Metals was also affected by a blockage in the tailings pipeline, equipment reliability issues and the early execution of the planned maintenance plant shutdown at Ambatovy. Revenue at Oil and Gas was impacted by lower gross working-interest oil production in Cuba due to natural reservoir declines and the absence of new drilling in the first half of 2016.

Increased revenue at Power relates primarily to revenue for the construction of the Puerto Escondido/Yumuri pipeline which is accounted for as a service concession arrangement. Construction activity revenue is equally offset by construction activity expenses recorded in cost of goods sold.

COST OF SALES

	For the three months ended			For the six months ended		
	2016	2015		**2016**	2015	
$ millions	**June 30**	June 30	Change	**June 30**	June 30	Change
Cost of sales by segment						
Metals	**$ 206.7**	$ 244.5	(15%)	**$ 413.3**	$ 497.9	(17%)
Oil and Gas	**28.1**	37.5	(25%)	**56.8**	78.8	(28%)
Power	**15.7**	11.8	33%	**30.3**	23.2	31%
Corporate and other	**1.2**	2.5	(52%)	**3.6**	3.6	–
Combined cost of sales[1]	**251.7**	296.3	(15%)	**504.0**	603.5	(16%)
Adjust joint venture and associate	**(181.0)**	(211.7)		**(368.7)**	(436.2)	
Financial statement cost of sales	**70.7**	84.6	(16%)	**135.3**	167.3	(19%)

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

Combined cost of sales for the three and six months ended June 30, 2016 was lower compared to the same period in the prior year primarily due to decreased production at Ambatovy and Oil and Gas, continued cost discipline and lower input commodity prices partly offset by a weaker Canadian dollar relative to the U.S. dollar.

In addition, depletion, depreciation and amortization expense was lower at Ambatovy and Oil and Gas as a result of lower asset carrying values due to the impairments recognized in 2015. Increased cost of sales at Power primarily relate to construction activity expenses related to the construction of the Puerto Escondido/Yumuri pipeline which are equally offset by construction revenue.

ADMINISTRATIVE EXPENSES

		For the three months ended				For the six months ended		
		2016		2015		**2016**		2015	
$ millions		**June 30**		June 30	Change		**June 30**		June 30	Change

$ millions		For the three months ended **2016 June 30**		2015 June 30	Change		For the six months ended **2016 June 30**		2015 June 30	Change
Administrative expenses by segment										
Metals	**$**	**6.8**	$	6.3	8%	**$**	**14.1**	$	13.1	8%
Oil and Gas		**3.2**		1.7	88%		**5.6**		3.6	56%
Power		**1.0**		1.3	(23%)		**2.2**		2.7	(19%)
Corporate and other		**7.8**		8.0	(3%)		**15.5**		15.6	(1%)
Combined administrative expenses[1]		**18.8**		17.3	9%		**37.4**		35.0	7%
Adjust joint venture and associate		**(5.3)**		(5.4)			**(11.2)**		(11.1)	
Financial statement administrative expenses		**13.5**		11.9	13%		**26.2**		23.9	10%

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

Combined administrative expenses for the three and six months ended June 30, 2016 were higher compared to the same periods in the prior year primarily due to higher stock based compensation expense and severance costs incurred.

NET FINANCE (INCOME) EXPENSE[1]

$ millions	For the three months ended **2016 June 30**	2015 June 30	Change	For the six months ended **2016 June 30**	2015 June 30	Change
Financial statement net finance expense (income)	**12.9**	17.5	(26%)	**(37.7)**	53.6	(170%)
Moa Joint Venture net finance expense	**2.1**	1.6	31%	**5.4**	7.1	(24%)
Ambatovy Joint Venture net finance expense	**11.6**	19.5	(41%)	**27.4**	24.7	11%
Combined net finance expense (income)[2]	**26.6**	38.6	(31%)	**(4.9)**	85.4	(106%)

(1) Net of intercompany interest.

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

For the three months ended June 30, 2016, combined net finance expense was impacted by a marginal weakening of the Canadian dollar relative to the U.S dollar since March 31, 2016, offset by a $12.6 million gain on the repurchase of $30.0 million of the 8.0% debentures due in 2018.

For the six months ended June 30, 2016 combined net finance income was primarily due to the strengthening of the Canadian dollar relative to the U.S. dollar since December 31, 2015.

INCOME TAXES

$ millions		For the three months ended **2016 June 30**		2015 June 30	Change		For the six months ended **2016 June 30**		2015 June 30	Change
Income taxes by segment										
Metals	**$**	**8.7**	$	(6.5)	234%	**$**	**7.7**	$	(13.7)	156%
Oil and Gas		**2.1**		(10.4)	120%		**3.0**		(39.5)	108%
Power		**(0.2)**		(0.2)	–		**(0.4)**		(0.6)	33%
Corporate and other		**–**		–	–		**–**		0.1	(100%)
Combined income taxes[1]		**10.6**		(17.1)	162%		**10.3**		(53.7)	119%
Adjust joint venture and associate		**(8.7)**		6.5			**(7.7)**		13.7	
Financial statement income taxes		**1.9**		(10.6)	118%		**2.6**		(40.0)	107%

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

Combined income taxes for the three and six months ended June 30, 2016 were higher than the prior year periods primarily due to an income tax recovery recognized in the prior year periods related to the reduction in Cuban tax rates which impacted Oil and Gas and the Moa Joint Venture. In addition, in the second quarter of 2016, it was determined that the realization of tax losses at Moa Nickel is not probable, which resulted in a deferred tax asset write down of $7.7 million.

CHANGE IN NET LOSS

For the three months ended June 30, 2016, net loss from continuing operations was $103.6 million, or $0.35 per share, compared to a loss of $47.6 million, or $0.16 per share in the same period in the prior year.

For the six months ended June 30, 2016, net loss from continuing operations was $151.4 million, or $0.52 per share, compared to a loss of $104.4 million, or $0.36 per share in the same period in the prior year.

The change in net loss from continuing operations between 2016 and 2015 is detailed below:

$ millions	For the three months ended 2016 June 30	For the six months ended 2016 June 30
Lower U.S. dollar denominated nickel and cobalt prices	$ (47.7)	$ (117.3)
Lower oil and gas prices	(12.4)	(27.4)
Lower fertilizer prices	(2.5)	(2.0)
Change in total metals and fertilizer sales volumes	2.3	5.2
Lower Cuba oil and gas gross working-interest volumes	(4.6)	(9.8)
Lower Spain oil and gas volumes	(1.5)	(2.7)
Lower Oil and Gas cost recovery revenue	(5.5)	(5.5)
Higher electricity volumes	0.1	0.5
Lower mining, processing and refining, third-party feed and fertilizer unit costs	27.0	57.0
Lower Oil and Gas cost of sales	3.8	7.9
Power major inspection costs	(1.7)	(1.7)
Lower depletion, depreciation and amortization	23.4	48.8
Higher administrative expenses	(1.5)	(2.4)
Foreign exchange impact on operations	(3.0)	(8.7)
(Higher)/Lower combined net finance expense	(0.6)	77.7
Higher combined tax	(20.0)	(56.3)
Gain on repurchase of debentures	12.6	12.6
Gain on sale of Corporate assets in 2015	(19.0)	(19.0)
Moa JV deferred tax asset write-off	(7.7)	(7.7)
Other	2.5	3.8
Change in net loss from continuing operations, compared to 2015	$ (56.0)	$ (47.0)

COMBINED ADJUSTED OPERATING AND FREE CASH FLOW

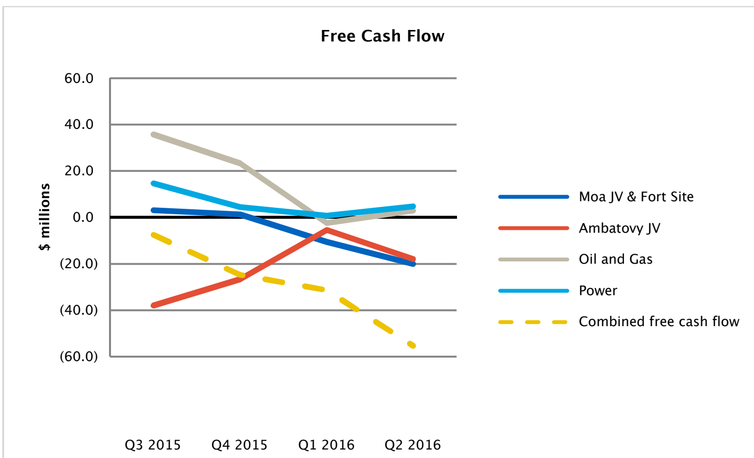
The Corporation's combined adjusted operating cash flow(1) and free cash flow(1) are summarized in the following table as derived from Sherritt's consolidated statements of cash flow.

	For the three months ended			For the six months ended		
	2016	2015		**2016**	2015	
$ millions	**June 30**	June 30	Change	**June 30**	June 30	Change
Combined adjusted operating cash flow	$ **(35.8)**	$ 25.6	(240%)	$ **(58.1)**	$ 81.7	(171%)
Combined free cash flow	**(55.3)**	(67.0)	17%	**(86.7)**	(55.8)	(55%)

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

During the three and six months ended June 30, 2016, combined adjusted operating cash flow, which excludes changes in working capital, and combined free cash flow for the six months ended June 30, 2016 were lower compared to the same periods in the prior year primarily as a result of lower earnings and an absence of interest and dividends received from Energas and Moa Joint Venture, respectively, offset by lower combined capital expenditures. The reduction in interest payments from Energas was due to higher capital spending in 2016 and the comparative year to date period including interest received relating to 2014. Payments from Energas in the first half of 2016 have been allocated to the repayment of costs incurred by Sherritt at the end of 2015 and current year pipeline construction. Interest and principal repayments on the outstanding CSA receivable were a significant source of cash last year, and are expected to resume in the second half of 2016. The payment schedule reflects $34.0 million in principal and interest payments in 2016

For the three months ended June 30, 2016 combined free cash flow was higher due to lower combined capital expenditures.



CONSOLIDATED FINANCIAL POSITION

The following table summarizes the significant items as derived from the interim consolidated statements of financial position:

	2016	2015	
$ millions, except as noted, as at	**June 30**	December 31	Change
Financial Condition			
Cash, cash equivalents and short-term investments	$ **312.6**	$ 435.4	(28%)
Net working capital balance	**543.4**	608.3	(11%)
Current ratio	**4.86:1**	3.87:1	–
Total assets	**3,703.9**	4,090.0	(9%)
Non-recourse loans and borrowings	**1,273.3**	1,303.2	(2%)
Other loans and borrowings	**878.8**	959.9	(8%)
Shareholders' equity	**1,242.7**	1,557.1	(20%)

At June 30, 2016, total available liquidity was $320.7 million, including available credit facilities. Total debt at June 30, 2016, was $2.2 billion, including $1.3 billion related to non-recourse Ambatovy Partner Loans.

Outlook

2016 PRODUCTION AND CAPITAL SPENDING GUIDANCE

In 2016, Sherritt has made certain modifications to how guidance is presented. For example, capital spending estimates are presented in US dollars. In the quarterly reporting, actual capital spending is presented in Canadian dollars consistent with Sherritt's reporting currency, but estimates and forward looking information continue to be provided in U.S. dollars. This change in presentation is intended to align with Sherritt's capital budgeting practices, and to mitigate the change to capital spending that arises from translation to the Canadian dollar reporting currency. In Sherritt's full year and Q4 2015 reporting, when guidance was first presented, the forecast exchange rate was Cdn$1.36 per U.S. dollar. Capital projects in the Metals business are generally U.S. dollar expenditures, while in Oil & Gas, the expenditures are roughly 50% Canadian dollar denominated and 50% U.S. dollar denominated.

Production volumes and spending on capital	Previous Guidance 2016 March 31	Actual 2016 June 30	Revised Projected 2016
Production volumes			
Nickel, finished (tonnes, 100% basis)			
Moa Joint Venture	33,500–34,500	16,774	No change
Ambatovy Joint Venture	48,000–50,000	20,155	42,000–45,000
Total	81,500–84,500	36,929	75,500–79,500
Cobalt, finished (tonnes, 100% basis)			
Moa Joint Venture	3,300–3,800	1,952	No change
Ambatovy Joint Venture	3,300–3,800	1,588	2,900–3,300
Total	6,600–7,600	3,540	6,200–7,100
Oil – Cuba (gross working-interest, bopd)	14,500	16,324	15,000
Oil and Gas – All operations (net working-interest, boepd)	8,900	10,537	9,200
Electricity (GWh, 100% basis)	860	444	No change
Spending on capital (US$ millions)			
Metals – Moa Joint Venture (50% basis), Fort Site (100% basis)	US$38	US$14	No change
Metals – Ambatovy Joint Venture (40% basis)	US$25	US$4	No change
Oil and Gas	US$34	US$7	US$27
Power (33⅓% basis) Pipeline Construction on Service Concession Agreements	US$4	US$3	No change
Power (33⅓% basis)	US$1	–	No change
Spending on capital (excluding Corporate)	US$102	US$28	US$95

PRODUCTION VOLUMES

- With the better than expected production and revaluation of the balance of the year, Cuba oil production guidance has been increased on both a Gross Working Interest (GWI) and Net Working Interest (NWI) basis, to 15,000 bopd and 9,200 bopd respectively.
- Production guidance for Ambatovy has been reduced to a range of 42,000 –45,000 tonnes finished nickel and 2,900 – 3,300 tonnes finished cobalt (100% basis). This change takes into account year to date production; offset to some degree by no further planned major shutdowns for the balance of the year.

CAPITAL SPENDING

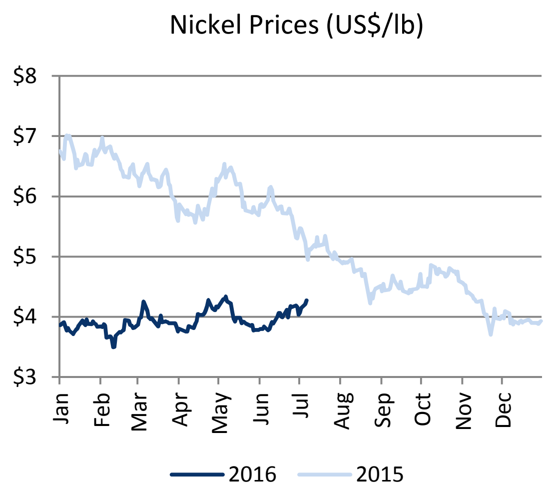
- Capital spending guidance has been reduced by US$7.0 million, as seismic processing activity in Oil & Gas that was originally expected to be performed on Block 8A has been deferred to 2017, while the focus remains on drilling the first well in Block 10 this year.

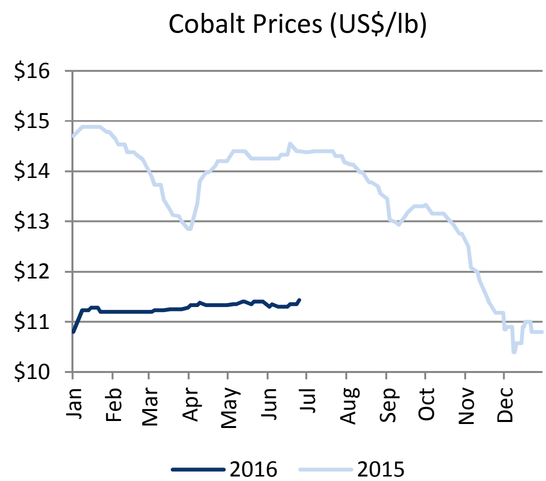
Significant factors influencing operations

As a commodity-based, geographically diverse company, Sherritt's operating results are influenced by many factors, the most significant of which are: commodity prices and foreign exchange rates.

COMMODITY PRICES

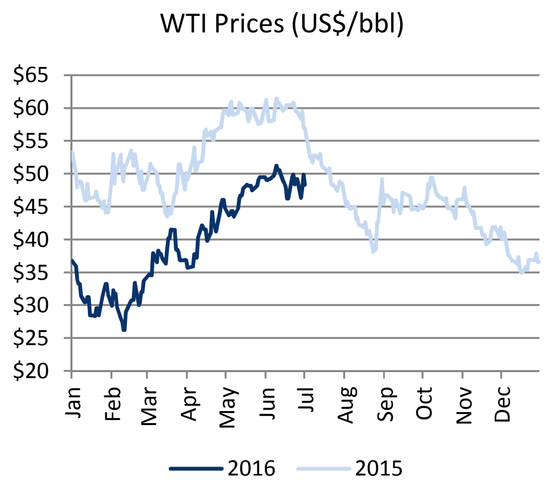
Operating results for the three and six months ended June 30, 2016, were significantly impacted by market-driven commodity prices for nickel, cobalt and oil and gas. A significant portion of electricity prices are established at the beginning of a negotiated supply contract period and are, therefore, less susceptible to commodity price fluctuations during the term of the agreement.

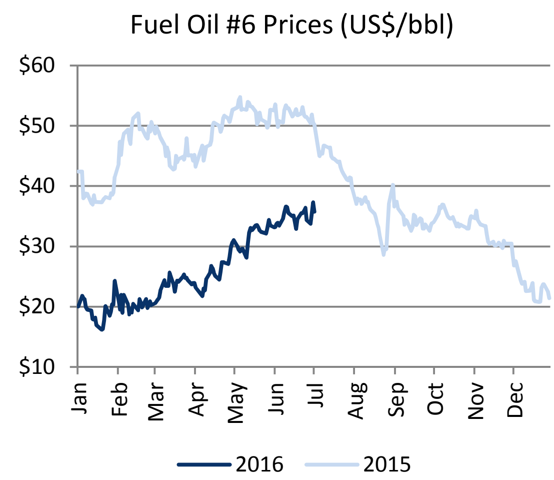




Recent market activity has been bullish as market analysts have increased their projected deficits and forecast higher prices for 2016 and 2017 due in part to the fundamental supply challenges that have emerged with the Philippines beginning environmental audits on all mining operations in the country. Prices have recovered significantly from the lows of US$3.50/lb reached in the first quarter this year, but the price recovery has not been enough to change the fundamental problem of more than 60% of the world's nickel production being underwater on a cash margin basis. There are reports of nickel ore operations in the Philippines being shut down for violations, with potential further shutdowns in the coming quarter. As the Philippines has replaced Indonesia as the largest supplier of ore to the Chinese NPI industry, any reduction in ore shipments would be expected to directly impact NPI production, and the overall nickel supply.

Cobalt is marketed in two distinct forms, being metal (cathode, metal powders or briquettes) or chemical (cobalt hydroxide, cobalt sulphate, or intermediates). Cobalt metal supply has contracted in 2016 with the announced suspension of production from Votorantim (Tocantins) in Brazil. Indications are that the metal market is approaching balance or slight deficit, which has resulted in stabilized prices, with average reference prices in the second quarter this year being US$10.85/lb, a slight improvement over the US$10.70/lb of the first quarter. Overall cobalt demand is supported by the longer term outlook for cobalt in rechargeable batteries, a market that will utilize either metal or chemical forms of cobalt, with purity being an important factor in the decision-making. Superalloy demand also remains strong, along with other applications such as magnets, diamond cutting tools, soaps and paint driers which are growing but at a slower rate. As a result of the positive medium term outlook for cobalt, speculative interest has picked up adding to improved pricing.





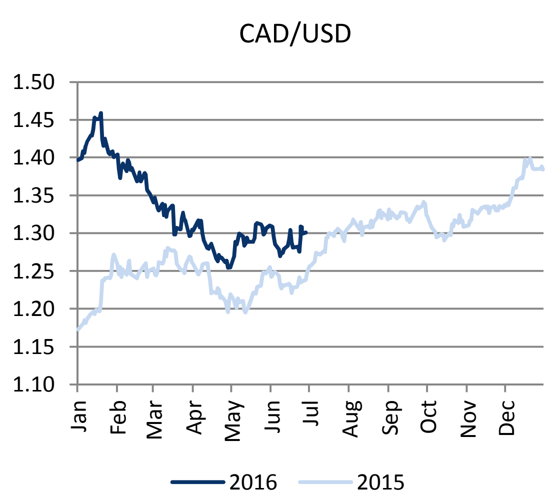
Crude Oil reference prices in the second quarter of 2016 increased by over 40% from the first quarter of 2016.

A sensitivity analysis for the three months ended June 30, 2016 earnings to changes in significant commodity prices is provided in the supplementary information – sensitivity analysis section.

FOREIGN EXCHANGE RATE

As Sherritt reports its results in Canadian dollars, the fluctuation in foreign exchange rates has the potential to cause significant volatility in those results. Most commodity prices are quoted in U.S. dollars, and a significant portion of operating expenses are U.S. dollar denominated. Therefore operating earnings are generally positively impacted by a weaker Canadian dollar as the uplift on revenue exceeds the negative impact on operating expenses. However, in a period of operating losses, where U.S. denominated expenses exceed U.S. denominated revenue, the foreign exchange impact is negative. The Canadian dollar was weaker relative to the U.S dollar for the three and six months ended June 30, 2016 compared to the same periods in the prior year.

In addition many of Sherritt's trade accounts receivable, accounts payable, loans receivable and loans payable are denominated in U.S. dollars. In the first half of 2016, the Canadian dollar strengthened relative to the U.S. dollar since December 31, 2015. In 2016, the U.S. based financial liabilities exceeded the U.S. based financial assets which resulted in a positive translation gain of approximately $74 million for the six months ended June 30, 2016.



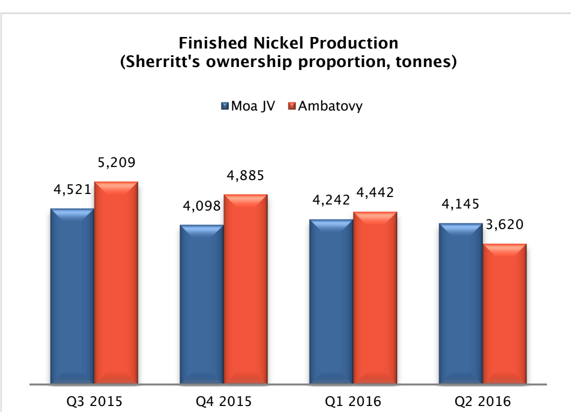
Review of operations

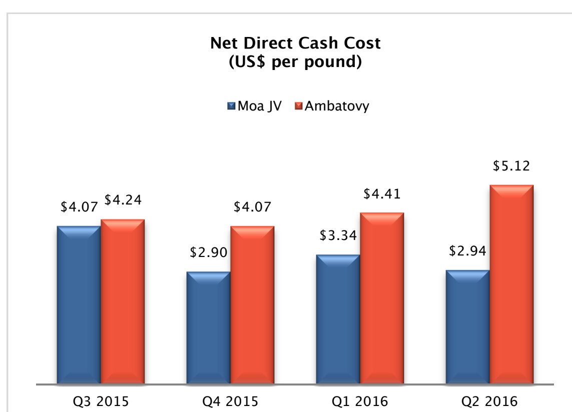
METALS

Financial Review

$ millions, except as otherwise noted, for the three months ended June 30				2016				2015	
	Moa JV and Fort Site	**Ambatovy JV**	**Other**	**Total**	Moa JV and Fort Site	Ambatovy JV	Other	Total	Change
FINANCIAL HIGHLIGHTS									
Revenue	**$ 89.5**	**$ 60.5**	**$ 10.5**	**$ 160.5**	$ 109.4	$ 80.6	$ 14.2	$ 204.2	(21%)
(Loss) earnings from operations	**(5.5)**	**(47.5)**	**–**	**(53.0)**	3.1	(49.8)	0.1	(46.6)	(14%)
Adjusted EBITDA[1]	**6.7**	**(14.1)**	**–**	**(7.4)**	14.2	(1.7)	–	12.5	(159%)
Cash (used) provided by operations	**(8.4)**	**(16.9)**	**1.0**	**(24.3)**	(11.4)	7.3	(0.7)	(4.8)	(406%)
Free cash flow[1]	**(20.0)**	**(18.0)**	**1.0**	**(37.0)**	(26.9)	5.1	(0.7)	(22.5)	(64%)
PRODUCTION VOLUMES (tonnes)									
Mixed Sulphides	**4,432**	**3,843**	**–**	**8,275**	4,702	4,533	–	9,235	(10%)
Finished Nickel	**4,145**	**3,620**	**–**	**7,765**	3,877	4,158	–	8,035	(3%)
Finished Cobalt	**477**	**270**	**–**	**747**	429	264	–	693	8%
Fertilizer	**57,552**	**10,797**	**–**	**68,349**	58,977	12,028	–	71,005	(4%)
NICKEL RECOVERY (%)	**87%**	**83%**			89%	86%			
SALES VOLUMES (tonnes)									
Finished Nickel	**4,068**	**4,251**	**–**	**8,319**	3,919	4,271	–	8,190	2%
Finished Cobalt	**473**	**361**	**–**	**834**	411	279	–	690	21%
Fertilizer	**59,947**	**13,764**	**–**	**73,711**	57,870	12,260	–	70,130	5%
AVERAGE REFERENCE PRICES (US$ per pound)									
Nickel				**$ 4.00**				$ 5.90	(32%)
Cobalt[2]				**10.85**				13.61	(20%)
AVERAGE-REALIZED PRICES[1]									
Nickel ($ per pound)	**$ 5.06**	**$ 5.08**	**–**	**$ 5.07**	$ 7.16	$ 7.10	–	$ 7.13	(29%)
Cobalt ($ per pound)	**13.37**	**13.46**	**–**	**13.38**	16.40	18.08	–	17.10	(22%)
Fertilizer ($ per tonne)	**455**	**146**	**–**	**396**	503	194	–	449	(12%)
UNIT OPERATING COSTS[1] (US$ per pound)									
Nickel – net direct cash cost	**$ 2.94**	**$ 5.12**	**–**	**4.05**	$ 4.12	$ 5.48	–	4.83	(16%)
SPENDING ON CAPITAL									
Sustaining	**$ 7.3**	**$ 2.9**	**$ –**	**$ 10.2**	$ 12.6	$ 9.2	$ –	$ 21.8	(53%)
Expansion	**4.1**	**–**	**–**	**4.1**	3.3	–	–	3.3	24%
	$ 11.4	**$ 2.9**	**$ –**	**$ 14.3**	$ 15.9	$ 9.2	$ –	$ 25.1	(43%)

(1) For additional information see the Non-GAAP measures section.
(2) Average low-grade cobalt published price per Metals Bulletin.





$ millions, except as otherwise noted, for the six months ended June 30	2016				2015				
	Moa JV and Fort Site	**Ambatovy JV**	**Other**	**Total**	Moa JV and Fort Site	Ambatovy JV	Other	Total	Change
FINANCIAL HIGHLIGHTS									
Revenue	**$ 166.2**	**$ 125.6**	**$ 21.7**	**$ 313.5**	$ 213.9	$ 181.3	$ 32.7	$ 427.9	(27%)
(Loss) earnings from operations	**(16.8)**	**(97.4)**	**0.3**	**(113.9)**	10.1	(93.6)	0.4	(83.1)	(37%)
Adjusted EBITDA[1]	**6.5**	**(26.9)**	**0.3**	**(20.1)**	32.5	2.6	0.1	35.2	(157%)
Cash (used) provided by operations	**(11.4)**	**(22.4)**	**5.2**	**(28.6)**	18.8	19.8	(1.2)	37.4	(176%)
Free cash flow[1]	**(30.6)**	**(23.5)**	**5.2**	**(48.9)**	(4.6)	15.0	(1.2)	9.2	(632%)
PRODUCTION VOLUMES (tonnes)									
Mixed Sulphides	**8,753**	**8,413**	**–**	**17,166**	9,578	8,932	–	18,510	(7%)
Finished Nickel	**8,387**	**8,062**	**–**	**16,449**	8,234	8,814	–	17,048	(4%)
Finished Cobalt	**976**	**635**	**–**	**1,611**	855	608	–	1,463	10%
Fertilizer	**128,459**	**25,152**	**–**	**153,611**	119,506	23,690	–	143,196	7%
NICKEL RECOVERY (%)	**87%**	**85%**			89%	86%			
SALES VOLUMES (tonnes)									
Finished Nickel	**8,209**	**8,742**	**–**	**16,951**	8,194	9,215	–	17,409	(3%)
Finished Cobalt	**941**	**693**	**–**	**1,634**	820	620	–	1,440	13%
Fertilizer	**91,660**	**27,871**	**–**	**119,531**	88,712	25,387	–	114,099	5%
AVERAGE REFERENCE PRICES (US$ per pound)									
Nickel				**$ 3.93**				$ 6.21	(37%)
Cobalt[2]				**10.78**				13.67	(21%)
AVERAGE-REALIZED PRICES[1]									
Nickel ($ per pound)	**$ 5.11**	**$ 5.12**	**–**	**$ 5.12**	$ 7.55	$ 7.56	–	$ 7.55	(32%)
Cobalt ($ per pound)	**13.60**	**14.38**	**–**	**13.93**	16.32	16.06	–	16.22	(14%)
Fertilizer ($ per tonne)	**433**	**166**	**–**	**370**	459	192	–	399	(7%)
UNIT OPERATING COSTS[1] (US$ per pound)									
Nickel – net direct cash cost	**$ 3.15**	**$ 4.75**	**–**	**3.98**	$ 4.24	$ 5.63	–	4.98	(20%)
SPENDING ON CAPITAL									
Sustaining	**$ 11.1**	**$ 4.6**	**$ –**	**$ 15.7**	$ 18.3	$ 15.6	$ –	$ 33.9	(54%)
Expansion	**8.1**	**–**	**–**	**8.1**	5.7	–	–	5.7	42%
	$ 19.2	**$ 4.6**	**$ –**	**$ 23.8**	$ 24.0	$ 15.6	$ –	$ 39.6	(40%)

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

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

Moa Joint Venture and Fort Site

Revenue is composed of the following:

$ millions	For the three months ended 2016 June 30	2015 June 30	Change	For the six months ended 2016 June 30	2015 June 30	Change
Nickel	$ **45.3**	$ 61.9	(27%)	$ **92.5**	$ 136.4	(32%)
Cobalt	**13.9**	14.9	(7%)	**28.2**	29.5	(4%)
Fertilizers	**27.2**	29.1	(7%)	**39.6**	40.6	(2%)
Other	**3.1**	3.5	(11%)	**5.9**	7.4	(20%)
	$ **89.5**	$ 109.4	(18%)	$ **166.2**	$ 213.9	(22%)

The change in earnings from operations between 2016 and 2015 is detailed below:

$ millions	For the three months ended 2016 June 30	For the six months ended 2016 June 30
Lower U.S. dollar denominated realized nickel prices	$ **(20.1)**	$ **(50.4)**
Lower U.S. dollar denominated realized cobalt prices	**(3.3)**	**(6.5)**
Lower fertilizer prices	**(2.5)**	**(2.0)**
Higher cobalt and nickel sales volumes	**0.8**	**1.9**
Higher fertilizer sales volumes	**0.1**	**0.3**
Lower mining, processing and refining, third-party feed and fertilizer unit costs	**14.9**	**26.7**
Weaker Canadian dollar relative to the U.S. dollar	**–**	**0.1**
Other	**1.5**	**3.0**
Change in earnings from operations, compared to 2015	$ **(8.6)**	$ **(26.9)**

The average-realized prices of nickel and cobalt for the three and six months ended June 30, 2016 decreased compared to the same periods in the prior year due to lower reference prices. The impact of lower reference prices was partly offset by a weakening of the Canadian dollar relative to the U.S. dollar.

Production of contained mixed sulphides for the three and six months ended June 30, 2016 was lower compared to the same periods in the prior year as above average rainfall limited mining operations resulting in lower ore volumes. In addition, mixed sulphide production was impacted by lower quality ore due to increased deleterious elements in new mining concessions at Moa Nickel coupled with unplanned maintenance as a result of equipment reliability issues in the processing plant.

Finished nickel and cobalt production for the three and six months ended June 30, 2016 was higher than the same periods in the prior year primarily due to continued stable refinery operations and a shorter than planned annual refinery shutdown. The impact of lower mixed sulphides production was more than offset by third party feed usage, which have been more cobalt rich, and a higher drawdown of mixed sulphides inventory.

Fertilizer's contributions to operating earnings for the three and six months ended June 30, 2016 were higher compared to the same periods in the prior year due to lower maintenance and energy costs partly offset by lower realized prices.

Cost of sales[(1)] is composed of the following:

$ millions	For the three months ended 2016 June 30	2015 June 30	Change	For the six months ended 2016 June 30	2015 June 30	Change
Mining, processing and refining	$ **54.8**	$ 59.5	(8%)	$ **111.3**	$ 122.9	(9%)
Third-party feed costs	**2.4**	3.0	(20%)	**5.3**	6.7	(21%)
Fertilizers	**15.9**	20.5	(22%)	**23.7**	28.5	(17%)
Selling costs	**4.4**	4.1	7%	**8.0**	7.7	4%
Other	**3.3**	6.6	(50%)	**7.0**	12.7	(45%)
	$ **80.8**	$ 93.7	(14%)	$ **155.3**	$ 178.5	(13%)

(1) Excludes depletion, depreciation and amortization

Net direct cash cost[1] is composed of the following:

	For the three months ended			For the six months ended		
	2016	2015		**2016**	2015	
	June 30	June 30	Change	**June 30**	June 30	Change
Mining, processing and refining costs	**$ 4.69**	$ 5.66	(17%)	**$ 4.57**	$ 5.46	(16%)
Third-party feed costs	**0.22**	0.28	(21%)	**0.22**	0.30	(27%)
Cobalt by-product credits	**(1.20)**	(1.40)	14%	**(1.18)**	(1.32)	11%
Other[2]	**(0.77)**	(0.42)	(83%)	**(0.46)**	(0.20)	(130%)
Net direct cash cost (US$ per pound of nickel)	**$ 2.94**	$ 4.12	(29%)	**$ 3.15**	$ 4.24	(26%)

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

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

Net direct cash cost of nickel for the three and six months ended June 30, 2016 were lower compared to the same periods in the prior year primarily due to lower energy and purchased sulphuric acid prices, lower maintenance costs due to the shorter annual refinery shutdown, higher net fertilizer by-product credits and a weaker Canadian dollar relative to the U.S. dollar. Cobalt by-product credits were impacted by lower realized cobalt prices for the three and six months ended June 30, 2016, compared to the same periods in the prior year.

Expansion capital spending relates to the construction of the 2,000 tonnes per day acid plant at Moa. In June 2016, construction of the third acid plant at the Moa Joint Venture was completed and commissioning activities commenced. In July 2016, the acid plant began producing sulphuric acid, with full performance testing scheduled in the coming weeks. It is anticipated that the plant will enhance the efficiency of operations by producing sufficient acid to eliminate all sulphuric acid purchases. Production of lower cost acid is expected to support higher acid consumption and better metallurgical recoveries in the pressure acid leach process in addition to generating steam that will displace a proportion of higher cost steam currently produced in oil-fired boilers. When in full operation, the third acid plant has the potential to reduce the Moa Joint Venture NDCC by approximately US$0.50/lb. Initial NDCC benefits will be realized in the fourth quarter this year with the full NDCC impact expected in 2017. The project was concluded within the established construction timeline and completion budget of US$65 million (100% basis), and was Moa Nickel's first capital project to be fully financed by a Cuban financial institution.

Sustaining capital spending was lower in the three and six months ended June 30, 2016 compared to the same period in the prior year reflecting lower planned spending.

Ambatovy

Revenue is composed of the following:

	For the three months ended			For the six months ended		
	2016	2015		**2016**	2015	
$ millions	**June 30**	June 30	Change	**June 30**	June 30	Change
Nickel	**$ 47.5**	$ 66.8	(29%)	**$ 98.6**	$ 153.5	(36%)
Cobalt	**10.7**	11.1	(4%)	**22.0**	22.0	–
Fertilizers	**2.0**	2.4	(17%)	**4.6**	4.9	(6%)
Other	**0.3**	0.3	–	**0.4**	0.9	(56%)
	$ 60.5	$ 80.6	(25%)	**$ 125.6**	$ 181.3	(31%)

The change in earnings from operations between 2016 and 2015 is detailed below:

$ millions	For the three months ended **2016** **June 30**	For the six months ended **2016** **June 30**
Lower US dollar denominated realized nickel prices	**$ (21.0)**	**$ (56.7)**
Lower US dollar denominated realized cobalt prices	**(3.3)**	**(3.7)**
Higher metals sales volumes	**1.2**	**2.6**
Higher fertilizer sales volumes	**0.2**	**0.4**
Lower mining, processing and refining, selling and fertilizer unit costs	**12.1**	**30.3**
Lower depreciation expense	**18.5**	**35.6**
Weaker Canadian dollar relative to the U.S. dollar	**(4.6)**	**(11.9)**
Other	**(0.8)**	**(0.4)**
Change in earnings from operations, compared to 2015	**$ 2.3**	**$ (3.8)**

The average-realized price of nickel for the three and six months ended June 30, 2016 decreased compared to the same periods in the prior year due to lower reference prices. The impact of a lower reference price was partly offset by a weakening of the Canadian dollar relative to the U.S. dollar.

The average-realized price of cobalt for the three and six months ended June 30, 2016 decreased compared to the same period in the prior year primarily due to lower reference prices, partly offset by a weaker Canadian dollar relative to the U.S. dollar. Realized prices, relative to reference prices are impacted by the timing of mark to market adjustments on provisionally priced sales.

Production of nickel was lower for the three and six months ended June 30, 2016 compared to the same periods in the prior year due to a blockage in the tailings pipeline, equipment reliability issues and the early execution of the planned maintenance plant shutdown. The pipeline is a five kilometre span that transports tailings material from the plant to the tailings management facility. The blockage happened when thickened tailings slurry mixed with high concentrations of flocculent and lime and was then allowed to harden when an unplanned maintenance issue required a rapid shutdown of the tailings pumps. As a result of the blockage, the plant shutdown initially planned for August 2016 was brought forward to June 24, 2016 and successfully completed on July 9, 2016. The blockage was cleared during the shutdown and preventive measures were put in place to address any potential future process control events of this nature. During the shutdown, required work on the air separation and hydrogen plant was performed, along with inspections of pressure vessels in accordance with statutory engineering codes. The Corporation continues to address the equipment reliability issues that have been experienced in the first half of 2016. Some of these issues were addressed during the plant shutdown and further capital projects and asset management processes are currently underway to further improve plant reliability. Finished nickel production for three and six months ended June 30, 2016 represents 60% and 67% of design capacity, respectively.

Depletion, depreciation, and amortization expense for the three and six months ended June 30, 2016 was lower compared to the same periods in the prior year primarily as a result of the lower carrying value due to the impairment recognized in the fourth quarter of 2015 partly offset by the impact of a weaker Canadian dollar relative to the U.S. dollar.

Cost of sales[1] is composed of the following:

	For the three months ended			For the six months ended		
	2016	2015		**2016**	2015	
$ millions	**June 30**	June 30	Change	**June 30**	June 30[2]	Change
Mining, processing and refining	**$ 66.9**	$ 72.9	(8%)	**$ 135.2**	$ 159.0	(15%)
Selling costs	**3.6**	3.3	9%	**7.4**	7.3	1%
Other	**(0.1)**	2.0	(105%)	**1.1**	3.4	(68%)
	$ 70.4	$ 78.2	5%	**$ 143.7**	$ 169.7	(15%)

(1) Excludes depletion, depreciation and amortization.

Net direct cash cost[1] is composed of the following:

	For the three months ended			For the six months ended		
	2016	2015		**2016**	2015	
	June 30	June 30	Change	**June 30**	June 30	Change
Mining, processing and refining costs	**$ 5.74**	$ 6.12	(6%)	**$ 5.31**	**$** 5.94	(11%)
Cobalt by-product credits	**(0.81)**	(0.83)	(2%)	**(0.74)**	(0.87)	(15%)
Other[2]	**0.19**	0.19	0%	**0.18**	0.56	(68%)
Net direct cash cost (US$ per pound of nickel)	**5.12**	5.48	(7%)	**4.75**	5.63	(16%)

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

(2) Includes selling costs, discounts, and other by-product credits.

Net direct cash cost of nickel for the three and six months ended June 30, 2016 decreased compared to the same periods in the prior year primarily due to operational efficiencies and lower overall input commodity prices partly offset by maintenance costs due to the shutdown.

Capital spending for Ambatovy is focused on sustaining capital for mining and production equipment and the tailings facility.

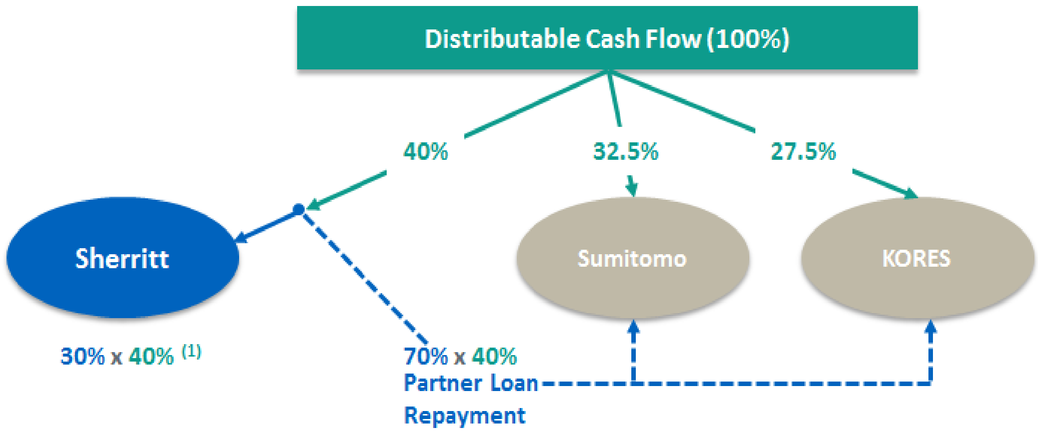
Total cash funding provided by Sumitomo and KORES was US$21.0 million and US$72.0 million for the three and six months ended June 30, 2016, respectively, pursuant to total cash calls of US$35.0 million and US$120.0 million for the three and six months ended June 30, 2016, respectively. Sherritt has not funded any portion of these cash calls, and continues not to fund. By agreement amongst the partners, Sherritt has not been considered to be a defaulting shareholder under the Ambatovy Joint Venture Shareholders Agreement as a consequence of such non-funding to date. However, new cash calls have been received for payment in early August and, while constructive discussions amongst the partners continue, in the event that a waiver is not agreed before the cash call due date, Sherritt would become a defaulting shareholder. Sherritt's unfunded amounts remain payable with accrued interest at LIBOR +3%. These amounts will be subtracted from future Ambatovy Joint Venture distributions, or may be set off against other amounts owed to Sherritt. Sherritt also has the option to pay the amounts in cash at any time, at Sherritt's election. Until the funding deficit is addressed, and subject to continued discussions with the Ambatovy partners, Sherritt will not exercise its Ambatovy voting rights.

Sherritt continues not to fund further cash calls at this time due to the structure of the Ambatovy partner loans, which, at current nickel prices, effectively reduces Sherritt's 40% interest in Ambatovy to a 12% economic interest as set-out in the following chart[1]. Sherritt continues to serve as operator, as constructive discussions are ongoing between partners. The outcome of these discussions is not certain – for additional information see the Risk Factors titled – "Ambatovy Liquidity and Funding Risks" and "Restrictions in Debt Instruments, Debt Covenants and Mandatory Repayments" in the 2015 Annual Information Form.

In addition, the Ambatovy Joint Venture financing lenders and the Ambatovy Joint Venture have entered into a temporary deferral agreement to defer the June 15, 2016 principal repayment due date to August 5, 2016. An agreement in principle has been reached on future principal payment deferrals. The temporary deferral agreement provides time to complete final documentation and approvals.

(1) 70% of Sherritt's distributable cash flow from Ambatovy (after opex, capex and project debt service) goes to Partner Loan repayment, leaving Sherritt with 30%; 30% of Sherritt's 40% ownership = 12%.

Ambatovy Distributable Cash Flow



(1) Distributable cash flow to Sherritt until partner loans repaid.

Net Investment in Ambatovy

Management reviews its investment in Ambatovy (Net Investment) on a net basis as management believe this more accurately reflects its exposure to and potential returns from Ambatovy. The Corporation defines its Net Investment in Ambatovy as its Investment in Associate plus Ambatovy subordinated loans receivable less the Corporation's non-recourse Ambatovy Joint Venture Additional Partner Loans, as reported in the financial statements. For additional information see the Non-GAAP measures section.

The Ambatovy Joint Venture additional partner loans were used to fund a portion of Sherritt's contributions to the Ambatovy Joint Venture. These loans are non-recourse to the Corporation. Interest and principal on these loans will be repaid solely through the Corporation's share of the distributions from the Ambatovy Joint Venture. The Corporation categorizes recourse and non-recourse debt differently because lenders of non-recourse debt do not have access to the Company's assets and repayment is solely from distributions of the Ambatovy Joint Venture, resulting in a significantly different debt to capital structure as shown in the table below.

The table below reconciles the Net Investment in Ambatovy to the consolidated statement of financial position:

Unaudited, Canadian $ millions, as at	**2016 June 30**	Investment in Associate	Ambatovy Subordinated Loan Receivable	Non-recourse Ambatovy JV Partner Loans	**Adjusted 2016 June 30**	**Adjusted 2015 December 31[1]**
ASSETS						
Current assets	$ 684.0 $	– $	– $	– $	684.0 $	820.4
Non-current assets						
Advances, loans receivable and other financial	1,359.6	–	(883.0)	–	476.6	413.3
Investment in an associate	843.1	(843.1)	–	–	–	–
Net investment in Ambatovy	**–**	**843.1**	**883.0**	**(1,273.3)**	**452.8**	**641.3**
Other non-current assets	817.2	–	–	–	817.2	911.8
Total assets	$ 3,703.9 $	– $	– $	(1,273.3)$	2,430.6 $	2,786.8
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities	$ 140.6 $	– $	– $	– $	140.6 $	212.1
Non-current liabilities						
Non-recourse loans and borrowings	1,273.3	–	–	(1,273.3)	–	–
Loans and borrowings	833.4	–	–	–	833.4	868.7
Other non-current liabilities	213.9	–	–	–	213.9	148.9
Total liabilities	2,461.2	–	–	(1,273.3)	1,187.9	1,229.7
Shareholders' equity	1,242.7	–	–	–	1,242.7	1,557.1
Total liabilities and shareholders' equity	$ 3,703.9 $	– $	– $	(1,273.3)$	2,430.6 $	2,786.8
Total debt-to-capital[2]	63%				41%	38%

(1) For additional information see the Non-GAAP measures section.
(2) Calculated as total debt divided by the sum of total debt and shareholder's' equity.

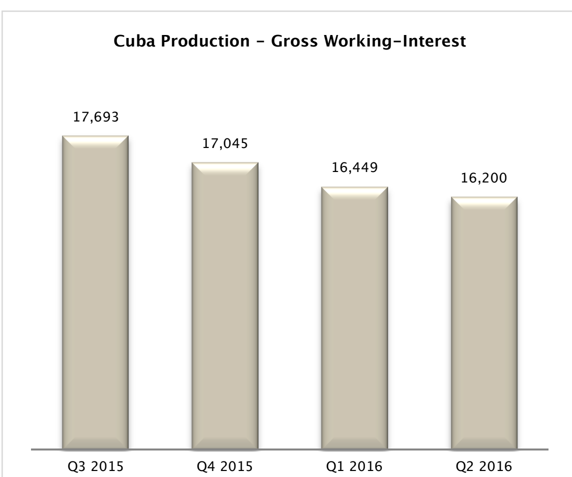
OIL AND GAS

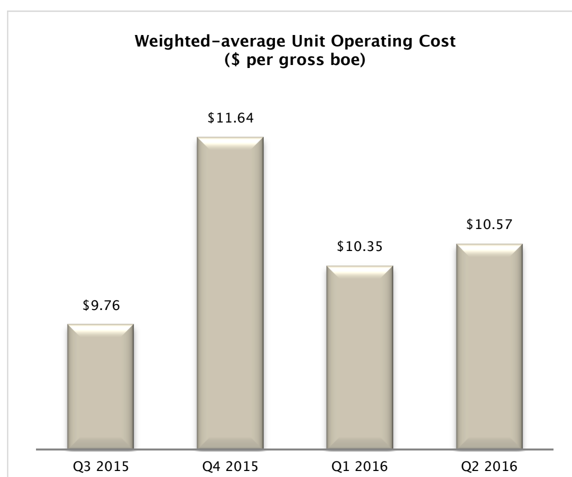
Financial review

$ millions, except as otherwise noted	For the three months ended 2016 June 30	2015 June 30	Change	For the six months ended 2016 June 30	2015 June 30	Change
FINANCIAL HIGHLIGHTS						
Revenue	**$ 28.3**	$ 51.3	(45%)	**$ 50.7**	$ 93.6	(46%)
(Loss) earnings from operations	**(3.0)**	12.1	(125%)	**(11.7)**	11.2	(204%)
Adjusted EBITDA[1]	**8.9**	29.9	(70%)	**12.9**	51.4	(75%)
Cash provided by operations	**7.9**	6.4	23%	**10.5**	13.0	(19%)
Free cash flow[1]	**3.0**	(13.9)	122%	**0.6**	(27.9)	102%
PRODUCTION AND SALES[2]						
Gross working-interest (GWI) - Cuba	**16,200**	18,607	(13%)	**16,324**	19,160	(15%)
Total net working-interest (NWI)	**10,567**	11,948	(12%)	**10,537**	11,445	(8%)
AVERAGE REFERENCE PRICES (US$ per barrel)						
Gulf Coast Fuel Oil No. 6	**$ 31.02**	$ 50.92	(39%)	**$ 26.19**	$ 47.67	(45%)
Brent	**45.29**	61.17	(26%)	**39.51**	57.47	(31%)
AVERAGE-REALIZED PRICES[1] (per NWI)						
Cuba ($ per barrel)	**$ 28.16**	$ 45.71	(38%)	**$ 24.98**	$ 43.69	(43%)
Spain ($ per barrel)	**57.49**	78.87	(27%)	**51.16**	71.85	(29%)
Pakistan ($ per boe)[2]	**10.49**	9.98	5%	**10.61**	10.28	3%
Weighted-average ($ per boe)	**28.35**	46.20	(39%)	**25.32**	44.10	(43%)
UNIT OPERATING COSTS[1][2] (per GWI)						
Cuba	**$ 9.30**	$ 10.13	(8%)	**$ 9.42**	$ 9.17	3%
Spain	**72.65**	54.88	32%	**60.51**	67.65	(11%)
Pakistan	**6.92**	7.67	(10%)	**7.98**	7.91	1%
Weighted-average ($ per boepd)	**10.57**	11.27	(6%)	**10.46**	10.70	(2%)
SPENDING ON CAPITAL						
Development, facilities and other	**$ 3.6**	$ 16.4	(78%)	**$ 7.7**	$ 43.4	(82%)
Exploration	**1.3**	0.1	1200%	**1.9**	0.1	1800%
	$ 4.9	$ 16.5	(70%)	**$ 9.6**	$ 43.5	(78%)

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

(2) 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. Collectively, oil and natural gas production are stated in barrels of oil equivalent per day (boepd).





Oil and Gas revenue is composed of the following:

$ millions	For the three months ended 2016 June 30	2015 June 30	Change	For the six months ended 2016 June 30	2015 June 30	Change
Cuba	**$ 25.5**	$ 46.5	(45%)	**$ 45.1**	$ 84.1	(46%)
Spain	**1.5**	3.6	(58%)	**2.9**	6.8	(57%)
Pakistan	**0.3**	0.3	–	**0.6**	0.6	–
Processing	**1.0**	0.9	11%	**2.1**	2.1	–
	$ 28.3	$ 51.3	(45%)	**$ 50.7**	$ 93.6	(46%)

The change in earnings from operations between 2016 and 2015 is detailed below:

$ millions	For the three months ended 2016 June 30	For the six months ended 2016 June 30
Lower realized oil and gas prices, denominated in U.S. dollars	**$ (12.4)**	**$ (27.4)**
Lower Cuba gross working-interest volumes	**(4.6)**	**(9.8)**
Lower Spain volumes	**(1.5)**	**(2.7)**
Lower cost recovery revenue	**(5.5)**	**(5.5)**
Lower depletion, depreciation and amortization	**5.3**	**14.1**
Weaker Canadian dollar relative to the U.S. dollar	**1.4**	**2.5**
Lower operating costs	**3.8**	**7.9**
Other	**(1.6)**	**(2.0)**
Change in earnings from operations, compared to 2015	**$ (15.1)**	**$ (22.9)**

While reference prices for oil increased in the second quarter of 2016 compared to the first quarter of 2016, prices were lower in the three and six months ended June 30, 2016 compared to the same periods in the prior year. The decrease in average-realized prices in the current-year periods benefited from the impact of a weaker Canadian dollar relative to the U.S. dollar.

Production and sales volumes were as follows:

Daily production volumes[1]	For the three months ended 2016 June 30	2015 June 30	Change	For the six months ended 2016 June 30	2015 June 30	Change
Gross working-interest oil production in Cuba	**16,200**	18,607	(13%)	**16,324**	19,160	(15%)
Net working-interest oil production						
Cuba (heavy oil)						
Cost recovery	**4,805**	5,050	(5%)	**4,624**	3,647	27%
Profit oil	**5,128**	6,101	(16%)	**5,288**	6,981	(24%)
Total	**9,933**	11,151	(11%)	**9,912**	10,628	(7%)
Spain (light oil)	**281**	498	(44%)	**308**	520	(41%)
Pakistan (natural gas)	**353**	299	18%	**317**	297	7%
	10,567	11,948	(12%)	**10,537**	11,445	(8%)

(1) Refer to Oil and Gas production and sales volume on page 34 for further detail.

Gross working-interest oil production in Cuba decreased for the three and six months ended June 30, 2016 compared to the same periods in the prior year primarily due to natural reservoir declines and the absence of new drilling in the first half of 2016.

Cost-recovery oil production in Cuba for the three months ended June 30, 2016 decreased compared to the same period in the prior year as a result of lower cost-recovery spending, partly offset by lower prices. Cost-recovery oil production in Cuba for the six months ended June 30, 2016 increased compared to the same period in the prior year as a result of lower oil prices. The allocation of cost recovery barrels in any particular period is limited to a fixed percentage of GWI volumes within each cost pool. Expenditures that exceed this limit are carried forward and are eligible for a future allocation of cost recovery barrels.

Profit oil production, which represents Sherritt's share of production after cost recovery volumes are deducted from GWI volumes, was lower in the three and six months ended June 30, 2016 as a result of a reduction in GWI volumes.

In Spain, oil production was lower in the three and six months ended June 30, 2016 compared to the same periods in the prior year as a result of production normalizing in the Rodaballo field since the major workover was completed in this field in the first quarter of 2015.

Unit operating cost in Cuba decreased in the three months ended June 30, 2016 and increased for the six months ended June 30, 2016 compared to the same periods in the prior year. Unit operating costs in both periods were negatively impacted by lower production volumes and a weaker Canadian dollar relative to the U.S. dollar; however, these impacts were more than offset by lower well workover costs in the quarter.

Unit operating cost in Spain increased in the three and six months ended June 30, 2016 compared to the same periods in the prior year primarily due to lower production volumes, which were partially offset by lower workover costs in 2016.

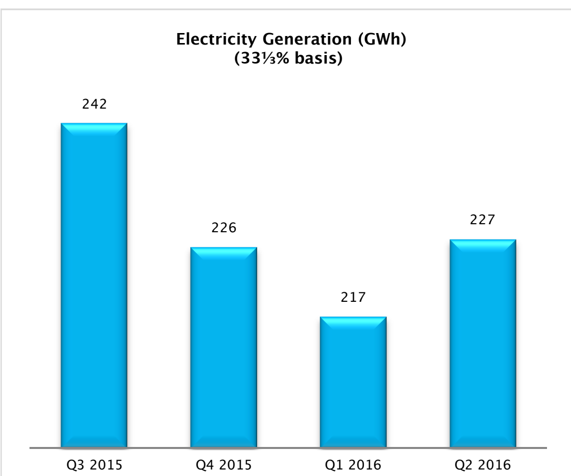
Spending on capital was substantially lower in the three and six months ended June 30, 2016 compared to the same periods in the prior year due to the absence of drilling in 2016. As previously disclosed, preparation and drilling of Block 10 continues to be the Corporation's focus in 2016. The Corporation is planning to commence drilling one well in the third quarter of 2016.

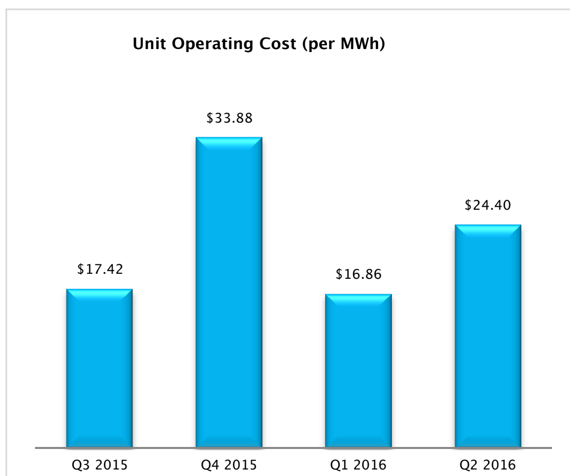
POWER

Financial review

$ millions (33⅓% basis), except as otherwise noted	For the three months ended 2016 June 30	2015 June 30	Change	For the six months ended 2016 June 30	2015 June 30	Change
FINANCIAL HIGHLIGHTS						
Revenue	**$ 14.9**	$ 12.7	17%	**$ 30.5**	$ 24.5	24%
Loss from operations	**(1.8)**	(0.4)	(350%)	**(2.0)**	(1.4)	(43%)
Adjusted EBITDA[1]	**6.8**	7.6	(11%)	**15.5**	14.9	4%
Cash provided by operations	**4.9**	10.6	(54%)	**5.8**	34.7	(83%)
Free cash flow[1]	**4.8**	9.6	(50%)	**5.6**	33.3	(83%)
PRODUCTION AND SALES						
Electricity (GWh[2])	**227**	224	1%	**444**	434	2%
AVERAGE-REALIZED PRICES[1]						
Electricity (per MWh[2])	**$ 54.51**	$ 52.17	4%	**$ 56.35**	$ 52.39	8%
UNIT OPERATING COSTS[1] (per MWh)						
Base	**$ 15.64**	$ 15.60	–	**$ 15.26**	$ 15.68	(3%)
Non-base[3]	**8.76**	1.26	595%	**5.45**	0.59	824%
	24.40	16.86	45%	**20.71**	16.27	27%
SPENDING ON CAPITAL AND SERVICE CONCESSION ARRANGEMENTS						
Sustaining	**$ 0.2**	1.0	(80%)	**$ 0.3**	$ 1.4	(79%)
Service concession arrangements	**1.7**	(0.2)	950%	**3.6**	(0.2)	1,900%
	$ 1.9	0.8	138%	**$ 3.9**	$ 1.2	225%

(1) For additional information see the Non-GAAP measures section.
(2) Gigawatt hours (GWh), Megawatt hours (MWh).
(3) 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 (33 1/3% basis)	For the three months ended 2016 June 30	2015 June 30	Change	For the six months ended 2016 June 30	2015 June 30	Change
Electricity sales	**$ 12.3**	$ 11.6	6%	**$ 25.0**	$ 22.7	10%
By-products and other	**0.9**	1.3	(31%)	**1.9**	2.0	(5%)
Construction activity[1]	**1.7**	(0.2)	950%	**3.6**	(0.2)	1900%
	$ 14.9	$ 12.7	17%	**$ 30.5**	$ 24.5	24%

(1) Value 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. Construction activity revenue is offset equally by construction activity expenses recorded in cost of goods sold.

The change in earnings from operations between 2016 and 2015 is detailed below:

$ millions (33 1/3% basis)	For the three months ended 2016 June 30	For the six months ended 2016 June 30
Higher electricity volumes	**$ 0.1**	**$ 0.5**
Lower realized by-product prices	**(0.2)**	**(0.4)**
Higher realized by-product volume	**0.2**	**0.3**
Higher depletion, depreciation and amortization	**(0.4)**	**(0.9)**
Weaker Canadian dollar relative to the U.S. dollar	**0.2**	**0.6**
Major inspection costs	**(1.7)**	**(1.7)**
Other	**0.4**	**1.0**
Change in earnings from operations, compared to 2015	**$ (1.4)**	**$ (0.6)**

Production and electricity sales were relatively unchanged for the three and six months ended June 30, 2016 compared to the same periods in the prior year. Construction revenue relates to the construction of the Puerto Escondido/Yumuri pipeline which is accounted for as a service concession arrangement.

The average-realized price of electricity was higher for the three and six months ended June 30, 2016 compared to the same periods in the prior year primarily due to a weakening of the Canadian dollar relative to the U.S. dollar.

Unit operating cost increased for the three and six months ended June 30, 2016 compared to the same periods in the prior year primarily due to a planned major inspection of a gas turbine at Boca de Jaruco, as well as the impact of a weaker Canadian dollar relative to the U.S. dollar. There are no gas turbine major inspections planned for the second half of 2016.

The Puerto Escondido/Yumuri pipeline is scheduled to be operational in the fourth quarter of 2016. The pipeline is being built to conserve gas that is currently being flared, which will be processed at the Puerto Escondido facility.

Liquidity and capital resources

Total available liquidity at June 30, 2016 was $320.7 million which includes cash, cash equivalents and short term investments of $312.6 million and available credit facilities of $8.1 million.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

Canadian $ millions, as at June 30, 2016	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	$ 70.5	$ 70.5	$ –	$ –	$ –	$ –	$ –
Income taxes payable	2.8	2.8	–	–	–	–	–
Senior unsecured debentures	976.2	56.0	56.0	267.2	38.4	279.1	279.5
Ambatovy Joint Venture Additional Partner loans (non-recourse)[1]	4,685.9	–	–	–	–	–	4,685.9
Ambatovy Joint Venture Partner loans[1]	158.0	–	–	–	–	–	158.0
Other loans and borrowings	46.5	46.5	–	–	–	–	–
Provisions	161.1	13.2	9.7	0.1	–	–	138.1
Operating leases	18.4	2.9	2.9	3.0	3.0	2.0	4.6
Capital commitments	28.7	28.7	–	–	–	–	–
Total	$ 6,148.1	$ 220.6	$ 68.6	$ 270.3	$ 41.4	$ 281.1	$ 5,266.1

(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. The Ambatovy Joint Venture additional partner 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 $91.6 million, with no significant payments due in the next five years;
- Advances and loans payable of $230.5 million. Included within advances and loans payable is the loan related to the construction of the acid plant of $31.1 million. Interest accrues at 10% per annum and is payable monthly. The loan is expected to be repaid in full by January 2019. Repayments, including interest for the six months ended June 30, 2016 were $4.9 million.
- Other commitments of $0.6 million.

Ambatovy Joint Venture

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

- Environmental rehabilitation commitments of $227.5 million, with no significant payments due in the next five years;
- Other contractual commitments of $21.4 million; and
- Ambatovy revolving credit facility of $20.3 million. The facility bears interest rates between 9.00% and 11.85% and matures on August 5, 2016.

- Ambatovy Joint Venture senior debt financing of US$640.4 million ($833.1 million) which is non-recourse to the Joint Venture partners as a result of achieving financial completion in September 2015. Interest is payable based on LIBOR plus 2.5%. The Ambatovy Joint Venture financing lenders and the Ambatovy Joint Venture have entered into a temporary deferral agreement to defer the June 15, 2016 principal repayment due date to August 5, 2016. An agreement in principle has been reached on future principal payment deferrals. The temporary deferral agreement provides time to complete final documentation and approvals. An interest payment of US$28.0 million was made to the lenders during the six months ended June 30, 2016. On an undiscounted basis, principal and interest repayments are $1.0 billion.

INVESTMENT LIQUIDITY

At June 30, 2016, cash and cash equivalents and investments were located in the following countries:

$ millions, as at June 30, 2016	Cash	Cash equivalents and short-term investments	Total
Canada	$ 69.6	$ 223.9	$ 293.5
Cuba	12.4	–	12.4
Other	6.7	–	6.7
	$ 88.7	$ 223.9	$ 312.6

Cash and short-term investments

The Corporation's cash balances are deposited with major financial institutions rated A- or higher by Standard & Poor's, except for institutions located in Madagascar and Cuba that are not rated.

At June 30, 2016, the Corporation had $19.0 million in Government of Canada treasury bills and $25.0 million in term deposits (December 31, 2015 - $93.9 million and $25 million, respectively) included in cash and cash equivalents and $179.9 million Government of Canada treasury bills included in short-term investments (December 31, 2015 - $204.8 million).

The table above does not include cash and cash equivalents of $14.8 million held by the Moa Joint Venture, or $14.0 million held by the Ambatovy Joint Venture. The Corporation's share is included as part of the investment in a joint venture and associate balances in the consolidated statement of financial position.

Non-recourse Loans and Borrowings

- $1.3 billion in loans provided by the Ambatovy Joint Venture partners to finance Sherritt's portion of funding requirements of the Joint Venture bearing interest of six-month LIBOR plus a margin of 7.0%. These loans are non-recourse to the Corporation. Interest and principal on these loans will be repaid solely through the Corporation's share of the distributions from the Ambatovy Joint Venture.

Other Loans and Borrowings

Other Loans and borrowings are composed primarily of:

- $720.0 million in unsecured debentures and notes having interest rates between 7.50% and 8.00% and maturities in 2018, 2020 and 2022. During the quarter, the Corporation repurchased $30.0 million of the $250.0 million, 8.0% debentures due in 2018 for $17.4 million which resulted in a gain of $12.6 million recognized within financing income. The noteholder meeting to approve the extension was held on July 25, 2016 with 99.85% of the votes cast by noteholders, representing over 94% of the debentures, voting in favour of the plan. A final court hearing for approval of the extension pursuant to the Canadian Business Corporations Act (CBCA) proceedings is scheduled for July 27, 2016 and the transaction is expected to close on or about July 29, 2016;
- $127.8 million in loans provided by the Ambatovy Joint Venture partners to finance Sherritt's portion of funding requirements of the Joint Venture bearing interest of six-month LIBOR plus a margin 1.125%,
- $45.0 million in the syndicated revolving-term credit facility bearing interest at prime plus 2.50% per annum or bankers' acceptances plus 3.50%.

The following is a summary of significant changes in the Corporation's credit facilities during 2016.

Syndicated revolving-term credit facility

During the six months ended June 30, 2016, the terms of the syndicated revolving-term credit facility were amended to update the financial covenants. The maximum credit available remains at $115.0 million with the total available draw based on eligible receivables and inventory. The interest rates increased from prime plus 2.25% or bankers' acceptance plus 3.25% to prime plus 2.50% or bankers' acceptance plus 3.50%. The facility is subject to the following financial covenants as at June 30, 2016: net financial debt-to-EBITDA covenant of 4:1, net financial debt-to-equity covenant of 0.55:1 and EBITDA-to-interest expense covenant of not less than 1.75:1. The net financial debt-to-EBITDA covenant increases to 4.25:1 as at September 30, 2016. If net financial debt-to-EBITDA is greater than 3.75:1, unrestricted cash must be greater than 50% of the lower of the borrowing base amount and facility amount.

Line of credit

On February 23, 2016, the Corporation terminated and repaid the $35.0 million outstanding balance.

AVAILABLE CREDIT FACILITIES

The following table outlines the maximum amounts undrawn and available to the Corporation for credit facilities that had amounts undrawn at June 30, 2016 and December 31, 2015. 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, 2015.

$ millions, as at			**2016 June 30**			2015 December 31
	Maximum	**Undrawn**	**Available[1]**	Maximum	Undrawn	Available[1]
Short-term						
Syndicated revolving-term credit facility[2]	**$ 115.0**	**$ 24.9**	**$ 8.1**	$ 115.0	$ 12.6	$ 2.6
Line of credit[3]	**–**	**–**	**–**	35.0	–	–
Total	**$ 115.0**	**$ 24.9**	**$ 8.1**	$ 150.0	$ 12.6	$ 2.6

(1) The Corporation's credit facilities are available to the extent amounts are undrawn and financial covenants or restrictions have not been exceeded.
(2) Established for general corporate purposes. Total available draw is based on eligible receivables and inventory. At June 30, 2016, the Corporation had $45.1 million of letters of credit outstanding and drew down $45.0 million on this facility. Letters of credit at June 30, 2016 are primarily in place to support Oil and Gas reclamation obligations in Spain and exploration activities in Cuba.
(3) On February 23, 2016, the Corporation terminated and repaid the $35.0 million outstanding balance on its line of credit.

Covenants

There are no events of default on the Corporation's borrowings or debentures.

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[1].

	For the three months ended			For the six months ended		
	2016	2015		**2016**	2015	
$ millions	**June 30**	June 30	Change	**June 30**	June 30	Change
Cash provided (used) by operating activities						
Oil and Gas operating cash flow	**$ 7.9**	$ 6.4	23%	**$ 10.5**	$ 13.0	(19%)
Power operating cash flow (excluding interest received on Energas CSA loan)	**4.6**	2.4	92%	**5.5**	3.5	57%
Fort Site operating cash flow	**(14.0)**	(19.1)	27%	**(13.7)**	(5.6)	(145%)
Dividends received from Moa Joint Venture	**–**	–	–	**–**	12.5	(100%)
Interest received on Moa Joint Venture loans	**0.6**	4.9	(88%)	**1.3**	7.8	(83%)
Interest received on Energas CSA loan	**0.3**	8.2	(96%)	**0.3**	31.2	(99%)
Interest paid on debentures	**(20.5)**	(19.9)	(3%)	**(30.8)**	(29.3)	(5%)
Corporate and other operating cash flow	**(5.3)**	(24.0)	78%	**(9.2)**	(47.9)	81%
Cash used by continuing operations	**(26.4)**	(41.1)	36%	**(36.1)**	(14.8)	(144%)
Cash used by discontinued operations	**(3.1)**	(0.1)	(3000%)	**(6.0)**	(3.6)	(67%)
	$ (29.5)	$ (41.2)	28%	**$ (42.1)**	$ (18.4)	(129%)
Cash provided (used) by investing and financing						
Property, plant, equipment and intangible expenditures	**$ (10.4)**	$ (28.1)	63%	**$ (16.8)**	$ (51.9)	68%
Receipts of advances, loans receivable and other financial assets	**0.5**	15.8	(97%)	**0.9**	19.3	(95%)
Repayment of other loans and borrowings	**(17.8)**	(0.4)	(4350%)	**(63.2)**	(0.8)	(7800%)
Loans to Ambatovy Joint Venture	**–**	(43.9)	100%	**–**	(43.9)	100%
Net proceeds from sale of Corporate assets	**–**	21.2	(100%)	**–**	21.2	(100%)
Dividends paid on common shares	**–**	(3.0)	100%	**–**	(6.0)	100%
Other	**(0.1)**	0.2	(150%)	**(1.6)**	2.6	(162%)
	$ (27.8)	$ (38.2)	27%	**$ (80.7)**	$ (59.5)	(36%)
	(57.3)	(79.4)	28%	**(122.8)**	(77.9)	(58%)
Cash, cash equivalents and short-term investments:						
Beginning of the period	**369.9**	478.7	(23%)	**435.4**	477.2	(9%)
End of the period	**$ 312.6**	$ 399.3	(22%)	**$ 312.6**	$ 399.3	(22%)

(1) Cash (used) provided by discontinued operations relate to changes in the estimated Obed provision retained by the Corporation following the sale of the Coal operations in 2014, as well as cash paid to settle this provision.

The following significant items affected the sources and uses of cash:

Cash from continuing operations was higher during the three months ended June 30, 2016 and lower for the six months ended June 30, 2016 compared to the prior year periods:

- Interest received on the Energas CSA loan was $0.3 million for the three months and six months ended June 30, 2016 compared to $8.2 million and $31.2 million for the three and six months end June 30, 2015, respectively. This reduction in interest was due to higher capital spending at Energas in 2016 and the comparative year to date period including interest received relating to 2014. Payments from Energas in the first half of 2016 have been allocated to repayment of costs incurred by Sherritt at the end of 2015 and current year pipeline construction. Interest and principal repayments on the outstanding CSA receivable were a significant source of cash last year, and are expected to resume in the second half of 2016. The payment schedule reflects $34.0 million in principal and interest payments in 2016;
- cash from operations at Fort Site related primarily to the timing of collection and realization of fertilizer sales, as pre-sales and collection of cash generally occurs in the third and fourth quarters with deliveries, and therefore recognition of revenue, occurring in the spring season;
- cash from operating activities at Oil and Gas was higher for the three months ended June 30, 2016 and lower for the six months ended June 30, 2016 primarily due to timing of settlement of receivables and deferred income received on the North Sea licenses; and
- cash from operating activities at Corporate was higher for the three and six months ended June 30, 2016 due to timing of working capital payments.

Included in investing and financing activities:

- included within repayment of other loans and borrowings in the three months ended June 30, 2016, $17.4 million relates to the repurchase of the 2018 debentures. Included within $63.2 million repayment of loans and borrowings in the six months ended June 30, 2016, is the repurchase of debentures, repayment and termination of the $35.0 million line of credit and a $10.0 million repayment on the revolving – term credit facility.

COMMON SHARES

As at July 25, 2016, the Corporation had 293,880,001 common shares outstanding. An additional 9,628,416 common shares are issuable upon exercise of outstanding stock options granted to employees and directors pursuant to the Corporation's stock option plan.

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 second quarter of 2016 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, 2015.

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, 2014 to June 30, 2016[1].

$ millions, except per share amounts, for the three months ended	**2016 June 30**	2016 Mar 31	2015 Dec 31	2015 Sept 30	2015 June 30	2015 Mar 31	2014 Dec 31	2014 Sept 30
Revenue								
Metals	**$ 160.5**	$ 153.0	$ 183.8	$ 193.4	$ 204.2	$ 223.7	$ 216.5	$ 221.2
Oil and Gas	**28.3**	22.4	30.5	38.5	51.3	42.3	49.6	68.1
Power	**14.9**	15.6	13.7	14.5	12.7	11.8	11.7	12.7
Corporate and Other	**0.4**	0.3	1.5	0.1	0.2	0.5	0.5	0.7
Combined Revenue[2]	**$ 204.1**	$ 191.3	$ 229.5	$ 246.5	$ 268.4	$ 278.3	$ 278.3	$ 302.7
Adjust joint venture and associate revenue	**(129.2)**	(132.9)	(153.0)	(169.6)	(168.8)	(195.4)	(176.7)	(199.8)
Financial statement revenue	**$ 74.9**	$ 58.4	$ 76.5	$ 76.9	$ 99.6	$ 82.9	$ 101.6	$ 102.9
Share of loss of an associate, net of tax	**(58.9)**	(65.9)	(1,703.2)	(68.6)	(62.6)	(42.3)	(65.0)	(49.4)
Share of (loss) earnings of a joint venture, net of tax	**(20.6)**	(12.9)	(9.1)	(6.4)	(0.3)	4.0	4.5	10.8
Net loss from continuing operations	**(103.6)**	(47.8)	(1,757.3)	(210.0)	(47.6)	(56.8)	(147.7)	(51.3)
Loss from discontinued operations, net of tax	**–**	–	–	–	(5.0)	–	(12.7)	–
Net loss for the period	**$ (103.6)**	$ (47.8)	$ (1,757.3)	$ (210.0)	$ (52.6)	$ (56.8)	$ (160.4)	$ (51.3)
Net loss per share, basic and diluted ($ per share)								
Net loss from continuing operations	**$ (0.35)**	$ (0.16)	$ (5.99)	$ (0.72)	$ (0.16)	$ (0.19)	$ (0.50)	$ (0.17)
Net loss for the period	**(0.35)**	(0.16)	(5.99)	(0.72)	(0.18)	(0.19)	(0.54)	(0.17)

(1) On April 28, 2014, the Corporation completed the sale of its Coal operations. Results for Coal prior to the date of sale and any subsequent expenses relating to Coal have been reported in (loss) earnings from discontinued operations.

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

In general, net (loss) earnings for the Corporation are primarily affected by commodity prices, sales volumes and exchange rates. The average Canadian dollar cost to purchase one U.S. dollar for the above quarters has ranged from $1.09 to $1.37. In addition to the impact of commodity prices, sales volumes and exchange rates, net (loss) earnings were impacted by the following significant items (pre-tax):

- The second quarter of 2016 includes a $12.6 million gain on repurchase of $30.0 million of the $250.0 million 8.0% debentures due in 2018 and an unrealized foreign exchange loss of $1.6 million due to a marginal weakening of the Canadian dollar relative to the U.S dollar since March 31, 2016;
- the first quarter of 2016 includes unrealized foreign exchange gains of $76.0 million due to the strengthening of the Canadian dollar relative to the U.S dollar since December 31, 2015;
- the fourth quarter of 2015 includes an impairment of $1.6 billion recognized on Ambatovy Joint Venture assets;
- the third quarter of 2015 includes an impairment of $80.6 million recognized on oil assets. Net finance expense includes a loss on financial instruments of $13.7 million related to the expiry of the Ambatovy call option;
- the second quarter of 2015 includes a gain on sale of the Corporation's head office building of $19.1 million and an additional tax recovery of $13.2 million related to tax rate reductions in Cuba;
- the first quarter of 2015 includes a tax recovery of $30.1 million related to tax rate reductions in Cuba;
- the fourth quarter of 2014 includes $33.8 million of fees related to the repurchase and redemption of debentures, $7.5 million related to restructuring costs and unrealized foreign exchange losses partly offset by a $3.3 million gain on sale of the Corporate assets and a $1.3 million gain on arbitration settlement;
- the third quarter of 2014 includes a $12.8 million gain on arbitration settlement; and

Off-balance sheet arrangements

The Corporation has no foreign exchange or commodity options, futures or forward contracts.

Transactions with related parties

The Corporation enters into transactions related to its investment in an associate and joint arrangements. For further detail, refer to Note 6, 7 and 18 of the Corporation's June 30, 2016 interim condensed consolidated financial statements. Transactions between related parties are generally 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 periods for bad debts in respect of amounts owed by related parties.

Controls and procedures

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal control over financial reporting means a process designed by or under the supervision of the CEO and CFO, management and other personnel 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, 2016, the Corporation's CEO and CFO have certified that the disclosure controls and procedures are effective and that during the quarter ended June 30, 2016, 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 from continuing operations for the three months ended June 30, 2016 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		Increase	Approximate change in quarterly net earnings ($ millions) Increase/(decrease)	Approximate change in quarterly basic EPS Increase/(decrease)
Prices				
Nickel – LME price per pound[1]	US$	0.50	$ 10	$ 0.05
Cobalt – Metal Bulletin price per pound[1]	US$	0.50	1	–
Oil –U.S. Gulf Coast Fuel Oil No. 6 price per barrel	US$	5.00	3	0.02
Exchange rate				
Strengthening of the Canadian dollar relative to the U.S. dollar	$	0.05	55	0.19
Operating costs[1]				
Natural gas – per gigajoule (Moa Joint Venture)	$	1.00	(1)	–
Sulphur – per tonne (Moa Joint Venture and Ambatovy)	US$	25.00	(2)	(0.01)
Sulphuric acid – per tonne (Moa Joint Venture)	US$	25.00	(2)	(0.01)
Coal – per tonne (Ambatovy)	US$	20.00	(1)	–
Limestone – per tonne (Ambatovy)	US$	5.00	(1)	–

(1) Variable changes are applied at the operating level with the approximate change in net earnings and basic EPS representing the Corporation's 50% interest in the Moa Joint Venture and 40% interest in the Ambatovy Joint Venture.

OIL AND GAS PRODUCTION AND SALES VOLUME

The following table provides further detail about the Corporation's oil and gas production and determination of sales volumes.

	For the three months ended			For the six months ended		
	2016	2015		**2016**	2015	
Daily production volumes[1]	**June 30**	June 30	Change	**June 30**	June 30	Change
Gross working-interest oil production in Cuba[2][3]	**16,200**	18,607	(13%)	**16,324**	19,160	(15%)
Net working-interest oil production[4]						
Cuba (heavy oil)						
Cost recovery	**4,805**	5,050	(5%)	**4,624**	3,647	27%
Profit oil	**5,128**	6,101	(16%)	**5,288**	6,981	(24%)
Total	**9,933**	11,151	(11%)	**9,912**	10,628	(7%)
Spain (light oil)[4]	**281**	498	(44%)	**308**	520	(41%)
Pakistan (natural gas)[4]	**353**	299	18%	**317**	297	7%
	10,567	11,948	(12%)	**10,537**	11,445	(8%)

(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. Collectively, oil and natural gas production are referred to as boepd.
(2) In Cuba, Oil and Gas delivered all of its gross working-interest oil production to CUPET at the time of production.
(3) Gross working-interest oil production is allocated between Oil and Gas and CUPET in accordance with production-sharing contracts. The Corporation's share, referred to as net working-interest production, includes (i) cost recovery oil (based upon the recoverable capital and operating costs incurred by Oil and Gas under each production-sharing contract) and (ii) a percentage of profit oil (gross working-interest production remaining after cost recovery oil is allocated to Oil and Gas). Cost recovery pools for each production-sharing contract include cumulative recoverable costs, subject to certification by CUPET, less cumulative proceeds from cost recovery oil allocated to Oil and Gas. Cost recovery revenue equals capital and operating costs eligible for recovery under the production-sharing contracts.
(4) Net working-interest production (equivalent to net sales volume) represents the Corporation's share of gross working-interest production.

NON-GAAP MEASURES

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

Combined results

The Corporation presents combined revenue, combined cost of sales, combined administrative expenses, combined net finance expense, and combined income taxes (together, combined results) as measures which help management assess the Corporation's financial performance across its business units. The combined results include the Corporation's consolidated financial results, and the results of its 50% share of the Moa Joint Venture and its 40% share of the Ambatovy Joint Venture, both of which are accounted for using the equity method for accounting purposes. Management uses these measures to reflect the Corporation's economic interest in its business units prior to the application of equity accounting. Refer to pages 7 to 8 for the reconciliations of the combined results.

Adjusted EBITDA

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 long lived assets, intangible assets, goodwill and investments; and gain or loss on disposal of property, plant and equipment of the Corporation, associate and joint venture. The exclusion of impairment charges eliminates the non-cash impact.

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

$ millions, for the three months ended June 30									**2016**
	Metals							Adjustment for Joint Venture and Associate	
	Moa JV and Fort Site	Ambatovy JV	Other	Total	Oil and Gas	Power	Corporate and Other		Total
Loss from operations, associate and joint venture per financial statements	**$ (5.5)**	**$ (47.5)**	**$ –**	**$ (53.0)**	**$ (3.0)**	**$ (1.8)**	**$ (8.6)**	**$ (22.4)**	**$ (88.8)**
Add (deduct):									
Depletion, depreciation and amortization	**3.0**	**–**	**–**	**3.0**	**11.9**	**8.6**	**0.5**	**–**	**24.0**
Adjustments for share of associate and joint venture:									
Depletion, depreciation and amortization	**9.2**	**33.4**	**–**	**42.6**	**–**	**–**	**–**	**–**	**42.6**
Net finance expense	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**13.7**	**13.7**
Income tax expense	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8.7**	**8.7**
Adjusted EBITDA	**$ 6.7**	**$ (14.1)**	**$ –**	**$ (7.4)**	**$ 8.9**	**$ 6.8**	**$ (8.1)**	**$ –**	**$ 0.2**

$ millions, for the three months ended June 30									2015
	Metals							Adjustment for Joint Venture and Associate	
	Moa JV and Fort Site	Ambatovy JV	Other	Total	Oil and Gas	Power	Corporate and Other		Total
Earnings (loss) from operations, associate and joint venture per financial statements	$ 3.1	$ (49.8)	$ 0.1	$ (46.6)	$ 12.1	$ (0.4)	$ 8.8	$ (14.6)	$ (40.7)
Add (deduct):									
Depletion, depreciation and amortization	3.1	–	0.2	3.3	17.8	8.0	0.5	–	29.6
Gain on property, plant and equipment and intangibles	–	–	–	–	–	–	(19.1)	–	(19.1)
Adjustments for share of associate and joint venture:									
Depletion, depreciation and amortization	8.0	48.1	(0.3)	55.8	–	–	–	–	55.8
Net finance expense	–	–	–	–	–	–	–	21.1	21.1
Income tax recovery	–	–	–	–	–	–	–	(6.5)	(6.5)
Adjusted EBITDA	$ 14.2	$ (1.7)	$ –	$ 12.5	$ 29.9	$ 7.6	$ (9.8)	$ –	$ 40.2

$ millions, for the six months ended June 30									**2016**
	Metals							Adjustment for Joint Venture and Associate	
	Moa JV and Fort Site	Ambatovy JV	Other	Total	Oil and Gas	Power	Corporate and Other		Total
(Loss) earnings from operations, associate and joint venture per financial statements	**$ (16.8)**	**$ (97.4)**	**$ 0.3**	**$ (113.9)**	**$ (11.7)**	**$ (2.0)**	**$ (18.4)**	**$ (40.5)**	**$ (186.5)**
Add (deduct):									
Depletion, depreciation and amortization	**5.1**	**–**	**–**	**5.1**	**24.6**	**17.5**	**1.2**	**–**	**48.4**
Impairment of assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Gain on property, plant and equipment and intangibles	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Adjustments for share of associate and joint venture:									
Depletion, depreciation and amortization	**18.2**	**70.5**	**–**	**88.7**	**–**	**–**	**–**	**–**	**88.7**
Net finance expense	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**32.8**	**32.8**
Income tax expense	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7.7**	**7.7**
Adjusted EBITDA	**$ 6.5**	**$ (26.9)**	**$ 0.3**	**$ (20.1)**	**$ 12.9**	**$ 15.5**	**$ (17.2)**	**$ –**	**$ (8.9)**

$ millions, for the six months ended June 30									2015
	Metals							Adjustment for Joint Venture and Associate	
	Moa JV and Fort Site	Ambatovy JV	Other	Total	Oil and Gas	Power	Corporate and Other		Total
Earnings (loss) from operations, associate and joint venture per financial statements	$ 10.1	$ (93.6)	$ 0.4	$ (83.1)	$ 11.2	$ (1.4)	$ 0.6	$ (18.1)	$ (90.8)
Add (deduct):									
Depletion, depreciation and amortization	5.4	–	0.1	5.5	40.2	16.3	1.4	–	63.4
Impairment of property, plant and equipment and intangibles	–	–	–	–	–	–	(19.1)	–	(19.1)
Adjustments for share of associate and joint venture:									
Depletion, depreciation and amortization	17.0	96.2	(0.4)	112.8	–	–	–	–	112.8
Net finance expense	–	–	–	–	–	–	–	31.8	31.8
Income tax recovery	–	–	–	–	–	–	–	(13.7)	(13.7)
Adjusted EBITDA	$ 32.5	$ 2.6	$ 0.1	$ 35.2	$ 51.4	$ 14.9	$ (17.1)	$ –	$ 84.4

Average-realized price

Average-realized price is generally calculated by dividing revenue by sales volume for the given product in a given division. The average-realized price for nickel, cobalt, and fertilizer excludes the impact of by-product revenue and the metals marketing company. The average-realized price for oil and gas is based on net working-interest oil plus natural gas production stated in barrels of oil equivalent.

The tables below reconcile average-realized price to revenue as per the financial statements:

$ millions, except average-realized price and sales volume, for the three months ended June 30							**2016**
	Metals						
	Nickel	Cobalt	Fertilizer	Other revenue	Total	Oil and Gas	Power
Revenue per financial statements	$ **92.8**	$ **24.6**	$ **29.2**	$ **13.9**	$ **160.5**	$ **28.3**	$ **14.9**
Adjustments to revenue:							
By-product revenue	**–**	**–**	**–**			**–**	**(0.9)**
Processing revenue	**–**	**–**	**–**			**(1.0)**	**–**
Service concession arrangement revenue	**–**	**–**	**–**			**–**	**(1.7)**
Revenue for purposes of average-realized price calculation	**92.8**	**24.6**	**29.2**			**27.3**	**12.3**
Sales volume for the period	**18.4**	**1.8**	**73.7**			**1.0**	**227**
Volume units	Millions of pounds	Millions of pounds	Thousands of tonnes			Millions of barrels[1]	Gigawatts
Average-realized price[2][3]	$ **5.07**	$ **13.38**	$ **396**			$ **28.35**	$ **54.51**

$ millions, except average-realized price and sales volume, for the three months ended June 30							2015
	Metals						
	Nickel	Cobalt	Fertilizer	Other revenue	Total	Oil and Gas	Power
Revenue per financial statements	$ 128.7	$ 26.0	$ 31.5	$ 18.0	$ 204.2	$ 51.3	$ 12.7
Adjustments to revenue:							
By-product revenue	–	–	–			–	(1.3)
Processing revenue	–	–	–			(0.9)	–
Service concession arrangement revenue	–	–	–			–	0.2
Revenue for purposes of average-realized price calculation	128.7	26.0	31.5			50.4	11.6
Sales volume for the period	18.0	1.5	70.1			1.1	224
Volume units	Millions of pounds	Millions of pounds	Thousands of tonnes			Millions of barrels[1]	Gigawatts
Average-realized price[2][3]	$ 7.13	$ 17.10	$ 449			$ 46.20	$ 52.17

$ millions, except average-realized price and sales volume, for the six months ended June 30							**2016**
	Metals						
	Nickel	Cobalt	Fertilizer	Other revenue	Total	Oil and Gas	Power
Revenue per financial statements	$ **191.1**	$ **50.2**	$ **44.2**	$ **28.0**	$ **313.5**	$ **50.7**	$ **30.5**
Adjustments to revenue:							
By-product revenue	–	–	–			–	**(1.9)**
Processing revenue	–	–	–			**(2.1)**	–
Service concession arrangement revenue	–	–	–			–	**(3.6)**
Other	–	–	–			–	–
Revenue for purposes of average-realized price calculation	**191.1**	**50.2**	**44.2**			**48.6**	**25.0**
Sales volume for the period	**37.4**	**3.6**	**119.5**			**1.9**	**444**
Volume units	Millions of pounds	Millions of pounds	Thousands of tonnes			Millions of barrels[1]	Gigawatts
Average-realized price[2][3]	$ **5.12**	$ **13.93**	$ **370**			$ **25.32**	$ **56.35**

$ millions, except average-realized price and sales volume, for the six months ended June 30							2015
	Metals						
	Nickel	Cobalt	Fertilizer	Other revenue	Total	Oil and Gas	Power
Revenue per financial statements	$ 289.9	$ 51.5	$ 45.5	$ 41.0	$ 427.9	$ 93.6	$ 24.5
Adjustments to revenue:							
By-product revenue	–	–	–			–	(2.0)
Processing revenue	–	–	–			(2.1)	–
Service concession arrangement revenue	–	–	–			–	0.2
Revenue for purposes of average-realized price calculation	289.9	51.5	45.5			91.5	22.7
Sales volume for the period	38.4	3.2	114.1			2.1	434
Volume units	Millions of pounds	Millions of pounds	Thousands of tonnes			Millions of barrels[1]	Gigawatts
Average-realized price[2][3]	$ 7.55	$ 16.22	$ 399			$ 44.10	$ 52.39

For purposes of average-realized price tables, above:

(1) Net working-interest oil production. For additional discussion see Oil and Gas Production and Sales Volume section.

(2) Average-realized price may not calculate based on amounts presented due to foreign exchange and rounding.

(3) Power, average-realized price per MWh.

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 financial statements, less depreciation, depletion and amortization in cost of sales, the impact of impairment, gains and losses on property, plant, and equipment and exploration and evaluation assets and certain other non-production related costs by the number of units sold.

The Moa Joint Venture's and Ambatovy Joint Venture's net direct cash cost is calculated by dividing cost of sales, as reported in the financial statements, adjusted for the following: depreciation, depletion and 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, and expressed in U.S. dollars.

Average unit operating costs for oil and gas is based on gross working-interest oil plus natural gas production stated in barrels of oil equivalent.

The tables below reconcile 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						**2016**
	Metals					
	Moa JV and Fort Site	**Ambatovy JV**	**Other**	**Total**	**Oil and Gas**	**Power**
Cost of sales per financial statements	**$ 92.9**	**$ 103.6**	**$ 10.2**	**$ 206.7**	**$ 28.1**	**$ 15.7**
Less:						
Depletion, depreciation and amortization in cost of sales	**(12.1)**	**(33.2)**	**–**	**(45.3)**	**(11.8)**	**(8.5)**
	80.8	**70.4**	**10.2**	**161.4**	**16.3**	**7.2**
Adjustments to cost of sales:						
Cobalt by-product, fertilizer and other revenue	**(44.2)**	**(12.0)**			**–**	**–**
Impact of opening/closing inventory and other	**(2.7)**	**(0.6)**			**–**	**–**
Service concession arrangements – Cost of construction	**–**	**–**			**–**	**(1.7)**
Cost of sales for purposes of unit cost calculation	**33.9**	**57.8**			**16.3**	**5.5**
Sales volume for the period	**9.0**	**9.4**			**1.5**	**227**
Volume units	Millions of pounds	Millions of pounds			Millions of barrels(1)	Gigawatts
Unit operating cost(2)(3)	**$ 3.78**	**6.16**			**$ 10.57**	**$ 24.40**
Unit operating cost (U.S. dollars)	**$ 2.94**	**5.12**				

$ millions, except unit cost and sales volume, for the three months ended June 30						2015
	Metals					
	Moa JV and Fort Site	Ambatovy JV	Other	Total	Oil and Gas	Power
Cost of sales per financial statements	$ 104.8	$ 126.2	$ 13.5	$ 244.5	$ 37.5	$ 11.8
Less:						
Depletion, depreciation and amortization in cost of sales	(11.1)	(48.0)	0.2	(58.9)	(17.7)	(8.0)
	93.7	78.2	13.7	185.6	19.8	3.8
Adjustments to cost of sales:						
Cobalt by-product, fertilizer and other revenue	(47.5)	(12.3)			–	–
Impact of opening/closing inventory and other	(2.6)	0.5			–	–
Service concession arrangements – Cost of construction	–	–			–	0.2
Cost of sales for purposes of unit cost calculation	43.6	66.4			19.8	4.0
Sales volume for the period	8.6	9.4			1.8	224
Volume units	Millions of pounds	Millions of pounds			Millions of barrels(1)	Gigawatts
Unit operating cost(2)(3)	$ 5.05	7.05			$ 11.27	$ 16.86
Unit operating cost (U.S. dollars)	$ 4.12	5.48				

$ millions, except unit cost and sales volume, for the six months ended June 30						2016
	Metals					
	Moa JV and Fort Site	Ambatovy JV	Other	Total	Oil and Gas	Power
Cost of sales per financial statements	**$ 178.5**	**$ 213.9**	**$ 20.9**	**$ 413.3**	**$ 56.8**	**$ 30.3**
Less:						
Depletion, depreciation and amortization in cost of sales	**(23.2)**	**(70.2)**	**(0.1)**	**(93.5)**	**(24.5)**	**(17.4)**
	155.3	**143.7**	**20.8**	**319.8**	**32.3**	**12.9**
Adjustments to cost of sales:						
Cobalt by-product, fertilizer and other revenue	**(73.7)**	**(23.8)**			**–**	**–**
Impact of opening/closing inventory and other	**(5.8)**	**(1.2)**			**–**	**–**
Service concession arrangements - Cost of construction	**–**	**–**			**–**	**(3.6)**
Cost of sales for purposes of unit cost calculation	**75.8**	**118.7**			**32.3**	**9.3**
Sales volume for the period	**18.1**	**19.3**			**3.1**	**444**
Volume units	Millions of pounds	Millions of pounds			Millions of barrels[1]	Gigawatts
Unit operating cost[2][3]	**$ 4.19**	**6.16**			**$ 10.46**	**$ 20.71**
Unit operating cost (U.S. dollars)	**$ 3.15**	**4.75**				

$ millions, except unit cost and sales volume, for the six months ended June 30						2015
	Metals					
	Moa JV and Fort Site	Ambatovy JV	Other	Total	Oil and Gas	Power
Cost of sales per financial statements	$ 200.9	$ 265.7	$ 31.3	$ 497.9	$ 78.8	$ 23.2
Less:						
Depletion, depreciation and amortization in cost of sales	(22.4)	(96.0)	0.3	(118.1)	(40.0)	(16.3)
	178.5	169.7	31.6	379.8	38.8	6.9
Adjustments to cost of sales:						
Cobalt by-product, fertilizer and other revenue	(77.5)	(27.6)			–	–
Impact of opening/closing inventory and other	(6.3)	1.5			–	–
Service concession arrangements - Cost of construction	–	–			–	0.2
Cost of sales for purposes of unit cost calculation	94.7	143.6			38.8	7.1
Sales volume for the period	18.1	20.3			3.6	434
Volume units	Millions of pounds	Millions of pounds			Millions of barrels[1]	Gigawatts
Unit operating cost[2][3]	$ 5.24	7.07			$ 10.70	$ 16.27
Unit operating cost (U.S. dollars)	$ 4.24	5.63				

For purposes of unit operating cost tables, above:

(1) Gross working-interest oil production. For additional discussion, see Oil and Gas Production and Sales Volume section.

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

(3) Power, unit operating cost per MWh.

Adjusted earnings from continuing operations

The Corporation defines adjusted earnings from continuing operations as earnings from continuing operations less items not reflective of operational performance. These adjusting items include, but are not limited to, the Ambatovy call option fair value adjustment, impairment of assets, gains and losses on the acquisition or disposition of assets, gains and losses on unrealized foreign exchange, and other one-time adjustments. While some adjustments are recurring (such as the Ambatovy call option fair value adjustment), management believes that they do not reflect the Corporation's operational performance or future operational performance. Management believes that these measures, which are used internally to monitor operational performance, provide investors the ability to better assess the Corporation's operations.

The table below reconciles adjusted earnings net earnings (loss) per the financial statements:

	For the three months ended		For the six months ended	
	2016	2015	**2016**	2015
$ millions	**June 30**	June 30	**June 30**	June 30
Net loss from continuing operations	**$ (103.6)**	$ (47.6)	**$ (151.4)**	$ (104.4)
Adjusting items:				
Sherritt - Unrealized foreign exchange (gain) loss - Continuing	**1.6**	(1.8)	**(74.4)**	15.8
Corporate - Gain on repurchase of debentures	**(12.6)**	-	**(12.6)**	-
Corporate - Call option fair value adjustment	**-**	1.2	**-**	4.0
Corporate - Gain on sale of corporate office	**-**	(19.1)	**-**	(19.1)
Oil and Gas - Deferred consideration received on North Sea licenses	**(2.7)**	-	**(2.7)**	-
Ambatovy - VAT adjustment	**(6.5)**	-	**(10.3)**	(4.5)
Ambatovy - Inventory impairment	**-**	4.3	**-**	4.3
Total adjustments, before tax	**$ (20.2)**	$ (15.4)	**$ (100.0)**	$ 0.5
Moa joint venture Deferred tax asset write-off	**7.7**	-	**7.7**	-
Moa joint venture and Oil and Gas Cuban tax recovery	**-**	(13.2)	**-**	(43.3)
Other tax adjustments	**-**	1.0	**-**	1.0
Adjusted net loss from continuing operations	**$ (116.1)**	$ (75.2)	**$ (243.7)**	$ (146.2)

Combined adjusted operating cash flow per share

The Corporation defines combined adjusted operating cash flow per share as cash provided (used) by continuing operations adjusted for dividends received from joint venture and associate and before net changes in non-cash working capital divided by the weighted average number of outstanding shares during the period.

The tables below reconcile combined adjusted operating cash flow per share to the consolidated statement of cash flow:

$ millions, except per share amounts, for the three months ended June 30										**2016**
	Metals								Adjustment for Joint Venture and Associate	**Total derived from financial statements**
	Moa JV and Fort Site	Ambatovy JV	Other	Total	Oil and Gas	Power	Corporate and Other	**Combined total**		
Cash (used) provided by continuing operations	$ (8.4)	$ (16.9)	$ 1.0	$ (24.3)	$ 7.9	$ 4.9	$ (26.1)	$ (37.6)	$ 11.2	$ (26.4)
Adjust: net change in non-cash working capital	13.6	(13.0)	(1.1)	(0.5)	1.5	0.6	0.2	1.8	20.7	22.5
Adjusted continuing operating cash flow	5.2	(29.9)	(0.1)	(24.8)	9.4	5.5	(26.0)	(35.8)	31.9	(3.9)
Combined adjusted operating cash flow per share[1]	$ 0.02	$ (0.11)	$ -	$ (0.09)	$ 0.03	$ 0.02	$ (0.09)	$ (0.12)	$ 0.11	$ (0.01)

(1) The weighted average number of common shares for the quarter was 293.9 million shares.

$ millions, except per share amounts, for the three months ended June 30 — 2015

	Metals									
	Moa JV and Fort Site	Ambatovy JV	Other	Total	Oil and Gas	Power	Corporate and Other	Combined total	Adjustment for Joint Venture and Associate	Total derived from financial statements
Cash (used) provided by continuing operations	$ (11.4)	$ 7.3	$ (0.7)	$ (4.8)	$ 6.4	$ 10.6	$ (38.3)	$ (26.1)	$ (15.0)	$ (41.1)
Adjust: net change in non-cash working capital	20.5	(8.4)	0.7	12.8	18.5	5.0	15.4	51.7	12.0	63.7
Adjusted continuing operating cash flow	9.1	(1.1)	–	8.0	24.9	15.6	(22.9)	25.6	(3.0)	22.6
Combined adjusted operating cash flow per share[1]	$ 0.03	$ 0.01	$ –	$ 0.04	$ 0.08	$ 0.05	$ (0.08)	$ 0.09	$ (0.01)	$ 0.08

(1) The weighted average number of common shares for the quarter was 293.5 million shares.

$ millions, except per share amounts, for the six months ended June 30 — **2016**

	Metals									
	Moa JV and Fort Site	Ambatovy JV	Other	Total	Oil and Gas	Power	Corporate and Other	Combined total	Adjustment for Joint Venture and Associate	Total derived from financial statements
Cash (used) provided by continuing operations	**$ (11.4)**	**$ (22.4)**	**$ 5.2**	**$ (28.6)**	**$ 10.5**	**$ 5.8**	**$ (43.9)**	**$ (56.2)**	**$ 20.1**	**$ (36.1)**
Adjust: net change in non-cash working capital	**14.8**	**(20.5)**	**(5.0)**	**(10.7)**	**1.4**	**6.2**	**1.2**	**(1.9)**	**28.5**	**26.6**
Adjusted continuing operating cash flow	**3.4**	**(42.9)**	**0.2**	**(39.3)**	**11.9**	**12.0**	**(42.7)**	**(58.1)**	**48.6**	**(9.5)**
Combined adjusted operating cash flow per share[1]	**$ 0.01**	**$ (0.15)**	**$ –**	**$ (0.14)**	**$ 0.04**	**$ 0.04**	**$ (0.15)**	**$ (0.20)**	**$ 0.17**	**$ (0.03)**

(1) The weighted average number of common shares for the year was 293.9 million shares.

$ millions, except per share amounts, for the six months ended June 30 — 2015

	Metals									
	Moa JV and Fort Site	Ambatovy JV	Other	Total	Oil and Gas	Power	Corporate and Other	Combined total	Adjustment for Joint Venture and Associate	Total derived from financial statements
Cash provided (used) by continuing operations	$ 18.8	$ 19.8	$ (1.2)	$ 37.4	$ 13.0	$ 34.7	$ (68.2)	$ 16.9	$ (31.7)	$ (14.8)
Adjust: net change in non-cash working capital	2.2	(16.3)	1.4	(12.7)	33.8	11.4	32.3	64.8	25.2	90.0
Adjusted continuing operating cash flow	21.0	3.5	0.2	24.7	46.8	46.1	(35.9)	81.7	(6.5)	75.2
Combined adjusted operating cash flow per share[1]	$ 0.07	$ 0.01	$ –	$ 0.08	$ 0.16	$ 0.16	$ (0.12)	$ 0.28	$ (0.02)	$ 0.26

(1) The weighted average number of common shares for the year was 293.4 million shares.

Combined free cash flow

The Corporation defines combined free cash flow as cash flow provided (used) by continuing operations adjusted for dividends received from joint venture and associate less cash spending on property plant and equipment, exploration and evaluation, and intangible expenditures.

The tables below reconciled free cash flow to the consolidated statement of cash flow.

$ millions, for the three months ended June 30	Metals: Moa JV and Fort Site	Metals: Ambatovy JV	Metals: Other	Metals: Total	Oil and Gas	Power	Corporate and Other	**Combined total**	Adjustment for Joint Venture and Associate	**Total derived from financial statements**
2016										
Cash (used) provided by continuing operations	$ **(8.4)**	$ **(16.9)**	$ **1.0**	$ **(24.3)**	$ **7.9**	$ **4.9**	$ **(26.1)**	$ **(37.6)**	$ **11.2**	$ **(26.4)**
Less:										
Property, plant and equipment expenditures	**(11.6)**	**(1.1)**	**–**	**(12.7)**	**(3.6)**	**(0.1)**	**–**	**(16.4)**	**7.3**	**(9.1)**
Intangible Expenditures	**–**	**–**	**–**	**–**	**(1.3)**	**–**	**–**	**(1.3)**	**–**	**(1.3)**
Free Cash Flow	$ **(20.0)**	$ **(18.0)**	$ **1.0**	$ **(37.0)**	$ **3.0**	$ **4.8**	$ **(26.1)**	**(55.3)**	$ **18.5**	$ **(36.8)**

$ millions, for the three months ended June 30	Metals: Moa JV and Fort Site	Metals: Ambatovy JV	Metals: Other	Metals: Total	Oil and Gas	Power	Corporate and Other	**Combined total**	Adjustment for Joint Venture and Associate	**Total derived from financial statements**
2015										
Cash (used) provided by continuing operations	$ (11.4)	$ 7.3	$ (0.7)	$ (4.8)	$ 6.4	$ 10.6	$ (38.3)	$ (26.1)	$ (15.0)	$ (41.1)
Less:										
Property, plant and equipment expenditures	(15.5)	(2.2)	–	(17.7)	(20.2)	(1.0)	(1.9)	(40.8)	12.8	(28.0)
Intangible expenditures	–	–	–	–	(0.1)	–	–	(0.1)	–	(0.1)
Free Cash Flow	$ (26.9)	$ 5.1	$ (0.7)	$ (22.5)	$ (13.9)	$ 9.6	$ (40.2)	(67.0)	$ (2.2)	$ (69.2)

$ millions, for the six months ended June 30	Metals: Moa JV and Fort Site	Metals: Ambatovy JV	Metals: Other	Metals: Total	Oil and Gas	Power	Corporate and Other	**Combined total**	Adjustment for Joint Venture and Associate	**Total derived from financial statements**
2016										
Cash (used) provided by continuing operations	$ **(11.4)**	$ **(22.4)**	$ **5.2**	$ **(28.6)**	$ **10.5**	$ **5.8**	$ **(43.9)**	$ **(56.2)**	$ **20.1**	$ **(36.1)**
Less:										
Property, plant and equipment expenditures	**(19.2)**	**(1.1)**	**–**	**(20.3)**	**(8.0)**	**(0.2)**	**(0.1)**	**(28.6)**	**13.7**	**(14.9)**
Intangible Expenditures	**–**	**–**	**–**	**–**	**(1.9)**	**–**	**–**	**(1.9)**	**–**	**(1.9)**
Free Cash Flow	$ **(30.6)**	$ **(23.5)**	$ **5.2**	$ **(48.9)**	$ **0.6**	$ **5.6**	$ **(44.0)**	**(86.7)**	$ **33.8**	$ **(52.9)**

$ millions, for the six months ended June 30	Metals: Moa JV and Fort Site	Metals: Ambatovy JV	Metals: Other	Metals: Total	Oil and Gas	Power	Corporate and Other	**Combined total**	Adjustment for Joint Venture and Associate	**Total derived from financial statements**
2015										
Cash provided (used) by continuing operations	$ 18.8	$ 19.8	$ (1.2)	$ 37.4	$ 13.0	$ 34.7	$ (68.2)	$ 16.9	$ (31.7)	$ (14.8)
Less:										
Property, plant and equipment expenditures	(23.4)	(4.8)	–	(28.2)	(40.8)	(1.4)	(2.2)	(72.6)	20.8	(51.8)
Intangible expenditures	–	–	–	–	(0.1)	–	–	(0.1)	–	(0.1)
Free Cash Flow	$ (4.6)	$ 15.0	$ (1.2)	$ 9.2	$ (27.9)	$ 33.3	$ (70.4)	(55.8)	$ (10.9)	$ (66.7)

Net Investment in Ambatovy

The table below reconciles the Net Investment in Ambatovy to the consolidated statement of financial position at December 31, 2015.

Audited, Canadian $ millions, as at	2015 December 31	Investment in Associate	Ambatovy Subordinated Loan Receivable	Non-recourse Ambatovy JV Partner Loans	Adjusted 2015 December 31
ASSETS					
Current assets	$ 820.4	$ –	$ –	$ –	$ 820.4
Non-current assets					
Advances, loans receivable and other financial assets	1,600.5	–	(1,187.2)	–	413.3
Investment in an associate	757.3	(757.3)	–	–	–
Net investment in Ambatovy	**–**	**757.3**	**1,187.2**	**(1,303.2)**	**641.3**
Other non-current assets	911.8	–	–	–	911.8
Total assets	$ 4,090.0	$ –	$ –	$ (1,303.2)	$ 2,786.8
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities	$ 212.1	$ –	$ –	$ –	$ 212.1
Non-current liabilities					
Non-recourse loans and borrowings	1,303.2	–	–	(1,303.2)	–
Loans and borrowings	868.7	–	–	–	868.7
Other non-current liabilities	148.9	–	–	–	148.9
Total liabilities	2,532.9	–	–	(1,303.2)	1,229.7
Shareholders' equity	1,557.1	–	–	–	1,557.1
Total liabilities and shareholders' equity	$ 4,090.0	$ –	$ –	$ (1,303.2)	$ 2,786.8
Total debt-to-capital [1]	59%				38%

(1) Calculated as total debt divided by the sum of total debt and shareholder's' equity.

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, but are not limited to, statements set out in the "Outlook" sections of this MD&A and certain expectations about capital costs and expenditures; production volumes; capital project completion and ramp up dates; future price of key commodities; sales volumes; revenue, costs, and earnings; sufficiency of working capital and capital project funding; results of on-going discussions regarding certain Ambatovy Joint Venture loans; completion of development and exploration wells; completion of the extension of the senior unsecured debentures and amounts of certain joint venture commitments.

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 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. These risks, uncertainties and other factors include, but are not limited to changes in the global price for nickel, cobalt, oil and gas or certain other commodities, share-price volatility, level of liquidity and access to capital resources, access to financing, risk of future non-compliance with debt restrictions and covenants; risks associated with the Corporation's joint venture partners; discrepancies between actual and estimated production; variability in production at Sherritt's operations in Madagascar and Cuba; risks associated with the ramp-up of Moa Joint Venture Acid Plant; potential interruptions in transportation; uncertainty of gas supply for electrical generation; uncertainty of exploration results and Sherritt's ability to replace depleted mineral and oil and gas reserves; the Corporation's reliance on key personnel and skilled workers; the possibility of equipment and other failures; the potential for shortages of equipment and supplies; risks associated with mining, processing and refining activities; uncertainty of resources and reserve estimates; uncertainties in environmental rehabilitation provisions estimates; risks related to the Corporation's corporate structure; political, economic and other risks of foreign operations; risks related to Sherritt's operations in Madagascar and Cuba; risks related to the U.S. government policy toward Cuba, including the U.S. embargo on Cuba and the Helms-Burton legislation; risks related to amounts owed to the Corporation by the Malagasy and Cuban governments; risks related to the accuracy of capital and operating cost estimates; reliance on significant customers; foreign exchange and pricing risks; compliance with applicable environment, health and safety legislation and other associated matters; risks associated with governmental regulations regarding greenhouse gas emissions; maintaining the Corporation's social license to grow and operate; risks relating to community relations; credit risks; shortage of equipment and supplies; competition in product markets; future market access; interest rate changes; risks in obtaining insurance; uncertainties in labour relations; uncertainty in the ability of the Corporation to enforce legal rights in foreign jurisdictions; uncertainty regarding the interpretation and/or application of the applicable laws in foreign jurisdictions; legal contingencies; risks related to the Corporation's accounting policies; risks associated with future acquisitions; uncertainty in the ability of the Corporation to obtain government permits; failure to comply with, or changes to, applicable government regulations; bribery and corruption risks, including failure to comply with the *Corruption of Foreign Public Officials Act* or applicable local anti-corruption law; uncertainties in growth management; and certain corporate objectives, goals and plans for 2016; and the Corporation's ability to meet 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 in 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 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 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.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three and six months ended June 30, 2016 and 2015

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed consolidated statements of comprehensive income (loss)

Unaudited, Canadian $ millions, except per share amounts	Note	For the three months ended 2016 June 30	2015 June 30	For the six months ended 2016 June 30	2015 June 30
Revenue		**$ 74.9**	$ 99.6	**$ 133.3**	$ 182.5
Cost of sales	5	**(70.7)**	(84.6)	**(135.3)**	(167.3)
Administrative expenses	5	**(13.5)**	(11.9)	**(26.2)**	(23.9)
Gain on sale of Corporate assets		**–**	19.1	**–**	19.1
Share of loss of an associate, net of tax	6	**(58.9)**	(62.6)	**(124.8)**	(104.9)
Share of (loss) earnings of a joint venture, net of tax	7	**(20.6)**	(0.3)	**(33.5)**	3.7
Loss from operations, associate and joint venture		**(88.8)**	(40.7)	**(186.5)**	(90.8)
Financing income	8	**31.0**	20.6	**48.3**	40.6
Financing expense	8	**(43.9)**	(38.1)	**(10.6)**	(94.2)
Net finance (expense) income		**(12.9)**	(17.5)	**37.7**	(53.6)
Loss before tax		**(101.7)**	(58.2)	**(148.8)**	(144.4)
Income tax (expense) recovery	9	**(1.9)**	10.6	**(2.6)**	40.0
Net loss from continuing operations		**(103.6)**	(47.6)	**(151.4)**	(104.4)
Loss from discontinued operations, net of tax		**–**	(5.0)	**–**	(5.0)
Net loss for the period		**$ (103.6)**	$ (52.6)	**$ (151.4)**	$ (109.4)
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss:					
Foreign currency translation differences on foreign operations	16	**5.3**	(54.2)	**(164.0)**	227.4
Items that will not be subsequently reclassified to profit or loss:					
Actuarial gains (losses) on pension plans, net of tax					
Continuing operations	16	**0.3**	(0.5)	**0.1**	0.2
Other comprehensive income (loss)		**5.6**	(54.7)	**(163.9)**	227.6
Total comprehensive (loss) income		**$ (98.0)**	$ (107.3)	**$ (315.3)**	$ 118.2
Net loss from continuing operations per common share, basic and diluted	11	**$ (0.35)**	$ (0.16)	**$ (0.52)**	$ (0.36)
Net loss per common share, basic and diluted	11	**$ (0.35)**	$ (0.18)	**$ (0.52)**	$ (0.38)

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		2016 June 30		2015 December 31
ASSETS					
Current assets					
Cash and cash equivalents	12	**$**	**132.7**	$	230.6
Short-term investments	12		**179.9**		204.8
Advances, loans receivable and other financial assets	13		**80.3**		82.7
Trade accounts receivable, net	12		**254.0**		258.3
Inventories			**33.4**		38.0
Prepaid expenses			**3.7**		6.0
			684.0		820.4
Non-current assets					
Advances, loans receivable and other financial assets	13		**1,359.6**		1,600.5
Other non-financial assets			**0.8**		0.8
Property, plant and equipment			**327.9**		351.1
Investment in an associate	6		**843.1**		757.3
Investment in a joint venture	7		**346.7**		404.2
Intangible assets			**140.9**		154.8
			3,019.0		3,268.7
Assets held for sale			**0.9**		0.9
Total assets		**$**	**3,703.9**	$	4,090.0
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Other loans and borrowings	14	**$**	**45.4**	$	91.2
Trade accounts payable and accrued liabilities			**70.5**		73.6
Income taxes payable			**2.8**		2.4
Other financial liabilities	14		**2.4**		1.5
Deferred revenue			**6.7**		24.6
Provisions	15		**12.8**		18.8
			140.6		212.1
Non-current liabilities					
Non-recourse loans and borrowings	14		**1,273.3**		1,303.2
Other loans and borrowings	14		**833.4**		868.7
Other financial liabilities	14		**65.0**		1.9
Deferred revenue			**3.6**		3.8
Provisions	15		**113.8**		107.8
Deferred income taxes			**31.5**		35.4
			2,320.6		2,320.8
Total liabilities			**2,461.2**		2,532.9
Shareholders' equity					
Capital stock	16		**2,775.3**		2,775.3
Deficit			**(2,494.0)**		(2,342.6)
Reserves	16		**225.8**		224.9
Accumulated other comprehensive income	16		**735.6**		899.5
			1,242.7		1,557.1
Total liabilities and shareholders' equity		**$**	**3,703.9**	$	4,090.0

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 2016 June 30	2015 June 30	For the six months ended 2016 June 30	2015 June 30
Operating activities					
Net loss from continuing operations		**$ (103.6)**	$ (47.6)	**$ (151.4)**	$ (104.4)
Add (deduct):					
Depletion, depreciation and amortization		**24.0**	29.6	**48.4**	63.4
Share of loss of an associate, net of tax	6	**58.9**	62.6	**124.8**	104.9
Share of loss (earnings) of a joint venture, net of tax	7	**20.6**	0.3	**33.5**	(3.7)
Net finance expense (income) (less accretion expense)	8	**12.7**	17.1	**(38.1)**	53.0
Income tax expense (recovery)	9	**1.9**	(10.6)	**2.6**	(40.0)
Service concession arrangement		**(1.6)**	-	**(3.6)**	-
Gain on sale of Corporate assets		**–**	(19.1)	**–**	(19.1)
Net change in non-cash working capital	17	**(22.5)**	(63.7)	**(26.7)**	(90.0)
Interest received		**1.5**	13.7	**2.7**	40.7
Interest paid		**(20.5)**	(19.9)	**(30.8)**	(29.3)
Income tax paid		**(1.7)**	(4.7)	**(4.0)**	(4.8)
Dividends received from joint venture		**–**	-	**–**	12.5
Liabilities settled for environmental rehabilitation provisions		**(0.5)**	-	**(0.5)**	-
Other operating items	17	**4.4**	1.2	**7.0**	2.0
Cash used by continuing operations		**(26.4)**	(41.1)	**(36.1)**	(14.8)
Cash used by discontinued operations	10	**(3.1)**	(0.1)	**(6.0)**	(3.6)
Cash used by operating activities		**(29.5)**	(41.2)	**(42.1)**	(18.4)
Investing activities					
Property, plant and equipment expenditures		**(9.1)**	(28.0)	**(14.9)**	(51.8)
Intangible asset expenditures		**(1.3)**	(0.1)	**(1.9)**	(0.1)
Receipts of advances, loans receivable and other financial assets		**0.5**	15.8	**0.9**	19.3
Loans to an associate		**–**	(43.9)	**–**	(43.9)
Net proceeds from sale of Corporate assets		**–**	21.2	**–**	21.2
Net proceeds from sale of property, plant and equipment		**–**	-	**–**	0.1
(Purchase of) proceeds from short-term investments		**(86.8)**	40.0	**24.9**	172.6
Cash (used) provided by continuing operations		**(96.7)**	5.0	**9.0**	117.4
Cash used by discontinued operations	10	**–**	-	**–**	-
Cash (used) provided by investing activities		**(96.7)**	5.0	**9.0**	117.4
Financing activities					
Repayment of other loans and borrowings		**(17.8)**	(0.4)	**(63.2)**	(0.8)
Dividends paid on common shares		**–**	(3.0)	**–**	(6.0)
Cash used by continuing operations		**(17.8)**	(3.4)	**(63.2)**	(6.8)
Cash used by discontinued operations	10	**–**	-	**–**	-
Cash used by financing activities		**(17.8)**	(3.4)	**(63.2)**	(6.8)
Effect of exchange rate changes on cash and cash equivalents		**(0.1)**	0.2	**(1.6)**	2.5
(Decrease) increase in cash and cash equivalents		**(144.1)**	(39.4)	**(97.9)**	94.7
Cash and cash equivalents at beginning of the period		**276.8**	295.7	**230.6**	161.6
Cash and cash equivalents at end of the period	12	**$ 132.7**	$ 256.3	**$ 132.7**	$ 256.3

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	Deficit	Reserves	Accumulated other comprehensive income (loss)	Total
Balance as at December 31, 2014		**$ 2,772.9**	**$ (259.9)**	**$ 225.2**	**$ 320.5**	**$ 3,058.7**
Total comprehensive income (loss):						
Net loss for the period		-	(109.4)	-	-	(109.4)
Foreign currency translation differences on foreign operations	16	-	-	-	227.4	227.4
Actuarial gains on defined benefit obligations, net of tax	16	-	-	-	0.2	0.2
		-	(109.4)	-	227.6	118.2
Shares issued for:						
Restricted stock plan (vested)	16	1.6	-	(1.6)	-	-
Restricted stock plan expense		-	-	0.1	-	0.1
Stock option plan expense		-	-	0.7	-	0.7
Dividend declared to common shareholders		-	(6.0)	-	-	(6.0)
Balance as at June 30, 2015		**$ 2,774.5**	**$ (375.3)**	**$ 224.4**	**$ 548.1**	**$ 3,171.7**
Total comprehensive income (loss):						
Net loss for the period		-	(1,967.3)	-	-	(1,967.3)
Foreign currency translation differences on foreign operations	16	-	-	-	351.8	351.8
Actuarial loss on defined benefit obligations, net of tax	16	-	-	-	(0.4)	(0.4)
		-	(1,967.3)	-	351.4	(1,615.9)
Shares issued for:						
Employee share purchase plan (vested)	16	0.8	-	(0.1)	-	0.7
					-	
Stock option plan expense		-	-	0.6	-	0.6
Balance as at December 31, 2015		**$ 2,775.3**	**$ (2,342.6)**	**$ 224.9**	**$ 899.5**	**$ 1,557.1**
Total comprehensive income (loss):						
Net loss for the period		-	(151.4)	-	-	(151.4)
Foreign currency translation differences on foreign operations	16	-	-	-	(164.0)	(164.0)
Actuarial gain on pension plans, net of tax	16	-	-	-	0.1	0.1
		-	(151.4)	-	(163.9)	(315.3)
Stock option plan expense		-	-	0.9	-	0.9
Balance as at June 30, 2016		**$ 2,775.3**	**$ (2,494.0)**	**$ 225.8**	**$ 735.6**	**$ 1,242.7**

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

Notes to the condensed consolidated financial statements

(All dollar amounts presented in tables are expressed in millions of Canadian dollars except share and per share amounts)

1. NATURE OF OPERATIONS AND CORPORATE INFORMATION

Sherritt International Corporation ("Sherritt" or the "Corporation") is a world leader in the mining and refining of nickel from lateritic ores with projects and operations in Canada, Cuba, and Madagascar. The Corporation is the largest independent energy producer in Cuba, with extensive oil and power operations across the island. Sherritt licenses its proprietary technologies and provides metallurgical services to mining and refining operations worldwide.

The Corporation is domiciled in Ontario, Canada and its registered office is 181 Bay Street, Toronto, Ontario, M5J 2T3. These consolidated financial statements were approved and authorized for issuance by the Audit Committee on behalf of the Board of Directors of Sherritt on July 25, 2016. 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 International Accounting Standard 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 interim condensed consolidated 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 and liabilities which are presented at fair value. All financial information is presented in Canadian dollars, the Corporation's reporting currency, 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 the Corporation as at and for the year ended December 31, 2015, 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, 2016 and disclosed in the annual consolidated financial statements of the Corporation as at and for the year ended December 31, 2015. The adoption of these amendments and interpretations did not have a material impact on the accounting policies, methods of computation or presentation applied by the Corporation. The Corporation has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Accordingly, the interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2015.

4. SEGMENTED INFORMATION

Business segments

Canadian $ millions, for the three months ended June 30								**2016**
	Metals						**Adjustments for**	
	Moa JV and Fort Site[(1)]	**Ambatovy JV[(2)]**	**Other[(3)]**	**Oil and Gas**	**Power**	**Corporate and Other[(4)]**	**Joint Venture and Associate[(5)]**	**Total**
Revenue	**$ 89.5**	**$ 60.5**	**$ 10.5**	**$ 28.3**	**$ 14.9**	**$ 0.4**	**$ (129.2)**	**$ 74.9**
Cost of sales	**(92.9)**	**(103.6)**	**(10.2)**	**(28.1)**	**(15.7)**	**(1.2)**	**181.0**	**(70.7)**
Administrative expenses	**(2.1)**	**(4.4)**	**(0.3)**	**(3.2)**	**(1.0)**	**(7.8)**	**5.3**	**(13.5)**
Share of loss of an associate, net of tax	**–**	**–**	**–**	**–**	**–**	**–**	**(58.9)**	**(58.9)**
Share of loss of a joint venture, net of tax	**–**	**–**	**–**	**–**	**–**	**–**	**(20.6)**	**(20.6)**
Loss from operations, associate and joint venture	**(5.5)**	**(47.5)**	**–**	**(3.0)**	**(1.8)**	**(8.6)**	**(22.4)**	**(88.8)**
Financing income								**31.0**
Financing expense								**(43.9)**
Net finance expense								**(12.9)**
Loss before tax								**(101.7)**
Income tax expense								**(1.9)**
Net loss from continuing operations								**(103.6)**
Earnings from discontinued operations, net of tax (note 10)								**–**
Net loss for the period								**(103.6)**

Supplementary information								
Depletion, depreciation and amortization	**$ 12.2**	**$ 33.4**	**$ –**	**$ 11.9**	**$ 8.6**	**$ 0.5**	**$ (42.6)**	**$ 24.0**
Property, plant and equipment expenditures	**11.6**	**1.1**	**–**	**3.6**	**0.1**	**–**	**(7.3)**	**9.1**
Intangible asset expenditures	**–**	**–**	**–**	**1.3**	**–**	**–**	**–**	**1.3**

Canadian $ millions, as at June 30								**2016**
Non-current assets[(6)]	**$ 747.8**	**$ 2,586.4**	**$ –**	**$ 129.3**	**$ 175.2**	**$ 10.1**	**$ (3,180.0)**	**$ 468.8**
Total assets	**981.2**	**2,815.9**	**12.0**	**1,194.7**	**530.4**	**545.5**	**(2,375.8)**	**3,703.9**

Canadian $ millions, for the three months ended June 30								2015
	Metals						Adjustments for	
	Moa JV and Fort Site[(1)]	Ambatovy JV[(2)]	Other[(3)]	Oil and Gas	Power	Corporate and Other[(4)]	Joint Venture and Associate[(5)]	Total
Revenue	$ 109.4	$ 80.6	$ 14.2	$ 51.3	$ 12.7	$ 0.2	$ (168.8)	$ 99.6
Cost of sales	(104.8)	(126.2)	(13.5)	(37.5)	(11.8)	(2.5)	211.7	(84.6)
Administrative expenses	(1.5)	(4.2)	(0.6)	(1.7)	(1.3)	(8.0)	5.4	(11.9)
Gain on sale of Corporate assets	-	-	-	-	-	19.1	-	19.1
Share of loss of an associate, net of tax	-	-	-	-	-	-	(62.6)	(62.6)
Share of earnings of a joint venture, net of tax	-	-	-	-	-	-	(0.3)	(0.3)
Earnings (loss) from operations, associate and joint venture	3.1	(49.8)	0.1	12.1	(0.4)	8.8	(14.6)	(40.7)
Financing income								20.6
Financing expense								(38.1)
Net finance expense								(17.5)
Loss before tax								(58.2)
Income tax recovery								10.6
Net loss from continuing operations								(47.6)
Loss from discontinued operations, net of tax (note 10)								(5.0)
Net loss for the period								(52.6)

Supplementary information								
Depletion, depreciation and amortization	$ 11.1	$ 48.1	$ (0.1)	$ 17.8	$ 8.0	$ 0.5	$ (55.8)	$ 29.6
Property, plant and equipment expenditures	15.5	2.2	-	20.2	1.0	1.9	(12.8)	28.0
Intangible asset expenditures	-	-	-	0.1	-	-	-	0.1

Canadian $ millions, as at December 31								2015
Non-current assets[(6)]	$ 772.0	$ 2,815.9	$ -	$ 147.6	$ 199.6	$ 11.0	$ (3,440.2)	$ 505.9
Total assets	1,039.8	3,044.1	12.2	1,219.5	548.6	913.8	(2,688.0)	4,090.0

Canadian $ millions, for the six months ended June 30	Metals: Moa JV and Fort Site[(1)]	Metals: Ambatovy JV[(2)]	Metals: Other[(3)]	Oil and Gas	Power	Corporate and Other[(4)]	Adjustments for Joint Venture and Associate[(5)]	2016 Total
Revenue	$ 166.2	$ 125.6	$ 21.7	$ 50.7	$ 30.5	$ 0.7	$ (262.1)	$ 133.3
Cost of sales	(178.5)	(213.9)	(20.9)	(56.8)	(30.3)	(3.6)	368.7	(135.3)
Administrative expenses	(4.5)	(9.1)	(0.5)	(5.6)	(2.2)	(15.5)	11.2	(26.2)
Share of loss of an associate, net of tax	–	–	–	–	–	–	(124.8)	(124.8)
Share of loss of a joint venture, net of tax	–	–	–	–	–	–	(33.5)	(33.5)
(Loss) earnings from operations, associate and joint venture	(16.8)	(97.4)	0.3	(11.7)	(2.0)	(18.4)	(40.5)	(186.5)
Financing income								48.3
Financing expense								(10.6)
Net finance income								37.7
Loss before tax								(148.8)
Income tax expense								(2.6)
Net loss from continuing operations								(151.4)
Earnings from discontinued operations, net of tax (note 10)								–
Net loss for the period								(151.4)
Supplementary information								
Depletion, depreciation and amortization	$ 23.3	$ 70.5	$ –	$ 24.6	$ 17.5	$ 1.2	$ (88.7)	$ 48.4
Property, plant and equipment expenditures	19.2	1.1	–	8.0	0.2	0.1	(13.7)	14.9
Intangible asset expenditures	–	–	–	1.9	–	–	–	1.9
Canadian $ millions, as at June 30								2016
Non-current assets[(6)]	$ 747.8	$ 2,586.4	$ –	$ 129.3	$ 175.2	$ 10.1	$ (3,180.0)	$ 468.8
Total assets	981.2	2,815.9	12.0	1,194.7	530.4	545.5	(2,375.8)	3,703.9

Canadian $ millions, for the six months ended June 30	Metals: Moa JV and Fort Site[(1)]	Metals: Ambatovy JV[(2)]	Metals: Other[(3)]	Oil and Gas	Power	Corporate and Other[(4)]	Adjustments for Joint Venture and Associate[(5)]	2015 Total
Revenue	$ 213.9	$ 181.3	$ 32.7	$ 93.6	$ 24.5	$ 0.7	$ (364.2)	$ 182.5
Cost of sales	(200.9)	(265.7)	(31.3)	(78.8)	(23.2)	(3.6)	436.2	(167.3)
Administrative expenses	(2.9)	(9.2)	(1.0)	(3.6)	(2.7)	(15.6)	11.1	(23.9)
Gain on sale of Corporate assets	-	-	-	-	-	19.1	-	19.1
Share of loss of an associate, net of tax	-	-	-	-	-	-	(104.9)	(104.9)
Share of earnings of a joint venture, net of tax	-	-	-	-	-	-	3.7	3.7
Earnings (loss) from operations, associate and joint venture	10.1	(93.6)	0.4	11.2	(1.4)	0.6	(18.1)	(90.8)
Financing income								40.6
Financing expense								(94.2)
Net finance expense								(53.6)
Loss before tax								(144.4)
Income tax recovery								40.0
Net loss from continuing operations								(104.4)
Loss from discontinued operations, net of tax (note 10)								(5.0)
Net loss for the period								(109.4)
Supplementary information								
Depletion, depreciation and amortization	$ 22.4	$ 96.2	$ (0.3)	$ 40.2	$ 16.3	$ 1.4	$ (112.8)	$ 63.4
Property, plant and equipment expenditures	23.4	4.8	-	40.8	1.4	2.2	(20.8)	51.8
Intangible asset expenditures	-	-	-	0.1	-	-	-	0.1
Canadian $ millions, as at December 31								2015
Non-current assets[(6)]	$ 772.0	$ 2,815.9	$ -	$ 147.6	$ 199.6	$ 11.0	$ (3,440.2)	$ 505.9
Total assets	1,039.8	3,044.1	12.2	1,219.5	548.6	913.8	(2,688.0)	4,090.0

(1) Included in the Moa JV and Fort Site segment are the operations of the Corporation’s 50% interest in the Moa Joint Venture and its 100% interest in the utility and fertilizer operations in Fort Saskatchewan.

(2) Included in the Ambatovy JV segment are the operations of the Corporation’s 40% interest in the Ambatovy Joint Venture.

(3) Included in the Metals Other segment are the operations of two wholly-owned subsidiaries of the Corporation established to buy, market and sell certain Ambatovy Joint Venture and Moa Joint Venture nickel production.

(4) Revenues from Corporate and Other primarily relate to sales from the Corporation’s metallurgical technologies business. Also included in the Corporate and Other segment are the operations of wholly-owned subsidiaries of the Corporation established to finance the Ambatovy Joint Venture.

(5) The Adjustments for Joint Venture and Associate reflect the adjustments for equity-accounted investments in the Ambatovy Joint Venture and Moa Joint Venture.

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

Geographic information

Canadian $ millions, as at		2016 June 30		2015 December 31
	Non-current assets[(1)]	**Total assets[(2)]**	Non-current assets[(1)]	Total assets[(2)]
North America	**$ 168.7**	**$ 929.8**	$ 165.0	$ 1,070.8
Cuba	**282.2**	**929.6**	324.4	1,002.0
Madagascar	**1.2**	**1,819.1**	1.3	1,975.4
Europe	**15.9**	**21.9**	14.2	20.4
Asia	**0.8**	**2.3**	1.0	2.6
Other	**–**	**1.2**	-	18.8
	$ 468.8	**$ 3,703.9**	$ 505.9	$ 4,090.0

(1) Non-current assets are composed of property, plant and equipment and intangible assets and exclude the non-current assets of equity accounted investments.

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

	For the three months ended		For the six months ended	
	2016	2015	**2016**	2015
Canadian $ millions	**June 30**	June 30	**June 30**	June 30
	Total revenue[(1)]	Total revenue[(1)]	**Total revenue[(1)]**	Total revenue[(1)]
North America	**$ 29.6**	$ 34.8	**$ 46.8**	$ 62.9
Cuba	**41.2**	60.0	**77.4**	110.5
Madagascar	**0.6**	0.4	**1.0**	0.9
Europe	**3.2**	3.8	**7.2**	6.9
Asia	**0.3**	0.3	**0.6**	0.6
Other	**–**	0.3	**0.3**	0.7
	$ 74.9	$ 99.6	**$ 133.3**	$ 182.5

(1) For its geographic information, the Corporation has allocated revenue based on the location of the customer. Revenue excludes the revenue of equity accounted investments.

Revenue components

	For the three months ended		For the six months ended	
	2016	2015	**2016**	2015
Canadian $ millions	**June 30**	June 30	**June 30**	June 30
	Total revenue[(1)]	Total revenue[(1)]	**Total revenue[(1)]**	Total revenue[(1)]
Nickel	**$ 9.6**	$ 12.9	**$ 19.7**	$ 30.5
Fertilizer	**21.4**	21.7	**30.9**	31.4
Oil and gas	**27.2**	50.3	**48.5**	91.4
Power	**12.3**	11.6	**25.0**	22.7
Other	**4.4**	3.1	**9.2**	6.5
	$ 74.9	$ 99.6	**$ 133.3**	$ 182.5

(1) Revenue excludes the revenue of equity accounted investments.

5. EXPENSES

Cost of sales includes the following:

	For the three months ended		For the six months ended	
	2016	2015	**2016**	2015
Canadian $ millions	**June 30**	June 30	**June 30**	June 30
Employee costs	**$ 16.0**	$ 19.3	**$ 33.5**	$ 34.9
Depletion, depreciation and amortization	**23.3**	29.0	**47.0**	62.1
Raw materials and consumables	**7.0**	12.6	**16.3**	25.3
Repairs and maintenance	**11.1**	22.3	**18.1**	34.1
Freight and shipping costs	**4.1**	4.3	**8.3**	8.7
Construction costs	**1.6**	-	**3.6**	-
Other	**7.6**	(2.9)	**8.5**	2.2
	$ 70.7	$ 84.6	**$ 135.3**	$ 167.3

Administrative expenses include the following:

	For the three months ended		For the six months ended	
	2016	2015	**2016**	2015
Canadian $ millions	**June 30**	June 30	**June 30**	June 30
Employee costs	**$ 8.7**	$ 7.2	**$ 15.8**	$ 16.7
Severance	**0.6**	-	**1.3**	-
Depreciation	**0.7**	0.6	**1.4**	1.3
Stock-based compensation expense	**1.7**	1.6	**3.5**	1.2
Annual general meetings costs and other shareholder-related costs	**0.2**	-	**0.3**	-
Consulting services and audit fees	**3.1**	1.4	**4.1**	2.4
Other	**(1.5)**	1.1	**(0.2)**	2.3
	$ 13.5	$ 11.9	**$ 26.2**	$ 23.9

6. INVESTMENT IN AN ASSOCIATE

Deferral of principal repayment on Ambatovy Joint Venture financing

The Ambatovy Joint Venture financing lenders and the Ambatovy Joint Venture have entered into a temporary deferral agreement to defer the June 15, 2016 principal repayment due date to August 5, 2016. An agreement in principle has been reached on future principal payment deferrals. The temporary deferral agreement provides time to complete final documentation and approvals. Total principal repayments were nil for the six months ended June 30, 2016 as a result of this deferral. An interest payment of US$28.0 million was made to the lenders during the three months ended June 30, 2016.

Ambatovy Joint Venture funding

Total cash funding provided by Sumitomo and KORES was US$21.0 million and US$72.0 million for the three and six months ended June 30, 2016, respectively, pursuant to total cash calls of US$35.0 million and US$120.0 million for the same periods. Sherritt has not funded any portion of these cash calls, and continues not to fund. By agreement amongst the partners, Sherritt has not been considered to be a defaulting shareholder under the Ambatovy Joint Venture Shareholders Agreement as a consequence of such non-funding to date. However, new cash calls have been received for payment in early August and, while constructive discussions amongst the partners continue, in the event that a waiver is not agreed before the cash call due date, Sherritt would become a defaulting shareholder. Sherritt's unfunded amounts remain payable with accrued interest at LIBOR +3%. These amounts will be subtracted from future Ambatovy Joint Venture distributions, or may be set off against other amounts owed to Sherritt. Sherritt also has the option to pay the amounts in cash at any time, at Sherritt's election. Until the funding deficit is addressed, and subject to continued discussions with the Ambatovy Joint Venture partners, Sherritt will not exercise its Ambatovy Joint Venture voting rights. Sherritt has the ability to cure the underfunding and regain these voting rights at any time. Therefore, it is the Corporation's judgment that it continues to have significant influence over the Ambatovy Joint Venture.

The following provides additional information relating to the Corporation's 40% interest in the Ambatovy Joint Venture:

Statement of financial position

Canadian $ millions, 100% basis, as at		2016 June 30		2015 December 31
Assets				
Cash and cash equivalents	**$**	**35.0**	$	39.6
Other current assets		**24.8**		12.9
Trade accounts receivable, net		**90.7**		89.6
Inventories		**358.6**		426.2
Other non-current assets[1]		**67.8**		5.8
Property, plant and equipment		**6,463.1**		7,036.5
Total assets		**7,040.0**		7,610.6
Liabilities				
Trade accounts payable and accrued liabilities		**294.0**		317.5
Other current financial liabilities		**18.2**		15.8
Current portion of loans and borrowings:				
Ambatovy Joint Venture financing		**245.1**		260.7
Ambatovy revolving credit facility[2]		**50.6**		60.6
Non-current portion of loans and borrowings:				
Ambatovy Joint Venture financing		**1,815.0**		1,927.9
Ambatovy Subordinated loan payable[3]		**2,303.0**		3,009.1
Environmental rehabilitation provision		**140.9**		117.6
Other non-current liabilities[1]		**65.5**		8.2
Total liabilities		**4,932.3**		5,717.4
Net assets	**$**	**2,107.7**	$	1,893.2

(1) As at June 30, 2016, the Ambatovy Joint Venture has recognized a financial asset relating to its right to receive outstanding shareholder funding from the Corporation (note 14). The Ambatovy Joint Venture has also recognized a financial liability relating to future distributions payable to the Corporation if and when the funding deficit is cured (note 13). This financial liability has not been included within the Ambatovy subordinated loan payable as the funding has not yet been provided by the Corporation.

(2) The Ambatovy revolving credit facility is a Malagasy Ariary (MGA) 126.0 billion ($50.6 million) revolving credit facility agreement with local financial institutions (December 31, 2015 – MGA 140.0 billion ($60.6 million)) which matures on August 5, 2016. The Corporation is in discussions with the local financial institutions to extend the maturity date of this revolving credit facility agreement. The facility bears interest rates between 9.00% and 11.85% and is subordinated to the Ambatovy Joint Venture financing.

(3) During the six months ended June 30, 2016, US$510.0 million of the Ambatovy Joint Venture Subordinated loan payable was converted to equity which, at the Corporation's 40% share, resulted in a US$204.0 million ($284.1 million) decrease in the Corporation's subordinated loans receivable. The Corporation has recorded its share of the related subordinated loan receivable within advances, loans receivable and other financial assets (note 13). There was no change to the Corporation's ownership interest as a result of the conversion.

Reconciliation of Ambatovy Joint Venture's net assets to the carrying value of investment in an associate recognized in the interim condensed consolidated statements of financial position:

Canadian $ millions, as at		2016 June 30		2015 December 31
Net assets of Ambatovy Joint Venture	**$**	**2,107.7**	$	1,893.2
Proportion of Sherritt's ownership interest		**40%**		40%
Carrying value of investment in an associate	**$**	**843.1**	$	757.3

Results of operations

Canadian $ millions, 100% basis	For the three months ended 2016 June 30	2015 June 30	For the six months ended 2016 June 30	2015 June 30
Revenue	**$ 151.2**	$ 201.8	**$ 313.9**	$ 453.5
Cost of sales(1)	**(259.0)**	(315.6)	**(534.8)**	(664.3)
Administrative expenses	**(11.0)**	(11.5)	**(22.7)**	(23.9)
Operating loss	**(118.8)**	(125.3)	**(243.6)**	(234.7)
Financing income	**0.6**	0.1	**1.8**	0.1
Financing expense(2)	**(44.0)**	(74.8)	**(102.5)**	(113.0)
Net finance expense	**(43.4)**	(74.7)	**(100.7)**	(112.9)
Loss before tax	**(162.2)**	(200.0)	**(344.3)**	(347.6)
Income tax recovery	**–**	17.5	**–**	34.2
Net loss and comprehensive loss for the period	**$ (162.2)**	$ (182.5)	**$ (344.3)**	$ (313.4)

(1) Included in cost of sales for the three and six months ended June 30, 2016 is depreciation and amortization of $82.9 million and $175.4 million, respectively ($119.9 million and $239.9 million for the three and six months ended June 30, 2015).

(2) The Ambatovy Joint Venture has a value added tax (VAT) receivable of $19.9 million (December 31, 2015 - $15.5 million) from the government of Madagascar. The VAT receivable is net of a provision of $155.4 million (December 31, 2015 - $251.3 million) reflecting an assessment on the likelihood of receipt of these amounts. During the three and six months ended June 30, 2016, a gain on the partial reversal of this provision of $16.3 million and $25.8 million, respectively, was recognized and is included in financing expense.

Reconciliation of Ambatovy Joint Venture's net loss and comprehensive loss to the share of loss of an associate recognized in the interim condensed consolidated statements of comprehensive income (loss):

Canadian $ millions	For the three months ended 2016 June 30	2015 June 30	For the six months ended 2016 June 30	2015 June 30
Net loss and comprehensive loss for the period of Ambatovy Joint Venture	**$ (162.2)**	$ (182.5)	**$ (344.3)**	$ (313.4)
Proportion of Sherritt's ownership interest	**40%**	40%	**40%**	40%
Total	**(64.9)**	(73.0)	**(137.7)**	(125.4)
Intercompany interest expense elimination	**6.0**	10.4	**12.9**	20.5
Share of loss of an associate, net of tax	**$ (58.9)**	$ (62.6)	**$ (124.8)**	$ (104.9)

7. JOINT ARRANGEMENTS

Investment in a joint venture

The following provides information relating to the Corporation's 50% interest in the Moa Joint Venture:

Statement of financial position

Canadian $ millions, 100% basis, as at		2016 June 30		2015 December 31
Assets				
Cash and cash equivalents	**$**	**29.6**	$	43.7
Other current assets		**10.8**		11.8
Trade accounts receivable, net		**64.9**		72.2
Inventories		**193.6**		208.4
Other non-current assets		**13.2**		13.9
Property, plant and equipment		**1,281.1**		1,349.5
Deferred income taxes[1]		**–**		12.1
Total assets		**1,593.2**		1,711.6
Liabilities				
Trade accounts payable and accrued liabilities		**74.3**		68.3
Other current financial liabilities		**62.1**		61.9
Loans and borrowings		**50.4**		43.9
Environmental rehabilitation provision		**87.4**		80.6
Other non-current financial liabilities		**504.2**		519.9
Deferred income taxes		**27.3**		27.6
Total liabilities		**805.7**		802.2
Net assets	**$**	**787.5**	$	909.4

(1) As at June 30, 2016 the Moa Joint Venture has fully written-off its deferred tax asset. As at June 30, 2016 the Moa Joint Venture has tax losses of $83.9 million (December 31, 2015 - $53.8 million) for which a deferred tax asset has not been recognized as the realization of tax losses at Moa Nickel S.A. are not probable. The tax losses have a 5-year carry forward period from the year incurred and are located in Cuba.

Reconciliation of Moa Joint Venture's net assets to the carrying value of Investment in a Joint Venture recognized in the interim condensed consolidated statements of financial position:

Canadian $ millions, as at		2016 June 30		2015 December 31
Net assets of Moa Joint Venture	**$**	**787.5**	$	909.4
Proportion of Sherritt's ownership interest		**50%**		50%
Total		**393.8**		454.7
Intercompany capitalized interest elimination		**(47.1)**		(50.5)
Carrying value of investment in a joint venture	**$**	**346.7**	$	404.2

Results of operations

	For the three months ended				For the six months ended			
Canadian $ millions, 100% basis		2016 June 30		2015 June 30		2016 June 30		2015 June 30
Revenue	**$**	**137.4**	$	175.9	**$**	**273.0**	$	365.5
Cost of sales[1]		**(154.8)**		(171.2)		**(309.6)**		(341.6)
Administrative expenses		**(1.8)**		(1.7)		**(4.2)**		(3.2)
Operating (loss) profit		**(19.2)**		3.0		**(40.8)**		20.7
Financing income		**–**		-		**0.1**		0.2
Financing expense		**(9.9)**		(7.3)		**(21.3)**		(22.6)
Net finance expense		**(9.9)**		(7.3)		**(21.2)**		(22.4)
Loss before tax		**(29.1)**		(4.3)		**(62.0)**		(1.7)
Income tax (expense) recovery[2]		**(17.3)**		(0.9)		**(15.3)**		0.1
Net loss and comprehensive loss for the period	**$**	**(46.4)**	$	(5.2)	**$**	**(77.3)**	$	(1.6)

(1) Included in cost of sales for the three and six months ended June 30, 2016 is depreciation and amortization of $18.4 million and $36.4 million, respectively (for the three and six months ended June 30, 2015 - $15.8 million and $33.9 million, respectively).

(2) Included in income tax (expense) recovery for the three and six months ended June 30, 2016 is an income tax expense of $15.4 million related to the write-off of the deferred tax asset at Moa Nickel S.A.

Reconciliation of Moa Joint Venture's net loss and comprehensive loss to the share of (loss) earnings of a joint venture recognized in the interim condensed consolidated statements of comprehensive income (loss):

Canadian $ millions	For the three months ended 2016 June 30	2015 June 30	For the six months ended 2016 June 30	2015 June 30
Net loss and comprehensive loss for the period of Moa Joint Venture	$ **(46.4)**	$ (5.2)	$ **(77.3)**	$ (1.6)
Proportion of Sherritt's ownership interest	**50%**	50%	**50%**	50%
Total	**(23.2)**	(2.6)	**(38.7)**	(0.8)
Intercompany interest expense elimination	**2.6**	2.3	**5.2**	4.5
Share of (loss) earnings of a joint venture, net of tax	$ **(20.6)**	$ (0.3)	$ **(33.5)**	$ 3.7

Joint operations

The following provides information relating to the Corporation's one-third interest in Energas S.A. (Energas):

Canadian $ millions, as at	2016 June 30 Energas	2015 December 31 Energas
Current assets	$ **34.7**	$ 25.6
Non-current assets	**156.8**	176.2
Current liabilities	**18.2**	21.4
Non-current liabilities	**83.9**	79.8
Net assets	$ **89.4**	$ 100.6

Canadian $ millions	For the three months ended 2016 June 30 Energas	2015 June 30 Energas	For the six months ended 2016 June 30 Energas	2015 June 30 Energas
Revenue	$ **14.9**	$ 12.7	$ **30.5**	$ 24.0
Expense	**(15.0)**	(13.9)	**(35.2)**	(10.0)
Net (loss) earnings	$ **(0.1)**	$ (1.2)	$ **(4.7)**	$ 14.0

8. NET FINANCE INCOME (EXPENSE)

Canadian $ millions	Note	For the three months ended 2016 June 30	2015 June 30	For the six months ended 2016 June 30	2015 June 30
Revaluation on financial instruments		$ **2.7**	$ (1.2)	$ **2.7**	$ (4.0)
Interest income on cash, cash equivalents and short-term investments		**0.5**	0.6	**1.2**	1.6
Interest income on investments		**0.2**	-	**0.3**	-
Interest income on advances and loans receivable		**15.0**	21.2	**31.5**	43.0
Gain on repurchase of debentures	14	**12.6**	-	**12.6**	-
Total financing income		**31.0**	20.6	**48.3**	40.6
Interest expense and accretion on loans and borrowings		**(40.9)**	(35.8)	**(83.3)**	(71.3)
Unrealized foreign exchange (loss) gain		**(1.6)**	1.8	**74.4**	(15.8)
Realized foreign exchange (loss) gain	17	**(0.5)**	(0.4)	**(0.2)**	0.2
Other finance charges	17	**(0.7)**	(3.3)	**(1.1)**	(6.7)
Accretion expense on environmental rehabilitation provisions	15, 17	**(0.2)**	(0.4)	**(0.4)**	(0.6)
Total financing expense		**(43.9)**	(38.1)	**(10.6)**	(94.2)
Net finance (expense) income		$ **(12.9)**	$ (17.5)	$ **37.7**	$ (53.6)

9. INCOME TAXES

Canadian $ millions		For the three months ended 2016 June 30		2015 June 30		For the six months ended 2016 June 30		2015 June 30
Current income tax expense (recovery)	$	**3.0**	$	(9.2)	$	**4.6**	$	(17.0)
Deferred income tax recovery		**(1.1)**		(1.4)		**(2.0)**		(23.0)
Income tax expense (recovery)	$	**1.9**	$	(10.6)	$	**2.6**	$	(40.0)

Tax rate changes

In 2015, clarification was received from the Cuban government regarding the application of tax rate reductions in Cuba due to a new foreign investment law. As a result, the tax expense for the three and six months ended June 30, 2015 included tax recoveries of $13.2 million and $40.7 million, respectively, in Oil and Gas. In addition, for the three and six months ended June 30, 2015 a tax recovery of $2.6 million (50% basis) was recognized at the Moa Joint Venture, the impact of which was included in the Corporation's share of (loss) earnings of a joint venture.

10. DISCONTINUED OPERATIONS

On April 28, 2014, the Corporation completed the sale of its Coal operations, receiving $793.0 million in cash proceeds. In addition, a net post-closing adjustment of $21.4 million was received in June 2014.

For the three and six months ended June 30, 2016, the Corporation has recognized $3.1 million and $6.0 million in cash used by discontinued operations in the interim condensed consolidated statements of cash flow ($0.1 million and $3.6 million, respectively, for the three and six months ended June 30, 2015). Cash used by discontinued operations relate to cash paid to settle the obligations retained by the Corporation post-disposition.

11. LOSS PER SHARE

Canadian $ millions, except share amounts in millions and per share amounts in dollars		For the three months ended 2016 June 30		2015 June 30		For the six months ended 2016 June 30		2015 June 30
Net loss from continuing operations	$	**(103.6)**	$	(47.6)	$	**(151.4)**	$	(104.4)
Loss from discontinued operations, net of tax		**–**		(5.0)		**–**		(5.0)
Net loss – basic and diluted	$	**(103.6)**	$	(52.6)	$	**(151.4)**	$	(109.4)
Weighted-average number of common shares – basic and diluted[(1)]		**293.9**		293.5		**293.9**		293.4
Net loss from continuing operations per common share, basic and diluted	$	**(0.35)**	$	(0.16)	$	**(0.52)**	$	(0.36)
Loss from discontinued operations per common share, basic and diluted	$	**–**	$	(0.02)	$	**–**	$	(0.02)
Net loss per common share, basic and diluted	$	**(0.35)**	$	(0.18)	$	**(0.52)**	$	(0.38)

(1) The determination of the weighted-average number of common shares - diluted excludes 9.6 million shares related to stock options that were anti-dilutive for the three and six months ended June 30, 2016 (7.1 million for the three and six months ended June 30, 2015). There were nil shares related to the restricted stock plan that were anti-dilutive for the three and six months ended June 30, 2016 (nil shares for the three and six months ended June 30, 2015).

12. FINANCIAL INSTRUMENTS

Cash, cash equivalents and short-term investments

Cash and cash equivalents consist of:

Canadian $ millions, as at	2016 June 30	2015 December 31
Cash equivalents	$ **44.0**	$ 118.9
Cash on hand and balances with banks	**87.7**	110.7
Restricted cash	**1.0**	1.0
	$ **132.7**	$ 230.6

The Corporation's cash balances are deposited with major financial institutions rated A- or higher by Standard and Poor's except for institutions located in Madagascar and Cuba that are not rated. The total cash held in Madagascan and Cuban bank deposit accounts were $3.8 million and $12.4 million, respectively, as at June 30, 2016 (December 31, 2015 – $4.0 million and $3.8 million, respectively).

As at June 30, 2016, $10.9 million of cash on the Corporation's interim condensed consolidated statements of financial position was held by Energas (December 31, 2015 – $0.8 million). These funds are for the use of the joint operation.

The Corporation's cash equivalents consist of Government of Canada treasury bills and term deposits with a major financial institution with maturities of 90 days or less. As at June 30, 2016, the Corporation had $19.0 million in Government of Canada treasury bills and $25.0 million in term deposits (December 31, 2015 - $93.9 million and $25.0 million, respectively) included in cash and cash equivalents and $179.9 million Government of Canada treasury bills included in short-term investments (December 31, 2015 - $204.8 million).

Fair value measurement

As at June 30, 2016, the carrying amounts of cash and cash equivalents, short-term investments, trade accounts receivable, current portion of advances, loans receivable and other financial assets, current portion of other loans and borrowings, current portion of other financial liabilities, trade accounts payable and accrued liabilities and income taxes payable 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 non-current financial assets and liabilities approximate their carrying amount except as indicated in the below table. 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.

The following table presents financial instruments with carrying amounts different from their fair values(1):

Canadian $ millions, as at	Note			2016 June 30		2015 December 31
		Hierarchy value	**Carrying value**	**Fair value**	Carrying value	Fair Value
Liabilities:						
8.00% senior unsecured debentures due 2018	14	1	$ **218.0**	$ **126.5**	$ 247.3	$ 140.0
7.50% senior unsecured debentures due 2020	14	1	**246.8**	**133.8**	246.5	135.0
7.875% senior unsecured debentures due 2022	14	1	**240.8**	**127.5**	240.3	130.0
Ambatovy Joint Venture Additional Partner loans(2)	14	2	**1,273.3**	**76.9**	1,303.2	106.4
Ambatovy Joint Venture Partner loans(2)	14	2	**127.8**	**16.1**	134.6	20.1
Assets:						
Ambatovy subordinated loans receivable(3)	13	2	**883.0**	**954.4**	1,187.2	1,308.7
Energas conditional sales agreement(3)	13	2	**165.7**	**143.9**	157.5	167.7
Moa Joint Venture expansion loans receivable(3)	13	2	**248.4**	**223.4**	255.9	225.7

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

(2) The fair values of the Ambatovy Joint Venture Partner loans and Ambatovy Joint Venture Additional Partner loans are calculated by discounting future cash flows using rates that are based on market rates adjusted for the Corporation's credit quality for instruments with similar maturity horizons.

(3) The fair values of the Ambatovy subordinated loans receivable, Energas conditional sales agreement and Moa Joint Venture expansion loans receivable are calculated by discounting future cash flows using rates that are based on market rates adjusted for the entity's credit quality.

The following table presents financial assets, measured at fair value through profit or loss on a recurring basis:

Canadian $ millions, as at	Hierarchy level	2016 June 30	2015 December 31
Cash equivalents	1	$ **44.0**	$ 118.9
Short-term investments	1	**179.9**	204.8
Restricted cash	1	**1.0**	1.0
Provisionally priced sales[1]	2	**6.7**	5.2

(1) Revenue from provisionally priced sales is initially recorded at the estimated fair value of the consideration that is ultimately expected to be received based on forecast reference prices. At each reporting date all outstanding receivables originating from provisionally priced sales are marked to market based on a forecast of reference prices at that time. The adjustment to accounts receivable is recorded as an adjustment to sales revenue. Provisional pricing is only used in the pricing of nickel and cobalt sales for which reference prices are established in a freely traded and active market.

Trade accounts receivable, net

Canadian $ millions, as at	2016 June 30	2015 December 31
Trade accounts receivable	$ **183.1**	$ 186.6
Allowance for doubtful accounts	**(11.0)**	(11.8)
Accounts receivable from joint operations	**0.2**	0.7
Accounts receivable from joint venture	**24.5**	20.2
Accounts receivable from associate	**34.1**	33.8
Other	**23.1**	28.8
	$ **254.0**	$ 258.3

Aging of receivables not impaired:

Canadian $ millions, as at	2016 June 30	2015 December 31
Not past due	$ **147.4**	$ 170.6
Past due no more than 30 days	**7.5**	26.9
Past due for more than 30 days but no more than 60 days	**5.7**	11.8
Past due for more than 60 days	**93.4**	49.0
	$ **254.0**	$ 258.3

13. ADVANCES, LOANS RECEIVABLE AND OTHER FINANCIAL ASSETS

Canadian $ millions, as at	2016 June 30	2015 December 31
Advances and loans receivable		
Ambatovy subordinated loans receivable[1][2]	$ **883.0**	$ 1,187.2
Energas conditional sales agreement[1]	**188.7**	182.0
Moa Joint Venture expansion loan receivable[1]	**248.4**	255.9
Moa Joint Venture working capital facility[3]	**56.9**	56.9
Other	**0.4**	1.2
Other financial assets[4]	**62.5**	–
	1,439.9	1,683.2
Current portion of advances, loans receivable and other financial assets	**(80.3)**	(82.7)
	$ **1,359.6**	$ 1,600.5

(1) As at June 30, 2016, the non-current portions of the Ambatovy subordinated loans receivable, Energas conditional sales agreement and the Moa Joint Venture expansion loan receivable are $883.0 million, $165.7 million and $248.4 million, respectively (December 31, 2015 – $1,187.2 million, $157.5 million and $255.9 million, respectively).

(2) During the six months ended June 30, 2016, the Ambatovy Joint Venture converted US$510.0 million of its subordinated loan payable to equity (note 6) which, at the Corporation's 40% share, resulted in a US$204.0 million ($284.1 million) decrease in the Corporation's subordinated loans receivable. There was no change to the Corporation's ownership interest as a result of the conversion.

(3) During the six months ended June 30, 2016, the terms of the working capital facility were amended to increase the interest rates from prime plus 2.25% or bankers' acceptance plus 3.25% to prime plus 2.50% or bankers' acceptance plus 3.50%.

(4) As at June 30, 2016, other financial assets relate to the Corporation's right to receive future distributions from the Ambatovy Joint Venture (note 14). This non-current financial asset has not been included within Ambatovy subordinated loans receivable as the funding has not yet been provided by the Corporation (note 6).

14. LOANS, BORROWINGS AND OTHER FINANCIAL LIABILITIES

Loans and borrowings

Canadian $ millions, as at	Note	2016 June 30	2015 December 31
Non-recourse loans and borrowings			
Ambatovy Joint Venture Additional Partner loans	12	**$ 1,273.3**	$ 1,303.2
Other loans and borrowings			
8.00% senior unsecured debentures due 2018	12	**$ 218.0**	$ 247.3
7.50% senior unsecured debentures due 2020	12	**246.8**	246.5
7.875% senior unsecured debentures due 2022	12	**240.8**	240.3
Ambatovy Joint Venture Partner loans	12	**127.8**	134.6
Syndicated revolving-term credit facility		**45.0**	55.0
Line of credit		**–**	35.0
Vendor financing		**0.4**	1.2
		878.8	959.9
Current portion of other loans and borrowings		**(45.4)**	(91.2)
		$ 833.4	$ 868.7

Syndicated revolving-term credit facility

During the six months ended June 30, 2016, the terms of the syndicated revolving-term credit facility were amended to update the financial covenants. The maximum credit available remains at $115.0 million with the total available draw based on eligible receivables and inventory. The interest rates increased from prime plus 2.25% or bankers' acceptance plus 3.25% to prime plus 2.50% or bankers' acceptance plus 3.50%.

The facility is subject to the following financial covenants: net financial debt-to-EBITDA covenant of 4:1, net financial debt-to-equity covenant of 0.55:1 and EBITDA-to-interest expense covenant of not less than 1.75:1. The net financial debt-to-EBITDA covenant increases to 4.25:1 as at September 30, 2016. If net financial debt-to-EBITDA is greater than 3.75:1, unrestricted cash must be greater than 50% of the lower of the borrowing base amount and facility amount.

As at June 30, 2016, the Corporation has $45.1 million of letters of credit outstanding on this facility (December 31, 2015 - $47.5 million).

Line of credit

On February 23, 2016, the Corporation repaid the outstanding balance of $35.0 million and terminated its line of credit.

Repurchase of senior unsecured debentures

During the three months ended June 30, 2016, the Corporation repurchased $30.0 million aggregate principal amount of its 8.00% senior unsecured debentures due 2018 for $17.4 million. A gain of $12.6 million was recognized within net finance expense in the interim condensed consolidated statements of comprehensive income (loss) (note 8).

Extension of senior unsecured debentures

On July 25, 2016, a meeting was held where Noteholders approved the extension of the maturity dates of each of the Corporation's outstanding senior unsecured debentures (the "Notes") by three years from 2018, 2020 and 2022 to 2021, 2023 and 2025, respectively (the "Extension"). The applicable interest rates and existing covenants for the Notes will remain unchanged. At the meeting, 99.85% of the votes cast by Noteholders, representing over 94% of the Notes, were voted in favour of the Extension. A final court hearing for approval of the transaction pursuant to the Canadian Business Corporations Act proceedings is scheduled for July 27, 2016 and the transaction is expected to close on or about July 29, 2016.

If approved, the Noteholders that voted in favour of the Extension will be entitled to receive, at the option of the Noteholder, either:

- cash consent consideration equal to 2% of the principal amount of the debentures; or,
- 73.25 warrants for each $1,000 of principal amount of debentures held. Warrants will have a term of 5 years, are not expected to be listed on any exchange and shall have an exercise price of $0.74 per share.

Covenants

At June 30, 2016, there are no events of default on the Corporation's borrowings or debentures.

Other financial liabilities

Canadian $ millions, as at	2016 June 30	2015 December 31
Other long-term financial liabilities[1]	$ **62.7**	$ 0.3
Stock compensation liability	**4.7**	3.1
	67.4	3.4
Current portion of other financial liabilities	**(2.4)**	(1.5)
	$ **65.0**	$ 1.9

(1) As at June 30, 2016, the Corporation has an obligation for outstanding shareholder funding to the Ambatovy Joint Venture. This obligation represents cash calls that were not funded during the six months ended June 30, 2016 (note 6). The Corporation has also recognized a financial asset relating to its right to future distributions from the Ambatovy Joint Venture if and when this financial obligation is cured (note 13).

15. PROVISIONS

Canadian $ millions, as at	2016 June 30	2015 December 31
Environmental rehabilitation provisions	$ **113.8**	$ 107.8
Other provisions	**12.8**	18.8
	126.6	126.6
Current portion of provisions	**(12.8)**	(18.8)
	$ **113.8**	$ 107.8

The following is a reconciliation of the environmental rehabilitation provisions:

Canadian $ millions	Note	For the six months ended 2016 June 30	For the year ended 2015 December 31
Balance, beginning of the period		$ **107.8**	$ 101.7
Additions		**–**	0.2
Change in estimates		**9.1**	0.7
Utilized during the period		**(0.5)**	(0.1)
Accretion	8	**0.4**	1.1
Effect of movement in exchange rates		**(3.0)**	4.2
Balance, end of the period		$ **113.8**	$ 107.8

The following is a reconciliation of other provisions:

Canadian $ millions	For the six months ended 2016 June 30	For the year ended 2015 December 31
Balance, beginning of the period	$ **18.8**	$ 25.1
Additions	**–**	5.0
Utilized during the period	**(6.0)**	(11.3)
Balance, end of the period	$ **12.8**	$ 18.8

16. 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 2016 June 30		For the year ended 2015 December 31
	Number	**Capital stock**	Number	Capital stock
Balance, beginning of the period	**293,853,001**	**$ 2,775.3**	293,271,191	$ 2,772.9
Restricted stock plan (vested)	**–**	**–**	260,400	1.6
Employee share purchase plan (vested)	**–**	**–**	321,410	0.8
Balance, end of the period	**293,853,001**	**$ 2,775.3**	293,853,001	$ 2,775.3

Reserves

Canadian $ millions	For the six months ended 2016 June 30	For the year ended 2015 December 31
Stated capital reserve		
Balance, beginning and end of the period	**$ 217.8**	$ 217.8
Stock-based compensation reserve		
Balance, beginning of the period	**$ 7.1**	$ 7.4
Restricted stock plan (vested)	**–**	(1.6)
Restricted stock plan expense	**–**	0.1
Employee share purchase plan (vested)	**–**	(0.1)
Stock option plan expense	**0.9**	1.3
Balance, end of the period	**8.0**	7.1
Total reserves, end of the period	**$ 225.8**	$ 224.9

Accumulated other comprehensive income

Canadian $ millions	For the six months ended 2016 June 30	For the year ended 2015 December 31
Foreign currency translation reserve		
Balance, beginning of the period	**$ 903.0**	$ 323.8
Foreign currency translation differences on foreign operations	**(164.0)**	579.2
Balance, end of the period	**739.0**	903.0
Actuarial losses on defined benefit obligation		
Balance, beginning of the period	**$ (3.5)**	$ (3.3)
Actuarial gains (losses) on pension plans, net of tax		
Continuing operations	**0.1**	(0.2)
Balance, end of the period	**$ (3.4)**	$ (3.5)
Total accumulated other comprehensive income	**$ 735.6**	$ 899.5

17. SUPPLEMENTAL CASH FLOW INFORMATION

Other operating items

Canadian $ millions	Note	For the three months ended 2016 June 30	2015 June 30	For the six months ended 2016 June 30	2015 June 30
Add (deduct) non-cash items:					
Accretion expense on environmental rehabilitation provisions	8, 15	**$ 0.2**	$ 0.4	**$ 0.4**	$ 0.6
Stock-based compensation expense, net		**1.7**	1.6	**3.5**	1.2
Other items		**3.7**	2.9	**4.4**	6.7
Cash flow arising from changes in:					
Other finance charges	8	**(0.7)**	(3.3)	**(1.1)**	(6.7)
Realized foreign exchange (loss) gain	8	**(0.5)**	(0.4)	**(0.2)**	0.2
		$ 4.4	$ 1.2	**$ 7.0**	$ 2.0

Net change in non-cash working capital

Canadian $ millions	For the three months ended 2016 June 30	2015 June 30	For the six months ended 2016 June 30	2015 June 30
Trade accounts receivable, net	**$ (4.1)**	$ (27.3)	**$ (8.5)**	$ (15.5)
Inventories	**6.7**	2.9	**2.9**	(2.0)
Prepaid expenses	**(0.2)**	(1.9)	**2.2**	(8.6)
Trade accounts payable and accrued liabilities	**(0.5)**	(3.0)	**(5.3)**	(48.4)
Deferred revenue	**(24.4)**	(34.4)	**(18.0)**	(15.5)
	$ (22.5)	$ (63.7)	**$ (26.7)**	$ (90.0)

18. RELATED PARTY TRANSACTIONS

The Corporation enters into transactions related to its investment in an associate (note 6) and joint arrangements (note 7). Transactions between related parties are generally 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 periods for bad debts in respect of amounts owed by related parties.

19. COMMITMENTS FOR EXPENDITURES

Canadian $ millions, as at June 30	2016
Property, plant and equipment commitments	**$ 28.7**
Joint venture:	
Property, plant and equipment commitments	**9.8**
Joint operations:	
Constructions commitments relating to service concession arrangements	**1.7**

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