Sherritt Reports Higher Nickel Production at Moa JV and Stronger Balance Sheet for Q4 2018

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Sherritt International Corp. (“Sherritt” or the “Corporation”) (TSX: S), a world leader in the mining and hydrometallurgical refining of nickel and cobalt from lateritic ores, today reported its financial results for the three- and 12-month periods ended December 31, 2018. All amounts are in Canadian currency unless otherwise noted.

CEO COMMENTARY

“Sherritt ended 2018 with lower debt and more cash than we started the year with as a result of several initiatives designed to reduce expenses, buy back $130 million of outstanding debentures and improve production reliability at our operations,” said David Pathe, President and CEO of Sherritt International.

“Although concerns of international trade disputes and the impacts of tariffs have resulted in recent commodity price volatility, we expect to sustain our momentum through 2019 and beyond by capitalizing on the strong market fundamentals and outlook for Class 1 nickel, completing drilling on Block 10, and identifying opportunities where we can bring innovations developed by our Technologies Group to market,” added Mr. Pathe.

HIGHLIGHTS FOR Q4 AND FY2018

- Sherritt’s share of finished nickel production at the Moa Joint Venture (“Moa JV”) in Q4 2018 was 4,294 tonnes, up 4% from last year, while finished cobalt was 428 tonnes, down 8% from Q4 2017. Production for Q4 2018 was impacted by the disruption in the supply of hydrogen sulphide, a key reagent used in the production of finished nickel and cobalt at the refinery in Fort Saskatchewan, as previously disclosed.
- Q4 2018 Adjusted EBITDA(1) was $17.7 million, down from $49.6 million in Q4 2017. The decrease was due to a number of factors, including lower contributions from the Oil and Gas business, lower cobalt sales and higher input costs, including higher sulphur and energy prices, at the Moa JV.
- Received $6.7 million in distributions from the Moa JV in Q4 2018 for a total of $11.9 million in distributions for FY2018. Q4 2018 marks the second consecutive quarter that the Moa JV has made distributions, indicative of improved nickel prices over the past several quarters.
- Net direct cash cost (NDCC)(1) at the Moa JV for FY2018 was US$2.24 per pound of finished nickel sold, in line with the US$1.90 - $2.40 per pound guidance that Sherritt provided for the year. NDCC for 2018 ranked the Moa JV within the lowest cost quartile relative to other producers and ranked it as the lowest cost nickel HPAL operation according to annualized information tracked by Wood Mackenzie.
- Cash from continuing operations in FY2018 was $7.4 million compared to cash flow used of $9.6 million in FY2017. The improvement was driven largely by the receipt of distributions from the Moa JV, lower interest payments on debentures and increased fertilizer customer prepayments.
- Sherritt ended the year with cash, cash equivalents and short-term investments of $207.0 million, up from $203.0 million at the end of 2017. The increase was due to a combination of factors, including the receipt of distributions, working capital and advance repayments from the Moa JV totaling $47.7 million, reduced interest payments of $6.3 million and reduced administrative expenses of $6.1 million, excluding the reduction of share-based compensation. The lower administrative expenses were due to various cost-savings initiatives, including lower consulting fees, reduced employee costs and the relocation of the Toronto corporate office.

DEVELOPMENTS SUBSEQUENT TO YEAR END

- Reached an agreement in principle, subject to final approvals, with Cuban partner on a payment plan to reduce overdue receivables.

- Based on a decision to prudently manage drilling and exploration costs, drilling on Block 10 has been suspended to enable the completion of additional analysis of the geological conditions between the upper and lower target reservoir.

To date, third-party industry experts have completed detailed lab analysis of rock cuttings collected during previous operations on Block 10. Results of the lab analysis, which indicated that the rock formation between the upper and lower target reservoirs has unique characteristics, are currently being used with the assistance of other third-party experts to adjust drilling parameters, including modifying the drilling fluid and making use of casing while drilling technology that addresses the challenges of well-bore degradation and fractured zones experienced to date.

Drilling on Block 10 will resume at the end of March with the new drilling parameters, and is expected to be completed in the second quarter of 2019. The adoption of new drilling parameters will not result in any increases to planned capital spending previously disclosed for the Oil and Gas business. Any incremental capital spend at the Oil and Gas business in 2019 will be predicated on successful drill results on Block 10 and collections on receivables. Sherritt intends to explore partnerships for further investment in Block 10 following completion of the current drilling.

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

Q4 2018 FINANCIAL HIGHLIGHTS

	For the three months ended			For the years ended	
	2018	2017		2018	2017
$ millions, except per share amount	December 31	December 31	Change	December 31	Decembe
Revenue	37.1	54.8	(32%)	$ 152.9	$ 267.3
Combined Revenue[(1)]	166.1	223.8	(26%)	701.9	917.5
Net earnings (loss) for the period	(53.1)	537.8	(110%)	(64.2)	293.8
Adjusted EBITDA[(1)]	17.7	49.6	(64%)	144.2	149.8
Cash provided (used) by continuing operations	12.6	(33.9)	137%	7.4	(9.6)
Combined free cash flow [(1)]	6.4	(41.2)	116%	(7.5)	(62.1)
Net earnings (loss) from continuing operations per share	(0.17)	1.85	(109%)	(0.21)	1.04

(1) For additional information see the Non-GAAP measures section.
(2) The amounts for the periods ended December 31, 2018 have been prepared in accordance with IFRS 9 and IFRS 15; prior year periods amounts have not been restated. Refer to note 3 in the audited consolidated financial statements for the year ended December 31, 2018 for further information.

$ millions, as at December 31	2018	2017	Change
Cash, cash equivalents and short-term investments	207.0	203.0	2%
Loans and borrowings	705.7	824.1	(14%)

Cash, cash equivalents and short-term investments at December 31, 2018 were $207.0 million, up from $203.0 million at December 31, 2017. In Q4 2018, Sherritt generated $12.6 million in cash flow from operations largely as a result of $14.0 million in fertilizer customer prepayments and a $6.7 million distribution received from the Moa JV.

During the year Sherritt received dividends and distributions totaling $11.9 million from the Moa JV. These amounts were received subsequent to the Moa JV’s repayment of $25 million on a working credit facility and $10.8 million on advances previously made. Future dividends and distributions from the Moa JV will vary in amount based on available free cash generated, largely as a result of production totals and prevailing nickel and cobalt prices.

Combined operating cash flow in Q4 2018 included contributions of $50.2 million from the Moa JV and Fort Site, $13.1 million from the Oil and Gas business and $5.0 million from the Power business.

During Q4 2018, Sherritt received US$17.4 million on its Cuban overdue scheduled receivables. At

December 31, 2018 total overdue receivables were US$152.5 million, up from US$147.8 million at September 30, 2018. Sherritt has experienced variability in its Cuban receivables over the years but has not incurred any losses related to any scheduled Cuban receivables.

Adjusted earnings (loss) from continuing operations[1]

	2018		2017	
For the three months ended December 31	$ millions	$/share	$ millions	$/share
Net earnings (loss) from continuing operations	(69.1)	(0.17)	552.9	1.85
Adjusting items:				
Unrealized foreign exchange (gain) loss	(20.7)	(0.05)	24.1	0.08
Revaluation of expected credit losses under IFRS 9	44.1	0.11	-	-
Gain on Ambatovy restructuring	-	-	(629.0)	(2.11)
Other	24.9	0.06	1.8	0.01
Adjusted net loss from continuing operations	(20.8)	(0.05)	(50.2)	(0.17)

	2018		2017	
For the year ended December 31	$ millions	$/share	$ millions	$/share
Net earnings (loss) from continuing operations	(80.2)	(0.21)	308.9	1.04
Adjusting items:				
Unrealized foreign exchange (gain) loss	(33.3)	(0.09)	7.7	0.03
Revaluation of expected credit losses under IFRS 9	47.4	0.12	-	-
Gain on Ambatovy restructuring	-	-	(629.0)	(2.13)
Other	15.6	0.05	(4.7)	(0.01)
Adjusted net loss from continuing operations	(50.5)	(0.13)	(317.1)	(1.07)

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

Net loss from continuing operations for Q4 2018 was $69.1 million, or $0.17 per share, compared to earnings of $552.9 million, or $1.85 per share, for the same period of last year. Sherritt incurred a net loss from continuing operations of $80.2 million, or $0.21 per share, for FY2018 compared to earnings of $308.9 million, or $1.04 per share, for FY2017. Earnings generated in the three- and 12-month periods ended December 31, 2017 were primarily related to the gain recognized on the Ambatovy restructuring, which offset operating losses.

Adjusted net loss from continuing operations was $20.8 million, or $0.05 per share, and $50.5 million, or $0.13 per share, for Q4 2018 and FY2018, respectively. In 2017, Sherritt incurred an adjusted net loss from continuing operations of $50.2 million, or $0.17 per share, for Q4 and $317.1 million, or $1.07 per share, on a full-year basis. Significant adjustments to earnings or losses in the reporting periods include the gain on the Ambatovy Joint Venture (“Ambatovy JV”) restructuring in Q4 2017, a non-cash loss on the revaluation of the Ambatovy JV subordinated loans receivable in Q4 2018 resulting from changes in expected repayment schedule, and unrealized foreign exchange gains and losses in both FY2018 and FY2017.

METAL MARKETS

Nickel

Nickel prices softened in Q4 2018, slowing the momentum established over the past year when nickel reached a high of US$7.26/lb. The average-reference price in Q4 2018 was US$5.20/lb, down from US$6.01/lb in the preceding quarter.

The downward price pressure was driven by a number of developments. The most notable being ongoing concerns that the international trade dispute between the U.S. and China would weaken global demand for nickel. Initial market reaction to news of a planned facility in Indonesia that is expected to produce 50,000 tonnes per year of battery-grade material also contributed to softening nickel prices. Market reaction to the construction timelines and funding requirements to build the high pressure acid leach facility has since become skeptical. Increased availability of nickel pig iron supply was another contributing factor in weakening nickel prices.

The softening of prices belied the strong underlying nickel fundamentals. Combined nickel inventories on the London Metals Exchange and the Shanghai Futures Exchange at the end of Q4 2018 totaled 219,804 tonnes, down 8% from the combined total of 240,066 tonnes at the end of Q3 2018. The Class 1 nickel inventory decline in 2018 was even more dramatic at 55%. As demand continues to exceed available supply, the nickel market is anticipated to be in a structural deficit in the coming years. Since the start of Q1 2019, nickel prices have risen approximately 12%.

Demand for nickel will continue to be driven by the stainless steel sector. According to market research by CRU, stainless steel demand is expected to grow at an average annual rate of approximately 4% through 2022 with production emanating largely from China and Indonesia. Demand for nickel – particularly Class 1 nickel – from non-stainless steel sectors is also expected to accelerate given the growth of the electric vehicle battery market. Class I nickel, along with cobalt, are key metals needed to manufacture electric vehicle batteries.

Beyond 2018, a shortage of Class 1 nickel is anticipated over the coming years since current market prices are below incentive levels needed to develop new nickel projects. As a result, no new Class 1 nickel supply is expected to come on stream in the near term.

Cobalt

Cobalt prices experienced continued softness in Q4 2018. Consistent with developments earlier in the year, the price decline was driven by increased supply of intermediate product from the Democratic Republic of Congo as well as by the destocking of inventory by Chinese consumers. The average-reference price for Q4 2018 was US$32.23/lb, down from US$35.21/lb in the preceding quarter.

Low physical demand and current cobalt oversupply is likely to keep market conditions relatively volatile in the near term. The recent softening of prices is expected to be temporary due to the growing demand from the electric vehicle battery market and persistent supply risk concerns linked to the Democratic Republic of Congo, which is currently the world’s largest source of cobalt supply.

High cobalt prices are not expected to cause supply-chain disruptions or delay the growth of the electric vehicle market given that cobalt prices represent a relatively small percentage of the overall battery pack costs. As a result, the potential for removing cobalt from electric vehicle battery production in the near term is relatively low especially since cobalt’s unique properties give batteries energy stability. While battery manufacturers continue to explore alternatives to existing electric vehicle battery chemistry, particularly to increase the battery’s energy density, the likely beneficiary of any changes is expected to be Class I nickel.

REVIEW OF OPERATIONS

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

	For the three months ended			For the years ended	
	2018	2017		2018	2017
$ millions, except as otherwise noted	December 31	December 31	Change	December 31	Decembe
FINANCIAL HIGHLIGHTS					
Revenue	$ 120.0	$ 122.9	(2%)	$ 498.1	$ 417.0
Earnings from operations	5.4	19.9	(73%)	78.9	31.3
Adjusted EBITDA(1)	17.4	32.1	(46%)	128.4	80.5
CASH FLOW					
Cash provided by operations	$ 50.2	$ 32.5	54%	$ 90.7	$ 58.3
Adjusted operating cash flow(1)	13.4	32.4	(59%)	106.3	72.9
Free cash flow(1)	39.3	24.9	58%	57.8	37.4
Distributions and repayments to Sherritt from the Moa JV	6.7	19.9	(66%)	47.7	31.7

PRODUCTION VOLUMES (tonnes)					
Mixed Sulphides	4,594	4,090	12%	17,563	17,297
Finished Nickel	4,294	4,134	4%	15,354	15,762
Finished Cobalt	428	465	(8%)	1,617	1,801
Fertilizer	64,573	61,923	4%	226,989	243,68
NICKEL RECOVERY (%)	84%	79%	6%	83%	85%
SALES VOLUMES (tonnes)					
Finished Nickel	4,291	4,129	4%	15,273	15,679
Finished Cobalt	392	480	(18%)	1,572	1,783
Fertilizer	46,924	51,141	(8%)	163,698	178,49
AVERAGE-REFERENCE PRICES (US$ per pound)					
Nickel	$ 5.20	$ 5.25	(1%)	$ 5.95	$ 4.72
Cobalt(2)	32.23	31.60	2%	37.35	26.53
AVERAGE REALIZED PRICE					
Nickel ($ per pound)	$ 6.84	$ 6.72	2%	$ 7.75	$ 6.14
Cobalt ($ per pound)	38.43	38.78	(1%)	46.23	32.98
Fertilizer ($ per tonne)	384	348	11%	388	361
UNIT OPERATING COSTS(1) (US$ per pound)					
Nickel - net direct cash cost	$ 2.94	$ 1.80	63%	$ 2.24	$ 2.35
SPENDING ON CAPITAL					
Sustaining	$ 10.5	$ 7.7	36%	$ 37.0	$ 20.9
	$ 10.5	$ 7.7	36%	$ 37.0	$ 20.9

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

The Moa JV produced 4,294 tonnes of finished nickel in Q4 2018, up 4% from 4,134 tonnes produced in Q4 2017. Growth was largely driven by the deployment of new mining equipment completed in Q3 2018 that resulted in improved ore access and reduced equipment downtime compared to the same period of last year. The increase in nickel production in Q4 2018 was offset, however, by the negative impact of a disruption in the supply of hydrogen sulphide, a key reagent used by the refinery in Fort Saskatchewan to produce finished nickel. The supply disruption resulted in a temporary reduction in production.

Finished nickel production for FY2018 was 15,354 tonnes, down 3% from FY2017. The decline was largely due to the negative effects that the highest level of rainfall in more than 20 years had on the production of mixed sulphides at Moa and transportation delays by the railway service provider to the refinery in Fort Saskatchewan in Q1. Year-over-year production decline was also attributable to the disruption of hydrogen sulphide supply in Q4 previously referenced.

The Moa JV has taken measures over the past year to mitigate the production challenges experienced in 2018 by building its inventory of mixed sulphides and ore stockpiles, deploying new mining equipment and developing contingency plans for alternative supply deliveries.

Finished cobalt production for Q4 2018 was 428 tonnes, down 8% from last year. Total finished cobalt for 2018 was 1,617 tonnes, down 10% from 2017. In addition to factors already cited, cobalt production was also negatively impacted by a higher nickel-to-cobalt ratio in mixed sulphides produced at Moa and in third-party feed procured by the refinery in Fort Saskatchewan.

Revenue for Q4 2018 totaled $120.0 million, down 2% from last year. The decline was largely due to lower cobalt sales volume of 18% from Q4 2017, which offset the impact of higher nickel sales volume.

Revenue for FY2018 was $498.1 million, up 19% from $417.0 million generated in FY2017. The increase was driven by higher average realized prices for nickel (+26%), cobalt (+40%) and fertilizer (+7%), which offset lower sales volumes.

Mining, processing and refining (MPR) costs for Q4 2018 were US$5.34/lb, up 9% from US$4.89/lb for Q4

2017. MPR costs for FY2018 increased 12% over FY2017 to US$5.37/lb. The increases in both periods were primarily due to higher input costs, largely as a result of increased sulphur and energy prices. The Moa JV was required to buy sulphuric acid in Q3 during the first bi-annual maintenance shutdown of the new acid plant, adding costs to the full-year period.

NDCC in Q4 2018 was US$2.94/lb, compared to US$1.80/lb for the same period last year. The increase was due to the impact of higher sulphur and energy costs and a lower cobalt credit as a result of reduced sales volume when compared to the same period of last year.

NDCC for FY2018 was US$2.24/lb, compared to US$2.35/lb in FY2017 as higher cobalt credits in the first months in 2018 more than offset higher sulphur, fuel oil, and third-party feed prices. NDCC for FY2018 ranked the Moa JV within the lowest cost quartile relative to other nickel producers and ranked it as the lowest cost nickel HPAL operation according to annualized information tracked by Wood Mackenzie.

The Moa JV generated operating cash flow of $50.2 million in Q4 2018, up 54% from $32.5 million in the same period of 2017.

Operating cash flow for FY2018 was $90.7 million in FY2018, up 56% compared to FY2017. The increase was largely due to the year-over-year improvement in realized prices for nickel and cobalt that offset higher input commodity prices.

Sustaining capital spending in Q4 2018 was $10.5 million, up from $7.7 million in Q4 2017. The increase was due to planned spending, including the construction of the new slurry preparation plant dump pocket at Moa, which was commissioned in January 2019.

Total capital spend for FY2018 was $37.0 million, up 77%, consistent with planned higher spending, and included the purchase of new mining equipment aimed at reducing ore haulage distance and reducing equipment downtime.

Investment in Ambatovy Joint Venture (12% interest effective December 11, 2017)(1)

	For the three months ended			For the years ended	
	2018	2017		2018	2017
$ millions, except as otherwise noted	December 31	December 31	Change	December 31	December 3
FINANCIAL HIGHLIGHTS					
Revenue	$ 23.5	$ 58.1	(60%)	$ 101.2	$ 279.2
Loss from operations	(22.6)	(7.7)	(194%)	(40.8)	(109.5)
Adjusted EBITDA(2)	5.3	18.1	(71%)	18.0	26.0
CASH FLOW					
Cash used by operations	$ (1.8)	$ (3.4)	47%	$ (0.8)	$ (26.7)
Adjusted operating cash flow(2)	(2.8)	4.7	(160%)	2.9	(5.9)
Free cash flow(2)	(6.0)	(20.7)	71%	(14.1)	(55.6)
PRODUCTION VOLUMES (tonnes)(3)					
Mixed Sulphides	1,316	1,171	12%	4,331	4,623
Finished Nickel	1,253	1,105	13%	3,982	4,257
Finished Cobalt	106	88	21%	342	366
Fertilizer	3,187	3,504	(9%)	11,321	13,436
NICKEL RECOVERY (%)	86%	84%	2%	86%	85%
SALES VOLUMES (tonnes)(3)					
Finished Nickel	1,026	897	14%	3,944	4,224
Finished Cobalt	74	77	(4%)	324	375
Fertilizer	2,411	2,790	(14%)	9,822	12,961
AVERAGE-REFERENCE PRICES(2) (US$ per pound)					
Nickel	$ 5.20	$ 5.25	(1%)	$ 5.95	$ 4.72

Cobalt(4)	32.23	31.60	2%	37.35	26.53
AVERAGE-REALIZED PRICE					
Nickel ($ per pound)	$ 7.59	$ 6.56	16%	$ 7.87	$ 6.05
Cobalt ($ per pound)	38.07	39.03	(2%)	45.30	33.35
Fertilizer ($ per tonne)	189.00	173	9%	192.64	168
UNIT OPERATING COSTS(2) (US$ per pound)					
Nickel - net direct cash cost	$ 3.66	$ 3.27	12%	$ 3.91	$ 3.83
SPENDING ON CAPITAL					
Sustaining	$ 5.1	$ 10.0	(49%)	$ 15.3	$ 44.2
	$ 5.1	$ 10.0	(49%)	$ 15.3	$ 44.2

(1) Sherritt’s share for Ambatovy Joint Venture reflects its interest at 40% through December 10, 2017 and 12% thereafter.

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

(3) To allow for easier comparison, Ambatovy production and sales volume information for the periods ended December 31, 2017 are presented on a 12% basis.

(4) Average low-grade cobalt published price per Fastmarkets MB (formerly Metals Bulletin).

On December 11, 2017, Sherritt, along with its joint venture partners, completed a restructuring of the Ambatovy JV which reduced Sherritt’s ownership interest in the joint venture from 40% to 12%. In exchange for its reduced interest, Sherritt eliminated $1.4 billion in Ambatovy related debt. Sherritt will continue to serve as operator of the joint venture at least through 2024. As a result of the reduction in its ownership interest, Sherritt’s ability to direct local decision-making at Ambatovy has diminished, however.

Sherritt’s financial results at Ambatovy are presented on a 12% basis after December 10, 2017 and on a 40% basis prior to December 11, 2018. For periods ending after December 11, 2017, Sherritt’s share of financial and operating results reflect the impact of its reduced ownership interest. Production and sales totals in this press release are presented on a 12% for both periods for better comparison purposes.

Consistent with previous disclosure, finished nickel production at Ambatovy in the second half of 2018 was 19% higher than the first half of the year while finished cobalt production was up 35% over the comparable period. The production increases were the result of efforts aimed at improving production and increasing reliability of acid production and PAL circuits. Specific initiatives included the replacement of two acid plant economizers, replacement of equipment damaged by Cyclone Ava, and efforts to improve autoclave reliability.

Finished nickel production in Q4 2018 was 1,253 tonnes and finished cobalt production was 106 tonnes, up 13% and 21%, respectively, from Q4 2017.

NDCC in Q4 2018 was US$3.66/lb, 12% higher than in Q4 2017. NDCC for FY2018 was US$3.91/lb, up 2% from FY2017. The increase for both periods was attributable to lower cobalt sales volume and higher input costs.

Asset write-downs of $15.7 million based on Sherritt’s ownership interest were recorded in Q4 2018 following a review of fixed assets and a long-term ore stockpile re-valuation.

Capital spend at Ambatovy based on Sherritt’s ownership interest was $5.1 million in Q4 2018 and $15.3 million for FY2018. Capital spend throughout the course of the year was earmarked towards initiatives aimed at improving production, increasing asset plant reliability and replacing equipment damaged by Cyclone Ava.

Sherritt’s escrow account to cover funding requirements of the Ambatovy JV was depleted following a cash call in October 2018. The escrow account was established as a requirement of the Ambatovy restructuring completed in December 2017 when Sherritt’s ownership interest was reduced to 12% in exchange for the elimination of $1.4 billion of debt. Any future cash funding requirements will be dependent on Ambatovy’s production as well as prevailing commodity prices among other items. If additional cash funding is required, Sherritt does not anticipate providing any funding based on Ambatovy’s current debt structure.

On February 13, 2019, Sherritt filed on SEDAR an updated National Instrument 43-101 compliant Technical Report on Ambatovy. The new report includes mineral resource and reserve estimates that are based on an updated block model. The new estimates, which have a lower tonnage and higher overall grade than estimates provided in the 2014 Ambatovy Technical Report, largely offset each other. The economics of the updated Technical Report are based on a 10-year average weighted price of US$6.82 per pound of nickel and US$25.50 per pound of cobalt. The economics of the 2014 Technical Report were based on US$7.37 per pound for nickel and US$12.12 per pound for cobalt. The updated Technical Report is available via www.sedar and referenced in Sherritt’s 2018 Annual Information Form.

OIL AND GAS

	For the three months ended			For the years ended	
	2018	2017		2018	2017
$ millions, except as otherwise noted	December 31	December 31	Change	December 31	December
FINANCIAL HIGHLIGHTS					
Revenue	$ 8.5	$ 27.7	(69%)	$ 44.9	$ 127.0
Earnings (loss) from operations	(10.4)	7.9	(232%)	(17.0)	33.6
Adjusted EBITDA(1)	(7.2)	10.5	(169%)	(5.9)	61.9
CASH FLOW					
Cash provided (used) by operations	13.1	(2.3)	670%	31.7	30.8
Adjusted operating cash flow(1)	(5.4)	10.2	(153%)	(19.9)	49.9
Free cash flow(1)	3.1	(9.9)	131%	3.7	8.9
PRODUCTION AND SALES (bopd)					
Gross working-interest (GWI) - Cuba	4,443	10,378	(57%)	4,839	13,479
Total net working-interest (NWI)	1,597	6,101	(74%)	2,209	7,856
AVERAGE EXCHANGE RATE (CAD/USD)	1.320	1.271	4%	1.296	1.299
AVERAGE REFERENCE PRICE (US$ per barrel)					
West Texas Intermediate (WTI)	$ 59.98	$ 55.19	9%	$ 65.20	$ 50.78
U.S. Gulf Coast High Sulphur Fuel Oil (USGC HSFO)(2)	62.33	52.81	18%	61.45	47.02
Brent	68.13	61.77	10%	71.16	54.18
AVERAGE-REALIZED PRICE(1) (NWI)					
Cuba ($ per barrel)	$ 62.72	$ 48.82	28%	$ 56.47	$ 43.81
UNIT OPERATING COSTS(1) (GWI)					
Cuba ($ per barrel)	$ 25.16	$ 12.24	106%	$ 20.21	$ 9.78
SPENDING ON CAPITAL					
Development, facilities and other	$ -	$ (1.4)	100%	$ 1.4	$ (1.7)
Exploration	8.4	8.6	(2%)	25.0	21.1
	$ 8.4	$ 7.2	17%	$ 26.4	$ 19.4

(1) For additional information see the Non-GAAP measures section.
(2) Starting in 2018, the Oil and Gas division uses U.S. Gulf Coast High Sulphur Fuel Oil for pricing purposes, replacing U.S. Gulf Coast Fuel Oil #6 used previously. The comparative periods have been adjusted accordingly.

Gross working-interest oil production in Cuba in Q4 2018 was 4,443 barrels of oil per day (“bopd”) compared to 10,378 bopd for the comparable period of 2017. Gross working-interest oil production in Cuba for FY2018 was 4,839 barrels per day, down 64% from 13,479 barrels per day for FY2017. The declines for the quarter and full year periods of 2018 were primarily due to the expiration of the Varadero West Production Sharing Contract (PSC) in November 2017, natural reservoir declines and the absence of new development drilling.

Revenue in Q4 2018 was $8.5 million, down 69% compared to last year. The decline was attributable to lower total net working-interest production due to the impact of the expiration of the Varadero West PSC and decrease in profit oil percentage to 6% from 45% with the renewal of the Puerto Escondido/Yumuri PSC. The decline in sales volumes was partially offset by higher realized oil prices and by a weaker Canadian dollar relative to the U.S. currency. Revenue for FY2018 was $44.9 million, down 65% from last year.

Unit operating costs in Cuba in Q4 2018 were $25.16 per barrel, up 106% from Q4 2017, driven largely by reduced production. Costs were also negatively impacted by a stronger U.S. dollar relative to the Canadian currency. Expenses in Cuba are generally denominated in U.S. currency.

Capital spending in Q4 2018 was $8.4 million, up 17% from the comparable period in 2017. Total capital spending for FY2018 was $26.4 million, up 36% from last year. Capital spending for both Q4 and FY2018 increased from last year largely due to Block 10 drilling activities.

Based on a decision to prudently manage drilling and exploration costs, drilling on Block 10 has been suspended to enable the completion of additional analysis of the geological conditions between the upper and lower target reservoir.

To date, third-party industry experts have completed detailed lab analysis of rock cuttings collected during previous operations on Block 10. Results of the lab analysis, which indicated that the rock formation between the upper and lower target reservoirs has unique characteristics, are currently being used with the assistance of other third-party experts to adjust drilling parameters, including modifying the drilling fluid and making use of casing while drilling technology that addresses the challenges of well-bore degradation and fractured zones experienced to date.

Drilling on Block 10 will resume at the end of March with the new drilling parameters, and is expected to be completed in the second quarter of 2019. The adoption of new drilling parameters will not result in any increases to planned capital spending previously disclosed for the Oil and Gas business. Any incremental capital spend at the Oil and Gas business in 2019 will be predicated on successful drill results on Block 10 and collections on receivables. Sherritt intends to explore partnerships for further investment in Block 10 following completion of the current drilling.

POWER

	For the three months ended			For the years ended		
	2018	2017		2018	2017	
$ millions (33 ?% basis), except as otherwise noted	December 31	December 31	Change	December 31	December 31	C
FINANCIAL HIGHLIGHTS						
Revenue	$ 11.2	$ 12.0	(7%)	$ 47.2	$ 51.2	(
Earnings (loss) from operations	(0.3)	(0.6)	50%	2.8	5.2	(
Adjusted EBITDA(1)	6.5	5.5	18%	28.0	30.1	(
CASH FLOW						
Cash provided by operations	5.0	5.4	(7%)	34.3	44.5	(
Adjusted operating cash flow(1)	6.4	6.4	-	26.9	30.9	(
Free cash flow(1)	4.6	5.3	(13%)	33.4	43.0	(
PRODUCTION AND SALES						
Electricity (GWh)	184	201	(8%)	781	848	(
AVERAGE-REALIZED PRICE(1)						
Electricity ($/MWh)	$ 55.34	$ 54.01	2%	$ 54.31	$ 55.15	(
UNIT OPERATING COSTS(1) ($/MWh)						
Base	19.19	20.66	(7%)	16.59	16.48	1
Non-base(2)	1.90	2.77	(31%)	3.69	2.81	3
	21.09	23.43	(10%)	20.28	19.29	5
NET CAPACITY FACTOR (%)	57	62	(8%)	61	66	(
SPENDING ON CAPITAL						
Sustaining	$ 0.4	$ 0.1	300%	$ 0.9	$ 1.5	(
	$ 0.4	$ 0.1	300%	$ 0.9	$ 1.5	(

(1) For additional information see the Non-GAAP measures section.
(2) Costs incurred at the Boca de Jaruco and Puerto Escondido facilities that otherwise would have been capitalized if these facilities were not accounted or as service concession arrangements.

Electricity production and sales volumes for the three- and 12-month periods ended December 31, 2018 were each 7% and 8% lower, respectively, compared to the same periods in FY2017, primarily as a result of lower gas supply. The change in average-realized price of electricity for each of the current year periods compared to the same periods of last year was due to changes in the Canadian dollar relative to the U.S. currency.

Unit operating costs were relatively unchanged in both the three- and 12-month periods ended December 31, 2018 when compared to the same periods of FY2017. Some maintenance activities planned for Q4 2018 have been rescheduled for the first quarter of 2019. Costs were negatively impacted by a weaker Canadian dollar in Q4 2018 compared to Q4 2017, while the full year exchange rate impact was minimal year over year.

Total capital spending in Q4 2018 was negligible and relatively unchanged from last year.

2018 REVIEW OF STRATEGIC PRIORITIES

The table below lists Sherritt’s Strategic Priorities for 2018, and summarizes how the Corporation has performed against those priorities on a year to date basis.

Strategic Priorities	2018 Actions
PRESERVE LIQUIDITY AND BUILD BALANCE SHEET STRENGTH	Continue to emp
	Optimize workin
	Operate the Met and cobalt while
UPHOLD GLOBAL OPERATIONAL LEADERSHIP IN FINISHED NICKEL LATERITE PRODUCTION	Further reduce N
	Maximize produ
	Achieve peer lea
OPTIMIZE OPPORTUNITIES IN CUBAN ENERGY BUSINESS	Successfully exe
	Review opportu

2019 STRATEGIC PRIORITIES

The table below lists Sherritt’s Strategic Priorities for 2019. As we execute on our 2019 Strategic Priorities, protecting the health and safety of our employees, contractors and communities will continue to be our top priority. Sherritt’s purpose is to be a leader in the low-cost production of finished nickel and cobalt that creates sustainable prosperity for our employees, investors and communities.

Strategic Priorities	2019 Actions

	Protect the h
	Achieve pee Maximize pr
UPHOLD GLOBAL OPERATIONAL LEADERSHIP IN FINISHED NICKEL AND COBALT PRODUCTION FROM LATERITES	Capitalize on manufacture Continue to p cost quartile.
	Leverage tec opportunities Continue to c
PRESERVE LIQUIDITY AND BUILD BALANCE SHEET STRENGTH	Optimize wo Maintain a le cash flow. Successfully
OPTIMIZE OPPORTUNITIES IN CUBAN ENERGY BUSINESS	Review oppo Continue to r

OUTLOOK

2019 PRODUCTION, UNIT OPERATING COST AND CAPITAL SPENDING GUIDANCE

The guidance for 2019 reflects Sherritt’s targets for production, unit costs and capital spending announced on January 28, 2019.

Production volumes, unit operating costs and spending on capital	2018 Guidance	Year-to-date actual at December 31, 2018	2019 Guidance
Production volumes			
Moa Joint Venture (tonnes, 100% basis)			
Nickel, finished (1)	30,500 - 31,000	30,708	31,000 - 33,
Cobalt, finished(1)	3,250 - 3,400	3,234	3,300 - 3,60
Ambatovy Joint Venture (tonnes, 100% basis)			
Nickel, finished(2)	35,000 - 38,000	33,183	40,000 - 45,
Cobalt, finished(2)	3,100 - 3,400	2,850	3,500 - 4,00
Oil – Cuba (gross working-interest, bopd)	4,300 - 4,800	4,839	3,800 - 4,10
Oil and Gas – All operations (net working-interest, boepd)(3)	2,300-2,600	2,209	1,800 - 2,10
Electricity (GWh, 33?% basis)	750 - 800	781	650 - 700
Unit operating costs			
NDCC (US$ per pound)			
Moa Joint Venture(1)(3)	$1.90 - $2.40	$2.24	$3.40 - $3.9
Ambatovy Joint Venture(1)(2)	$3.75 - $4.25	$3.91	$3.80 - $4.3
Oil and Gas - Cuba (unit operating costs, $ per barrel)	$22.00 - $23.50	$20.21	$25.00 - $26
Electricity (unit operating cost, $ per MWh)	$20.75 - $21.50	$20.28	$25.25 - $26
Spending on capital (US$ millions)			
Moa Joint Venture (50% basis), Fort Site (100% basis)(4)(1)	US$31 (CDN$40)	US$29 (CDN$37)	US$40 (CDN
Ambatovy Joint Venture (12% basis)	US$13 (CDN$17)	US$12 (CDN$15)	US$10 (CDN
Oil and Gas (1)(2)	US$29 (CDN$37)	US$20 (CDN$26)	US$21 (CDN
Power (33?% basis)	US$1 (CDN$1)	US$1 (CDN$1)	US$1 (CDN$
Spending on capital (excluding Corporate)	US$74 (CDN$95)	US$62 (CDN$79)	US$72 (CDN

(1) 2018 guidance was updated September 30, 2018.
(2) 2018 guidance was updated June 30, 2018.

(3) 2018 guidance was updated March 31, 2018.
(4) Spending is 50% of US$ expenditures for Moa JV and 100% expenditures for Fort Site fertilizer and utilities.

NON-GAAP MEASURES

The Corporation uses combined results, Adjusted EBITDA, average-realized price, unit operating cost, adjusted operating cash flow and free cash flow to monitor the performance of the Corporation and its operating divisions. Management believes these measures enable investors and analysts to compare the Corporation’s financial performance with its competitors and/or evaluate the results of its underlying business. These measures do not have a standard definition under IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. As these measures do not have a standardized meaning, they may not be comparable to similar measures provided by other companies. See Sherritt’s Management’s Discussion and Analysis for the year ended December 31, 2018 for further information and reconciliation of non-GAAP measures to the most directly comparable IFRS measure.

CONFERENCE CALL AND WEBCAST

Sherritt will hold its conference call and webcast February 14th, 2019 at 9:00 a.m. Eastern Time to review its Q4 and 2018 results. Dial-in and webcast details are as follows:

North American callers, please dial:	1-866-521-4909
International callers, please dial:	647-427-2311
Live webcast:	www.sherritt.com

Please dial-in 15 minutes before the start of the call to secure a line. The conference call discussion will include a presentation that will be available from Sherritt’s website.

An archive of the webcast and replay of the conference call will also be available on the website.

COMPLETE FINANCIAL STATEMENTS AND MANAGEMENT’S DISCUSSION AND ANALYSIS

Sherritt’s complete audited consolidated financial statements and MD&A for the year ended December 31, 2018 are available at www.sherritt.com and should be read in conjunction with this news release. Financial and operating data can also viewed in the investor relations section of Sherritt’s website.

ABOUT SHERRITT

Sherritt is a world leader in the mining and refining of nickel and cobalt from lateritic ores with projects and operations in Canada, Cuba and Madagascar. The Corporation is the largest independent energy producer in Cuba, with extensive oil and power operations across the island. Sherritt licenses its proprietary technologies and provides metallurgical services to mining and refining operations worldwide. The Corporation’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”, “potential”, “projected”, “continue” or other similar words or phrases. Specifically, forward-looking statements in this document include, but are not limited to, statements set out in the “Outlook” sections of this press release and certain expectations regarding production volumes, operating costs and capital spending; supply, demand and pricing outlook in the nickel and cobalt markets; anticipated payments of outstanding receivables; future distributions from the Moa Joint Venture, funding of future Ambatovy cash calls, drill plans and results on exploration wells and amounts of certain other commitments.

Forward looking statements are not based on historical facts, but rather on current expectations, assumptions and projections about future events, including commodity and product prices and demand; the level of liquidity and access to funding; share price volatility; production results; realized prices for production; earnings and revenues; development and exploration wells and enhanced oil recovery in Cuba; environmental rehabilitation provisions; availability of regulatory approvals; compliance with applicable environmental laws and regulations; debt repayments; collection of accounts receivable; and certain corporate objectives, goals and plans. By their nature, forward looking statements require the Corporation to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that those assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections.

The Corporation cautions readers of this press release not to place undue reliance on any forward looking statement as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward looking statements. These risks, uncertainties and other factors include, but are not limited to, changes in the global price for nickel, cobalt, oil and gas, fertilizers or certain other commodities; security market fluctuations and price volatility; level of liquidity; access to capital; access to financing; risks related to the liquidity and funding of the Ambatovy Joint Venture; the risk to Sherritt’s entitlements to future distributions from the Moa and Ambatovy joint ventures; risk of future non-compliance with debt restrictions and covenants and mandatory repayments; uncertainty of exploration results and Sherritt’s ability to replace depleted mineral and oil and gas reserves; risks associated with the Corporation’s joint venture partners; variability in production at Sherritt’s operations in Cuba and Madagascar; risks related to Sherritt’s operations in Cuba; risks related to the U.S. government policy toward Cuba, including the U.S. embargo on Cuba and the Helms-Burton legislation; potential interruptions in transportation; uncertainty of gas supply for electrical generation; the Corporation’s reliance on key personnel and skilled workers; the possibility of equipment and other failures; risks associated with mining, processing and refining activities; uncertainty of resources and reserve estimates; the potential for shortages of equipment and supplies; risks related to environmental liabilities including liability for reclamation costs, tailings facility failures and toxic gas releases; risks related to the Corporation’s corporate structure; political, economic and other risks of foreign operations; risks related to Sherritt’s operations in Madagascar; risks associated with Sherritt’s operation of large projects generally; risks related to the accuracy of capital and operating cost estimates; foreign exchange and pricing risks; compliance with applicable environment, health and safety legislation and other associated matters; risks associated with governmental regulations regarding climate change and greenhouse gas emissions; risks relating to community relations and maintaining the Corporation’s social license to grow and operate; credit risks; shortage of equipment and supplies; competition in product markets; future market access; interest rate changes; risks in obtaining insurance; uncertainties in labour relations; uncertainty in the ability of the Corporation to enforce legal rights in foreign jurisdictions; uncertainty regarding the interpretation and/or application of the applicable laws in foreign jurisdictions; legal contingencies; risks related to the Corporation’s accounting policies; identification and management of growth opportunities; uncertainty in the ability of the Corporation to obtain government permits; risks to information technologies systems and cybersecurity; failure to comply with, or changes to, applicable government regulations; bribery and corruption risks, including failure to comply with the Corruption of Foreign Public Officials Act or applicable local anti-corruption law; the ability to accomplish corporate objectives, goals and plans for 2019; and the Corporation’s ability to meet other factors listed from time to time in the Corporation’s continuous disclosure documents. Readers are cautioned that the foregoing list of factors is not exhaustive and should be considered in conjunction with the risk factors described in this press release and in the Corporation’s other documents filed with the Canadian securities authorities, including without limitation the Annual Information Form of the Corporation dated February 13, 2019 for the period ending December 31, 2018, which is available on SEDAR at www.sedar.com.

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

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Contact

For further investor information contact:
Joe Racanelli, Director of Investor Relations
Telephone: 416.935.2457
Toll-free: 1.800.704.6698
E-mail: investor@sherritt.com

Sherritt International Corp.
Bay Adelaide Centre, East Tower
22 Adelaide St. West, Suite 4220
Toronto, ON M5H 4E3
www.sherritt.com