sherritt

Q2

2012 SECOND QUARTER REPORT

Sherritt International Corporation

For the three months ended June 30, 2012

PRESS RELEASE

Sherritt reports second-quarter 2012 results

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

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Sherritt International Corporation Reports Second-Quarter 2012 Results

- **Net earnings** for second-quarter 2012 were $40.8 million ($0.14 per share, basic), compared to net earnings of $60.1 million ($0.20 per share, basic) for second-quarter 2011. Lower revenue resulted primarily from lower nickel prices and lower export thermal coal sales volumes. Net earnings were also affected by higher depreciation (primarily resulting from higher plant, property and equipment balances), higher net finance expense, partly offset by lower income tax expense. Net finance expense increased largely due to the interest and accretion on the higher relative loans and borrowing balances.

- **Sales volumes** for second-quarter 2012 (Sherritt's share) totaled 9.9 million pounds of finished nickel, 1.1 million pounds of finished cobalt, 7.8 million tonnes of thermal coal, 1.1 million barrels of oil and 157 GWh of electricity.

- **Cash, cash equivalents and short-term investments** were $478.6 million at June 30, 2012, including $52.2 million (50% basis) held by the Moa Joint Venture. Cash held by the Ambatovy Joint Venture is included in "Investment in an Associate" and was $29.3 million (40% basis) as at June 30, 2012.

- **Operating cash flow** for second-quarter 2012 was $27.8 million, compared to $48.5 million in second-quarter 2011.

- **Spending on capital and intangibles** relating to operations totaled $62.8 million for second-quarter 2012 compared to $59.1 million in second-quarter 2011. Spending on capital at the Ambatovy Joint Venture for second-quarter 2012 was US$18.4 million (100% basis) and cumulative spending on capital at Ambatovy to June 30, 2012 was US$5.3 billion (100% basis). Total capital costs for Ambatovy are expected to remain within the US$5.5 billion (100% basis) estimate.

- At the **Ambatovy Joint Venture**, the production of mixed sulphides, the intermediate product resulting from the Pressure Acid Leach (PAL) process, commenced in late May. Approximately 700 tonnes of nickel and cobalt in mixed sulphides were introduced to the refinery during second-quarter 2012. A preliminary batch of nickel briquettes was sintered on June 26, 2012 as part of the testing and start-up of the refinery. Cobalt reduction and subsequent process steps are ready for start-up, which will commence with the accumulation of sufficient upstream process inventory. As of June 30, 2012, all core construction personnel had been demobilized. Strategic maintenance contracts have been established with key contractors utilized during construction to ensure continuity and additional maintenance capacity through the ramp-up period.

- Total project costs in second-quarter 2012 were US$270.5 million (100% basis). Cumulative total project costs to June 30, 2012 were US$6.3 billion (100% basis). The Ambatovy operations are expected to reach commercial production (defined as 70% of mixed sulphides production capacity) by early 2013. Commercial production is a significant milestone as it defines the point at which all operating costs, net of revenue, are expensed rather than capitalized. The date at which the project becomes cash-flow neutral is difficult to predict as it depends on several external factors, including the nickel reference price which has demonstrated significant volatility in 2012.

- Ambatovy is continuing to work with authorities in Madagascar to obtain an authorization (known as an Operating Permit) to commercially operate the processing plant in Toamasina, Madagascar. Ambatovy has already received the required permits needed to conduct mining activities and to bring the Project through the commissioning and testing phase. The issuance of the Operating Permit is based on compliance with technical, health and safety, and environmental protection requirements. Ambatovy believes it has satisfied all of the requirements established to date for the Operating Permit. However, the transitional government in Madagascar has advised Ambatovy that it is continuing its review of the Project. Ambatovy is in the process of determining the timing and content of this review. This review or other government actions may delay receipt of the Operating Permit, and as a consequence, Ambatovy may face delays in entering commercial operations.

- At June 30, 2012, **total available liquidity** was approximately $1.1 billion. **Total long-term debt** at June 30, 2012 was $1.8 billion, including approximately $0.8 billion related to non-recourse Ambatovy partner loans to Sherritt.

  All amounts are Canadian dollars unless otherwise indicated.

Toronto, July 25, 2012

Sherritt International Corporation ("Sherritt" or the "Corporation") (TSX: S) today reported second-quarter 2012 net earnings of $40.8 million ($0.14 per share, basic), compared to net earnings of $60.1 million ($0.20 per share, basic) for second-quarter 2011.

Summary Data

SUMMARY FINANCIAL DATA

			Six months ended June 30,	
($ millions unless otherwise noted)	**Q2 2012**	Q2 2011	**2012**	2011
Revenue	**487.9**	500.6	**950.1**	975.1
EBITDA[1]	**139.4**	157.9	**285.8**	322.3
Earnings from operations and associate	**77. 1**	108.9	**167.2**	222.0
Net earnings	**40.8**	60.1	**73.1**	123.7
Basic earnings per share ($ per share)	**0.14**	0.20	**0.25**	0.42
Diluted earnings per share ($ per share)	**0.14**	0.20	**0.25**	0.42
Net working capital balance[2]	**949.8**	1,002.4	**949.8**	1,002.4
Spending on capital and intangibles[3]	**62.8**	59.1	**103.7**	100.7
Total assets	**6,558.6**	6,068.1	**6,558.6**	6,068.1
Shareholders' equity	**3,788.4**	3,575.8	**3,788.4**	3,575.8
Long-term debt to total assets (%)	**28**	27	**28**	27
Weighted average number of shares (millions)				
Basic	**296.1**	294.9	**296.1**	294.9
Diluted	**296.4**	296.2	**296.4**	296.3

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

SUMMARY SALES DATA

			Six months ended June 30,	
($ millions unless otherwise noted)	**Q2 2012**	Q2 2011	**2012**	2011
Sales volumes				
Nickel (thousands of pounds, 50% basis)	**9,915**	9,063	**19,470**	18,501
Cobalt (thousands of pounds, 50% basis)	**1,130**	1,055	**2,147**	2,069
Thermal coal – Prairie Operations (millions of tonnes)	**6.8**	6.9	**14.9**	15.4
Thermal coal – Mountain Operations (millions of tonnes)	**1.0**	1.1	**1.8**	2.1
Oil (boepd, net working-interest production)	**11,671**	12,290	**11,563**	12,387
Electricity (GWh, 33 1/3% basis)	**157**	154	**312**	302
Average realized prices				
Nickel ($/lb)	**7.88**	10.56	**8.26**	11.16
Cobalt ($/lb)	**13.87**	16.24	**13.98**	16.88
Thermal coal – Prairie Operations ($/tonne)	**18.27**	17.57	**17.58**	16.18
Thermal coal – Mountain Operations ($/tonne)	**103.47**	100.54	**103.73**	96.09
Oil ($/boe)	**70.82**	69.01	**74.21**	65.42
Electricity ($/MWh)	**41.79**	40.26	**41.63**	40.40

Review of Operations

METALS

($ millions unless otherwise noted)	Q2 2012	Q2 2011	Six months ended June 30, 2012	2011
Production				
Mixed sulphides (Ni+Co contained, tonnes, 50% basis)	**4,859**	4,931	**9,535**	9,775
Nickel (tonnes, 50% basis)	**4,485**	3,991	**8,784**	8,294
Cobalt (tonnes, 50% basis)	**497**	449	**974**	919
Fertilizers (tonnes)	**67,764**	55,593	**133,885**	115,166
Sales				
Nickel (thousands of pounds, 50% basis)	**9,915**	9,063	**19,470**	18,501
Cobalt (thousands of pounds, 50% basis)	**1,130**	1,055	**2,147**	2,069
Fertilizers (tonnes)	**71,294**	70,651	**97,921**	88,345
Reference prices				
Nickel (US$/lb)	**7.78**	10.96	**8.36**	11.60
Cobalt (US$/lb)[1]	**14.24**	17.05	**14.42**	17.72
Realized prices				
Nickel ($/lb)	**7.88**	10.56	**8.26**	11.16
Cobalt ($/lb)	**13.87**	16.24	**13.98**	16.88
Unit operating costs (US$/lb)				
Mining, processing and refining costs	**6.56**	6.35	**6.58**	5.93
Third-party feed costs	**0.09**	0.15	**0.11**	0.20
Cobalt by-product credits	**(1.56)**	(1.95)	**(1.53)**	(1.93)
Other	**(0.93)**	(0.29)	**(0.37)**	(0.03)
Net direct cash costs of nickel[2]	**4.16**	4.26	**4.79**	4.17
Natural gas ($/GJ)	**1.93**	3.76	**2.05**	3.73
Fuel oil (US$/tonne)	**706.00**	629.75	**699.07**	578.42
Sulphur (US$/tonne)	**260.08**	242.49	**267.42**	221.14
Sulphuric acid (US$/tonne)	**183.19**	196.68	**190.42**	185.98
Revenue ($ millions)				
Nickel	**78.1**	95.7	**160.9**	206.4
Cobalt	**15.6**	17.1	**30.0**	34.9
Fertilizers, other	**46.5**	36.6	**64.1**	48.5
Total revenue	**140.2**	149.4	**255.0**	289.8
EBITDA ($ millions)[3]	**47.4**	54.4	**78.7**	120.3
Earnings from operations and associate ($ millions)	**35.7**	50.1	**60.0**	107.5
Spending on capital ($ millions)	**6.2**	9.0	**12.0**	15.3

(1) Average Metal Bulletin – Low Grade Cobalt published price.
(2) Net direct cash costs of nickel after cobalt and other by-product credits.
(3) For additional information see the 'Non-IFRS Measure – EBITDA' section of this release.

Mixed sulphides production for second-quarter 2012 was 1% (144 tonnes, Ni+Co contained, 100% basis) lower than second-quarter 2011, due to lower ore grade and process plant throughput. Finished nickel and cobalt production were 12% (988 tonnes, 100% basis) and 11% (96 tonnes, 100% basis) higher, respectively, than the prior-year period reflecting the difference in timing of the annual maintenance turnaround. The turnaround was conducted in the second quarter of 2011 and is scheduled for the third quarter of 2012.

Second-quarter 2012 metals sales volumes were 9% (852,000 lbs, 50% basis) higher for nickel and 7% (75,000 lbs, 50% basis) higher for cobalt, compared to second-quarter 2011, consistent with production trends and the timing of shipments.

Average metals reference prices were significantly lower in second-quarter 2012 compared to second-quarter 2011. Pricing reflected the trend of global supply outpacing demand, with nickel reference pricing 29% (US$3.18/lb) lower and cobalt reference pricing 16% (US$2.81/lb) lower than the prior-year period.

The net direct cash cost of nickel for second-quarter 2012 was 2% (US$0.10/lb) lower than second-quarter 2011, and 19% (US$0.97/lb) lower than first-quarter 2012, due to higher fertilizer by-product credits from the spring fertilizer season as well as lower third-party feed costs, which more than offset lower cobalt by-product credits and higher mining, processing and refining costs.

Spending on capital in second-quarter 2012 for the Moa Joint Venture was 31% ($2.8 million, 50% basis) lower than second-quarter 2011, reflecting lower than planned spending in 2012.

Ambatovy

The production of mixed sulphides, the intermediate product resulting from the Pressure Acid Leach (PAL) process, commenced in late May. Approximately 700 tonnes of nickel and cobalt in mixed sulphides was introduced to the refinery during second-quarter 2012. The refining processes of sulphide leaching, iron removal, copper/zinc removal, solvent extraction and hydrogen reduction are in early operation in which final testing continues.

A preliminary batch of nickel briquettes was sintered on June 26, 2012 as part of the testing and start-up of the refinery. Cobalt reduction and subsequent process steps are ready for start-up, which will commence with the accumulation of sufficient upstream process inventory.

Total capital costs for Ambatovy are expected to remain within the US$5.5 billion (100% basis) estimate. Spending on capital at the Ambatovy Joint Venture for second-quarter 2012 was US$18.4 million (100% basis), 94% lower than the prior-year period, as construction has been completed. Cumulative spending on capital at Ambatovy to June 30, 2012 was US$5.3 billion (100% basis), excluding financing charges, working capital and foreign exchange.

Total project costs in second-quarter 2012 were US$270.5 million (100% basis). Cumulative total project costs to June 30, 2012 were US$6.3 billion (100% basis). Total project costs (including financing charges, working capital and foreign exchange) may vary until commercial production is declared. The most significant variability in total project costs is likely to arise from the working capital component and production revenue component (which is netted from these costs).

During second-quarter 2012, a total of US$275.0 million (100% basis) in funding was provided by the Ambatovy Joint Venture partners; Sherritt's 40% share (US$110.0 million) was funded directly from cash on hand.

As of June 30, 2012, all core construction personnel had been demobilized. Strategic maintenance contracts have been established with key contractors utilized during construction to ensure continuity and additional maintenance capacity through the ramp-up period.

Ambatovy is continuing to work with authorities in Madagascar to obtain an authorization (known as an Operating Permit) to commercially operate the processing plant in Toamasina, Madagascar. Ambatovy has already received the required permits needed to conduct mining activities and to bring the Project through the commissioning and testing phase. The issuance of the Operating Permit is based on compliance with technical, health and safety, and environmental protection requirements. Ambatovy believes it has satisfied all of the requirements established to date for the Operating Permit. However, the transitional government in Madagascar has advised Ambatovy that it is continuing its review of the Project. Ambatovy is in the process of determining the timing and content of this review. This review or other government actions may delay receipt of the Operating Permit, and as a consequence, Ambatovy may face delays in entering commercial operations.

The Ambatovy operations are expected to reach commercial production (defined as 70% of mixed sulphides production capacity) by early 2013. Commercial production is a significant milestone as it defines the point at which all operating costs, net of revenue, are expensed rather than capitalized. The date at which the project becomes cash-flow neutral is difficult to predict as it depends on several external factors, including the nickel reference price which has demonstrated significant volatility in 2012. Ambatovy is designed to produce 60,000 tonnes (100% basis) of nickel and 5,600 tonnes (100% basis) of cobalt annually at capacity.

COAL

($ millions unless otherwise noted)	Q2 2012	Q2 2011	Six months ended June 30, 2012	2011
Production (millions of tonnes)				
Prairie Operations	**7.0**	6.6	**15.6**	15.2
Mountain Operations	**0.8**	1.1	**1.8**	2.2
Sales (millions of tonnes)				
Prairie Operations	**6.8**	6.9	**14.9**	15.4
Mountain Operations	**1.0**	1.1	**1.8**	2.1
Realized prices ($/tonne)				
Prairie Operations(1)	**18.27**	17.57	**17.58**	16.18
Mountain Operations	**103.47**	100.54	**103.73**	96.09
Unit operating costs ($/tonne)				
Prairie Operations(1)	**16.59**	15.84	**14.81**	14.13
Mountain Operations	**87.61**	81.68	**88.27**	80.33
Revenue ($ millions)				
Prairie Operations				
Mining revenue	**131.7**	128.8	**277.3**	262.0
Coal royalties	**10.0**	9.7	**20.8**	21.5
Potash royalties	**4.1**	5.2	**6.8**	10.0
Mountain Operations and other assets	**104.8**	110.4	**191.0**	206.5
Total revenue	**250.6**	254.1	**495.9**	500.0
EBITDA ($ millions)(2)				
Prairie Operations	**26.3**	25.0	**69.8**	60.2
Mountain Operations and other assets	**14.1**	19.0	**23.7**	31.5
Total EBITDA	**40.4**	44.0	**93.5**	91.7
Earnings from operations ($ millions)	**9.7**	18.6	**35.5**	42.1
Spending on capital ($ millions)				
Prairie Operations	**19.5**	21.4	**26.7**	36.9
Mountain Operations and other assets	**23.8**	8.0	**39.9**	12.3
Total spending on capital	**43.3**	29.4	**66.6**	49.2

(1) Prairie Operations realized pricing and unit operating costs exclude royalties and the results of the char and activated carbon businesses.
(2) For additional information see the 'Non-GAAP Measure – EBITDA' section of this release.

Second-quarter 2012 production volumes at Prairie Operations were 6% (0.4 million tonnes) higher than second-quarter 2011 when haul efforts at the Boundary Dam mine were impacted by several weeks of heavy rainfall and flooding in southern Saskatchewan. Second-quarter production volumes at Mountain Operations were 27% (0.3 million tonnes) lower than the prior-year quarter, reflecting the reduction of production levels at the Obed Mountain mine to achieve an optimal thermal export sales mix.

Second-quarter 2012 sales volumes at Prairie Operations were similar to the prior-year quarter. Second-quarter 2012 sales volumes at Mountain Operations were 8% (0.1 million tonnes) lower than second-quarter 2011, as a result of the reduced production levels at the Obed Mountain mine to achieve an optimal thermal export sales mix.

Realized pricing (excluding royalties, char and activated carbon) for second-quarter 2012 at Prairie Operations was 4% ($0.70/tonne) higher than second-quarter 2011, due to the higher sales volumes at the Boundary Dam mine and lower sales volumes at the Paintearth and Sheerness mines (which have a significant fixed component of mining revenue). Realized pricing at Mountain Operations for second-quarter 2012 was 3% ($2.93/tonne) higher than the prior-year period, as the impact of a weaker Canadian dollar relative to the U.S. dollar and the lower relative proportion of Obed Mountain mine contribution to total sales volume more than offset the decline in the international export coal price in the comparative period.

Unit operating costs at Prairie Operations were higher for second-quarter 2012 (5% or $0.75/tonne) relative to the prior-year period, due to major dragline repairs at the Boundary Dam and Poplar River mines. Unit operating costs at Mountain Operations for second-quarter 2012 were 7% ($5.93/tonne) higher than second-quarter 2011, primarily due to lower production levels at the higher-cost Obed Mountain mine.

Coal royalties for second-quarter 2012 were 3% ($0.3 million) higher than the prior-year period, due to increased mining activity in royalty-assessable areas. Potash royalties were 21% ($1.1 million) lower in second-quarter 2012 compared to the prior-year period, due to lower production volumes from potash producers in response to weaker market demand.

Spending on capital at Prairie Operations for second-quarter 2012 was 9% ($1.9 million) lower than second-quarter 2011, due to the timing of equipment arrivals at the mines. Spending on capital at Mountain Operations was 198% ($15.8 million) higher for second-quarter 2012 compared to the prior-year period, reflecting increased finance leases for mobile equipment and higher cash capital spending for infrastructure development in the Yellowhead Tower permit area, first entered in May 2012. Equipment lease expenditures for the quarter reflect the majority of planned spending on equipment in Mountain Operations for 2012.

OIL AND GAS

			Six months ended June 30,	
($ millions unless otherwise noted)	**Q2 2012**	Q2 2011	**2012**	2011
Production (boepd)[(1)]				
Gross working-interest – Cuba[(2), (3)]	**20,806**	20,900	**20,443**	20,887
Net working-interest[(4)]				
Cuba – cost recovery	**2,909**	3,737	**2,989**	3,966
Cuba – profit oil	**8,054**	7,723	**7,854**	7,615
Cuba – total	**10,963**	11,460	**10,843**	11,581
Spain	**356**	488	**366**	457
Pakistan	**352**	342	**354**	349
Total net working-interest	**11,671**	12,290	**11,563**	12,387
Reference prices (US$/bbl)				
U.S. Gulf Coast Fuel Oil No.6	**97.99**	98.40	**102.91**	92.40
Brent crude	**109.02**	118.32	**114.30**	111.83
Realized prices				
Cuba ($/bbl)	**71.70**	68.98	**75.05**	65.43
Spain ($/bbl)	**105.68**	112.66	**113.13**	109.25
Pakistan ($/boe)	**8.28**	7.87	**8.18**	7.93
Weighted average ($/boe)	**70.82**	69.01	**74.21**	65.42
Unit operating costs				
Cuba ($/bbl)	**12.28**	10.95	**12.67**	11.07
Spain ($/bbl)	**46.90**	30.81	**46.70**	31.99
Pakistan ($/boe)	**4.16**	2.70	**3.45**	3.24
Weighted average ($/boe)	**13.21**	11.51	**13.57**	11.62
Revenue ($ millions)	**76.3**	81.5	**158.5**	152.0
EBITDA ($ millions)[(5)]	**58.4**	65.6	**123.6**	120.4
Earnings from operations ($ millions)	**41.9**	49.4	**88.3**	88.8
Spending on capital ($ millions)[(6)]	**11.5**	19.0	**20.9**	33.7

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

(2) In Cuba, Oil and Gas delivers all of its gross working-interest oil production to Union Cubapetroleo (CUPET) at the time of production. Gross working-interest oil production excludes production from wells for which commercial viability 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.

(5) For additional information see the ‘Non-GAAP Measure – EBITDA’ section of this release.

(6) Exploration and evaluation spending incurred prior to the technical feasibility and commercial viability of extracting the resources is recorded as an intangible asset.

Gross working-interest (GWI) oil production in Cuba for second-quarter 2012 was relatively unchanged from second-quarter 2011. Net working-interest production in Cuba was 4% (497 bopd) lower for second-quarter 2012 when compared to the prior-

year period, primarily due to higher realized oil prices as well as a decrease in cost-recovery expenditures. Second-quarter 2012 production in Spain was 27% (132 bopd) lower than in the prior-year period, primarily due to natural reservoir declines and one well being shut-in pending evaluation of whether it is economically feasible to return to production.

Average realized prices in second-quarter 2012 were 4% ($2.72/bbl) higher than second-quarter 2011 in Cuba, due to the impact of a weaker Canadian dollar relative to the U.S. dollar. Average realized prices for the same comparative periods were 6% ($6.98/bbl) lower in Spain, as a result of lower reference pricing that was only partially offset by the impact of the weaker Canadian dollar relative to the U.S. dollar.

Unit operating costs in Cuba were 12% ($1.33/bbl) higher in second-quarter 2012 compared to the prior-year period, largely as a result of the impact of lower net production, higher costs for production chemical inputs and labour, which were partially offset by lower insurance, treatment and transportation costs. Unit operating costs in Spain were 52% ($16.09/bbl) higher in second-quarter 2012, primarily due to the impact of lower production described above.

Spending on capital in second-quarter 2012 was 39% ($7.5 million) lower than second-quarter 2011, primarily due to reduced equipment and inventory purchases as well as reduced drilling activity in Cuba. In second-quarter 2012, two development wells were initiated, and one development well was completed in Cuba. Capital spending also included costs related to the United Kingdom North Sea and Alboran Sea prospect areas. Sherritt expects to commence seismic programs in the United Kingdom North Sea and the Alboran Sea in 2013.

POWER

			Six months ended June 30,	
($ millions unless otherwise noted)	**Q2 2012**	Q2 2011	**2012**	2011
Electricity sold (GWh, 33 1/3% basis)	**157**	154	**312**	302
Realized price ($/MWh)	**41.79**	40.26	**41.63**	40.40
Unit operating cost ($/MWh)[1]				
Base	**15.45**	23.28	**15.46**	20.08
Non-base	**1.41**	1.40	**1.55**	1.77
Total unit cash operating costs	**16.86**	24.68	**17.01**	21.85
Net capacity factor (%)	**68**	66	**67**	64
Revenue ($ millions)	**17.6**	13.0	**34.2**	27.4
EBITDA ($ millions)[2]	**5.8**	6.5	**11.7**	11.3
Earnings from operations ($ millions)	**3.1**	3.9	**6.4**	6.1
Spending on capital ($ millions)[3]	**1.3**	1.6	**2.5**	2.2
Spending on projects ($ millions, 100% basis)[4]	**23.8**	10.8	**44.7**	27.3

(1) Base unit operating costs are costs incurred at the Varadero, Boca de Jaruco and Puerto Escondido sites. Non-base unit operating costs are costs that are expensed as incurred at the Boca de Jaruco and Puerto Escondido sites as part of a service concession arrangement.
(2) For additional information see the 'Non-GAAP Measure – EBITDA' section of this release.
(3) Spending on capital includes sustaining capital at the Varadero site as well as capitalized interest relating to the 150 MW Boca de Jaruco Combined Cycle Project.
(4) Sherritt provides 100% of the funding for the 150 MW Boca de Jaruco Combined Cycle Project and accounts for the Project as a "Service Concession Arrangement". As a result, two thirds of the project spending (relating to the non-Sherritt partners' share) is recorded as a loan receivable. The remaining one third of project spending (Sherritt's share) is recorded as a construction cost, and is offset by the same amount recorded as construction revenue.

Electricity production for second-quarter 2012 was 2% (3 GWh, 33 1/3% basis) higher than in the prior-year period, primarily due to a small increase in gas supply.

Unit operating costs for the quarter were 32% ($7.82/MWh) lower than second-quarter 2011, due to the impact of a turbine failure in second-quarter 2011.

Spending on capital in second-quarter 2012 was 19% ($0.3 million, 33 1/3% basis) lower than in second-quarter 2011, primarily due to lower maintenance activity levels in 2012.

150 MW Boca de Jaruco Combined Cycle Project

Expenditures for second-quarter 2012 were $23.8 million (100% basis) and cumulative spending on the Project at June 30, 2012 was $194.7 million (100% basis). The Project is scheduled to begin production in first-half 2013. The total project cost estimate remains $271.0 million.

CASH, DEBT AND FINANCING

Cash, cash equivalents and short-term investments were $478.6 million at June 30, 2012, including $52.2 million (50% basis) held by the Moa Joint Venture. Cash held by the Ambatovy Joint Venture is included in "Investment in an Associate" and was $29.3 million (40% basis) as at June 30, 2012.

Total long-term debt at June 30, 2012 was $1.8 billion, including approximately $0.8 billion related to non-recourse Ambatovy partner loans to Sherritt. At June 30, 2012, the amount of credit available under various facilities was $0.6 billion.

Outlook

Projected production volumes, royalties and spending on capital for full-year 2012 are shown below.

(units as noted)	Projected for the year ending December 31, 2012
Production volumes	
Mixed sulphides (tonnes, Ni+Co contained, 100% basis)	
Moa Joint Venture	38,000
Ambatovy Joint Venture	9,000
Total	47,000
Nickel, finished (tonnes, 100% basis)	
Moa Joint Venture	34,000
Ambatovy Joint Venture	8,000
Total	42,000
Cobalt, finished (tonnes, 100% basis)	
Moa Joint Venture	3,600
Ambatovy Joint Venture	800
Total	4,400
Coal – Prairie Operations (millions of tonnes)	33
Coal – Mountain Operations (millions of tonnes)	4
Oil – Cuba (gross working-interest, bopd)	20,000
Oil – All operations (net working-interest, boepd)	11,500
Electricity (GWh, 33 1/3% basis)	595
Royalties ($ millions)	
Coal	39
Potash	15
Spending on capital ($ millions)	
Metals – Moa Joint Venture (50% basis), Fort Site[(1)]	53
Coal – Prairie Operations	81
Coal – Mountain Operations	62
Oil and Gas – Cuba[(2)]	51
Oil and Gas – Other[(2)]	8
Power (33 1/3% basis)[(3)]	6
Spending on capital (excluding Projects and Corporate)	261
Spending on projects	
Metals – Ambatovy Joint Venture (US$ millions, 100% basis)	64
Power – 150 MW Boca de Jaruco ($ millions, 100% basis)[(4)]	94

(1) Spending on capital relating to the Corporation's 50% share of the Moa Joint Venture and to the Corporation's 100% interest in the fertilizer and utilities assets in Fort Saskatchewan.

(2) Exploration and evaluation spending incurred prior to the technical feasibility and commercial viability of extracting the resources is recorded as an intangible asset.

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

(4) Sherritt provides 100% of the funding for the 150 MW Boca de Jaruco Combined Cycle Project and accounts for the Project as a "Service Concession Arrangement". As a result, two thirds of the project spending (relating to the non-Sherritt partners' share) is recorded as a loan receivable. The remaining one third of project spending (Sherritt's share) is recorded as a construction cost.

- In Metals – Moa Joint Venture, production guidance for 2012 remains largely unchanged from previous estimates, with a small increase in cobalt production reflecting a slightly lower nickel to cobalt ratio in feed from Moa. Capital spending for 2012 is 12% ($7 million, 50% basis) lower than prior guidance, due to planned reduction in sustaining capital in light of weaker commodity prices.

- In Metals – Ambatovy Joint Venture, 2012 production estimates reflect the lower end of the production range provided in previous guidance, primarily due to delays in the start-up of the refinery by one quarter. Capital spending guidance is 35% (US$35 million, 100% basis) lower than previous guidance as no significant construction capital expenditures are anticipated after second-quarter 2012.
- In Metals – Sulawesi Project, the environmental baseline scoping study was completed in second-quarter 2012. Both the environmental and social baseline studies are scheduled for completion in 2013. Commencement of the resource drilling program is anticipated in second-half 2012, and is expected to bring total spending on the Project to approximately $22 million, or 20% of the total funding requirement to obtain Sherritt's 46% economic interest in the Project.
- In Coal – Prairie Operations, full-year 2012 production remains consistent with prior guidance. Capital spending for 2012 has been reduced by 17% ($16 million) from prior guidance, reflecting timing of equipment arrivals at the sites and cost saving initiatives in light of weaker thermal coal export pricing.
- In Coal – Mountain Operations, full-year 2012 production remains consistent with prior guidance. Capital spending for 2012 has been reduced by 5% ($3 million) from prior guidance, reflecting timing of equipment arrivals at the sites and cost saving initiatives in light of weaker thermal coal export pricing.
- In Oil and Gas, 2012 GWI production in Cuba remains unchanged from prior guidance, while total net production is 2% (280 bopd) lower than previous guidance, reflecting expected lower cost recovery volumes primarily due to the impact of continued strength in reference pricing. Projected 2012 capital spending in Cuba remains consistent with prior guidance, while projected 2012 capital spending in other jurisdictions is 56% ($10 million) lower than previous guidance, reflecting the postponement of seismic programs in both the Alboran Sea and the United Kingdom North Sea prospect areas, until 2013.
- In Power, projected 2012 production is 8% (45 GWh, 33 1/3% basis) higher than prior guidance, due to the impact of higher gas supply year-to-date that is expected to continue for the remainder of the year. Spending on capital for 2012 is expected to be 25% ($2 million, 33 1/3% basis) lower than previous guidance due to a reduction in sustaining capital projects.
- In Power – 150 MW Boca de Jaruco Combined Cycle Project, spending in 2012 is 14% ($15 million) lower than previous guidance, due to a deferral of costs to 2013. The Project remains on schedule to be in production in first-half 2013.

Non-GAAP Measure – EBITDA

Management uses EBITDA to monitor financial performance and provide additional information to investors and analysts. EBITDA does not have a standard definition under IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. As EBITDA does not have a standardized meaning, it may not be comparable to similar measures provided by other companies.

The Corporation defines EBITDA as earnings (loss) from continuing operations as reported in the IFRS financial statements, adjusted for amounts included in net earnings or net loss for income taxes, net finance expense (income), depletion, depreciation and amortization, impairment charges for property, plant and equipment, intangible assets, goodwill and investments, gain or loss on disposal of property, plant and equipment, and share of income or loss of associate.

About Sherritt

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

Forward-Looking Statements

This press release contains certain forward-looking statements. Forward-looking statements can generally be identified by the use of statements that include such words as “believe”, “expect”, “anticipate”, “intend”, “plan”, “forecast”, “likely”, “may”, “will”, “could”, “should”, “suspect”, “outlook”, “projected”, “continue” or other similar words or phrases. Specifically, forward-looking statements in this document include statements respecting certain future expectations about capital expenditures; capital project commissioning and completion dates; commodity and product prices and demand; production volumes; realized prices for production; commencement date of production; commodity prices and demand; future reserves and mine life; environmental rehabilitation provisions; availability of regulatory approvals; earnings and revenues; debt repayments; compliance with financial covenants; sufficiency of working capital and capital project funding; compliance with applicable environmental laws and regulations; and certain corporate objectives, plans or goals for 2012, including development wells in Cuba. These forward-looking statements are not based on historic facts, but rather on current expectations, assumptions and projections about future events. By their nature, forward-looking statements require the Corporation to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that those assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. The Corporation cautions readers of this press release not to place undue reliance on any forward-looking statement as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

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

The Corporation may, from time to time, make oral forward-looking statements. The Corporation advises that the above paragraph and the risk factors described in this press release and in the Corporation’s other documents filed with the Canadian securities authorities should be read for a description of certain factors that could cause the actual results of the Corporation to differ materially from those in the oral forward-looking statements. The Corporation disclaims any intention or obligation to update or revise any oral or written forward-looking statements whether as a result of new information, future events or otherwise, except as required by applicable law.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and six months ended June 30, 2012

This Management's Discussion and Analysis (MD&A) is intended to help the reader understand Sherritt International Corporation's operations, financial performance and the present and future business environment. This MD&A, which has been prepared as of July 24, 2012, should be read in conjunction with Sherritt's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2012 and the MD&A for the year ended December 31, 2011. Additional information related to the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at www.sedar.com or on the Corporation's website at www.sherritt.com.

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

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

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Key financial and operational data

	For the three months ended			For the six months ended		
	2012	2011		**2012**	2011	
$ millions , except per share amounts	**June 30**	June 30	Change	**June 30**	June 30	Change
Financial highlights						
Revenue	**$ 487.9**	$ 500.6	(3%)	**$ 950.1**	$ 975.1	(3%)
EBITDA[1]	**139.4**	157.9	(12%)	**285.8**	322.3	(11%)
Earnings from operations and associate	**77.1**	108.9	(29%)	**167.2**	222.0	(25%)
Net earnings for the period	**40.8**	60.1	(32%)	**73.1**	123.7	(41%)
Comprehensive (loss) income	**71.5**	46.8	53%	**79.2**	69.0	15%
Net earnings per share, basic and diluted ($ per share)	**0.14**	0.20	(30%)	**0.25**	0.42	(40%)
Cash flow						
Cash provided by operating activities	**$ 27.8**	$ 48.5	(43%)	**$ 150.6**	$ 155.8	(3%)
Spending on capital and intangible assets[2]	**$ 62.8**	$ 59.1	6%	**$ 103.7**	$ 100.7	3%
Production volumes						
Nickel (tonnes)(50% basis)	**4,485**	3,991	12%	**8,784**	8,294	6%
Cobalt (tonnes)(50% basis)	**497**	449	11%	**974**	919	6%
Coal - Prairie Operations (millions of tonnes)	**7.0**	6.6	6%	**15.6**	15.2	3%
Coal - Mountain Operations (millions of tonnes)	**0.8**	1.1	(27%)	**1.8**	2.2	(18%)
Oil - Cuba - net working-interest (barrels per day)	**10,963**	11,460	(4%)	**10,843**	11,581	(6%)
Electricity (gigawatt hours) (33⅓% basis)	**157**	154	2%	**312**	302	3%
Unit operating costs[1]						
Nickel (US$ per pound)[3]	**$ 4.16**	$ 4.26	(2%)	**$ 4.79**	$ 4.17	15%
Coal - Prairie Operations ($ per tonne)[4]	**16.59**	15.84	5%	**14.81**	14.13	5%
Coal - Mountain Operations ($ per tonne)	**87.61**	81.68	7%	**88.27**	80.33	10%
Oil - Cuba ($ per barrel)	**12.28**	10.95	12%	**12.67**	11.07	14%
Electricity ($ per megawatt hour)	**16.86**	24.68	(32%)	**17.01**	21.85	(22%)
Averaged-realized prices[5]						
Nickel ($ per pound)	**$ 7.88**	$ 10.56	(25%)	**$ 8.26**	$ 11.16	(26%)
Cobalt ($ per pound)	**13.87**	16.24	(15%)	**13.98**	16.88	(17%)
Coal - Prairie Operations ($ per tonne)[4]	**18.27**	17.57	4%	**17.58**	16.18	9%
Coal - Mountain Operations ($ per tonne)	**103.47**	100.54	3%	**103.73**	96.09	8%
Oil - Cuba ($ per barrel)	**71.70**	68.98	4%	**75.05**	65.43	15%
Electricity ($ per megawatt hour)	**41.79**	40.26	4%	**41.63**	40.40	3%

	2012	2011	
$ millions, except as noted, as at	**June 30**	December 31	Change
Financial condition			
Current ratio	**4.23:1**	3.73:1	13%
Net working capital balance	**$ 949.8**	$ 1,016.7	(7%)
Cash, cash equivalents and short-term investments	**478.6**	631.4	(24%)
Total assets	**6,558.6**	6,497.5	1%
Total loans and borrowings	**1,776.3**	1,744.7	2%
Shareholders' equity	**3,788.4**	3,731.7	2%
Long-term debt to total assets[6]	**28%**	28%	-

(1) For additional information see the Non-GAAP measures section.
(2) Spending on capital and intangible assets includes accruals and does not include spending on the Ambatovy Joint Venture or service concession arrangements.
(3) Net direct cash cost is inclusive of by-product credits and third-party feed costs.
(4) Excludes royalties, activated carbon and char operating costs and revenue.
(5) Management uses average-realized price statistics to monitor the performance of the Corporation's operating divisions. This non-GAAP measure does not have a standardized meaning under International Financial Reporting Standards (IFRS) and may not be comparable to similar measures provided by other companies. Average-realized price is calculated by dividing revenue by sales volume for the given product.
(6) Calculated as total loans and borrowings divided by total assets excluding goodwill. This leverage ratio is monitored by management and lenders.

Executive summary

Q2 2012 HIGHLIGHTS

- Revenue for the second quarter of 2012 was $487.9 million compared to $500.6 million in the same period in the prior year. Lower revenue was primarily the result of lower nickel prices and lower export thermal coal volumes. These reductions were partly offset by higher fertilizer revenue and the overall impact of a weaker Canadian dollar relative to the U.S. dollar compared to the prior year.
- EBITDA[1] for the second quarter of 2012 was $139.4 million compared to $157.9 million in the same period in the prior year. Lower EBITDA was primarily due to lower revenue discussed above.
- Net earnings for the second quarter of 2012 were $40.8 million compared to $60.1 million in the same period in the prior year. In addition to the impact of lower EBITDA described above, net earnings were lower as a result of higher depreciation and higher net finance expense, partly offset by lower income tax expense. Depreciation was higher as a result of various factors including higher plant, property and equipment balances. Net finance expense was higher primarily due to higher interest expense and accretion on higher loans and borrowings balances and also due to an increase in the value of the master asset vehicle notes in 2011 that were later sold in 2011. Income tax expense was lower as a result of lower net earnings and a tax recovery that was recorded in respect of certain losses that were generated in prior years.
- Operating cash flow for the three months ended June 30, 2012, was $27.8 million compared to $48.5 million in the same period in the prior year, primarily due to lower net earnings.
- At the Ambatovy Joint Venture, the production of mixed sulphides, the intermediate product resulting from the Pressure Acid Leach (PAL) process, commenced in late May. Approximately 700 tonnes of nickel and cobalt in mixed sulphides were introduced to the refinery during the second quarter of 2012. A preliminary batch of nickel briquettes was sintered on June 26, 2012 as part of the testing and start-up of the refinery. Cobalt reduction and subsequent process steps are ready for start-up, which will commence with the accumulation of sufficient upstream process inventory. As of June 30, 2012, all core construction personnel had been demobilized. Strategic maintenance contracts have been established with key contractors utilized during construction to ensure continuity and additional maintenance capacity through the ramp-up period.
- Spending on capital at the Ambatovy Joint Venture for second quarter of 2012 was US$18.4 million (100% basis) and cumulative spending on capital at Ambatovy to June 30, 2012 was US$5.3 billion (100% basis). Total capital costs for Ambatovy are expected to remain within the US$5.5 billion (100% basis) estimate.
- Total project costs at the Ambatovy Joint Venture in the second quarter of 2012 were US$270.5 million (100% basis). Cumulative total project costs to June 30, 2012 were US$6.3 billion (100% basis). The Ambatovy operations are expected to reach commercial production (defined as 70% of mixed sulphides production capacity) by early 2013.
- At June 30, 2012, total available liquidity was approximately $1.1 billion. Total debt at June 30, 2012 was $1.8 billion including $831.7 million related to non-recourse Ambatovy Partner loans to Sherritt. The Corporation’s liquidity profile includes a current ratio of 4.23:1, a net working capital balance of $949.8 million, and cash, cash equivalents, and short-term investments of $478.6 million. The Corporation’s long-term debt to total assets ratio was 28%.

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

Consolidated financial results

		For the three months ended			For the six months ended	
		2012	2011		**2012**	2011	
$ millions, except per share amounts	**June 30**	June 30	Change	**June 30**	June 30	Change
Revenue by segment						
Metals	**$ 140.2**	$ 149.4	(6%)	**$ 255.0**	$ 289.8	(12%)
Coal	**250.6**	254.1	(1%)	**495.9**	500.0	(1%)
Oil and Gas	**76.3**	81.5	(6%)	**158.5**	152.0	4%
Power	**17.6**	13.0	35%	**34.2**	27.4	25%
Corporate and other	**3.2**	2.6	23%	**6.5**	5.9	10%
	487.9	500.6	(3%)	**950.1**	975.1	(3%)
EBITDA[(1)] by segment						
Metals	**$ 47.4**	$ 54.4	(13%)	**$ 78.7**	$ 120.3	(35%)
Coal	**40.4**	44.0	(8%)	**93.5**	91.7	2%
Oil and Gas	**58.4**	65.6	(11%)	**123.6**	120.4	3%
Power	**5.8**	6.5	(11%)	**11.7**	11.3	4%
Corporate and other	**(12.6)**	(12.6)	-	**(21.7)**	(21.4)	1%
	139.4	157.9	(12%)	**285.8**	322.3	(11%)
Earnings (loss) from operations and associate						
Metals	**$ 35.7**	$ 50.1	(29%)	**$ 60.0**	$ 107.5	(44%)
Coal	**9.7**	18.6	(48%)	**35.5**	42.1	(16%)
Oil and Gas	**41.9**	49.4	(15%)	**88.3**	88.8	(1%)
Power	**3.1**	3.9	(21%)	**6.4**	6.1	5%
Corporate and other	**(13.3)**	(13.1)	2%	**(23.0)**	(22.5)	2%
	77.1	108.9	(29%)	**167.2**	222.0	(25%)
Net finance expense	**32.9**	26.0	27%	**78.2**	43.6	79%
Income taxes	**8.1**	22.6	(64%)	**20.3**	54.1	(62%)
(Earnings) loss from discontinued operation, net of tax	**(4.7)**	0.2	(2450%)	**(4.4)**	0.6	(833%)
Net earnings	**$ 40.8**	$ 60.1	(32%)	**$ 73.1**	$ 123.7	(41%)
Net earnings per share (basic and diluted)	**$ 0.14**	$ 0.20	(30%)	**$ 0.25**	$ 0.42	(40%)
Effective tax rate	**18%**	27%	(33%)	**23%**	30%	(23%)

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

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

- Metals' earnings from operations and associate of $35.7 million and $60.0 million for the three and six months ended June 30, 2012 were $14.4 million and $47.5 million lower, respectively, than in the same periods in 2011, primarily as a result of lower nickel and cobalt prices and higher fuel and sulphur input commodity prices, partly offset by higher fertilizer revenue and the impact of a weaker Canadian dollar relative to the U.S. dollar;
- Coal's earnings from operations of $9.7 million and $35.5 million for the three and six months ended June 30, 2012 were $8.9 million and $6.6 million lower, respectively, than in the same periods in 2011, primarily due to lower export sales volume, higher mining costs in Mountain Operations and higher depreciation as a result of increased property, plant and equipment and changes in environmental rehabilitation obligations, partly offset by higher revenue at Prairie Operations and the impact of higher average-realized prices in Mountain Operations;

- Oil and Gas' earnings from operations of $41.9 million and $88.3 million for the three and six months ended June 30, 2012 were $7.5 million and $0.5 million lower, respectively, than in the same periods in 2011. Earnings from operations were lower in the second quarter of 2012 primarily due to lower cost recovery revenue due to lower recoverable capital spending, lower gross working-interest production, and a retroactive adjustment for processing revenue recognized in 2011. Earnings from operations for the six months ended June 30, 2012 were slightly lower as higher oil prices were more than offset by similar factors that impacted the three months ended June 30, 2012;
- Power's earnings from operations of $3.1 million and $6.4 million for the three and six months ended June 30, 2012, respectively, were relatively unchanged from the same periods in the prior year;
- Net finance expense of $32.9 million for the three months ended June 30, 2012, was $6.9 million higher than the same period in the prior year primarily due to higher interest expense and accretion on higher loans and borrowings balances and due to an increase in the value of the master asset vehicle notes in 2011 that were later sold in 2011;
- Net finance expense of $78.2 million for the six months ended June 30, 2012 was $34.6 million higher than the same period in the prior year. In addition to higher interest expense and accretion on loans and borrowings of $5.9 million and an increase in the value of the master asset vehicle notes of $5.5 million realized in 2011, net finance expense was higher primarily due to a reduction in the value of the Ambatovy call option of $12.9 million compared to an increase in the value of the Ambatovy call option of $2.2 million in 2011. The Ambatovy call option relates to the right of the Corporation and Sumitomo Corporation to acquire SNC-Lavalin Inc.'s 5% equity interest in the Ambatovy Joint Venture at any time over a two-year period following the completion of construction and the satisfaction of certain completion tests. The fair value of the Ambatovy call option is a result of changes in various inputs used in the Black-Scholes model, including volatility, which is based on a blend of historical commodity prices and publicly traded stock prices of companies with comparable projects, and the reduced time to expiration of the option;
- The effective consolidated tax rate for the three and six months ended June 30, 2012 was 18% and 23% compared to 27% and 30%, respectively, in the same periods in the prior year. The 2012 tax rates were favourably impacted by the recognition of the tax benefit of certain tax losses that had not previously been recognized. After adjusting for this item, the normalized effective rates for the three and six months ended June 30, 2012, were 30% and 32%, respectively. The difference between these normalized 2012 effective tax rates and the effective tax rates for the same periods in the prior year was primarily the result of changes in the relative mix of earnings, including foreign exchange gains and losses, that were incurred by the various divisions in different tax rate jurisdictions.

Review of operations

METALS

Financial review

$ millions	For the three months ended 2012 June 30	2011 June 30	Change	For the six months ended 2012 June 30	2011 June 30	Change
Revenue						
Nickel	$ 78.1	$ 95.7	(18%)	$ 160.9	$ 206.4	(22%)
Cobalt	15.6	17.1	(9%)	30.0	34.9	(14%)
Fertilizers	43.7	33.6	30%	58.7	41.8	40%
Other	2.8	3.0	(7%)	5.4	6.7	(19%)
	140.2	149.4	(6%)	255.0	289.8	(12%)
Cost of sales[1]						
Mining, processing and refining	66.8	58.4	14%	131.9	112.1	18%
Third-party feed costs	0.9	1.3	(31%)	2.2	3.5	(37%)
Fertilizers	18.1	24.4	(26%)	27.6	32.3	(15%)
Selling costs	4.3	3.9	10%	7.4	6.5	14%
Other	2.4	5.6	(57%)	5.3	11.6	(54%)
	92.5	93.6	(1%)	174.4	166.0	5%
Administrative expenses[1]	0.3	1.4	(79%)	1.9	3.5	(46%)
EBITDA[2]	47.4	54.4	(13%)	78.7	120.3	(35%)
Depletion, depreciation and amortization	9.3	7.5	24%	17.5	14.9	17%
Share of (earnings) loss of associate	2.4	(3.2)	(175%)	1.2	(2.1)	(157%)
Earnings from operations and associate	$ 35.7	$ 50.1	(29%)	$ 60.0	$ 107.5	(44%)

(1) Excluding depletion, depreciation and amortization.
(2) For additional information see the Non-GAAP measures section.

The change in earnings from operations and associated entity between 2012 and 2011 is detailed below:

$ millions	For the three months ended 2012 June 30	For the six months ended 2012 June 30
Lower realized nickel prices, denominated in U.S. dollars	$ (27.7)	$ (58.0)
Lower realized cobalt prices, denominated in U.S. dollars	(3.1)	(6.8)
Higher fertilizer prices	8.4	10.1
Higher metal and fertilizer sales volumes	2.5	3.3
Higher mining and processing costs net of lower third-party feed costs	(1.3)	(9.9)
Weaker Canadian dollar relative to the U.S. dollar	10.6	14.1
Other	(3.8)	(0.3)
Change in earnings from operations, compared to 2011	$ (14.4)	$ (47.5)

Metal prices

Prices	For the three months ended 2012 June 30	2011 June 30	Change	For the six months ended 2012 June 30	2011 June 30	Change
Nickel - average-realized ($ per pound)	$ **7.88**	$ 10.56	(25%)	$ **8.26**	$ 11.16	(26%)
Cobalt - average-realized ($ per pound)	**13.87**	16.24	(15%)	**13.98**	16.88	(17%)
Nickel - average-reference (US$ per pound)	**7.78**	10.96	(29%)	**8.36**	11.60	(28%)
Cobalt - average-reference (US$ per pound)[1]	**14.24**	17.05	(16%)	**14.42**	17.72	(19%)

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

The average nickel reference price decreased US$3.18 per pound in the second quarter and US$3.24 per pound in the first six months of 2012 compared to the same periods in the prior year as a result of global production outpacing demand and the projected further increase in nickel supply from projects in development. The average cobalt reference price decreased US$2.81 per pound in the second quarter and US$3.30 per pound in the first six months of 2012 compared to the same periods in the prior year, primarily as a result of global production outpacing demand. Average-realized prices in 2012 were positively impacted by the weaker Canadian dollar relative to the U.S. dollar.

Production and sales

Production (tonnes) (50% basis)	For the three months ended 2012 June 30	2011 June 30	Change	For the six months ended 2012 June 30	2011 June 30	Change
Mixed sulphides	**4,859**	4,931	(1%)	**9,535**	9,775	(2%)
Finished nickel	**4,485**	3,991	12%	**8,784**	8,294	6%
Finished cobalt	**497**	449	11%	**974**	919	6%
Sales						
Finished nickel (thousands of pounds)(50% basis)	**9,915**	9,063	9%	**19,470**	18,501	5%
Finished cobalt (thousands of pounds)(50% basis)	**1,130**	1,055	7%	**2,147**	2,069	4%
Fertilizer (tonnes)[1]	**71,294**	70,651	1%	**97,921**	88,345	11%

(1) 100% basis except Moa JV refinery by-product fertilizers included at 50%.

Production of 9,718 tonnes (100% basis) of contained nickel and cobalt in mixed sulphides in the second quarter of 2012 was 144 tonnes (100% basis) lower than in the same period in the prior year reflecting slightly lower ore grade and process plant throughput. Finished nickel production of 8,969 tonnes (100% basis) and finished cobalt production of 993 tonnes (100% basis) were higher as the annual maintenance turnaround for the refinery is scheduled to occur in the third quarter of 2012 compared to the second quarter of 2011.

Finished nickel and cobalt sales were higher primarily due to higher finished metals production and timing of shipments. Fertilizer sales volumes increased 643 tonnes in the second quarter and 9,576 tonnes in the first six months of 2012 compared to the same periods in the prior year as sales in the prior year were impacted by the high level of snow cover in Western Canada that delayed spring fertilizer application.

Unit operating costs

Net direct cash cost[1]	For the three months ended 2012 June 30	2011 June 30	Change	For the six months ended 2012 June 30	2011 June 30	Change
Mining, processing and refining costs	**$ 6.56**	$ 6.35	3%	**$ 6.58**	$ 5.93	11%
Third-party feed costs	**0.09**	0.15	(40%)	**0.11**	0.20	(45%)
Cobalt by-product credits	**(1.56)**	(1.95)	(20%)	**(1.53)**	(1.93)	(21%)
Other[2]	**(0.93)**	(0.29)	219%	**(0.37)**	(0.03)	1125%
Net direct cash cost (US$ per pound of nickel)	**$ 4.16**	$ 4.26	(2%)	**$ 4.79**	$ 4.17	15%
Natural gas costs ($ per gigajoule)	**1.93**	3.76	(49%)	**2.05**	3.73	(45%)
Fuel oil (US$ per tonne)	**706.00**	629.75	12%	**699.07**	578.42	21%
Sulphur (US$ per tonne)	**260.08**	242.49	7%	**267.42**	221.14	21%
Sulphuric acid (US$ per tonne)	**183.19**	196.68	(7%)	**190.42**	185.98	2%

(1) For additional information see the Non-GAAP measures section.
(2) Includes fertilizer profit or loss, marketing costs, premiums, and other by-product credits.

Components of mining, processing and refining costs[1]	For the three months ended 2012 June 30	2011 June 30	Change	For the six months ended 2012 June 30	2011 June 30	Change
Fixed costs	**20%**	20%	-	**20%**	21%	(5%)
Sulphur	**8%**	7%	14%	**9%**	8%	13%
Sulphuric acid	**17%**	21%	(19%)	**18%**	20%	(10%)
Fuel oil	**21%**	17%	24%	**21%**	17%	24%
Maintenance	**10%**	12%	(17%)	**11%**	12%	(8%)
Other variable	**24%**	23%	4%	**21%**	22%	(5%)
	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 decreased US$0.10 per pound in the second quarter of 2012 compared to the same period in the prior year primarily due to higher fertilizer by-product credits and lower third-party feed costs, partly offset by lower cobalt by-product credits and an increase in mining, processing and refining costs. Increased mining, processing and refining costs reflected higher fuel oil and sulphur input prices. Third-party feed costs decreased as a result of lower utilization of third-party feed. Net direct cash cost of nickel increased US$0.62 per pound in the first six months of 2012 compared to the same period in the prior year reflecting similar trends except for a greater increase in input commodity prices and less benefit from fertilizer by-product credits.

Spending on capital[1]

$ millions		For the three months ended 2012 June 30		2011 June 30	Change		For the six months ended 2012 June 30		2011 June 30	Change
Sustaining[2]	$	**6.0**	$	8.9	(33%)	$	**10.9**	$	13.4	(19%)
Expansion		**0.2**		0.1	120%		**1.1**		1.9	(41%)
Total	$	**6.2**	$	9.0	(31%)	$	**12.0**	$	15.3	(21%)

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

(2) Includes assets acquired under finance leases of $nil million and $0.9 million for the three and six months ended June 30, 2012, and $0.2 million and $0.2 million for the three and six months ended June 30, 2011, respectively.

Capital spending for the Moa Joint Venture primarily focused on sustaining activities, and is lower than the prior year as spending was deferred in response to the lower nickel price environment. Capitalization of interest related to financing of the Phase 2 expansion and Moa Acid plant ceased during the first quarter of 2012 due to prolonged administrative delays.

Ambatovy update

- The production of mixed sulphides, the intermediary product resulting from the Pressure Acid Leaching process, commenced in late May 2012, facilitating the start-up of the refinery. Approximately 700 tonnes of nickel and cobalt contained in mixed sulphides were introduced to the refinery in the second quarter of 2012. The refining processes of sulphide leaching, iron removal, copper/zinc removal, solvent extraction and hydrogen reduction are in early operation in which final testing continues.
- A preliminary batch of nickel briquettes was sintered and collected on June 26, 2012 as part of the testing and start-up of the refinery. Cobalt reduction and subsequent process steps are ready for start-up, and are waiting on the accumulation of sufficient upstream process inventory. As of June 30, 2012, all core construction personnel have been demobilized. Strategic maintenance contracts have been established with key contractors utilized during construction to ensure continuity and additional maintenance capacity through the ramp-up period.
- Ambatovy Joint Venture is continuing to work with authorities in Madagascar to obtain an authorization (known as an Operating Permit) to commercially operate the processing plant in Toamasina, Madagascar. Ambatovy Joint Venture has already received the required permits needed to conduct mining activities and to bring the project through the commissioning and testing phase. The issuance of the Operating Permit is based on compliance with technical, health and safety, and environmental protection requirements. Ambatovy Joint Venture believes it has satisfied all of the requirements established to date for the Operating Permit. However, the transitional government in Madagascar has advised Ambatovy Joint Venture that it is continuing its review of the project. Ambatovy Joint Venture is in the process of determining the timing and content of this review. This review or other government actions may delay receipt of the Operating Permit, and as a consequence, Ambatovy Joint Venture may face delays in entering commercial operations.
- Cumulative spending on capital for the project was US$5.3 billion, excluding financing charges, working capital and foreign exchange, and is expected to remain within the US$5.5 billion estimate.
- Total project costs in the second quarter of 2012 were US$270.5 million ($273.3 million) (100% basis), inclusive of capital costs of US$18.4 million ($18.6 million) (100% basis). Cumulative total project costs at June 30, 2012 were US$6.3 billion (100% basis). Approximately US$275.0 million ($279.4 million) (100% basis) in funding was provided by the Ambatovy Joint Venture partners in the second quarter of 2012 with Sherritt funding its US$110.0 million ($111.7 million) share directly.

- Total project costs may vary until commercial production and will primarily depend on changes to the ramp-up schedule and fluctuations in the market price for nickel and cobalt. Variability in the ramp-up schedule is most likely to arise from three categories of potential risk:
    - Parts and equipment. There remains an inherent risk that parts and equipment may fail or fail to perform in accordance with design due to mechanical or engineering issues during early operation. Given the location and associated logistics, replacement components may not be immediately available;
    - Construction quality risk. Programs were implemented to rectify all known quality deficiencies, but latent issues may still exist that may affect metal recoveries and operations; and
    - Operational risk. The pace of the start-up process and production ramp-up is directly affected by the performance of core operators and maintenance teams. The commissioning process has been utilized to train and familiarize the new operators with the facility. However, their performance in an operating plant remains untested. Supplementary operators and maintenance personnel, experienced in both start-up activities and steady-state operations, have been mobilized to assist further in the training and start-up to mitigate the short-term risks. In addition, a system has been instituted that will monitor the qualifications and performance of this group and mitigate issues over the medium and long-term.
- If the risks outlined above do not materialize in a significant manner, Ambatovy is expected to reach commercial production (defined as an average of 70% mixed sulphides production capacity over a 30-day period) by early 2013. Commercial production is a significant milestone as it defines the point at which all revenues, net of operating costs, cease to be capitalized and are reflected in the profit and loss statement. The date at which the project becomes cash-flow neutral is difficult to predict as it depends on several external factors, including the nickel reference price which has demonstrated significant volatility in 2012.
- The Transition Government of Madagascar continues to progress the "Roadmap", which was designed by the Southern African Development Community to facilitate Madagascar's return to democratic rule, although several key milestones are outstanding. Ambatovy continues to regularly monitor the political climate in Madagascar and continues to engage in ongoing communication with representatives of the national, regional and local government as well as multilateral institutions and key embassies. Ambatovy continues to foster active working relations with relevant Malagasy Ministries to facilitate the start-up activities.

Outlook for 2012

Production volumes and spending on capital and project For the six and twelve months ended	**Actual June 30 2012**	Projected December 2012
Production		
Mixed sulphides (tonnes, 100% basis)		
Moa Joint Venture	**19,070**	38,000
Ambatovy Joint Venture	-	9,000
	19,070	47,000
Finished nickel (tonnes, 100% basis)		
Moa Joint Venture	**17,567**	34,000
Ambatovy Joint Venture	-	8,000
	17,567	42,000
Finished cobalt (tonnes, 100% basis)		
Moa Joint Venture	**1,947**	3,600
Ambatovy Joint Venture	-	800
	1,947	4,400
Spending on capital ($ millions)		
Moa Joint Venture (50% basis), Fort Saskatchewan [1]	**12**	53
Project capital spending (US$ millions, 100% basis)		
Ambatovy Joint Venture	**64**	64

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

For the Moa Joint Venture, production guidance for 2012 remains largely unchanged from previous estimates, with a small increase in cobalt production reflecting a slightly lower nickel to cobalt ratio in feed from Moa. Capital spending for 2012 is 12% ($7 million, 50% basis) lower than prior guidance, due to planned reduction in sustaining capital in light of weaker commodity prices.

For the Ambatovy Joint Venture, 2012 production estimates reflect the lower end of the production range provided in previous guidance, primarily due to delays in the start-up of the refinery by one quarter. Capital spending guidance is 35% (US$35 million, 100% basis) lower than previous guidance as no significant construction capital expenditures are anticipated after second-quarter 2012.

COAL
Financial review

$ millions, for the three months ended June 30	Prairie Operations 2012	2011	Change	Mountain Operations and coal development assets 2012	2011	Change	Total 2012	2011	Change
Mining revenue	$ 131.7	$ 128.8	2%	$ 104.8	$ 110.4	(5%)	$ 236.5	$ 239.2	(1%)
Coal royalties	10.0	9.7	3%	-	-	-	10.0	9.7	3%
Potash royalties	4.1	5.2	(21%)	-	-	-	4.1	5.2	(21%)
	145.8	143.7	1%	104.8	110.4	(5%)	250.6	254.1	(1%)
Cost of sales[1]	117.2	116.4	1%	89.1	90.1	(1%)	206.3	206.5	-
Administrative expenses[1]	2.3	2.3	-	1.6	1.3	23%	3.9	3.6	8%
EBITDA[2]	26.3	25.0	5%	14.1	19.0	(26%)	40.4	44.0	(8%)
Depletion, depreciation and amortization	16.1	13.4	20%	14.6	12.0	22%	30.7	25.4	21%
Earnings (loss) from operations	$ 10.2	$ 11.6	(12%)	$ (0.5)	$ 7.0	(107%)	$ 9.7	$ 18.6	(48%)

$ millions, for the six months ended June 30	Prairie Operations 2012	2011	Change	Mountain Operations and coal development assets 2012	2011	Change	Total 2012	2011	Change
Mining revenue	$ 277.3	$ 262.0	6%	$ 191.0	$ 206.5	(8%)	$ 468.3	$ 468.5	-
Coal royalties	20.8	21.5	(3%)	-	-	-	20.8	21.5	(3%)
Potash royalties	6.8	10.0	(32%)	-	-	-	6.8	10.0	(32%)
	304.9	293.5	4%	191.0	206.5	(8%)	495.9	500.0	(1%)
Cost of sales[1]	230.7	228.6	1%	163.7	172.2	(5%)	394.4	400.8	(2%)
Administrative expenses[1]	4.4	4.7	(6%)	3.6	2.8	29%	8.0	7.5	7%
EBITDA[2]	69.8	60.2	16%	23.7	31.5	(25%)	93.5	91.7	2%
Depletion, depreciation and amortization	30.1	26.8	12%	27.9	22.8	22%	58.0	49.6	17%
Earnings (loss) from operations	$ 39.7	$ 33.4	19%	$ (4.2)	$ 8.7	(148%)	$ 35.5	$ 42.1	(16%)

(1) Excluding depletion, depreciation and amortization.
(2) For additional information see the Non-GAAP measures section.

The change in earnings from operations between 2012 and 2011 is detailed below:

$ millions	For the three months ended 2012 June 30	For the six months ended 2012 June 30
Prairie Operations		
Higher mining revenue, net of cost of sales	$ 2.1	$ 13.2
Lower potash royalties	(1.1)	(3.2)
Higher depletion, amortization and accretion	(2.7)	(3.3)
Other	0.3	(0.4)
Change in earnings from operations, compared to 2011	$ (1.4)	$ 6.3
Mountain Operations and coal development assets		
Higher (lower) export coal prices, denominated in U.S. dollars	(2.5)	8.8
Weaker Canadian dollar relative to the U.S. dollar	4.7	6.2
Lost margin on reduced sales tonnage	(0.9)	(4.9)
Higher depletion, amortization and accretion	(2.6)	(5.1)
Higher mining costs	(6.0)	(14.6)
Other	(0.2)	(3.3)
Change in earnings from operations, compared to 2011	$ (7.5)	$ (12.9)

Coal prices

Average-realized prices ($ per tonne)[1]	For the three months ended 2012 June 30	2011 June 30	Change	For the six months ended 2012 June 30	2011 June 30	Change
Prairie Operations	**$ 18.27**	$ 17.57	4%	**$ 17.58**	$ 16.18	9%
Mountain Operations	**103.47**	100.54	3%	**103.73**	96.09	8%

(1) Average-realized price is a non-GAAP measure. It is calculated by dividing revenue from the Financial review table above by the number of tonnes sold. For purposes of this calculation, for Prairie Operations, revenue excludes royalties, activated carbon, char and other of $21.9 million and $43.2 million for the three and six months ended June 30, 2012, ($21.6 million and $44.7 million for the three and six months ended June 30, 2011), respectively, and tonnes sold excludes activated carbon and char of 35.6 thousand tonnes and 63.6 thousand tonnes for the three and six months ended June 30, 2012 (32.5 thousand tonnes and 63.9 thousand tonnes for the three and six months ended June 30, 2011), respectively. Average-realized price may not calculate based on amounts presented due to rounding.

In Prairie Operations, the average-realized price increased for the second quarter of 2012 compared to the same period in the prior year due to higher sales volumes at the Boundary Dam mine. The Boundary Dam mine was negatively impacted from extremely wet weather in southern Saskatchewan in the second quarter of 2011. Average-realized price also increased due to lower sales volumes at the Paintearth and Sheerness mines, which have a significant fixed component of mining revenue, due to the timing of scheduled maintenance repairs at the associated customer's power generating stations. Average-realized price increased for the first six months of 2012 compared to the same period in the prior year for the same reasons and due to higher cost recoveries at the Highvale mine.

In Mountain Operations, the average-realized price increased for both the second quarter and first six months of 2012 compared to the same periods in the prior year due to a weaker Canadian dollar relative to the U.S. dollar. Average-realized price for the first six months of 2012 was also higher due to a lower relative proportion of Obed Mountain mine sales volumes which more than offset the decline in the international export coal price.

Royalty revenue

$ millions	For the three months ended 2012 June 30	2011 June 30	Change	For the six months ended 2012 June 30	2011 June 30	Change
Prairie Operations						
Coal royalties	**$ 10.0**	$ 9.7	3%	**$ 20.8**	$ 21.5	(3%)
Potash royalties	**4.1**	5.2	(21%)	**6.8**	10.0	(32%)

Coal royalties for both the second quarter and first six months of 2012 were similar to the same periods in the prior year. Potash royalties were lower for both the second quarter and first six months of 2012 due to lower production volumes from potash producers due to weaker market demand.

Production and sales

Production (millions of tonnes)	For the three months ended 2012 June 30	2011 June 30	Change	For the six months ended 2012 June 30	2011 June 30	Change
Prairie Operations	**7.0**	6.6	6%	**15.6**	15.2	3%
Mountain Operations	**0.8**	1.1	(27%)	**1.8**	2.2	(18%)
Sales (millions of tonnes)						
Prairie Operations	**6.8**	6.9	(1%)	**14.9**	15.4	(3%)
Mountain Operations	**1.0**	1.1	(9%)	**1.8**	2.1	(14%)

In Prairie Operations, production volumes were higher for the second quarter and first six months of 2012 compared to the same periods in the prior year primarily due to extremely wet weather in southern Saskatchewan in 2011 that negatively impacted coal hauling efforts at the Boundary Dam mine. Activated carbon production of 3,788 tonnes (50% basis) for the first six months of 2012 was 648 tonnes higher than the same period in the prior year.

In Mountain Operations, production and sales volumes were lower for the second quarter and first six months of 2012 compared to the same periods in the prior year entirely as a result of reduced production at the Obed Mountain mine in order to achieve an optimal thermal export sales mix. Despite regulatory delays that prevented mining in Yellowhead Tower until May 2012, production levels at the Coal Valley mine for the first six months of 2012 were 3% higher compared to the same period in the prior year due to an increase in truck and shovel availability and higher coal plant yields.

Unit operating costs

	For the three months ended			For the six months ended		
	2012	2011		**2012**	2011	
Unit operating cost[1] ($ per tonne)	**June 30**	June 30	Change	**June 30**	June 30	Change
Prairie Operations	**$ 16.59**	$ 15.84	5%	**$ 14.81**	$ 14.13	5%
Mountain Operations	**87.61**	81.68	7%	**88.27**	80.33	10%

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

	For the three months ended			For the six months ended		
	2012	2011		**2012**	2011	
Components of unit operating cost (%)	**June 30**	June 30	Change	**June 30**	June 30	Change
Prairie Operations						
Labour	**41%**	41%	-	**41%**	43%	(5%)
Repairs and maintenance	**29%**	28%	4%	**28%**	27%	4%
Fuel	**15%**	15%	-	**15%**	15%	-
Other [1]	**15%**	16%	(6%)	**16%**	15%	7%
Total	**100%**	100%	-	**100%**	100%	-
Mountain Operations						
Labour	**23%**	21%	10%	**23%**	21%	10%
Repairs and maintenance	**13%**	13%	-	**15%**	13%	15%
Fuel	**12%**	11%	9%	**12%**	11%	9%
Rentals and contractors	**15%**	13%	15%	**16%**	14%	14%
Ex-Mine[2]	**35%**	30%	17%	**29%**	31%	(6%)
Other [3]	**2%**	12%	(83%)	**5%**	10%	(50%)
Total	**100%**	100%	-	**100%**	100%	-

(1) Composed of rentals, subcontractors, explosives, power, taxes, tires, licenses and other miscellaneous expenses.
(2) Primarily composed of commissions, royalties, freight and port fees.
(3) Composed of tires, explosives, power, taxes, licenses and other miscellaneous expenses.

In Prairie Operations, unit operating costs increased for the second quarter of 2012 compared to the same period in the prior year due to major dragline repairs at the Boundary Dam and Poplar River mines. Unit operating costs increased for the first six months of 2012 for the same reasons in addition to higher cost recoveries at the Highvale mine.

In Mountain Operations, unit operating costs increased for the second quarter and first six months of 2012 compared to the same periods in the prior year primarily due to lower Obed Mountain mine production volumes as discussed in the Production and sales section. At the Coal Valley mine, unit operating costs were higher during the first six months of 2012 primarily due to regulatory delays for the Yellowhead Tower mining area. Initial mining results from Yellowhead Tower have been positive in terms of coal quality and loading equipment productivities.

Spending on capital

$ millions	For the three months ended 2012 June 30	2011 June 30	Change	For the six months ended 2012 June 30	2011 June 30	Change
Prairie Operations						
Sustaining[1][2]	**$ 19.5**	$ 21.4	(9%)	**$ 26.7**	$ 36.9	(28%)
Mountain Operations						
Sustaining[3]	**23.8**	8.0	198%	**39.9**	12.3	224%
Total	**$ 43.3**	$ 29.4	47%	**$ 66.6**	$ 49.2	35%

(1) Includes assets acquired under finance leases of $7.9 million and $10.8 million for the three and six months ended June 30, 2012 ($10.3 million and $19.8 million for the three and six months ended June 30, 2011), respectively.

(2) Includes capital expenditures of $6.4 million and $7.5 million for the three and six months ended June 30, 2012 ($13.0 million and $17.9 million for the three and six months ended June 30, 2011), respectively, related to assets that are categorized as finance lease receivables.

(3) Includes assets acquired under finance leases of $17.6 million and $19.5 million for the three and six months ended June 30, 2012, ($5.1 million and $7.5 million for the three and six months ended June 30, 2011), respectively.

For the first six months of 2012, in addition to the acquisition of $10.8 million of leased equipment, Prairie Operations spent $8.9 million for the replacement of a major dragline component at the Bienfait mine which remains on schedule and is still expected to be completed in the second half of 2012. Capital spending was lower for the second quarter and first six months of 2012 due primarily to the timing of equipment arrivals at the mines.

In Mountain Operations, in addition to the acquisition of $19.5 million of leased equipment during the first six months of 2012, Coal Valley mine spent $20.4 million, of which $9.8 million related to the purchase of loading equipment in the first quarter and $5.1 million related to initial mining activities in the Yellowhead Tower mining area where coal production commenced in the second quarter. The $17.6 million in lease additions during the second quarter of 2012 reflected the majority of planned equipment capital expenditures for 2012.

Regulatory update

The status of the draft regulations published by the federal government on August 27, 2011, "Reduction of Carbon Dioxide Emissions from Coal-Fired Generation of Electricity" (the Draft Regulations), remains uncertain. The Draft Regulations would require, among other things, that new and certain refurbished coal-fired plants commissioned on or after July 1, 2015, achieve an emissions intensity performance standard of 375 tonnes of CO_2 per gigawatt hour. In general, for units commissioned prior to that date, the same standard would take effect 45 years from the unit's commissioning date or upon the expiration of the unit's power purchase agreement, whichever comes later. The Corporation provided written comments to the federal government within a prescribed 60-day comment period. The Corporation has also continued to actively engage with key stakeholders, including provincial and federal governments, to express its concerns with the Draft Regulations.

Outlook for 2012

Production volumes, royalties and spending on capital For the six and twelve months ended	**Actual** **June 30** **2012**	Projected December 2012
Production		
Prairie Operations (millions of tonnes)	**16**	33
Mountain Operations (millions of tonnes)	**2**	4
Royalties ($ millions)		
Coal	**21**	39
Potash	**7**	15
Spending on capital ($ millions)		
Prairie Operations	**27**	81
Mountain Operations	**40**	62

For Prairie Operations, full-year 2012 production remains consistent with prior guidance. Capital spending for 2012 has been reduced by 17% ($16 million) from prior guidance, reflecting timing of equipment arrivals at the sites and cost saving initiatives in light of weaker thermal coal export pricing.

For Mountain Operations, full-year 2012 production remains consistent with prior guidance. Capital spending for 2012 has been reduced by 5% ($3 million) from prior guidance, reflecting timing of equipment arrivals at the sites and cost saving initiatives in light of weaker thermal coal export pricing.

OIL AND GAS

Financial review

$ millions	For the three months ended 2012 June 30	2011 June 30	Change	For the six months ended 2012 June 30	2011 June 30	Change
Revenue						
Cuba	**$ 71.5**	$ 71.9	(1%)	**$ 148.1**	$ 137.1	8%
Spain	**3.4**	5.0	(32%)	**7.5**	9.0	(17%)
Pakistan	**0.2**	0.2	-	**0.5**	0.5	-
Processing	**1.2**	4.4	(73%)	**2.4**	5.4	(56%)
	76.3	81.5	(6%)	**158.5**	152.0	4%
Cost of sales[1]	**13.9**	13.1	6%	**28.4**	26.5	7%
Administrative expenses[1]	**4.0**	2.8	43%	**6.5**	5.1	27%
EBITDA[2]	**58.4**	65.6	(11%)	**123.6**	120.4	3%
Depletion, depreciation and amortization	**16.5**	16.2	2%	**35.3**	31.6	12%
Earnings from operations	**$ 41.9**	$ 49.4	(15%)	**$ 88.3**	$ 88.8	(1%)

(1) Excluding depletion, depreciation and amortization.
(2) For additional information see the Non-GAAP measures section.

The change in earnings from operations between 2012 and 2011 is detailed below:

$ millions	For the three months ended 2012 June 30	For the six months ended 2012 June 30
(Lower) higher realized oil and gas prices	**$ (1.3)**	**$ 11.0**
Lower gross-working interest volumes	**(1.1)**	**(2.8)**
Lower cost recovery revenue due to lower recoverable capital spending	**(3.1)**	**(3.1)**
Retroactive processing revenue adjustment in 2011 on finalization of agreement	**(3.1)**	**(3.1)**
Higher administrative costs	**(1.2)**	**(1.4)**
Lower (higher) depletion, depreciation and amortization	**0.1**	**(3.6)**
Weaker Canadian dollar relative to the U.S. dollar	**2.5**	**3.4**
Other	**(0.3)**	**(0.9)**
Change in earnings from operations, compared to 2011	**$ (7.5)**	**$ (0.5)**

Oil prices

Prices	For the three months ended 2012 June 30	2011 June 30	Change	For the six months ended 2012 June 30	2011 June 30	Change
Average-realized prices						
Cuba ($ per barrel)	**$ 71.70**	$ 68.98	4%	**$ 75.05**	$ 65.43	15%
Spain ($ per barrel)	**105.68**	112.66	(6%)	**113.13**	109.25	4%
Pakistan ($ per boe)[1]	**8.28**	7.87	5%	**8.18**	7.93	3%
Reference price (US$ per barrel)						
Gulf Coast Fuel Oil No. 6	**97.99**	98.40	-	**102.91**	92.40	11%
Brent	**109.02**	118.32	(8%)	**114.30**	111.83	2%

(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 produced in Cuba increased by $2.72 per barrel in the second quarter and by $9.62 per barrel in the first six months of 2012 compared to the same periods in the prior year primarily due to the impact of a weaker Canadian dollar relative to the U.S. dollar. A higher oil reference price also contributed to the increase for the first six months of 2012.

The average-realized price for oil produced in Spain decreased by $6.98 per barrel in the second quarter and increased by $3.88 per barrel in the first six months of 2012 compared to the same periods in the prior year primarily as a result of changes in reference prices. Average-realized prices in 2012 were positively impacted by the weaker Canadian dollar relative to the U.S. dollar.

Production and sales

	For the three months ended			For the six months ended		
	2012	2011		**2012**	2011	
Daily production volumes (1)	**June 30**	June 30	Change	**June 30**	June 30	Change
Gross working-interest oil production in Cuba(2)(3)	**20,806**	20,900	-	**20,443**	20,887	(2%)
Net working-interest oil production						
Cuba (heavy oil)						
Cost recovery	**2,909**	3,737	(22%)	**2,989**	3,966	(25%)
Profit oil	**8,054**	7,723	4%	**7,854**	7,615	3%
Total	**10,963**	11,460	(4%)	**10,843**	11,581	(6%)
Spain (light/medium oil) (4)	**356**	488	(27%)	**366**	457	(20%)
Pakistan (natural gas) (4)	**352**	342	3%	**354**	349	1%
Total	**11,671**	12,290	(5%)	**11,563**	12,387	(7%)

(1) Oil production is stated in barrels of oil per day (bopd). Natural gas production is stated in barrels of oil equivalent per day (boepd), which is converted at 6,000 cubic feet per barrel.
(2) In Cuba, Oil and Gas delivered all of its gross working-interest oil production to CUPET at the time of production. Gross working-interest oil production excludes (i) production from wells for which commerciality has not been established in accordance with production-sharing contracts, and (ii) working interests of other participants in the production-sharing contracts.
(3) For further information on gross working-interest oil production in Cuba, cost recovery, and profit oil see page 43 of the 2011 annual report.
(4) For Spain and Pakistan, net working-interest production is equal to gross working-interest production.

Gross working-interest (GWI) oil production in Cuba decreased 94 bopd in the second quarter and 444 bopd in the first six months of 2012 compared to the same periods in the prior year primarily due to natural reservoir declines, partly offset by production from three new wells that were completed in the first six months of 2012 and are now producing oil, and the optimization of production from existing wells.

Cost-recovery oil production in Cuba decreased 828 bopd in the second quarter and 977 bopd in the first six months of 2012 compared with the same periods in the prior year primarily due to higher oil prices during the first quarter of 2012, as well as lower cost-recovery spending during the first six months of 2012. Profit-oil production, which represents Sherritt's share of production after cost recovery volumes are deducted from GWI volumes increased by 331 bopd in the second quarter and by 239 bopd in the first six months of 2012.

Production in Spain was lower due to natural reservoir declines and one well being shut-in pending evaluation of whether it is economically feasible to return to production. Production in Pakistan was lower due to natural reservoir declines.

Unit operating costs

	For the three months ended			For the six months ended		
	2012	2011		**2012**	2011	
Unit operating cost(1) ($ per net boe)	**June 30**	June 30	Change	**June 30**	June 30	Change
Cuba	**$ 12.28**	$ 10.95	12%	**$ 12.67**	$ 11.07	14%
Spain	**46.90**	30.81	52%	**46.70**	31.99	46%
Pakistan	**4.16**	2.70	54%	**3.45**	3.24	6%
Weighted-average	**$ 13.21**	$ 11.51	15%	**$ 13.57**	$ 11.62	17%

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

Components of unit operating cost - Cuba (%)	For the three months ended 2012 June 30	2011 June 30	Change	For the six months ended 2012 June 30	2011 June 30	Change
Labour	**21%**	20%	5%	**24%**	23%	4%
Maintenance	**11%**	13%	(15%)	**11%**	12%	(8%)
Treatment and transportation	**19%**	21%	(10%)	**18%**	21%	(14%)
Freight and duty	**5%**	6%	(17%)	**5%**	5%	-
Production chemicals	**8%**	4%	100%	**7%**	6%	17%
Fuel and electricity	**9%**	10%	(10%)	**9%**	8%	13%
Insurance	**3%**	4%	(25%)	**3%**	5%	(40%)
Other	**24%**	22%	9%	**23%**	20%	15%
	100%	100%	-	**100%**	100%	-

Unit operating cost in Cuba increased $1.33 per barrel in the second quarter and $1.60 per barrel in the first six months of 2012 compared to the same periods in the prior year primarily due to lower net production and higher costs for production chemical inputs and labour which were partly offset by lower insurance, treatment and transportation costs.

Unit operating cost in Spain increased $16.09 per barrel in the second quarter and $14.71 in the first six months of 2012 compared to the same periods in the prior year primarily due to higher overhead costs, and lower oil production in 2012, partly offset by a stronger Canadian dollar relative to the Euro.

Spending on capital

$ millions	For the three months ended 2012 June 30	2011 June 30	Change	For the six months ended 2012 June 30	2011 June 30	Change
Development, facilities and other	**$ 9.6**	$ 17.1	(44%)	**$ 17.4**	$ 31.6	(45%)
Exploration	**1.9**	1.9	-	**3.5**	2.1	67%
Total	**$ 11.5**	$ 19.0	(39%)	**$ 20.9**	$ 33.7	(38%)

In the second quarter of 2012, development and facilities capital spending was composed primarily of $7.7 million for development drilling activities and $0.6 million related to facility improvements. In the first six months of 2012, development and facilities capital spending was composed primarily of $13.8 million for development drilling activities and $1.1 million related to facility improvements. Spending on capital was $7.5 million lower in the second quarter and $12.8 million lower in the first six months of 2012 compared with the same periods in the prior year primarily due to a decrease in facilities spending and reduced equipment and inventory purchases in Cuba, as well as a decrease in development drilling in the first six months of 2012.

During the second quarter of 2012, two development wells commenced drilling, one of which was completed and is now producing oil. In the first six months of 2012, three development wells commenced drilling and three wells were completed and are producing oil.

Exploration spending in 2012 continues to be focused in the United Kingdom North Sea prospect area and in the Alboran Sea prospect area off the southern coast of Spain.

Outlook for 2012

Production volumes and spending on capital For the six and twelve months ended	**Actual** **June 30** **2012**	Projected December 2012
Production		
Gross working-interest oil (Cuba) (bopd)	**20,443**	20,000
Net working-interest production, all operations (boepd)	**11,563**	11,500
Spending on capital ($ millions)		
Cuba	**16**	51
Other	**5**	8

Projected 2012 GWI production in Cuba remains unchanged from prior guidance, while total net production is 2% (280 bopd) lower than previous guidance, reflecting expected lower cost recovery volumes primarily due to the impact of continued strength in reference pricing. Projected 2012 capital spending in Cuba remains consistent with prior guidance, while projected 2012 capital spending in other jurisdictions is 56% ($10 million) lower than previous guidance, reflecting the postponement of seismic programs in both the Alboran Sea and the United Kingdom North Sea prospect areas, until 2013.

POWER

Financial review

$ millions (33⅓% basis)	For the three months ended 2012 June 30	2011 June 30	Change	For the six months ended 2012 June 30	2011 June 30	Change
Revenue						
Electricity sales	**$ 6.6**	$ 6.2	6%	**$ 13.0**	$ 12.2	7%
By-products and other	**1.9**	1.8	6%	**3.8**	3.4	12%
Fixed-price lease contracts[1]	**1.2**	1.4	(14%)	**2.5**	2.7	(7%)
Construction activity	**7.9**	3.6	119%	**14.9**	9.1	64%
	17.6	13.0	35%	**34.2**	27.4	25%
Cost of sales[2]	**2.7**	3.8	(29%)	**5.4**	6.6	(18%)
Cost of construction	**7.9**	3.6	119%	**14.9**	9.1	64%
Administrative expenses[2][3]	**1.2**	(0.9)	(233%)	**2.2**	0.4	450%
EBITDA[4]	**5.8**	6.5	(11%)	**11.7**	11.3	4%
Depletion, depreciation and amortization	**2.7**	2.6	4%	**5.3**	5.2	2%
Earnings from operations	**$ 3.1**	$ 3.9	(21%)	**$ 6.4**	$ 6.1	5%

(1) Composed of fixed lease payments received in relation to the 25 MW power plant in Madagascar.
(2) Excluding depletion, depreciation and amortization.
(3) Amounts in 2011 include higher cost recoveries compared to the current periods.
(4) For additional information see the Non-GAAP measures section.

The change in earnings from operations between 2012 and 2011 is detailed below:

$ millions	For the three months ended 2012 June 30	For the six months ended 2012 June 30
Higher electricity volumes	**$ 0.1**	**$ 0.4**
Lower realized by-product prices	**(0.2)**	**(0.1)**
Turbine failure in 2011	**1.0**	**1.0**
Higher administrative expenses	**(2.1)**	**(1.8)**
Weaker Canadian dollar relative to the U.S. dollar	**0.2**	**0.3**
Other	**0.2**	**0.5**
Change in earnings from operations, compared to 2011	**$ (0.8)**	**$ 0.3**

Electricity prices

Price ($ per MWh)[1]	For the three months ended 2012 June 30	2011 June 30	Change	For the six months ended 2012 June 30	2011 June 30	Change
Average-realized price	**$ 41.79**	$ 40.26	4%	**$ 41.63**	$ 40.40	3%

(1) Megawatt hours (MWh).

The average-realized price of electricity was $1.53 per MWh higher in the second quarter of 2012 and $1.23 per MWh higher in the first six months of 2012 as compared to the same periods in the prior year primarily due to a weaker Canadian dollar relative to the U.S. dollar.

Production and sales

	For the three months ended			For the six months ended		
	2012	2011		**2012**	2011	
Production/Sales (33⅓% basis)	**June 30**	June 30	Change	**June 30**	June 30	Change
Electricity sold (GWh)[1]	**157**	154	2%	**312**	302	3%

(1) Gigawatt hours (GWh).

Production remained consistent compared to the prior year.

Unit operating costs[1]

	For the three months ended			For the six months ended		
	2012	2011		**2012**	2011	
Unit operating cost ($ per MWh)	**June 30**	June 30	Change	**June 30**	June 30	Change
Base[2]	**$ 15.45**	$ 23.28	(34%)	**$ 15.46**	$ 20.08	(23%)
Non-base[2]	**$ 1.41**	$ 1.40	1%	**$ 1.55**	$ 1.77	(12%)
	$ 16.86	$ 24.68	(32%)	**$ 17.01**	$ 21.85	(22%)

(1) For additional information see the Non-GAAP measures section.
(2) Base - operating costs incurred at the Varadero, Boca de Jaruco and Puerto Escondido sites. Non-base - costs that are expensed as incurred at the Boca de Jaruco and Puerto Escondido sites as part of service concession arrangements.

	For the three months ended			For the six months ended		
	2012	2011		**2012**	2011	
Components of unit operating cost (%)	**June 30**	June 30	Change	**June 30**	June 30	Change
Labour	**34%**	22%	55%	**34%**	27%	26%
Maintenance	**15%**	40%	(63%)	**19%**	31%	(39%)
Freight and duty	**3%**	7%	(57%)	**5%**	6%	(17%)
Insurance	**10%**	6%	67%	**9%**	8%	13%
Other	**38%**	25%	52%	**33%**	28%	18%
Total	**100%**	100%	-	**100%**	100%	-

Unit operating cost decreased in the second quarter of 2012 and for the first six months of 2012 compared to the same periods in the prior year. These decreases were primarily a result of turbine failures at Varadero in the second quarter of 2011, which accounted for an increase in unit operating cost of $6.49 per MWh in the second quarter of 2011 and $3.31 per MWh for the first six months of 2011.

Spending on capital and service concession arrangements

	For the three months ended			For the six months ended		
	2012	2011		**2012**	2011	
$ millions (33⅓% basis)	**June 30**	June 30	Change	**June 30**	June 30	Change
Sustaining	**$ 0.1**	$ 0.9	(89%)	**$ 0.3**	$ 0.9	(67%)
Growth	**1.2**	0.7	71%	**2.2**	1.3	69%
Total	**$ 1.3**	$ 1.6	(19%)	**$ 2.5**	$ 2.2	14%

Sustaining capital expenditures for the first six months of 2012 were primarily related to the purchase of equipment and major long-term spare parts. Growth spending related to capitalized interest on the 150 MW Boca de Jaruco Combined Cycle Project.

$ millions (33⅓% basis)	For the three months ended 2012 June 30	2011 June 30	Change	For the six months ended 2012 June 30	2011 June 30	Change
Service concession arrangements	**$ 7.9**	$ 3.6	119%	**$ 14.9**	$ 9.1	64%

Service concession arrangement expenditures relate to the 150 MW Boca de Jaruco project. Engineering for the project is substantially complete and all major equipment has been ordered, the majority of which is on site and is being prepared to be installed. The project is scheduled to begin production in the first half of 2013. Sherritt's estimate of the total project cost remains $271.0 million.

Outlook for 2012

Production volumes and spending on capital (33⅓% basis) For the six and twelve months ended	**Actual June 30 2012**	Projected December 2012
Production		
Electricity (GWh)	**312**	595
Spending on capital ($ millions)		
Cuba[1]	**3**	6
Project capital spending ($ millions)		
150 MW Boca de Jaruco (100% basis)	**45**	94

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

Projected 2012 production is 8% (45 GWh, 33⅓% basis) higher than prior guidance, due to the impact of higher gas supply year-to-date that is expected to continue for the remainder of the year. Spending on capital for 2012 is expected to be 25% ($2 million, 33⅓% basis) lower than previous guidance due to a reduction in sustaining capital projects.

At the 150 MW Boca de Jaruco Combined Cycle Project, spending in 2012 is 14% ($15 million) lower than previous guidance, due to a deferral of costs to 2013. The Project remains on schedule to be in production in first-half 2013.

OTHER

Technologies

Technologies continued to support the Ambatovy Project commissioning activities with rotational assignment of its personnel to site and by providing consulting support from Technologies' office in Fort Saskatchewan.

Technologies also continued to support the Sulawesi Project activities in Indonesia and Coal in progressing the initiatives on coal gasification and coal pre-combustion beneficiation technologies. Commissioning of a Brazilian gold pressure oxidation project is essentially complete with the facility processing close to design feed capacity. Work was undertaken for a Latin American client to test a copper pressure hydrometallurgical process in a continuous pilot plant campaign. Development of coal to liquid technology continued with a third party. Work continued on the detailed design and installation of a pilot plant.

For the three and six months ended June 30, 2012, Technologies generated external revenue was $2.9 million and $6.0 million, respectively compared with $2.5 million and $5.6 million for same periods in the prior year.

Sulawesi Project update

The Sulawesi Project is a large, high-grade undeveloped lateritic nickel deposit on the Indonesian island of Sulawesi. Under the terms of its earn-in and shareholders' agreement, with a subsidiary of Rio Tinto Limited (Rio Tinto), the Corporation may elect to acquire a 57.5% interest in a holding company that owns the Sulawesi Project in Indonesia upon funding expenditures of US$30.0 million and meeting certain other conditions by October 1, 2013. In addition, upon meeting the above conditions, the Corporation may elect to spend an additional US$80.0 million by June 30, 2017 towards producing a feasibility study from which a development decision will be made. If the Corporation elects not to spend the US$80.0 million it would forfeit its interest in the Sulawesi Project companies.

In compliance with Indonesia's mining law, Rio Tinto has concluded agreements to divest a 20% interest in the Sulawesi Project to Indonesian interests. Following such divestiture, which is expected to occur prior to production, Sherritt and Rio Tinto together will indirectly own and control an 80% interest in the Sulawesi Project, which will give Sherritt a 46% economic interest, and Rio Tinto a 34% economic interest, respectively.

Pursuant to Indonesian Government Regulation No. 24 of 2012 which came into force on February 21, 2012, all foreign-owned mining companies in Indonesia must offer at least 51% of their shares to Indonesian interests by the end of the 10th year after the commencement of production. The implementation of this government regulation may result in a diminution of Sherritt's economic interest in the Sulawesi Project. The Corporation continues to study the impact on the Sulawesi Project of this and other Indonesian government regulations directed at the mining industry as the details become available.

In the second quarter of 2012, the Corporation incurred US$4.5 million of expenditures that qualify towards the Corporation's earn-in on the project. To June 30, 2012, the Corporation has incurred a total of US$14.2 million of qualifying expenditures or 13% of the funding requirements to obtain Sherritt's 46% economic interest in the Project. The Corporation continues to advance work on the project including environmental and social baseline studies and the project prefeasibility study.

The environmental baseline scoping study was completed in second-quarter 2012. Both the environmental and social baseline studies are scheduled for completion in 2013. Commencement of the resource drilling program is anticipated in second-half 2012, and is expected to bring total spending on the Project to approximately $22 million, or 20% of the total funding requirement to obtain Sherritt's 46% economic interest in the Project.

Liquidity and capital resources

Based on the Corporation's financial position and liquidity at June 30, 2012, and projected future earnings, management expects to be able to fund its working capital and project needs, and meet its other obligations including debt repayments.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

$ millions, as at June 30, 2012	Total	Falling due within 1 year	Falling due between 1-2 years	Falling due between 2-3 years	Falling due between 3-4 years	Falling due between 4-5 years	Falling due in more than 5 years
Trade accounts payable and accrued liabilities	$ 167.1	$ 167.1	$ -	$ -	$ -	$ -	$ -
Income taxes payable	19.7	19.7	-	-	-	-	-
Advances and loans payable	139.5	16.1	13.0	11.6	11.1	10.9	76.8
Loans and borrowings[1]	2,848.8	73.5	136.6	419.9	520.6	192.1	1,506.1
Finance leases and other equipment financing	174.0	55.0	45.4	29.3	30.1	14.2	-
Operating leases	39.8	15.5	10.6	2.9	1.9	1.9	7.0
Capital commitments	11.5	11.5	-	-	-	-	-
Environmental rehabilitation provision	404.7	36.4	36.3	36.4	25.7	17.8	252.1
Pensions	123.2	13.6	13.7	14.0	14.0	14.0	53.9
Total	$ 3,928.3	$ 408.4	$ 255.6	$ 514.1	$ 603.4	$ 250.9	$ 1,895.9

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

OTHER COMMITMENTS

The following commitments are not reflected in the table above:

Ambatovy Joint Venture

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

- Environmental rehabilitation commitments of $166.2 million, with no significant repayments due in the next four years;
- Contractual commitments for commodities of $48.7 million; and
- Ambatovy Joint Venture senior debt financing of US$840.0 million ($841.7 million), with principal repayments beginning the later of six months after financial completion of the Ambatovy Project or 30 months after final draw down, but not later than June 2013. On an undiscounted basis, principal and interest repayments are $958.2 million.

Sulawesi Project

The Corporation expects to fund US$30.0 million in exploration and development costs by October 1, 2013, and can elect to spend an additional US$80.0 million by June 30, 2017. The Corporation has incurred total qualifying expenditures of US$14.2 million as of June 30, 2012.

150 MW Boca de Jaruco project

The Corporation expects to fund $76.3 million (100% basis) related to the remainder of its service concession arrangement commitment for the 150 MW Boca de Jaruco project which is expected to be completed in the first half of 2013.

INVESTMENT LIQUIDITY

At June 30, 2012, cash and cash equivalents, and short-term and long-term investments were located in the following countries:

$ millions, as at June 30, 2012	Cash and cash equivalents	Short-term investments	Investments	Total
Canada	$ 127.7	$ 313.3	$ 5.7	$ 446.7
Cuba	12.9	-	45.6	58.5
Other	24.7	-	-	24.7
Total	$ 165.3	$ 313.3	$ 51.3	$ 529.9

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, 2012, included in cash equivalents was $126.8 million in Government of Canada treasury bills having original maturity dates of less than three months. Included in short-term investments was $186.5 million in Government of Canada treasury bills having original maturity dates of greater than three months and less than one year.

Included in cash, cash equivalents and short-term investments was $52.2 million (50% basis) of cash held by the Moa Joint Venture. All cash held by the Moa Joint Venture is for the exclusive use of the joint venture.

The table above does not include $29.3 million of cash held by the Ambatovy Joint Venture (which is included as part of the investment in an associate balance in the consolidated statement of financial position). The cash balances are deposited with major financial institutions rated A or higher by Standard and Poor's and are for the exclusive use of the Ambatovy Joint Venture.

Investments

As a result of the agreement in January 2009 with Oil and Gas and Power's Cuban customers, Sherritt acquired approximately US$159.1 million in certificates of deposit (CDs). These CDs were issued by a Cuban bank and bear interest at a rate of 30-day LIBOR plus 5%. In the event of default, Sherritt has the right to receive payment from the cash flows payable by the Moa Joint Venture to its Cuban beneficiaries. At June 30, 2012, the balance of the CDs was $45.6 million.

AVAILABLE CREDIT FACILITIES

At June 30, 2012, the Corporation and its divisions had borrowed $1.8 billion under available credit facilities. Total credit available under these facilities was $595.0 million.

The following table outlines the maximum amount and amounts available to the Corporation for credit facilities that have amounts available at June 30, 2012 and December 31, 2011. A detailed description of these facilities is provided in the Loans, borrowings and other liabilities note in the Corporation's unaudited interim consolidated financial statements at June 30, 2012 and its audited consolidated financial statements for the year ended December 31, 2011.

$ millions, as at	**2012**	**June 30**	2011	December 31
	Maximum	**Available**	Maximum	Available
Short-term				
Syndicated 364-day revolving-term credit facility[1]	**$ 90**	**$ 90**	$ 115	$ 109
Line of credit	**20**	**20**	20	20
Letters of credit facility[2]	**-**	**-**	64	6
Long-term				
Ambatovy Joint Venture partner loans (US$)[3]	**213**	**127**	213	127
Coal revolving credit facility[4]	**525**	**355**	-	-
Senior credit facility agreement[5]	**-**	**-**	235	159
Total Canadian equivalent	**$ 852**	**$ 595**	$ 651	$ 424
Supplementary information				
Ambatovy Project financing (US$) (40%)[6]	**$ 840**	**$ -**	$ 840	-
Finance leases[7]	**$ 190**	**$ 62**	$ 190	$ 41

(1) Available for general corporate purposes. Total available draw is based on eligible receivables and inventory. At June 30, 2012, the Corporation did not have any letters of credit outstanding on this facility.
(2) Letter of credit issued by Coal Valley Resources Inc. (CVRI) under this facility were transferred to the Coal revolving credit facility.
(3) Available to fund Sherritt's contributions to the Ambatovy Joint Venture.
(4) Available to Prairie Mines and Royalty Ltd (PMRL) and CVRI. At June 30, 2012, a total of $56.5 million has been drawn on this facility and $113.2 million of letters of credit are outstanding.
(5) Facility was replaced with the Coal revolving credit facility in June 2012.
(6) Due to the equity accounting for Ambatovy Joint Venture previously discussed, this loan is not included in loans and borrowings on the Corporation's statement of financial position.
(7) Finance leases include only those that have been committed by lenders.

Syndicated 364-day revolving-term credit facility

In June 2012, the Corporation amended the terms of the syndicated 364-day revolving-term credit facility to change the maximum available credit under the facility to $90.0 million. The total amount available is based on eligible receivables and inventory. The facility expires on May 6, 2013.

Coal revolving credit facility/Senior credit facility/3-year non-revolving term loan

In June 2012, the Corporation negotiated a revolving credit facility agreement for PMRL and CVRI with a syndicate of financial institutions to replace the senior credit facility and the CVRI letters of credit facility. Concurrent with the establishment of the new facility, the senior credit facility and the 3-year non-revolving term loan were extinguished and letters of credit issued under the letters of credit facility were transferred to the new facility. The maximum funding available under the Coal revolving credit facility is $525.0 million consisting of a $350.0 million credit facility and a $175.0 million in available letters of credits. The credit facility expires June 26, 2016.

Covenants

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

At June 30, 2012, the Corporation and its divisions were in compliance with all of their financial covenants. The Corporation expects to remain in compliance with all of its financial covenants during the next twelve months, based on current market conditions. Other than the covenants required for the debt facilities, the Corporation is not subject to any externally imposed capital restrictions.

SOURCES AND USES OF CASH

The Corporation's cash flows from operating, investing and financing activities are summarized in the following table as derived from Sherritt's interim consolidated statements of cash flow.

	For the three months ended			For the six months ended		
	2012	2011		**2012**	2011	
$ millions, for the three months ended March 31	**June 30**	June 30	Change	**June 30**	June 30	Change
Cash from operating activities						
Cash from operating activities before change in non-cash working capital	**$ 82**	$ 91	(10%)	**$ 198**	$ 233	(15%)
Change in non-cash working capital	**(54)**	(43)	26%	**(47)**	(77)	(39%)
	$ 28	$ 48	(42%)	**$ 151**	$ 156	(3%)
Cash provided by (used for) investing and financing activities						
Property, plant, equipment and intangible expenditures	**$ (44)**	$ (26)	69%	**$ (66)**	$ (50)	32%
Loans to an associate	**(59)**	(68)	(13%)	**(82)**	(127)	(35%)
Net reciept (repayment) of loans and borrowings and other financial liabilities	**19**	(38)	(150%)	**(28)**	(41)	(32%)
Investment in an associate	**(53)**	(36)	47%	**(122)**	(70)	74%
Decrease in investments	**7**	7	-	**14**	13	8%
Dividends paid on common shares	**(11)**	(11)	-	**(23)**	(22)	5%
Repayment of short-term loans	**-**	-	-	**-**	(14)	(100%)
Other	**(1)**	1	(200%)	**4**	4	-
	$ (142)	$ (171)	(17%)	**$ (303)**	$ (307)	(1%)
	(114)	(123)	(7%)	**(152)**	(151)	1%
Cash, cash equivalents and short-term investments:						
Beginning of the period	**593**	732	(19%)	**631**	760	(17%)
End of the period	**$ 479**	$ 609	(21%)	**$ 479**	$ 609	(21%)

The significant items affecting the sources and uses of cash during the three and six months ended June 30, 2012 are described below:

- Cash from operating activities before change in non-cash working capital in the three and six months ended June 30, 2012 decreased compared to the same periods in the prior year, primarily as a result of lower net earnings. The change in non-cash working capital in each period was primarily due the collection of receivables at Oil and Gas, timing of payments on trade accounts payables, changes in inventories, primarily related to the timing of shipments at Metals and Coal, and changes in deferred revenue related to fertilizer pre-sales;
- Cash used for spending on property, plant, equipment and intangibles in the three and six months ended June 30, 2012 was $44 million and $66 million, respectively. A discussion of these expenditures is included in the Review of operations sections for each division;

- A total of $112 million (US$110 million) and $204 million (US$202 million) was provided in cash to the Ambatovy Joint Venture as Sherritt's share of the joint venture funding requirements in the three and six months ended June 30, 2012. Of the funding provided, $59 million and $82 million for the three and six months ended June 30, 2012, respectively, was provided as a loan and the remaining funding was a direct contribution to Sherritt's investment in the joint venture;
- The net receipt (repayment) of cash from loans and borrowings for the three and six month ended June 30, 2012, related primarily to cash received under the Coal revolving facility offset by amounts paid under the senior credit facility, the 3-year non-revolving term loan, and the repayment of some finance lease obligations;
- The decrease in investments in each of the three and six months ended June 30, 2012 was primarily related to amounts collected by the Corporation on the Cuban certificates of deposit.

Common shares

As at July 24, 2012, the Corporation had 296,403,635 common shares outstanding. An additional 4,244,317 common shares are issuable upon exercise of outstanding stock options granted to employees and directors pursuant to the Corporation's stock option plan.

On June 13, 2012, the Board of Directors of the Corporation approved a quarterly dividend of $0.038 per share payable on July 13, 2012 to shareholders of record at the close of business on June 29, 2012.

Managing risk

Sherritt manages a number of risks in each of its businesses in order to achieve an acceptable level of risk without appreciably hindering its ability to maximize returns. Management has procedures to identify and manage significant operational and financial risks. Strategies designed to manage the Corporation's significant business risks are discussed in the Corporation's MD&A for the year ended December 31, 2011 and Annual Information Form.

Accounting pronouncements

There have been no new accounting pronouncements issued in the first six months of 2012 that are expected to impact the Corporation. For a summary of recent pronouncements, see the Recent accounting pronouncements note in the Corporation's audited financial statements for the year ended December 31, 2011.

Summary of quarterly results

The following table presents a summary of the segment revenue and consolidated operating results for each of the eight quarters ended September 2010 to June 30 2012.

$ millions, except per share amounts, for the three months ended	**2012 June 30**	2012 Mar. 31	2011 Dec. 31	2011 Sept. 30	2011 June 30	2010 Mar. 31	2010 Dec. 31	2010 Sept. 30
Revenue								
Metals	**$ 140.2**	$ 114.8	$ 137.7	$ 122.9	$ 149.4	$ 140.4	$ 147.0	$ 127.8
Coal	**250.6**	245.3	303.3	247.2	254.1	245.9	260.6	217.8
Oil and Gas	**76.3**	82.2	74.4	78.5	81.5	70.5	61.9	53.2
Power	**17.6**	16.6	18.6	14.0	13.0	14.4	12.3	11.0
Corporate and other	**3.2**	3.3	2.8	3.8	2.6	3.3	3.4	2.9
	$ 487.9	$ 462.2	$ 536.8	$ 466.4	$ 500.6	$ 474.5	$ 485.2	$ 412.7
Net earnings	**40.8**	32.3	28.1	45.5	60.1	63.6	42.7	22.5
Net earnings per share								
Basic	**$ 0.14**	$ 0.11	$ 0.10	$ 0.16	$ 0.20	$ 0.22	$ 0.15	$ 0.07
Diluted	**$ 0.14**	$ 0.11	$ 0.09	$ 0.15	$ 0.20	$ 0.22	$ 0.14	$ 0.07

Net earnings for the Corporation are primarily affected by commodity prices and exchange rates that impact revenue and costs. With the exception of the quarter ended September 30, 2010, the average Canadian dollar cost to purchase one U.S. dollar for the quarters have been relatively consistent, ranging from $0.97 to $1.02. Net earnings for the second quarter of 2012 were also impacted by higher net finance expense as discussed in consolidated financial results section. Net earnings in the first quarter of 2012 and fourth quarter of 2011 were also impacted by higher net finance expense primarily due to a loss on financial instruments, including an early redemption premium paid on the redemption of debentures in December 2011 and other non-recurring costs. The third and fourth quarters of 2010 were impacted by a higher foreign exchange loss and finance expenses related to Ambatovy Partner loans as well as an impairment loss in Oil and Gas in the third quarter and closure costs related to Mineral Products in the fourth quarter.

Off-balance sheet arrangements

The Corporation has no foreign exchange or commodity options, futures or forward contracts. The Corporation has made a completion guarantee to the Ambatovy Project lenders. In July 2012, Royal Utilities Income Fund was released from its performance guarantee related to a letter of credit provided to a customer of the Bienfait Activated Carbon Joint Venture. Upon entering into the Coal revolving credit facility and the extinguishment of senior credit facility and the 3-year non-revolving term loan, the Corporation was released as a guarantor for certain letters of credit issued by Coal and the guarantee associated with the 3-year non-revolving term loan. The letters of credit are now issued under the Coal revolving credit facility. Details of these guarantees can be found in the Environmental rehabilitation provisions and guarantees note the Corporation's unaudited interim consolidated financial statements at June 30, 2012 and the Environmental rehabilitation provisions, contingencies and guarantees note in the Corporation's audited consolidated financial statements for the year ended December 31, 2011.

Transactions with related parties

$ millions		For the three months ended 2012 June 30		2011 June 30		For the six months ended 2012 June 30		2011 June 30
Total value of goods and services:								
Provided to jointly controlled entities	**$**	**25.7**	$	31.4	**$**	**46.7**	$	51.4
Provided to associate		**1.3**		1.0		**2.4**		1.9
Purchased from jointly controlled entities		**17.5**		16.5		**24.3**		22.0
Net financing income from jointly controlled entities		**6.6**		6.0		**13.0**		11.9

$ millions, as at		2012 June 30		2011 December 31
Accounts receivable from jointly controlled entities	**$**	**6.3**	$	4.1
Accounts receivable from associate		**22.8**		22.1
Accounts payable to jointly controlled entities		**0.5**		-
Accounts payable to associate		**0.4**		0.3
Advances and loans receivable from associate		**1,087.5**		968.9
Advances and loans receivable from Energas		**188.5**		166.9
Advances and loans receivable from certain Moa Joint Venture entities		**131.0**		142.8

Controls and procedures

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal control over financial reporting means a process designed by or under the supervision of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

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

As at June 30, 2012, the Corporation's CEO and CFO have certified that the disclosure controls and procedures are effective and that during the quarter ended June 30, 2012 the Corporation did not make any material changes in the internal controls over financial reporting that materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting.

Supplementary information

SENSITIVITY ANALYSIS

The following table shows the approximate impact on the Corporation's net earnings and earnings per share for the second quarter of 2012 from a change in selected key variables. The impact is measured changing one variable at a time and may not necessarily be indicative of sensitivities on future results.

Factor		Increase	Approximate change in Q2 net earnings ($ millions) Increase/(decrease)	Approximate change in Q2 basic EPS Increase/(decrease)
Prices				
Nickel - LME price per pound (50% basis)	US$	0.50	3	0.01
Cobalt - Metal Bulletin price per pound (50% basis)	US$	5.00	3	0.01
Export thermal coal - price per tonne	US$	15.00	2	0.01
Oil -U.S. Gulf Coast Fuel Oil No. 6 price per barrel	US$	5.00	2	0.01
Volume				
Nickel - tonnes (50% basis)[(1)]		1,000	1	-
Cobalt - tonnes (50% basis)[(1)]		250	2	0.01
Oil - gross working-interest barrels per day		1,000	1	-
Exchange rate				
Strengthening of the Canadian dollar relative to the U.S. dollar	US$	0.05	(11)	(0.04)
Operating costs				
Natural gas - cost per gigajoule (Metals) (50% basis)	$	1.00	(1)	-
Sulphuric acid - cost per tonne (Metals) (50% basis)	US$	25.00	(1)	-
Fuel - WTI oil price (Coal)	US$	10.00	(1)	-

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

NON-GAAP MEASURES

Management uses EBITDA and unit operating cost to monitor financial performance and provide additional information to investors and analysts. These measures do not have a standard definition under IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. As these measures do not have a standardized meaning, they may not be comparable to similar measures provided by other companies.

EBITDA

The Corporation defines EBITDA as net earnings (loss) from continuing operations as reported in the IFRS financial statements, adjusted for amounts included in net earnings or net loss for income taxes, net finance expense (income), depletion, depreciation and amortization, impairment charges for property, plant and equipment, intangible assets, goodwill and investments, gain or loss on disposal of property, plant and equipment, and share of income or loss of associate.

The table below reconciles EBITDA to net earnings from continuing operations.

$ millions, for the three months ended June 30, 2012	Metals	Coal	Oil and Gas	Power	Corporate and other	Total
Revenue	$ 140.2	$ 250.6	$ 76.3	$ 17.6	$ 3.2	$ 487.9
Cost of sales	101.8	236.5	30.3	13.3	3.3	385.2
Gross profit (loss)	38.4	14.1	46.0	4.3	(0.1)	102.7
Administrative expenses	0.3	4.4	4.1	1.2	13.2	23.2
Operating profit (loss)	38.1	9.7	41.9	3.1	(13.3)	79.5
Add:						
Depletion, depreciation and amortization in:						
Cost of sales	9.3	30.2	16.4	2.7	0.1	58.7
Administrative expenses	-	0.5	0.1	-	0.6	1.2
EBITDA	47.4	40.4	58.4	5.8	(12.6)	139.4
Less:						
Depletion, depreciation and amortization, above	(9.3)	(30.7)	(16.5)	(2.7)	(0.7)	(59.9)
Share of loss of an associate	(2.4)	-	-	-	-	(2.4)
Earnings (loss) from operations and associate	35.7	9.7	41.9	3.1	(13.3)	77.1
Net finance expense (income)	20.2	1.9	8.1	(6.7)	9.4	32.9
Income tax expense (recovery)	0.2	(0.7)	14.5	0.3	(6.2)	8.1
Net earnings (loss) from continuing operations	$ 15.3	$ 8.5	$ 19.3	$ 9.5	$ (16.5)	$ 36.1

$ millions, for the three months ended June 30, 2011	Metals	Coal	Oil and Gas	Power	Corporate and other	Total
Revenue	$ 149.4	$ 254.1	$ 81.5	$ 13.0	$ 2.6	$ 500.6
Cost of sales	99.6	230.3	29.1	10.0	7.8	376.8
Gross profit	49.8	23.8	52.4	3.0	(5.2)	123.8
Administrative expenses	2.9	5.2	3.0	(0.9)	7.9	18.1
Operating profit (loss)	46.9	18.6	49.4	3.9	(13.1)	105.7
Add:						
Depletion, depreciation and amortization in:						
Cost of sales	6.0	23.8	16.0	2.6	(0.3)	48.1
Administrative expenses	1.5	1.6	0.2	-	0.8	4.1
EBITDA	54.4	44.0	65.6	6.5	(12.6)	157.9
Less:						
Depletion, depreciation and amortization, above	(7.5)	(25.4)	(16.2)	(2.6)	(0.5)	(52.2)
Add:						
Share of earnings of an associate	3.2	-	-	-	-	3.2
Earnings (loss) from operations and associate	50.1	18.6	49.4	3.9	(13.1)	108.9
Net finance expense (income)	16.6	(0.4)	(0.2)	(3.1)	13.1	26.0
Income tax expense (recovery)	8.2	1.1	14.5	-	(1.2)	22.6
Net earnings (loss) from continuing operations	$ 25.3	$ 17.9	$ 35.1	$ 7.0	$ (25.0)	$ 60.3

$ millions, for the six months ended June 30, 2012	Metals	Coal	Oil and Gas	Power	Corporate and other	Total
Revenue	$ 255.0	$ 495.9	$ 158.5	$ 34.2	$ 6.5	$ 950.1
Cost of sales	191.9	451.3	63.5	25.6	7.7	740.0
Gross profit (loss)	63.1	44.6	95.0	8.6	(1.2)	210.1
Administrative expenses	1.9	9.1	6.7	2.2	21.8	41.7
Operating profit (loss)	61.2	35.5	88.3	6.4	(23.0)	168.4
Add:						
Depletion, depreciation and amortization in:						
Cost of sales	17.5	56.9	35.1	5.3	0.3	115.1
Administrative expenses	-	1.1	0.2	-	1.0	2.3
EBITDA	78.7	93.5	123.6	11.7	(21.7)	285.8
Less:						
Depletion, depreciation and amortization, above	(17.5)	(58.0)	(35.3)	(5.3)	(1.3)	(117.4)
Share of loss of an associate	(1.2)	-	-	-	-	(1.2)
Earnings (loss) from operations and associate	60.0	35.5	88.3	6.4	(23.0)	167.2
Net finance expense (income)	56.3	1.3	1.9	(9.7)	28.4	78.2
Income tax expense (recovery)	4.2	2.1	28.0	1.1	(15.1)	20.3
Net earnings (loss) from continuing operations	$ (0.5)	$ 32.1	$ 58.4	$ 15.0	$ (36.3)	$ 68.7

$ millions, for the six months ended June 30, 2011	Metals	Coal	Oil and Gas	Power	Corporate and other	Total
Revenue	$ 289.8	$ 500.0	$ 152.0	$ 27.4	$ 5.9	$ 975.1
Cost of sales	177.7	448.1	57.7	20.8	10.3	714.6
Gross profit	112.1	51.9	94.3	6.6	(4.4)	260.5
Administrative expenses	6.7	9.8	5.5	0.5	18.1	40.6
Operating profit (loss)	105.4	42.1	88.8	6.1	(22.5)	219.9
Add:						
Depletion, depreciation and amortization in:						
Cost of sales	11.7	47.3	31.2	5.1	0.4	95.7
Administrative expenses	3.2	2.3	0.4	0.1	0.7	6.7
EBITDA	120.3	91.7	120.4	11.3	(21.4)	322.3
Less:						
Depletion, depreciation and amortization, above	(14.9)	(49.6)	(31.6)	(5.2)	(1.1)	(102.4)
Add:						
Share of earnings of an associate	2.1	-	-	-	-	2.1
Earnings (loss) from operations and associate	107.5	42.1	88.8	6.1	(22.5)	222.0
Net finance expense (income)	29.0	(1.0)	(5.9)	(5.0)	26.5	43.6
Income tax expense (recovery)	26.1	2.5	28.0	0.4	(2.9)	54.1
Net earnings (loss) from continuing operations	$ 52.4	$ 40.6	$ 66.7	$ 10.7	$ (46.1)	$ 124.3

Unit operating cost

Management uses unit operating cost to monitor the performance of the Corporation's operating divisions. With the exception of Metals, which uses net direct cash cost, unit operating cost is generally calculated by dividing cost of sales as reported in the IFRS financial statements, less depreciation, depletion and amortization in costs of sales and certain non-production related costs by the number of units sold. For Coal's Prairie Operations, the unit operating cost excludes the impact of related to royalties, activated carbon and char activities.

For Metals, net direct cash costs is calculated by dividing cost of sales as reported in the IFRS financial statements less depreciation, depletion and amortization in cost of sales (adjusted for the following items: cobalt by-product, fertilizer and other revenue and other costs primarily related to the impact of opening and closing inventory values) by the number of finished nickel pounds sold in the period, translated to U.S. dollars using an average exchange rate for the respective period.

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

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

		Coal				
	Metals	**Prairie**	**Mountain**	**Total**	**Oil and Gas**	**Power**
Cost of sales per financial statements	**$ 101.8**	**$ 132.8**	**$ 103.7**	**$ 236.5**	**$ 30.3**	**$ 13.3**
Depletion, depreciation and amortization in cost of sales	**(9.3)**	**(15.6)**	**(14.6)**	**(30.2)**	**(16.4)**	**(2.7)**
Service concession arrangments - Cost of construction						**(7.9)**
Cost of sales per Review of operations	**92.5**	**117.2**	**89.1**	**206.3**	**13.9**	**2.7**
Adjustments to cost of sales						
Cobalt by-product, fertilizer and other revenue	**(62.1)**					
Net impact of non-joint venture fertilizer sales	**16.2**					
Impact of opening/closing inventory and other	**(4.9)**					
Cost of sales-royalties, activated carbon and char		**(5.2)**		**(5.2)**		
Other	**-**	**0.5**	**(0.5)**	**(0.1)**		
Cost of sales for purposes of unit cost calculation	**41.7**	**112.5**	**88.6**	**201.0**	**13.9**	**2.7**
Sales volume for the period	**9.9**	**6.8**	**1.0**		**1.1**	**157**
Volume units	**Millions of pounds**	**Millions of tonnes**	**Millions of tonnes**		**Millions of barrels(1)**	**Gigawatts**
Unit operating cost(1)(3)	**$ 4.20**	**$ 16.59**	**$ 87.61**		**$ 13.21**	**$ 16.86**
Unit operating cost (U.S. dollars)	**$ 4.16**					

$ millions, except unit cost and sales volume, for the three months ended June 30, 2011

		Coal				
	Metals	Prairie	Mountain	Total	Oil and Gas	Power
Cost of sales per financial statements	$ 99.6	$ 128.2	$ 102.1	$ 230.3	$ 29.1	$ 10.0
Depletion, depreciation and amortization in cost of sales	(6.0)	(11.8)	(12.0)	(23.8)	(16.0)	(2.6)
Service concession arrangments - Cost of construction						(3.6)
Cost of sales per Review of operations	93.6	116.4	90.1	206.5	13.1	3.8
Adjustments to cost of sales						
Cobalt by-product, fertilizer and other revenue	(53.7)					
Net impact of non-joint venture fertilizer sales	5.9					
Impact of opening/closing inventory and other	(8.5)					
Cost of sales-royalties, activated carbon and char		(4.9)		(4.9)		
Other	-	(1.4)	(0.6)	(2.0)	(0.2)	
Cost of sales for purposes of unit cost calculation	37.3	110.1	89.5	199.6	12.9	3.8
Sales volume for the period	9.1	6.9	1.1		1.1	154
Volume units	Millions of pounds	Millions of tonnes	Millions of tonnes		Millions of barrels(1)	Gigawatts
Unit operating cost(1)(3)	$ 4.12	$ 15.84	$ 81.68		$ 11.51	$ 24.68
Unit operating cost (U.S. dollars)	$ 4.26					

(1) Net working-interest oil production

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

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

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

	Metals	Coal Prairie	Coal Mountain	Coal Total	Oil and Gas	Power
Cost of sales per financial statements	**$ 191.9**	**$ 259.7**	**$ 191.6**	**$ 451.3**	**$ 63.5**	**$ 25.6**
Depletion, depreciation and amortization in cost of sales	**(17.5)**	**(29.0)**	**(27.9)**	**(56.9)**	**(35.1)**	**(5.3)**
Service concession arrangments - Cost of construction						**(14.9)**
Cost of sales per Review of operations	**174.4**	**230.7**	**163.7**	**394.4**	**28.4**	**5.4**
Adjustments to cost of sales						
Cobalt by-product, fertilizer and other revenue	**(94.1)**					
Net impact of non-joint venture fertilizer sales	**20.2**					
Impact of opening/closing inventory and other	**(6.7)**					
Cost of sales-royalties, activated carbon and char	**-**	**(10.5)**	**-**	**(10.5)**		
Other	**-**	**0.2**	**(1.5)**	**(1.3)**		
Cost of sales for purposes of unit cost calculation	**93.8**	**220.4**	**162.2**	**382.6**	**28.4**	**5.4**
Sales volume for the period	**19.5**	**14.9**	**1.8**		**2.1**	**312**
Volume units	**Millions of pounds**	**Millions of tonnes**	**Millions of tonnes**		**Millions of barrels[1]**	**Gigawatts**
Unit operating cost[1][3]	**$ 4.82**	**$ 14.81**	**$ 88.27**		**$ 13.57**	**$ 17.01**
Unit operating cost (U.S. dollars)	**4.79**					

$ millions, except unit cost and sales volume, for the six months ended June 30, 2011

	Metals	Coal Prairie	Coal Mountain	Coal Total	Oil and Gas	Power
Cost of sales per financial statements	$ 177.7	$ 253.1	$ 195.0	$ 448.1	$ 57.7	$ 20.8
Depletion, depreciation and amortization in cost of sales	(11.7)	(24.5)	(22.8)	(47.3)	(31.2)	(5.1)
Service concession arrangments - Cost of construction						(9.1)
Cost of sales per Review of operations	166.0	228.6	172.2	400.8	26.5	6.6
Adjustments to cost of sales						
Cobalt by-product, fertilizer and other revenue	(83.4)					
Net impact of non-joint venture fertilizer sales	6.6					
Impact of opening/closing inventory and other	(13.9)					
Cost of sales-royalties, activated carbon and char		(9.5)	-	(9.5)		
Other	-	(1.8)	-	(1.8)	(0.5)	
Cost of sales for purposes of unit cost calculation	75.3	217.3	172.2	389.5	26.0	6.6
Sales volume for the period	18.5	15.4	2.1		2.2	302
Volume units	Millions of pounds	Millions of tonnes	Millions of tonnes		Millions of barrels[1]	Gigawatts
Unit operating cost[1][3]	$ 4.07	$ 14.13	$ 80.33		$ 11.62	$ 21.85
Unit operating cost (U.S. dollars)	4.17					

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

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements. Forward-looking statements can generally be identified by the use of statements that include such words as “believe”, “expect”, “anticipate”, “intend”, “plan”, “forecast”, “likely”, “may”, “will”, “could”, “should”, “suspect”, “outlook”, “projected”, “continue” or other similar words or phrases. Specifically, forward-looking statements in this document include statements respecting certain future expectations about capital expenditures; capital project commissioning and completion dates; commencement dates of production; commodity and product prices and demand; production volumes; earnings and revenues; debt repayments; compliance with financial covenants; sufficiency of working capital and capital project funding; compliance with applicable environmental laws and regulations; the impact of regulations related to greenhouse gas emissions and credits; and certain corporate objectives, plans or goals for 2012, including development of wells in Cuba. These forward-looking statements are not based on historic facts, but rather on current expectations, assumptions and projections about future events. By their nature, forward-looking statements require the Corporation to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that those assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. The Corporation cautions readers of this MD&A not to place undue reliance on any forward-looking statement as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

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

The Corporation may, from time to time, make oral forward-looking statements. The Corporation advises that the above paragraph and the risk factors described in this MD&A and in the Corporation’s other documents filed with the Canadian securities authorities should be read for a description of certain factors that could cause the actual results of the Corporation to differ materially from those in the oral forward-looking statements. The Corporation disclaims any intention or obligation to update or revise any oral or written forward-looking statements whether as a result of new information, future events or otherwise, except as required by applicable law.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at and for the three and six months ended June 30, 2012

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Condensed consolidated statements of comprehensive income

Unaudited, Canadian $ millions, except per share amounts	Note	For the three months ended 2012 June 30	2011 June 30	For the six months ended 2012 June 30	2011 June 30
Revenue		**$ 487.9**	$ 500.6	**$ 950.1**	$ 975.1
Cost of sales	5	**385.2**	376.8	**740.0**	714.6
Gross profit		**102.7**	123.8	**210.1**	260.5
Administrative expenses		**23.2**	18.1	**41.7**	40.6
Operating profit		**79.5**	105.7	**168.4**	219.9
Share of (loss) earnings of an associate, net of tax	13	**(2.4)**	3.2	**(1.2)**	2.1
Earnings from operations and associate		**77.1**	108.9	**167.2**	222.0
Financing income	6	**(8.2)**	(12.6)	**(6.0)**	(30.1)
Financing expense	6	**41.1**	38.6	**84.2**	73.7
Net finance expense		**32.9**	26.0	**78.2**	43.6
Earnings before tax		**44.2**	82.9	**89.0**	178.4
Income tax expense	7	**8.1**	22.6	**20.3**	54.1
Net earnings from continuing operations		**36.1**	60.3	**68.7**	124.3
Earnings (loss) from discontinued operation, net of tax	8	**4.7**	(0.2)	**4.4**	(0.6)
Net earnings for the period		**$ 40.8**	$ 60.1	**$ 73.1**	$ 123.7
Other comprehensive income (loss)					
Foreign currency translation differences on foreign operations		**30.7**	(13.3)	**6.1**	(54.7)
Comprehensive income		**$ 71.5**	$ 46.8	**$ 79.2**	$ 69.0
Net earnings from continuing operations per common share:					
Basic	9	**$ 0.12**	$ 0.20	**$ 0.23**	$ 0.42
Diluted	9	**$ 0.12**	$ 0.20	**$ 0.23**	$ 0.42
Net earnings per common share:					
Basic	9	**$ 0.14**	$ 0.20	**$ 0.25**	$ 0.42
Diluted	9	**$ 0.14**	$ 0.20	**$ 0.25**	$ 0.42

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

Condensed consolidated statements of financial position

Unaudited, Canadian $ millions, as at	Note	2012 June 30	2011 December 31
ASSETS			
Current assets			
Cash and cash equivalents		**$ 292.1**	$ 174.6
Restricted cash		**1.2**	1.1
Short-term investments	18	**186.5**	456.8
Investments		**28.3**	29.1
Advances, loans receivable and other financial assets	10	**66.3**	71.1
Other non-financial assets	10	**-**	0.2
Finance lease receivables	10	**24.5**	23.3
Trade accounts receivable, net	18	**381.0**	386.5
Income taxes receivable		**18.0**	19.1
Inventories	11	**228.0**	215.1
Prepaid expenses		**18.3**	12.1
		1,244.2	1,389.0
Non-current assets			
Advances, loans receivable and other financial assets	10	**1,399.1**	1,278.8
Other non-financial assets	10	**14.0**	17.1
Finance lease receivables	10	**188.7**	196.0
Property, plant and equipment	12	**1,440.2**	1,430.4
Investments		**23.0**	34.7
Investment in an associate	13	**1,143.2**	1,053.1
Goodwill		**307.9**	307.9
Intangible assets		**790.7**	786.2
Deferred income taxes		**7.6**	2.8
		5,314.4	5,107.0
Assets of discontinued operation	8	**-**	1.5
		$ 6,558.6	$ 6,497.5
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Loans and borrowings	15	**$ -**	$ 56.9
Trade accounts payable and accrued liabilities		**167.1**	179.8
Income taxes payable		**19.7**	25.9
Other financial liabilities	15	**69.8**	69.8
Other non-financial liabilities	15	**3.8**	8.0
Environmental rehabilitation provisions	16	**34.0**	31.9
		294.4	372.3
Non-current liabilities			
Loans and borrowings	15	**1,776.3**	1,687.8
Other financial liabilities	15	**204.9**	205.4
Other non-financial liabilities	15	**14.8**	15.1
Intangible liability		**6.9**	9.1
Environmental rehabilitation provisions	16	**248.0**	235.8
Deferred income taxes		**224.9**	232.1
		2,475.8	2,385.3
Liabilities of discontinued operation	8	**-**	8.2
		2,770.2	2,765.8
Shareholders' equity			
Capital stock	17	**2,801.7**	2,803.1
Retained earnings		**835.4**	784.9
Reserves	17	**196.6**	195.1
Accumulated other foreign currency translation reserve	17	**(45.3)**	(51.4)
		3,788.4	3,731.7
		$ 6,558.6	$ 6,497.5

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

Condensed consolidated statements of changes in equity

Unaudited, Canadian $ millions

	Note	Capital stock	Retained earnings	Reserves	Accumulated foreign currency translation reserve	Total
Balance as at December 31, 2010		$ 2,787.3	$ 632.5	$ 206.6	$ (98.1)	$ 3,528.3
Shares issued for:						
Treasury stock - restricted stock plan	17	(0.7)	-	-	-	(0.7)
Stock options exercised	17	0.1	-	-	-	0.1
Restricted stock plan amortization	17,21	-	-	0.6	-	0.6
Employee share purchase plan expense	17,21	-	-	0.5	-	0.5
Stock option plan expense	17,21	-	-	0.4	-	0.4
Dividends declared to common shareholders	17	-	(22.4)	-	-	(22.4)
Total comprehensive income:						
Net earnings for the period		-	123.7	-	-	123.7
Foreign currency translation differences on foreign operations	17	-	-	-	(54.7)	(54.7)
		-	123.7	-	(54.7)	69.0
Balance as at June 30, 2011		$ 2,786.7	$ 733.8	$ 208.1	$ (152.8)	$ 3,575.8
Shares issued for:						
Restricted stock plan (vested)	17	0.1	-	(0.1)	-	-
Employee share purchase plan	17	2.4	-	-	-	2.4
Cross-guarantee	17	13.9	-	(13.9)	-	-
Restricted stock plan amortization	17,21	-	-	0.1	-	0.1
Employee share purchase plan expense	17,21	-	-	0.2	-	0.2
Stock option plan expense	17,21	-	-	0.7	-	0.7
Dividends declared to common shareholders	17	-	(22.5)	-	-	(22.5)
Total comprehensive income:						
Net earnings for the period		-	73.6	-	-	73.6
Foreign currency translation differences on foreign operations	17	-	-	-	101.4	101.4
		-	73.6	-	101.4	175.0
Balance as at December 31, 2011		$ 2,803.1	$ 784.9	$ 195.1	$ (51.4)	$ 3,731.7
Shares issued for:						
Treasury stock - restricted stock plan	17	(1.6)	-	-	-	(1.6)
Restricted stock plan (vested)	17	0.2	-	(0.2)	-	-
Restricted stock plan amortization	17,21	-	-	0.8	-	0.8
Employee share purchase plan expense	17,21	-	-	0.2	-	0.2
Stock option plan expense	17,21	-	-	0.7	-	0.7
Dividends declared to common shareholders	17	-	(22.6)	-	-	(22.6)
Total comprehensive income:						
Net earnings for the period		-	73.1	-	-	73.1
Foreign currency translation differences on foreign operations	17	-	-	-	6.1	6.1
		-	73.1	-	6.1	79.2
Balance as at June 30, 2012		$ 2,801.7	$ 835.4	$ 196.6	$ (45.3)	$ 3,788.4

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

Condensed consolidated statements of cash flow

Unaudited, Canadian $ millions	Note	For the three months ended 2012 June 30	2011 June 30	For the six months ended 2012 June 30	2011 June 30
Operating activities					
Net earnings		**$ 40.8**	$ 60.1	**$ 73.1**	$ 123.7
Add (deduct)					
Depletion, depreciation and amortization	4	**59.9**	52.2	**117.4**	102.4
Accretion expense on environmental rehabiliation provisions	6	**1.3**	1.4	**2.5**	2.8
Stock-based compensation (recovery) expense, net	21	**0.8**	(3.3)	**1.6**	(1.4)
Share of loss (earnings) of an associate, net of tax	13	**2.4**	(3.2)	**1.2**	(2.1)
Impairment losses	5	**5.8**	0.4	**7.0**	0.5
Net loss (gain) on financial instruments	6	**1.1**	(2.1)	**12.9**	(7.7)
Current income tax expense	7	**13.8**	24.6	**32.5**	53.5
Deferred income tax expense (recovery)	7	**(5.7)**	(2.0)	**(12.2)**	0.6
Unrealized foreign exchange (gain) loss		**(2.0)**	1.6	**2.4**	3.8
Liabilities settled for environmental rehabilitation	16	**(4.8)**	(3.2)	**(11.8)**	(8.0)
Service concession arrangement		**(7.9)**	(3.6)	**(14.9)**	(9.1)
Cross-guarantee fee amortization	6	**3.0**	3.0	**6.0**	6.0
Gain on sale of discontinued operation	8	**(4.7)**	-	**(4.7)**	-
Interest income	6	**(9.3)**	(10.5)	**(18.9)**	(22.4)
Interest expense	6	**32.7**	28.4	**64.8**	56.9
Other items		**3.0**	2.6	**1.5**	3.6
Net change in non-cash working capital	22	**(53.8)**	(42.9)	**(47.5)**	(76.9)
Interest received		**8.1**	9.7	**18.4**	21.2
Interest paid		**(39.8)**	(35.9)	**(43.4)**	(38.8)
Income tax paid		**(16.9)**	(28.8)	**(37.3)**	(52.8)
Cash provided by operating activities		**27.8**	48.5	**150.6**	155.8
Investing activities					
Property, plant and equipment expenditures	4	**(40.6)**	(23.7)	**(60.0)**	(46.1)
Exploration and evaluation intangible expenditures	4	**(1.9)**	(1.4)	**(3.5)**	(2.1)
Other intangible expenditures	4	**(1.2)**	(0.8)	**(2.3)**	(1.3)
Increase in advances, loans receivable and other financial assets		**(16.6)**	(21.4)	**(29.3)**	(32.3)
Repayment of advances, loans receivable and other financial assets		**8.6**	23.3	**22.0**	37.0
Investments		**6.9**	6.6	**13.7**	13.3
Loans to an associate		**(59.3)**	(68.0)	**(82.0)**	(126.9)
Investment in an associate		**(52.5)**	(36.2)	**(122.4)**	(70.1)
Restricted cash		**-**	-	**(0.1)**	-
Net proceeds from sale of property, plant and equipment		**1.5**	1.2	**2.2**	1.3
Short-term investments		**242.5**	220.4	**270.3**	366.0
Cash provided by investing activities		**87.4**	100.0	**8.6**	138.8
Financing activities					
Repayment of loans and borrowings and other financial liabilities		**(35.5)**	(37.6)	**(82.3)**	(87.9)
Increase in loans and borrowings and other financial liabilities		**54.2**	0.1	**54.2**	46.7
Repayment of short-term loans		**-**	-	**-**	(14.2)
Increase in finance lease receivables		**(2.0)**	(7.3)	**(2.6)**	(11.0)
Repayment of finance lease receivables		**6.2**	5.7	**12.4**	10.8
Issuance of common shares	17	**-**	-	**-**	0.1
Treasury stock - restricted stock plan	17	**(0.1)**	(0.1)	**(1.6)**	(0.7)
Dividends paid on common shares	17	**(11.3)**	(11.2)	**(22.6)**	(22.4)
Cash provided by (used for) financing activities		**11.5**	(50.4)	**(42.5)**	(78.6)
Effect of exchange rate changes on cash and cash equivalents		**1.5**	(0.6)	**0.8**	(0.7)
Increase in cash and cash equivalents		**128.2**	97.5	**117.5**	215.3
Cash and cash equivalents at beginning of the period		**163.9**	380.9	**174.6**	263.1
Cash and cash equivalents at end of the period		**$ 292.1**	$ 478.4	**$ 292.1**	$ 478.4
Cash and cash equivalents consist of:					
Cash on hand and balances with banks		**$ 165.3**	$ 74.7	**$ 165.3**	$ 74.7
Cash equivalents	18	**126.8**	403.7	**126.8**	403.7

Notes to the interim condensed consolidated financial statements

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

1 NATURE OF OPERATIONS AND CORPORATE INFORMATION

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

The Corporation is domiciled in Ontario, Canada and its registered office is 1133 Yonge Street, Toronto, Ontario, M4T 2Y7. These consolidated financial statements were approved and authorized for issuance by the Audit Committee on behalf of the Board of Directors of Sherritt on July 24, 2012. The Corporation is listed on the Stock Exchange in Toronto.

2 BASIS OF PRESENTATION

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of Sherritt for the year ended December 31, 2011, except for the wind up of Royal Utilities Income Fund (Royal Utilities), as described below. The disclosure contained in these interim condensed consolidated financial statements does not include all requirements in IAS 1, "Presentation of Financial Statements" (IAS 1). Accordingly, the interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2011.

Principles of Consolidation

In June 2012, the Corporation wound up Royal Utilities, transferring its ownership interest in Prairie Mines & Royalty Limited (PMRL) to a wholly owned subsidiary of the Corporation. The wind up and transfer of ownership had no impact on the interim condensed consolidated financial statements. Any reference to Royal Utilities throughout the notes to the interim condensed consolidated financial statements should be understood to mean PMRL after June 2012.

4 SEGMENTED INFORMATION

Business segments

Canadian $ millions, for the three months ended June 30						**2012**
	Metals	**Coal**	**Oil and Gas**	**Power**	**Corporate and Other**	**Total**
Revenue	**$ 140.2**	**$ 250.6**	**$ 76.3**	**$ 17.6**	**$ 3.2**	**$ 487.9**
Cost of sales	**101.8**	**236.5**	**30.3**	**13.3**	**3.3**	**385.2**
Gross profit (loss)	**38.4**	**14.1**	**46.0**	**4.3**	**(0.1)**	**102.7**
Administrative expenses	**0.3**	**4.4**	**4.1**	**1.2**	**13.2**	**23.2**
Operating profit (loss)	**38.1**	**9.7**	**41.9**	**3.1**	**(13.3)**	**79.5**
Share of loss of associate	**(2.4)**	**-**	**-**	**-**	**-**	**(2.4)**
Earnings (loss) from operations and associate	**35.7**	**9.7**	**41.9**	**3.1**	**(13.3)**	**77.1**
Financing income	**0.9**	**(1.7)**	**(1.3)**	**(0.5)**	**(5.6)**	**(8.2)**
Financing expense	**19.3**	**3.6**	**9.4**	**(6.2)**	**15.0**	**41.1**
Net finance expense (income)	**20.2**	**1.9**	**8.1**	**(6.7)**	**9.4**	**32.9**
Earnings (loss) before tax	**15.5**	**7.8**	**33.8**	**9.8**	**(22.7)**	**44.2**
Income tax expense (recovery)	**0.2**	**(0.7)**	**14.5**	**0.3**	**(6.2)**	**8.1**
Net earnings (loss) from continuing operations	**15.3**	**8.5**	**19.3**	**9.5**	**(16.5)**	**36.1**
Earnings from discontinued operation	**-**	**-**	**-**	**-**	**4.7**	**4.7**
Net earnings (loss) for the period	**$ 15.3**	**$ 8.5**	**$ 19.3**	**$ 9.5**	**$ (11.8)**	**$ 40.8**
Supplementary information						
Depletion, depreciation and amortization	**$ 9.3**	**$ 30.7**	**$ 16.5**	**$ 2.7**	**$ 0.7**	**$ 59.9**
Property, plant and equipment expenditures	**10.6**	**19.7**	**9.8**	**0.1**	**0.4**	**40.6**
Intangible asset expenditures	**-**	**-**	**1.9**	**1.2**	**-**	**3.1**

Canadian $ millions, as at June 30						**2012**
Non-current assets[(1)]	**$ 670.5**	**$ 1,444.1**	**$ 221.1**	**$ 185.9**	**$ 17.2**	**$ 2,538.8**
Total assets	**3,152.5**	**1,941.9**	**979.6**	**452.4**	**32.2**	**6,558.6**

Canadian $ millions, for the three months ended June 30						2011
	Metals	Coal	Oil and Gas	Power	Corporate and Other	Total
Revenue	$ 149.4	$ 254.1	$ 81.5	$ 13.0	$ 2.6	$ 500.6
Cost of sales	99.6	230.3	29.1	10.0	7.8	376.8
Gross profit	49.8	23.8	52.4	3.0	(5.2)	123.8
Administrative expenses	2.9	5.2	3.0	(0.9)	7.9	18.1
Operating profit (loss)	46.9	18.6	49.4	3.9	(13.1)	105.7
Share of earnings of associate	3.2	-	-	-	-	3.2
Earnings (loss) from operations and associate	50.1	18.6	49.4	3.9	(13.1)	108.9
Financing income	(0.3)	(4.6)	(1.9)	(0.2)	(5.6)	(12.6)
Financing expense	16.9	4.2	1.7	(2.9)	18.7	38.6
Net finance expense (income)	16.6	(0.4)	(0.2)	(3.1)	13.1	26.0
Earnings (loss) before tax	33.5	19.0	49.6	7.0	(26.2)	82.9
Income tax expense (recovery)	8.2	1.1	14.5	-	(1.2)	22.6
Net earnings (loss) from continuing operations	25.3	17.9	35.1	7.0	(25.0)	60.3
Loss from discontinued operation	-	-	-	-	(0.2)	(0.2)
Net earnings (loss) for the period	$ 25.3	$ 17.9	$ 35.1	$ 7.0	$ (25.2)	$ 60.1
Supplementary information						
Depletion, depreciation and amortization	$ 7.5	$ 25.4	$ 16.2	$ 2.6	$ 0.5	$ 52.2
Property, plant and equipment expenditures	8.2	5.0	9.5	0.9	0.1	23.7
Intangible asset expenditures	-	-	1.4	0.8	-	2.2

Canadian $ millions, as at December 31						2011
Non-current assets[(1)]	$ 666.7	$ 1,432.9	$ 234.9	$ 173.1	$ 16.9	$ 2,524.5
Total assets	2,926.1	1,937.2	919.0	436.5	278.7	6,497.5

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

Canadian $ millions, for the six months ended June 30						**2012**
	Metals	**Coal**	**Oil and Gas**	**Power**	**Corporate and Other**	**Total**
Revenue	**$ 255.0**	**$ 495.9**	**$ 158.5**	**$ 34.2**	**$ 6.5**	**$ 950.1**
Cost of sales	**191.9**	**451.3**	**63.5**	**25.6**	**7.7**	**740.0**
Gross profit (loss)	**63.1**	**44.6**	**95.0**	**8.6**	**(1.2)**	**210.1**
Administrative expenses	**1.9**	**9.1**	**6.7**	**2.2**	**21.8**	**41.7**
Operating profit (loss)	**61.2**	**35.5**	**88.3**	**6.4**	**(23.0)**	**168.4**
Share of loss of associate	**(1.2)**	**-**	**-**	**-**	**-**	**(1.2)**
Earnings (loss) from operations and associate	**60.0**	**35.5**	**88.3**	**6.4**	**(23.0)**	**167.2**
Financing income	**12.7**	**(6.1)**	**(2.7)**	**(1.1)**	**(8.8)**	**(6.0)**
Financing expense	**43.6**	**7.4**	**4.6**	**(8.6)**	**37.2**	**84.2**
Net finance expense (income)	**56.3**	**1.3**	**1.9**	**(9.7)**	**28.4**	**78.2**
Earnings (loss) before tax	**3.7**	**34.2**	**86.4**	**16.1**	**(51.4)**	**89.0**
Income tax expense (recovery)	**4.2**	**2.1**	**28.0**	**1.1**	**(15.1)**	**20.3**
Net (loss) earnings from continuing operations	**(0.5)**	**32.1**	**58.4**	**15.0**	**(36.3)**	**68.7**
Earnings from discontinued operation	**-**	**-**	**-**	**-**	**4.4**	**4.4**
Net (loss) earnings for the period	**$ (0.5)**	**$ 32.1**	**$ 58.4**	**$ 15.0**	**$ (31.9)**	**$ 73.1**
Supplementary information						
Depletion, depreciation and amortization	**$ 17.5**	**$ 58.0**	**$ 35.3**	**$ 5.3**	**$ 1.3**	**$ 117.4**
Property, plant and equipment expenditures	**13.5**	**26.3**	**18.4**	**0.3**	**1.5**	**60.0**
Intangible asset expenditures	**-**	**-**	**3.5**	**2.3**	**-**	**5.8**

Canadian $ millions, as at June 30						**2012**
Non-current assets[1]	**$ 670.5**	**$ 1,444.1**	**$ 221.1**	**$ 185.9**	**$ 17.2**	**$ 2,538.8**
Total assets	**3,152.5**	**1,941.9**	**979.6**	**452.4**	**32.2**	**6,558.6**

Canadian $ millions, for the six months ended June 30						2011
	Metals	Coal	Oil and Gas	Power	Corporate and Other	Total
Revenue	$ 289.8	$ 500.0	$ 152.0	$ 27.4	$ 5.9	$ 975.1
Cost of sales	177.7	448.1	57.7	20.8	10.3	714.6
Gross profit	112.1	51.9	94.3	6.6	(4.4)	260.5
Administrative expenses	6.7	9.8	5.5	0.5	18.1	40.6
Operating profit (loss)	105.4	42.1	88.8	6.1	(22.5)	219.9
Share of earnings of associate	2.1	-	-	-	-	2.1
Earnings (loss) from operations and associate	107.5	42.1	88.8	6.1	(22.5)	222.0
Financing income	(2.2)	(9.2)	(3.9)	(0.9)	(13.9)	(30.1)
Financing expense	31.2	8.2	(2.0)	(4.1)	40.4	73.7
Net finance expense (income)	29.0	(1.0)	(5.9)	(5.0)	26.5	43.6
Earnings (loss) before tax	78.5	43.1	94.7	11.1	(49.0)	178.4
Income tax expense (recovery)	26.1	2.5	28.0	0.4	(2.9)	54.1
Net earnings (loss) from continuing operations	52.4	40.6	66.7	10.7	(46.1)	124.3
Loss from discontinued operation	-	-	-	-	(0.6)	(0.6)
Net earnings (loss) for the period	$ 52.4	$ 40.6	$ 66.7	$ 10.7	$ (46.7)	$ 123.7
Supplementary information						
Depletion, depreciation and amortization	$ 14.9	$ 49.6	$ 31.6	$ 5.2	$ 1.1	$ 102.4
Property, plant and equipment expenditures	13.9	7.5	23.5	0.9	0.3	46.1
Intangible asset expenditures	-	-	2.1	1.3	-	3.4

Canadian $ millions, as at December 31						2011
Non-current assets[1]	$ 666.7	$ 1,432.9	$ 234.9	$ 173.1	$ 16.9	$ 2,524.5
Total assets	2,926.1	1,937.2	919.0	436.5	278.7	6,497.5

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

Geographic segments

The Corporation carries on business in the following geographic areas:

Canadian $ millions, as at	2012 June 30 Non-current assets[1]	2012 June 30 Total assets	2011 December 31 Non-current assets[1]	2011 December 31 Total assets
Canada	**$ 1,751.5**	**$ 2,930.1**	$ 1,735.9	$ 3,058.4
Cuba	**761.8**	**1,267.7**	765.6	1,281.1
Madagascar	**12.0**	**2,263.0**	12.9	2,052.2
Europe	**11.9**	**26.1**	8.6	24.5
Asia	**1.6**	**2.5**	1.5	2.2
Other	**-**	**69.2**	-	79.1
	$ 2,538.8	**$ 6,558.6**	$ 2,524.5	$ 6,497.5

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

	For the three months ended		For the six months ended	
Canadian $ millions	**2012 June 30**	2011 June 30	**2012 June 30**	2011 June 30
	Total revenue	Total revenue	**Total revenue**	Total revenue
Canada	**$ 189.9**	$ 181.5	**$ 366.5**	$ 347.1
Cuba	**89.7**	88.7	**183.8**	168.7
Madagascar	**2.6**	2.1	**5.0**	4.2
Europe	**77.6**	73.4	**161.2**	149.4
Asia	**70.8**	96.3	**120.7**	208.0
Other	**57.3**	58.6	**112.9**	97.7
	$ 487.9	$ 500.6	**$ 950.1**	$ 975.1

Revenue segments

Revenue includes the following significant categories:

	For the three months ended		For the six months ended	
Canadian $ millions	**2012 June 30**	2011 June 30	**2012 June 30**	2011 June 30
Commodity and electricity	**$ 460.8**	$ 467.2	**$ 890.5**	$ 906.7
Royalty	**14.2**	15.1	**27.9**	31.9
Other	**12.9**	18.3	**31.7**	36.5
	$ 487.9	$ 500.6	**$ 950.1**	$ 975.1

5 COST OF SALES

Cost of sales includes the following select information:

Canadian $ millions	For the three months ended 2012 June 30	2011 June 30	For the six months ended 2012 June 30	2011 June 30
Employee costs	**$ 95.1**	$ 90.7	**$ 189.3**	$ 178.8
Depletion, depreciation and amortization of property, plant and equipment and intangible assets	**58.7**	48.1	**115.1**	95.7
Exploration and evaluation expenses	**1.5**	6.0	**4.1**	6.1
Impairment losses (1)	**5.8**	0.4	**7.0**	0.5

(1) Impairment losses relate to a write down of inventory during the period.

The exploration and evaluation expenses incurred by the Corporation relate mainly to the Sulawesi Project in Indonesia. The Corporation expensed $1.3 million and $3.9 million relating to this project for the three and six months ended June 30, 2012, respectively ($5.6 million for the three and six months ended June 30, 2011, respectively).

6 NET FINANCE EXPENSE

Canadian $ millions	Note	For the three months ended 2012 June 30	2011 June 30	For the six months ended 2012 June 30	2011 June 30
Net (loss) gain on financial instruments	18	**$ (1.1)**	$ 2.1	**$ (12.9)**	$ 7.7
Interest income on cash, cash equivalents and short-term investments		**1.1**	1.3	**2.2**	3.1
Interest income on investments		**1.7**	2.1	**3.6**	4.8
Interest income on advances and loans receivable		**2.3**	2.7	**4.5**	5.7
Interest income on finance leases		**4.2**	4.4	**8.6**	8.8
Total financing income		**8.2**	12.6	**6.0**	30.1
Interest expense and accretion on loans and borrowings		**28.8**	25.8	**57.7**	51.8
Interest expense on other liabilities		**1.7**	0.8	**2.8**	1.6
Interest expense on finance lease obligations		**2.2**	1.8	**4.3**	3.5
Accretion expense on environmental rehabilitation provisions	16	**1.3**	1.4	**2.5**	2.8
Foreign exchange loss		**0.3**	2.3	**3.7**	2.4
Cross-guarantee fee amortization		**3.0**	3.0	**6.0**	6.0
Other finance charges		**3.8**	3.5	**7.2**	5.6
Total financing expense		**41.1**	38.6	**84.2**	73.7
Net finance expense		**$ 32.9**	$ 26.0	**$ 78.2**	$ 43.6

7 INCOME TAXES

Canadian $ millions	For the three months ended 2012 June 30	2011 June 30	For the six months ended 2012 June 30	2011 June 30
Current income tax expense				
Current period	**$ 13.8**	$ 24.6	**$ 32.5**	$ 53.5
	13.8	24.6	**32.5**	53.5
Deferred income tax (recovery) expense				
Origination and reversal of temporary differences	**0.2**	(1.4)	**(2.3)**	(0.8)
Reduction in tax rate	**(0.1)**	(0.7)	**(0.4)**	(0.7)
(Recognition) non-recognition of tax assets (not) previously recognized	**(5.8)**	0.1	**(9.5)**	2.1
	(5.7)	(2.0)	**(12.2)**	0.6
Income tax expense	**$ 8.1**	$ 22.6	**$ 20.3**	$ 54.1

8 DISCONTINUED OPERATION – MINERAL PRODUCTS

In 2007, the Corporation acquired Mineral Products, which included a talc mine and plant, through the acquisition of the Dynatec Corporation (Dynatec). During 2010, the Corporation closed the talc mine and plant and classified Mineral Products as a discontinued operation.

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

Losses from the discontinued operation for the periods are as follows:

	For the three months ended		For the six months ended	
Canadian $ millions	**2012 June 30**	2011 June 30	**2012 June 30**	2011 June 30
Revenue	**$ -**	$ -	**$ -**	$ -
Expenses	**-**	0.2	**0.3**	0.6
Loss from discontinued operation, net of tax	**$ -**	$ (0.2)	**$ (0.3)**	$ (0.6)
Gain on sale of discontinued operation	**4.7**	-	**4.7**	-
Earnings (loss) from discontinued operation, net of tax	**$ 4.7**	$ (0.2)	**$ 4.4**	$ (0.6)

Mineral Products is included in the Corporate and Other business segment (note 4).

9 EARNINGS PER SHARE

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

Net earnings per share

	For the three months ended		For the six months ended	
Canadian $ millions, except per share amounts	**2012 June 30**	2011 June 30	**2012 June 30**	2011 June 30
Net earnings from continuing operations	**$ 36.1**	$ 60.3	**$ 68.7**	$ 124.3
Earnings (loss) from discontinued operation	**4.7**	(0.2)	**4.4**	(0.6)
Net earnings - basic	**$ 40.8**	$ 60.1	**$ 73.1**	$ 123.7
Earnings from continuing operations - diluted	**36.1**	60.3	**68.7**	124.3
Earnings (loss) from discontinued operation	**4.7**	(0.2)	**4.4**	(0.6)
Net earnings - diluted	**$ 40.8**	$ 60.1	**$ 73.1**	$ 123.7
Weighted-average number of common shares - basic	**296.1**	294.9	**296.1**	294.9
Weighted-average effect of dilutive securities:[1]				
Employee share purchase	**-**	0.1	**-**	0.2
Restricted stock	**0.3**	0.3	**0.3**	0.3
Cross-guarantee	**-**	0.9	**-**	0.9
Weighted-average number of common shares - diluted	**296.4**	296.2	**296.4**	296.3
Net earnings from continuing operations per common share:				
Basic	**$ 0.12**	$ 0.20	**$ 0.23**	$ 0.42
Diluted	**$ 0.12**	$ 0.20	**$ 0.23**	$ 0.42
Earnings from discontinued operation per common share:				
Basic	**$ 0.02**	**$ -**	**$ 0.02**	**$ -**
Diluted	**$ 0.02**	**$ -**	**$ 0.02**	**$ -**
Net earnings per common share:				
Basic	**$ 0.14**	$ 0.20	**$ 0.25**	$ 0.42
Diluted	**$ 0.14**	$ 0.20	**$ 0.25**	$ 0.42

(1) The determination of the weighted-average number of common shares - diluted excludes 3.9 million shares related to stock options that were anti-dilutive for the three and six months ended June 30, 2012, respectively (5.4 million for the three and six months ended June 30, 2011, respectively). There were 0.6 million shares related to the employee share purchase plan that were anti-dilutive for the three and six months ended June 30, 2012, respectively (0.4 million and nil shares for the three and six months ended June 30, 2011, respectively).

10 ADVANCES, LOANS RECEIVABLE, OTHER ASSETS AND FINANCE LEASE RECEIVABLES

Advances, loans receivable and other financial assets

Canadian $ millions, as at	Note	2012 June 30	2011 December 31
Advances, loans receivable			
Ambatovy subordinated loan receivable	20	**$ 1,087.5**	$ 968.9
Energas conditional sales agreement	20	**188.5**	166.9
Moa Joint Venture loans receivable	20	**131.0**	142.8
Other		**24.3**	24.3
Other financial assets			
Ambatovy call option	18	**25.0**	38.0
Deferred reclamation recoveries		**9.1**	9.0
		1,465.4	1,349.9
Current portion of advances, loans receivable and other financial assets		**(66.3)**	(71.1)
		$ 1,399.1	$ 1,278.8

Other non-financial assets

Canadian $ millions, as at	2012 June 30	2011 December 31
Cross-guarantee fee asset	**$ 4.6**	$ 10.6
Pension asset	**2.4**	2.4
Other	**7.0**	4.3
	14.0	17.3
Current portion of other non-financial assets	**-**	(0.2)
	14.0	17.1

Finance lease receivables

Canadian $ millions, as at	**2012 June 30**			2011 December 31		
	Future minimum lease payments	**Interest**	**Present value of minimum lease payments**	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	**$ 31.6**	**$ 7.1**	**$ 24.5**	$ 38.3	$ 15.0	$ 23.3
Between one and five years	**105.0**	**21.5**	**83.5**	122.8	45.8	77.0
More than five years	**124.4**	**19.2**	**105.2**	149.5	30.5	119.0
	$ 261.0	**$ 47.8**	**$ 213.2**	$ 310.6	$ 91.3	$ 219.3

11 INVENTORIES

Canadian $ millions, as at	2012 June 30	2011 December 31
Uncovered coal	**$ 14.1**	$ 8.5
Raw materials	**12.2**	8.5
Materials in process	**31.4**	37.7
Finished products	**70.5**	64.8
	128.2	119.5
Spare parts and operating materials	**99.8**	95.6
	$ 228.0	$ 215.1

For the three and six months ended June 30, 2012, the cost of inventories recognized as an expense and included in cost of sales was $275.5 million and $511.0 million, respectively ($262.4 million and $499.7 million for the three and six months ended June 30, 2011, respectively).

12 PROPERTY, PLANT AND EQUIPMENT

Canadian $ millions, for the six months ended June 30				**2012**
	Mining properties	**Oil and Gas properties**	**Plant, equipment and land**	**Total**
Cost				
Balance, beginning of the period	**$ 417.6**	**$ 1,047.0**	**$ 1,991.1**	**$ 3,455.7**
Additions	**10.0**	**14.5**	**67.0**	**91.5**
Capitalized closure costs	**13.8**	**0.5**	**9.2**	**23.5**
Disposals	**-**	**-**	**(15.3)**	**(15.3)**
Capitalized interest	**-**	**-**	**0.6**	**0.6**
Effect of movements in exchange rates	**-**	**(1.5)**	**5.6**	**4.1**
Balance, end of the period	**441.4**	**1,060.5**	**2,058.2**	**3,560.1**
Depletion, depreciation and impairment losses				
Balance, beginning of the period	**262.0**	**917.0**	**846.3**	**2,025.3**
Depletion and depreciation	**22.8**	**30.2**	**53.3**	**106.3**
Disposals	**-**	**-**	**(14.4)**	**(14.4)**
Effect of movements in exchange rates	**-**	**(1.4)**	**4.1**	**2.7**
Balance, end of the period	**284.8**	**945.8**	**889.3**	**2,119.9**
Net book value	**$ 156.6**	**$ 114.7**	**$ 1,168.9**	**$ 1,440.2**

Canadian $ millions, for the year ended December 31				2011
	Mining properties	Oil and Gas properties	Plant, equipment and land	Total
Cost				
Balance, beginning of the year	$ 367.4	$ 984.8	$ 1,809.4	$ 3,161.6
Additions	12.1	45.2	134.4	191.7
Capitalized closure costs	37.3	0.5	42.1	79.9
Disposals	-	-	(27.9)	(27.9)
Capitalized interest	-	-	3.6	3.6
Effect of movements in exchange rates	0.8	16.5	29.5	46.8
Balance, end of the year	417.6	1,047.0	1,991.1	3,455.7
Depletion, depreciation and impairment losses				
Balance, beginning of the year	208.5	851.2	761.2	1,820.9
Depletion and depreciation	52.8	50.9	90.4	194.1
Impairments	-	-	2.0	2.0
Disposals	-	-	(23.0)	(23.0)
Effect of movements in exchange rates	0.7	14.9	15.7	31.3
Balance, end of the year	262.0	917.0	846.3	2,025.3
Net book value	$ 155.6	$ 130.0	$ 1,144.8	$ 1,430.4

Canadian $ millions	**Plant, equipment and land**
Assets held under finance lease at net book value, included in above	
As at June 30, 2012	**$ 132.6**
As at December 31, 2011	120.6
Assets under construction, included in above	
As at June 30, 2012	**$ 288.8**
As at December 31, 2011	281.6

13 INVESTMENT IN AN ASSOCIATE

Statement of financial position

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

Canadian $ millions, Sherritt's 40% interest, as at		2012 June 30		2011 December 31
Assets				
Cash on hand and balances with banks	$	29.3	$	13.7
Inventories[1]		74.3		55.7
Other current assets		39.0		38.4
Property, plant and equipment		3,172.9		3,007.7
Other assets		1.8		2.3
Deferred income taxes[2]		0.2		0.2
Liabilities				
Current liabilities		90.4		106.1
Long-term debt				
Ambatovy Joint Venture financing		841.7		838.9
Subordinated loan payable		1,087.5		968.9
Environmental rehabilitation provision		35.9		32.4
Other long-term liabilities		-		0.1
Deferred income taxes		118.8		118.5
Net assets	$	1,143.2	$	1,053.1

(1) Inventories are primarily comprised of raw materials, spare parts and materials in process.

(2) As at June 30, 2012, the Ambatovy Joint Venture has earned investment tax credits of $169.2 million (December 31, 2011 - $145.7 million) for which a deferred income tax asset has not been recognized. The investment tax credits have an indefinite carry forward period and may be used to partially offset Malagasy income tax otherwise payable by the Ambatovy Joint Venture in subsequent years.

Results of operations

For the three and six months ended June 30, 2012, the Corporation recognized net losses of $2.4 million and $1.2 million respectively, representing its 40% interest in the Ambatovy Joint Venture. The net losses were primarily composed of administrative expenses (net earnings of $3.2 million and $2.1 million for the three and six months ended June 30, 2011, respectively, primarily composed of a tax recovery). The Ambatovy Joint Venture has not yet commenced operations or generated any revenue.

Contingent liabilities

In April 2012, a request for arbitration was received by Ambatovy Minerals S.A., one of the Ambatovy Joint Venture's operating companies. The request for arbitration was submitted by one of the Ambatovy Joint Venture's contractor's to the International Court of Arbitration of the International Chamber of Commerce (ICC). The contractor was responsible for constructing a 220 km long slurry pipeline. Among other things, the contractor is alleging that design changes, physical conditions and other events caused delays in completing the pipeline which resulted in damages to the contractor for which the Ambatovy Joint Venture is liable. The Ambatovy Joint Venture is disputing these allegations and has filed a counterclaim against the contractor.

Operating Permit

The Ambatovy Joint Venture is continuing to work with authorities in Madagascar to obtain an authorization (known as an Operating Permit) to commercially operate the processing plant in Toamasina, Madagascar. The Ambatovy Joint Venture has already received the required permits needed to conduct mining activities and to bring the project through the commissioning and testing phase. The issuance of the Operating Permit is based on compliance with technical, health and safety, and environmental protection requirements. The Ambatovy Joint Venture believes it has satisfied all of the requirements established to date for the Operating Permit. However, the transitional government in Madagascar has advised the Ambatovy Joint Venture that it is continuing its review of the Project. The Ambatovy Joint Venture is in the process of determining the timing and content of this review. This review or other government actions may delay receipt of the Operating Permit, and as a consequence, the Ambatovy Joint Venture may face delays in entering commercial operations.

14 INTEREST IN JOINT VENTURES

Jointly controlled entities

The following table is a summary of the Corporation's proportionate interest in its jointly controlled entities:

Canadian $ millions, as at June 30						2012
		Moa Joint Venture		Carbon Development Partnership		Energas
		50%		**50%**		**33 1/3%**
Current assets	$	**180.2**	$	**0.5**	$	**21.6**
Non-current assets		**566.1**		**29.6**		**144.1**
Current liabilities		**85.3**		**0.9**		**11.9**
Non-current liabilities		**230.9**		**0.4**		**86.2**
Net assets	$	**430.1**	$	**28.8**	$	**67.6**

Canadian $ millions, for the three months ended June 30						2012
		Moa Joint Venture		Carbon Development Partnership		Energas
		50%		**50%**		**33 1/3%**
Revenue	$	**111.7**	$	**0.1**	$	**16.1**
Expenses		**94.7**		**0.2**		**11.3**
Net earnings (loss)	$	**17.0**	$	**(0.1)**	$	**4.8**

Canadian $ millions, for the six months ended June 30						2012
		Moa Joint Venture		Carbon Development Partnership		Energas
		50%		**50%**		**33 1/3%**
Revenue	$	**215.9**	$	**0.3**	$	**31.4**
Expenses		**182.7**		**0.6**		**25.2**
Net earnings (loss)	$	**33.2**	$	**(0.3)**	$	**6.2**

Canadian $ millions, as at December 31						2011
		Moa Joint Venture		Carbon Development Partnership		Energas
		50%		50%		33 1/3%
Current assets	$	160.6	$	0.9	$	21.2
Non-current assets		565.7		29.6		131.2
Current liabilities		91.2		1.1		11.4
Non-current liabilities		239.1		0.5		75.4
Net assets	$	396.0	$	28.9	$	65.6

Canadian $ millions, for the three months ended June 30						2011
		Moa Joint Venture		Carbon Development Partnership		Energas
		50%		50%		33 1/3%
Revenue	$	126.8	$	0.2	$	11.5
Expenses		92.2		0.4		10.1
Net earnings (loss)	$	34.6	$	(0.2)	$	1.4

Canadian $ millions, for the six months ended June 30						2011
		Moa Joint Venture		Carbon Development Partnership		Energas
		50%		50%		33 1/3%
Revenue	$	259.9	$	0.5	$	24.6
Expenses		181.9		0.8		22.7
Net earnings (loss)	$	78.0	$	(0.3)	$	1.9

15 LOANS, BORROWINGS AND OTHER LIABILITIES

Loans and borrowings

Canadian $ millions, as at	Note		2012 June 30		2011 December 31
Long-term loans					
8.25% senior unsecured debentures due 2014	18	**$**	**223.3**	$	223.0
7.75% senior unsecured debentures due 2015	18		**273.1**		272.9
8.00% senior unsecured debentures due 2018	18		**391.7**		391.2
Ambatovy Joint Venture additional partner loans			**738.3**		708.5
Ambatovy Joint Venture partner loans			**93.4**		92.2
Senior credit facility agreement			**-**		43.0
Coal revolving credit facility agreement			**56.5**		-
Loan from financial institution			**-**		2.7
3-year non-revolving term loan			**-**		11.2
			1,776.3		1,744.7
Current portion of loans and borrowings			**-**		(56.9)
		$	**1,776.3**	$	1,687.8

Syndicated 364-day revolving-term credit facility

In June 2012, the Corporation amended the terms of the syndicated 364-day revolving-term credit facility. The maximum available credit under the facility is $90.0 million (December 31, 2011 - $115.0 million); however, the total available draw is based on eligible receivables and inventory. As at June 30, 2012, no amounts were drawn on this facility (December 31, 2011 - $nil). This facility is subject to the following financial covenants: financial debt-to-equity not exceeding 0.5:1, quarterly adjusted net financial debt-to-EBITDA not exceeding 2.5:1, 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 1.0% per annum or bankers' acceptances plus 2.0% and the facility expires on May 6, 2013.

Coal revolving credit facility

In June 2012, the Corporation negotiated a revolving credit facility agreement for PMRL and Coal Valley Resources Inc. (CVRI) with a syndicate of financial institutions to replace the PMRL senior credit facility and the CVRI letter of credit facility. Under the new facility, PMRL and CVRI are jointly and severally liable for all amounts owing on the credit facility. The maximum funding available is $525.0 million, consisting of a $350.0 million revolving credit facility and a $175.0 million letter of credit facility. The credit facility expires on June 26, 2016. As at June 30, 2012, $56.5 million was jointly outstanding on the revolving credit portion of the facility and $113.2 million was jointly outstanding under the letter of credit facility as follows: $92.0 million to satisfy current regulatory requirements in connection with future reclamation, site restoration and mine closure costs and $21.2 million related to performance based letters of credit. The interest rates on the revolving credit facility are based on prime lending rates, bankers' acceptances, Canadian base rates, and/or LIBOR rates plus applicable margins ranging from 0.25% to 2.50% depending on PMRL's and CVRI's combined ratio of total debt-to-earnings before interest, taxes, depreciation and amortization. This facility is subject to covenants based on the combined financial position of PMRL and CVRI as follows: EBITDA-to-interest expense ratio of not less than 4:1 and total debt-to-EBITDA ratio of no more than 3:1.

Other financial liabilities

Canadian $ millions, as at		2012 June 30		2011 December 31
Advances and loans payable	**$**	**99.3**	$	104.0
Finance lease obligations		**148.8**		142.8
Other long-term financial liabilities		**15.8**		17.2
Stock compensation liability		**10.8**		11.2
		274.7		275.2
Current portion of other financial liabilities		**(69.8)**		(69.8)
	$	**204.9**	$	205.4

Finance lease obligations

Canadian $ millions, as at	Future minimum lease payments	Interest	Present value of minimum lease payments (2012 June 30)	Future minimum lease payments	Interest	Present value of minimum lease payments (2011 December 31)
Less than one year	**$ 51.9**	**$ 6.8**	**$ 45.1**	$ 52.1	$ 6.8	$ 45.3
Between one and five years	**113.4**	**9.7**	**103.7**	107.2	9.7	97.5
	$ 165.3	**$ 16.5**	**$ 148.8**	$ 159.3	$ 16.5	$ 142.8

Other long-term financial liabilities

Canadian $ millions, as at	2012 June 30	2011 December 31
Less than one year	**$ 2.8**	$ 3.7
Between one and five years	**5.7**	7.0
More than five years	**7.3**	6.5
	$ 15.8	$ 17.2

Other non-financial liabilities

Canadian $ millions, as at	2012 June 30	2011 December 31
Pension liability	**$ 13.8**	$ 14.1
Deferred revenue	**4.8**	9.0
	18.6	23.1
Current portion of other non-financial liabilities	**(3.8)**	(8.0)
	$ 14.8	$ 15.1

16 ENVIRONMENTAL REHABILITATION PROVISIONS AND GUARANTEES

Environmental rehabilitation provisions

Canadian $ millions	Note	For the six months ended 2012 June 30	For the year ended 2011 December 31
Balance, beginning of the period		**$ 267.7**	$ 208.3
Additions		**13.9**	17.2
Change in estimates		**10.3**	55.9
Utilized during the period		**(11.8)**	(19.4)
Accretion	6	**2.5**	5.4
Foreign exchange translation		**(0.6)**	0.3
Balance, end of the period		**282.0**	267.7
Current portion		**(34.0)**	(31.9)
		$ 248.0	$ 235.8

Guarantees

Coal Valley Resources Inc.

In relation to the 3-year revolving term loan, Sherritt and its former partner had each provided a $12.5 million limited guarantee. Upon acquiring the remaining 50% interest in Coal Valley Partnership, the Corporation indemnified its former partner's guaranteed portion of the letter of credit and payments under the lease. In March 2012, the creditor released Sherritt's former partner of the $12.5 million limited guarantee thereby cancelling the Corporation's indemnification. As described in note 15, the Corporation replaced the 3-year non-revolving term loan in June 2012 and has therefore been released from the associated guarantee.

The Corporation also had guaranteed letters of credit issued on behalf of CVRI to a maximum of $64.0 million. In June 2012, the letters of credit were transferred to the Coal revolving credit facility (note 15). Under the Coal revolving credit facility, the Corporation is no longer required to serve as guarantor to CVRI's letters of credit.

Prairie Mines & Royalties Limited

Royal Utilities had provided a performance guarantee to a customer on behalf of the Bienfait Activated Carbon Joint Venture. In the event the Joint Venture failed to meet its obligations under the supply agreement, Royal Utilities was exposed to a maximum potential liability of $31.0 million. In July 2012, management renegotiated the terms of its agreement with this customer and no longer has a Royal Utilities performance guarantee. PMRL has issued letters of credit through an established Canadian banking institution in the amount of $6.2 million (December 31, 2011 - $6.2 million).

17 SHAREHOLDERS' EQUITY

Capital Stock

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

Canadian $ millions, except share amounts	Note	Number	For the six months ended 2012 June 30 Capital stock	Number	For the year ended 2011 December 31 Capital stock
Balance, beginning of the period		**296,390,692**	**$ 2,803.1**	295,016,500	$ 2,787.3
Treasury stock - restricted stock plan	21	**(287,400)**	**(1.6)**	(88,500)	(0.7)
Restricted stock plan (vested)	21	**19,848**	**0.2**	21,856	0.1
Employee share purchase plan	21	**-**	**-**	477,560	2.4
Stock options exercised	21	**-**	**-**	20,000	0.1
Cross-guarantee(1)		**-**	**-**	943,276	13.9
Balance, end of the period		**296,123,140**	**$ 2,801.7**	296,390,692	$ 2,803.1

(1) On December 30, 2011, the Corporation issued 943,276 common shares valued at $14.74 per common share as the final annual issuance in relation to the cross-guarantees provided by Sumitomo and SNC-Lavalin on the Ambatovy senior credit facility. The issuance resulted in a total of $13.9 million being reclassified from the cross-guarantee reserve to capital stock.

The following dividends were paid or were declared but unpaid:

Canadian $ millions, except share amounts	Per share	For the six months ended 2012 June 30 Total	Per share	For the six months ended 2011 June 30 Total
Dividends paid during the period	**$ 0.076**	**$ 22.6**	$ 0.076	$ 22.4
Dividends declared but unpaid	**0.038**	**11.3**	0.038	11.2

Reserves

Canadian $ millions	Note	For the six months ended 2012 June 30	For the year ended 2011 December 31
Stated capital reserve[1]			
Balance, beginning and end of the period		**190.3**	190.3
Stock-based compensation reserve[2]			
Balance, beginning of the period		**4.8**	2.4
Restricted stock plan (vested)	21	**(0.2)**	(0.1)
Restricted stock plan amortization	21	**0.8**	0.7
Employee share purchase plan expense	21	**0.2**	0.7
Stock option plan expense	21	**0.7**	1.1
Balance, end of the period		**6.3**	4.8
Cross-guarantee reserve			
Balance, beginning of the period		**-**	13.9
Issuance of common shares		**-**	(13.9)
Balance, end of the period		**-**	-
Total reserves, end of the period		**$ 196.6**	$ 195.1

(1) In May 2000, the Corporation's shareholders approved the elimination of the December 31, 1999 accumulated deficit of $6.9 million through a $200.0 million reduction in the stated value of the Corporation's restricted voting shares and the creation of a $193.1 million stated capital reserve. Between 2000 and 2007, this reserve was reduced to $190.3 million as a result of losses on repurchase of common shares and the redemption of convertible debentures.

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

Accumulated foreign currency translation reserve

Shareholders' equity includes a reserve pertaining to the accumulated foreign currency translation adjustment which relates to deferred exchange gains and losses arising from the translation of the financial statements of the Corporation's foreign operations that have a functional currency that differs from that of the Corporation.

18 FINANCIAL INSTRUMENTS

Financial instrument hierarchy

Canadian $ millions, as at	Note	Hierarchy level	2012 June 30	2011 December 31
Financial assets:				
Held for trading, measured at fair value				
Cash equivalents		1	**$ 126.8**	$ 64.9
Short-term investments		1	**186.5**	456.8
Ambatovy call option	10	3	**25.0**	38.0

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

Canadian $ million	Note	For the six months ended 2012 June 30	For the year ended 2011 December 31
Balance, beginning of period		**$ 38.0**	$ 34.5
Total (loss) gain in net earnings [1]	6	**(12.9)**	2.7
Effect of movements in exchange rates		**(0.1)**	0.8
Balance, end of period		**$ 25.0**	$ 38.0

(1) Gains and losses are recognized in net financing expense (note 6).

Ambatovy call option

During the three and six months ended June 30, 2012, the Corporation recognized a downward fair value adjustment of $1.1 million and $12.9 million, respectively (upward fair value adjustment of $0.3 million and $2.2 million for the three and six months ended June 30, 2011, respectively) in financing income on the Ambatovy call option as a result of changes in various inputs used in the Black-Scholes model, including volatility, which is based on a blend of historical commodity prices and the publicly traded stock prices of companies with comparable projects and the reduced time to expiration of the option.

Fair values

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

Canadian $ millions, as at	Note	2012 June 30 Carrying value	2012 June 30 Fair value	2011 December 31 Carrying value	2011 December 31 Fair value
8.25% senior unsecured debentures due 2014	15	**$ 223.3**	**$ 237.8**	$ 223.0	$ 233.0
7.75% senior unsecured debentures due 2015	15	**273.1**	**289.4**	272.9	283.1
8.00% senior unsecured debentures due 2018	15	**391.7**	**429.0**	391.2	408.4

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

As at June 30, 2012, the carrying amounts of cash and cash equivalents, restricted cash, short-term investments, trade accounts receivable, current portion of advances and loans receivable, current portion of other financial assets, current portion of finance lease receivables, current portion of loans and borrowings, current portion of other financial liabilities, trade accounts payable and accrued liabilities are at fair value or approximate fair value due to their immediate or short terms to maturity.

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

As at June 30, 2012, the carrying amount for the Cuban certificates of deposit is approximately equal to the fair value (note 19).

As at June 30, 2012, the carrying amount of the lenders' conversion option under the Ambatovy Joint Venture additional partner loan agreements is 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 $12.9 million at June 30, 2012 (December 31, 2011 – $14.8 million).

As at June 30, 2012, $7.0 million of cash on the Corporation's interim condensed consolidated statements of financial position was held by Energas and $52.2 million by the Moa Joint Venture (December 31, 2011 – $6.6 million and $30.0 million, respectively). These funds are for the use of each joint venture, respectively.

As at June 30, 2012, the Corporation had $313.3 million in Government of Canada treasury bills (December 31, 2011 - $521.7 million) included in cash and cash equivalents and short-term investments.

Trade accounts receivable

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

Canadian $ millions, as at	Note	2012 June 30	2011 December 31
Trade accounts receivable		**$ 332.8**	$ 345.0
Allowance for doubtful accounts		**(0.1)**	(0.1)
Accounts receivable from jointly controlled entities	20	**6.3**	4.1
Accounts receivable from associate	20	**22.8**	22.1
Other		**19.2**	15.4
		$ 381.0	$ 386.5

Of which are:

Canadian $ million, as at		2012 June 30		2011 December 31
Not past due	$	**339.9**	$	323.9
Past due no more than 30 days		**27.1**		33.2
Past due for more than 30 days but no more than 60 days		**1.6**		19.5
Past due for more than 60 days		**12.5**		10.0
	$	**381.1**	$	386.6

19 FINANCIAL RISK AND CAPITAL RISK MANAGEMENT

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:

Canadian $ millions, as at		2012 June 30		2011 December 31
Cash	$	**12.9**	$	14.8
Trade accounts receivable, net		**194.7**		218.7
Advances and loans receivable		**548.8**		539.4
Cuban certificates of deposit		**45.6**		58.2
Total	$	**802.0**	$	831.1

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

Liquidity risk

Financial obligation maturity analysis

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

Canadian $ millions, as at June 30	Total	Falling due within 1 year	Falling due between 1-2 years	Falling due between 2-3 years	Falling due between 3-4 years	Falling due between 4-5 years	Falling due in more than 5 years
Trade accounts payable and accrued liabilities	$ 167.1	$ 167.1	$ -	$ -	$ -	$ -	$ -
Advances and loans payable	139.5	16.1	13.0	11.6	11.1	10.9	76.8
Income taxes payable	19.7	19.7	-	-	-	-	-
Loans and borrowings[1]	2,848.8	73.5	136.6	419.9	520.6	192.1	1,506.1
Finance leases and other equipment financing	174.0	55.0	45.4	29.3	30.1	14.2	-
Environmental rehabilitation provisions	404.7	36.4	36.3	36.4	25.7	17.8	252.1
Operating leases [2]	39.8	15.5	10.6	2.9	1.9	1.9	7.0
Total	$ 3,793.6	$ 383.3	$ 241.9	$ 500.1	$ 589.4	$ 236.9	$ 1,842.0

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

(2) Operating leases include $1.5 million of commitments relating to the Corporation's joint controlled entities. These commitments of $1.5 million are disclosed separately in the Commitments for Expenditures section (note 25).

As a result of the Corporation's 40% interest in the Ambatovy Joint Venture, its proportionate share of significant undiscounted commitments of the Joint Venture include environmental rehabilitation commitments of $166.2 million, contractual commitments for commodities of $48.7 million and senior debt financing of $958.2 million.

Market risk

Foreign exchange risk

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

Based on financial instrument balances as at June 30, 2012, a strengthening or weakening of $0.05 of the Canadian dollar to the U.S. dollar with all other variables held constant could have an unfavourable or favourable impact of approximately $4.0 million, respectively, on net earnings, and $25.5 million on other comprehensive income.

Interest rate risk

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

Based on the balance of short-term and long-term loans and borrowings, cash equivalents, short-term and long-term investments, and advances and loans receivable at June 30, 2012, excluding interest capitalized to project costs, a 1% increase or decrease in the market interest rate could increase or decrease the Corporation's annual interest expense by approximately $4.9 million, respectively. The Corporation does not engage in hedging activities to mitigate its interest rate risk.

Capital risk management

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

Canadian $ millions, as at	**2012 June 30**	2011 December 31
Capital stock	**$ 2,801.7**	$ 2,803.1
Retained earnings	**835.4**	784.9
Un-drawn credit facilities	**595.2**	423.6

The Corporation and its divisions were in compliance with all of their financial covenants as at June 30, 2012. The Corporation is not subject to any externally imposed capital restrictions.

20 RELATED PARTY TRANSACTIONS

Jointly controlled entities and associate

	For the three months ended		For the six months ended	
Canadian $ millions	**2012 June 30**	2011 June 30	**2012 June 30**	2011 June 30
Total value of goods and services:				
Provided to jointly controlled entities	**$ 25.7**	$ 31.4	**$ 46.7**	$ 51.4
Provided to associate	**1.3**	1.0	**2.4**	1.9
Purchased from jointly controlled entities	**17.5**	16.5	**24.3**	22.0
Net financing income from jointly controlled entities	**6.6**	6.0	**13.0**	11.9

Canadian $ millions, as at	Note	**2012 June 30**	2011 December 31
Accounts receivable from jointly controlled entities	18	**$ 6.3**	$ 4.1
Accounts receivable from associate	18	**22.8**	22.1
Accounts payable to jointly controlled entities		**0.5**	-
Accounts payable to associate		**0.4**	0.3
Advances and loans receivable from associate	10	**1,087.5**	968.9
Advances and loans receivable from Energas	10	**188.5**	166.9
Advances and loans receivable from certain Moa Joint Venture entities	10	**131.0**	142.8

21 STOCK-BASED COMPENSATION PLANS

Stock options and options with tandem stock appreciation rights

The following is a summary of stock option activity:

For the three months ended June 30		**2012**		**2011**
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
Outstanding, beginning of period	**4,244,317**	**$ 9.49**	5,278,680	$ 10.30
Granted	**-**	**-**	91,900	6.22
Outstanding, end of period	**4,244,317**	**9.49**	5,370,580	10.23
Options exercisable, end of period	**3,001,899**	**$ 10.46**	3,945,461	$ 11.10

For the six months ended June 30		**2012**		**2011**
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
Outstanding, beginning of period	**4,976,817**	**$ 10.38**	4,819,146	$ 10.37
Granted	**692,500**	**6.04**	638,100	8.69
Exercised for cash	**-**	**-**	(51,666)	5.16
Exercised for shares	**-**	**-**	(20,000)	5.05
Forfeited	**(1,425,000)**	**10.92**	(15,000)	15.02
Outstanding, end of period	**4,244,317**	**9.49**	5,370,580	10.23
Options exercisable, end of period	**3,001,899**	**$ 10.46**	3,945,461	$ 11.10

The following table summarizes information on stock options outstanding and exercisable at June 30, 2012:

Range of exercise prices	**Number outstanding**	**Weighted-average remaining contractual life**	**Weighted-average exercise price**	**Exercisable number**	**Exercisable weighted-average exercise price**
$3.05 - $5.05	40,000	6.4 years	$ 3.69	40,000	$ 3.69
$5.06 - $9.77	2,545,982	8.0 years	7.01	1,303,564	6.88
$9.78 - $11.64	543,335	3.4 years	10.26	543,335	10.26
$11.65 - $15.23	1,115,000	5.1 years	14.99	1,115,000	14.99
Total	**4,244,317**	**6.7 years**	**$ 9.49**	**3,001,899**	**$ 10.46**

As at June 30, 2012, 2,984,017 options with tandem SARs (June 30, 2011 – 4,732,480) and 1,260,300 options (June 30, 2011 – 638,100) remained outstanding for which the Corporation has recognized a compensation recovery of $0.2 million and $1.4 million for the three and six months ended June 30, 2012, respectively (compensation recovery of $3.1 million and $2.8 million for the three and six months ended June 30, 2011, respectively). The carrying amount of liabilities associated with cash-settled compensation arrangements is $3.4 million at June 30, 2012 (December 31, 2011 – $5.5 million).

Inputs for measurement of grant date fair values

The fair value at the grant date of the stock options and options with tandem SARs (described below) was measured using Black-Scholes. There were no stock options or options with tandem SARs granted for the three months ended June 30, 2012. The following summarizes the fair value measurement factors for options granted during the period:

For the three months ended June 30	**2012**	2011
Share price at grant date	**n/a**	$6.14
Exercise price	**n/a**	$6.22
Risk-free interest rates (based on 10-year Government of Canada bonds)	**n/a**	3.09%
Expected volatility	**n/a**	48.42%
Expected dividend yield	**n/a**	2.41%
Expected life of options	**n/a**	10 years
Weighted average fair value of options granted during the period	**n/a**	$2.74

For the six months ended June 30	**2012**	2011
Share price at grant date	**$5.96**	$6.14 - $8.95
Exercise price	**$6.04**	$6.22 - $9.10
Risk-free interest rates (based on 10-year Government of Canada bonds)	**1.95%**	3.09% - 3.33%
Expected volatility	**49.00%**	48.42% - 48.48%
Expected dividend yield	**2.55%**	1.63% - 2.41%
Expected life of options	**10 years**	10 years
Weighted average fair value of options granted during the period	**$2.52**	$2.74 - $4.49

Other stock-based compensation

A summary of the Share Purchase Plan, SARs, RSUs, DSUs and RSPs outstanding as at June 30, 2012 and 2011 and changes during the period is as follows:

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

For the three months ended June 30					2011
	Share Purchase Plan	SAR	RSU	DSU	RSP
Outstanding, beginning of the period	931,939	40,000	1,727,435	328,915	275,430
Issued	-	-	-	-	16,800
Dividends credited	-	-	10,396	2,037	-
Exercised	-	(40,000)	-	-	-
Forfeited	(37,930)	-	(48,764)	-	-
Outstanding, end of the period	894,009	-	1,689,067	330,952	292,230
Units exercisable, end of the period	n/a	-	n/a	330,952	n/a
Weighted-average exercise price	n/a	-	n/a	n/a	n/a

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

For the six months ended June 30					2011
	Share Purchase Plan	SAR	RSU	DSU	RSP
Outstanding, beginning of the period	948,652	140,000	1,531,914	283,359	203,730
Issued	-	-	509,605	44,000	88,500
Dividends credited	-	-	18,568	3,593	-
Exercised	-	(140,000)	(316,568)	-	-
Forfeited	(54,643)	-	(54,452)	-	-
Outstanding, end of the period	894,009	-	1,689,067	330,952	292,230
Units exercisable, end of the period	n/a	-	n/a	330,952	n/a
Weighted-average exercise price	n/a	-	n/a	n/a	n/a

The Corporation recorded a compensation expense of $1.0 million and $3.0 million for the three and six months ended June 30, 2012, respectively, for other stock-based compensation plans ($0.2 million compensation recovery and $1.4 million compensation expense for the three and six months ended June 30, 2011, respectively). The carrying amount of liabilities associated with cash-settled compensation arrangements is $7.5 million at June 30, 2012 (December 31, 2011 - $5.7 million).

Measurement of fair values at grant date

The fair value of the Share Purchase Plan, RSUs, DSUs and RSPs are determined by reference to the market value of the shares at the time of grant. The following summarizes the fair value measurement factor for the Share Purchase Plan, RSU, DSU and RSP grants during the period:

For the three months ended June 30				**2012**
	Share Purchase Plan	**RSU**	**DSU**	**RSP**
Weighted-average share price at grant date	**n/a**	**$ -**	**$ -**	**$ 5.01**

For the three months ended June 30				2011
	Share Purchase Plan	RSU	DSU	RSP
Weighted-average share price at grant date	n/a	$ -	$ -	$ 6.14

For the six months ended June 30				**2012**
	Share Purchase Plan	**RSU**	**DSU**	**RSP**
Weighted-average share price at grant date	**n/a**	**$ 5.96**	**$ 6.15**	**$ 5.87**

For the six months ended June 30				2011
	Share Purchase Plan	RSU	DSU	RSP
Weighted-average share price at grant date	n/a	$ 8.95	$ 8.95	$6.14 - $8.95

The intrinsic value of cash-settled stock-based compensation awards vested and outstanding as at June 30, 2012 was $7.7 million (December 31, 2011 - $6.3 million).

22 NET CHANGE IN NON-CASH WORKING CAPITAL

	For the three months ended		For the six months ended	
Canadian $ millions	**2012 June 30**	2011 June 30	**2012 June 30**	2011 June 30
Trade accounts receivable	**$ (7.9)**	$ (9.0)	**$ (6.6)**	$ (40.3)
Inventories	**8.1**	(5.9)	**(18.5)**	(23.6)
Prepaid expenses	**(8.5)**	(9.5)	**(12.2)**	(8.5)
Trade accounts payable and accrued liabilities	**(5.4)**	16.2	**(5.9)**	15.8
Deferred revenue	**(40.1)**	(34.7)	**(4.3)**	(20.3)
	$ (53.8)	$ (42.9)	**$ (47.5)**	$ (76.9)

23 NON-CASH TRANSACTIONS

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

	For the three months ended		For the six months ended	
Canadian $ millions	**2012 June 30**	2011 June 30	**2012 June 30**	2011 June 30
Acquisition of property, plant and equipment under a finance lease	**$ 25.5**	$ 15.6	**$ 31.2**	$ 27.5

24 OPERATING LEASE ARRANGEMENTS

Corporation acts as a lessor

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

Canadian $ millions, as at	**2012 June 30**	2011 December 31
Less than one year	**$ 5.0**	$ 5.1
Between one and five years	**6.7**	9.3
	$ 11.7	$ 14.4

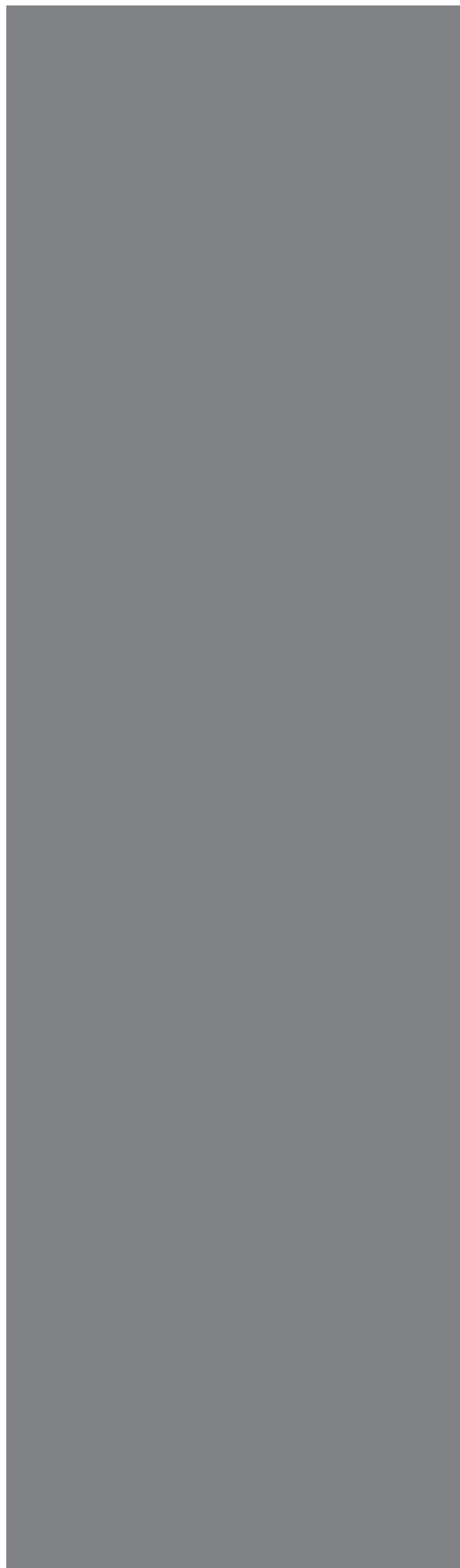
All operating lease payments related to the Varadero facility are contingent on power generation and therefore excluded from the table above. For the three and six months ended June 30, 2012, contingent revenue was $3.4 million and $6.7 million, respectively ($3.4 million and $6.8 million for the three and six months ended June 30, 2011, respectively).

Corporation acts as a lessee

Operating lease payments recognized as an expense in the consolidated statement of comprehensive income were $4.7 million and $9.7 million for the three and six months ended June 30, 2012, respectively ($5.7 million and $11.5 million for the three and six months ended June 30, 2011, respectively).

25 COMMITMENTS FOR EXPENDITURES

Canadian $ millions, as at June 30	**2012**
Property, plant and equipment commitments	**$ 11.5**
Jointly controlled entities	
Property, plant and equipment commitments	**4.2**
Construction commitments relating to service concession arrangements (100% basis)	**76.3**
Other commitments	**1.5**
Jointly controlled operations	
Property, plant and equipment commitments	**4.9**



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