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# Sherritt

International Corporation **Third quarter report** — September 30, 2004

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## 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 this report 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 this report 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 its annual report, annual information form and management information circular.

## Highlights

- On track for record annual earnings and cash flow
- Record nickel production in the quarter
- Coal and Metals expansion opportunities continue to be evaluated
- Construction of 150 megawatt Power expansion commences
- Subsequent to quarter end, an offer was made to purchase up to \$100 million 6% convertible unsecured subordinated debentures

Sherritt International Corporation generated net earnings of \$40.2 million or \$0.26 per share for the third quarter of 2004, double the net earnings of \$20.7 million or \$0.11 per share in the third quarter of 2003. Higher metals prices and sales volumes contributed significantly to the rise in third quarter results. Earnings before interest, taxes, depreciation and amortization (EBITDA) for the third quarter were \$107.5 million compared with \$83.2 million for the prior-year period. Earnings from continuing operations, excluding certain items not indicative of ongoing operations, such as write-downs, severance costs and currency translation adjustments, were \$46.1 million for the quarter or \$0.30 per share compared with \$26.7 million or \$0.15 per share for the third quarter of 2003. Total cash balances increased to \$516.4 million at quarter end.

**FINANCIAL HIGHLIGHTS (unaudited)**

(millions of dollars, except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
Revenue from continuing operations	\$ <b>221.3</b>	\$ 186.4	\$ <b>713.2</b>	\$ 600.5
EBITDA (1)	<b>107.5</b>	83.2	<b>343.7</b>	240.3
Operating earnings from				
continuing operations (1)	<b>65.0</b>	34.9	<b>215.7</b>	105.9
Earnings from continuing operations (2)	<b>40.2</b>	20.7	<b>154.0</b>	82.4
Earnings from continuing operations, excluding certain items (1) (2)	<b>46.1</b>	26.7	<b>157.5</b>	72.7
Net earnings	<b>40.2</b>	20.7	<b>155.0</b>	89.3
Earnings per share – basic				
From continuing operations (2)	<b>0.26</b>	0.11	<b>1.02</b>	0.52
From continuing operations, excluding certain items (1) (2)	<b>0.30</b>	0.15	<b>1.05</b>	0.44
Net earnings	<b>0.26</b>	0.11	<b>1.03</b>	0.58
Earnings per share – diluted				
From continuing operations (2)	<b>0.19</b>	0.10	<b>0.74</b>	0.45
From continuing operations, excluding certain items (1) (2)	<b>0.22</b>	0.13	<b>0.75</b>	0.40
Net earnings	<b>0.19</b>	0.10	<b>0.74</b>	0.49
Weighted average number of shares – basic (millions)	<b>131.3</b>	131.2	<b>131.3</b>	115.3

- (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 2004 of \$1.0 million (net of income taxes of \$0.2 million) relate to the settlement of outstanding items from the metallurgical coal disposition in the second quarter.

On October 29, 2004 Sherritt issued an offer to purchase, in aggregate, up to \$100 million par value of its \$300 million 6% convertible unsecured subordinated debentures due December 15, 2006, for \$1,085 cash per \$1,000 of par value of principal. The offer is subject to a number of terms and conditions, including an extraordinary resolution of debenture holders approving an amendment to the 6% debenture indenture allowing Sherritt to repurchase the 6% debentures at above par. In addition, if Sherritt purchases any 6% convertible debentures under the offer, it will be required to make an offer to purchase an equivalent principal amount of 9.875% senior unsecured notes at a price of \$1,010 per \$1,000.

While hurricane activity in the Caribbean caused damage in some areas, Sherritt's operations in Cuba incurred only minor damage. As part of its hurricane preparedness plan, Oil and Gas and Power facilities were shut down in anticipation of the storms.

On revenue of \$60.2 million, the Coal business generated EBITDA of \$15.6 million in the third quarter, compared with EBITDA for the third quarter of 2003 of \$20.2 million on revenue of \$61.5 million. The decrease in EBITDA was mainly due to the temporary thickener outage at the Coal Valley mine. Coal sales of 4.6 million tonnes for the third quarter were slightly lower than the same period last year due to a temporary outage at a power plant and the suspension of production at the Obed Mountain mine in 2003. Capital spending in the quarter was \$1.8 million.

The Metals business realized strong results based on high nickel and cobalt prices compared to the third quarter of 2003. EBITDA for the third quarter was \$52.3 million on revenue of \$100.9 million compared with EBITDA of \$20.4 million on revenue of \$61.8 million for the third quarter of 2003. Finished nickel sales increased by 5% over the prior-year quarter to 8.3 million pounds, while cobalt sales of 0.9 million pounds were up slightly over the prior-year quarter. Capital spending in the quarter was \$5.3 million.

Oil and Gas generated EBITDA of \$41.3 million on revenue of \$51.1 million in the quarter compared with EBITDA of \$43.2 million on revenue of \$54.0 million in the prior-year period. The small decreases in revenue and EBITDA mainly reflected lower net production and a stronger Canadian dollar. Capital spending in the quarter was \$21.4 million.

Power generated EBITDA of \$7.8 million during the third quarter compared with \$6.0 million in 2003. Approximately 138,000 megawatt hours of electricity was generated during the quarter, consistent with the prior year. Collection of recoverable project costs was \$11.5 million in the quarter. Third quarter capital spending for the expansion totalled \$3.2 million.

## Management's Discussion and Analysis

The following discussion and analysis of the consolidated financial results of Sherritt International Corporation for the three months and nine months ended September 30, 2004 should be read in conjunction with the unaudited consolidated financial statements and related notes contained in this interim report and the interim reports issued for the first and second quarters 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 November 3, 2004. All amounts are in millions of dollars unless otherwise indicated.

### CONSOLIDATED FINANCIAL RESULTS

#### THIRD QUARTER RESULTS

	Q3 2004	Q3 2003
Revenue	<b>\$ 221.3</b>	\$ 186.4

This increase is attributable mainly to higher metals prices and higher nickel sales volumes, mitigated in part by a stronger Canadian dollar.

	Q3 2004	Q3 2003
Operating, selling, general and administrative costs	<b>\$ 113.8</b>	\$ 108.1

The increase was due to costs incurred to repair the thickener at the Coal Valley mine, higher costs for inputs such as energy, sulphur and sulphuric acid at Metals and Corporate costs related mainly to stock-linked compensation.

	Q3 2004	Q3 2003
Depletion, amortization and accretion expense	<b>\$ 42.5</b>	\$ 43.4

No significant change from the prior-year quarter.

	Q3 2004	Q3 2003
Net financing expense	<b>\$ 6.4</b>	\$ 2.5

The difference was primarily due to increases in interest income from cash and short-term investments being more than offset by lower interest on Oil and Gas receivables and a decrease in income from investments that were disposed of during 2003.

	<b>Q3 2004</b>	Q3 2003
Share of losses from equity investments	<b>\$ 0.8</b>	\$ 1.4

No significant change in losses from equity investments compared with the prior-year quarter.

	<b>Q3 2004</b>	Q3 2003
Effective tax rate	<b>30%</b>	33%
Effective tax rate excluding foreign exchange gains and losses	<b>26%</b>	30%

Foreign exchange gains or losses arising from changes in the Canadian dollar equivalent of Coal's U.S. dollar debt are tax effected (as a capital item) while foreign exchange gains and losses relating to other U.S. dollar transactions and balances are not tax effected. The lower effective tax rate in the third quarter of 2004, after removing the effect of these items, compared with the prior year, is mainly due to a lower effective tax rate in Metals.

#### NINE MONTHS ENDED SEPTEMBER 30 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.

	<b>Nine months 2004</b>	Nine months 2003
Revenue	<b>\$ 713.2</b>	\$ 600.5

The increase was mainly due to higher nickel and cobalt prices, the inclusion of nine months of operations from the thermal coal assets acquired in 2003 compared to seven months in the prior-year period and the inclusion of nine months of Power operations compared to six months in 2003. Lower average realized oil prices in Cuba and lower oil production partly offset these increases for the nine-month period. Revenue in the prior year also included results from the telecommunications business (disposed of in August 2003) and the soybean-based food processing business until the basis of accounting for these entities changed to equity accounting from proportionate consolidation on June 30, 2003.



	<b>Nine months 2004</b>	Nine months 2003
Operating, selling, general and administrative costs	<b>\$ 369.5</b>	\$ 377.2

The decrease reflects lower oil treatment and transportation costs in the current year and the inclusion in 2003 of operating costs from the telecommunications and the soybean-based food processing businesses and non-recurring write-downs and severance costs. Partly offsetting these items were costs relating to the thickener repairs at Coal Valley, higher input costs in Metals and higher corporate costs in 2004 reflecting corporate retentions on insurance claims and higher stock-linked compensation and pension plan costs.

	<b>Nine months 2004</b>	Nine months 2003
Depletion, amortization and accretion expense	<b>\$ 128.0</b>	\$ 128.1

Essentially unchanged from the first nine months of 2003 as higher amortization for Coal and Power was offset by lower amortization due to the deconsolidation of telecommunications and soybean-based food processing in June 2003.

	<b>Nine months 2004</b>	Nine months 2003
Net financing expense	<b>\$ 6.8</b>	\$ 0.8

The increase arises mainly from a \$2.9 million foreign exchange loss in 2004 compared to a \$3.2 million foreign exchange gain in 2003 due to a year-over-year increase in the value of the Canadian dollar.

	<b>Nine months 2004</b>	Nine months 2003
Other items	<b>\$ 0.7</b>	\$ 4.2

Income from other items in 2004 comprises earnings from equity investments while 2003 includes a small loss on equity investments and a \$4.0 million write-down of the Corporation's investment in Minara Resources, offset by income of \$10.7 million on the redemption of a promissory note.

	<b>Nine months 2004</b>	Nine months 2003
Effective tax rate	<b>27%</b>	16%
Effective tax rate excluding foreign exchange gains and losses	<b>25%</b>	27%

The lower effective tax rate for the first nine months of 2004 compared to the prior year (after removing the effect of foreign exchange gains and losses and a prior-year income tax recovery as a result of a reduction in Canadian resource sector federal tax rates) is mainly due to a lower effective tax rate in Metals.

**CONSOLIDATED CASH FLOW**

## THIRD QUARTER RESULTS

	Q3 2004	Q3 2003
Cash from operating activities before working capital changes	<b>\$ 78.6</b>	\$ 62.2
Non-cash working capital changes	<b>5.3</b>	3.9
Cash provided from operating activities	<b>83.9</b>	66.1

The increase in cash from operating activities before working capital changes was due mainly to higher earnings. Third quarter cash from operating activities after working capital changes included \$5.3 million of cash from working capital as a result of a decrease in receivables – due to a reduction in Oil and Gas receivables; and higher payables – due mainly to the timing of payments; partly offset by higher inventory – due to increases in Metals (including fertilizer) inventory levels.

	Q3 2004	Q3 2003
Capital expenditures	<b>\$ 32.2</b>	\$ 13.9
Other investing activities	<b>3.4</b>	72.4
Cash used for financing activities	<b>1.6</b>	35.4

Capital expenditures in the quarter primarily comprised Oil and Gas development drilling in Cuba. Expenditures in 2003 were lower as a result of temporary reductions in development drilling. Other investing activities, excluding capital expenditures, primarily comprised the collection of Power recoverable project costs, partly offset by an increase in restricted cash. Prior-year amounts included proceeds on the sale of investments. Cash used for financing activities related mainly to lease payments and repayment of short-term debt.

## NINE MONTHS ENDED SEPTEMBER 30 RESULTS

	Nine months 2004	Nine months 2003
Cash from operating activities before working capital changes	<b>\$ 259.0</b>	\$ 187.0
Non-cash working capital changes	<b>(17.8)</b>	(44.3)
Cash provided from operating activities	<b>241.2</b>	142.7

The increase in cash from operating activities before working capital changes was due mainly to higher earnings. Cash from operating activities after working capital changes in the first nine months of 2004 was net of \$17.8 million of cash used in working capital, reflecting a decrease in accounts payable – due to the timing of payments; and an increase in inventory – due to higher cobalt and fertilizer inventories; partly offset by a reduction in accounts receivable – due to lower Oil and Gas and Corporate receivables.

	Nine months 2004	Nine months 2003
Capital expenditures	\$ 78.4	\$ 68.5
Other investing activities	21.2	(104.1)
Cash provided by (used for) financing activities	(22.3)	72.3

Capital expenditures in the first nine months of 2003 and 2004 were directed mainly towards Oil and Gas development drilling in Cuba. In 2004, other investing activities mainly comprised the collection of Power recoverable project costs, which were partly offset by an increase in restricted cash, while 2003 also reflected cash used for the acquisition of businesses. Cash used for financing activities in the current year was \$22.3 million, relating mainly to the semi-annual interest payments on the convertible debentures, while 2003 also included cash from the issue of shares.

#### **CONSOLIDATED FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES**

Total assets as at September 30, 2004 were \$2.4 billion. Cash, cash equivalents, short-term investments and restricted cash totalled \$516.4 million at the end of the third quarter, an increase of \$175.4 million for the nine months. The increase reflected cash generated by operations 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 \$2.1 million to \$62.8 million at September 30, 2004, as expected repayment of recoverable project costs for the next 12 months increased. Repayment of recoverable project costs for the first nine months of the year totalled \$35.2 million.

Accounts receivable of \$262.2 million at the end of the third quarter decreased by \$19.3 million from December 31, 2003 mainly due to reductions in Oil and Gas and Corporate receivables.

Inventories of \$99.3 million represented a \$6.7 million increase over the December 31, 2003 balance, mainly due to higher cobalt and fertilizer inventory values.

Capital assets were \$1,235.9 million at the end of the quarter compared with \$1,263.9 million at December 31, 2003. The \$28.0 million decrease was due to capital expenditures occurring at a slower rate than the amortization of capital asset balances.

Future income tax assets of \$64.7 million at September 30, 2004 primarily comprised the tax benefit of \$212 million of non-capital losses, net of future income tax liabilities in respect of undistributed income from a subsidiary and \$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.

Assets held for sale comprise assets which the Corporation has agreed to sell during the fourth quarter. The net sale price is estimated to be equivalent to book value. Other assets were \$128.6 million at the end of the quarter compared with \$173.9 million at the end of 2003. The decrease was mainly due to collection of recoverable project costs and the reclassification of assets to assets held for sale.

Short-term debt of \$26.5 million was essentially unchanged from December 31, 2003. Accounts payable and accrued liabilities were \$154.0 million at the end of the third quarter, compared with \$167.7 million at the end of 2003. The decrease was mainly due to the timing of payments to vendors.

Long-term debt and other liabilities increased by \$2.5 million during the first nine months of the year, reflecting capital lease financing in Coal and Metals offset by the effect of the stronger Canadian dollar on the U.S. dollar denominated Luscar senior notes.

Future income tax liabilities were \$171.3 million at September 30, 2004. Future income tax liabilities primarily represent 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 were \$75.4 million. The Corporation has announced its intention to purchase up to \$100 million 6% convertible debentures by way of a tender at a price of \$1,085 per \$1,000 principal amount, plus accrued and unpaid interest. The transaction is expected to be completed by the end of the fourth quarter and is subject to a number of terms and conditions, including an extraordinary resolution of debenture holders approving an amendment to the 6% debenture indenture allowing Sherritt to repurchase the 6% debentures at above par. In addition, if Sherritt purchases any 6% convertible debentures under the offer, it will be required to make an offer to purchase an equivalent principal amount of 9.875% senior unsecured notes at a price of \$1,010 per \$1,000.

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.

During the year, Coal entered into capital leases for equipment totalling \$7.2 million as part of long-term mine support equipment agreements, which involve leasing of equipment as part of a plan to reduce the maintenance costs and increase equipment utilization.

During the year, Sherritt entered into an agreement that 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. Sherritt received \$24.8 million under this agreement during the quarter (\$58.5 million year-to-date). In the event that the amounts received by the financial institution do not meet minimum payment requirements, the amounts received by Sherritt must be refunded to make up the shortfall. The refund is limited to the total amount received by Sherritt in the particular calendar year. Should a refund occur, Oil and Gas and Power would increase the amounts receivable from the Cuban agencies by a similar amount. The amounts received by the financial institution to September 30, 2004 are in excess of the minimum payment requirements for the 2004 year and as a result, the Corporation will not be required to refund any amounts received under this agreement during 2004.

## **OUTLOOK**

Commodity prices for metals, oil and export thermal coal are expected to remain strong for the remainder of the year and into 2005. Continued high commodity prices are expected to result in record earnings and cash flow for 2004. Upward pressure on operating costs from energy and other commodity input costs are being partially mitigated by efficiency and productivity initiatives. These include initiatives implemented at Coal to introduce "world best" mining and maintenance practices.

Fourth quarter Coal and Oil and Gas sales volumes are expected to be consistent with the levels experienced during the first nine months of the year. Metals sales volume is expected to increase during the fourth quarter reflecting the reduction of nickel and cobalt inventory built up in the third quarter. Power's electricity production will decrease somewhat in the fourth quarter, reflecting planned major inspections on two turbines at the Varadero facility. Each inspection is expected to take one month to complete. Production of export thermal coal from the Coal Valley mine is anticipated to increase for the remainder of the year, as annualized capacity from this mine is expected to increase to one million tonnes (Sherritt's share). Given the strong outlook for export thermal coal, a further expansion of up to one million tonnes at Coal Valley is being considered with a decision expected by year-end. Sherritt's share of production from the Genesee mine is expected to increase by approximately one million tonnes in 2005, as production from the mine is ramped up this winter to supply a new 495 megawatt unit at the Genesee power plant. Discussions regarding the expansion of Metals capacity by at least 16,000 tonnes per year are continuing although the finalization of preliminary capital requirements and other factors may impact the timing of any decision. Purchase commitments for approximately one-half of the expenditures for the first phase of the 150 megawatt Power expansion have been made, with commissioning of the first 80 megawatts anticipated in the fourth quarter of 2005.

Capital expenditures are expected to be approximately \$130 million for the year, including \$9 million in respect of the Power expansion. Capital expenditures for Coal are estimated at \$10 million for the year, with an additional \$9 million in capital leases. Capital expenditures for Metals are expected to be approximately \$20 million for the year, with an additional \$1 million in capital leases. Oil and Gas has optimized its 2004 capital program by expanding its drilling schedule to include the start-up of three additional development wells and by deferring completion of facility construction projects into 2005. As a result, 2004 capital expenditures are estimated to be \$90 million compared to the previous estimate of \$110 million.

Sherritt is providing financing for the Power expansion for an estimated amount of \$122 million. Approximately \$27 million is expected to be incurred during 2004 with the remainder in 2005. These expenditures will be recorded as one-third capital assets and two-thirds recoverable project costs, reflecting Sherritt's one-third joint venture interest.

Additional discussion relating to the outlook for the remainder of 2004 can be found in the following review of operations for each business unit.

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

	<b>Coal</b>	<b>Metals</b>	<b>Oil and Gas</b>	<b>Power</b>	<b>Other (3)</b>	<b>Corporate</b>	<b>Consolidated</b>
Revenue	\$ 60.2	\$ 100.9	\$ 51.1	\$ 9.1	\$ –	\$ –	\$ 221.3
Operating, selling, general and administrative	44.6	48.6	9.8	1.3	–	9.5	113.8
Add items excluded from EBITDA (2)	–	–	–	–	–	–	–
EBITDA (1)	15.6	52.3	41.3	7.8	–	(9.5)	107.5
Depletion, amortization and accretion	13.2	5.1	21.0	1.8	–	1.4	42.5
Items excluded from EBITDA	–	–	–	–	–	–	–
Operating earnings (loss) from continuing operations (1)	2.4	47.2	20.3	6.0	–	(10.9)	65.0
Share of loss of equity investments							(0.8)
Net financing expense							(6.4)
Earnings from continuing operations before income taxes							57.8
Capital expenditures	\$ 1.8	\$ 5.3	\$ 21.4	\$ 3.2	\$ –	\$ 0.5	\$ 32.2

(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 revenue or operating, selling, general and administrative costs that are not indicative of ongoing 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 September 30, 2003 (4) (millions of Canadian dollars)	Coal	Metals	Oil and Gas	Power	Other(3)	Corporate	Consolidated
Revenue	\$ 61.5	\$ 61.8	\$ 54.0	\$ 9.1	\$ –	\$ –	\$ 186.4
Operating, selling, general and administrative	42.6	45.0	10.8	3.1	–	6.6	108.1
Add items excluded from EBITDA (2)	1.3	3.6	–	–	–	–	4.9
EBITDA (1)	20.2	20.4	43.2	6.0	–	(6.6)	83.2
Depletion, amortization and accretion	13.4	5.0	22.4	1.8	–	0.8	43.4
Items excluded from EBITDA:							
Inventory write-down	0.6	–	–	–	–	–	0.6
Other write-downs	0.7	–	–	–	–	–	0.7
Feasibility studies write-off	–	3.6	–	–	–	–	3.6
Operating earnings (loss) from continuing operations (1)	5.5	11.8	20.8	4.2	–	(7.4)	34.9
Share of loss of equity investments							(1.4)
Net financing expense							(2.5)
Earnings from continuing operations before income taxes							31.0
Capital expenditures	\$ 1.5	\$ 4.1	\$ 7.9	\$ 0.3	\$ –	\$ 0.1	\$ 13.9

(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 revenue or operating, selling, general and administrative costs that are not indicative of ongoing 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**

<b>Three months ended September 30, 2004</b>	<b>Coal</b>	<b>Metals</b>	<b>Oil and Gas</b>	<b>Power</b>
Sales Volumes (Sherritt's share)				
Thermal coal (000s of tonnes) (1)	<b>4,613</b>			
Nickel (000s of pounds) (1)		<b>8,269</b>		
Cobalt (000s of pounds) (1)		<b>888</b>		
Fertilizers (tonnes)		<b>9,242</b>		
Net oil – Cuba (bbls per day) (2)			<b>19,399</b>	
Net oil – Spain (bbls per day)			<b>584</b>	
Electricity generation (000s of MWh) (1)				<b>138</b>
Realized Prices				
Thermal coal (per tonne)	<b>\$ 13.06</b>			
Nickel (per pound)		<b>\$ 8.28</b>		
Cobalt (per pound)		<b>31.70</b>		
Oil – Cuba (per bbl)			<b>\$ 26.91</b>	
Oil – Spain (per bbl)			<b>53.85</b>	
Power (per MWh)				<b>\$ 58.42</b>
Average Reference Prices				
Nickel (U.S. \$ per pound)		<b>\$ 6.35</b>		
Cobalt (U.S. \$ per pound)		<b>23.17</b>		
U.S. Gulf Coast Fuel Oil No. 6 (U.S. \$ per bbl)			<b>\$ 25.16</b>	

- (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 September 30, 2003	Coal	Metals	Oil and Gas	Power
<b>Sales Volumes (Sherritt's share)</b>				
Thermal coal (000s of tonnes) (1)	4,710			
Nickel (000s of pounds) (1)		7,887		
Cobalt (000s of pounds) (1)		878		
Fertilizers (tonnes)		14,847		
Net oil – Cuba (bbls per day) (2)			19,730	
Net oil – Spain (bbls per day)			1,308	
Electricity generation (000s of MWh) (1)				138
<b>Realized Prices</b>				
Thermal coal (per tonne)	\$ 13.06			
Nickel (per pound)		\$ 5.72		
Cobalt (per pound)		13.39		
Oil – Cuba (per bbl)			\$ 27.40	
Oil – Spain (per bbl)			34.39	
Power (per MWh)				\$ 61.45
<b>Average Reference Prices</b>				
Nickel (U.S. \$ per pound)		\$ 4.25		
Cobalt (U.S. \$ per pound)		9.75		
U.S. Gulf Coast Fuel Oil No. 6 (U.S. \$ per bbl)			\$ 24.47	

- (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)****Nine months ended  
September 30, 2004**

<b>(millions of Canadian dollars)</b>	<b>Coal</b>	<b>Metals</b>	<b>Oil and Gas</b>	<b>Power<sup>(3)</sup></b>	<b>Other<sup>(4)</sup></b>	<b>Corporate</b>	<b>Consolidated</b>
Revenue	\$ 185.0	\$ 348.7	\$ 152.0	\$ 27.5	\$ –	\$ –	\$ 713.2
Operating, selling, general and administrative	132.4	176.7	28.2	5.1	–	27.1	369.5
Add items excluded from EBITDA (2)	–	–	–	–	–	–	–
EBITDA (1)	52.6	172.0	123.8	22.4	–	(27.1)	343.7
Depletion, amortization and accretion	42.4	15.1	61.3	6.1	–	3.1	128.0
Items excluded from EBITDA	–	–	–	–	–	–	–
Operating earnings (loss) from continuing operations (1)	10.2	156.9	62.5	16.3	–	(30.2)	215.7
Share of earnings of equity investments							0.7
Net financing expense							(6.8)
Earnings from continuing operations before income taxes							209.6
Capital expenditures	\$ 4.1	\$ 9.3	\$ 61.0	\$ 3.3	\$ –	\$ 0.7	\$ 78.4

(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 revenue or operating, selling, general and administrative costs that are not indicative of ongoing 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)**

Nine months ended  
September 30, 2003 (5)

(millions of Canadian dollars)	Coal	Metals	Oil and Gas	Power(3)	Other(4)	Corporate	Consolidated
Revenue	\$ 172.3	\$ 221.5	\$ 171.9	\$ 17.6	\$ 17.2	\$ —	\$ 600.5
Operating, selling, general and administrative	132.3	173.8	37.1	4.6	12.9	16.5	377.2
Add items excluded from EBITDA (2)	12.4	3.6	1.0	—	—	—	17.0
EBITDA (1)	52.4	51.3	135.8	13.0	4.3	(16.5)	240.3
Depletion, amortization and accretion	40.6	14.7	63.0	3.6	3.6	2.6	128.1
Income on redemption of promissory note	(10.7)	—	—	—	—	—	(10.7)
Items excluded from EBITDA:							
Inventory write-down	4.2	—	—	—	—	—	4.2
Other write-downs	0.7	—	—	—	—	—	0.7
Feasibility studies write-off	—	3.6	—	—	—	—	3.6
Severance (2)	7.5	—	1.0	—	—	—	8.5
Operating earnings (loss) from continuing operations (1)	10.1	33.0	71.8	9.4	0.7	(19.1)	105.9
Write-down of Minara Resources Limited							(4.0)
Share of loss of equity investments							(1.9)
Net financing expense							(0.8)
Minority interest							(0.6)
Earnings from continuing operations before income taxes							98.6
Capital expenditures	\$ 7.1	\$ 9.8	\$ 45.2	\$ 2.0	\$ 3.5	\$ 0.9	\$ 68.5

(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 revenue or operating, selling, general and administrative costs that are not indicative of ongoing 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**

<b>Nine months ended September 30, 2004</b>	<b>Coal</b>	<b>Metals</b>	<b>Oil and Gas</b>	<b>Power<sup>(3)</sup></b>
Sales Volumes (Sherritt's share)				
Thermal coal (000s of tonnes) (1)	<b>14,306</b>			
Nickel (000s of pounds) (1)		<b>25,676</b>		
Cobalt (000s of pounds) (1)		<b>2,642</b>		
Fertilizers (tonnes)		<b>167,067</b>		
Net oil – Cuba (bbls per day) (2)			<b>19,672</b>	
Net oil – Spain (bbls per day)			<b>736</b>	
Electricity generation (000s of MWh) (1)				<b>416</b>
Realized Prices				
Thermal coal (per tonne)	<b>\$ 12.93</b>			
Nickel (per pound)		<b>\$ 8.21</b>		
Cobalt (per pound)		<b>33.66</b>		
Oil – Cuba (per bbl)			<b>\$ 26.41</b>	
Oil – Spain (per bbl)			<b>46.57</b>	
Power (per MWh)				<b>\$ 59.12</b>
Average Reference Prices				
Nickel (U.S. \$ per pound)		<b>\$ 6.25</b>		
Cobalt (U.S. \$ per pound)		<b>24.23</b>		
U.S. Gulf Coast Fuel Oil No. 6 (U.S. \$ per bbl)			<b>\$ 24.34</b>	

- (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).
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- (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)**

Nine months ended September 30, 2003	Coal	Metals	Oil and Gas	Power <sup>(3)</sup>
<b>Sales Volumes (Sherritt's share)</b>				
Thermal coal (000s of tonnes) (1)	12,759			
Nickel (000s of pounds) (1)		25,622		
Cobalt (000s of pounds) (1)		2,631		
Fertilizers (tonnes)		193,876		
Net oil – Cuba (bbls per day) (2)			21,438	
Net oil – Spain (bbls per day)			777	
Electricity generation (000s of MWh) (1)				339
<b>Realized Prices</b>				
Thermal coal (per tonne)	\$ 13.50			
Nickel (per pound)		\$ 5.49		
Cobalt (per pound)		12.45		
Oil – Cuba (per bbl)			\$ 28.06	
Oil – Spain (per bbl)			35.24	
Power (per MWh)				\$ 62.70
<b>Average Reference Prices</b>				
Nickel (U.S. \$ per pound)		\$ 3.95		
Cobalt (U.S. \$ per pound)		8.84		
U.S. Gulf Coast Fuel Oil No. 6 (U.S. \$ per bbl)			\$ 23.92	

- (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

The Coal business is focused on opportunities to increase production and the implementation of “world best” mining practices. Sherritt’s share of the expected benefit of these initiatives is a \$30 million annual increase in cash flow by the end of 2007. Improvements are being realized in safety performance, productivity and operating costs. For example, Coal surpassed 1 million man-hours without a recordable safety incident during the quarter.

Sherritt’s share of coal production is estimated to be 19 million tonnes in 2004 and is expected to increase in 2005 as a result of expansion plans pending approval. A further increase in annual production at the Coal Valley mine by up to 1 million tonnes, is being considered for 2005 in order to take advantage of robust export prices. A decision is expected by year-end. The Genesee power plant is adding 495 megawatts of capacity in the winter of 2004/5 requiring approximately 1 million additional tonnes of coal on an annual basis.

Capital expenditures for the Coal business in 2004 are expected to be approximately \$10 million, with an additional \$9 million in capital leases. In the first nine months of 2004, Coal also entered into operating leases for equipment with a value of \$8.3 million and expects to lease equipment worth a further \$2.7 million during the remainder of the year. These expenditures are part of a plan to modernize Coal’s operating equipment and will help to achieve the goals of the “world best” mining practices initiative. The maturity of the remaining promissory note in December 2004 will result in approximately \$19 million of additional pre-tax earnings in the fourth quarter of 2004.

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.

### THIRD QUARTER RESULTS

	Q3 2004	Q3 2003
Revenue	<b>\$ 60.2</b>	\$ 61.5
Operating, selling, general & admin	<b>44.6</b>	42.6
EBITDA	<b>15.6</b>	20.2
Operating earnings	<b>2.4</b>	5.5

EBITDA and operating earnings decreased compared to 2003 due largely to costs at the Coal Valley mine to repair the coal thickener.

	Q3 2004	Q3 2003
Capital expenditures	<b>\$ 1.8</b>	\$ 1.5

This increase in capital expenditures can be attributed mainly to timing differences in expenditures. Capital leases for equipment, totalling \$1.2 million were entered into during the quarter and recorded as additions to capital assets and long-term debt.

	Q3 2004	Q3 2003
Realized prices (\$/tonne)	<b>\$ 13.06</b>	\$ 13.06
Sales volumes (millions of tonnes)	<b>4.6</b>	4.7

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. Average realized prices of \$13.06 per tonne for thermal coal sales during the quarter were equal to average realized prices during the same quarter last year.

#### NINE MONTHS ENDED SEPTEMBER 30 RESULTS

	Nine months 2004	Nine months 2003
Revenue	<b>\$ 185.0</b>	\$ 172.3
Operating, selling, general & admin	<b>132.4</b>	132.3
EBITDA	<b>52.6</b>	52.4
Operating earnings	<b>10.2</b>	10.1

EBITDA and operating earnings were relatively unchanged from the prior year. Higher earnings, as a result of operating the thermal coal assets acquired on February 28, 2003 for nine months, compared with seven months in 2003, were offset by higher costs in the current year for repair of the coal thickener at the Coal Valley mine.

	Nine months 2004	Nine months 2003
Capital expenditures	<b>\$ 4.1</b>	\$ 7.1

The difference in year-to-date capital expenditures is due mainly to leases that were entered into during 2004 as part of long-term mine support equipment agreements.

	Nine months 2004	Nine months 2003
Realized prices (\$/tonne)	<b>\$ 12.93</b>	\$ 13.50
Sales volumes (millions of tonnes)	<b>14.3</b>	12.8



For the year-to-date, average realized prices for thermal coal sales were lower than the prior-year period due to the inclusion for a full nine months, compared to seven 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. The increase in sales volumes was largely a result of the nine months of operations of the thermal coal assets acquired in 2003 compared to seven months in the prior year. Shipments from Coal's pre-acquisition thermal coal operations also increased due to improvements in demand in the export thermal coal market from 2003.

### **Metals**

The Metals business continues to focus on maintaining low cost production of finished nickel and cobalt from the development of Cuba's extensive nickel resources. The Metals business mines, processes, and refines commodity nickel and cobalt for sale worldwide with mining operations and associated processing facilities in Moa, Cuba; refining facilities in Fort Saskatchewan, Alberta; and international marketing and sales operations.

In the third quarter, the Fort Saskatchewan refinery established a quarterly production record for finished nickel. For 2004, finished nickel and cobalt production is expected to be near record levels, with sales volumes closely matching production volumes. Nickel and cobalt prices are anticipated to remain strong for the remainder of 2004 and into 2005 as market fundamentals continue to be positive. The benefits of strong nickel and cobalt prices are expected to be partly mitigated by continued high energy and raw materials costs and a strong Canadian dollar. Capital expenditures for the Metals business are targeted to be approximately \$20 million in 2004, focused on improving operational efficiency and maintaining process reliability.

Discussions regarding the expansion of Metals capacity by at least 16,000 tonnes per year are continuing although finalization of preliminary capital requirements and other factors may impact the timing of any decision. In 1994, the Cuban government granted the Moa mining and processing facilities a grace period to comply with Cuban environmental legislation set to expire on November 30, 2004. In the interim, numerous initiatives have been undertaken to enhance environmental stewardship. Discussions with Cuban government officials to establish a model operating standard for environmental matters are on track to be finalized in the near future.

## THIRD QUARTER RESULTS

Production (tonnes)	Q3 2004	Q3 2003
Mixed sulphides	<b>4,203</b>	3,977
Finished nickel	<b>4,215</b>	4,061
Finished cobalt	<b>428</b>	422

Increased mixed sulphides production in the quarter reflected a more stable operation since the completion of maintenance activities during the first quarter. Higher finished nickel and cobalt production volumes in the third quarter were a result of process improvements in the leach plant and stable refining operations.

Average reference prices (U.S.\$/lb)	Q3 2004	Q3 2003
Nickel	<b>\$ 6.35</b>	\$ 4.25
Cobalt	<b>23.17</b>	9.75

For nickel, lower LME inventories relative to the same period last year contributed to the higher prices, reflecting continuing strong demand. The significantly higher cobalt price was primarily a result of improved cobalt market fundamentals relative to the same period last year.

	Q3 2004	Q3 2003
Revenue	<b>\$ 100.9</b>	\$ 61.8
Operating, selling, general & admin	<b>48.6</b>	45.0
EBITDA	<b>52.3</b>	20.4
Operating earnings	<b>47.2</b>	11.8

Higher EBITDA and operating earnings in 2004 were largely due to higher nickel and cobalt prices and higher finished nickel and cobalt sales volumes, partly offset by higher operating costs and a stronger Canadian dollar. Higher operating costs in 2004 related mainly to higher energy and raw material costs.

	Q3 2004	Q3 2003
Capital expenditures	<b>\$ 5.3</b>	\$ 4.1

Capital expenditures in the third quarter of 2004 and 2003 were primarily directed towards sustaining and upgrading the facilities at both Moa and Fort Saskatchewan, combined with various environmental initiatives.

## NINE MONTHS ENDED SEPTEMBER 30 RESULTS

Production (tonnes)	Nine months 2004	Nine months 2003
Mixed sulphides	<b>12,514</b>	12,164
Finished nickel	<b>12,100</b>	11,939
Finished cobalt	<b>1,244</b>	1,227

Increased mixed sulphides production in 2004 reflected a more stable operation since the completion of maintenance activities during the first quarter. Higher finished nickel and cobalt production volumes were a result of process improvements in the leach plant and stable refining operations.

Average reference prices (U.S.\$/lb)	Nine months 2004	Nine months 2003
Nickel	<b>\$ 6.25</b>	\$ 3.95
Cobalt	<b>24.23</b>	8.84

Lower LME inventories relative to the same period last year contributed to the higher nickel prices, reflecting continuing strong demand. The significantly higher cobalt price was primarily a result of improved cobalt market fundamentals relative to the same period last year.

	Nine months 2004	Nine months 2003
Revenue	<b>\$ 348.7</b>	\$ 221.5
Operating, selling, general & admin	<b>176.7</b>	173.8
EBITDA	<b>172.0</b>	51.3
Operating earnings	<b>156.9</b>	33.0

Higher EBITDA and operating earnings in 2004 were largely due to higher nickel, cobalt and fertilizer prices and higher finished nickel and cobalt sales volumes, partly offset by higher operating costs and a stronger Canadian dollar.

	Nine months 2004	Nine months 2003
Capital expenditures	<b>\$ 9.3</b>	\$ 9.8

Capital expenditures in 2004 and 2003 were primarily directed towards sustaining and upgrading the facilities at both Moa and Fort Saskatchewan, combined with various environmental initiatives.

	<b>Q3 2004</b>	Q3 2003
Fertilizer sales (tonnes)	<b>9,242</b>	14,847
Revenue	<b>\$ 3.4</b>	\$ 4.6
Operating loss	<b>1.0</b>	1.1

The slight decrease in operating loss was due to higher fertilizer prices, which were mostly 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 third quarter of 2003. Sales for the quarter were lower than sales in the third quarter of 2003 due to the timing of fall sales volumes, which were significantly influenced by weather conditions in western Canada.

	<b>Nine months 2004</b>	Nine months 2003
Fertilizer sales (tonnes)	<b>167,067</b>	193,876
Revenue	<b>\$ 46.8</b>	\$ 47.1
Operating earnings (loss)	<b>6.1</b>	(1.3)

For the first nine months of 2004, fertilizer operating earnings increased compared with the same period in 2003, primarily due to higher fertilizer prices. Depreciation expense during the first nine months for the fertilizer operations was \$1.7 million compared to \$1.4 million in 2003. Sales for the first nine months of 2004 were lower than sales during the first nine months of 2003 largely due to the timing of fall sales and the depletion of accumulated ammonium sulphate inventories last year, which reduced product availability this year.

**Oil and Gas**

Oil and Gas continues to concentrate its efforts on development and exploration of the Cuban north-coast region, which yields most of Cuba's oil and gas production. With the recent increase in oil prices, Oil and Gas is now well positioned to increase the reinvestment of cash flows generated from the Cuban oil assets into an expanded capital program.

During the third quarter, Oil and Gas optimized its 2004 capital program, reducing planned capital expenditures to approximately \$90 million from the previous estimate of \$110 million. Certain facility construction projects and equipment purchases that were initially planned for completion in 2004 will now be completed during 2005. As previously planned, Oil and Gas will spud three additional wells during 2004 as a follow-up to recent development drilling success at Seboruco. Oil and Gas also plans to contract an additional drilling rig to provide additional capacity for the proposed 2005 drilling program. Following the acquisition and interpretation of seismic programs on several properties in Cuba, Oil and Gas expects to drill exploration wells next year on prospects identified within these areas to fulfill existing work commitments. Oil and Gas is currently drilling an exploration well in Block 7 at Santa Cruz, which is expected to reach target depth in November. After completing the wells currently underway, the Corporation plans to spud three wells in the Seboruco field and one well in Varadero West before the end of the year. To process the increased production from new wells in the Seboruco and Yumuri fields, the Corporation is expanding the Yumuri oil treatment facility, which will increase back-end throughput capacity by 50% to 25,000 gross barrels per day in early 2005.

The Fuel Oil No. 6 reference price, which forms the basis for pricing of oil sales from production in Cuba, has increased significantly in recent weeks. Although the Corporation's Oil and Gas assets were relatively unaffected by the recent hurricanes, a significant portion of the oil and gas production in the Gulf of Mexico was temporarily shut in, causing supply concerns for heavy oils going into the winter season. The Corporation expects fuel oil prices to remain robust over the winter months. At higher oil prices, the Corporation requires fewer barrels to recover invested capital and operating costs under its production sharing contracts, therefore, net oil production is now expected to average 20,000 barrels per day for the remainder of 2004. However, gross oil production levels are expected to remain at current levels. These expectations are contingent upon the success of drilling activities.

## THIRD QUARTER RESULTS

	Q3 2004	Q3 2003
Realized prices \$/barrel (Cuba)	<b>\$ 26.91</b>	\$ 27.40

Although fuel oil reference prices were higher, net realized prices were lower than the prior-year period due to the strength of the Canadian dollar.

	Q3 2004	Q3 2003
Revenue	<b>\$ 51.1</b>	\$ 54.0
Operating, selling, general & admin	<b>9.8</b>	10.8
EBITDA	<b>41.3</b>	43.2
Operating earnings	<b>20.3</b>	20.8

The decrease in revenue, EBITDA and operating earnings is due mainly to lower realized prices.

	Q3 2004	Q3 2003
Gross working interest oil production (bopd)		
Cuba	<b>36,086</b>	39,997
Spain	<b>584</b>	1,308
Total	<b>36,670</b>	41,305
Net oil production (bopd)		
Cuba	<b>19,399</b>	19,730
Spain	<b>584</b>	1,308
Total	<b>19,983</b>	21,038

From a gross production perspective, production from development drilling has offset natural reservoir declines. However, a higher portion of gross oil production is being produced from the Seboruco field, where the Corporation holds a 45% working interest, therefore gross working interest production is down relative to the prior year. On a net basis, production is down compared to 2003 due to lower gross working interest production and the reduced allocation of oil for cost recovery purposes due to higher Fuel Oil No. 6 reference prices.

	Q3 2004	Q3 2003
Capital expenditures	<b>\$ 21.4</b>	\$ 7.9

Capital spending increased in the third quarter of 2004 compared to 2003 as development drilling was temporarily reduced in 2003. The Corporation completed three development wells during the quarter and is currently drilling two development wells and the Santa Cruz exploration well. Initial production rates from the

development wells completed at Varadero and Seboruco were higher than expected. The Corporation is planning to work over the short-reach development well drilled at Yumuri, which yielded less than expected production.

NINE MONTHS ENDED SEPTEMBER 30 RESULTS

	Nine months 2004	Nine months 2003
Realized prices \$/bbl (Cuba)	<b>\$ 26.41</b>	\$ 28.06

Although fuel oil reference prices were higher, net realized prices were lower than the prior-year period due to the strength of the Canadian dollar.

	Nine months 2004	Nine months 2003
Revenue	<b>\$ 152.0</b>	\$ 171.9
Operating, selling, general & admin	<b>28.2</b>	37.1
EBITDA	<b>123.8</b>	135.8
Operating earnings	<b>62.5</b>	71.8

The decrease in revenue, EBITDA and operating earnings is due mainly to lower realized prices and lower oil production. This was partly offset by lower operating costs.

	Nine months 2004	Nine months 2003
Gross working interest oil production (bopd)		
Cuba	<b>36,988</b>	42,156
Spain	<b>736</b>	777
Total	<b>37,724</b>	42,933
Net oil production (bopd)		
Cuba	<b>19,672</b>	21,438
Spain	<b>736</b>	777
Total	<b>20,408</b>	22,215

Decrease in gross working interest oil production is due to a temporary reduction in development drilling activities last summer. On a net basis, production is down compared to 2003 due to lower gross working interest production and the reduced allocation of oil for cost recovery purposes due to higher Fuel Oil No. 6 reference prices.

	Nine months 2004	Nine months 2003
Capital expenditures	<b>\$ 61.0</b>	\$ 45.2

Capital spending increased in 2004 compared to 2003 as development drilling was temporarily suspended in 2003.

## Power

The power business continues to focus on the effective utilization of energy resources in the production of electricity. Sherritt has been an advocate of the creation of power facilities that derive both an economic and environmental benefit from processing natural gas being produced and flared in Cuba. The business currently has 226 MW of power capacity in Cuba, which is expected to be expanded by approximately 35% in 2005 to utilize additional gas availability.

Power has been presented as a consolidated business segment, reflecting the acquisition of the 50.3% equity of Sherritt Power Corporation not previously owned by Sherritt in March 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.

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 commenced in the third quarter, with the majority of the \$122 million capital expenditures estimated to complete this phase to be spent during 2005. Expenditures in respect of the expansion are expected to be approximately \$27 million in 2004. Reflecting Sherritt's one-third joint venture interest, the expansion expenditures will be recorded as one-third capital assets and two-thirds recoverable project costs. A second 70 megawatt phase, comprising a combined-cycle facility, will proceed pending the confirmation and dedication of sufficient gas reserves. 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 and interest costs.

	Q3 2004	Q3 2003
Revenue	<b>\$ 9.1</b>	\$ 9.1
Operating, selling, general & admin	<b>1.3</b>	3.1
EBITDA	<b>7.8</b>	6.0
Operating earnings	<b>6.0</b>	4.2

The increase in EBITDA and operating earnings is due mainly to expenses recorded in the third quarter of 2003 for the repair of a rotor in a turbine at the Varadero facility.



	<b>Nine months 2004</b>	Nine months 2003
Revenue	<b>\$ 27.5</b>	\$ 17.6
Operating, selling, general & admin	<b>5.1</b>	4.6
EBITDA	<b>22.4</b>	13.0
Operating earnings	<b>16.3</b>	9.4

The improvement in 2004 results compared to 2003 is mainly due to the inclusion of results for nine months in 2004 compared to six months in the prior year as Sherritt's investment was accounted for on an equity basis prior to March 2003. In addition, 2003 costs included the repair of a rotor in a turbine at the Varadero facility.

	<b>Q3 2004</b>	Q3 2003
Sherritt's share of electricity sold megawatt hours	<b>138,328</b>	137,572

Production in 2004 reflects slightly higher availability at the Varadero facility.

	<b>Nine months 2004</b>	Nine months 2003
Sherritt's share of electricity sold megawatt hours	<b>415,945</b>	338,653

Total production for the first nine months of 2003 includes production during the period in which Sherritt Power was accounted for as an equity investment. Currently, the Varadero and Boca plants are running well, however, the 20 megawatt peak plant was shut down in August 2004 due to mechanical problems with the gearbox. The equipment was back in operation by mid-October. Comparisons to production for 2003 are affected by partial production from two units during that period.

Overall availability	<b>Q3 2004</b>	Q3 2003	<b>Nine months 2004</b>	Nine months 2003
Varadero	<b>94%</b>	90%	<b>93%</b>	89%
Boca de Jaruco	<b>96%</b>	96%	<b>86%</b>	91%

During the third quarter of 2004, hurricanes Charley and Ivan disrupted power distribution in the Cuban grid resulting in a minor loss of production.

### **Other Businesses**

Other Businesses comprise 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 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 the third quarter of 2003 and the Power business prior to it becoming a separate segment at the end of the first quarter in 2003.

Operating and financial results for the soybean-based food processing business continued to improve compared to the prior year. Total loss from equity investments for the quarter was \$0.8 million (2003 – \$1.4 million). For the nine months ended September 30, 2004, equity earnings was \$0.7 million (2003 – loss of \$1.9 million).

### **SUPPLEMENTARY DISCLOSURES**

#### CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

During the first nine 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 7 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 Life of Capital Assets*

Concurrent with the implementation of the asset retirement obligation accounting policy, the Coal business undertook a review of the estimated useful life of its capital assets. This review resulted in a \$1.3 million reduction in amortization for the third quarter of 2004 (\$4.0 million for the first nine months of 2004). The change in estimated useful life 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 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 expected cash flows from proved reserves of the cost centre. If the carrying value is unrecoverable, the cost centre is written down to its fair value, which is determined by discounting the expected future cash flows from proved and probable reserves using a risk free rate. Risks and uncertainties are incorporated in the expected future cash flows used in the determination of fair value. 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 nine 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.

### *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 \$0.02 reduction to basic earnings per share for each \$100 million of principal outstanding in 2005.

#### *Consolidation of Variable Interest Entities*

In September 2004, the CICA approved amended Accounting Guideline AcG-15, Consolidation of Variable Interest Entities. 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. The Corporation is reviewing the impact of this guideline, which is effective for fiscal years commencing on or after November 1, 2004. Several entities previously proportionately consolidated or accounted for on an equity basis may be consolidated following implementation of the guideline. The impact on net earnings is not expected to be significant.

### 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. The ability of Cuban entities to make payments in foreign currencies and the Cuban government's future policies relating to foreign investors and foreign exchange payments could be affected by the political environment and economic pressure resulting from its limited access to foreign exchange.

#### 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 third quarter of 2004 amounted to \$23.6 million (2003 – \$25.2 million) and for the first nine months ended September 30, 2004 was \$57.9 million (2003 – \$83.8 million). The total value of goods and services purchased from affiliates in the third quarter of 2004 was \$nil (2003 – \$1.5 million) and for the first nine months ended September 30, 2004 was \$1.6 million (2003 – \$17.4 million).

Accounts receivable from joint ventures at September 30, 2004, totalled \$7.5 million (2003 – \$6.9 million). Accounts payable to joint ventures at September 30, 2004 totalled \$0.9 million (2003 – \$0.7 million).

#### CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Corporation is committed to purchases of equipment and services in the amount of \$48.7 million for the expansion of Power facilities in Cuba. As the expansion progresses, the Corporation expects to enter into additional commitments.

#### ADDITIONAL INFORMATION

##### *Share Capital*

As at September 30, 2004, the Corporation had 131,366,776 common shares outstanding.

If all of the convertible debentures were 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. The completion of the offer to purchase up to \$100 million 6% convertible debentures will reduce the potential shares to be issued on conversion by up to 11,396,011.

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](http://www.sedar.com) or at the Corporation's web site [www.sherritt.com](http://www.sherritt.com).

## Consolidated Balance Sheets

(unaudited)

(millions of Canadian dollars)	September 30, 2004	December 31, 2003 (restated – note 2)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash, cash equivalents and short-term investments	\$ 494.7	\$ 333.0
Restricted cash	21.7	8.0
Advances and loans receivable	62.8	60.7
Accounts receivable	262.2	281.5
Inventories	99.3	92.6
Overburden removal costs	1.5	2.1
Prepaid expenses	9.0	7.7
Future income taxes	21.0	16.7
	<b>972.2</b>	<b>802.3</b>
Capital assets	<b>1,235.9</b>	<b>1,263.9</b>
Investments	56.2	55.7
Future income taxes	43.7	39.9
Assets held for sale (note 4)	8.8	–
Other assets	128.6	173.9
	<b>\$ 2,445.4</b>	<b>\$ 2,335.7</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Short-term debt	\$ 26.5	\$ 26.9
Accounts payable and accrued liabilities	154.0	167.7
Asset retirement obligations (note 2)	7.8	8.9
Current portion of long-term debt	23.4	23.3
Future income taxes	1.0	0.7
	<b>212.7</b>	<b>227.5</b>
Long-term debt and other liabilities (note 5)	<b>294.7</b>	<b>292.3</b>
Asset retirement obligations (note 2)	71.6	70.5
Future income taxes	170.3	185.6
	<b>749.3</b>	<b>775.9</b>
<b>Shareholders' equity (note 6)</b>		
Convertible debentures	590.8	590.1
Capital stock	582.4	581.7
Contributed surplus	193.1	193.1
Retained earnings	329.8	194.9
	<b>1,696.1</b>	<b>1,559.8</b>
	<b>\$ 2,445.4</b>	<b>\$ 2,335.7</b>



## Consolidated Statements of Operations

(unaudited)

(millions of Canadian dollars except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2004	2003 (restated – note 2)	2004	2003 (restated – note 2)
<b>Revenue</b>	<b>\$ 221.3</b>	\$ 186.4	<b>\$ 713.2</b>	\$ 600.5
Operating, selling, general and administrative	<b>113.8</b>	108.1	<b>369.5</b>	377.2
<b>Earnings before undernoted items</b>	<b>107.5</b>	78.3	<b>343.7</b>	223.3
Depletion, amortization and accretion	<b>42.5</b>	43.4	<b>128.0</b>	128.1
Net financing expense (note 9)	<b>6.4</b>	2.5	<b>6.8</b>	0.8
Other items (note 10)	<b>0.8</b>	1.4	<b>(0.7)</b>	(4.2)
<b>Earnings from continuing operations before income taxes</b>	<b>57.8</b>	31.0	<b>209.6</b>	98.6
<b>Income taxes</b>				
Current	<b>24.0</b>	17.7	<b>71.3</b>	44.9
Future	<b>(6.4)</b>	(7.4)	<b>(15.7)</b>	(28.7)
	<b>17.6</b>	10.3	<b>55.6</b>	16.2
<b>Earnings from continuing operations</b>	<b>40.2</b>	20.7	<b>154.0</b>	82.4
Discontinued operations (note 3)	–	–	<b>1.0</b>	6.9
<b>Net earnings</b>	<b>\$ 40.2</b>	\$ 20.7	<b>\$ 155.0</b>	\$ 89.3
<b>Earnings from continuing operations per share</b>				
Basic	<b>\$ 0.26</b>	\$ 0.11	<b>\$ 1.02</b>	\$ 0.52
Diluted	<b>0.19</b>	0.10	<b>0.74</b>	0.45
<b>Earnings per share</b>				
Basic	<b>\$ 0.26</b>	\$ 0.11	<b>\$ 1.03</b>	\$ 0.58
Diluted	<b>0.19</b>	0.10	<b>0.74</b>	0.49

## Consolidated Statements of Retained Earnings

(unaudited)

(millions of Canadian dollars)	Three months ended September 30		Nine months ended September 30	
	2004	2003 (restated – note 2)	2004	2003 (restated – note 2)
<b>Beginning of period, as previously reported</b>	<b>\$ 296.4</b>	\$ 168.8	<b>\$ 203.2</b>	\$ 116.2
Change in accounting policy (note 2)	–	(10.0)	<b>(8.3)</b>	(10.3)
<b>Beginning of period, as restated</b>	<b>296.4</b>	158.8	<b>194.9</b>	105.9
Net earnings	<b>40.2</b>	20.7	<b>155.0</b>	89.3
Interest and accretion on convertible debentures (note 6)	<b>(6.8)</b>	(6.4)	<b>(20.1)</b>	(22.1)
<b>End of period</b>	<b>\$ 329.8</b>	\$ 173.1	<b>\$ 329.8</b>	\$ 173.1

## Consolidated Statements of Cash Flow

(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2004	2003 (restated – note 2)	2004	2003 (restated – note 2)
(millions of Canadian dollars)				
<b>Operating activities</b>				
Net earnings	\$ 40.2	\$ 20.7	\$ 155.0	\$ 89.3
Items not affecting cash				
Depletion, amortization and accretion	42.5	43.4	128.0	128.1
Write-down of investments	–	–	–	4.0
Gain on sale of metallurgical coal assets	–	–	–	(12.9)
Share of loss (earnings) of equity investments	0.8	1.2	(0.7)	1.7
Future income taxes	(6.4)	(7.4)	(15.7)	(21.6)
Foreign exchange loss (gains)	4.1	2.8	2.9	(3.2)
Asset retirement obligations expenditures	(2.7)	(0.9)	(7.9)	(5.1)
Other items	0.1	2.4	(2.6)	6.7
<b>Cash provided before working capital changes</b>	<b>78.6</b>	<b>62.2</b>	<b>259.0</b>	<b>187.0</b>
Decrease (increase) in non-cash working capital				
Accounts receivable	6.6	14.8	12.3	(60.0)
Inventories	(12.2)	(6.4)	(6.8)	17.4
Overburden removal costs	0.4	(0.1)	0.6	0.7
Prepaid expenses	2.8	0.9	(1.3)	(1.0)
Accounts payable and accrued liabilities	7.7	(5.3)	(22.6)	(1.4)
	5.3	3.9	(17.8)	(44.3)
<b>Cash provided from operating activities</b>	<b>83.9</b>	<b>66.1</b>	<b>241.2</b>	<b>142.7</b>
<b>Investing activities</b>				
Capital expenditures	(32.2)	(13.9)	(78.4)	(68.5)
Loan repayments received	–	–	0.3	–
Net proceeds from sale of capital assets	0.6	0.1	2.3	0.7
Restricted cash	(7.0)	(2.8)	(13.7)	8.8
Other assets	9.8	4.8	32.3	13.2
Proceeds from sale of investments	–	97.3	–	97.3
Acquisition of business	–	(27.0)	–	(224.1)
<b>Cash provided by (used for) investing activities</b>	<b>(28.8)</b>	<b>58.5</b>	<b>(57.2)</b>	<b>(172.6)</b>
<b>Financing activities</b>				
Short-term debt	(1.0)	(34.8)	(0.3)	(5.3)
Long-term debt	(1.1)	(0.8)	(2.7)	(7.5)
Convertible debenture interest payments	–	–	(20.1)	(18.0)
Issue of common shares	0.5	0.2	0.8	103.1
<b>Cash provided by (used for) financing activities</b>	<b>(1.6)</b>	<b>(35.4)</b>	<b>(22.3)</b>	<b>72.3</b>
<b>Increase in net cash</b>	<b>53.5</b>	<b>89.2</b>	<b>161.7</b>	<b>42.4</b>
<b>Net cash at beginning of period</b>	<b>441.2</b>	<b>146.2</b>	<b>333.0</b>	<b>193.0</b>
<b>Net cash at end of period</b>	<b>\$ 494.7</b>	<b>\$ 235.4</b>	<b>\$ 494.7</b>	<b>\$ 235.4</b>
<b>Supplementary Cash Flow Information</b>				
Cash received for interest	\$ 15.3	\$ 11.1	\$ 20.5	\$ 13.7
Cash paid for interest on debt	6.7	6.2	23.4	20.8
Cash paid for income taxes	18.5	12.4	59.1	33.5

Net cash consists of cash, cash equivalents and short-term investments. As at September 30, 2004, short-term investments with maturities greater than three months were \$40.1 million (2003 – nil).

# 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 7.

### Asset Retirement Obligations

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 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, fertilizers and utilities 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. Retirement of refinery, fertilizer and utility facilities, oil and gas production facilities, infrastructure and buildings normally takes place at the end of the assets' useful life.

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 as follows:

Increase in capital assets	\$ 9.9
Increase in current taxes payable	1.9
Increase in asset retirement obligations	25.5
Decrease in future income tax liabilities	9.2
Decrease in retained earnings	8.3

The cumulative effect of the change in policy on the statement of operations was as follows:

	Three months ended September 30 2003	Nine months ended September 30 2003
Increase in net earnings	\$ 0.1	\$ 0.4

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

	<b>Nine months ended September 30 2004</b>	Year ended December 31 2003 (restated)
Balance, beginning of period	\$ 79.4	\$ 78.3
Additions to liabilities	5.0	7.0
Liabilities settled	(8.6)	(9.0)
Accretion expense	4.3	5.3
Change in foreign exchange rates	(0.7)	(2.2)
Balance, end of period	79.4	79.4
Current portion	(7.8)	(8.9)
	<b>\$ 71.6</b>	<b>\$ 70.5</b>

The Corporation estimates the undiscounted cash flow required to settle the asset retirement obligation is approximately \$220.0 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 Life of Capital Assets**

Concurrent with the implementation of the asset retirement obligation accounting policy, the Coal business undertook a review of the estimated useful life of its capital assets. As a result of this review, amortization was reduced by \$1.3 million for the three months ended September 30, 2004 (\$4.0 million for the nine months ended September 30, 2004). The change in estimated useful life 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 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 expected cash flows from proved reserves of the cost centre. If the carrying value is unrecoverable, the cost centre is written down to its fair value, which is determined by discounting the expected future cash flows from proved and probable reserves using a risk free rate. Risks and uncertainties are incorporated in the expected future cash flows used in the determination of fair value. 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 nine months ended September 30, 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.

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.

#### **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.

### **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 September 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 September 30		Nine months ended September 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	12.9
Earnings from discontinued operations before income taxes	–	–	1.2	14.0
Income taxes	–	–	0.2	7.1
Earnings from discontinued operations	\$ –	\$ –	\$ 1.0	\$ 6.9

#### 4 Assets held for sale

The Corporation has entered into an agreement with a third party for the sale of assets which is expected to close during the fourth quarter. The net sale price is estimated to be equivalent to book value.

#### 5 Long-term debt

Capital leases for equipment totalling \$3.9 million were entered into in the quarter ended September 30, 2004 (\$9.0 million to date in 2004).

#### 6 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 nine months ended September 30, 2004 is stated net of tax relief of \$10.5 million (2003 – \$6.3 million).

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

Issued capital stock at September 30, 2004 comprised 131,366,776 (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.

## 7 Post-retirement benefits

The Corporation's pension expense for the third quarter of 2004 was \$1.3 million (2003 – \$0.7 million). For the nine months ended September 30, 2004, pension expense was \$3.7 million (2003 – \$2.0 million).

## 8 Stock compensation plans

For the nine months ended September 30, 2004, no options were issued under the employee and director stock option plan and 91,140 shares were issued under the employee share purchase plan.

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

	Three months ended September 30, 2004		Three months ended September 30, 2003	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at beginning of period	<b>6,055,000</b>	<b>\$ 6.65</b>	6,425,000	\$ 6.64
Exercised	–	–	–	–
Forfeited	–	–	–	–
<b>Outstanding at end of period</b>	<b>6,055,000</b>	<b>\$ 6.65</b>	6,425,000	\$ 6.64

	Nine months ended September 30, 2004		Nine months ended September 30, 2003	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding at beginning of period	<b>6,410,000</b>	<b>\$ 6.64</b>	6,425,000	\$ 6.64
Exercised	<b>(85,000)</b>	<b>3.05</b>	–	–
Forfeited	<b>(270,000)</b>	<b>7.74</b>	–	–
<b>Outstanding at end of period</b>	<b>6,055,000</b>	<b>\$ 6.65</b>	6,425,000	\$ 6.64



During the nine months ended September 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 were issued.

Total compensation expense in respect of all stock compensation plans was \$2.6 million (2003 – \$0.2 million) during the three months ended September 30, 2004. For the nine months ended September 30, 2004 total compensation expense was \$3.7 million (2003 – \$0.2 million).

## 9 Net financing expense

	Three months ended September 30		Nine months ended September 30	
	2004	2003 (restated)	2004	2003 (restated)
Interest income on cash, cash equivalents, short-term investments and loans	\$ (5.7)	\$ (12.6)	\$ (21.2)	\$ (21.7)
Interest expense on debt	8.0	12.0	25.1	24.3
Foreign exchange losses (gains)	4.1	2.8	2.9	(3.2)
Realized loss on sale of investments	–	0.3	–	1.4
Other	–	–	–	–
	<b>\$ 6.4</b>	<b>\$ 2.5</b>	<b>\$ 6.8</b>	<b>\$ 0.8</b>

## 10 Other items

	Three months ended September 30		Nine months ended September 30	
	2004	2003 (restated)	2004	2003 (restated)
Share of loss (earnings) of equity investments	\$ 0.8	\$ 1.4	\$ (0.7)	\$ 1.9
Income on redemption of promissory note	–	–	–	(10.7)
Write-down of Minara Resources investment	–	–	–	4.0
Minority interest	–	–	–	0.6
	<b>\$ (0.8)</b>	<b>\$ 1.4</b>	<b>\$ (0.7)</b>	<b>\$ (4.2)</b>

## 11 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 September 30		Nine months ended September 30	
	2004	2003 (restated)	2004	2003 (restated)
Earnings from continuing operations	\$ 40.2	\$ 20.7	\$ 154.0	\$ 82.4
Interest and accretion on convertible debentures	(6.8)	(6.4)	(20.1)	(22.1)
Earnings from continuing operations – basic	33.4	14.3	133.9	60.3
Earnings from discontinued operations	–	–	1.0	6.9
Net earnings – basic	33.4	14.3	134.9	67.2
Interest and accretion on convertible debentures (1)	6.8	6.4	20.1	22.1
Net earnings – diluted	40.2	20.7	155.0	89.3
Earnings from discontinued operations	–	–	(1.0)	(6.9)
Earnings from continuing operations – diluted	\$ 40.2	\$ 20.7	\$ 154.0	\$ 82.4
Weighted average number of shares – basic	131.3	131.2	131.3	115.3
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	199.8	208.9	183.9
Earnings from continuing operations per share				
Basic	\$ 0.26	\$ 0.11	\$ 1.02	\$ 0.52
Diluted	0.19	0.10	0.74	0.45
Earnings from discontinued operations per share				
Basic	–	–	0.01	0.06
Diluted	–	–	–	0.04
Earnings per share				
Basic	0.26	0.11	1.03	0.58
Diluted	0.19	0.10	0.74	0.49

(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.

## **12 Guarantees, commitments and contingencies**

### **Oil and Gas and Power Receivables**

During the second 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 on its loans to Cuban government agencies, 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 \$24.8 million under this agreement (\$58.5 million for the nine months ended September 30), which was applied against Oil and Gas and Power receivables. Tax Amounts received by the financial institution to September 30, 2004 are in excess of minimum quarterly repayment requirements for the 2004 year and as a result, the Corporation will not be required to refund any amounts received under this agreement during 2004.

### **Power Expansion Commitments**

The Corporation is committed to purchases of equipment and services in the amount of \$48.7 million for the expansion of Power facilities in Cuba. As the expansion progresses, the Corporation expects to enter into additional commitments.

### 13 Segment information

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

#### Three months ended

September 30, 2004

(millions of

Canadian dollars)

	Coal <sup>(1)</sup>	Metals	Oil and Gas	Power <sup>(2)</sup>	Other	Corporate	Consolidated
Revenue	\$ 60.2	\$ 100.9	\$ 51.1	\$ 9.1	\$ —	\$ —	\$ 221.3
Operating, selling, general and administrative	44.6	48.6	9.8	1.3	—	9.5	113.8
Earnings (loss) before undernoted items	15.6	52.3	41.3	7.8	—	(9.5)	107.5
Depletion, amortization and accretion	13.2	5.1	21.0	1.8	—	1.4	42.5
Operating earnings (loss) from continuing operations	2.4	47.2	20.3	6.0	—	(10.9)	65.0
Share of loss of equity investments							(0.8)
Net financing expense							(6.4)
Earnings from continuing operations before income taxes							57.8
Capital expenditures	1.8	5.3	21.4	3.2	—	0.5	32.2
Assets	\$ 765.7	\$ 398.8	\$ 542.2	\$ 283.2	\$ 86.8	\$ 368.7	\$ 2,445.4

(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  
September 30, 2003 (restated)

(millions of Canadian dollars)	Coal(1)	Metals	Oil and Gas	Power(2)	Other	Corporate	Consolidated
Revenue	\$ 61.5	\$ 61.8	\$ 54.0	\$ 9.1	\$ -	\$ -	\$ 186.4
Operating, selling, general and administrative	42.6	45.0	10.8	3.1	-	6.6	108.1
Earnings (loss) before undnoted items	18.9	16.8	43.2	6.0	-	(6.6)	78.3
Depletion, amortization and accretion	13.4	5.0	22.4	1.8	-	0.8	43.4
Operating earnings (loss) from continuing operations	5.5	11.8	20.8	4.2	-	(7.4)	34.9
Share of loss of equity investments							(1.4)
Net financing expense							(2.5)
Earnings from continuing operations before income taxes							31.0
Capital expenditures	1.5	4.1	7.9	0.3	-	0.1	13.9
Assets	\$ 876.8	\$ 343.7	\$ 496.0	\$ 254.4	\$ 99.2	\$ 221.7	\$ 2,291.8

(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.

**Nine months ended  
September 30, 2004**

<b>(millions of Canadian dollars)</b>	<b>Coal(1)</b>	<b>Metals</b>	<b>Oil and Gas</b>	<b>Power(2)</b>	<b>Other</b>	<b>Corporate</b>	<b>Consolidated</b>
Revenue	\$ 185.0	\$ 348.7	\$ 152.0	\$ 27.5	\$ –	\$ –	\$ 713.2
Operating, selling, general and administrative	132.4	176.7	28.2	5.1	–	27.1	369.5
Earnings (loss) before undnoted items	52.6	172.0	123.8	22.4	–	(27.1)	343.7
Depletion, amortization and accretion	42.4	15.1	61.3	6.1	–	3.1	128.0
Operating earnings (loss) from continuing operations	10.2	156.9	62.5	16.3	–	(30.2)	215.7
Share of earnings of equity investments							0.7
Net financing expense							(6.8)
Earnings from continuing operations before income taxes							209.6
Capital expenditures	\$ 4.1	\$ 9.3	\$ 61.0	\$ 3.3	\$ –	\$ 0.7	\$ 78.4

(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.

Nine months ended  
September 30, 2003 (restated)

(millions of Canadian dollars)	Coal(1)	Metals	Oil and Gas	Power(2)	Other	Corporate	Consolidated
Revenue	\$ 172.3	\$ 221.5	\$ 171.9	\$ 17.6	\$ 17.2	\$ —	\$ 600.5
Operating, selling, general and administrative	132.3	173.8	37.1	4.6	12.9	16.5	377.2
Earnings (loss) before undnoted items	40.0	47.7	134.8	13.0	4.3	(16.5)	223.3
Depletion, amortization and accretion	40.6	14.7	63.0	3.6	3.6	2.6	128.1
Income on redemption of promissory note	(10.7)	—	—	—	—	—	(10.7)
Operating earnings (loss) from continuing operations	10.1	33.0	71.8	9.4	0.7	(19.1)	105.9
Write-down of Minara Resources investment							(4.0)
Share of loss of equity investments							(1.9)
Net financing income							(0.8)
Minority interest							(0.6)
Earnings from continuing operations before income taxes							98.6
Capital expenditures	\$ 7.1	\$ 9.8	\$ 45.2	\$ 2.0	\$ 3.5	\$ 0.9	\$ 68.5

(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 September 30	2004		2003 (restated)	
	Revenue	Capital Assets	Revenue	Capital Assets
Canada	\$ 67.1	\$ 796.2	\$ 86.1	\$ 825.7
Cuba	57.2	428.5	58.7	409.4
Europe	60.1	4.3	23.4	5.6
Asia	32.6	6.9	14.6	6.9
Other countries	4.3	—	3.6	—
	<b>\$ 221.3</b>	<b>\$ 1,235.9</b>	\$ 186.4	\$ 1,247.6

Nine months ended September 30	2004		2003 (restated)	
	Revenue	Capital Assets	Revenue	Capital Assets
Canada	\$ 239.7	\$ 796.2	\$ 278.7	\$ 825.7
Cuba	170.1	428.5	199.3	409.4
Europe	185.7	4.3	67.6	5.6
Asia	100.4	6.9	41.0	6.9
Other countries	17.3	—	13.9	—
	<b>\$ 713.2</b>	<b>\$ 1,235.9</b>	\$ 600.5	\$ 1,247.6

## 14 Financial instruments

Unutilized lines of credit as at September 30, 2004 were \$75.4 million.

## 15 Comparative amounts

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

## 16 Subsequent event

On October 29, 2004 Sherritt issued an offer to purchase, in aggregate, up to \$100 million par value of its \$300 million 6% convertible unsecured subordinated debentures due December 15, 2006, for \$1,085 cash per \$1,000 of par value of principal and accrued interest. The offer is subject to the terms and conditions set forth in the offer document and circular. If Sherritt purchases any 6% convertible debentures under the offer, it will be required to make an offer to purchase an equivalent principal amount of 9.875% senior unsecured notes at a price of \$1,010 per \$1,000.

The difference between the carrying value and the purchase price of the 6% convertible debentures will be determined upon completion of the transaction and will be recorded in retained earnings.



## 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 reconcile 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, except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2004	2003 (restated)	2004	2003 (restated)
Canadian GAAP earnings				
from continuing operations	<b>\$ 40.2</b>	\$ 20.7	<b>\$ 154.0</b>	\$ 82.4
Income on redemption of promissory note	—	—	—	(10.7)
Loss on sale of Fording Trust units	—	—	—	0.8
Coal severance costs	—	—	—	7.5
Coal inventory and other write-downs	—	1.3	—	4.9
Metals feasibility studies write-off	—	3.6	—	3.6
Write-down of Minara				
Resources investment	—	—	—	4.0
Oil and Gas severance costs	—	—	—	1.0
Currency translation adjustments	<b>4.1</b>	2.8	<b>2.9</b>	(3.2)
Income tax impact of above items	<b>1.8</b>	(1.7)	<b>0.6</b>	(2.5)
Reduction in Canadian resource sector federal tax rates	—	—	—	(15.1)
Earnings from continuing operations, excluding certain items	<b>\$ 46.1</b>	\$ 26.7	<b>\$ 157.5</b>	\$ 72.7
Earnings from continuing operations per share, excluding certain items				
Basic	<b>\$ 0.30</b>	\$ 0.15	<b>\$ 1.05</b>	\$ 0.44
Diluted	<b>0.22</b>	0.13	<b>0.75</b>	0.40

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

**September 30, 2004**

<b>(millions of Canadian dollars)</b>	<b>Coal</b>	<b>Metals</b>	<b>Oil and Gas</b>	<b>Power</b>	<b>Other</b>	<b>Corporate</b>	<b>Consolidated</b>
Accounts receivable	\$ 30.3	\$ 57.3	\$ 147.0	\$ 21.7	\$ —	\$ 5.9	\$ 262.2
Inventories	20.8	73.5	—	5.0	—	—	99.3
Overburden removal costs	1.5	—	—	—	—	—	1.5
Prepaid expenses	0.9	3.3	2.3	0.3	1.2	1.0	9.0
Future income taxes	—	14.8	6.2	—	—	—	21.0
	<b>\$ 53.5</b>	<b>\$ 148.9</b>	<b>\$ 155.5</b>	<b>\$ 27.0</b>	<b>\$ 1.2</b>	<b>\$ 6.9</b>	<b>\$ 393.0</b>

Accounts payable and accrued liabilities	\$ 40.1	\$ 55.0	\$ 34.3	\$ 1.0	\$ —	\$ 23.6	\$ 154.0
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**June 30, 2004**

<b>(millions of Canadian dollars)</b>	<b>Coal</b>	<b>Metals</b>	<b>Oil and Gas</b>	<b>Power</b>	<b>Other</b>	<b>Corporate</b>	<b>Consolidated</b>
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
	<b>\$ 54.1</b>	<b>\$ 140.2</b>	<b>\$ 168.8</b>	<b>\$ 27.8</b>	<b>\$ 1.2</b>	<b>\$ 12.4</b>	<b>\$ 404.5</b>

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
	<b>\$ 60.1</b>	<b>\$ 150.7</b>	<b>\$ 169.3</b>	<b>\$ 27.4</b>	<b>\$ 1.3</b>	<b>\$ 15.8</b>	<b>\$ 424.6</b>

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
	<b>\$ 56.4</b>	<b>\$ 132.4</b>	<b>\$ 169.0</b>	<b>\$ 26.9</b>	<b>\$ 1.2</b>	<b>\$ 14.7</b>	<b>\$ 400.6</b>

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