



# **SHERITT**

## **THE NAME IN NICKEL**

Q1 Earnings Call

April 25, 2018

**sheritt**

# 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 “Updates to 2018 Forecasts” section 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; anticipated payments of outstanding receivables; 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 Prospectus and the documents incorporated by reference herein 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; and certain corporate objectives, goals and plans for 2018; and the Corporation's ability to meet other factors listed from time to time in the Corporation's continuous disclosure documents. Readers are cautioned that the foregoing list of factors is not exhaustive and should be considered in conjunction with the risk factors described in the Corporation's other documents filed with the Canadian securities authorities, including the Corporation's Annual information Form for the year ended December 31, 2017.

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 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*



# Q1 2018 highlights

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**1** Stronger balance sheet – more cash; lower debt

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**2** Received US\$40.7 million in Cuban energy payments

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**3** Moa's NDCC in lowest cost quartile for the 4<sup>th</sup> consecutive quarter

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**4** Highest nickel reference price in three years

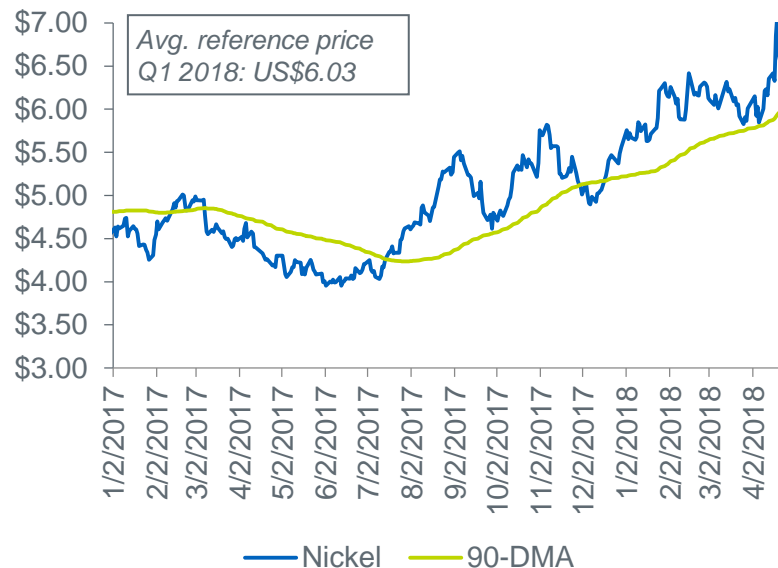
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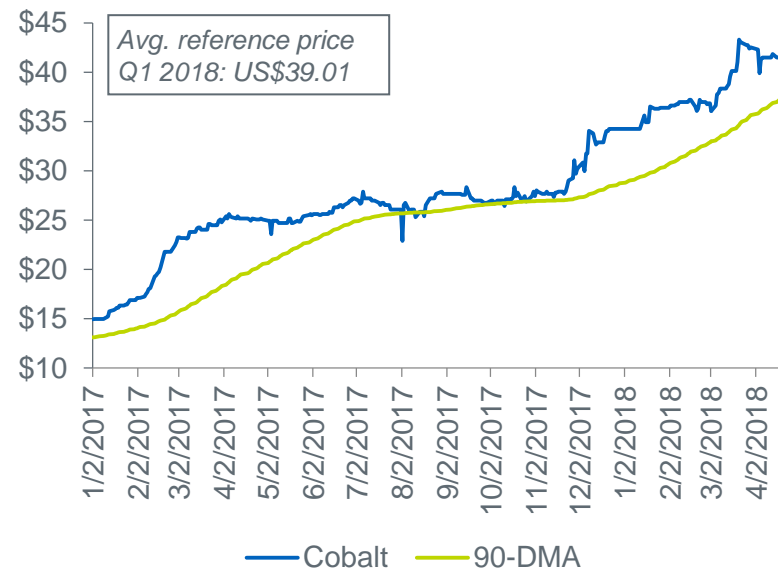
# Market environment

# Favorable nickel and cobalt price trends

## Nickel vs. 90-Day Moving Average (DMA)



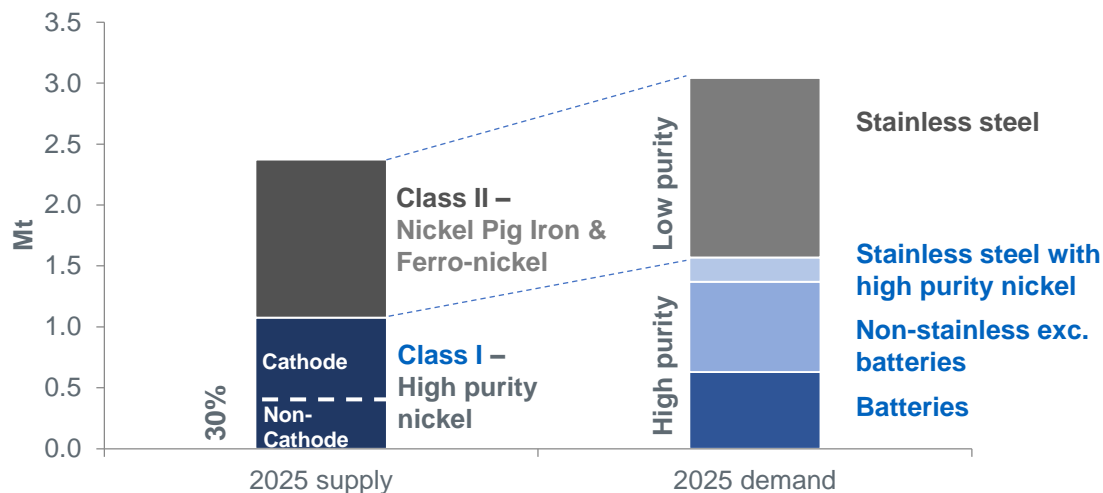
## Cobalt vs. 90-Day Moving Average (DMA)



**Despite recent volatility, nickel prices continue to trend higher**

# Not all nickel is the same

## Differences in nickel supply and uses



>70%

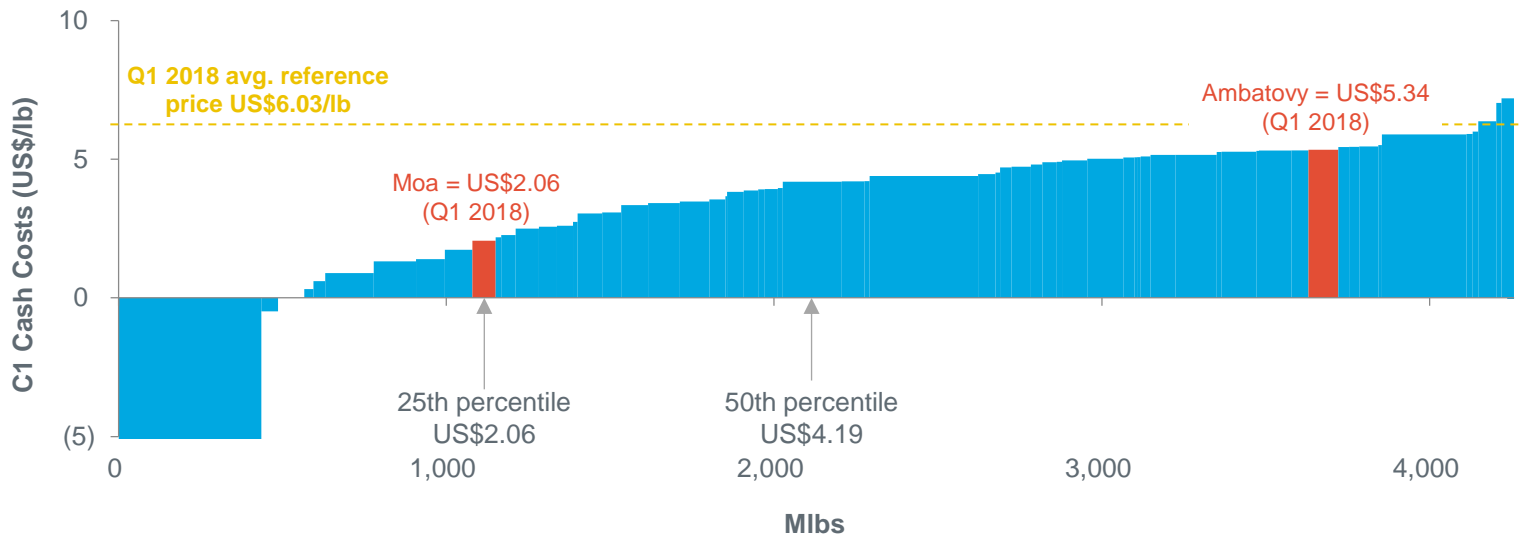
Of all nickel supply is unsuitable for EV battery market

**Sherritt produces 100% Class I nickel in non-cathode form**

Source: Bernstein, CRU, Wood Mackenzie

# Sherritt is a low cost nickel producer

## 2018 Nickel industry NDCC



**Moa's NDCC in lowest cost quartile for the 4th consecutive quarter**

Source: Wood Mackenzie, Q1 2018 dataset

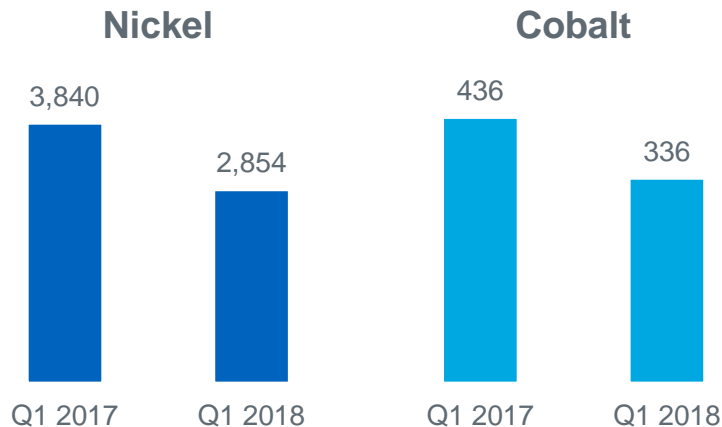




# Operations

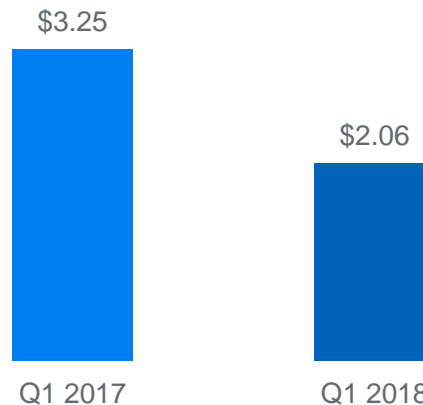
# Metals highlights - Moa JV

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



- Reduced availability of mixed sulphides negatively impacted production in Q1 2018 due to:
  - Rainfall that was significantly above average
  - Rail transportation delays by service provider
- Mixed sulphides availability in Q2 back to normal

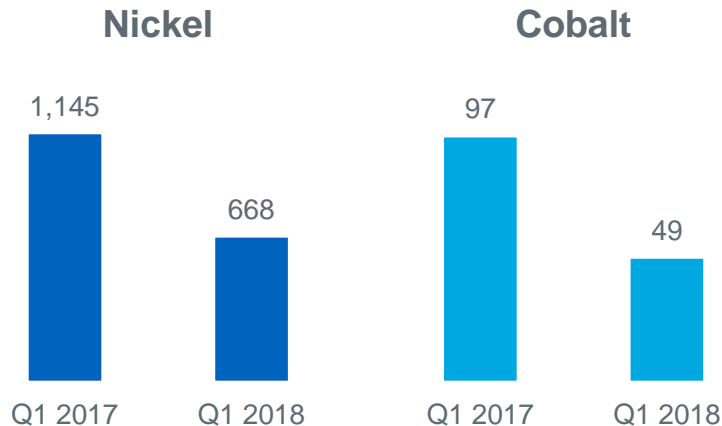
## NDCC (US\$/lb)



- Lower unit costs driven by US\$4.27 cobalt by-product credit and high cobalt-to-nickel production ratio

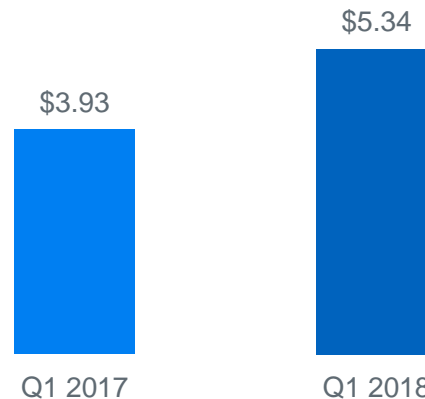
# Metals highlights - Ambatovy JV

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



- Q1 2018 production was impacted by Cyclone Ava and the limited availability sulphuric acid
- Repairs and replacement of equipment are ongoing
  - Ramp up expected through Q2 2018

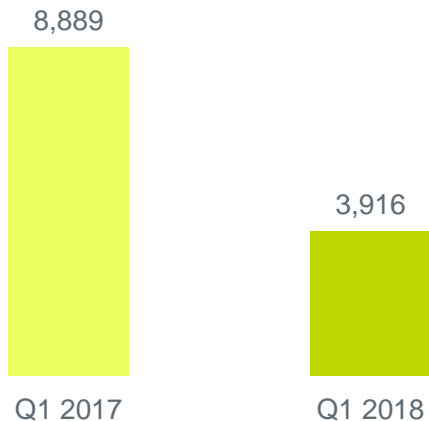
## NDCC (US\$/lb)



- Higher unit production costs impacted by reduced finished metals production

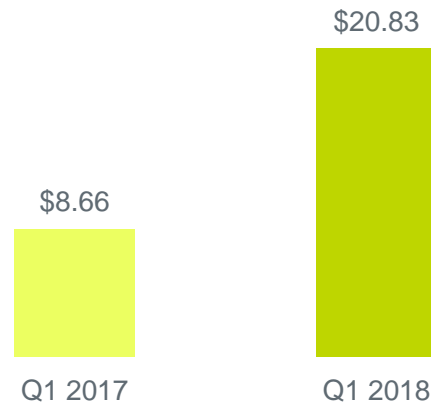
# Oil and Gas highlights

## Oil Production (total NWI, boepd)



- Q1 2018 production decrease due to expiration of Varadero West PSC in Nov. 2017 and natural reservoir decline

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



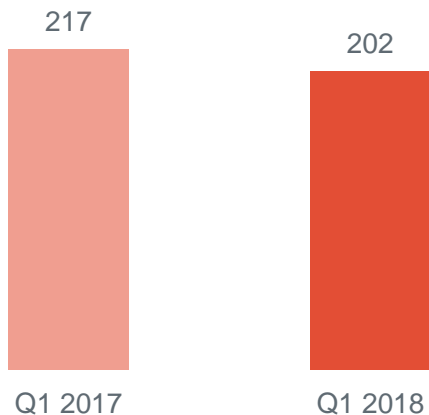
- Increase in unit production costs due to lower production volume
- Higher costs were offset by strengthening of \$CDN

# Power highlights

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

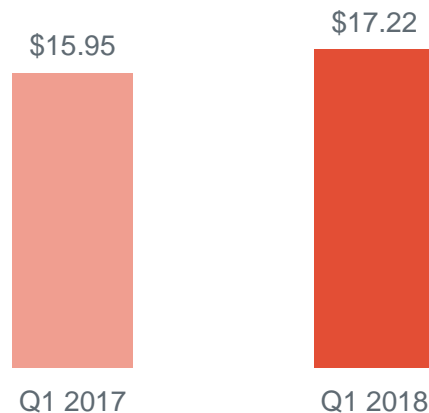
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- Production was lower due to reduced natural gas supply

## Unit operating costs (\$/MWh)

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- Unit costs increased due to lower volume

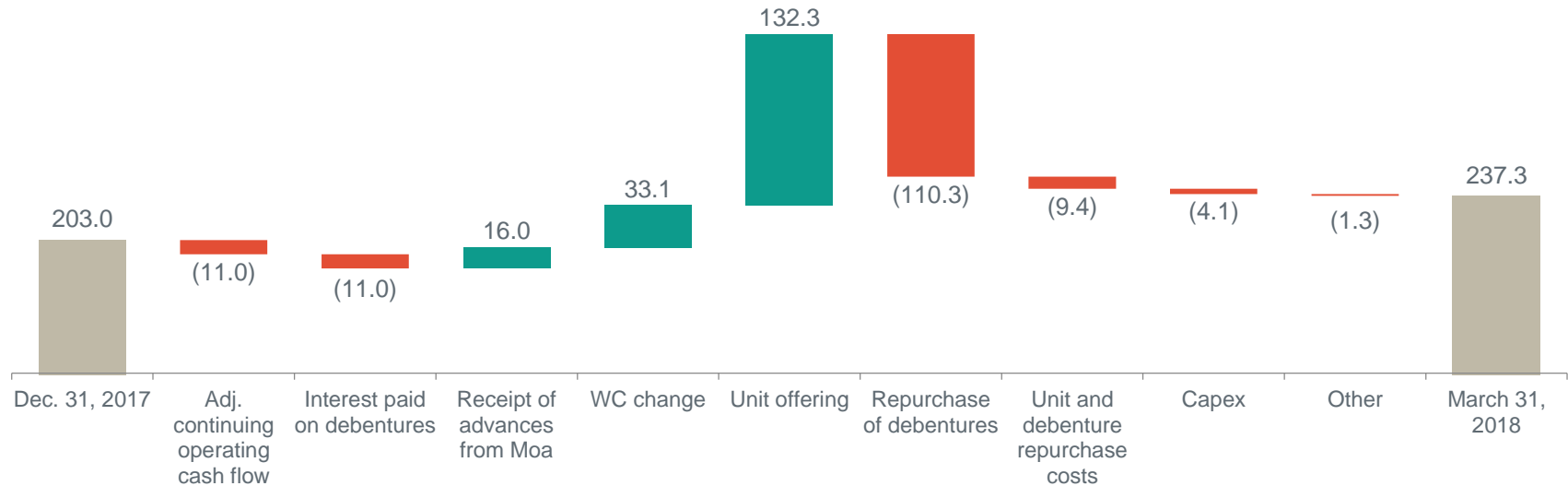


# Financial highlights

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# Consolidated cash from Dec. 31, 2017 to March 31, 2018

\$ millions



**Liquidity improved by \$34M and debentures reduced by \$120M**

# Strengthened balance sheet

## Balance sheet initiatives achieved 2014 - 2018

- Sold non-core coal assets for \$946M and repaid \$425M in debentures - Q2 2014
- Repurchased \$30M of debentures at a discount - Q2 2016
- Extended debenture maturities by 3 years with first maturity now due in 2021 (from 2018) - Q2 2016
- Restructured Ambatovy JV & eliminated \$1.4bn of debt - Q4 2017
- Repurchased \$120M of debentures at a discount - Q1 2018

2021

- \$170M<sup>(1)</sup> in 8% debentures due Q4

2023

- \$206M in 7.5% debentures due Q3
- US\$102M in Ambatovy partner loan due Q3<sup>(2)</sup>

2025

- \$223M in 7.875% debentures due Q4

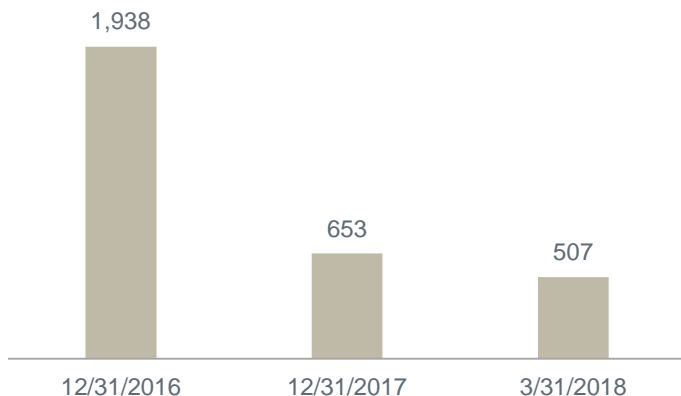
**3+ year runway before major liabilities are due**

**Reducing debt remains a key strategic priority**

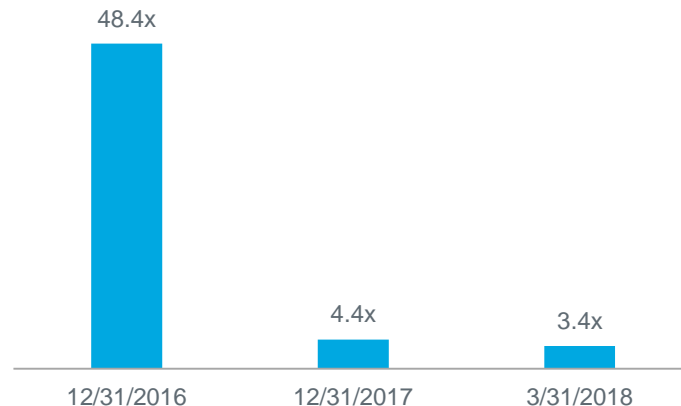


# Debt reduction in perspective

Net debt (\$M)<sup>(1)</sup>



Net debt / LTM EBITDA



**Net debt has decreased significantly since 2016 year end**

# Status of scheduled Cuban energy receivables

US\$M	Q1 progress			
	Q4 overdue	Expected/due	Received	Q1 overdue
Oil & Gas receivables	\$41.4	\$21.5	(\$27.4)	\$35.5
Power receivables	\$91.2	\$13.3	(\$13.3)	\$91.2
Total Cuban energy receivables	\$132.6	\$34.8	(\$40.7)	\$126.7

- Overdue receivables have always fluctuated over the years
- Timing of payments linked to foreign currency availability

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

# Updates to 2018 forecasts<sup>(1)</sup>

## Production

### Oil&Gas - Total NWI (boepd)



### Ambatovy - Cobalt (tonnes)<sup>(2)</sup>



## NDCC (US\$/lb)

### Moa



### Ambatovy



# Impact of IFRS 9 and IFRS 15

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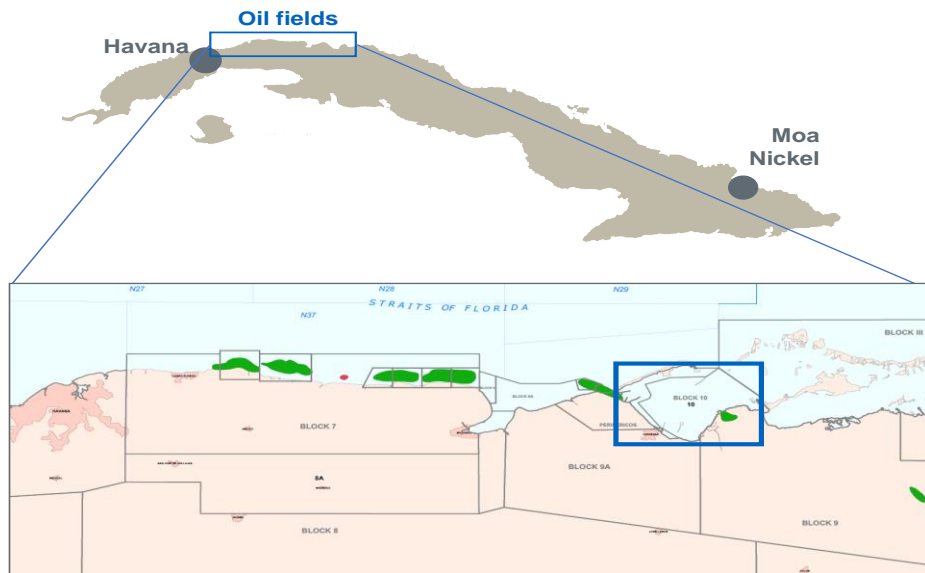
- New accounting standards effective January 1, 2018
- IFRS 9 Financial instruments – changes to measurement of various items on Sherritt's balance sheet, limited impact to income statement.
- IFRS 15 Revenue – no significant impact
- Detailed disclosure of changes are included in Note 4 to the Q1 financial statements



# Recent developments and outlook

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# Oil and Gas - developments



## Puerto Escondido/Yumuri

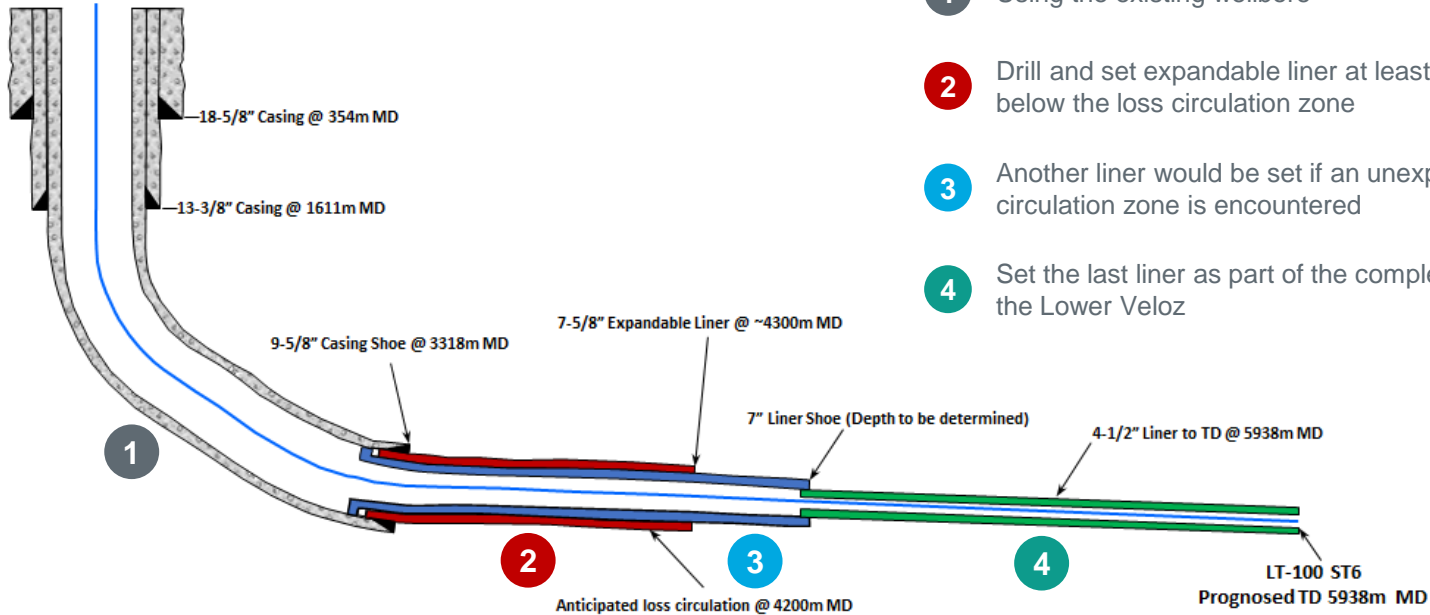
- Three-year extension of Production Sharing Contract to 2021

## Update on Block 10

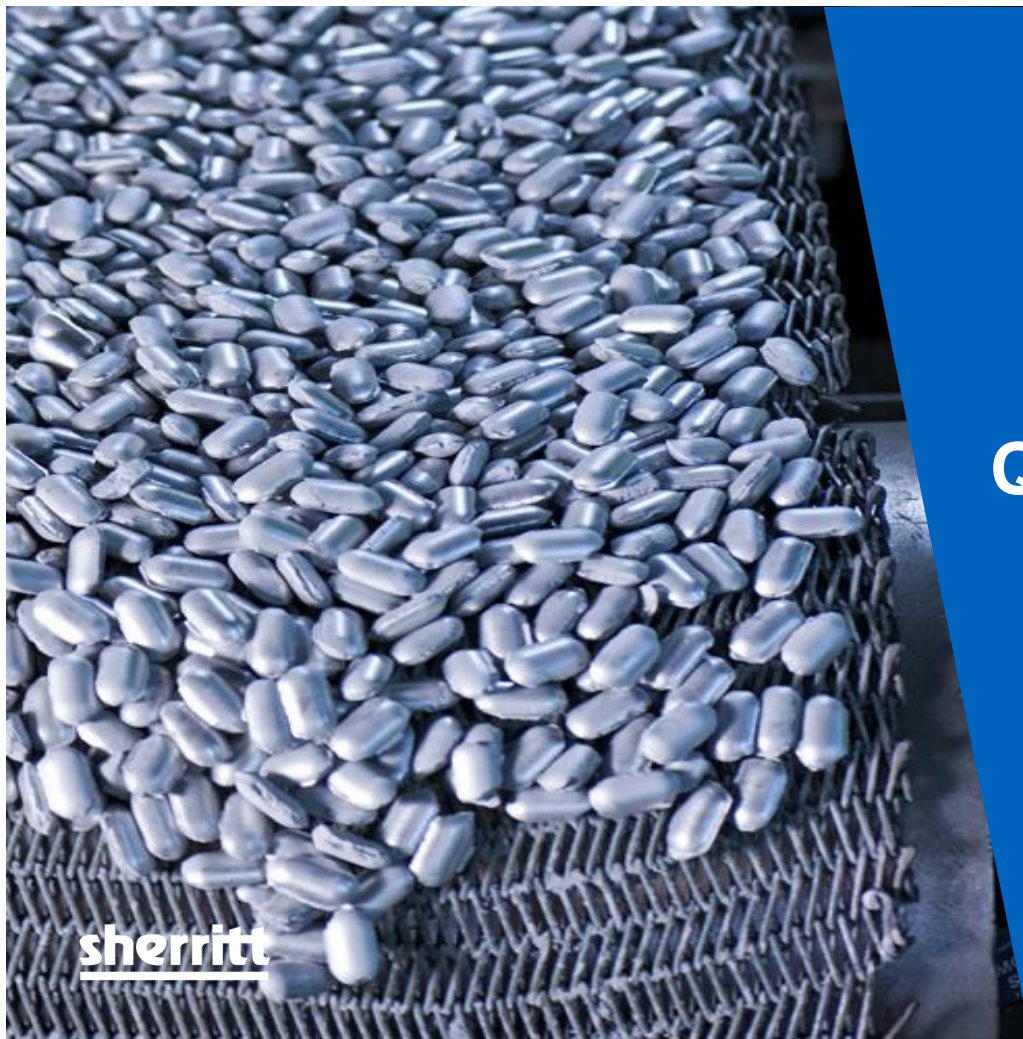
- Finalized evaluation of available and proven technology to complete drilling
- Preliminary results expected in Q3
- US\$13 million in spend budgeted

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

# New available technology



Addresses lost circulation challenges of previous drilling



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## Q&A Discussion





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