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Sherritt

International Corporation **First quarter report** — March 31, 2004

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 restricted voting shares, $300 million of 6% convertible debentures and $300 million of 7% convertible debentures trade on the Toronto Stock Exchange under the symbols S, S.DB and S.DB.A, respectively. Sherritt's $105 million of 9.875% senior unsecured debentures trade on the over-the-counter bond market.

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

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

Highlights

Sherritt International Corporation generated net earnings of $52.9 million or $0.35 per restricted voting share (share) for the first quarter of 2004 compared with net earnings of $34.8 million or $0.26 per share in the first quarter of 2003. EBITDA for the first quarter was $111.5 million compared with $83.3 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 $53.4 million or $0.36 per share compared with $34.1 million or $0.25 per share for the first quarter of 2003. Record revenue and earnings from Metals, combined with a significant improvement in earnings from Coal and excellent results from the Power unit, led to the strong first quarter results. Cash balances increased to $374.7 million at quarter end.

FINANCIAL HIGHLIGHTS (unaudited)

(millions of dollars, except per share amounts)	Three months ended March 31 **2004**	2003
Revenue from continuing operations	**$ 224.9**	$ 192.9
EBITDA (1)	**111.5**	83.3
Operating earnings from continuing operations (1)	**69.8**	38.6
Earnings from continuing operations (2)	**52.9**	27.9
Earnings from continuing operations, excluding certain items (1) (2)	**53.4**	34.1
Net earnings	**52.9**	34.8
Earnings per share – basic		
From continuing operations (2)	**0.35**	0.19
From continuing operations, excluding certain items (1) (2)	**0.36**	0.25
Net earnings	**0.35**	0.26
Earnings per share – diluted		
From continuing operations (2)	**0.25**	0.17
From continuing operations, excluding certain items (1) (2)	**0.26**	0.20
Net earnings	**0.25**	0.21
Weighted average number of shares – basic (millions)	**131.3**	98.0

(1) EBITDA, operating earnings from continuing operations and earnings from continuing operations, excluding certain items, do not have any standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP) and are therefore unlikely to be comparable with similar measures presented by other issuers. Reference should be made to the Summary Financial Results by Segment later in this interim report for a reconciliation of EBITDA and operating earnings to earnings from continuing operations before taxes. The Supplementary Financial Information at the end of this interim report provides a description of EBITDA, operating earnings and earnings from continuing operations, excluding certain items, and a reconciliation of earnings from continuing operations, excluding certain items, to Canadian GAAP earnings from continuing operations.

(2) Earnings from discontinued operations of $6.9 million in the first quarter of 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.

Record revenue from the Coal business of $63.2 million was 25% higher than the same period last year and reflected increased sales volumes and higher realized export prices and royalty revenue. Record thermal coal sales of 5.1 million tonnes for the first quarter increased by 55% over the same period last year, and included the full quarter impact of the coal assets acquired on February 28, 2003. Record EBITDA for the first quarter of $18.0 million, compared with $14.4 million for the same period in 2003, reflected increased sales and increased benefits from ongoing efficiency initiatives.

The Metals business had an excellent quarter, reflecting continued high nickel and cobalt prices. EBITDA for the quarter was a record $57.2 million compared with $14.8 million for the first quarter of 2003. Finished nickel sales of 8.3 million pounds for the quarter were slightly lower than the prior year quarter due to the timing of deliveries to customers and the impact of maintenance work during January and February at Moa. Following completion of the maintenance activities, mixed sulphides production for March was near record levels.

Postponement of the development drilling program during the second half of 2003 resulted in first quarter 2004 net oil production of 20,902 barrels per day, 11% lower than the same period last year. EBITDA for the first quarter was $37.9 million compared with $56.8 million for the first quarter of 2003, primarily reflecting the lower production and lower realized oil prices. The Corporation carried out a full development drilling program in Cuba during the first quarter of 2004.

The Power business generated $6.8 million of EBITDA during the quarter. The Varadero and Boca facilities operated at average availabilities of 94% and 72% (reflecting scheduled maintenance activities), respectively during the quarter.

Management's Discussion and Analysis

The following discussion and analysis of the consolidated financial results of Sherritt International Corporation for the three months ended March 31, 2004 should be read in conjunction with the unaudited consolidated financial statements and related notes contained in this interim report 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 May 5, 2004.

CONSOLIDATED FINANCIAL RESULTS

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

Earnings from continuing operations of $52.9 million or $0.35 per share for the first quarter of 2004 compared with earnings from continuing operations of $27.9 million or $0.19 per share in the first quarter of 2003. Earnings from continuing operations before taxes in the first quarter of 2004 included a foreign exchange loss of $0.9 million. Earnings from continuing operations before taxes in the first quarter of 2003 included a $4.0 million write-down of an investment in Minara Resources Limited (formerly Anaconda Nickel Limited), severance costs of $3.0 million and a foreign exchange gain of $2.4 million. Earnings from continuing operations before income taxes were $69.1 million in the first quarter of 2004 compared with $36.4 million in the first quarter of 2003.

Revenue from continuing operations was $224.9 million in the first quarter of 2004, an increase of $32.0 million over 2003. The increase was primarily due to significantly higher nickel and cobalt prices, the inclusion of acquired thermal coal operations for three months compared with one month in 2003 and the consolidation of the Power business results in 2004. These increases were partly offset by lower oil revenue due to lower net production and reduced prices.

Operating, selling, general and administrative costs of $113.4 million in 2004 increased by $0.8 million compared with the first quarter of 2003. The increase in current year costs reflected higher corporate costs due to an insurance claim from the Metals business against the corporate insurance retention, partly offset by lower Oil and Gas costs due to negotiated reductions in treatment and transportation costs and the change to equity accounting in June 2003 for the Corporation's soybean-based food processing and telecommunications businesses.

Depletion, amortization and accretion expense of $41.7 million in 2004 was unchanged from the first quarter of 2003. Amounts for both years reflected the implementation of a new accounting policy in respect of asset retirement obligations.

Net financing expense was $1.5 million for the quarter compared with net financing income of $2.6 million in 2003. The difference of $4.1 million was primarily due to distributions received in 2003 from the Corporation's investment in Fording Canadian Coal Trust units, which were sold during 2003, and a foreign exchange loss in 2004 compared with a foreign exchange gain in 2003.

Sherritt's effective tax rate from continuing operations for the first quarter of 2004 was 23%, unchanged from the prior year period.

CONSOLIDATED CASH FLOW

Cash from operating activities before working capital changes of $84.0 million increased by $13.4 million over the prior year quarter due mainly to higher earnings. Cash from operating activities after working capital changes was $50.9 million in the first quarter of 2004 compared with $61.3 million in 2003. The decrease resulted from higher non-cash working capital in the first quarter of 2004, which increased due to: (i) an increase in accounts receivable due to higher commodity prices for nickel and cobalt and the timing of collection of Coal receivables; (ii) higher inventories as a result of higher fertilizer production volumes prior to the spring season; and (iii) a decrease in accounts payable in the Coal and Oil and Gas businesses.

Capital expenditures in the quarter were $20.0 million, a $6.1 million decrease compared with the prior year, reflecting lower capital expenditures by Coal and Metals.

Other investing activities, excluding capital expenditures, resulted in a net cash inflow of $0.5 million during the quarter. Cash used for financing activities was $0.1 million.

CONSOLIDATED FINANCIAL POSITION

Total assets as at March 31, 2004 were $2.4 billion. Cash, cash equivalents and short-term investments totalled $364.3 million at the end of the first quarter, an increase of $31.3 million since December 31, 2003. The increase was due to cash generated by operating activities of $50.9 million, partly offset by capital expenditures of $20.0 million.

Advances and loans receivable increased by $0.7 million to $61.4 million during the quarter. Accounts receivable were $291.9 million at the end of the first quarter compared with $281.5 million at the end of 2003. The increase was primarily due to increased Metals receivables as a result of higher nickel and cobalt prices and the timing of collection of Coal receivables.

Inventories of $98.4 million increased by $5.8 million during the quarter, mainly due to build up of fertilizer inventory for the spring season. Prepaid expenses increased by $3.0 million due to the timing of payments to vendors. Capital assets were $1,247.1 million at the end of the quarter compared with $1,263.9 million at December 31, 2003. The $16.8 million decrease was due to amortization partly offset by capital expenditures. Investments were $56.3 million at March 31, 2004, consistent with the balance as at December 31, 2003.

Long-term future income tax assets at March 31, 2004 of $44.8 million were primarily represented by the tax benefit of $200.8 million of non-capital losses, net of future income tax liabilities in respect of undistributed income from a subsidiary, and $8.7 million of capital losses. The benefit of losses has been recognized in the financial statements on the expectation that sufficient taxable income will be realized in the future to utilize these losses.

Other assets were $168.3 million at the end of the quarter, compared with $173.9 million at the end of 2003. The decrease was mainly due to the amortization of an intangible asset and deferred financing costs.

Accounts payable and accrued liabilities were $161.7 million at the end of the first quarter, compared with $167.7 million at the end of 2003. The decrease was due mainly to lower Corporate and Oil and Gas payables partly offset by an increase in Metals payables. Asset retirement obligations reflect a new accounting policy, which was implemented on a retroactive basis (refer to Changes in Accounting Policies for a detailed explanation). Consolidated long-term debt and other liabilities of $317.5 million at March 31, 2004 increased by $1.9 million during the quarter, reflecting the increase in the U.S. dollar denominated Luscar senior notes as a result of the slight weakening of the Canadian dollar since December 31, 2003.

A long-term future income tax liability of $182.0 million at March 31, 2004 decreased slightly compared with the December 31, 2003 amount. The future income tax liability primarily represents the temporary difference between the value of capital assets for tax purposes versus accounting purposes. These temporary differences are expected to reverse over time, with a corresponding credit to the income statement. The majority of this amount relates to the future income tax liability of the Coal business.

LIQUIDITY AND CAPITAL RESOURCES

Cash generated from operations and cash, cash equivalents and short-term investments on hand are expected to be sufficient to finance ongoing operations. The agreements establishing the various joint ventures in which the Corporation has interests require the unanimous consent of joint venture shareholders to pay dividends. The Corporation does not believe that these restrictions will have a material impact on the cash available to meet its obligations.

Luscar Energy Partnership and Luscar Coal Ltd. signed a senior credit agreement, effective February 4, 2004, with a syndicate of Canadian chartered banks. The credit agreement consists of a revolving 364-day operating credit facility that permits maximum aggregate borrowings of $115.0 million, subject to a borrowing base, which includes accounts receivable, coal inventory, a $25.0 million charge on a dragline and a general assignment of Luscar Coal Ltd.'s assets. The credit agreement has a reclamation component of $65.0 million and a working capital component of $50.0 million. Interest rates payable or advances under the facility are based on prime lending rates plus interest rate margins ranging from 0.25% to 1.25%, depending on Luscar Energy's ratio of debt to operating earnings before interest, depreciation and amortization. This facility replaces Luscar Energy's and Luscar Coal Ltd.'s $100.0 million senior credit agreement and a $15.0 million credit facility that were due to expire on February 29, 2004.

There have been no other significant changes in the Corporation's short or long-term debt facilities or in the convertible debentures since December 31, 2003.

OUTLOOK

The outlook for earnings for 2004 remains a function of commodity prices and general economic activity. Production volumes are generally expected to remain at the high levels experienced in 2003. Aggregate capital expenditures for ongoing operations are anticipated to be $125 million for 2004, excluding $20 million of equipment expected to be leased and expenditures for the expansion of Power's facilities.

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

SUMMARY FINANCIAL RESULTS BY SEGMENT (1)

Three months ended March 31, 2004 (millions of Canadian dollars)	**Coal**	**Metals**	**Oil and Gas**	**Power (3)**	**Other (4)**	**Corporate**	**Consolidated**
Revenue	**$ 63.2**	**$ 105.0**	**$ 47.6**	**$ 9.1**	**$ –**	**$ –**	**$ 224.9**
Operating, selling, general and administrative	**45.2**	**47.8**	**9.7**	**2.3**	**–**	**8.4**	**113.4**
Add items excluded from EBITDA (2)	**–**	**–**	**–**	**–**	**–**	**–**	**–**
EBITDA (1)	**18.0**	**57.2**	**37.9**	**6.8**	**–**	**(8.4)**	**111.5**
Depletion, amortization and accretion	**12.8**	**5.0**	**20.5**	**2.4**	**–**	**1.0**	**41.7**
Items excluded from EBITDA	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Operating earnings (loss) from continuing operations (1)	**5.2**	**52.2**	**17.4**	**4.4**	**–**	**(9.4)**	**69.8**
Share of earnings of equity investments							**0.8**
Net financing expense							**(1.5)**
Earnings from continuing operations before income taxes							**69.1**
Capital expenditures	**$ 0.8**	**$ 1.4**	**$ 17.8**	**$ –**	**$ –**	**$ –**	**$ 20.0**

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

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

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

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

SUMMARY FINANCIAL RESULTS BY SEGMENT (1) (continued)

Three months ended March 31, 2003 (5) (millions of Canadian dollars)	Coal	Metals	Oil and Gas	Power (3)	Other (4)	Corporate	Consolidated
Revenue	$ 50.7	$ 64.4	$ 69.3	$ –	$ 8.5	$ –	$ 192.9
Operating, selling, general and administrative	38.8	49.6	13.0	–	6.1	5.1	112.6
Add items excluded from EBITDA (2)	2.5	–	0.5	–	–	–	3.0
EBITDA (1)	14.4	14.8	56.8	–	2.4	(5.1)	83.3
Depletion, amortization and accretion	12.6	4.9	21.4	–	1.9	0.9	41.7
Items excluded from EBITDA: Severance (2)	2.5	–	0.5	–	–	–	3.0
Operating earnings (loss) from continuing operations (1)	(0.7)	9.9	34.9	–	0.5	(6.0)	38.6
Write-down of Minara Resources Limited							(4.0)
Share of loss of equity investments							(0.4)
Net financing income							2.6
Minority interest							(0.4)
Earnings from continuing operations before income taxes							36.4
Capital expenditures	$ 2.4	$ 2.6	$ 18.0	$ –	$ 2.6	$ 0.5	$ 26.1

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

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

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

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

(5) Restated – see note 2 of the interim consolidated financial statements.

KEY OPERATING STATISTICS

Three months ended March 31, 2004	Coal	Metals	Oil and Gas	Power (3)
Sales Volumes (Sherritt's share)				
Thermal coal (000s of tonnes) (1)	**5,056**			
Nickel (000s of pounds) (1)		**8,274**		
Cobalt (000s of pounds) (1)		**826**		
Fertilizers (tonnes)		**16,967**		
Net oil – Cuba (bbls per day) (2)			**19,964**	
Net oil – Spain (bbls per day)			**938**	
Electricity generation (000s of MWh) (1)				**140**
Realized Prices				
Thermal coal (per tonne)	**$ 12.51**			
Nickel (per pound)		**$ 8.66**		
Cobalt (per pound)		**33.32**		
Oil – Cuba (per bbl)			**$ 24.21**	
Oil – Spain (per bbl)			**41.43**	
Power (per MWh)				**$ 58.58**
Average Reference Prices				
Nickel (U.S.$ per pound)		**$ 6.67**		
Cobalt (U.S.$ per pound)		**24.63**		
U.S. Gulf Coast Fuel Oil No. 6 (U.S.$ per bbl)			**$ 22.37**	

(1) Represents the Corporation's respective 50% share of Luscar Energy Partnership (Coal), the Corporation's 50% share of the Metals Enterprise (Metals) and the Corporation's 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 three months ended March 31, 2003 are from the records of Sherritt Power Corporation.

KEY OPERATING STATISTICS (continued)

Three months ended March 31, 2003	Coal	Metals	Oil and Gas	Power (3)
Sales Volumes (Sherritt's share)				
Thermal coal (000s of tonnes) (1)	3,259			
Nickel (000s of pounds) (1)		8,611		
Cobalt (000s of pounds) (1)		909		
Fertilizers (tonnes)		26,198		
Net oil – Cuba (bbls per day) (2)			22,821	
Net oil – Spain (bbls per day)			539	
Electricity generation (000s of MWh) (1)				78
Realized Prices				
Thermal coal (per tonne)	$ 15.54			
Nickel (per pound)		$ 5.48		
Cobalt (per pound)		11.34		
Oil – Cuba (per bbl)			$ 32.73	
Oil – Spain (per bbl)			41.23	
Power (per MWh)				$ 66.23
Average Reference Prices				
Nickel (U.S.$ per pound)		$ 3.79		
Cobalt (U.S.$ per pound)		7.73		
U.S. Gulf Coast Fuel Oil No. 6 (U.S.$ per bbl)			$ 26.51	

(1) Represents the Corporation's respective 50% share of Luscar Energy Partnership (Coal), the Corporation's 50% share of the Metals Enterprise (Metals) and the Corporation's 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 three months ended March 31, 2003 are from the records of Sherritt Power Corporation.

REVIEW OF OPERATIONS

COAL

Coal results reflect continuing operations only. The results of metallurgical coal operations are presented separately as discontinued operations up to their disposal on February 28, 2003.

EBITDA and operating earnings of $18.0 million and $5.2 million, respectively, on record revenue of $63.2 million for the three months ended March 31, 2004 compared with EBITDA of $14.4 million and an operating loss of $0.7 million on revenues of $50.7 million for the same period last year. Revenue, EBITDA and operating earnings were higher as a result of a full three months of operation of the thermal coal assets acquired on February 28, 2003, compared with one month of operations in 2003, and the return to profitability of the Coal Valley mine reflecting cost reductions and rapidly increasing export coal prices. The benefits of ongoing efficiency initiatives are also reflected in EBITDA and operating earnings. Earnings at the Boundary Dam mine for the quarter were lower than the prior year period due to the breakdown of a dragline and the subsequent repair costs. Production lost during the period this machine was under repair is expected to be made up during the remainder of the year.

Depreciation, amortization and accretion of $12.8 million for the quarter was $0.2 million higher than the same period last year, as a result of the inclusion of three months of depreciation on acquired thermal coal operations compared with one month of depreciation in respect of these operations in 2003. This increase was largely offset by a decrease in depreciation of capital assets as a result of revisions to their estimated useful lives. This change in accounting estimate was implemented concurrently with the implementation of a new accounting policy in respect of asset retirement obligations.

Capital expenditures were $0.8 million during the first quarter as compared with $2.4 million in the same quarter of last year. Spending was primarily to maintain and upgrade mine operations, and was lower than last year due to capital cost recoveries recorded during the quarter. The expansion of the Char facility was completed on time and on budget during the first quarter of 2004.

Record thermal coal sales of 5.1 million tonnes during the quarter represented a 55% increase from sales in the same period last year largely as a result of the three months of operations at the new thermal coal operations. Shipments from the Coal Valley mine also increased due to improvements in demand in the export thermal coal market compared with 2003. The Coal Valley mine is currently upgrading its equipment to increase coal output in order to take advantage of more robust export prices. Production was suspended at the Obed Mountain mine in June of last year and final shipments of inventory occurred in the first quarter of 2004.

For the first quarter, average realized prices for thermal coal sales were lower than the prior year period due to the inclusion of a full quarter of lower-priced contract mining revenue from the Highvale and Whitewood mines. This was partly offset by higher export thermal coal shipments and the inclusion of royalty revenue for the full quarter from the new thermal coal assets acquired in February 2003. Average realized prices for first quarter 2003 were also higher due to the recovery of a $3.7 million Boundary Dam crown royalty reassessment. These crown royalty reassessments were recovered from the customer under the pass-through provisions of the coal supply agreement and as such did not have a net effect on operating margin.

During the quarter, settlement was reached with the union at the Coal Valley mine on a five year labour contract. As well, a five year collective agreement was reached with the Highvale mine workforce on April 1, 2004. Going forward, both settlements provide for greater workforce flexibility, which is ultimately expected to result in increased productivity.

Sherritt's share of coal production is expected to be approximately 19 million tonnes in 2004. The Genesee power plant is adding 450 megawatts of capacity, which is expected to be commissioned in the winter of 2004 – 2005, requiring higher coal deliveries. Luscar's restructuring and rationalization program, which is designed to exploit the similarities of each of its mining operations and enhance overall efficiencies, is expected to result in reduced operating costs, enhanced productivity and increased profitability and cash flow in 2004 and subsequent years. The maturity of Luscar's promissory note in December 2004 will result in an addition to Sherritt's operating earnings of approximately $19 million in the fourth quarter. Sherritt's share of capital expenditures for the Coal business is expected to be approximately $13 million in 2004. In addition, approximately $20 million of equipment is expected to be financed through leases.

METALS

Metals achieved record first quarter 2004 EBITDA and operating earnings of $57.2 million and $52.2 million, respectively, on record revenue of $105.0 million, compared with EBITDA and operating earnings of $14.8 million and $9.9 million, respectively, on revenue of $64.4 million in the first quarter of 2003. Higher EBITDA and operating earnings were due largely to higher realized nickel and cobalt prices and lower costs, partly offset by lower sales volumes and a stronger Canadian dollar. Operating, selling, general and administrative costs for the quarter were $47.8 million compared with $49.6 million in the first quarter of 2003, due primarily to a stronger Canadian dollar, partly offset by higher raw material and maintenance costs relative to the same period last year.

The London Metal Exchange settlement price for nickel averaged U.S.$6.67 per pound in the first quarter of 2004 compared with U.S.$3.79 per pound in the first quarter of 2003. Strong market fundamentals for nickel contributed to the price strength relative to the same period last year. The Metal Bulletin 99.3% free market cobalt price averaged U.S.$24.63 per pound for the first quarter in 2004, compared with U.S.$7.73 per pound during the same period last year. The significantly higher cobalt price was primarily a result of improved cobalt market fundamentals, including increased demand from the rechargeable battery market, limited availability of high-grade cobalt and supply uncertainties from Africa.

The Moa mining and processing facilities produced a total of 8,055 tonnes of nickel plus cobalt contained in mixed sulphides in the first quarter of 2004, essentially unchanged from the total of 7,984 tonnes during the same period last year. Moa production in the quarter reflected lower output in January and February due to maintenance activities, followed by production of 2,927 tonnes of contained nickel and cobalt in March, the fourth highest monthly production in Moa's history.

The Fort Saskatchewan refinery produced a total of 7,651 tonnes of finished nickel in the first quarter of 2004, compared with a total of 7,727 tonnes in the first quarter of 2003. The lower production volume was primarily due to limited feed availability in January and February arising from a combination of low on-site inventory volumes and the delay of shipments due to weather conditions in Halifax, the transshipment point for Moa mixed sulphides. Total finished cobalt production for the first quarter of 2004 was 803 tonnes compared with 792 tonnes during the same period last year. Higher finished cobalt production volumes were largely a result of a reduction of in-process inventory and a higher cobalt-to-nickel ratio in the refinery feed material, partly offset by limited feed availability in January and February.

Fertilizer operations generated operating earnings of $0.9 million on revenue of $5.4 million in the first quarter of 2004 compared with a loss of $0.9 million on revenue of $6.5 million during the same period in 2003, due largely to higher fertilizer prices. Depreciation expense for the quarter was $0.6 million compared with $0.5 million in the first quarter of 2003. Sales for the quarter of 16,967 tonnes decreased by 9,231 tonnes compared with the prior year quarter due largely to the timing of sales, which have been focused on higher margin western Canadian markets.

Capital expenditures of $1.4 million in the first quarter were primarily directed towards sustaining and upgrading the facilities at both Moa and Fort Saskatchewan, with the remainder focused on environmental initiatives.

The Corporation and the Fort Saskatchewan site workforce signed a new three year labour agreement commencing April 1, 2004.

Finished nickel and cobalt production is expected to be close to record levels in 2004, with sales closely matching production. Nickel and cobalt prices are anticipated to remain strong for 2004 as the market fundamentals continue to be positive. The benefits of the strong nickel and cobalt prices are expected to be partly offset by continued high energy and raw materials costs and a strong Canadian dollar. Capital expenditures for the Metals business are expected to be approximately $21 million in 2004 and will focus on achieving operational efficiencies and maintaining process reliability.

OIL AND GAS

Oil and Gas EBITDA for the first quarter was $37.9 million compared with $56.8 million in 2003, primarily due to lower realized prices on Cuban production and lower production volumes. Operating earnings for the quarter were $17.4 million compared with $34.9 million in 2003. The Fuel Oil No. 6 reference price decreased by 16% in the first quarter of 2004 compared with the first quarter of 2003 as prices returned to levels more consistent with the long-term trend, following a spike in prices in the first quarter of 2003 caused by uncertainties arising from the Iraq conflict and a strike in Venezuela's oil industry. The decrease in price, combined with the relative strength of the Canadian dollar since the first quarter of 2003, caused realized prices of Cuban production to decrease from $32.73 per barrel to $24.21 per barrel. Operating costs decreased as a result of negotiated reductions in treatment and transportation rates at Varadero.

In Cuba, gross working interest oil production averaged 37,820 barrels per day during the first quarter, 2% lower than the fourth quarter of 2003. Year over year, first quarter production decreased by 16% as development drilling was postponed during the second half of 2003. During the first quarter of 2004, the Corporation carried out a full development drilling program. The Corporation's net working interest oil production in Cuba was 19,964 barrels per day for the first quarter of 2004, 3% lower than the fourth quarter of 2003 and 13% lower than the first quarter of 2003 due mainly to the temporary postponement of development drilling during 2003. In Spain, production averaged 938 barrels per day during the quarter, up 399 barrels per day over the same period last year as the Casablanca 17 well continues to produce at higher rates following a workover of the well in the summer of 2003.

Capital spending of $17.8 million during the quarter equalled first quarter capital spending in 2003. The Corporation participated in five development wells, three of which were completed in the quarter. The Corporation plans to expand its development drilling in the Seboruco and adjacent Faustino fields, where the Seboruco 4 well drilled in the quarter yielded higher than anticipated production rates. The Corporation plans to expand its Yumuri oil treatment facility to process the additional production expected from further development of these fields.

The Corporation completed its Block 9 seismic acquisition program during the quarter and, in April, started its 2D seismic acquisition program for the deep-water blocks. In Block 7, the Corporation has identified several prospects for exploration drilling based on interpretation of new 3D seismic data.

During the quarter, the Corporation started construction of a gas pipeline from its Canasi facility to deliver gas to the Cuban gathering system at Puerto Escondido. This pipeline project will provide additional gas to supply the Energas power plants and reaffirms the Corporation's commitment to assist the Cuban government in developing the infrastructure necessary to utilize the large volumes of gas produced at Canasi in an efficient and environmentally responsible manner.

Fuel Oil No. 6 prices have moderated compared with the first quarter of 2003, but are expected to remain strong for the remainder of 2004. Development drilling activity has returned to historic levels and total capital expenditures for the year are expected to be $90 million, with both drilling rigs in operation throughout the year. Sherritt will continue to focus 2004 drilling activities on onshore locations. Oil and Gas expects to produce an average of approximately 22,000 net barrels of oil per day in 2004. Exploration of Sherritt's deep-water blocks, offshore Cuba, will focus on defining potential drill locations on the basis of geophysical and geological analysis. These expectations are contingent upon the level of capital expenditures, success of drilling activities and oil prices staying at levels necessary to generate sufficient cash flow to fund drilling expenditures.

POWER

The Power business is now presented on a consolidated basis and reported as a business segment of Sherritt, reflecting the acquisition of the 50.3% equity of Sherritt Power Corporation not previously owned by Sherritt. Prior to March 28, 2003, Sherritt accounted for its investment in Sherritt Power Corporation using the equity method of accounting.

EBITDA was $6.8 million and operating earnings were $4.4 million for the first quarter on revenue of $9.1 million, which includes $0.9 million from by-products and miscellaneous sources. Results for the first quarter of 2004 reflect the Corporation's one-third interest in the Energas operations.

Until the financing provided to Energas for the construction of its facilities is fully repaid, the Corporation receives all cash flow from Energas' operations, two-thirds of which is reflected in investing activities as funds from other assets, with the remaining one-third included in cash from operating activities.

Sherritt's share of electricity sold was 140,238 megawatt hours. The overall availability at Varadero was approximately 94% and at Boca de Jaruco was approximately 72%. The availability at Boca de Jaruco was reduced by a scheduled combustion inspection.

Subsequent to the end of the first quarter, the Corporation and its Cuban partners reached agreement on terms for expansion of the Energas generating facilities, subject to the execution of certain definitive agreements. The first phase of the expansion contemplates the installation of two additional gas turbines at the Boca site and additional gas processing facilities and a gas turbine at a new site in the Puerto Escondido oil field. The second phase of the expansion, which is subject to gas availability, would include a combined-cycle facility. Under the proposed terms, the Corporation would finance, construct and operate the expanded facilities, with all surplus cash flow from the expansion being initially directed towards repayment of the financing costs.

Sherritt's share of electricity production in 2004 is expected to be a record 0.5 million megawatt hours. Capital expenditures for the existing Power operations are expected to be minimal during 2004.

OTHER BUSINESSES

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

Results from the soybean-based food processing business for the first quarter showed some improvement over the prior year results due to higher production and sales volumes. The results for the tourism business were consistent with the prior year results.

The Corporation continues to pursue opportunities to maximize consumption of its soybean-based products in Cuba through improvements in its operations and by working with agencies of the Cuban government to minimize Cuban imports of soybean products and to reduce bottlenecks in the distribution of its products.

SUPPLEMENTARY DISCLOSURES

SELECTED ANNUAL INFORMATION

Year ended December 31 (millions of dollars, except per share amounts)	**2003(1)**	2002(1)	2001(1)
Revenue from continuing operations	**$ 820.8**	$ 729.4	$ 547.9
Earnings from continuing operations	**110.9**	55.9	47.6
Net earnings	**117.8**	57.4	49.3
Earnings per share – basic			
From continuing operations	**0.63**	0.33	0.29
Net earnings	**0.69**	0.35	0.31
Earnings per share – diluted			
From continuing operations	**0.57**	0.33	0.29
Net earnings	**0.61**	0.35	0.31
Total assets	**2,335.7**	2,032.9	2,007.3
Total long-term debt and other liabilities	**292.3**	242.7	259.3
Cash dividends declared per share	**–**	–	0.25

(1) Restated – see note 2 of the interim consolidated financial statements.

The following is a brief discussion of the trends reflected in the above annual financial information. Further details in respect of the results for each of these years can be found in the Corporation's continuous disclosure documents such as its annual reports and annual information forms.

2003 Compared with 2002

The information presented with respect to 2003 includes the following significant transactions, which took place during the year:

- Acquisition of thermal coal operations from Fording Inc. and the disposal of metallurgical coal operations in February;
- Acquisition of the outside interest in Sherritt Power Corporation in March;
- Sale of the telecommunications business in August;
- Exchange of $300 million 6% convertible debentures due December 2006 for an equal amount of 7% convertible debentures due December 2013; and
- Issue of 27.5 million shares for net proceeds of $102.9 million.

The net effect of these transactions, as well as higher realized prices for nickel, cobalt and oil, resulted in higher revenue, earnings, earnings per share and net cash from operations in 2003 compared with 2002. The increase in earnings is also due in part to after-tax income of $7.2 million on the redemption of a promissory note in 2003 and a $29.8 million after tax write-down of an investment in 2002.

The increase in total assets and long-term debt and other liabilities in 2003 can be attributed to the above transactions.

2002 Compared with 2001

Results for 2001 reflect the acquisition of the Coal business and related issuance of 25 million shares in the second quarter of the year. In addition, commodity prices were generally lower in 2001 than during 2002. Results for 2001 also included an $18.8 million after tax write-down of an investment.

The decrease in long-term debt and other liabilities was due to the reclassification of a promissory note to current during 2002.

The Corporation discontinued dividend payments in the fourth quarter of 2001.

SUMMARY QUARTERLY RESULTS (unaudited)

The following table presents a summary of our segments and consolidated operating results for each of the eight quarters from June 2002 to March 2004.

	Quarter ended							
(millions of dollars, except per share amounts)	**March 2004**	Dec. 2003(2)	Sept. 2003(2)	June 2003(2)	March 2003(2)	Dec. 2002(2)	Sept. 2002(2)	June 2002(2)
Revenue								
Coal (1)	**$ 63.2**	$ 60.3	$ 61.5	$ 60.1	$ 50.7	$ 54.4	$ 57.2	$ 53.5
Metals	**105.0**	99.6	61.8	95.3	64.4	60.2	51.3	84.8
Oil and Gas	**47.6**	51.2	54.0	48.6	69.3	59.7	67.7	51.3
Power	**9.1**	9.2	9.1	8.5	–	–	–	–
Other	**–**	–	–	8.7	8.5	10.1	8.9	8.1
	224.9	220.3	186.4	221.2	192.9	184.4	185.1	197.7
Earnings from continuing operations	**52.9**	28.5	20.7	33.8	27.9	14.2	(2.6)	22.7
Net earnings (loss)	**52.9**	28.5	20.7	33.8	34.8	14.5	(2.4)	22.8
Earnings from continuing operations per share								
Basic	**0.35**	0.12	0.11	0.24	0.19	0.08	(0.09)	0.17
Diluted	**0.25**	0.10	0.10	0.18	0.17	0.08	(0.09)	0.14
Earnings per share								
Basic	**0.35**	0.12	0.11	0.24	0.26	0.09	(0.08)	0.17
Diluted	**0.25**	0.10	0.10	0.18	0.21	0.09	(0.08)	0.14

(1) Coal revenue excludes revenue from the metallurgical coal operations disposed of in February 2003.
(2) Restated – see note 2 of the interim consolidated financial statements.

The analysis of financial results for the last eight quarters is generally consistent with the consolidated financial results and selected annual information presented previously in this document. In summary, the quarterly results reflect the impact of the significant transactions that took place during 2003, generally increasing realized commodity prices and some fluctuation in sales volumes. Further details in respect of historical quarterly results can be found in the Corporation's quarterly reports filed on SEDAR at www.sedar.com or on the Corporation's web site at www.sherritt.com.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires the Corporation to estimate the effect of various matters that are inherently uncertain as of the date of the financial statements. Each of these required estimates varies with respect to the level of judgment involved and the potential impact on the Corporation's reported financial results. Estimates are deemed critical when the Corporation's financial condition, change in financial condition or results of operations would be materially impacted by a different estimate or a change in estimate from period to period. The Corporation's significant accounting policies are discussed in note 1 of the Notes to Interim Consolidated Financial Statements. Critical estimates inherent in these accounting policies are discussed in the following paragraphs.

Capital Assets

Capital assets comprise the largest component of the Corporation's assets and as such the capitalization of costs, the determination of estimated recoverable amounts and the depletion and amortization of these assets have a significant effect on the Corporation's financial statements. Proven and probable reserve estimates are determined based on professional evaluations provided by internal or external qualified persons. Estimates of the reserves may change based on additional knowledge gained subsequent to the assessment date. This may include additional data available from continuing exploration, results from the reconciliation of actual production data against the original reserve estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production. A change in the estimate of reserves will result in a change in the rate of depletion and amortization of the related assets or could result in impairment of the assets resulting in a write-down.

In Oil and Gas, all costs associated with the acquisition of, exploration for and development of oil and gas reserves are capitalized in cost centres on a country-by-country basis. Under the full-cost method of accounting, the net carrying value of oil and gas properties is tested for recoverability by comparing the carrying value to the sum of undiscounted future cash flows expected from the cost centre's use and eventual disposition. Future cash flows are calculated using quoted benchmark prices in the futures market or price forecasts consistent with reputable industry forecasts or contracted prices where applicable. Only proved reserves are used in determining whether a cost centre impairment should be recognized. If the carrying value is determined to be unrecoverable, the cost centre is written down to its fair value using the expected present value approach. The determination of the amount of any write-down includes proved and probable reserves and incorporates risks and uncertainties in the expected future cash flows, which are discounted using a risk-free rate.

Accounts and Loans Receivable

The Corporation records an allowance for doubtful accounts to reflect management's best estimate of losses inherent in its accounts receivable. Eight of Luscar's mines derive substantially all of their revenue from single customers or groups of affiliated customers. The loss of one or more of these customers could potentially result in the closure of the respective mine, the loss of the mining contract or, in some cases, the sale of the mine to the customer.

Oil and Gas, Power and the soybean-based food processing businesses derive substantially all of their revenue from agencies of the government of Cuba. 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. Sherritt is entitled to the benefit of certain assurances received from the government of Cuba and certain of its agencies that protect it from adverse changes in law, although such changes remain beyond the control of the Corporation and the effect of any such changes cannot be accurately predicted.

Loans receivable include the current portion of a note receivable of $9.7 million from a Cuban government agency in respect of the sale of the telecommunications business in 2003, which bears interest at 6% and is to be repaid in quarterly installments ending in August 2007. Loans receivable also include the current portion of recoverable project costs in the amount of $39.8 million, representing project financing owed to the Corporation by Energas.

Metals receivables include amounts in respect of sales where the price has not yet been settled. Prices in respect of these sales are based on trends in commodity prices, which are indicative of the final settlement price. Metals sales revenue is recorded when the terms specified in the sales contract are fulfilled, which is generally either upon shipment or when it arrives at its destination, and upon achieving reasonable assurance regarding the measurement of consideration to be received.

Coal accounts receivable are mainly the result of sales to Canadian power utilities. Metals accounts receivable include receivables from finished metals sales to customers primarily located in Europe and Asia and receivables from fertilizer sales to customers in Canada. Oil and Gas and Power receivables include amounts due from Cuban government agencies, and Corporate receivables include dividends and amounts due from joint ventures and third parties.

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. The Corporation manages its overall accounts receivable with 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. The Corporation 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.

Management believes that the allowance for doubtful accounts is adequate to cover anticipated losses in the reported receivables under current conditions; however, significant deterioration in any of the noted factors could materially change these estimates.

Inventories

Raw materials, materials in process and finished products are valued at the lower of average production cost and net realizable value. Estimates of net realizable value are based on trends in commodity prices at the end of the period.

Accounting for costs of metals produced is primarily to establish values for metals in inventory and cost of sales. Common costs, those that are not separately identifiable to one metal, which are primarily incurred at the mining and processing facilities, are apportioned between nickel and cobalt based on relative market value. Expenditures required to further refine a particular metal are assigned to that metal.

Asset Impairment

The Corporation evaluates long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. A long-lived asset is considered to be impaired if the total undiscounted estimated future cash flows are less than the carrying value of the asset. The amount of the impairment is determined based on discounted estimated future cash flows. Future cash flows are determined based on management's estimates of future results relating to the long-lived assets. These estimates include various assumptions, which are updated on a regular basis as part of the internal planning process.

The Corporation regularly reviews its investments to determine whether a permanent decline in the fair value below the carrying value has occurred. In determining whether a permanent decline has occurred, management considers a number of factors that would be indicative of a permanent decline including (i) a prolonged decrease in the fair value below the carrying value, (ii) severe or continued losses in the investment and (iii) various other factors such as a decline or restriction in financial liquidity of an entity in which the Corporation has an investment, which may be indicative of a decline in value of the investment. The consideration of these factors requires management to make assumptions and estimates about future financial results of the investment. These assumptions and estimates are updated by management on a regular basis.

Asset Retirement Obligations

The Corporation has estimated asset retirement obligations, which it believes will meet current regulatory requirements. These future obligations are estimated by the Corporation using closure plans and other internal and external studies, which estimate the activities and costs that will be carried out to meet the retirement obligations. The asset retirement cost estimates could change due to amendments in laws and regulations in the countries in which the businesses operate. A number of assumptions and judgments are made by management in the determination of these provisions.

Income Taxes

The determination of the ability of the Corporation to utilize tax loss carry forwards to offset future income taxes payable requires management to exercise judgment and make certain assumptions about the future performance of the Corporation. Changes in economic conditions, commodity prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses. As at March 31, 2004, the Corporation had income tax losses of approximately $200.8 million, which may be used to reduce future taxable income. Substantially all of these income tax losses, which expire between 2004 and 2014, were incurred in Canada. The Corporation also had $8.7 million of capital losses at March 31, 2004. The potential benefit relating to $19.7 million of tax losses and $60.5 million of capital asset temporary differences, which represent the difference between the accounting value and tax value of capital assets, was not recognized in the interim financial statements.

Post-retirement Benefits

The determination of the cost and obligations associated with employee future benefits requires the use of various assumptions. The Corporation must select assumptions such as the expected return on assets available for fund pension obligations, the discount rate to measure obligations, the projected age of employees upon retirement, and the expected rate of future compensation. These assumptions are re-evaluated each year, and variations between actual results and the results based on the assumptions for any period will affect reported amounts in future periods. The Corporation retains independent actuaries to prepare the calculations and to advise on the selection of assumptions.

CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

During the first quarter 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.

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 tangible long-lived assets. The liability is recognized at its fair value when it is incurred, with a corresponding asset retirement cost added to the related asset and then amortized to expense on a basis consistent with the amortization policy for the asset.

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

Change in Estimated Useful Lives

Concurrent with the implementation of the asset retirement obligation accounting policy, the Coal business undertook a review of the estimated useful lives of its capital assets. This review has been substantially completed and resulted in a $1.3 million reduction in amortization for the first quarter of 2004. The change in estimated useful lives of capital assets was treated as a change in accounting estimate and was, therefore, implemented on a prospective basis. Any further adjustments to amortization, if required, will be recorded at the time of the finalization of the review.

Oil and Gas Full Cost Accounting

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

Impairment of Long-lived Assets

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

Hedging Relationships

In 2003, the CICA issued Accounting Guideline 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 13 to be recognized in the balance sheet at fair value. The adoption of this abstract had no impact on the financial statements.

Revenue Recognition

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

Generally Accepted Accounting Principles

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

General Standards of Financial Statement Presentation

In July 2003, the CICA issued Section 1400, General Standards of Financial Statement Presentation, which is effective for fiscal years beginning 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, requiring these amounts to be presented as liabilities. These proposals will alter the accounting for the 6% and 7% convertible debentures. The Corporation will assess the impact of the revised recommendation, which is effective for periods beginning on or after November 1, 2004.

Consolidation of Variable Interest Entities

Amended Accounting Guideline AcG-15, Consolidation of Variable Interest Entities, is expected to be finalized later in 2004. The guideline provides for the application of consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. Once the guideline has been finalized, the Corporation will assess the impact on its investments that are currently accounted for under the equity method and the proportionate consolidation method. This guideline is expected to be effective for periods beginning on or after November 1, 2004.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table presents a summary of our long-debt and other commitments including payment due date for each of the next five fiscal years and thereafter:

(millions of Canadian dollars)	Total	Less than 1 year	2 – 3 years	4 – 5 years	More than 5 years
Long-term debt	$ 306.3	$ 21.1	$ –	$ –	$ 285.2
Capital leases	5.2	1.2	2.5	1.5	–
Operating leases	7.0	1.7	3.2	1.8	0.3
Electricity purchase commitments	4.5	4.5	–	–	–
Capital commitments	1.2	1.2	–	–	–
Asset retirement obligations	229.0	10.7	8.4	9.8	200.1
Other long-term liabilities and commitments (1)	8.8	2.8	4.1	1.3	0.6
Convertible debentures (2)	600.0	–	300.0	–	300.0
	$ 1,162.0	$ 43.2	$ 318.2	$ 14.4	$ 786.2

(1) Other long-term liabilities and commitments include $2.4 million of obligations associated with the disposal of the metallurgical coal assets, $1.1 million payable for land rights and $5.3 million for various other contractual obligations.

(2) Obligations disclosed relating to the convertible debentures represent the principal amount due at maturity if the conversion options are not exercised.

OFF BALANCE SHEET ARRANGEMENTS

Financial Instruments

As at December 31, 2003 and March 31, 2004 the Corporation had no outstanding foreign exchange or commodity options, futures or forward contracts.

Sherritt's principal businesses include the sale of several commodities. Revenues, earnings and cash flows from the sale of nickel, cobalt, oil and the sale of coal on the international export market are sensitive to changes in market prices over which the Corporation has little or no control. The Corporation has the ability to address its price-related exposures through the limited use of options, futures and forward contracts, but generally does not enter into such arrangements. Sherritt reduces the business cycle risks inherent in its commodity operations through industry diversification.

Many of Sherritt's businesses transact in currencies other than Canadian dollars. The Corporation is also sensitive to foreign exchange exposures when commitments are made to deliver products quoted in foreign currencies or when the contract currency is different from the product price currency. Derivative financial instruments are not used to reduce exposure to fluctuations in foreign exchange rates.

Guarantees

In connection with a borrowing facility, Luscar Coal Ltd. has provided an indemnity in respect of transactions related to the extension of credit and environmental indemnities in respect of its properties to the lender. The indemnities extend for an unlimited period of time and the maximum potential liability cannot be determined at this time. No amounts have been accrued with respect to these indemnities.

Certain jointly-owned entities in the Metals business have provided guarantees in respect of a supply agreement. The guarantee expires upon repayment of the obligations to the third party for which the Corporation's share of the maximum liability is U.S.$3.0 million. No amounts have been accrued with respect to this guarantee.

In connection with the issuance of shares, indemnities have been given to the underwriters. Also, indemnities have been given to financial advisors in connection with transactions undertaken by the Corporation. The indemnities extend for an unlimited period of time and the maximum potential liability cannot be determined at this time. No amounts have been accrued with respect to these indemnities.

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 all of the cobalt, a portion of the nickel, and certain by-products produced by certain jointly-owned entities in the Metals business, pursuant to sales agreements.

The total value of all goods and services, including labour services, that the Corporation and its subsidiaries provided to joint ventures in the first quarter of 2004 amounted to $31.5 million (2003 – $39.6 million). The total value of goods and services purchased from affiliates in the first quarter of 2004 was $1.4 million (2003 – $2.5 million).

Accounts receivable from joint ventures at March 31, 2004 totalled $2.9 million (2003 – $5.8 million). Accounts payable to joint ventures at March 31, 2004 totalled $1.4 million (2003 – $0.6 million).

ADDITIONAL INFORMATION

Share Capital

As at March 31, 2004, the Corporation had 131,274,779 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 42,857,143 additional shares would be issued on or before December 14, 2013 with respect to the 7% convertible debentures.

Consolidated Balance Sheets

(millions of Canadian dollars)	**March 31, 2004 (unaudited)**	December 31, 2003 (unaudited, restated – note 2)
ASSETS		
Current assets		
Cash, cash equivalents and short-term investments	**$ 364.3**	$ 333.0
Restricted cash	**10.4**	8.0
Advances and loans receivable	**61.4**	60.7
Accounts receivable	**291.9**	281.5
Inventories	**98.4**	92.6
Overburden removal costs	**1.6**	2.1
Prepaid expenses	**10.7**	7.7
Future income taxes	**22.0**	16.7
	860.7	802.3
Capital assets	**1,247.1**	1,263.9
Investments	**56.3**	55.7
Future income taxes	**44.8**	39.9
Other assets	**168.3**	173.9
	$ 2,377.2	$ 2,335.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term debt	**$ 27.1**	$ 26.9
Accounts payable and accrued liabilities	**161.7**	167.7
Asset retirement obligation (note 2)	**9.9**	8.9
Current portion of long-term debt	**23.0**	23.3
Future income taxes	**1.6**	0.7
	223.3	227.5
Long-term debt and other liabilities	**294.5**	292.3
Asset retirement obligation (note 2)	**70.7**	70.5
Future income taxes	**182.0**	185.6
	770.5	775.9
Shareholders' equity (note 4)		
Convertible debentures	**590.4**	590.1
Capital stock	**582.0**	581.7
Contributed surplus	**193.1**	193.1
Retained earnings	**241.2**	194.9
	1,606.7	1,559.8
	$ 2,377.2	$ 2,335.7

Consolidated Statements of Operations

(unaudited) (millions of Canadian dollars except per share amounts)	Three months ended March 31 **2004**	 2003 (restated – note 2)
Revenue	**$ 224.9**	$ 192.9
Operating, selling, general and administrative	**113.4**	112.6
Earnings before undernoted items	**111.5**	80.3
Depletion, amortization and accretion	**41.7**	41.7
Net financing expense (income) (note 6)	**1.5**	(2.6)
Other items (note 7)	**(0.8)**	4.8
Earnings from continuing operations before income taxes	**69.1**	36.4
Income taxes		
Current	**25.3**	10.0
Future	**(9.1)**	(1.5)
	16.2	8.5
Earnings from continuing operations	**52.9**	27.9
Discontinued operations (note 3)	**–**	6.9
Net earnings	**$ 52.9**	$ 34.8
Earnings from continuing operations per restricted voting share		
Basic	**$ 0.35**	$ 0.19
Diluted	**0.25**	0.17
Earnings per restricted voting share		
Basic	**$ 0.35**	$ 0.26
Diluted	**0.25**	0.21

Consolidated Statements of Retained Earnings

(unaudited) (millions of Canadian dollars)	Three months ended march 31 **2004**	 2003 (restated – note 2)
Beginning of period, as previously reported	**$ 203.2**	$ 116.2
Change in accounting policy (note 2)	**(8.3)**	(10.3)
Beginning of period, as restated	**194.9**	105.9
Net earnings	**52.9**	34.8
Interest and accretion on convertible debentures (note 4)	**(6.6)**	(9.3)
End of period	**$ 241.2**	$ 131.4

Consolidated Statements of Cash Flow

(unaudited) (millions of Canadian dollars)	Three months ended March 31 **2004**	2003 (restated – note 2)
Operating activities		
Net earnings	**$ 52.9**	$ 34.8
Items not affecting cash		
Depletion, amortization and accretion	**41.7**	41.7
Write-down of investments	**–**	4.0
Gain on sale of metallurgical coal assets	**–**	(12.9)
Share of loss (earnings) of equity investments	**(0.8)**	0.4
Future income taxes	**(9.1)**	5.6
Foreign exchange losses (gains)	**0.9**	(2.4)
Asset retirement obligations expenditures	**(1.7)**	(1.7)
Other items	**0.1**	1.1
Cash provided before working capital changes	**84.0**	70.6
Decrease (increase) in non-cash working capital		
Accounts receivable	**(8.8)**	(42.4)
Inventories	**(5.8)**	5.8
Overburden removal costs	**0.5**	0.5
Prepaid expenses	**(3.0)**	(3.6)
Accounts payable and accrued liabilities	**(16.0)**	30.4
	(33.1)	(9.3)
Cash provided from operating activities	**50.9**	61.3
Investing activities		
Capital expenditures	**(20.0)**	(26.1)
Proceeds from sale of investments	**–**	27.0
Investments	**0.3**	–
Acquisition of business	**–**	(210.4)
Net proceeds from sale of capital assets	**–**	0.6
Restricted cash	**(2.4)**	7.5
Other assets	**2.6**	(14.3)
Cash used for investing activities	**(19.5)**	(215.7)
Financing activities		
Short-term debt	**0.2**	27.6
Long-term debt	**(0.6)**	5.1
Issue of restricted voting shares	**0.3**	–
Cash provided by (used for) financing activities	**(0.1)**	32.7
Increase (decrease) in net cash	**31.3**	(121.7)
Net cash at beginning of period	**333.0**	193.0
Net cash at end of period	**$ 364.3**	$ 71.3

Net cash consists of cash, cash equivalents and short-term investments. As at March 31, 2004, short-term investments with maturities greater than three months were $12.0 million (2003 – nil). For the three-month period ended March 31, 2004, the Corporation received interest of $2.4 million (2003 – $1.2 million), paid interest on debt of $5.9 million (2003 – $0.4 million) and paid taxes of $24.7 million (2003 – $12.8 million).

Notes to Interim Consolidated Financial Statements

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

1 Summary of accounting policies

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

2 Changes in accounting policies and estimates

Asset Retirement Obligations
The Canadian Institute of Chartered Accountants (CICA) has issued new recommendations in respect of accounting for asset retirement obligations and related asset retirement costs. These recommendations apply to legal obligations resulting from the acquisition, construction, development or normal operation of tangible 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 Coal and Metals mining operations, including associated infrastructure and buildings. Obligations have also been recorded for nickel and cobalt refining facilities and oil and gas production facilities. Reclamation of coal mining operations is typically carried out on a continuous basis over the life of each mine and is dependent on the rate that mining progresses over the area to be mined.

The new accounting policy was implemented on January 1, 2004 on a retroactive basis with restatement of prior periods. The cumulative effect of the change in policy on the balance sheet at December 31, 2003 was to increase capital assets by $9.9 million, increase current taxes payable by $1.9 million, increase asset retirement obligations by $25.5 million, decrease future income tax liabilities by $9.2 million and decrease opening retained earnings by $10.3 million. The effect of the change in policy on the statement of operations for March 31, 2003 was a $0.1 million increase in net earnings.

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

	Three months ended March 31 2004	Year ended December 31 2003
Balance, beginning of period	**$ 79.4**	$ 78.3
Additions to liabilities	**2.0**	7.0
Liabilities settled	**(2.1)**	(9.0)
Accretion expense	**1.3**	5.3
Change in foreign exchange rates	**–**	(2.2)
Balance, end of year	**80.6**	79.4
Current portion	**(9.9)**	(8.9)
	$ 70.7	$ 70.5

The Corporation estimates the undiscounted cash flow required to settle the asset retirement obligation is approximately $229.0 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 liability is subject to change based on amendments to applicable laws and legislation. Future changes, if any, could have a significant impact and would be reflected prospectively as a change in accounting estimate.

Change in Estimated Useful Lives

Concurrent with the implementation of the asset retirement obligation accounting policy, the Coal business undertook a review of the estimated useful lives of its capital assets. As a result of this review, amortization was reduced by $1.3 million for the first quarter of 2004. The change in estimated useful lives of capital assets was treated as a change in accounting estimate and was therefore implemented on a prospective basis.

Oil and Gas Full Cost Accounting

The CICA approved Accounting Guideline AcG-16, Oil and Gas Accounting – Full Cost, in July 2003. The guideline is effective for years beginning on or after January 1, 2004. The guideline modifies the ceiling test for oil and gas revenues and provides guidance on several other issues in respect of oil and gas assets. The recoverability of a cost centre is tested by comparing the carrying value of the cost centre to the sum of the undiscounted cash flows expected from the cost centre's use and eventual disposition.

If the carrying value is unrecoverable, the cost centre is written down to its fair value. This approach incorporates risks and uncertainties in the expected future cash flows, which are discounted using a risk free rate. The implementation of this guideline did not have an impact on the financial statements.

Impairment of Long-lived Assets

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

Generally Accepted Accounting Principles

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

Hedging Relationships

In 2003, the CICA issued Accounting Guideline 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 13 to be recognized in the balance sheet at fair value. The adoption of this guideline had no impact on the financial statements.

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

3 Discontinued operations

On February 28, 2003, the Corporation disposed of its metallurgical coal assets. The results of these operations are disclosed as discontinued operations for the period from January 1, 2003 to March 31, 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.

	January 1 to February 28, 2003 (restated)
Revenue from discontinued operations	$ 14.6
Operating earnings from discontinued operations	1.1
Gain on disposal of metallurgical coal assets	12.9
Earnings from discontinued operations before income taxes	14.0
Income taxes	7.1
Earnings from discontinued operations	$ 6.9

4 Shareholders' equity

Convertible debentures comprise $300 million (December 31, 2003 – $300 million) principal amount of 6% convertible unsecured subordinated debentures issued 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 three months ended March 31, 2004 is stated net of tax relief of $3.4 million (2003 – nil).

Issued capital stock at March 31, 2004 comprised 131,274,779 (December 31, 2003 – 131,189,779) restricted voting shares (Shares).

The Corporation will seek approval from shareholders to redesignate its Shares as common shares at its annual meeting on May 27, 2004.

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 42,857,143 additional Shares may be issued on or before December 14, 2013 with respect to the 7% convertible debentures.

5 Stock compensation plans

For the three months ended March 31, 2004, no options were issued under the employee and director stock option plan and no Shares were issued under the employee share purchase plan.

The following is a summary of stock option activity during the three months ended March 31, 2004.

	Three months ended March 31, 2004	
	Options	Weighted average exercise price
Outstanding at beginning of period	6,410,000	$ 6.64
Exercised	(85,000)	3.05
Forfeited	(270,000)	7.74
Outstanding at end of period	6,055,000	$ 6.65

During the quarter, 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 recognized and accrued during the quarter in respect of all stock compensation plans was $1.2 million (2003 – nil).

6 Net financing expense (income)

	Three months ended March 31 2004	Three months ended March 31 2003 (restated)
Interest income on cash, cash equivalents, short-term investments and loans	**$ (7.8)**	$ (5.3)
Interest income from affiliates	**–**	(1.8)
Interest expense on debt	**8.4**	6.1
Foreign exchange losses (gains)	**0.9**	(2.4)
Realized loss on sale of investments	**–**	0.8
	$ 1.5	$ (2.6)

7 Other items

	Three months ended March 31 2004	Three months ended March 31 2003 (restated)
Write-down of Minara Resources investment (formerly Anaconda)	**$ –**	$ 4.0
Share of loss (earnings) of equity investments	**(0.8)**	0.4
Minority interest	**–**	0.4
	$ (0.8)	$ 4.8

8 Earnings per restricted voting 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 March 31 2004	2003 (restated)
Earnings from continuing operations	**$ 52.9**	$ 27.9
Interest and accretion on convertible debentures	**(6.6)**	(9.3)
Earnings from continuing operations – basic	**46.3**	18.6
Earnings from discontinued operations	**–**	6.9
Net earnings – basic	**46.3**	25.5
Interest and accretion on convertible debentures (1)	**6.6**	9.3
Net earnings – diluted	**52.9**	34.8
Earnings from discontinued operations	**–**	(6.9)
Earnings from continuing operations – diluted	**$ 52.9**	$ 27.9
Weighted average number of Shares – basic	**131.3**	98.0
Weighted average effect of dilutive securities:		
Employee stock options (1)	**0.7**	0.2
Convertible debentures (1)	**77.0**	68.4
Weighted average number of Shares – diluted	**209.0**	166.6
Earnings from continuing operations per Share		
Basic	**$ 0.35**	$ 0.19
Diluted	**0.25**	0.17
Earnings from discontinued operations per Share		
Basic	**–**	0.07
Diluted	**–**	0.04
Earnings per Share		
Basic	**0.35**	0.26
Diluted	**0.25**	0.21

(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.

9 Segment information

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

Three months ended March 31, 2004 (millions of Canadian dollars)	**Coal (1)**	**Metals**	**Oil and Gas**	**Power (2)**	**Other**	**Corporate**	**Consolidated**
Revenue	**$ 63.2**	**$ 105.0**	**$ 47.6**	**$ 9.1**	**$ –**	**$ –**	**$ 224.9**
Operating, selling, general and administrative	**45.2**	**47.8**	**9.7**	**2.3**	**–**	**8.4**	**113.4**
Earnings (loss) before undernoted items	**18.0**	**57.2**	**37.9**	**6.8**	**–**	**(8.4)**	**111.5**
Depletion, amortization and accretion	**12.8**	**5.0**	**20.5**	**2.4**	**–**	**1.0**	**41.7**
Operating earnings (loss) from continuing operations	**5.2**	**52.2**	**17.4**	**4.4**	**–**	**(9.4)**	**69.8**
Share of earnings of equity investments							**0.8**
Net financing expense							**(1.5)**
Earnings from continuing operations before income taxes							**69.1**
Capital expenditures	**0.8**	**1.4**	**17.8**	**–**	**–**	**–**	**20.0**
Assets	**$ 792.6**	**$ 398.2**	**$ 504.6**	**$ 267.2**	**$ 92.2**	**$ 322.4**	**$ 2,377.2**

(1) Coal capital expenditures and assets include amounts relating to discontinued operations.
(2) Power operating earnings and capital expenditures have been included as a separate segment since March 28, 2003.

Three months ended March 31, 2003 (restated) (millions of Canadian dollars)	Coal (1)	Metals	Oil and Gas	Power (2)	Other	Corporate	Consolidated
Revenue	$ 50.7	$ 64.4	$ 69.3	$ –	$ 8.5	$ –	$ 192.9
Operating, selling, general and administrative	38.8	49.6	13.0	–	6.1	5.1	112.6
Earnings (loss) before undernoted items	11.9	14.8	56.3	–	2.4	(5.1)	80.3
Depletion, amortization and accretion	12.6	4.9	21.4	–	1.9	0.9	41.7
Operating earnings (loss) from continuing operations	(0.7)	9.9	34.9	–	0.5	(6.0)	38.6
Write-down of Minara Resources investment							(4.0)
Share of loss of equity investments							(0.4)
Net financing income							2.6
Minority interest							(0.4)
Earnings from continuing operations before income taxes							36.4
Capital expenditures	2.4	2.6	18.0	–	2.6	0.5	26.1
Assets	$ 908.3	$ 370.0	$ 575.1	$ –	$ 389.4	$ 44.7	$ 2,287.5

(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 March 31	**2004**		2003 (restated)	
	Revenue	**Capital Assets**	Revenue	Capital Assets and Goodwill
Canada	**$ 72.5**	**$ 809.7**	$ 79.0	$ 843.2
Cuba	**53.1**	**425.7**	76.0	517.2
Europe	**61.8**	**4.8**	23.7	7.1
Asia	**33.1**	**6.9**	9.7	6.8
Other countries	**4.4**	**–**	4.5	–
	$ 224.9	**$ 1,247.1**	$ 192.9	$ 1,374.3

10 Financial instruments

Unutilized lines of credit as at March 31, 2004 were $69.7 million.

11 Comparative amounts

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

Supplementary Financial Information

CANADIAN GAAP RECONCILIATION TABLE

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

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

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

(millions of Canadian dollars)	Three months ended March 31 **2004**	2003 (restated)
Canadian GAAP earnings from continuing operations	**$ 52.9**	$ 27.9
Loss on sale of Fording Trust units	**–**	0.8
Coal severance costs	**–**	2.5
Write-down of Minara Resources investment	**–**	4.0
Oil and Gas severance costs	**–**	0.5
Currency translation adjustments	**0.9**	(2.4)
Income tax impact of above items	**(0.4)**	0.8
Earnings from continuing operations, excluding certain items	**$ 53.4**	$ 34.1
Earnings from continuing operations per share, excluding certain items		
Basic	**$ 0.36**	$ 0.25
Diluted	**0.26**	0.20

SCHEDULE OF SELECTED CURRENT ASSETS AND ACCOUNTS PAYABLE BY OPERATING SEGMENT

March 31, 2004 (millions of Canadian dollars)	**Coal**	**Metals**	**Oil and Gas**	**Power**	**Other**	**Corporate**	**Consolidated**
Accounts receivable	**$ 37.6**	**$ 54.7**	**$ 162.2**	**$ 24.6**	**$ –**	**$ 12.8**	**$ 291.9**
Inventories	**19.0**	**76.6**	**–**	**2.8**	**–**	**–**	**98.4**
Overburden removal costs	**1.6**	**–**	**–**	**–**	**–**	**–**	**1.6**
Prepaid expenses	**1.9**	**3.8**	**0.7**	**–**	**1.3**	**3.0**	**10.7**
Future income taxes	**–**	**15.6**	**6.4**	**–**	**–**	**–**	**22.0**
	$ 60.1	**$ 150.7**	**$ 169.3**	**$ 27.4**	**$ 1.3**	**$ 15.8**	**$ 424.6**
Accounts payable and accrued liabilities	**$ 38.9**	**$ 65.8**	**$ 34.9**	**$ 1.6**	**$ –**	**$ 20.5**	**$ 161.7**

December 31, 2003 (restated) (millions of Canadian dollars)	Coal	Metals	Gas	Oil and Power	Other	Corporate	Consolidated
Accounts receivable	$ 31.4	$ 48.8	$ 163.3	$ 24.0	$ –	$ 14.0	$ 281.5
Inventories	21.9	67.8	–	2.9	–	–	92.6
Overburden removal costs	2.1	–	–	–	–	–	2.1
Prepaid expenses	1.0	4.2	0.6	–	1.2	0.7	7.7
Future income taxes	–	11.6	5.1	–	–	–	16.7
	$ 56.4	$ 132.4	$ 169.0	$ 26.9	$ 1.2	$ 14.7	$ 400.6
Accounts payable and accrued liabilities	$ 38.9	$ 58.4	$ 39.0	$ 3.7	$ –	$ 27.7	$ 167.7

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