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Sherritt

International Corporation **Second quarter report** — June 30, 2004

Contents

	Page
Highlights	2
Management's Discussion and Analysis.....	5
Consolidated Financial Results	5
Consolidated Cash Flow	7
Consolidated Financial Position, Liquidity and Capital Resources	8
Outlook	11
Summary Financial Results and Key Operating Statistics by Segment.....	12
Review of Operations	
Coal.....	20
Metals.....	22
Oil and Gas	24
Power	26
Other Businesses	27
Supplementary Disclosures	28
Changes in Accounting Policies and Estimates	28
Critical Accounting Estimates.....	31
Related Party Transactions	32
Additional Information	32
Interim Consolidated Financial Statements.....	33
Consolidated Balance Sheets.....	33
Consolidated Statements of Operations	34
Consolidated Statements of Retained Earnings	34
Consolidated Statements of Cash Flow	35
Notes to Interim Consolidated Financial Statements	36
Supplementary Financial Information	
Canadian GAAP Reconciliation Table	51
Schedule of Selected Current Assets and	
Accounts Payable by Operating Segment.....	52

Corporate Profile

Sherritt International Corporation, with assets of \$2.4 billion, is a diversified Canadian natural resource company that operates in Canada, Cuba and internationally. Sherritt's 131 million common shares, \$300 million of 6% convertible debentures and \$300 million of 7% convertible debentures trade on the Toronto Stock Exchange under the symbols S, S.DB and S.DB.A, respectively. Sherritt's \$105 million of 9.875% senior unsecured debentures trade on the over-the-counter bond market.

This interim report contains forward-looking statements. These forward-looking statements are not based on historical facts, but rather on Sherritt International Corporation's current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that are beyond the Corporation's ability to control or predict. Actual results and developments may differ materially from those contemplated by these statements depending on, among others, such key factors as business and economic conditions in Canada, Cuba and the principal markets for Sherritt's products.

Key factors that may result in material differences between actual results and developments and those contemplated by these statements also include the supply, demand and prices for Sherritt's products; dependence on significant customers; deliveries; production levels, production and other anticipated and unanticipated costs and expenses; energy costs; premiums or discounts realized over LME cash and other benchmark prices; interest rates; foreign exchange rates; rates of inflation; changes in tax legislation; the timing, capital costs and financing arrangements associated with development projects; the timing of the receipt of government and other approvals; political unrest or instability in the countries where Sherritt is active; risks related to collecting accounts receivable and repatriating profits and dividends from Cuba; 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 Act; risks associated with mining, processing and exploration activities; potential imprecision of reserve estimates; market competition; developments affecting labour relations; environmental regulation and other risk factors listed from time to time in Sherritt's continuous disclosure documents such as the annual report, annual information form and management information circular.

Highlights

- Record EBITDA from Coal and Metals combined with strong Oil and Power results
- \$77 million of net cash flow in quarter; \$108 million for 6 months
- Coal to expand thermal export production by one million tonnes next year
- Metals expansion decision expected by end of third quarter
- Oil to increase onshore drilling program to record levels
- Power 150 megawatt expansion to start construction in Q3

Sherritt International Corporation generated net earnings of \$61.9 million or \$0.42 per share for the second quarter of 2004 compared with net earnings of \$33.8 million or \$0.24 per share in the second quarter of 2003. A four-fold increase in operating earnings from Metals, combined with strong results in the other business units, led to the significant increase in second quarter results. Earnings before interest, taxes, depreciation and amortization (EBITDA) for the second quarter was \$124.7 million compared with \$73.8 million for the prior year period. Second quarter 2004 earnings from continuing operations, excluding certain items not indicative of ongoing operations, such as write-downs, severance costs and currency translation adjustments, were \$58.1 million or \$0.39 per share compared with \$16.9 million or \$0.09 per share for the second quarter of 2003. Total cash balances increased to \$455.9 million at quarter end.

FINANCIAL HIGHLIGHTS (unaudited)

(millions of dollars, except per share amounts)	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Revenue from continuing operations	\$ 267.0	\$ 221.2	\$ 491.9	\$ 414.1
EBITDA (1)	124.7	73.8	236.2	157.1
Operating earnings from continuing operations (1)	80.9	32.4	150.7	71.0
Earnings from continuing operations (2)	60.9	33.8	113.8	61.7
Earnings from continuing operations, excluding certain items (1) (2)	58.1	16.9	111.5	51.0
Net earnings	61.9	33.8	114.8	68.6
Earnings per share – basic				
From continuing operations (2)	0.41	0.24	0.76	0.43
From continuing operations, excluding certain items (1) (2)	0.39	0.09	0.75	0.33
Net earnings	0.42	0.24	0.77	0.49
Earnings per share – diluted				
From continuing operations (2)	0.29	0.18	0.54	0.35
From continuing operations, excluding certain items (1) (2)	0.28	0.09	0.53	0.29
Net earnings	0.30	0.18	0.55	0.39
Weighted average number of shares – basic (millions)	131.3	116.5	131.3	107.2

(1) Reference should be made to the Summary Financial Results by Segment and the Supplementary Financial Information later in this interim report for a description of the above financial measures and for a reconciliation of these measures to GAAP measures.

(2) Earnings from discontinued operations of \$6.9 million in 2003 comprised the metallurgical coal operations disposed of in February 2003 and included a pre-tax gain of \$12.9 million (\$6.3 million after tax) on the disposition. Earnings from discontinued operations in the second quarter of 2004 of \$1.0 million (net of income taxes of \$0.2 million) relate to the settlement of outstanding items from the disposal transaction.

The Coal business reported record EBITDA of \$19.0 million in the second quarter on revenue of \$61.6 million compared with EBITDA for the second quarter of 2003 of \$17.8 million on revenue of \$60.1 million. The increase in EBITDA and revenue was mainly due to higher realized prices in 2004. Coal sales of 4.6 million tonnes for the second quarter were similar to the same period last year, affected slightly by a temporary outage at a power plant and the suspension of production at the Obed Mountain mine in June 2003. Capital spending in the quarter was \$1.5 million.

Metals had another excellent quarter reflecting continued high nickel prices, a near tripling of the realized cobalt price over the prior year quarter and strong fertilizer sales. EBITDA for the second quarter was a record \$62.5 million on record revenue of \$142.8 million compared with EBITDA of \$16.1 million on revenue of \$95.3 million for the second quarter of 2003. Finished nickel sales of 9.1 million pounds for the quarter were comparable to the prior year quarter. Capital spending in the quarter was \$2.6 million.

An 18% increase in the realized price for oil produced in Cuba contributed to EBITDA of \$44.6 million in the quarter compared with \$35.8 million in the prior year period. A \$4.7 million increase in revenue to \$53.3 million and lower treatment and transportation costs were partly offset by lower production during the quarter due to natural production declines and lower drilling activity during the second half of 2003. Capital spending in the quarter was \$21.8 million.

Power generated \$7.8 million of EBITDA during the quarter compared with \$7.0 million in 2003. Electricity generated during the quarter was 137,000 megawatt hours compared with 123,000 megawatt hours in 2003. Collection of recoverable project costs was \$12.4 million in the quarter.

Management's Discussion and Analysis

The following discussion and analysis of the consolidated financial results of Sherritt International Corporation for the three months and six months ended June 30, 2004 should be read in conjunction with the unaudited consolidated financial statements and related notes contained in this interim report and the interim report issued for the first quarter of 2004, as well as the management's discussion and analysis, audited consolidated financial statements and related notes contained in the Corporation's 2003 annual report. This management's discussion and analysis is as of August 4, 2004.

CONSOLIDATED FINANCIAL RESULTS

The Corporation disposed of its metallurgical coal operations in February 2003. Consequently, the consolidated statements of operations present the results of these operations as discontinued operations. The following analysis focuses on continuing operations. Please refer to note 3 of the interim consolidated financial statements for additional information regarding discontinued operations.

SECOND QUARTER RESULTS

Revenue of \$267.0 million in the second quarter of 2004 increased 21% or \$45.8 million over the same period in 2003, primarily reflecting significantly higher realized commodity prices. Revenue in the prior year period included \$8.7 million from the telecommunications business, which was disposed of in August 2003, and the soybean-based food processing business, which has been accounted for as an equity investment since June 30, 2003.

Operating, selling, general and administrative costs were \$142.3 million in the quarter compared with \$156.5 million in the second quarter of 2003. The decrease in current year costs was mainly due to lower oil treatment and transportation costs in Cuba. Prior year operating costs also included inventory write-downs and severance costs of \$9.1 million and \$6.8 million for the telecommunications and soybean-based food processing businesses. Corporate expenditures of \$9.2 million for the quarter were \$4.4 million higher than the prior year period, primarily reflecting an insurance claim from the Power business against the corporate insurance retention and higher pension costs.

Depletion, amortization and accretion expense of \$43.8 million for the second quarter of 2004 was slightly higher than the second quarter of the prior year as 2004 reflected higher amortization for Coal, while 2003 included amortization from the telecommunications and soybean-based food processing businesses.

Net financing income was \$1.1 million for the quarter compared with net financing expense of \$0.9 million in 2003. The \$2.0 million difference primarily reflected interest income on higher cash balances and short-term investments, partly offset by higher interest expense.

Other items in the second quarter comprised earnings from equity investments. In 2003, other items also included income of \$10.7 million on the redemption of a promissory note.

Sherritt's effective tax rate from continuing operations for the second quarter of 2004 was 28% compared with 36% for the prior year period. The effective tax rate for both years excludes the impact of foreign exchange gains and the rate for 2003 also excludes an income tax recovery recorded as a result of reductions in Canadian resource sector federal tax rates. The decrease was due mainly to lower effective tax rates for Metals and Oil and Gas in 2004.

SIX MONTHS ENDED JUNE 30 RESULTS

For the six months ended June 30, 2004, revenue increased by 19% to \$491.9 million from \$414.1 million in 2003. The increase was primarily attributable to higher nickel and cobalt prices, the inclusion of six months of operations from the thermal coal assets acquired in 2003 compared to four months in the prior year period and the inclusion of six months of Power operations compared to three months in 2003. Power operations were accounted for on an equity basis up to March 28, 2003, when the outside interests in Power were acquired by the Corporation. Lower average realized oil prices and lower oil production partly mitigated these increases in the six-month period. Revenue in the prior year also included results from the telecommunications business, which was disposed of in August 2003, and the soybean-based food processing business, which was accounted for as an equity investment commencing on June 30, 2003.

Operating, selling, general and administrative costs decreased by \$13.4 million to \$255.7 million for the six-month period, reflecting lower oil treatment and transportation costs, the inclusion in 2003 of \$12.9 million of operating costs from the telecommunications and the soybean-based food processing businesses and \$12.1 million of inventory write-down and severance costs. Partly offsetting these items were higher corporate costs for insurance claims from the Metals and Power businesses against the corporate insurance retention, costs related to stock-linked compensation plans and higher pension costs.

Depletion, amortization and accretion expense of \$85.5 million in 2004 increased slightly from the first six months of 2003 as 2004 reflected higher amortization for Coal and Power, while 2003 included amortization from the telecommunications and soybean-based food processing businesses.

Net financing expense was \$0.4 million for the first six months of the year compared with income of \$1.7 million in 2003. Higher interest income in 2004 was more than offset by higher interest expense due to the senior unsecured debentures that were assumed as part of the acquisition of outside interests in Sherritt Power on March 28, 2003 and lower foreign exchange gains.

Income from other items decreased to \$1.5 million in 2004 from \$5.6 million in 2003, due mainly to income of \$10.7 million on the redemption of a promissory note in 2003, partly offset by a \$4.0 million write-down in 2003 of the Corporation's investment in Minara Resources.

For the first six months of 2004, the effective tax rate from continuing operations was 26% compared with 25% in 2003. The effective tax rate for both years excluded the impact of foreign exchange gains and the rate for 2003 also excluded an income tax recovery recorded as a result of reductions in Canadian resource sector federal tax rate.

CONSOLIDATED CASH FLOW

SECOND QUARTER RESULTS

Cash from operating activities before working capital changes of \$96.4 million increased by \$42.2 million over the prior year quarter mainly due to higher earnings. Cash from operating activities after working capital changes of \$106.4 million in the second quarter included \$10.0 million of cash from working capital, reflecting the receipt of a coal receivable scheduled for collection in the first quarter and lower Metals inventories as a result of fertilizer sales in the spring season, offset by a decrease in accounts payable in most business units.

Capital expenditures in the quarter of \$26.2 million primarily comprised development drilling in Cuba by Oil and Gas. Other investing activities, excluding capital expenditures, resulted in a net cash inflow of \$17.3 million during the quarter due mainly to the collection of Power recoverable project costs, partly offset by an increase in restricted cash. Cash used for financing activities was \$20.6 million, related mainly to the semi-annual interest payment on the convertible debentures.

SIX MONTHS ENDED JUNE 30 RESULTS

Cash from operating activities before working capital changes of \$180.4 million increased by \$55.6 million over the first six months of 2003 mainly due to higher earnings. Cash from operating activities after working capital changes of \$157.3 million in the first six months of 2004 was net of \$23.1 million of cash used in working capital, reflecting a decrease in accounts payable.

Capital expenditures in the first six months of \$46.2 million were directed mainly towards development drilling in Cuba by Oil and Gas.

Other investing activities, excluding capital expenditures, resulted in a net cash inflow of \$17.8 million during the first six months due mainly to the collection of Power recoverable project costs, partly offset by an increase in restricted cash. Cash used for financing activities was \$20.7 million, relating mainly to the semi-annual interest payments on the convertible debentures.

CONSOLIDATED FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Total assets as at June 30, 2004 were \$2.4 billion. Cash, cash equivalents, short-term investments and restricted cash totalled \$455.9 million at the end of the second quarter, an increase of \$114.9 million since December 31, 2003. The increase was due to cash generated by operating activities and the collection of recoverable project costs, partly offset by capital expenditures and interest payments on the convertible debentures.

Current advances and loans receivable increased by \$8.9 million to \$69.6 million at June 30, 2004, as expected repayment of recoverable project costs for the next 12 months increased. Repayments of recoverable project costs totalling \$23.7 million have been received so far in 2004.

Accounts receivable of \$282.5 million at the end of the second quarter were largely unchanged from December 31, 2003.

Inventories of \$87.2 million decreased by \$5.4 million compared to December 31, 2003, mainly due to the decrease in fertilizer inventory at the end of the spring sales season and coal inventory reductions at the Boundary Dam mine to make up for lost production due to a dragline outage in the first quarter. Prepaid expenses increased by \$4.0 million due to the timing of payments. Capital assets were \$1,240.0 million at the end of the quarter compared with \$1,263.9 million at December 31, 2003. The \$23.9 million decrease was due to capital expenditures occurring at a slower rate than the amortization of capital asset balances. The value of investments of \$57.0 million at June 30, 2004 increased slightly compared with the balance as at December 31, 2003.

Future income tax assets of \$61.4 million at June 30, 2004 were primarily comprised of the tax benefit of \$200.1 million of non-capital losses, net of future income tax liabilities in respect of undistributed income from a subsidiary, and \$2.2 million of capital losses. The benefit of losses has been recognized in the financial statements on the expectation that sufficient taxable income will be realized in the future to utilize these losses.

Other assets were \$142.8 million at the end of the quarter compared with \$173.9 million at the end of 2003. The decrease was mainly due to higher expected repayments of recoverable project costs over the next 12 months.

Short-term debt of \$27.6 million was essentially unchanged from December 31, 2003. Accounts payable and accrued liabilities were \$136.4 million at the end of the second quarter, compared with \$167.7 million at the end of 2003. The decrease was mainly due to lower payables in each of the business units due to the timing of interest payments on long-term debt and payments to vendors.

Long-term debt and other liabilities, including the current portion thereof, of \$326.9 million at June 30, 2004 increased by \$11.3 million during the first six months of the year, reflecting the increase in the Canadian dollar equivalent of the U.S. dollar denominated Luscar senior notes as a result of the weakening of the Canadian dollar and capital lease financing in Coal.

Future income tax liabilities were \$177.1 million at June 30, 2004. The future income tax liability primarily represents the temporary difference between the value of capital assets for tax purposes versus accounting purposes. These temporary differences are expected to reverse over time, with a corresponding credit to the income statement. The majority of this amount relates to the future income tax liability of the Coal business.

Cash generated from operations and cash, cash equivalents and short-term investments on hand are expected to be sufficient to finance ongoing operations. Unutilized lines of credit as at June 30, 2004 were \$72.9 million.

The agreements establishing the various joint ventures in which the Corporation has interests require the unanimous consent of joint venture shareholders to pay dividends. The Corporation does not believe that these restrictions will have a material impact on the cash available to meet its obligations.

In June, Coal reached an agreement with Fording Inc., Elk Valley Coal Partnership, and Consol Energy Inc., settling the majority of issues that had previously been outstanding related to the transfer of the metallurgical coal assets to Fording Canadian Coal Trust effective February 28, 2003. As a result of the settlement agreement, Sherritt's 2004 earnings from discontinued operations include a gain of \$1.0 million, net of income taxes of \$0.2 million. Also, as a result of the transfer of the reclamation liability for the Luscar mine to Elk Valley Coal Partnership, the Coal business was able to reduce its reclamation bonding requirements by \$3.3 million.

New capital leases for equipment totalling \$5.9 million were entered into in the quarter by Coal as part of a long-term mine support equipment agreement with Finning (Canada), a division of Finning International Inc. (Finning), which involves the leasing of equipment as part of a plan to reduce the maintenance costs and increase equipment utilization.

During the second quarter, Sherritt entered into an agreement, which will enhance ongoing security related to Oil and Power receivables from Cuban government agencies. This agreement allows for a part of the Moa Nickel S.A. income tax, royalty and labour tax payments, which are assigned to an international financial institution, to be redirected to Sherritt as payment for oil and power sales. The amount redirected to Sherritt is the excess of the international financial institution's minimum quarterly requirements. As of June 30, 2004 Sherritt had received \$33.7 million under this agreement. In the event that future minimum payments to the financial institution are not met, amounts received by Sherritt must be refunded to make up the shortfall. The refund cannot exceed the total amount received by Sherritt in the particular calendar year. Should a refund occur, Oil and Power would increase the amounts receivable from the Cuban agencies by a similar amount. The Corporation does not anticipate that any amounts received under the agreement thus far will be refunded.

OUTLOOK

Metals, oil and export thermal coal prices are expected to remain robust for the balance of the year and into the foreseeable future. Strong commodity prices along with consistent production volumes and operating costs are expected to contribute to strong financial results for the remainder of 2004. The Coal business has made significant progress with its efficiency and equipment initiatives and Sherritt's share of these benefits is anticipated to add \$30 million to annual cash generated by Coal by the end of 2007.

Production volumes are generally anticipated to remain near the levels experienced in the first half of the year or increase slightly, with the exception of Oil and Gas, where a significantly increased drilling program is expected to bring net oil sales close to levels experienced during 2003. Production of export thermal coal from the Coal Valley mine is anticipated to be higher during the remainder of the year, as Sherritt's share of annualized capacity is expected to increase to one million tonnes. Given the strong outlook for export thermal coal, a further one million tonne expansion at Coal Valley is anticipated in 2005. Sherritt's share of production from the Genesee mine will increase by approximately one million tonnes, as the mine is ramped up to supply the new power plant this winter. These expansions are expected to result in 5% annual volume growth in the Coal business over each of the next two years. The decision to expand Metals capacity by 16,000 tonnes, to bring total capacity to approximately 50,000 tonnes, is expected to be made by the end of the third quarter. With the Power expansion starting construction this fall, the first 80 megawatts of the anticipated 150 megawatt expansion is anticipated to come on line late next year.

Total capital expenditures are anticipated to be in the region of \$144 million for the year, excluding expenditures in respect of the Power expansion. Capital expenditures for Coal are expected to be approximately \$13 million for the year, with an additional \$9 million in capital leases. Capital expenditures for Metals are expected to be approximately \$21 million in 2004, with an additional \$2 million in capital leases. In the Oil business, the anticipated implementation of an enhanced development and exploration drilling program for the balance of the year will increase Oil capital expenditures to approximately \$110 million for the year. Expenditures on the first phase of the Power expansion are expected to be \$120 million through to the end of 2005.

Additional discussion of the outlook for 2004 can be found in the review of operations for each business unit that follows.

SUMMARY FINANCIAL RESULTS BY SEGMENT (UNAUDITED) (1)**Three months ended****June 30, 2004****(millions of****Canadian dollars)**

	Coal	Metals	Oil and Gas	Power	Other (3)	Corporate	Consolidated
Revenue	\$ 61.6	\$ 142.8	\$ 53.3	\$ 9.3	\$ –	\$ –	\$ 267.0
Operating, selling, general and administrative	42.6	80.3	8.7	1.5	–	9.2	142.3
Add items excluded from EBITDA (2)	–	–	–	–	–	–	–
EBITDA (1)	19.0	62.5	44.6	7.8	–	(9.2)	124.7
Depletion, amortization and accretion	16.4	5.0	19.8	1.9	–	0.7	43.8
Items excluded from EBITDA	–	–	–	–	–	–	–
Operating earnings (loss) from continuing operations (1)	2.6	57.5	24.8	5.9	–	(9.9)	80.9
Share of earnings of equity investments							0.7
Net financing income							1.1
Earnings from continuing operations before income taxes							82.7
Capital expenditures	\$ 1.5	\$ 2.6	\$ 21.8	\$ 0.1	\$ –	\$ 0.2	\$ 26.2

(1) This table presents EBITDA and operating earnings by segment and reconciles these non-GAAP measures to earnings from continuing operations before income taxes. Reference should be made to the Canadian GAAP Reconciliation Table later in this interim report for a description of EBITDA and operating earnings.

(2) Items included in operating, selling, general and administrative costs in the consolidated statements of operations.

(3) Other included results for soybean-based food processing and telecommunications prior to July 1, 2003.

SUMMARY FINANCIAL RESULTS BY SEGMENT (UNAUDITED) (1) (continued)

Three months ended June 30, 2003 (4) (millions of Canadian dollars)	Coal	Metals	Oil and Gas	Power	Other(3)	Corporate	Consolidated
Revenue	\$ 60.1	\$ 95.3	\$ 48.6	\$ 8.5	\$ 8.7	\$ —	\$ 221.2
Operating, selling, general and administrative	50.9	79.2	13.3	1.5	6.8	4.8	156.5
Add items excluded from EBITDA (2)	8.6	—	0.5	—	—	—	9.1
EBITDA (1)	17.8	16.1	35.8	7.0	1.9	(4.8)	73.8
Depletion, amortization and accretion	14.6	4.8	19.2	1.8	1.7	0.9	43.0
Income on redemption of promissory note	(10.7)	—	—	—	—	—	(10.7)
Items excluded from EBITDA:							
Inventory write-down	3.6	—	—	—	—	—	3.6
Severance (2)	5.0	—	0.5	—	—	—	5.5
Operating earnings (loss) from continuing operations (1)	5.3	11.3	16.1	5.2	0.2	(5.7)	32.4
Share of loss of equity investments							(0.1)
Net financing expense							(0.9)
Minority interest							(0.2)
Earnings from continuing operations before income taxes							31.2
Capital expenditures	\$ 3.2	\$ 3.1	\$ 19.3	\$ 1.7	\$ 0.9	\$ 0.3	\$ 28.5

(1) This table presents EBITDA and operating earnings by segment and reconciles these non-GAAP measures to earnings from continuing operations before income taxes. Reference should be made to the Canadian GAAP Reconciliation Table later in this interim report for a description of EBITDA and operating earnings.

(2) Items included in operating, selling, general and administrative costs in the consolidated statements of operations.

(3) Other included results for soybean-based food processing and telecommunications prior to July 1, 2003.

(4) Restated – see note 2 of the Interim Consolidated Financial Statements.

KEY OPERATING STATISTICS

Three months ended June 30, 2004	Coal	Metals	Oil and Gas	Power
Sales Volumes (Sherritt's share)				
Thermal coal (000s of tonnes) (1)	4,637			
Nickel (000s of pounds) (1)		9,133		
Cobalt (000s of pounds) (1)		928		
Fertilizers (tonnes)		140,858		
Net oil – Cuba (bbls per day) (2)			19,657	
Net oil – Spain (bbls per day)			687	
Electricity generation (000s of MWh) (1)				137
Realized Prices				
Thermal coal (per tonne)	\$ 13.26			
Nickel (per pound)		\$ 7.75		
Cobalt (per pound)		35.85		
Oil – Cuba (per bbl)			\$ 28.15	
Oil – Spain (per bbl)			47.44	
Power (per MWh)				\$ 60.36
Average Reference Prices				
Nickel (U.S. \$ per pound)		\$ 5.70		
Cobalt (U.S. \$ per pound)		24.91		
U.S. Gulf Coast Fuel Oil No. 6 (U.S. \$ per bbl)			\$ 25.49	

(1) Represents the Corporation's respective 50% share of Luscar Energy Partnership (Coal), 50% share of the Metals Enterprise (Metals) and 33.3% share of the Energas S.A. joint venture (Power).

(2) Gross working interest production in Cuba is allocated to the Corporation and agencies of the Cuban government in accordance with participation and production-sharing arrangements. Net working interest production or net sales volumes represents the Corporation's share of gross working interest production. Net working interest production for each production-sharing arrangement comprises profit oil (which is based upon a negotiated percentage) and cost recovery oil (which is based upon the Corporation's costs within each block). These costs, upon certification by agencies of the Cuban government, are accumulated in cost recovery pools by each production-sharing arrangement and reduced by allocation of produced oil to the Corporation. Production allocated to agencies of the Cuban government is considered to be a royalty interest.

KEY OPERATING STATISTICS (continued)

Three months ended June 30, 2003	Coal	Metals	Oil and Gas	Power
Sales Volumes (Sherritt's share)				
Thermal coal (000s of tonnes) (1)	4,790			
Nickel (000s of pounds) (1)		9,124		
Cobalt (000s of pounds) (1)		844		
Fertilizers (tonnes)		152,831		
Net oil – Cuba (bbls per day) (2)			21,795	
Net oil – Spain (bbls per day)			476	
Electricity generation (000s of MWh) (1)				123
Realized Prices				
Thermal coal (per tonne)	\$ 12.56			
Nickel (per pound)		\$ 5.29		
Cobalt (per pound)		12.65		
Oil – Cuba (per bbl)			\$ 23.81	
Oil – Spain (per bbl)			30.91	
Power (per MWh)				\$ 61.87
Average Reference Prices				
Nickel (U.S. \$ per pound)		\$ 3.80		
Cobalt (U.S. \$ per pound)		9.05		
U.S. Gulf Coast Fuel Oil No. 6 (U.S. \$ per bbl)			\$ 20.78	

- (1) Represents the Corporation's respective 50% share of Luscar Energy Partnership (Coal), 50% share of the Metals Enterprise (Metals) and 33.3% share of the Energas S.A. joint venture (Power).
- (2) Gross working interest production in Cuba is allocated to the Corporation and agencies of the Cuban government in accordance with participation and production-sharing arrangements. Net working interest production or net sales volumes represents the Corporation's share of gross working interest production. Net working interest production for each production-sharing arrangement comprises profit oil (which is based upon a negotiated percentage) and cost recovery oil (which is based upon the Corporation's costs within each block). These costs, upon certification by agencies of the Cuban government, are accumulated in cost recovery pools by each production-sharing arrangement and reduced by allocation of produced oil to the Corporation. Production allocated to agencies of the Cuban government is considered to be a royalty interest.

SUMMARY FINANCIAL RESULTS BY SEGMENT (UNAUDITED) (1)**Six months ended****June 30, 2004****(millions of
Canadian dollars)**

	Coal	Metals	Oil and Gas	Power⁽³⁾	Other⁽⁴⁾	Corporate	Consolidated
Revenue	\$ 124.8	\$ 247.8	\$ 100.9	\$ 18.4	\$ –	\$ –	\$ 491.9
Operating, selling, general and administrative	87.8	128.1	18.4	3.8	–	17.6	255.7
Add items excluded from EBITDA (2)	–	–	–	–	–	–	–
EBITDA (1)	37.0	119.7	82.5	14.6	–	(17.6)	236.2
Depletion, amortization and accretion	29.2	10.0	40.3	4.3	–	1.7	85.5
Items excluded from EBITDA	–	–	–	–	–	–	–
Operating earnings (loss) from continuing operations (1)	7.8	109.7	42.2	10.3	–	(19.3)	150.7
Share of earnings of equity investments							1.5
Net financing expense							(0.4)
Earnings from continuing operations before income taxes							151.8
Capital expenditures	\$ 2.3	\$ 4.0	\$ 39.6	\$ 0.1	\$ –	\$ 0.2	\$ 46.2

(1) This table presents EBITDA and operating earnings by segment and reconciles these non-GAAP measures to earnings from continuing operations before income taxes. Reference should be made to the Canadian GAAP Reconciliation Table later in this interim report for a description of EBITDA and operating earnings.

(2) Items included in operating, selling, general and administrative costs in the consolidated statements of operations.

(3) Power operating earnings have been reported as a separate segment since March 28, 2003.

(4) Other included results for soybean-based food processing and telecommunications prior to July 1, 2003.

SUMMARY FINANCIAL RESULTS BY SEGMENT (UNAUDITED) (1) (continued)

Six months ended June 30, 2003 (5) (millions of Canadian dollars)	Coal	Metals	Oil and Gas	Power(3)	Other(4)	Corporate	Consolidated
Revenue	\$ 110.8	\$ 159.7	\$ 117.9	\$ 8.5	\$ 17.2	\$ —	\$ 414.1
Operating, selling, general and administrative	89.7	128.8	26.3	1.5	12.9	9.9	269.1
Add items excluded from EBITDA (2)	11.1	—	1.0	—	—	—	12.1
EBITDA (1)	32.2	30.9	92.6	7.0	4.3	(9.9)	157.1
Depletion, amortization and accretion	27.2	9.7	40.6	1.8	3.6	1.8	84.7
Income on redemption of promissory note	(10.7)	—	—	—	—	—	(10.7)
Items excluded from EBITDA:							
Inventory write-down	3.6	—	—	—	—	—	3.6
Severance (2)	7.5	—	1.0	—	—	—	8.5
Operating earnings (loss) from continuing operations (1)	4.6	21.2	51.0	5.2	0.7	(11.7)	71.0
Write-down of Minara Resources Limited							(4.0)
Share of loss of equity investments							(0.5)
Net financing income							1.7
Minority interest							(0.6)
Earnings from continuing operations before income taxes							67.6
Capital expenditures	\$ 5.6	\$ 5.7	\$ 37.3	\$ 1.7	\$ 3.5	\$ 0.8	\$ 54.6

(1) This table presents EBITDA and operating earnings by segment and reconciles these non-GAAP measures to earnings from continuing operations before income taxes. Reference should be made to the Canadian GAAP Reconciliation Table later in this interim report for a description of EBITDA and operating earnings.

(2) Items included in operating, selling, general and administrative costs in the consolidated statements of operations.

(3) Power operating earnings have been reported as a separate segment since March 28, 2003.

(4) Other included results for soybean-based food processing and telecommunications prior to July 1, 2003.

(5) Restated – see note 2 of the Interim Consolidated Financial Statements.

KEY OPERATING STATISTICS

Six months ended June 30, 2004	Coal	Metals	Oil and Gas	Power⁽³⁾
Sales Volumes (Sherritt's share)				
Thermal coal (000s of tonnes) (1)	9,693			
Nickel (000s of pounds) (1)		17,407		
Cobalt (000s of pounds) (1)		1,754		
Fertilizers (tonnes)		157,825		
Net oil – Cuba (bbls per day) (2)			19,811	
Net oil – Spain (bbls per day)			813	
Electricity generation (000s of MWh) (1)				278
Realized Prices				
Thermal coal (per tonne)	\$ 12.87			
Nickel (per pound)		\$ 8.18		
Cobalt (per pound)		34.66		
Oil – Cuba (per bbl)			\$ 26.16	
Oil – Spain (per bbl)			43.94	
Power (per MWh)				\$ 59.46
Average Reference Prices				
Nickel (U.S. \$ per pound)		\$ 6.19		
Cobalt (U.S. \$ per pound)		24.76		
U.S. Gulf Coast Fuel Oil No. 6 (U.S. \$ per bbl)			\$ 23.93	

- (1) Represents the Corporation's respective 50% share of Luscar Energy Partnership (Coal), 50% share of the Metals Enterprise (Metals) and 33.3% share of the Energas S.A. joint venture (Power).
- (2) Gross working interest production in Cuba is allocated to the Corporation and agencies of the Cuban government in accordance with participation and production-sharing arrangements. Net working interest production or net sales volumes represents the Corporation's share of gross working interest production. Net working interest production for each production-sharing arrangement comprises profit oil (which is based upon a negotiated percentage) and cost recovery oil (which is based upon the Corporation's costs within each block). These costs, upon certification by agencies of the Cuban government, are accumulated in cost recovery pools by each production-sharing arrangement and reduced by allocation of produced oil to the Corporation. Production allocated to agencies of the Cuban government is considered to be a royalty interest.
- (3) Power results have been reported as an operating segment since March 28, 2003. Key operating statistics for Power for the first three months of 2003 are from the records of Sherritt Power Corporation.

KEY OPERATING STATISTICS (continued)

Six months ended June 30, 2003	Coal	Metals	Oil and Gas	Power ⁽³⁾
Sales Volumes (Sherritt's share)				
Thermal coal (000s of tonnes) (1)	8,049			
Nickel (000s of pounds) (1)		17,735		
Cobalt (000s of pounds) (1)		1,753		
Fertilizers (tonnes)		179,029		
Net oil – Cuba (bbls per day) (2)			22,306	
Net oil – Spain (bbls per day)			507	
Electricity generation (000s of MWh) (1)				201
Realized Prices				
Thermal coal (per tonne)	\$ 13.76			
Nickel (per pound)		\$ 5.38		
Cobalt (per pound)		11.97		
Oil – Cuba (per bbl)			\$ 28.35	
Oil – Spain (per bbl)			36.36	
Power (per MWh)				\$ 63.56
Average Reference Prices				
Nickel (U.S. \$ per pound)		\$ 3.79		
Cobalt (U.S. \$ per pound)		8.38		
U.S. Gulf Coast Fuel Oil No. 6 (U.S. \$ per bbl)			\$ 23.65	

- (1) Represents the Corporation's respective 50% share of Luscar Energy Partnership (Coal), 50% share of the Metals Enterprise (Metals) and 33.3% share of the Energas S.A. joint venture (Power).
- (2) Gross working interest production in Cuba is allocated to the Corporation and agencies of the Cuban government in accordance with participation and production-sharing arrangements. Net working interest production or net sales volumes represents the Corporation's share of gross working interest production. Net working interest production for each production-sharing arrangement comprises profit oil (which is based upon a negotiated percentage) and cost recovery oil (which is based upon the Corporation's costs within each block). These costs, upon certification by agencies of the Cuban government, are accumulated in cost recovery pools by each production-sharing arrangement and reduced by allocation of produced oil to the Corporation. Production allocated to agencies of the Cuban government is considered to be a royalty interest.
- (3) Power results have been reported as an operating segment since March 28, 2003. Key operating statistics for Power for the first three months of 2003 are from the records of Sherritt Power Corporation.

REVIEW OF OPERATIONS

COAL

Coal results reflect continuing operations only. The results related to metallurgical coal operations, which were disposed of on February 28, 2003, are presented separately as discontinued operations.

For the three months ended June 30, 2004, EBITDA was a record \$19.0 million and operating earnings were \$2.6 million on revenue of \$61.6 million compared with EBITDA of \$17.8 million and operating earnings of \$5.3 million on revenues of \$60.1 million for the same period last year. EBITDA increased compared to 2003 as higher realized prices more than offset lower revenue at the Paintearth mine, due to a temporary outage at the adjacent generating station, and higher operating costs at the Coal Valley mine reflecting costs incurred to increase production levels in order to take advantage of strong export markets. Operating earnings in 2003 included a \$10.7 million gain in connection with the redemption of a promissory note related to a coal supply agreement and \$8.6 million for severance costs and an inventory write-down.

Depreciation, amortization and accretion of \$16.4 million for the quarter was \$1.8 million higher than the same period last year as a result of increased amortization at the Coal Valley mine.

Capital expenditures were \$1.5 million during the second quarter compared with \$3.2 million in the same quarter of last year.

During the second quarter, Luscar entered into an exclusive supplier agreement with Finning (Canada). Under this 10-year contract, Finning will be the exclusive supplier of mine support equipment and associated parts, accessories, attachments and services, including equipment technology for Luscar's Alberta mines. A similar agreement for the Saskatchewan mines will be signed with Kramer Ltd. during the third quarter. Both of these dealers provide Caterpillar products in their region. Expected benefits from the arrangement include lower costs of equipment, lower maintenance and higher availability. New capital leases for equipment, totalling \$5.9 million were entered into during the quarter and recorded as additions to capital assets and long-term debt.

Coal sales volumes were 4.6 million tonnes during the second quarter compared to 4.8 million tonnes during the same period last year. Slightly lower sales volumes resulted from the temporary outage at a power plant and the cessation of sales from the Obed Mountain mine in the first quarter of 2004 following the suspension of production in June 2003.

For the second quarter, average realized prices of \$13.26 per tonne for thermal coal sales were higher than the prior year period average of \$12.56 per tonne due to a greater proportion of export thermal coal sales from the Coal Valley mine.

For the six months ended June 30, 2004, record EBITDA of \$37.0 million and operating earnings of \$7.8 million on revenue of \$124.8 million compared with EBITDA of \$32.2 million and operating earnings of \$4.6 million on revenue of \$110.8 million for the same period last year. Revenue was higher as a result of operating the thermal coal assets acquired on February 28, 2003 for six months, compared with four months in 2003, and an increase in revenue at the Coal Valley mine reflecting higher export coal prices. Earnings at the Boundary Dam mine for the first half of the year were lower than the prior year period due to repair costs associated with the breakdown of a dragline in the first quarter. Production lost during the period this machine was under repair is expected to be made up during the remainder of the year. Earnings were also impacted by the higher costs at the Coal Valley mine and lower sales at the Paintearth mine. Operating earnings in 2003 included a \$10.7 million gain in connection with the redemption of a promissory note related to a coal supply agreement and \$11.1 million of severance costs and an inventory write-down.

Depreciation, amortization and accretion of \$29.2 million for the period was \$2.0 million higher than the same period last year, as a result of operating the thermal coal assets acquired on February 28, 2003 for six months, compared with four months in 2003.

Capital expenditures were \$2.3 million during the first two quarters, compared with \$5.6 million in the same period last year.

Coal sales volumes were 9.7 million tonnes during the first six months of 2004 compared with 8.0 million tonnes during the same period last year. The increase was largely a result of the six months of operations of the thermal coal assets acquired in 2003 compared to four months in the prior year. Shipments from the pre-acquisition thermal coal operations also increased due to improvements in demand in the export thermal coal market from 2003.

For the year, average realized prices for thermal coal sales were lower than the prior year period due to the inclusion for a full six months, compared to four months in 2003, of lower-priced contract mining revenue from the Highvale and Whitewood mines. This was partially offset by higher export thermal coal shipments and the inclusion of royalty revenue in 2004 from assets acquired in February 2003. Average realized prices for 2003 also included the recovery of a \$3.7 million Boundary Dam mine crown royalty reassessment.

Sherritt's share of coal production is expected to be approximately 19 million tonnes in 2004. The Coal Valley mine is currently increasing Sherritt's share of annual production capacity to one million tonnes in order to take advantage of more robust export prices. A further one million tonne expansion at this mine is also anticipated in 2005. The Genesee power plant is adding 450 megawatts of capacity, which is expected to be commissioned in the winter of 2004–2005, requiring approximately two million additional tonnes of coal (Sherritt's share is one million tonnes) on an annual basis. The combination of these expansions is expected to result in annual production growth of 5% over each of the next two years.

Luscar's program to implement "world-best mining practices", which is designed to exploit the similarities of each of its mining operations and enhance overall efficiencies, is expected to result in reduced operating costs, enhanced productivity and increased profitability and cash flow in 2004 and subsequent years. Sherritt's share of the anticipated benefit of these initiatives is a \$30 million annual increase in cash from Coal by the end of 2007. The maturity of the remaining promissory note in December 2004 will result in an addition to Sherritt's operating earnings of approximately \$19 million in the fourth quarter of 2004. Sherritt's share of capital additions for the Coal business in 2004 is expected to be approximately \$13 million, with an additional \$9 million in capital leases. An additional \$11 million is anticipated to be financed through operating leases.

METALS

The Metals business achieved record EBITDA and operating earnings of \$62.5 million and \$57.5 million, respectively, on record revenue of \$142.8 million in the second quarter of 2004, compared to EBITDA and operating earnings of \$16.1 million and \$11.3 million on revenue of \$95.3 million in the second quarter of 2003. The higher EBITDA and operating earnings were largely due to higher realized nickel and cobalt prices, higher fertilizer prices and higher finished cobalt sales volumes, partly offset by lower fertilizer sales volumes and a stronger Canadian dollar. Operating, selling, general and administrative costs for the quarter were \$80.3 million, similar to the \$79.2 million incurred in the second quarter of 2003.

For the first six months of 2004, EBITDA and operating earnings were \$119.7 million and \$109.7 million, respectively, on revenue of \$247.8 million compared to EBITDA and operating earnings of \$30.9 million and \$21.2 million on revenue of \$159.7 million during the same period in 2003. The higher EBITDA and operating earnings were due largely to higher realized nickel and cobalt prices and higher fertilizer prices, partly offset by lower finished nickel and fertilizer sales volumes and a stronger Canadian dollar.

The London Metal Exchange (LME) settlement price for nickel averaged U.S.\$5.70 per pound in the second quarter and U.S.\$6.19 per pound for the first six months of 2004 compared to U.S.\$3.80 per pound and U.S.\$3.79 per pound for the corresponding periods in 2003. Declining LME inventories contributed to stronger pricing, reflecting a tightening global supply and continuing strong demand. The Metal Bulletin 99.3% free market cobalt price averaged U.S.\$24.91 per pound for the second quarter and U.S.\$24.76 per pound for the first six months of 2004, compared to U.S.\$9.05 per pound and U.S.\$8.38 per pound during the corresponding periods last year. The significantly higher cobalt price was primarily a result of improved cobalt market fundamentals, including increased demand from the battery, chemicals and superalloy markets.

The Moa mining and processing facilities produced a total of 8,567 tonnes of nickel plus cobalt contained in mixed sulphides in the second quarter of 2004 compared to 8,389 tonnes during the same period last year. Total production of mixed sulphides for the first six months of 2004 was 16,622 tonnes, compared to 16,373 tonnes during the first six months of 2003. Increased Moa production in the quarter and first six months reflected stable operation since the completion of maintenance activities in the first quarter of 2004.

The Fort Saskatchewan refinery produced a total of 8,119 tonnes of finished nickel in the second quarter of 2004, compared to 8,030 tonnes in the second quarter of 2003. Total finished cobalt production for the second quarter of 2004 was 828 tonnes, compared to 818 tonnes during the same period last year. For the first six months of 2004 total finished nickel production was 15,770 tonnes and total finished cobalt production was 1,631 tonnes, compared to 15,757 tonnes of nickel and 1,610 tonnes of cobalt produced in the first six months of 2003.

Fertilizer operations generated operating earnings of \$6.3 million on revenue of \$38.1 million in the second quarter of 2004 compared to operating earnings of \$0.7 million on revenue of \$36.0 million during the same period in 2003, largely due to higher fertilizer prices, partly offset by lower sales volumes. Fertilizer sales are seasonal with the majority of sales occurring in the spring and fall. Depreciation expense for the quarter for the fertilizer operations was \$0.6 million compared to \$0.5 million in the second quarter of 2003. Sales for the quarter of 140,858 tonnes were lower than sales of 152,831 tonnes in the second quarter of 2003 largely due to the depletion of accumulated ammonium sulphate inventories last year, as well as decreased demand for ammonia in western Canada in the second quarter of 2004.

For the first six months of 2004, fertilizer operations generated operating earnings of \$7.2 million on revenue of \$43.5 million compared to an operating loss of \$0.2 million on revenue of \$42.5 million during the same period in 2003. Depreciation expense during the first six months for the fertilizer operations was \$1.2 million compared to \$0.9 million in 2003. Sales for the first six months of 157,825 tonnes were lower than sales of 179,029 tonnes during the first six months of 2003.

Capital expenditures of \$2.6 million in the second quarter and \$4.0 million in the first six months of 2004 were primarily directed towards sustaining and upgrading the facilities at both Moa and Fort Saskatchewan, with the remainder being directed to environmental initiatives.

For the remainder of 2004, finished nickel and cobalt production is expected to maintain year to date rates, which would result in near record production levels for the year. Sales volumes are expected to closely match production volumes. Nickel and cobalt prices are anticipated to remain strong for 2004 as market fundamentals continue to be positive. The benefits of strong nickel and cobalt prices are expected to be partly offset by continued high energy and raw materials costs and a strong Canadian dollar. Capital expenditures for the Metals business are expected to be approximately \$21 million in 2004 and will focus on achieving operational efficiencies and maintaining process reliability.

A decision on a potential 16,000 tonne expansion of nickel and cobalt production in Cuba and Fort Saskatchewan is expected by the end of the third quarter.

In 1994, the Cuban government granted the Moa mining and processing facilities a grace period to comply with Cuban environmental legislation. The grace period expires on November 30, 2004. Discussions with Cuban government officials as to an acceptable operating standard are ongoing and are expected to be finalized in advance of the expiry of the grace period.

OIL AND GAS

During the second quarter, Oil and Gas EBITDA increased to \$44.6 million compared with \$35.8 million for the same period last year, while operating earnings for the quarter increased to \$24.8 million from \$16.1 million in 2003. Realized prices on Cuban oil production increased from \$23.81 per barrel last year to \$28.15 per barrel for the second quarter of 2004 as the Fuel Oil No. 6 reference price increased by 23%. Operating costs were lower than the same quarter last year due to negotiated reductions in treatment and transportation rates at Varadero. The Corporation's net working interest in Cuban oil production was 19,657 barrels per day for the second

quarter of 2004, 2% lower than the first quarter of 2004 and 10% lower than the second quarter of 2003 due to lower gross working interest production. In Cuba, gross working interest oil production averaged 37,068 barrels per day during the second quarter, 2% lower than the first quarter of 2004 and 11% lower than the second quarter last year. In Spain, net oil production averaged 687 barrels per day during the quarter, up 211 barrels per day over the same period last year as the Casablanca 17 well continues to produce at higher rates following a workover of the well in the summer of 2003.

For the six-month period ended June 30, 2004, EBITDA decreased to \$82.5 million from \$92.6 million in the same period last year, while operating earnings decreased to \$42.2 million compared with \$51.0 million in 2003. Realized prices on Cuban oil production decreased by 8% to \$26.16 per barrel from \$28.35 per barrel in 2003, primarily due to lower Fuel Oil No. 6 reference prices during the first quarter of 2004. Year to date net working interest in Cuban oil production was 19,811 barrels per day compared with 22,306 barrels per day in 2003, as gross working interest oil production decreased to 37,444 barrels per day from 43,253 barrels per day in 2003. Year to date production in Spain was 813 barrels per day compared with 507 barrels per day in 2003.

The decrease in oil production compared with 2003 reflects natural production declines, predominantly in the Canasi and Puerto Escondido fields, which were not fully offset by new production, reflecting delays in drilling several development wells during the second half of 2003. Development drilling activity has returned to normal levels during 2004, with three drill rigs currently operating.

Capital spending totalled \$21.8 million during the second quarter of 2004, up \$2.5 million from the same quarter last year. Year to date capital spending was \$39.6 million compared to \$37.3 million in 2003. The Corporation participated in drilling six development wells during the quarter, three of which were completed. Initial production rates from two of the wells completed during the second quarter were nominal and the Corporation plans to re-enter these wells for remedial work later in the year. During July, the Corporation completed two more wells, both of which initially tested at normal production rates. The Corporation plans to refocus its development drilling on the Seboruco area, in which it has a 45% working interest, where recent drilling activity has resulted in initial production rates that were higher than anticipated. To process the expected production from new wells in the Seboruco and Yumuri fields, the Corporation intends to expand the capacity of the Yumuri oil treatment facility by 50% later this year. The Corporation also intends to initiate the expansion and upgrading of the water treatment system at the Canasi oil treatment facility, subject to regulatory approvals. In addition to continuing

the development drilling program, the Corporation intends to resume exploration drilling during the third quarter, beginning with the Santa Cruz prospect in Block 7. The Corporation has work commitments for several exploration wells in Blocks 7, 9 and 10, within the next 12 months.

During the second quarter, construction was completed on a gas pipeline to deliver gas from the Canasi facility to the Cuban gathering system at Puerto Escondido. This pipeline project reaffirms the Corporation's commitment to assist the Cuban government in developing the infrastructure necessary to utilize the large volumes of gas produced at Canasi in an efficient and environmentally responsible manner.

The Corporation expects that Fuel Oil No. 6 prices will remain strong for the remainder of 2004 and is evaluating the merits of increasing its 2004 capital expenditure program beyond the current plan of \$90 million in light of the current oil price. The current drilling program is expected to result in average net oil sales of 21,000 barrels per day in 2004, close to the levels experienced during 2003. These expectations are contingent upon the success of drilling activities and oil prices staying at levels necessary to generate sufficient cash flow to fund drilling expenditures.

POWER

Power is presented as a consolidated business segment of Sherritt, reflecting the acquisition of the 50.3% equity of Sherritt Power Corporation not previously owned by Sherritt in 2003. Prior to March 28, 2003, Sherritt accounted for its investment in Sherritt Power Corporation using the equity method of accounting. Consolidated operating results reflect the Corporation's one-third interest in the Energas operations.

EBITDA was \$7.8 million for the second quarter on revenue of \$9.3 million, which included \$1.0 million from by-products and miscellaneous sources. Operating earnings were \$5.9 million for the quarter and included an additional accrual of \$0.8 million for the estimated insurance recovery on a rotor failure of a turbine in Varadero in 2003. The second quarter results compare with EBITDA of \$7.0 million and operating earnings of \$5.2 million on revenue of \$8.5 million in the same period of 2003. Operating results for the second quarter of 2003 reflected loss of production due to the rotor failure and the completion of the final stage of the combined cycle operation at Varadero.

On a year to date basis, EBITDA was \$14.6 million, operating earnings were \$10.3 million and revenue was \$18.4 million. Prior to the second quarter of 2003, the Power business was accounted for as an equity investment, and therefore year to date comparisons are not relevant.

Sherritt's share of electricity sold during the second quarter of 2004 was 137,379 megawatt hours compared with 123,094 megawatt hours in the prior year period. Production for the six months ended June 30, 2004 was 277,617 megawatt hours compared to 201,081 megawatt hours for the first six months of 2003 (including production during the period which Sherritt Power was accounted for as an equity investment). For the second quarter of 2004, the overall availability at Varadero was approximately 91% and at Boca de Jaruco was approximately 92%, compared with 91% and 97% in the same period last year. Availability for the first six months of 2004 was 92% at Varadero and 82% at Boca compared to 87% and 89%, respectively, in 2003. Current year availability at Boca has decreased relative to 2003 due to scheduled maintenance activities.

Sherritt's share of electricity production in 2004 is expected to be a record 500,000 megawatt hours, including scheduled maintenance planned for the remainder of the year. Capital expenditures for the existing Power operations are expected to be minimal during 2004. Construction of the 80 megawatt first phase of the Power expansion is set to commence in the third quarter, with total capital expenditures of \$120 million estimated to complete this phase during 2004 and 2005. A second 70 megawatt phase, comprising a combined cycle facility, will proceed assuming sufficient gas reserves exist. Under the terms of the expansion, the Corporation will finance, construct and operate the expanded facilities, with all surplus cash flow from the expansion being initially directed towards repayment of the financing costs.

OTHER BUSINESSES

Other Businesses comprises equity investments in the Corporation's tourism business and a soybean-based food processing business, as well as a Cuban market garden joint venture recorded at cost. Other Businesses in the prior year quarter included the tourism business and the results of the soybean-based food processing business in addition to the Corporation's share of a telecommunications business sold during 2003 and the Power business prior to the acquisition of the outside interests on March 28, 2003.

Operating and financial results for the soybean-based food processing business continue to improve compared to the first quarter and prior year. Results for the tourism business reflected a small improvement compared to the prior year. Total equity earnings for the quarter were \$0.7 million (2003 – loss of \$0.1 million) and \$1.5 million (2003 – loss of \$0.5 million) for the six months ended June 30, 2004.

SUPPLEMENTARY DISCLOSURES

CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

During the first six months of 2004, the Corporation adopted several new accounting pronouncements from the Canadian Institute of Chartered Accountants (CICA) that have an impact on the Corporation's financial statements. The highlights of the impact of the new pronouncements are as follows.

Interim Financial Statements

Effective June 30, 2004, the Canadian Institute of Chartered Accountants (CICA) revised Section 1751, Interim Financial Statements, requiring disclosure in interim financial statements of benefit costs as determined by Section 3461, Employee Future Benefits. The new disclosures are provided in note 5 to the interim financial statements herein.

Asset Retirement Obligations

During March 2003, the CICA issued Section 3110 in respect of accounting for asset retirement obligations and related asset retirement costs. These recommendations apply to legal obligations resulting from the acquisition, construction, development or normal operation of long-lived assets. The liability is recognized at its fair value when it is incurred, with a corresponding asset retirement cost added to the related asset and then amortized to expense on a basis consistent with the amortization policy for the asset.

The new policy was implemented on January 1, 2004, on a retroactive basis, as required by the CICA. The impact of the adoption of this accounting policy on prior year amounts is disclosed in note 2 of the interim consolidated financial statements.

Change in Estimated Useful Lives

Concurrent with the implementation of the asset retirement obligation accounting policy, the Coal business undertook a review of the estimated useful lives of its capital assets. This review resulted in a \$1.3 million reduction in amortization for the second quarter of 2004 (\$2.6 million for the first six months of 2004). The change in estimated useful lives of capital assets was treated as a change in accounting estimate and was, therefore, implemented on a prospective basis.

Oil and Gas Full Cost Accounting

The CICA approved Accounting Guideline AcG-16, Oil and Gas Accounting – Full Cost, in July 2003. The guideline is effective for years beginning on or after January 1, 2004. The guideline modifies the ceiling test for oil and gas properties and provides guidance on several other issues in respect of oil and gas assets. The recoverability of a cost centre is tested by comparing the carrying value of the cost centre to the sum of the undiscounted cash flows expected from the cost centre's use and eventual disposition. If the carrying value of the assets is unrecoverable, the cost centre is written down to its fair value. This approach incorporates risks and uncertainties in the expected future cash flows, which are discounted using a risk free rate. The implementation of this guideline did not have an impact on the financial statements.

Impairment of Long-lived Assets

In 2003, the CICA issued Section 3063, Impairment of Long-Lived Assets, which is effective for fiscal years beginning on or after April 1, 2003. This section provides guidance on recognizing, measuring and disclosing impairment of long-lived assets. There was no impairment loss recorded in respect of long-lived assets in the first six months of 2004.

Hedging Relationships

In 2003, the CICA issued Accounting Guideline AcG-13, Hedging Relationships, which deals with the identification, documentation, designation and effectiveness of hedges and also the discontinuance of hedge accounting, but does not specify hedge accounting methods. This guidance is applicable to hedging relationships in effect for fiscal years beginning on or after July 1, 2003. The implementation of this guideline did not materially change the accounting policies in use and as a result, it did not have an impact on the financial statements. Emerging Issues Committee (EIC) Abstract 128, Accounting for Trading, Speculative or Non-hedging Derivative Financial Instruments, requires most freestanding derivative financial instruments that do not qualify for hedge accounting under Accounting Guideline AcG-13, to be recognized in the balance sheet at fair value. The adoption of this abstract had no impact on the financial statements.

Revenue Recognition

In December 2003, the CICA issued EIC Abstract 141, Revenue Recognition, which incorporates the principles and summarizes the guidance in the U.S. Securities and Exchange Commission Staff Accounting Bulletin 101, Revenue Recognition in Financial Statements. The abstract also provides interpretative guidance on the application of CICA Handbook Section 3400, Revenue. The abstract has been applied prospectively commencing January 1, 2004. The adoption of this abstract had no impact on the financial statements.

Generally Accepted Accounting Principles

CICA Handbook Section 1100, Generally Accepted Accounting Principles, was issued in October 2003, and is effective for fiscal years beginning January 1, 2004. The section establishes standards for financial reporting in accordance with GAAP and clarifies the relative authority of various accounting pronouncements and other sources within GAAP. There was no impact to the Corporation on the adoption of this new standard and guidance.

General Standards of Financial Statement Presentation

In July 2003, the CICA issued Section 1400, General Standards of Financial Statement Presentation, which is effective for fiscal years beginning on January 1, 2004. This standard clarifies what constitutes fair presentation in accordance with GAAP, which involves providing sufficient information in a clear and understandable manner about certain transactions or events of such size, nature and incidence that their disclosure is necessary to understand the Corporation's financial statements. This standard was reflected in the Corporation's consolidated financial statements and there were no material differences as a result of the implementation.

The Corporation expects to implement the following changes in accounting policies when they come into effect.

Liabilities and Equity

In November 2003, the CICA approved revisions to recommendations in respect of accounting for certain equity instruments that can be settled, at the issuer's option, by a variable number of equity instruments. The recommendation is effective for periods beginning on or after November 1, 2004, requiring retroactive adjustment. This will impact the disclosure and accounting for the 6% and 7% convertible debentures in 2005 and will require a significant portion of the convertible debentures to be reclassified as liabilities with the associated interest expense and accretion charged

to financing expense, instead of to retained earnings, which is the current accounting treatment. In addition, the accretion expense on the 6% convertible debenture will be a new charge and is expected to result in a reduction of \$0.05 to basic earnings per share in 2005.

Consolidation of Variable Interest Entities

Amended Accounting Guideline AcG-15, Consolidation of Variable Interest Entities is expected to be finalized later in 2004. The guideline provides for the application of consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. At this stage, the accounting rules have not been finalized; accordingly, the Corporation is unable to assess the impact of this proposed standard on its consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

Accounts Receivable

The accounts receivable balances in Oil and Gas and Power from Cuban government agencies include overdue amounts, bearing interest, that historically have not generally exceeded three to four months of average monthly revenues. Oil and Gas sales to the Cuban government provide for payment for oil within 90 days to 180 days of invoicing, depending upon oil prices, with interest accruing on balances outstanding beyond 90 days. Sherritt manages its overall accounts receivable with the Cuban government agencies on a consolidated basis to provide for cash positive operation in its businesses, to provide for prudent growth and to provide for an orderly reduction of overdue balances. Sherritt has been one of the largest foreign investors in Cuba for over a decade and continues to have a co-operative and mutually beneficial relationship with the state. Management of accounts receivable risk with Cuban government agencies requires taking into account payments made to Cuban agencies for labour, taxes, royalties, dividends and other local services in Metals, Oil and Gas and Power; obtaining pledges of third-party payments to Cuban agencies as security for the receivables; and managing sustaining and growth capital appropriately.

RELATED PARTY TRANSACTIONS

Subsidiaries of the Corporation provide goods, labour, advisory and other administrative services to joint ventures at cost, commercial rates, and other various contractual terms. The Corporation and its subsidiaries also market, pursuant to sales agreements, all of the cobalt, a portion of the nickel, and certain by-products produced by certain jointly owned entities in the Metals business.

The total value of all goods and services, including labour services, that the Corporation and its subsidiaries provided to joint ventures in the second quarter of 2004 amounted to \$2.8 million (2003 – \$19.0 million) and for the first six months ended June 30, 2004 was \$34.3 million (2003 – \$58.6 million). The total value of goods and services purchased from affiliates in the second quarter of 2004 was \$0.2 million (2003 – \$13.4 million) and for the first six months ended June 30, 2004 was \$1.6 million (2003 – \$15.9 million).

Accounts receivable from joint ventures at June 30, 2004, totalled \$5.4 million (2003 – \$5.6 million). Accounts payable to joint ventures at June 30, 2004 totalled \$5.4 million (2003 – \$1.7 million).

ADDITIONAL INFORMATION

Share Capital

As at June 30, 2004, the Corporation had 131,275,636 common shares outstanding.

If all of the convertible debentures are converted into shares at the option of the holders, up to 34,188,034 additional shares would be issued on or before December 14, 2006 with respect to the 6% convertible debentures, and up to 42,856,286 additional shares would be issued on or before December 14, 2013 with respect to the 7% convertible debentures.

Additional information about the Corporation, including its annual information form and other disclosure documents, reports and financial statements that the Corporation files with the Canadian securities regulatory authorities can be accessed at www.sedar.com or at the Corporation's web site at www.sherritt.com.

Consolidated Balance Sheets

(unaudited)

(millions of Canadian dollars)	June 30, 2004	December 31, 2003 (restated – note 2)
ASSETS		
Current assets		
Cash, cash equivalents and short-term investments	\$ 441.2	\$ 333.0
Restricted cash	14.7	8.0
Advances and loans receivable	69.6	60.7
Accounts receivable	282.5	281.5
Inventories	87.2	92.6
Overburden removal costs	1.9	2.1
Prepaid expenses	11.7	7.7
Future income taxes	21.2	16.7
	930.0	802.3
Capital assets	1,240.0	1,263.9
Investments	57.0	55.7
Future income taxes	40.2	39.9
Other assets	142.8	173.9
	\$ 2,410.0	\$ 2,335.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term debt	\$ 27.6	\$ 26.9
Accounts payable and accrued liabilities	136.4	167.7
Asset retirement obligations (note 2)	7.2	8.9
Current portion of long-term debt	23.3	23.3
Future income taxes	0.8	0.7
	195.3	227.5
Long-term debt and other liabilities	303.6	292.3
Asset retirement obligations (note 2)	72.9	70.5
Future income taxes	176.3	185.6
	748.1	775.9
Shareholders' equity (note 5)		
Convertible debentures	590.5	590.1
Capital stock	581.9	581.7
Contributed surplus	193.1	193.1
Retained earnings	296.4	194.9
	1,661.9	1,559.8
	\$ 2,410.0	\$ 2,335.7

Consolidated Statements of Operations

(unaudited)

(millions of Canadian dollars except per share amounts)	Three months ended June 30		Six months ended June 30	
	2004	2003 (restated – note 2)	2004	2003 (restated – note 2)
Revenue	\$ 267.0	\$ 221.2	\$ 491.9	\$ 414.1
Operating, selling, general and administrative	142.3	156.5	255.7	269.1
Earnings before undernoted items	124.7	64.7	236.2	145.0
Depletion, amortization and accretion	43.8	43.0	85.5	84.7
Net financing expense (income) (note 8)	(1.1)	0.9	0.4	(1.7)
Other items (note 9)	(0.7)	(10.4)	(1.5)	(5.6)
Earnings from continuing operations before income taxes	82.7	31.2	151.8	67.6
Income taxes				
Current	22.0	17.2	47.3	27.2
Future	(0.2)	(19.8)	(9.3)	(21.3)
	21.8	(2.6)	38.0	5.9
Earnings from continuing operations	60.9	33.8	113.8	61.7
Discontinued operations (note 3)	1.0	–	1.0	6.9
Net earnings	\$ 61.9	\$ 33.8	\$ 114.8	\$ 68.6
Earnings from continuing operations per share				
Basic	\$ 0.41	\$ 0.24	\$ 0.76	\$ 0.43
Diluted	0.29	0.18	0.54	0.35
Earnings per share				
Basic	\$ 0.42	\$ 0.24	\$ 0.77	\$ 0.49
Diluted	0.30	0.18	0.55	0.39

Consolidated Statements of Retained Earnings

(unaudited)

(millions of Canadian dollars)	Three months ended June 30		Six months ended June 30	
	2004	2003 (restated – note 2)	2004	2003 (restated – note 2)
Beginning of period, as previously reported	\$ 241.2	\$ 141.6	\$ 203.2	\$ 116.2
Change in accounting policy (note 2)	–	(10.2)	(8.3)	(10.3)
Beginning of period, as restated	241.2	131.4	194.9	105.9
Net earnings	61.9	33.8	114.8	68.6
Interest and accretion on convertible debentures (note 5)	(6.7)	(6.4)	(13.3)	(15.7)
End of period	\$ 296.4	\$ 158.8	\$ 296.4	\$ 158.8

Consolidated Statements of Cash Flow

(unaudited)

(millions of Canadian dollars)	Three months ended June 30		Six months ended June 30	
	2004	2003 (restated – note 2)	2004	2003 (restated – note 2)
Operating activities				
Net earnings	\$ 61.9	\$ 33.8	\$ 114.8	\$ 68.6
Items not affecting cash				
Depletion, amortization and accretion	43.8	43.0	85.5	84.7
Write-down of investments	–	–	–	4.0
Gain on sale of metallurgical coal assets	–	–	–	(12.9)
Share of loss (earnings) of equity investments	(0.7)	0.1	(1.5)	0.5
Future income taxes	(0.2)	(19.8)	(9.3)	(14.2)
Foreign exchange gains	(2.1)	(3.6)	(1.2)	(6.0)
Asset retirement obligations expenditures	(3.5)	(2.5)	(5.2)	(4.2)
Other items	(2.8)	3.2	(2.7)	4.3
Cash provided before working capital changes	96.4	54.2	180.4	124.8
Decrease (increase) in non-cash working capital				
Accounts receivable	14.5	(32.4)	5.7	(74.8)
Inventories	11.2	18.0	5.4	23.8
Overburden removal costs	(0.3)	0.3	0.2	0.8
Prepaid expenses	(1.1)	1.7	(4.1)	(1.9)
Accounts payable and accrued liabilities	(14.3)	(26.5)	(30.3)	3.9
	10.0	(38.9)	(23.1)	(48.2)
Cash provided from operating activities	106.4	15.3	157.3	76.6
Investing activities				
Capital expenditures	(26.2)	(28.5)	(46.2)	(54.6)
Investments	–	–	0.3	–
Net proceeds from sale of capital assets	1.7	–	1.7	0.6
Restricted cash	(4.3)	4.1	(6.7)	11.6
Other assets	19.9	22.7	22.5	8.4
Proceeds from sale of investments	–	–	–	27.0
Acquisition of business	–	(13.7)	–	(224.1)
Cash used for investing activities	(8.9)	(15.4)	(28.4)	(231.1)
Financing activities				
Short-term debt	0.5	1.9	0.7	29.5
Long-term debt	(1.0)	(11.8)	(1.6)	(6.7)
Convertible debenture interest payments	(20.1)	(18.0)	(20.1)	(18.0)
Issue of common shares	–	102.9	0.3	102.9
Cash provided by (used for) financing activities	(20.6)	75.0	(20.7)	107.7
Increase (decrease) in net cash	76.9	74.9	108.2	(46.8)
Net cash at beginning of period	364.3	71.3	333.0	193.0
Net cash at end of period	\$ 441.2	\$ 146.2	\$ 441.2	\$ 146.2

Net cash consists of cash, cash equivalents and short-term investments. As at June 30, 2004, short-term investments with maturities greater than three months were \$65.1 million (2003 – nil). For the three-month period ended June 30, 2004, the Corporation received interest of \$2.8 million (2003 – \$0.9 million), paid interest on debt of \$10.8 million (2003 – \$14.2 million) and paid taxes of \$15.9 million (2003 – \$8.3 million). For the six-month period ended June 30, 2004, the Corporation received interest of \$5.2 million (2003 – \$2.6 million), paid interest on debt of \$16.7 million (2003 – \$14.6 million) and paid taxes of \$40.6 million (2003 – \$21.1 million).

Notes to Interim Consolidated Financial Statements

(Unaudited)

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

1 Summary of accounting policies

These interim consolidated financial statements follow the same accounting policies as the consolidated financial statements for the year ended December 31, 2003, except as noted below. The disclosures contained in these interim consolidated financial statements do not include all requirements of Canadian generally accepted accounting principles for annual financial statements. Accordingly, the interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2003.

2 Changes in accounting policies and estimates

Interim Financial Statements

Effective June 30, 2004, the Canadian Institute of Chartered Accountants (CICA) revised Section 1751, Interim Financial Statements, requiring disclosure in interim financial statements of benefit costs as determined by Section 3461, Employee Future Benefits. The new disclosures are provided in note 5.

Asset Retirement Obligations

The CICA issued new recommendations in respect of accounting for asset retirement obligations and related asset retirement costs. These recommendations apply to legal obligations resulting from the acquisition, construction, development or normal operation of long-lived assets. The liability is recognized at its fair value when incurred and is accreted to its full value through charges to earnings. The fair value of the estimated asset retirement costs is capitalized as part of the related asset and then amortized on the same basis as the related asset.

Asset retirement obligations have been recognized in respect of the mining operations of Coal and Metals, including associated infrastructure and buildings. Obligations have also been recorded for nickel and cobalt refining facilities and oil and gas production facilities. Reclamation of coal mining operations is typically carried out on a continuous basis over the life of each mine and is dependent on the rate that mining progresses over the area to be mined.

The new accounting policy was implemented on January 1, 2004 on a retroactive basis with restatement of prior periods. The cumulative effect of the change in policy on the balance sheet at December 31, 2003 was to increase capital assets by \$9.9 million, increase current taxes payable by \$1.9 million, increase asset retirement obligations by \$25.5 million, decrease future income tax liabilities by \$9.2 million and decrease opening retained earnings by \$10.3 million. The effect of the change in policy on the statement of operations for the three months ended June 30, 2003 was a \$0.2 million increase in net earnings. For the six months ended June 30, 2003 the impact was a \$0.3 million increase in net earnings.

The following is a reconciliation of the opening and closing asset retirement obligation balances.

	Six months ended June 30 2004	Year ended December 31 2003
Balance, beginning of period	\$ 79.4	\$ 78.3
Additions to liabilities	4.2	7.0
Liabilities settled	(6.8)	(9.0)
Accretion expense	2.9	5.3
Change in foreign exchange rates	0.4	(2.2)
Balance, end of year	80.1	79.4
Current portion	(7.2)	(8.9)
	\$ 72.9	\$ 70.5

The Corporation estimates the undiscounted cash flow required to settle the asset retirement obligation is approximately \$221.8 million. Expenditures will be made on an ongoing basis over several decades and are expected to be funded by cash generated from operations. Credit adjusted discount rates from 3% to 9% were applied to expected future cash flows to determine the carrying value of the asset retirement obligation.

In view of uncertainties concerning asset retirement obligations, the ultimate costs could be materially different from the amounts estimated. The estimate of the future asset retirement liabilities is subject to change based on amendments to applicable laws and legislation. Future changes in asset retirement liabilities, if any, could have a significant impact and would be reflected prospectively, as a change in accounting estimate.

Change in Estimated Useful Lives

Concurrent with the implementation of the asset retirement obligation accounting policy, the Coal business undertook a review of the estimated useful lives of its capital assets. As a result of this review, amortization was reduced by \$1.3 million for the three months ended June 30, 2004 (\$2.6 million for the six months ended June 30, 2004). The change in estimated useful lives of capital assets was treated as a change in accounting estimate and has therefore been implemented on a prospective basis.

Oil and Gas Full Cost Accounting

The CICA approved Accounting Guideline AcG-16, Oil and Gas Accounting – Full Cost, in July 2003. The guideline is effective for years beginning on or after January 1, 2004. The guideline modifies the ceiling test for oil and gas revenues and provides guidance on several other issues in respect of oil and gas assets. The recoverability of a cost centre is tested by comparing the carrying value of the cost centre to the sum of the undiscounted cash flows expected from the cost centre's use and eventual disposition. If the carrying value is unrecoverable, the cost centre is written down to its fair value. This approach incorporates risks and uncertainties in the expected future cash flows, which are discounted using a risk free rate. The implementation of this guideline did not have an impact on the financial statements.

Impairment of Long-lived Assets

In 2003, the CICA issued Section 3063, Impairment of Long-lived Assets, which is effective for fiscal years beginning on or after April 1, 2003. This section provides guidance on recognizing, measuring and disclosing impairment of long-lived assets. There was no impairment loss recorded in respect of long-lived assets in the six months ended June 30, 2004.

Generally Accepted Accounting Principles

CICA Handbook Section 1100, Generally Accepted Accounting Principles, was issued in October 2003, and is effective for fiscal years beginning January 1, 2004. The section establishes standards for financial reporting in accordance with generally accepted accounting principles (GAAP) and clarifies the relative authority of various accounting pronouncements and other sources within GAAP. There was no impact to the Corporation upon implementing this new standard.

General Standards of Financial Statement Presentation

In July 2003, the CICA issued Section 1400, General Standards of Financial Statement Presentation, which is effective for fiscal years beginning on January 1, 2004. This standard clarifies what constitutes fair presentation in accordance with GAAP, which involves providing sufficient information in a clear and understandable manner about certain transactions or events of such size, nature and incidence that their disclosure is necessary to understand the Corporation's financial statements. This standard is reflected in the Corporation's consolidated financial statements and there were no material differences as a result of the implementation.

Hedging Relationships

In 2003, the CICA issued Accounting Guideline AcG-13, Hedging Relationships, which deals with the identification, documentation, designation and effectiveness of hedges and also the discontinuance of hedge accounting but does not specify hedge accounting methods. This guidance is applicable to hedging relationships in effect for fiscal years beginning on or after July 1, 2003. The implementation of this guideline did not materially change the accounting policies in use and as a result, it did not have an impact on the financial statements.

EIC Abstract 128, Accounting for Trading, Speculative or Non-hedging Derivative Financial Instruments, requires most freestanding derivative financial instruments that do not qualify for hedge accounting under Accounting Guideline AcG-13, to be recognized in the balance sheet at fair value. The adoption of this guideline had no impact on the financial statements.

Revenue Recognition

In December 2003, the Emerging Issues Committee issued EIC Abstract 141, Revenue Recognition, which incorporates the principles and summarizes the guidance in the U.S. Securities and Exchange Commission Staff Accounting Bulletin 101, Revenue Recognition in Financial Statements. The abstract also provides interpretative guidance on the application of CICA Handbook Section 3400, Revenue. The abstract has been applied prospectively to sales transactions recognized in 2004. The adoption of this abstract had no impact on the financial statements.

3 Discontinued operations

On February 28, 2003, the Corporation disposed of its metallurgical coal assets. The results of these operations are disclosed as discontinued operations for the period from January 1, 2003 to June 30, 2003. Earnings from discontinued operations of \$6.9 million for the period up to their disposal include the gain on sale of the metallurgical coal assets and the net earnings of these operations prior to their sale.

Earnings from discontinued operations of \$1.0 million in 2004 reflect the settlement of outstanding items relating to the disposal of metallurgical coal assets.

	Three months ended June 30		Six months ended June 30	
	2004	2003 (restated)	2004	2003 (restated)
Revenue from discontinued operations	\$ —	\$ —	\$ —	\$ 14.6
Operating earnings from discontinued operations	—	—	—	1.1
Gain on disposal of metallurgical coal assets	1.2	—	1.2	12.9
Earnings from discontinued operations before income taxes	1.2	—	1.2	14.0
Income taxes	0.2	—	0.2	7.1
Earnings from discontinued operations	\$ 1.0	\$ —	\$ 1.0	\$ 6.9

4 Long-term debt

Capital leases for equipment totalling \$5.9 million were entered into in the quarter.

5 Shareholders' equity

Convertible debentures comprise \$300 million (December 31, 2003 – \$300 million) principal amount of 6% convertible unsecured subordinated debentures issued in November 1996 and \$300 million (December 31, 2003 – \$300 million) principal amount of 7% convertible unsecured subordinated debentures issued December 2003. The 6% debentures have a maturity date of December 15, 2006 and the 7% debentures have a maturity date of December 15, 2013.

Interest on the convertible debentures for the six months ended June 30, 2004 is stated net of tax relief of \$6.9 million (2003 – \$3.1 million).

On May 27, 2004, shareholders of the corporation voted to redesignate the restricted voting shares as common shares.

Issued capital stock at June 30, 2004 comprised 131,275,636 (December 31, 2003 – 131,189,779) common shares.

If all of the convertible debentures are converted into shares at the option of the holders, up to 34,188,034 additional shares may be issued on or before December 14, 2006 with respect to the 6% convertible debentures, and up to 42,856,286 additional shares may be issued on or before December 14, 2013 with respect to the 7% convertible debentures.

6 Post-retirement benefits

The Corporation's pension expense for the second quarter of 2004 was \$1.9 million (2003 – \$1.2 million). For the six months ended June 30, 2004, pension expense was \$3.1 million (2003 – \$2.3 million).

7 Stock compensation plans

For the six months ended June 30, 2004, no options were issued under the employee and director stock option plan and no shares were issued under the employee share purchase plan.

The following is a summary of stock option activity during the six months ended June 30, 2004.

	Three months ended June 30, 2004		Three months ended June 30, 2003	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at beginning of period	6,055,000	\$ 6.65	6,425,000	\$ 6.64
Exercised	—	—	—	—
Forfeited	—	—	—	—
Outstanding at end of period	6,055,000	\$ 6.65	6,425,000	\$ 6.64

	Six months ended June 30, 2004		Six months ended June 30, 2003	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at beginning of period	6,410,000	\$ 6.64	6,425,000	\$ 6.64
Exercised	(85,000)	3.05	—	—
Forfeited	(270,000)	7.74	—	—
Outstanding at end of period	6,055,000	\$ 6.65	6,425,000	\$ 6.64

During the six months ended June 30, 2004, a total of 235,500 units were granted under the executive share unit plan, representing 183,500 restricted share units and 52,000 deferred share units. Under the non-executive deferred share unit plan for non-management directors, a total of 17,340 deferred share units was issued.

Total compensation expense in respect of all stock compensation plans was a credit of \$0.1 million (2003 – nil) during the three months ended June 30, 2004. For the six months ended June 30, 2004, total compensation expense was \$1.1 million (2003 – nil).

8 Net financing expense (income)

	Three months ended June 30		Six months ended June 30	
	2004	2003 (restated)	2004	2003 (restated)
Interest income on cash, cash equivalents, short-term investments and loans	\$ (9.2)	\$ (2.0)	\$ (17.0)	\$ (9.1)
Interest expense on debt	8.7	6.2	17.1	12.3
Foreign exchange gains	(2.1)	(3.6)	(1.2)	(6.0)
Realized loss on sale of investments	—	0.3	—	1.1
Other	1.5	—	1.5	—
	\$ (1.1)	\$ 0.9	\$ 0.4	\$ (1.7)

9 Other items

	Three months ended June 30		Six months ended June 30	
	2004	2003 (restated)	2004	2003 (restated)
Share of loss (earnings) of equity investments	\$ (0.7)	\$ 0.1	\$ (1.5)	\$ 0.5
Income on redemption of promissory note	—	(10.7)	—	(10.7)
Write-down of Minara Resources investment	—	—	—	4.0
Minority interest	—	0.2	—	0.6
	\$ (0.7)	\$ (10.4)	\$ (1.5)	\$ (5.6)

10 Earnings per share

The following table presents the calculation of basic and diluted earnings per share. In the table, the number of shares is stated in millions.

	Three months ended June 30		Six months ended March 31	
	2004	2003 (restated)	2004	2003 (restated)
Earnings from continuing operations	\$ 60.9	\$ 33.8	\$ 113.8	\$ 61.7
Interest and accretion on convertible debentures	(6.7)	(6.4)	(13.3)	(15.7)
Earnings from continuing operations – basic	54.2	27.4	100.5	46.0
Earnings from discontinued operations	1.0	–	1.0	6.9
Net earnings – basic	55.2	27.4	101.5	52.9
Interest and accretion on convertible debentures (1)	6.7	6.4	13.3	15.7
Net earnings – diluted	61.9	33.8	114.8	68.6
Earnings from discontinued operations	(1.0)	–	(1.0)	(6.9)
Earnings from continuing operations – diluted	\$ 60.9	\$ 33.8	\$ 113.8	\$ 61.7
Weighted average number of shares – basic	131.3	116.5	131.3	107.2
Weighted average effect of dilutive securities:				
Employee stock options (1)	0.6	0.2	0.6	0.2
Convertible debentures (1)	77.0	68.4	77.0	68.4
Weighted average number of shares – diluted	208.9	185.1	208.9	175.8
Earnings from continuing operations per share				
Basic	\$ 0.41	\$ 0.24	\$ 0.76	\$ 0.43
Diluted	0.29	0.18	0.54	0.35
Earnings from discontinued operations per share				
Basic	0.01	–	0.01	0.06
Diluted	0.01	–	0.01	0.04
Earnings per share				
Basic	0.42	0.24	0.77	0.49
Diluted	0.30	0.18	0.55	0.39

(1) The determination of net earnings – diluted, earnings from continuing operations – diluted and weighted average number of shares – diluted excludes any anti-dilutive amounts in respect of convertible debenture conversions and the exercise of stock options.

11 Guarantees, commitments and contingencies

During the quarter, the Corporation entered into an agreement with an international financial institution, for an initial two year period, that has been assigned the right, by certain Cuban government agencies, to receive income tax, royalty and labour tax payments made by Moa Nickel S.A. (Tax Amounts). To the extent that the Tax Amounts received by the financial institution exceed the financial institution's minimum quarterly repayment requirements, the excess is made available for release directly to the Corporation, net of a 4.5% release fee, for payment of amounts owing by Cuban government agencies relating to oil and power purchases. The Corporation believes this new arrangement will enhance security related to oil and power receivables from Cuban government agencies.

The agreement provides for the release of these funds, denominated in Euros, to the Corporation on a monthly basis provided that certain conditions are met. In the event that the Tax Amounts do not meet the minimum quarterly repayment requirements to the financial institution in the calendar year, the Corporation has agreed to immediately refund amounts received during a particular calendar year to offset the shortfall to the financial institution. If amounts received by the Corporation are refunded to the financial institution, the release fee is refunded to the Corporation and amounts owing to the Corporation from Cuban government agencies will be reinstated in amounts similar to the refund.

During the quarter, the Corporation received \$33.7 million through this agreement, which was applied against oil and power receivables. Based on management's expectations for production, commodity prices and costs at Moa Nickel S.A., for the remainder of the year, the Corporation does not expect that it will be required to refund any amounts that relate to the 2004 calendar year and therefore no liability has been recorded in respect of potential refunds. As at June 30, 2004, the estimated maximum potential refund, which would result in a similar amount of receivables being reinstated, is 8.3 million Euros (\$13.6 million). Since the base currency of all payments to the Corporation under this agreement is Euros, the Corporation assumes foreign exchange risk related to potential refunds.

12 Segment information

Reference should be made to Sherritt's consolidated financial statements for a full description of operating segments.

Three months ended

June 30, 2004

(millions of

Canadian dollars)

	Coal ⁽¹⁾	Metals	Oil and Gas	Power ⁽²⁾	Other	Corporate	Consolidated
Revenue	\$ 61.6	\$ 142.8	\$ 53.3	\$ 9.3	\$ —	\$ —	\$ 267.0
Operating, selling, general and administrative	42.6	80.3	8.7	1.5	—	9.2	142.3
Earnings (loss) before undernoted items	19.0	62.5	44.6	7.8	—	(9.2)	124.7
Depletion, amortization and accretion	16.4	5.0	19.8	1.9	—	0.7	43.8
Operating earnings (loss) from continuing operations	2.6	57.5	24.8	5.9	—	(9.9)	80.9
Share of earnings of equity investments							0.7
Net financing income							1.1
Earnings from continuing operations before income taxes							82.7
Capital expenditures	1.5	2.6	21.8	0.1	—	0.2	26.2
Assets	\$ 774.9	\$ 389.7	\$ 511.0	\$ 275.0	\$ 91.8	\$ 367.6	\$ 2,410.0

(1) Coal capital expenditures and assets include amounts relating to discontinued operations.

(2) Power operating earnings and capital expenditures have been included as a separate segment since March 28, 2003.

Three months ended June 30, 2003 (restated) (millions of Canadian dollars)	Coal(1)	Metals	Oil and Gas	Power(2)	Other	Corporate	Consolidated
Revenue	\$ 60.1	\$ 95.3	\$ 48.6	\$ 8.5	\$ 8.7	\$ —	\$ 221.2
Operating, selling, general and administrative	50.9	79.2	13.3	1.5	6.8	4.8	156.5
Earnings (loss) before undnoted items	9.2	16.1	35.3	7.0	1.9	(4.8)	64.7
Depletion, amortization and accretion	14.6	4.8	19.2	1.8	1.7	0.9	43.0
Income on redemption of promissory note	(10.7)	—	—	—	—	—	(10.7)
Operating earnings (loss) from continuing operations	5.3	11.3	16.1	5.2	0.2	(5.7)	32.4
Share of loss of equity investments							(0.1)
Net financing income							(0.9)
Minority interest							(0.2)
Earnings from continuing operations before income taxes							31.2
Capital expenditures	3.2	3.1	19.3	1.7	0.9	0.3	28.5
Assets	\$ 880.8	\$ 348.1	\$ 573.2	\$ 257.5	\$ 117.2	\$ 141.5	\$ 2,318.3

(1) Coal capital expenditures and assets include amounts relating to discontinued operations.

(2) Power operating earnings and capital expenditures have been included as a separate segment since March 28, 2003.

Six months ended**June 30, 2004****(millions of****Canadian dollars)**

	Coal⁽¹⁾	Metals	Oil and Gas	Power⁽²⁾	Other	Corporate	Consolidated
Revenue	\$ 124.8	\$ 247.8	\$ 100.9	\$ 18.4	\$ –	\$ –	\$ 491.9
Operating, selling, general and administrative	87.8	128.1	18.4	3.8	–	17.6	255.7
Earnings (loss) before undnoted items	37.0	119.7	82.5	14.6	–	(17.6)	236.2
Depletion, amortization and accretion	29.2	10.0	40.3	4.3	–	1.7	85.5
Operating earnings (loss) from continuing operations	7.8	109.7	42.2	10.3	–	(19.3)	150.7
Share of earnings of equity investments							1.5
Net financing expense							(0.4)
Earnings from continuing operations before income taxes							151.8
Capital expenditures	2.3	4.0	39.6	0.1	–	0.2	46.2

(1) Coal capital expenditures and assets include amounts relating to discontinued operations.

(2) Power operating earnings and capital expenditures have been included as a separate segment since March 28, 2003.

Six months ended June 30, 2003 (restated) (millions of Canadian dollars)	Coal(1)	Metals	Oil and Gas	Power(2)	Other	Corporate	Consolidated
Revenue	\$ 110.8	\$ 159.7	\$ 117.9	\$ 8.5	\$ 17.2	\$ –	\$ 414.1
Operating, selling, general and administrative	89.7	128.8	26.3	1.5	12.9	9.9	269.1
Earnings (loss) before undnoted items	21.1	30.9	91.6	7.0	4.3	(9.9)	145.0
Depletion, amortization and accretion	27.2	9.7	40.6	1.8	3.6	1.8	84.7
Income on redemption of promissory note	(10.7)	–	–	–	–	–	(10.7)
Operating earnings (loss) from continuing operations	4.6	21.2	51.0	5.2	0.7	(11.7)	71.0
Write-down of Minara Resources investment							(4.0)
Share of loss of equity investments							(0.5)
Net financing income							1.7
Minority interest							(0.6)
Earnings from continuing operations before income taxes							67.6
Capital expenditures	5.6	5.7	37.3	1.7	3.5	0.8	54.6

(1) Coal capital expenditures and assets include amounts relating to discontinued operations.

(2) Power operating earnings and capital expenditures have been included as a separate segment since March 28, 2003.

Three months ended June 30	2004		2003 (restated)	
	Revenue	Capital Assets	Revenue	Capital Assets and Goodwill
Canada	\$ 100.1	\$ 803.2	\$ 113.6	\$ 833.3
Cuba	59.8	425.4	64.6	476.0
Europe	63.8	4.5	20.5	6.5
Asia	34.7	6.9	16.7	6.9
Other countries	8.6	—	5.8	—
	\$ 267.0	\$ 1,240.0	\$ 221.2	\$ 1,322.7

Six months ended June 30	2004		2003 (restated)	
	Revenue	Capital Assets	Revenue	Capital Assets and Goodwill
Canada	\$ 172.6	\$ 803.2	\$ 192.6	\$ 833.3
Cuba	112.9	425.4	140.6	476.0
Europe	125.6	4.5	44.2	6.5
Asia	67.8	6.9	26.4	6.9
Other countries	13.0	—	10.3	—
	\$ 491.9	\$ 1,240.0	\$ 414.1	\$ 1,322.7

13 Financial instruments

Unutilized lines of credit as at June 30, 2004 were \$72.9 million.

14 Comparative amounts

Certain comparative amounts have been reclassified to conform to the presentation adopted in the current period.

Supplementary Financial Information

CANADIAN GAAP RECONCILIATION TABLE

The Corporation discloses EBITDA in order to provide an indication of revenue less cash operating expenses. Operating earnings is a measure used by Sherritt to evaluate operating performance of its businesses as it eliminates interest charges, which are a function of the particular financing structure for the business, and certain other charges as presented in the following table. Net earnings excluding certain items presents net earnings, as reported, adjusted for certain other amounts as presented in the following table that are not indicative of ongoing operations.

EBITDA, operating earnings, net earnings excluding certain items and cash from operations do not have any standardized meaning prescribed by Canadian generally accepted accounting principles and are therefore unlikely to be comparable with similar measures presented by other issuers.

The Summary Financial Results by Segment presented previously in this document reconciles EBITDA and operating earnings to earnings from continuing operations before taxes. The following Canadian GAAP Reconciliation Table reconciles earnings from continuing operations, excluding certain items, to Canadian GAAP earnings from continuing operations, as reported.

(millions of Canadian dollars)	Three months ended June 30		Six months ended June 30	
	2004	2003 (restated)	2004	2003 (restated)
Canadian GAAP earnings				
from continuing operations	\$ 60.9	\$ 33.8	\$ 113.8	\$ 61.7
Income on redemption of promissory note	—	(10.7)	—	(10.7)
Loss on sale of Fording Trust units	—	—	—	0.8
Coal severance costs	—	5.0	—	7.5
Coal inventory and other write-downs	—	3.6	—	3.6
Write-down of Minara				
Resources investment	—	—	—	4.0
Oil and Gas severance costs	—	0.5	—	1.0
Currency translation adjustments	(2.1)	(3.6)	(1.2)	(6.0)
Income tax impact of above items	(0.7)	3.4	(1.1)	4.2
Reduction in Canadian				
resource sector federal tax rates	—	(15.1)	—	(15.1)
Earnings from continuing operations, excluding certain items	\$ 58.1	\$ 16.9	\$ 111.5	\$ 51.0
Earnings from continuing operations				
per share, excluding certain items				
Basic	\$ 0.39	\$ 0.09	\$ 0.75	\$ 0.33
Diluted	0.28	0.09	0.53	0.29

**SCHEDULE OF SELECTED CURRENT ASSETS
AND ACCOUNTS PAYABLE BY OPERATING SEGMENT**

June 30, 2004

(millions of Canadian dollars)	Coal	Metals	Oil and Gas	Power	Other	Corporate	Consolidated
Accounts receivable	\$ 31.8	\$ 57.6	\$ 161.0	\$ 23.4	\$ —	\$ 8.7	\$ 282.5
Inventories	18.7	64.6	—	3.9	—	—	87.2
Overburden removal costs	1.9	—	—	—	—	—	1.9
Prepaid expenses	1.7	3.7	0.9	0.5	1.2	3.7	11.7
Future income taxes	—	14.3	6.9	—	—	—	21.2
	\$ 54.1	\$ 140.2	\$ 168.8	\$ 27.8	\$ 1.2	\$ 12.4	\$ 404.5

Accounts payable and accrued liabilities	\$ 33.5	\$ 49.1	\$ 35.2	\$ 1.4	\$ —	\$ 17.2	\$ 136.4
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March 31, 2004

(millions of Canadian dollars)	Coal	Metals	Oil and Gas	Power	Other	Corporate	Consolidated
Accounts receivable	\$ 37.6	\$ 54.7	\$ 162.2	\$ 24.6	\$ —	\$ 12.8	\$ 291.9
Inventories	19.0	76.6	—	2.8	—	—	98.4
Overburden removal costs	1.6	—	—	—	—	—	1.6
Prepaid expenses	1.9	3.8	0.7	—	1.3	3.0	10.7
Future income taxes	—	15.6	6.4	—	—	—	22.0
	\$ 60.1	\$ 150.7	\$ 169.3	\$ 27.4	\$ 1.3	\$ 15.8	\$ 424.6

Accounts payable and accrued liabilities	\$ 38.9	\$ 65.8	\$ 34.9	\$ 1.6	\$ —	\$ 20.5	\$ 161.7
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December 31, 2003

(restated) (millions of Canadian dollars)	Coal	Metals	Oil and Gas	Power	Other	Corporate	Consolidated
Accounts receivable	\$ 31.4	\$ 48.8	\$ 163.3	\$ 24.0	\$ —	\$ 14.0	\$ 281.5
Inventories	21.9	67.8	—	2.9	—	—	92.6
Overburden removal costs	2.1	—	—	—	—	—	2.1
Prepaid expenses	1.0	4.2	0.6	—	1.2	0.7	7.7
Future income taxes	—	11.6	5.1	—	—	—	16.7
	\$ 56.4	\$ 132.4	\$ 169.0	\$ 26.9	\$ 1.2	\$ 14.7	\$ 400.6

Accounts payable and accrued liabilities	\$ 38.9	\$ 58.4	\$ 39.0	\$ 3.7	\$ —	\$ 27.7	\$ 167.7
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