sherritt

2010

Second Quarter Report

Sherritt International Corporation
For the three months ended June 30, 2010

Q2

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Press release

Sherritt reports 2010 second-quarter results

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TORONTO, JULY 28, 2010

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

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

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

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

	Q2 2010 ($ millions)	Q2 2010 ($ per share)
Unrealized foreign-exchange loss, net[1]	**$ 18.1**	$ 0.06
Future income tax (FIT) expense[2]	**15.3**	0.05
Mineral Products division closure expense	**3.8**	0.02
Total adjustments	**$ 37.2**	$ 0.13

  [1] Net of a tax recovery of approximately $0.7 million on an unrealized net foreign-exchange loss of $18.8 million.
  [2] For further details, please refer to the Notes to the Interim Consolidated Financial Statements

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

- **Sales volumes** for second-quarter 2010 (Sherritt's share) totaled 8.3 million pounds of nickel, 1.0 million pounds of cobalt, 8.2 million tonnes of thermal coal, 1.1 million barrels of oil and 171 GWh of electricity.

- **Cash, cash equivalents and short- term investments** were $707.6 million at June 30, 2010. Of the cash balance, $60.4 million (50% basis) was held by the Moa Joint Venture and $64.3 million (100% basis) was held by the Ambatovy Joint Venture.

- **Operating cash flow** was $84.0 million for second-quarter 2010, and compares to operating cash flow of $47.0 million for second-quarter 2009.

- **Capital expenditures** totaled $352.7 million for second-quarter 2010, including $297.3 million for the Ambatovy Project (100% basis).

- In **Madagascar**, demobilization of civil and earthworks personnel began, as facilities at the mine site, port and sulphuric acid plant were completed. Total cumulative project expenditures to June 30, 2010 were US$4.0 billion, excluding financing charges, foreign exchange and working capital requirements, and represent approximately 89% of the projected total project expenditures.

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

- At June 30, 2010, **total debt** was $3.2 billion, of which approximately $1.7 billion (100% basis) related to the limited-recourse Ambatovy senior project finance and $0.6 billion to the non-recourse partner loans to Sherritt.

Summary Financial and Sales Data

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

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

[2] Net working capital is calculated as total current assets less total current liabilities.

Review of Operations

Metals

			For the six months ended June 30,	
(units as noted)	**Q2 2010**	Q2 2009	**2010**	2009
Production (tonnes, 50% basis)				
Mixed sulphides	**4,684**	4,639	**9,343**	9,325
Nickel	**3,740**	4,261	**8,005**	8,334
Cobalt	**404**	470	**872**	939
Sales (thousands of pounds, 50% basis)				
Nickel	**8,270**	9,582	**17,662**	18,318
Cobalt	**1,015**	1,078	**1,922**	2,076
Reference prices (US$/lb)				
Nickel	**$ 10.15**	$ 5.89	**$ 9.62**	**$ 5.31**
Cobalt[1]	**19.36**	13.53	**19.73**	**13.91**
Realized prices ($/lb)				
Nickel	**$ 10.65**	$ 6.86	**$ 9.88**	**$ 6.30**
Cobalt	**18.96**	16.62	**19.53**	**16.43**
Unit operating costs (US$/lb)				
Mining, processing and refining costs	**$ 5.59**	$ 4.34	**$ 5.11**	**$ 4.65**
Third-party feed costs	**0.31**	0.13	**0.35**	**0.24**
Cobalt by-product credits	**(2.27)**	(1.61)	**(2.05)**	**(1.55)**
Other	**(0.54)**	(0.01)	**(0.09)**	**0.09**
Net direct cash costs of nickel[2]	**$ 3.09**	$ 2.85	**$ 3.32**	**$ 3.43**
Revenue ($millions)				
Nickel	**$ 88.2**	$ 65.7	**$ 174.6**	$ 115.4
Cobalt	**19.2**	17.9	**37.5**	34.1
Fertilizer and other	**30.7**	27.5	**41.8**	41.3
	$ 138.1	$ 111.1	**$ 253.9**	$ 190.8
EBITDA ($ millions)[3]	**$ 50.7**	$ 26.5	**$ 98.8**	$ 25.1
Operating earnings ($ millions)	**$ 42.8**	$ 20.0	**$ 82.7**	$ 11.2
Capital expenditures ($ millions)				
Moa Joint Venture (50% basis)	**$ 7.7**	$ 7.3	**$ 13.2**	$ 12.8
Ambatovy Joint Venture (100% basis)	**297.3**	326.8	**613.2**	703.7
Total	**$ 305.0**	$ 334.1	**$ 626.4**	$ 716.5

[1] Average Metal Bulletin: Low Grade cobalt published price.
[2] Net direct cash cost of nickel after cobalt and by-product credits.
[3] EBITDA is a non-GAAP measure. See the “Non-GAAP Measures” section at the end of this release. EBITDA excludes depreciation and amortization for the three and six months ended June 30, 2010 of $5.7 million and $12.0 million, respectively ($6.4 million and $10.9 million for the three and six months ended June 30, 2009, respectively).

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

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

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

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

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

The Ambatovy Project

Ambatovy Project capital expenditures for second-quarter 2010 were $297.3 million (100% basis), 9% ($29.5 million) lower than the prior-year period. Total cumulative project expenditures to June 30, 2010 were US$4.0 billion, excluding financing charges, foreign exchange and working capital requirements, and represent approximately 89% of the projected total project expenditures. The Corporation expects project spending to remain within the US$4.52 billion estimate. During the quarter, demobilization of civil and earthworks personnel began, as facilities at the mine site, port and sulphuric acid plant were completed. During second-quarter 2010, the construction of the power plant, which is being executed under a turn-key contract, was identified as having high potential for delay in completion. Sherritt and the EPCM contractor are now providing assistance to the power plant contractor to ensure scheduled commissioning dates are achieved. During second-quarter 2010, $199.6 million (100%) was provided by the Ambatovy Partners and $69.9 million was drawn on the senior project financing to finance project expenditures. Sherritt financed $51.6 million of its $79.8 million funding obligation through loans from other joint venture partners. Agreements for the additional partner loans were entered into during the global financial crisis in June 2009. With improving economic conditions, Sherritt has agreed in principle to provide at least US$80 million in direct pro-rata shareholder funding prior to further drawdowns on the additional partner loans. Consequently, Sherritt will receive a proportionate share of distributions from the Ambatovy Project. The Project is designed to produce 60,000 tonnes (100% basis) of nickel and 5,600 tonnes (100% basis) of cobalt annually at capacity. Mechanical completion is expected in early 2011.

Coal

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

Coal (cont'd)

			For the six months ended June 30,	
(units as noted)	**Q2 2010**	**Q2 2009**	**2010**	2009
Revenue ($millions)				
Prairie Operations				
Mining revenue	**$ 131.5**	$ 116.7	**$ 270.0**	$ 244.6
Coal royalties	**9.9**	13.2	**21.0**	26.1
Potash royalties	**3.2**	2.3	**6.5**	6.6
Mountain Operations and Other Assets (50% basis) [(1),(2)]	**54.1**	33.5	**89.5**	77.3
Total revenue	**$ 198.7**	$ 165.7	**$ 387.0**	$ 354.6
EBITDA ($ millions)				
Prairie Operations[(3)]	**$ 31.2**	$ 34.3	**$ 78.9**	$ 78.6
Mountain Operations and Other Assets (50% basis) [(1),(2),(4)]	**12.6**	7.6	**6.9**	23.3
Total	**$ 43.8**	$ 41.9	**$ 85.8**	$ 101.9
Operating earnings ($ millions)	**$ 17.0**	$ 17.9	**$ 34.3**	$ 52.7
Capital expenditures ($ millions)				
Prairie Operations	**$ 13.6**	$ 33.0	**$ 28.8**	$ 43.9
Mountain Operations (50% basis)	**6.2**	16.2	**7.3**	20.6
Total	**$ 19.8**	$ 49.2	**$ 36.1**	$ 64.5

[(1)] Mountain Operations include the results of the Coal Valley and Obed Mountain mines, which are primarily involved in the export of thermal coal, and are presented on a 50% basis.

[(2)] Other Assets include certain undeveloped reserves, coal reserves that produce coal-bed methane and technologies under development, including the Dodds-Roundhill Coal Gasification Project, and are presented on a 50% basis.

[(3)] EBITDA is a non-GAAP measure. See the "Non-GAAP Measures" section at the end of this release. EBITDA excludes depreciation and amortization for the three and six months ended June 30, 2010 of $12.4 million and $21.7 million, respectively ($11.4 million and $23.8 million for the three and six months ended June 30, 2009, respectively).

[(4)] EBITDA is a non-GAAP measure. See the "Non-GAAP Measures" section at the end of this release. EBITDA excludes depreciation and amortization for the three and six months ended June 30, 2010 of $3.6 million and $7.6 million, respectively ($3.3 million and $6.0 million for the three and six months ended June 30, 2009, respectively).

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

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

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

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

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

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

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

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

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

Oil and Gas

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

Oil and Gas (cont'd)

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

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

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

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

[4] Net working-interest production (equivalent to net sales volume) represents the Corporation's share of gross working-interest production. In Spain and Pakistan, net working-interest production volumes equal 100% of gross working-interest production volumes.

[5] EBITDA is a non-GAAP measure. See the "Non-GAAP Measures" section at the end of this release.

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

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

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

Second-quarter 2010 unit operating costs were lower than the prior-year period in Cuba and Spain. In Cuba, the decline in unit operating costs (9%, $0.67/bbl) was largely the result of recently implemented operating efficiencies and the impact of a relatively weaker U.S. dollar, while the reduction in unit operating costs in Spain (71%, $58.20/bbl) was attributable to the benefit of the workovers performed in 2009. Pakistan unit operating costs increased significantly in the second quarter by $21.10/boe as a result of a $0.7 million ceiling-test write down of the Pakistan assets in the second quarter of 2010.

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

Power

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

[1] Including non-controlling interests' share.

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

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

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

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

Cash, Debt and Financing

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

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

Outlook

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

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

[1] Net oil production is predicated on the Fuel Oil No.6 price remaining consistent with recent historical levels.
[2] Includes $5 million of progress payments that will be recorded as other assets.

- In Metals, full-year 2010 production of mixed sulphides and finished nickel remains unchanged from the last quarter. Finished cobalt production estimates reflect decreased availability of third-party feeds in the second half of 2010. Capital expenditure guidance is 22% ($12 million) lower than previously disclosed. The decrease reflects an anticipated delay in the construction of the 2,000 tonne per day sulphuric acid plant at Moa, which remains subject to securing adequate financing.
- At Ambatovy, mechanical completion is expected in early 2011. In third-quarter 2010, the majority of equipment and material required for the Project will be on-site and mining activities will begin. Ore stockpiles will be developed in advance of the startup of the Ore Preparation Plant in fourth-quarter 2010.
- In Coal – Prairie Operations, production guidance remains relatively unchanged from the previous quarter and from 2009 levels. Potash royalties are expected to return to 2009 levels largely due to production curtailments in the industry in second-half 2010. Guidance on 2010 coal royalties remains unchanged as they are still expected to be below 2009 performance based on 2010 mining plans that have less overlap with royalty assessable areas. Full-year 2010 capital expenditures at Prairie Operations have been reduced by approximately 18% from the prior estimate, but are still expected to be higher than full-year 2009. Current estimates reflect the reassessment of the cyclical timing of equipment purchases. Start-up of the Activated Carbon Plant began in June 2010 and capital spending has largely

been completed for 2010.

- In Coal – Mountain Operations, production guidance remains consistent with last quarter. Production could fall short of these estimates however, if coal yields and production volumes do not improve consistently over the last half of the year. Approximately 70% of Coal Valley mine's contract-year production is expected to be linked to the Newcastle FOB settlement price. The average Newcastle FOB settlement reference price for contracted export thermal coal sales related to the April 2010 to March 2011 contract year has now settled at approximately US$97.75/tonne. Settlements are approximately 40% higher than in the prior year. These contracts are denominated in U.S. dollars, and therefore the results will be impacted by the relative movement of the Canadian and U.S. currencies.
- In Oil and Gas, guidance relating to GWI oil production in Cuba remains consistent with last quarter. Capital expenditures in Cuba are expected to be 13% ($13 million) lower than previously estimated, reflecting the lower costs on wells drilled to-date as well as lower costs in workovers completed to-date. In total, nine development wells and two exploration wells will be drilled in 2010.
- In Power, production levels in 2010 are expected to remain largely consistent with first-half 2010 levels, based on current gas availability. The increase in capital expenditures for 2010 relative to the estimate in first-quarter 2010 is based on the decision to accelerate construction and engineering expenditures for the 150 MW Boca de Jaruco Combined Cycle project in Cuba for the remainder of 2010. The $247 million project is on schedule for completion in early 2014.

Non- GAAP Measures

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

About Sherritt

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

Forward- Looking Statements

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

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

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

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Management's discussion and analysis

For the three and six months ended June 30, 2010

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

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

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

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Key financial and operational data

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

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

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

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

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

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

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

Executive summary

Highlights of the second quarter of 2010:

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

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

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

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

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

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

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

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

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

- Coal's operating earnings of $17.0 million and $34.3 million for the second quarter and first six months of 2010 were $0.9 million and $18.4 million lower than in the same periods in 2009, respectively, primarily due to lower earnings at Mountain Operations mainly due to higher operating costs and the impact of a weaker U.S. dollar, offset partially by higher export sales volumes;

- Oil and Gas' operating earnings of $28.7 million and $52.5 million for the second quarter and first six months of 2010 were $15.4 million and $39.2 million higher than in the same periods in 2009, respectively, primarily due to higher average-realized price for oil produced in Cuba, partially offset by a decrease in net working-interest production and the impact of a weaker U.S. dollar;

- Power's operating earnings of $11.4 million and $24.7 million for the second quarter and first six months of 2010 were $0.6 million lower and $0.6 million higher than in the same periods in 2009, respectively, primarily due to lower average-realized sale prices being offset by higher by-product prices and lower operating costs;

- The Corporation has decided to close the Mineral Products division on August 27, 2010. The Mineral Products division will continue to be reported in continuing operations until the mine and plant are closed, at which point it will be classified into discontinued operations. As at June 30, 2010, the Corporation wrote down assets of $2.4 million and accrued additional liabilities of $1.4 million. (See the *Review of Operations – Other* section for more information);

- Net financing expense of $34.5 million and $29.5 million for the second quarter and for the first six months of 2010 was $18.1 and $15.2 million higher than in the same periods in the prior year primarily due to foreign exchange losses. These foreign exchange losses were mainly a result of a weaker Canadian dollar relative to the U.S. dollar at June 30, 2010 compared to December 31, 2009. The foreign-exchange losses arising from the revaluation of U.S. dollar-denominated loans payable was partially offset by foreign-exchange gains arising from the revaluation of U.S. dollar-denominated advances and loans receivable. In addition, during the second quarter of 2010, the Corporation recorded foreign exchange losses due to the timing of collection of Euro-denominated sales as the Euro weakened relative to the U.S. dollar;

- The effective consolidated tax rates for the second quarter and first six months of 2010 were 68% and 43% respectively, compared to 16% and 66% in the same periods in the prior year. These 2010 effective tax rates have been impacted primarily by two significant items. Firstly, a $15.3 million future tax expense was recognized on the Cuban tax contingency reserve noted below. Secondly, no tax benefit was recognized on the loss incurred by the Mineral Products division as it is uncertain that the loss could ever be used in a future period to reduce taxable income. After adjusting for these items, the normalized effective tax rates for the second quarter and first six months of 2010 were 24% and 26%, respectively. The normalized effective tax rate for the six months ended June 30, 2009 was 20%. The normalized 2009 tax rate reflects the removal of the tax that was associated with the $79.5 million loss on disposal of assets realized by Oil and Gas in 2009. The difference between the 20% normalized 2009 effective tax rate and the 26% normalized 2010 effective tax rate for the six months ending June 30 of each year, was primarily due to changes in the relative mix of earnings and losses incurred by each division which were carried out in different tax rate jurisdictions; and

- In prior years, Oil and Gas and Power deducted a 5% contingency reserve in computing current taxes under Cuban tax legislation. The Corporation had previously determined that this reserve would not be taxable. However, based on new information and developments during the quarter ended June 30, 2010, it was concluded that the contingency reserve would more likely than not be taxable in a future period. Based on this determination, Oil and Gas and Power have recorded a future tax expense of $15.3 million in the quarter ended June 30, 2010.

Review of operations

Metals

FINANCIAL REVIEW

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

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

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

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

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

METAL PRICES

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

[1] Average low-grade cobalt published price per Metals Bulletin.

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

PRODUCTION AND SALES

Production (tonnes) (50% basis)	For the three months ended **2010** **June 30**	 2009 June 30	For the six months ended **2010** **June 30**	 2009 June 30
Mixed sulphides	**4,684**	4,639	**9,343**	9,325
Finished nickel	**3,740**	4,261	**8,005**	8,334
Finished cobalt	**404**	470	**872**	939
Sales (50% basis)				
Finished nickel (thousands of pounds)	**8,270**	9,582	**17,662**	18,318
Finished cobalt (thousands of pounds)	**1,015**	1,078	**1,922**	2,076
Fertilizer (tonnes)	**85,063**	68,787	**111,757**	100,438

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

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

OPERATING COSTS

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

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

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

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

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

CAPITAL SPENDING

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

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

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

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

AMBATOVY PROJECT UPDATE

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

OUTLOOK FOR 2010

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

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

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

Coal

FINANCIAL REVIEW

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

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

[2] For additional information see the Non-GAAP Measures section.

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

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

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

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

COAL PRICES

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

(1) Excludes royalty revenue.

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

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

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

ROYALTY REVENUE

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

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

PRODUCTION AND SALES

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

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

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

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

OPERATING COSTS

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

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

[(1)] Composed of rentals, subcontracts, explosives, power, taxes, tires, licenses and other miscellaneous expenses.
[(2)] Composed largely of commissions, royalties, freight and port fees.
[(3)] Composed of tires, explosives, power, taxes, licenses, other miscellaneous expenses.

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

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

CAPITAL SPENDING

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

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

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

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

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

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

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

OUTLOOK FOR 2010

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

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

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

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

Oil and Gas

FINANCIAL REVIEW

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

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

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

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

OIL PRICES

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

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

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

PRODUCTION AND SALES

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

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

[2] In Cuba, Oil and Gas delivered all of its gross working-interest oil production to CUPET at the time of production. Gross working-interest oil production excludes (i) production from wells for which commerciality has not been established in accordance with production-sharing contracts, and (ii) working interests of other participants in the production-sharing contracts.

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

[4] Net working-interest production (equivalent to net sales volume) represents the Corporation's share of gross working-interest production. In Spain and Pakistan, net working-interest production volumes equal 100% of gross working-interest production volumes.

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

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

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

OPERATING COSTS

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

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

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

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

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

CAPITAL SPENDING

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

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

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

OUTLOOK FOR 2010

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

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

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

Power

FINANCIAL REVIEW

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

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

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

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

ELECTRICITY PRICES

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

(1) Megawatt hours (MWh).

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

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

PRODUCTION AND SALES

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

(1) Including non-controlling interests' share.
(2) Gigawatt hours (GWh).

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

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

OPERATING COSTS

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

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

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

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

CAPITAL SPENDING

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

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

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

OUTLOOK FOR 2010

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

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

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

Other – Technologies

FINANCIAL REVIEW

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

Other – Mineral Products

CLASSIFICATION AND RESULTS OF MINERAL PRODUCTS

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

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

ANNOUNCEMENT OF CLOSURE

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

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

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

Liquidity and capital resources

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

Cash requirements

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

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

Investment liquidity

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

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

CASH AND SHORT-TERM INVESTMENTS

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

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

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

LONG-TERM INVESTMENTS

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

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

Sources and uses of cash

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

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

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

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

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

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

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

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

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

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

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

Available credit facilities

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

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

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

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

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

[3] Capital leases include only those that have been committed by lenders.

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

COVENANTS

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

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

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

COMMON SHARES

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

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

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

Managing risk

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

Accounting pronouncements

Convergence with International Financial Reporting Standards

BACKGROUND

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

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

PROJECT PLAN

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

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

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

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

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

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

PROJECT UPDATE

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

Progress to date is highlighted below:

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

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

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

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

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

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

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

PRELIMINARY ASSESSMENTS

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

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

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

Joint Ventures and Associated entities

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

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

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

Accounting for a certain coal mine

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

Foreign currency translation

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

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

Impairment of assets

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

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

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

IFRIC 4 – Lease arrangements

IFRS 1 provides an exemption from retrospectively applying the guidance provided in IFRIC 4, *Determining whether an Arrangement contains a Lease*, if, in certain circumstances, a lease was previously accounted for in accordance with Emerging Issues Abstract 150 (EIC-150) under Canadian GAAP. EIC-150 permitted an entity to not revisit arrangements that existed prior to the issuance date of the standard, January 1, 2005. The Corporation may apply the exemption that would allow it to apply IFRIC 4 only to arrangements existing at the Transition Date that were entered into prior to January 1, 2005, based on the facts and circumstances at that date and were analyzed in accordance with EIC-150. The Corporation has a number of arrangements at Prairie Operations that may be in scope of IFRIC 4. The Corporation is analyzing its agreements to determine if the criteria to classify certain arrangements as leases are met. If the criteria for a finance lease are met, the Property, plant and equipment would be derecognized and replaced with a Finance Lease receivable equal to the net investment in the lease. The difference between the original carrying amount of the assets and the net investment would be recognized in the Consolidated Statement of Comprehensive Income (Loss). Lease principal payments would be recorded as lease revenue and interest payments would be recorded as finance income. If the criteria for an operating lease are met, the Corporation would continue to account for the Property, plant and equipment as such on its Consolidated Statement of Financial Position and would record the income as lease revenue.

Service Concession Arrangements

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

First time adoption of IFRS

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

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

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

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

Accounting pronouncements - Canadian Generally Accepted Accounting Policies

BUSINESS COMBINATIONS/CONSOLIDATED FINANCIAL STATEMENTS/NON-CONTROLLING INTERESTS

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

MULTIPLE DELIVERABLE REVENUE ARRANGEMENTS

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

Summary of quarterly results

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

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

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

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

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

Transactions with related parties

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

	For the three months ended		For the six months ended	
	2010	2009	**2010**	2009
$ millions	**June 30**	June 30	**June 30**	June 30
Total value of goods and services				
Provided to joint ventures and affiliates	**$ 19.4**	$ 29.9	**$ 34.4**	$ 57.2
Purchased from joint ventures and affiliates	**15.5**	9.3	**21.5**	28.3

	2010	2009
$ millions, as at	**June 30**	December 31
Accounts receivable from joint ventures	**$ 6.5**	$ 4.4
Accounts payable to joint ventures	**1.0**	1.7
Advances and loans receivable from certain Moa Joint Venture entities	**192.8**	210.0
Loans receivable from Coal Valley Resources Inc.	**-**	5.0

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

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

Controls and procedures

Disclosure controls and procedures

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

Internal controls over financial reporting

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

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

Supplementary information

Sensitivity analysis

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

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

Non-GAAP measures

EBITDA AND OPERATING EARNINGS

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

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

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

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

ADJUSTED BALANCE SHEET

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

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

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

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

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

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

Forward-looking statements

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

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

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

Interim consolidated financial statements (unaudited)

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

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Consolidated balance sheets

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

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

Consolidated statements of operations

			For the three months ended		For the six months ended
		2010	2009	**2010**	2009
Unaudited, Canadian $ millions, except per share amounts	Note	**June 30**	June 30	**June 30**	June 30
Revenue		**$ 430.9**	$ 358.5	**$ 824.2**	$ 708.1
Operating, selling, general and administrative expenses [1]		**302.7**	268.2	**572.5**	540.9
Earnings before undernoted items		**128.2**	90.3	**251.7**	167.2
Depletion, amortization and accretion		**41.3**	38.7	**82.2**	87.8
Loss on disposal of property, plant and equipment	7	**-**	-	**-**	79.5
Net financing expense	17	**34.5**	16.4	**29.5**	14.3
Other items		**-**	(0.7)	**-**	1.5
Earnings (loss) from operations before income taxes and non-controlling interests		**52.4**	35.9	**140.0**	(15.9)
Non-controlling interests		**2.6**	5.6	**7.5**	11.7
Income taxes	19	**34.1**	5.9	**57.1**	(9.1)
Net earnings (loss)		**$ 15.7**	$ 24.4	**$ 75.4**	$ (18.5)
Net earnings (loss) per share					
Basic	13	**$ 0.05**	$ 0.08	**$ 0.26**	$ (0.07)
Diluted	13	**$ 0.05**	$ 0.08	**$ 0.25**	$ (0.07)

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

Consolidated statements of retained earnings

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

Consolidated statements of comprehensive income (loss)

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

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

Consolidated statements of cash flows

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

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

Notes to interim consolidated financial statements

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

1 Summary of significant accounting policies

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

2 Accounting pronouncements

CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

BUSINESS COMBINATIONS/CONSOLIDATED FINANCIAL STATEMENTS/NON-CONTROLLING INTERESTS

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

MULTIPLE DELIVERABLE REVENUE ARRANGEMENTS

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

3 Acquisition of Coal Valley Partnership

On June 30, 2010, Sherritt purchased the remaining 50% interest in the Coal Valley Partnership (CVP) from the Ontario Teachers' Pension Plan Board (OTPPB) that it did not previously own for $45.0 million. The cash consideration of $45.0 million included two components; $34.9 million for the 50% partnership interest in CVP and $10.1 million for a loan that was owed to OTPPB by CVP.

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

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

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

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

4 Mineral Products

CLASSIFICATION OF MINERAL PRODUCTS

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

These interim consolidated financial statements include the net assets and results of operations of the division with prior periods restated accordingly. The division incurred losses for the three and six months ended June 30, 2010 of $4.2 million and $5.0 million, respectively ($1.3 million and $2.1 million for the three and six months ended June 30, 2009, respectively).

ANNOUNCEMENT OF CLOSURE

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

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

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

5 Net change in non-cash working capital

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

6 Inventories

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

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

7 Property, plant and equipment

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

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

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

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

8 Investments

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

9 Other assets

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

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

SHORT-TERM DEBT

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

LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES

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

3-year non-revolving term loan

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

11 Asset-retirement obligations

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

12 Non-controlling interests

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

13 Capital stock

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

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

TREASURY STOCK

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

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

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

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

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

14 Contributed surplus

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

15 Stock-based compensation plans

The following is a summary of stock option activity:

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

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

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

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

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

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

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

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

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

16 Accumulated other comprehensive loss

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

17 Net financing expense

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

18 Post-employment benefits

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

19 Income taxes

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

In prior years, Oil and Gas and Power deducted a 5% contingency reserve in computing current taxes under Cuban tax legislation. The Corporation had previously determined that this reserve would not be taxable. However, based on new information and developments during the quarter ended June 30, 2010, it was concluded that the contingency reserve would more likely than not be taxable in a future period. Based on this determination, Oil and Gas and Power have recorded a future tax expense of $15.3 million in the quarter ended June 30, 2010.

20 Related party transactions

	For the three months ended		For the six months ended	
	2010	2009	**2010**	2009
$ millions	**June 30**	June 30	**June 30**	June 30
Total value of goods and services				
Provided to joint ventures and affiliates	**$ 19.4**	$ 29.9	**$ 34.4**	$ 57.2
Purchased from joint ventures and affiliates	**15.5**	9.3	**21.5**	28.3

	2010	2009
$ millions, as at	**June 30**	December 31
Accounts receivable from joint ventures	**$ 6.5**	$ 4.4
Accounts payable to joint ventures	**1.0**	1.7
Advances and loans receivable from certain Moa Joint Venture entities	**192.8**	210.0
Loan receivable from Coal Valley Resources Inc.	**-**	5.0

21 Financial instruments and financial risk management

FINANCIAL INSTRUMENT HIERARCHY

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

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

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

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

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

MAV notes

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

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

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

FAIR VALUES

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

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

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

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

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

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

CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

The Corporation's cash balances are deposited with major financial institutions rated A or higher by Standard and Poor's and with banks in Cuba that are not rated. The total cash held in Cuban bank deposit accounts was $29.3 million at June 30, 2010 (December 31, 2009 – $28.6 million).

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

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

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES

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

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

Of which:

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

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

CREDIT RISK

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

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

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

CONTRACTUAL COMMITMENTS AND OBLIGATIONS

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

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

Significant capital commitments include:

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

FOREIGN-EXCHANGE SENSITIVITY

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

INTEREST RATE SENSITIVITY

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

22 Capital disclosures

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

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

The Corporation and its divisions were in compliance with all of their other financial covenants as at June 30, 2010. Other than the covenants required for the debt facilities, the Corporation is not subject to any externally imposed capital restrictions.

23 Segmented information

BUSINESS SEGMENTS

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

$ millions, for the three months ended June 30 **2010**

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

$ millions, for the three months ended June 30 2009

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

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

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

$ millions, for the six months ended June 30 **2010**

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

$ millions, for the six months ended June 30 2009

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

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

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

GEOGRAPHIC SEGMENTS

The Corporation carries on business in the following geographic areas:

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

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

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