



# **SHERITT**

## **THE NAME IN NICKEL**

Q4 Earnings Call

February 12, 2018

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# Forward-looking statements

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This presentation 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 presentation and certain expectations regarding production volumes, operating costs and capital spending; supply, demand and pricing outlook in the nickel and cobalt markets; sources of funding for the Moa Joint Venture; future financing arrangements at the Ambatovy Joint Venture; results of discussions regarding timing of ongoing Cuban payments; drill results on exploration wells; joint venture environmental rehabilitation costs 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 presentation not to place undue reliance on any forward looking statement as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward looking statements. These risks, uncertainties and other factors include, but are not limited to, changes in the global price for nickel, cobalt, oil and gas or certain other commodities; share price volatility; level of liquidity; access to capital; access to financing; risks related to the liquidity of the Ambatovy Joint Venture; the risk to Sherritt's entitlements to future distributions from the Ambatovy Joint Venture; risk of future non-compliance with debt restrictions and covenants; risks associated with the Corporation's joint venture partners; variability in production at Sherritt's operations in Madagascar and Cuba; potential interruptions in transportation; uncertainty of gas supply for electrical generation; uncertainty of exploration results and Sherritt's ability to replace depleted mineral and oil and gas reserves; the Corporation's reliance on key personnel and skilled workers; the possibility of equipment and other failures; the potential for shortages of equipment and supplies; risks associated with mining, processing and refining activities; uncertainty of resources and reserve estimates; uncertainties in environmental rehabilitation provisions estimates; risks related to the Corporation's corporate structure; political, economic and other risks of foreign operations; risks related to Sherritt's operations in Cuba; risks related to the U.S. government policy toward Cuba, including the U.S. embargo on Cuba and the Helms-Burton legislation; risks related to Sherritt's operations in Madagascar; risks associated with Sherritt's development, construction and operation of large projects generally; risks related to the accuracy of capital and operating cost estimates; reliance on significant customers; foreign exchange and pricing risks; compliance with applicable environment, health and safety legislation and other associated matters; risks associated with governmental regulations regarding greenhouse gas emissions; maintaining the Corporation's social license to grow and operate; risks relating to community relations; credit risks; shortage of equipment and supplies; competition in product markets; future market access; interest rate changes; risks in obtaining insurance; uncertainties in labour relations; uncertainty in the ability of the Corporation to enforce legal rights in foreign jurisdictions; uncertainty regarding the interpretation and/or application of the applicable laws in foreign jurisdictions; legal contingencies; risks related to the Corporation's accounting policies; risks associated with future acquisitions; uncertainty in the ability of the Corporation to obtain government permits; 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; uncertainties in growth management.

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 presentation 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 presentation 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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## Non-GAAP Measures

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

# Participants

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**David Pathe**

*President & CEO*



**Steve Wood**

*Executive Vice President & COO*



**Andrew Snowden**

*Senior Vice President & CFO*



## Q4 2017 highlights

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**1**

**Restructuring at Ambatovy JV eliminated \$1.4B of debt**

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**2**

**NDCC at Moa was lowest since Q3 2004**

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**3**

**Received \$19.9M in cash flow from Moa JV**

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**4**

**Higher commodity prices and favorable market outlook**

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**Sherritt is now ideally positioned to benefit from the nickel price recovery**



## Market environment

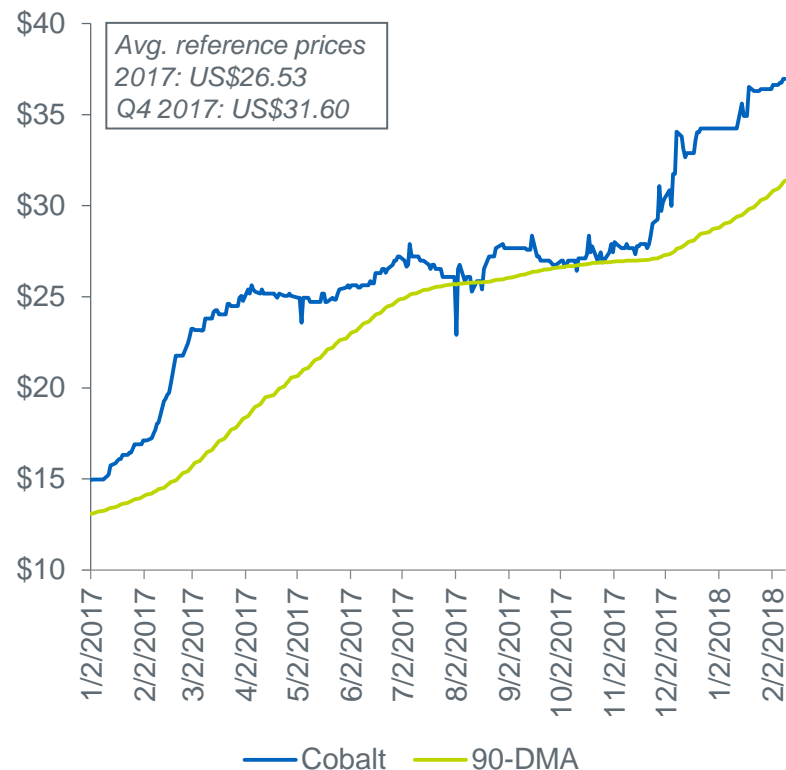
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# Nickel and cobalt price trends

Nickel vs. 90-Day Moving Average (DMA)

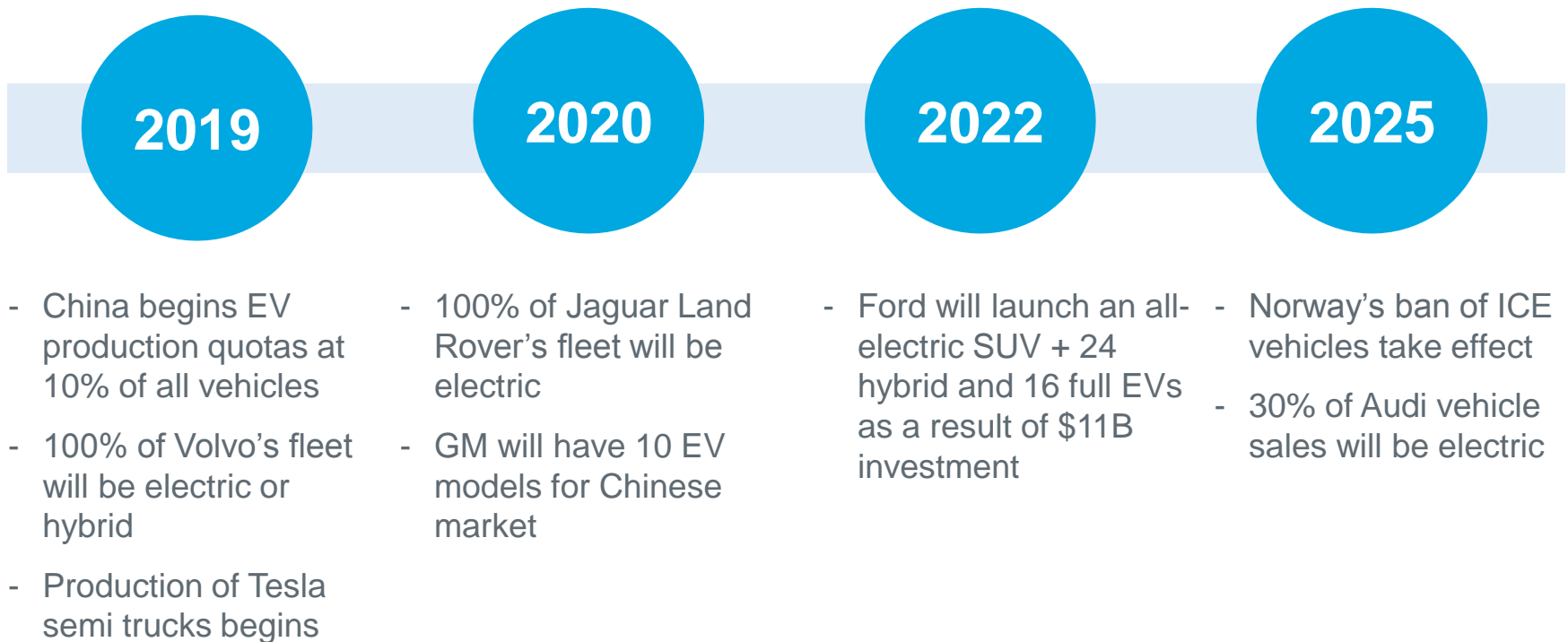


Cobalt vs. 90-Day Moving Average (DMA)



**Despite the high volatility, nickel prices are trending upward**

# Auto industry is undergoing dramatic changes\*

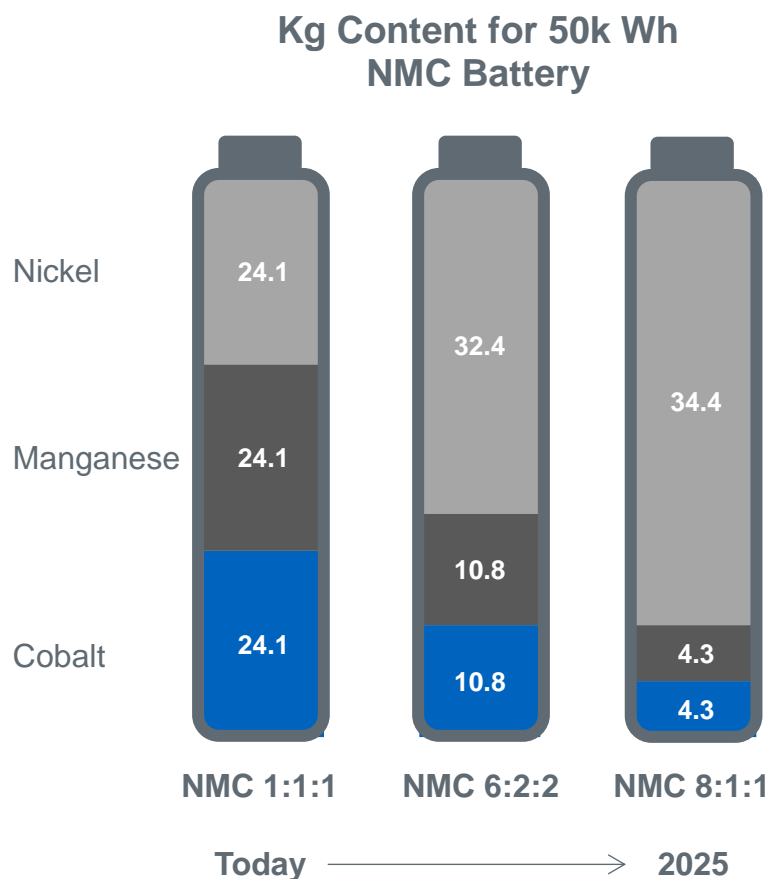


**Pace of EV revolution is driving higher nickel and cobalt prices**

\*Source: Bloomberg New Energy Finance, UBS



# EV batteries will increasingly rely on nickel



Changes driven by:

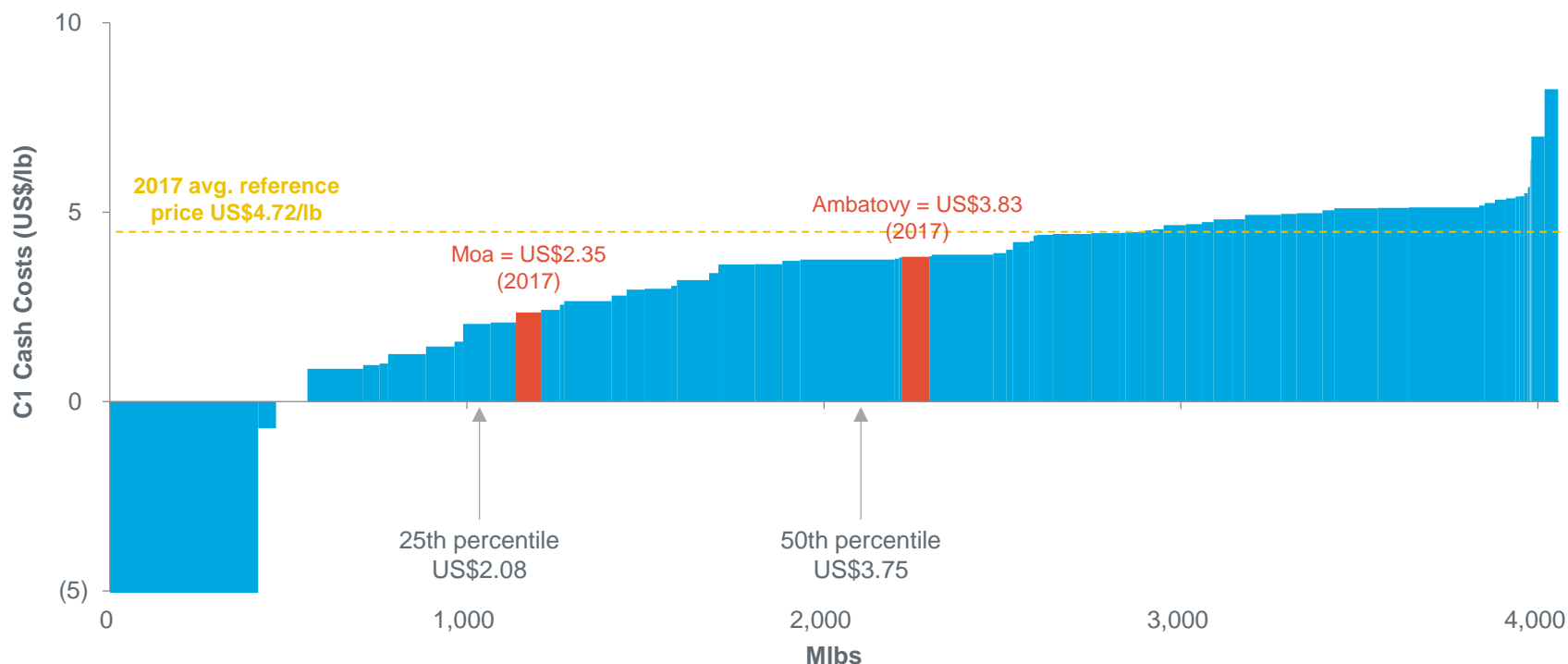
- Cobalt supply constraints
- Commodity pricing environment
- Surging end-product demand

**Nickel's ability to maintain energy stability/density a key consideration**



# Sherritt is a low cost nickel producer

2017 Nickel industry NDCC



**NDCC at Moa and Ambatovy declined significantly from 2016;  
Benefitted from high cobalt to nickel ratio**

Source: Wood Mackenzie, Q4 2017 dataset

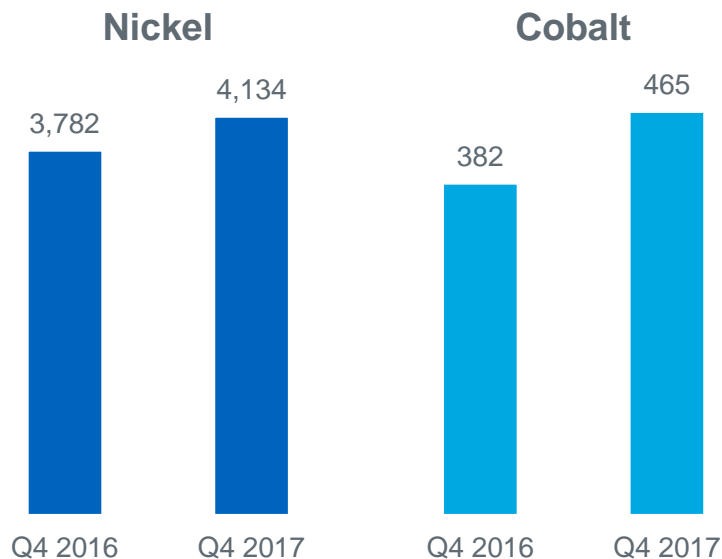


# Operations

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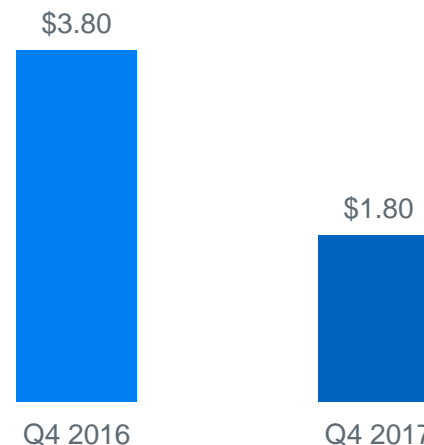
# Metals highlights - Moa JV

## Production<sup>(1)</sup> (tonnes)



- Q4 2017 production impacted by abnormally heavy rainfalls
- Q4 2016 production affected by Hurricane Matthew and bridge collapse

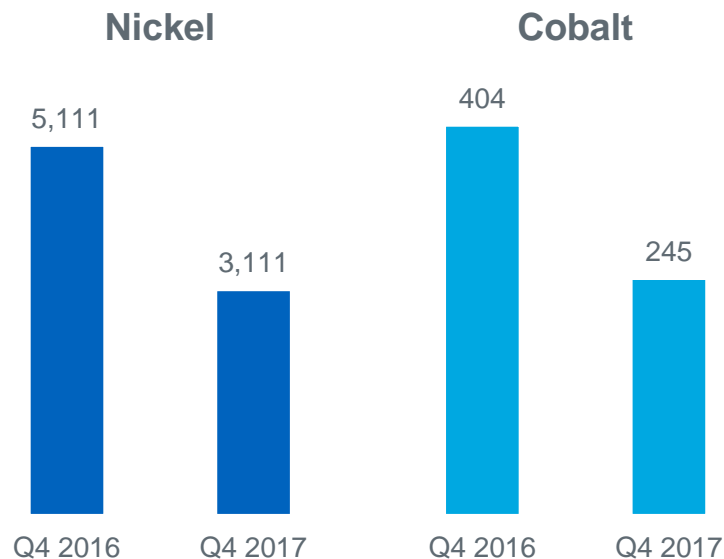
## NDCC (US\$/lb)



- US\$1.80/lb lowest since Q3 2004
- Driven by high cobalt credit and US\$0.50/lb cost savings from new acid plant

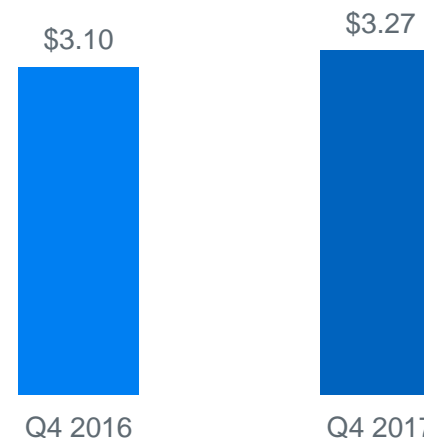
# Metals highlights - Ambatovy JV

## Production<sup>(1)</sup> (tonnes)



- Production decline driven by poor asset reliability and plant shutdowns
- Change in ownership interest from 40% to 12% effective December 11, 2017

## NDCC (US\$/lb)

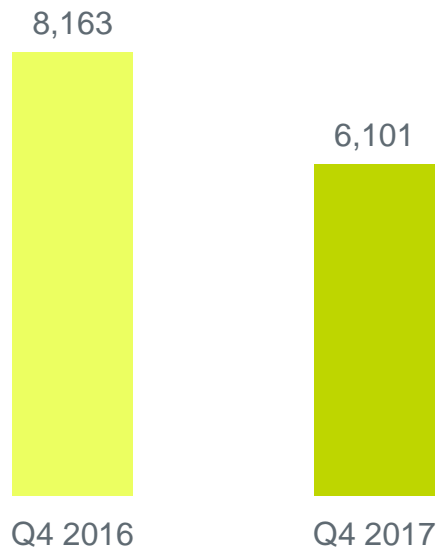


- High cobalt by-product credit offset higher operating and maintenance costs
- Ambatovy NDCC near 50<sup>th</sup> percentile of industry average

# Oil and Gas highlights

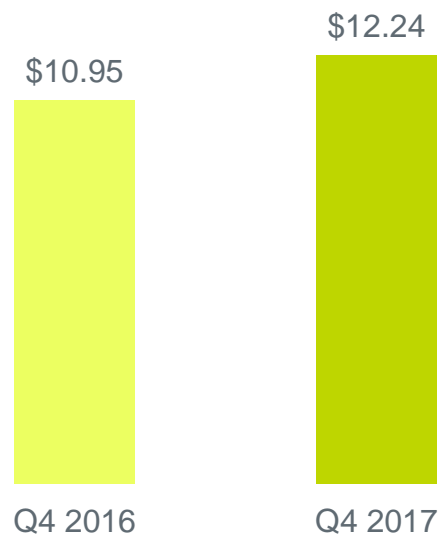
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Oil Production (total NWI, boepd)



- Decrease due to natural reservoir decline and expiration of Varadero West PSC in Nov. 2017

Unit operating costs (Cuba GWI, \$/bbl)



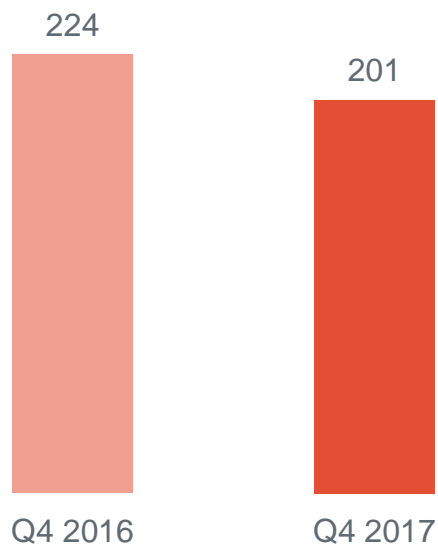
- Increase in unit production costs due to lower production costs.

# Power highlights

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## Electricity production (33<sup>1/3</sup>%, GWh)

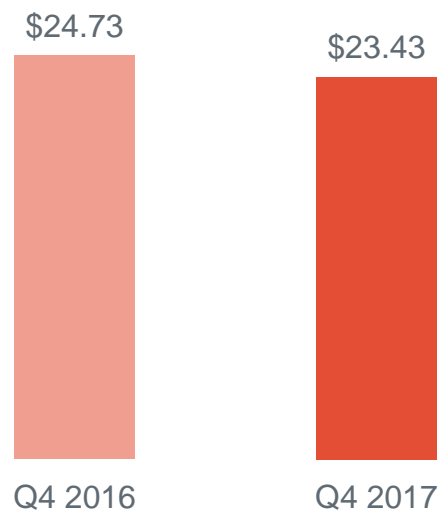
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- Production decline impacted by reduced gas availability and after-effects of Hurricane Irma

## Unit operating costs (\$/MWh)

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- Cost improvement driven by the timing of maintenance activities



## Financial highlights



# Balance sheet impact of Ambatovy JV restructuring

\$M	Sept. 30, 2017	Dec. 31, 2017
<b>ASSETS</b>		
Cash, cash equivalents and short-term investments	290.3	203.0
Restricted cash	1.0	13.0
Other	388.6	364.3
Current Assets	679.9	580.3
Advances, loans receivable and other financial assets	1,422.1	713.0
Investment in an associate	658.9	211.9
Other	728.4	739.6
Non-current assets	2,809.4	1,664.5
<b>Total assets</b>	<b>3,489.3</b>	<b>2,244.8</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Current liabilities	265.5	245.1
<b>Non-recourse loans and borrowings</b>	<b>1,324.6</b>	<b>-</b>
Other financial liabilities	206.2	16.2
Other	927.2	927.2
Total non-current liabilities	2,458.0	943.4
Total liabilities	2,723.5	1,188.5
<b>Shareholders' equity</b>		
Accumulated other comprehensive income	719.0	466.5
Deficit	(2,965.5)	(2,427.7)
Other	3,012.3	3,017.5
Total shareholders' equity	765.8	1,056.3
<b>Total liabilities and shareholders' equity</b>	<b>3,489.3</b>	<b>2,244.8</b>

Sherritt's debt/equity ratio reduced from 2.8x to 0.8x

# Income statement impact of Ambatovy JV restructuring

\$M	2017 Q4	2017 FY
Net earnings (loss) from continuing operations	552.9	308.9
Adjusting items:		
Gain on Ambatovy restructuring	(629.0)	(629.0)
Unrealized foreign exchange loss	24.1	7.7
Other	1.8	(4.7)
Total adjustments	(603.1)	(626.0)
<b>Adjusted net loss from continuing operations</b>	<b>(50.2)</b>	<b>(317.1)</b>

- Reported net income for Q4 and FY2017 includes \$629M gain consistent with IFRS rules

**Adjustments provide better reflection of Sherritt's performance**

## Status of overdue receivables

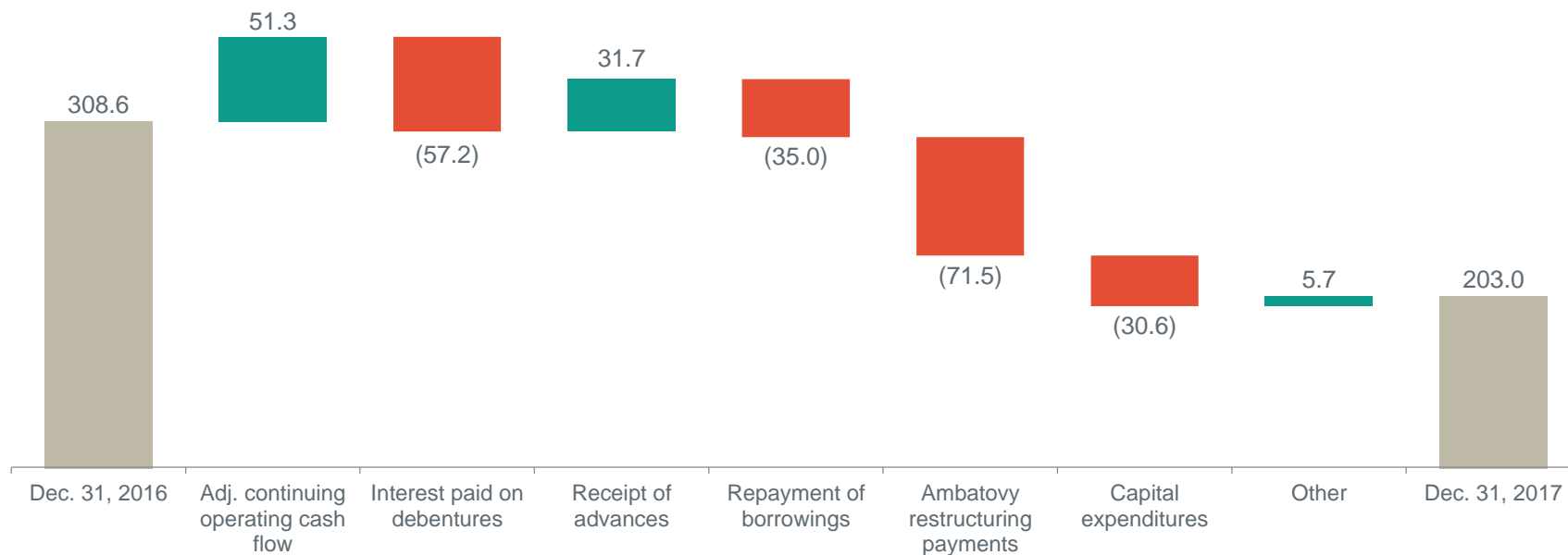
US\$M	Q4 Progress			
	Q3 Overdue	Expected/Due	Received	Q4 Overdue
Oil & Gas receivables	\$28.5	\$20.4	(\$7.5)	\$41.4
Power receivables	\$72.0	\$19.2	-	\$91.2
Total Cuban energy Receivables	\$100.5	\$39.6	(\$7.5)	\$132.6

- Overdue receivables have always fluctuated over the years
- Timing of payments linked to foreign currency availability
- Q4 impacted by Hurricane Irma and related recovery costs

**Sherritt has always collected 100% of overdue receivables**

# Consolidated cash from Dec. 31, 2016 to Dec. 31, 2017

\$ millions

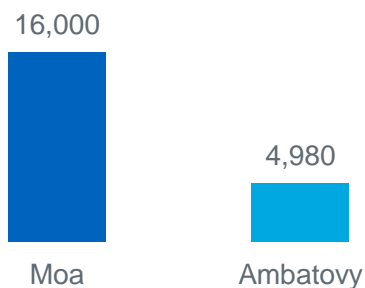


**Liquidity since improved by \$125M in net proceeds from unit offering and credit facility extension**

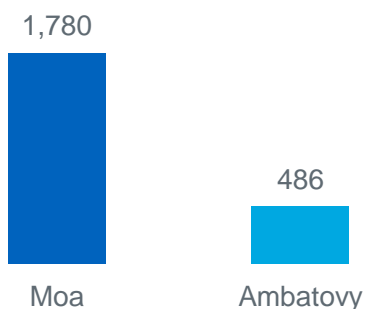
# 2018 forecast highlights

## Production<sup>(1)</sup>

### Nickel (tonnes)



### Cobalt (tonnes)



## Capex<sup>(1)</sup>

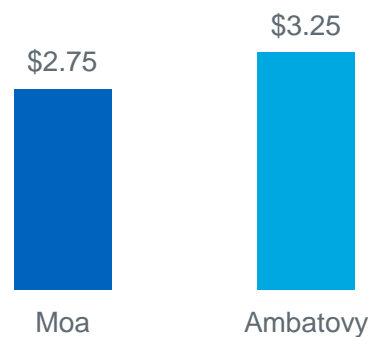
### 2018 Guidance

US\$

Moa	\$41M
Ambatovy	\$13M
Oil & Gas	\$39M
Power	\$1M

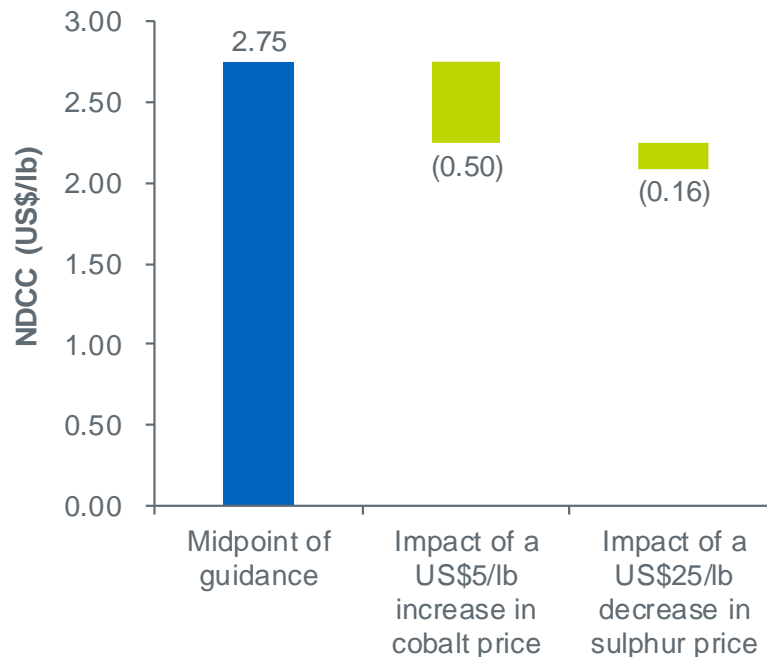
Spending on Oil and Gas will be tied to rate of collections of overdue receivables

## NDCC (US\$/lb)<sup>(2)</sup>



# Moa's NDCC – sensitivity analysis

Impact of a US\$5/lb cobalt price increase and US\$25/t sulphur price decrease



## Key assumptions

- Cobalt price: ~US\$30/lb
- Sulphur: total cost: ~US\$200/tonne (including freight and handling)

**2018 NDCC guidance based on conservative assumptions**

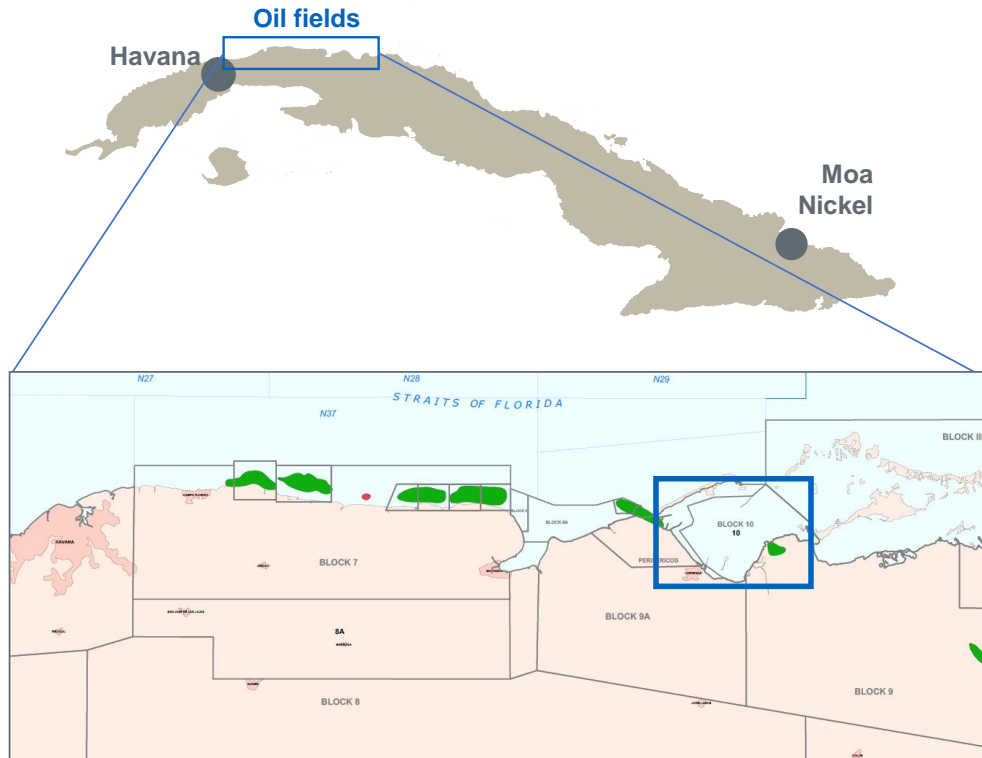
A low-angle photograph of a tall, cylindrical industrial storage tank. The tank has a corrugated metal exterior and is surrounded by yellow safety railings and ladders. A worker in a dark uniform and hard hat is standing on one of the yellow platforms. The sky is clear and blue. The right side of the image is overlaid with a solid teal color.

# Recent developments and outlook

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# Oil and Gas - developments



## Puerto Escondido/Yumuri

- Three-year extension of Production Sharing Contract to 2021

## Update on Block 10

- Extended drilling timeline at 2<sup>nd</sup> well
- Assessing options to reach target reservoir
- Drilling results expected in Q3
- Target based on successful 1994 well

**Spending will be linked to rate of receivables collection**

# Corporate developments

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## Unit offering

- Generated \$132M in gross proceeds
- 1<sup>st</sup> capital raise in 10 years
- Proceeds to reduce debt
- Expanded shareholder base
- Strong investor support

## Dutch auction tender offer

- Offer to purchase up to \$75 million of outstanding debentures
- Bidding ends Feb. 13 @ 5:00pm
- Clearing price to be determined

**Actions consistent with strategy to strengthen balance sheet**



## Q&A Discussion

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