Second Quarter 2008

For Quarter Ending June 30, 2008

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Sherritt Reports Second Quarter 2008 Results

Highlights

- Record results in Oil and Gas
- Successful acquisition of Royal Utilities Income Fund
- Senior Unsecured Debt rating upgraded to investment grade (BBB low)
- $275 million of 7.75% Senior Unsecured Debentures Series C issued
- Continued progress in Metals and Power expansion projects

Financial Highlights (unaudited)

				Six months ended June 30	
(millions of dollars, except per share amounts)	Q2 2008	Q1 2008	Q2 2007	2008	2007
Revenue	$ 441.2	$ 314.2	$ 405.4	$ 755.4	$ 715.5
EBITDA (1)	190.4	175.7	245.9	366.1	418.8
Net earnings	80.3	89.0	132.4	169.3	221.5
Basic earnings per share	0.28	0.38	0.72	0.66	1.24
Diluted earnings per share	0.28	0.38	0.72	0.65	1.24
Net working capital (2)	$ 904.7	$ 686.1	$ 687.0	$ 904.7	$ 687.0
Total assets	8,255.0	6,418.9	3,804.0	8,255.0	3,804.0
Shareholders' equity	3,794.8	3,242.2	2,661.5	3,794.8	2,661.5
Long-term debt to capitalization	25%	12%	12%	25%	12%
Weighted average number of shares (millions)					
Basic	282.1	232.1	183.5	257.1	177.8
Diluted	286.6	236.7	184.5	261.7	178.7

(1) EBITDA is a non-GAAP measure. Reference should be made to the Summary Financial Results by Segment later in this news release for a description of EBITDA and for reconciliation to GAAP measures. EBITDA does not have a standardized meaning and, therefore, may or may not be comparable with similar measures presented by other issuers.

(2) Net working capital is calculated as total current assets less total current liabilities.

TORONTO, July 30, 2008 — Sherritt International Corporation ("Sherritt" or the "Corporation") (TSX: S) today announced results for the second quarter of 2008, with record revenues of $441.2 million, EBITDA of $190.4 million and net earnings of $80.3 million, compared with revenues of $405.4 million, EBITDA of $245.9 million and net earnings of $132.4 million for the second quarter of 2007. Record results from Sherritt's Oil and Gas operations were more than offset by the combined impact of lower realized nickel prices (48% lower than in second quarter of 2007) and lower finished metals

production (related to timing of the annual maintenance shutdown at the Fort Saskatchewan refinery).

In Metals, the combination of declining realized nickel prices and the impact of a scheduled maintenance shutdown on finished metals production resulted in lower revenue and EBITDA compared to the second quarter of 2007. Revenue and EBITDA were $177.7 million and $71.3 million, respectively, during the second quarter, compared to $274.1 million and $166.7 million, respectively, in the prior-year period.

Commissioning of equipment necessary to achieve Phase 1 rates of production from Moa/Fort Saskatchewan expansion was completed in the second quarter of 2008. Going forward, nominal annual production capacity will increase by 4,000 tonnes (100% basis) of nickel and cobalt contained in mixed sulphide, increasing the overall nominal capacity to 37,000 tonnes (100% basis) per year. Efforts are now focused on completing the 9,000 tonne (100% basis) Phase 2 construction and commissioning, currently scheduled for the second quarter of 2009 at Moa and the third quarter of 2009 at Fort Saskatchewan.

The 60,000 tonne nickel (100% basis) Ambatovy Project in Madagascar is progressing, with almost all key fabrication contracts in place and construction ramping up rapidly. Mechanical completion is expected during 2010.

In Coal, Sherritt completed the acquisition of Royal Utilities Income Fund ("Royal Utilities") during the second quarter. As a result, Sherritt's Coal division now consists of three operations – Prairie Operations, which includes eight coal mines in Saskatchewan and Alberta supplying coal to electric utilities in the provinces and certain coal and potash royalties; Mountain Operations, which includes two export thermal coal mines; and the coal development assets, which include significant undeveloped coal resources.

Prairie Operations benefited from increasing royalties, as well as higher realized prices during the second quarter, as a result of higher demand for coal in Saskatchewan and improved production levels of 8.8 million tonnes of coal, compared to 8.4 million tonnes in the second quarter of 2007. Revenue in the second quarter of $139.2 million (100% basis, full quarter) was $16.8 million higher than in the same quarter last year, due to higher royalties, sales volumes and realized prices. EBITDA was essentially unchanged from the prior-year period, as higher supply-related diesel costs and takeover and restructuring costs related to the acquisition of Royal Utilities offset increases in potash royalties and realized prices. At Mountain Operations, robust export coal prices resulted in record average realized prices of $87.87/tonne during the second quarter, 70% higher than the same period in 2007. As a result, revenue at Mountain Operations in the second quarter grew to a record $34.2 million. Despite increasing operating costs as a result of materially higher input costs such as fuel, steel, power and tires, Mountain Operations achieved record EBITDA of $5.6 million during the second quarter, compared to $0.3 million for the second quarter of 2007.

In Oil and Gas, both revenue and EBITDA achieved record levels of $104.5 million and $86.5 million, respectively, due to the continued and unprecedented strength in world oil

prices. Average realized oil prices in Cuba and Spain during the quarter were 51% and 64% higher, respectively, than in the comparable quarter in 2007. Gross working-interest production in Cuba increased to 33,813 barrels per day ("bpd") during the quarter, from 30,899 bpd in the second quarter of 2007.

In Power, electricity production of 567 Gigawatt hours (GWh) was essentially unchanged from the prior-year period production of 566 GWh, as a result of a 32.5 Megawatt (MW) turbine being offline for most of the quarter for repair. Revenue grew by over 7% from the prior-year period to $30.3 million in the second quarter of 2008, primarily as a result of higher prices and sales volumes of by-products. EBITDA of $22.9 million during the quarter grew by over 8% relative to the prior-year period. The Corporation has finalized terms for the development of 25 MW of thermal generating capacity in Madagascar, with production expected to commence in the first half of 2009.

Significant Events

In May, Sherritt acquired all of the issued and outstanding Royal Utilities trust units that it did not already own. The transaction resulted in total consideration paid of approximately $722 million (approximately $250 million in cash and 31.4 million common shares).

On June 2, 2008, Sherritt's Senior Unsecured Debt rating was upgraded by DBRS from BB (high) to BBB (low). The new investment grade rating reflects the company's strengthened business risk profile.

On June 17, 2008, the Corporation issued $275 million principal amount of 7.75% Senior Unsecured Debentures Series C due October 15, 2015 pursuant to a short-form base shelf prospectus dated June 4, 2008, as supplemented by a prospectus supplement dated June 10, 2008. Subsequent to quarter-end, approximately $140 million of the net proceeds of this debt issue have been used to reduce the outstanding balance on the Royal Utilities' credit facility. The balance of the net proceeds will be used to fund growth capital expenditures and general corporate purposes in Canada and Madagascar.

OUTLOOK

Metals

Consistent with previous guidance, full-year production (100% basis) for 2008 is expected to be approximately 32,500 tonnes of nickel and 3,500 tonnes of cobalt. This includes the additional production from Phase 1 of the Moa/Fort Saskatchewan expansion and reflects the impact of vessel delays and CN Rail disruptions, which limited feed availability earlier in the year.

Sherritt expects that mining, processing and refining costs will be higher than in the prior year as a result of increased input commodity costs. On a year-to-date basis, key

commodity costs have increased by approximately 85% compared to the same period last year, increasing direct cash costs by approximately U.S. $2.00/lb, before by-product credits and third-party feed costs.. On a net direct cash cost basis, this increase has been more than offset by the impact of higher cobalt prices and lower third-party feed costs year-to-date. Completion of the new sulphuric acid plant in Moa in 2009 will largely eliminate reliance on purchased acid and is expected to partly mitigate these cost increases. Sustaining capital expenditures are expected to be $21.9 million in the third quarter and $71.2 million for 2008, $14.8 million lower than previous guidance reflecting a deferral of spending associated with the utility upgrades at Fort Saskatchewan from 2008 to 2009. With the design and construction timetable for the utility assets further advanced, the majority of spending on these upgrades is now projected to occur in 2009.

Commissioning of Phase 2 is currently targeted to commence in the second quarter of 2009 at Moa and the third quarter at Fort Saskatchewan. Phase 2 is designed to increase capacity by a further 9,000 tonnes (100% basis) of nickel and cobalt contained in mixed sulphide. Phase 3 of the Moa/Fort Saskatchewan expansion, which will add 3,000 to 6,000 additional tonnes (100% basis) of annual nickel plus cobalt production, continues at the conceptual stage, as efforts are focused on meeting Phase 2 construction and commissioning timelines. Estimated capital expenditures for the Moa/Fort Saskatchewan expansion (including funding for the sulphuric acid plant) are expected to be $79 million in the third quarter and $254 million in 2008. Sherritt's share of the overall expansion costs is projected to total approximately $584 million (U.S. $566 million), marginally higher than earlier guidance of $569 million (U.S. $544 million).

At the end of June, engineering, procurement and construction at the Moa/Fort Saskatchewan expansion were estimated to be 98%, 71% and 59% complete, respectively, at Moa, compared to 96%, 66% and 48%, respectively, at the end of the first quarter. At Fort Saskatchewan, engineering, procurement and construction were 37%, 53% and 14% complete, respectively, compared to 28%, 29% and 14%, respectively, at the end of the first quarter.

The Ambatovy Joint Venture is making good progress with most of the major equipment, fabrication and construction contracts now awarded. The first of five 16-metre autoclaves arrived in Madagascar in late June and is now installed on its foundation at the plant and mechanical construction in other areas of the plant site has commenced. With support infrastructure such as water, sewage, power and worker accommodation complete, the plant site is ready for the significant ramping up of construction activities during the third quarter. Work at the mine site is also progressing well, with over 4 million cubic meters of earth excavated to date. Construction of the ore processing plant is expected to commence in the third quarter. Substantial progress is also being made on clearing of the 220 km slurry pipeline route between the mine site and the refinery. Sherritt continues to expect commissioning in 2010.

At the end of June, engineering procurement and construction at Ambatovy were estimated to be 69%, 74% and 25% complete, respectively, compared to 57%, 62% and 14%, respectively, at the end of the first quarter. Currently, the construction workforce

is just over 8,000 workers and the project has achieved over 16 million exposure hours without a lost time injury to the end of June.

Estimated capital expenditures at Ambatovy are $438 million for the third quarter and $1.6 billion budgeted for 2008. The capital budget established in 2007 of $3.8 billion (U.S. $3.3 billion) is expected to increase as a result of cost escalation. Sherritt intends to revise and disclose its new estimate in early 2009 as detailed engineering nears completion and construction and fabrication activities are further ahead. The capital budget amount does not include certain indirect costs such as accrued financing charges, inflation and working capital requirements. The budget established for these indirect costs in 2007 was approximately $0.5 billion (U.S. $0.4 billion).

Coal

Production for 2008 at Prairie Operations is expected to remain similar to 2007 levels of 36.1 million tonnes. Revenue and EBITDA from Prairie Operations are both expected to exceed 2007 levels, as higher realized prices, coupled with increased potash and coal royalties, should more than offset the operating cost pressures. Given the robust pricing environment currently present in coal and potash, royalties at Prairie Operations are expected to grow by over 35% in 2008, with potash royalties becoming a more significant contributor relative to 2007. Unit operating costs continue to face upward pressures due to the impact that the world economic and Western Canadian market conditions are having on pricing for diesel, labour, equipment and maintenance costs. As a result, Sherritt expects 2008 unit operating costs at Prairie Operations to be approximately 10% higher than 2007.

In July, Sherritt's wholly-owned subsidiary, Prairie Mines & Royalty Ltd. ("PMRL"), entered into a joint venture agreement and related agreements with Norit Canada Inc. ("Norit Canada"), a wholly-owned subsidiary of Norit N.V. ("Norit"), to construct the first of four 15,000 short ton activated carbon plants in Saskatchewan. The total cost of this four-phase project is expected to be approximately $200 million. Under the 50/50 joint venture agreement, Norit will provide the design and will work with Sherritt to jointly construct Canada's first activated carbon plant for the coal-fired utility market. The decision to enter a new market was driven by the anticipated growth in market demand for activated carbon, the lack of existing Canadian production, and the opportunity to leverage existing coal reserves. Production at the first plant is expected to begin in 2009.

At Mountain Operations, final price settlement of some contracts during the second quarter has resulted in record realized prices that were over 70% higher than during the second quarter of 2007. All of the contracts linked to market prices for export coal have now been settled for 2008, and realized prices for the remainder of the year are expected to show marginal increases. Approximately 50% of Mountain Operations' 2008 sales volumes are linked to the Newcastle FOB settlement prices. Production at the Coal Valley mine has been negatively affected by poor weather in the first half of 2008, and as a result, Sherritt expects full-year output from the mine to be approximately 3.9 million tonnes, down from the previous guidance of 4 million tonnes

(100% basis). In spite of the lower expected output, Sherritt continues to expect 2008 EBITDA from the Coal Valley mine to be approximately $50 million due to the robust pricing environment for export thermal coal. Sustaining capital expenditures at Mountain Operations for the third quarter and full year 2008 are expected to be approximately $4 million and $7 million, respectively.

Based on the greatly improved economics for export thermal coal, work has begun on re-opening the Obed Mountain mine, in which Sherritt has a 50% interest. The mine will have an estimated annual production capacity of 1.2 million tonnes (100% basis), which is expected to commence in the second half of 2009. Sherritt's share of the anticipated capital cost of re-opening the mine is approximately $12 million, with the majority of expenses likely to take place early in 2009 and be directed toward plant re-start, load-out facilities and conveyor upgrades. An off-take contract for 100% of the mine's production has already been secured that guarantees a floor price for three years with a sharing of the price upside.

Sherritt continues to develop the Dodds-Roundhill coal gasification project. Current activities are focused on finalizing the scope of the project with respect to the alternate non-hydrogen based outputs of the gasification plant, CO_2 reduction process modifications and abatement costs, completing the regulatory application and other initiatives. Capital expenditures in support of Dodds-Roundhill in 2008 are currently projected to be approximately $6 million.

Oil and Gas

Sherritt expects the gross working-interest production volumes for 2008 to remain comparable to the levels experienced in 2007 at approximately 30,500 bpd. Sherritt's net working-interest production is affected by recoverable capital, operational spending, as well as the price of oil. Higher oil prices, in an environment of steady capital and operational spending levels, result in lower net production attributable to Sherritt. Given the current world pricing levels, net production in Cuba will likely remain around 17,000 bpd. Consistent with previous guidance, net production in Spain and Pakistan is projected to remain steady in the 470 bpd and 400 boepd ranges, respectively.

Sherritt finalized and signed the production-sharing contract for the enhanced oil recovery pilot project in Cuba in the third quarter. The project has an estimated capital cost of U.S. $15 million, of which approximately U.S. $5 million will be incurred in the current year. The pilot phase will be conducted using carbon dioxide injection to increase the amount of oil extracted from the Varadero field. On receipt of the technical results, the Corporation will determine whether to proceed to a commercial scale operation. Also, during the third quarter of 2008, Sherritt signed a production-sharing contract for Block 8 in south-central Cuba.

In addition to its initiatives in Cuba, Sherritt continues to explore growth opportunities in Turkey, as well as the Alboran Sea area of Spain and the East Irish Sea in the U.K. The Corporation expects to be able to provide more details on these initiatives by the end of

the year. Estimated capital expenditures for 2008 are approximately $150 million, with $35 million expected in the third quarter.

Power

Total expected electricity production in 2008 remains 2,400 GWh, with 616 GWh estimated in the third quarter.

Progress continues with Sherritt's 150 MW Boca de Jaruco combined cycle expansion project. Earthwork commenced in the second quarter, and infrastructure contracts are being finalized to allow construction to begin in the fourth quarter of this year. To date, arrangements for the supply of all of the major equipment have been committed to, including a steam turbine, condenser, as well as heat recovery steam generators. As of the end of June, engineering, procurement and construction are 14%, 30% and 1% complete, respectively, compared to 7%, 2% and 0%, respectively, at the end of the first quarter. Consistent with previous guidance, the total expected project cost for the Boca de Jaruco expansion remains approximately $247 million.

As part of a Memorandum of Understanding to develop up to 100 MW of thermal and hydro power projects in Madagascar, which was signed earlier in the year, the Corporation has finalized terms for the development of 25 MW of thermal generating capacity in Madagascar. Production is expected to commence in the first half of 2009. The expected capital cost of these facilities is approximately $21 million, of which $16 million is expected to be incurred during the remainder of 2008. Discussions are proceeding regarding the potential development of an additional 75 MW of hydro and/or coal-fired facilities.

Total capital expenditures for the third quarter are expected to be in the range of $30 million to $35 million, while the full-year 2008 expenditures are expected to be approximately $75 million, taking into account the Madagascar expansion.

Review of Operations

Metals

			Six months ended June 30	
	Q2 2008	Q2 2007	2008	2007
Production (tonnes)				
Nickel	3,704	4,035	7,452	7,549
Cobalt	406	452	813	886
Sales (thousands of pounds)				
Nickel	8,200	8,887	16,562	16,663
Cobalt	902	976	1,822	1,864
Reference Prices				
Nickel (US$/lb)	$ 11.67	$ 21.76	$ 12.38	$ 20.25
Cobalt (US$/lb) (1)	45.93	28.01	46.06	$ 26.89
Realized Prices				
Nickel ($/lb)	$ 12.12	$ 23.37	$ 12.53	$ 22.65
Cobalt ($/lb)	45.67	30.26	45.90	$ 30.15
Unit Operating Costs (US$ per lb)				
Net direct cash costs of nickel (2)	$ 2.41	$ 3.36	$ 2.18	$ 3.06
Third-party feed costs	1.02	1.53	1.17	1.52
Revenue ($mm)	$ 177.7	$ 274.1	$ 340.0	$ 478.1
EBITDA ($mm)	$ 71.3	$ 166.7	$ 160.5	$ 301.4
Capital Expenditures ($mm)				
Moa Joint Venture ($mm) (50% basis)	$ 64.6	$ 49.1	$ 114.9	$ 80.1
Ambatovy Joint Venture ($mm) (100% basis)(3)	$ 501.7	$ 7.9	$ 884.6	$ 7.9

(1) Average Metal Bulletin: low grade cobalt published price
(2) Net direct cash cost of nickel after cobalt and by-product credits
(3) Ambatovy Joint Venture was accounted for using the equity method up to the fourth quarter of 2007

In the Moa Joint Venture, mixed sulphide production in the second quarter was 8,646 tonnes (100% basis), or 250 tonnes above last year's second quarter production. The increase in production is primarily due to the impact of higher ore grades and was partly offset by the impact of a planned 5-day maintenance shutdown at the Fort Saskatchewan refinery.

Finished nickel production during the quarter was 7,408 tonnes (100% basis), or 8% lower than the comparable period last year, primarily as a result of the annual maintenance shutdown at the Fort Saskatchewan refinery that took place during the quarter. In 2007, the maintenance shutdown occurred in the third quarter. The timing of the shutdown also resulted in lower finished cobalt production of 812 tonnes (100% basis) during the second quarter, 10% below levels in the prior-year period. Lower finished metals production resulted in an increase in the feed pipeline inventory at quarter end.

Sales of nickel and cobalt during the second quarter were 8.2 million pounds and 902,000 pounds, respectively, or 8% lower than in the same period last year, as a result of the lower finished metal production during the quarter. During the second quarter, nickel reference prices continued to decline, with the average reference price of U.S.$11.67/lb being 11% lower than in the first quarter of 2008 and 46% lower than in the prior-year period. Consequently, Sherritt's realized nickel price of U.S.$12.12/lb during the second quarter reflected the changes in the reference price, and represented a 48% decline from the second quarter of 2007. While the cobalt reference and realized prices of U.S.$45.93/lb and U.S.$45.67/lb, respectively, represented 64% and 51% increase over the prior-year period, lower nickel prices and lower finished metals sales volumes had a negative impact on revenue and EBITDA from the metals segment. Revenue of $177.7 million during the second quarter was $96.4 million lower than in the second quarter of 2007. Similarly, EBITDA of $71.3 million was $95.4 million lower than in the prior-year quarter, which reflected record realized nickel prices.

Sustaining capital expenditures, including certain utilities upgrades at Fort Saskatchewan and capital improvements at Moa concurrent with the expansion were $12.7 million in the second quarter, $9.3 million lower than previous guidance reflecting a deferral of spending associated with the utility upgrades at Fort Saskatchewan from 2008 to 2009. With the design and construction timetable for the utility assets further advanced, the majority of spending on these upgrades is now projected to occur in 2009. Expansion capital expenditures at Moa/Fort Saskatchewan were $51.9 million in the second quarter. At June 30, 2008, Sherritt achieved over 4.3 million exposure hours without a lost time injury related to the Moa/Fort Saskatchewan expansion.

Ambatovy capital expenditures during the second quarter were $501.7 million. The project has drawn down $632 million of the U.S. $2.1 billion project financing to date and a further drawdown of $500 million is expected in the third quarter of 2008. At the end of the second quarter, 16 million exposure hours had been achieved without a lost time injury.

Coal

	Q2 2008	Q2 2007	Six months ended June 30 2008	2007
Coal				
Prairie Operations [1]				
Production volumes (millions of tonnes) [2]	**8.8**	8.4	**17.6**	18.0
Sales volumes (millions of tonnes) [2]	**8.5**	8.4	**17.5**	17.8
Realized prices ($/tonne)	**$ 14.61**	$ 13.37	**$ 14.12**	$ 12.86
Unit cash operating costs ($/tonne)	**$ 11.88**	$ 10.59	**$ 11.04**	$ 9.78
Mountain Operations [3]				
Production volumes (millions of tonnes) [2]	**0.4**	0.4	**0.8**	0.9
Sales volumes (millions of tonnes) [2]	**0.4**	0.5	**0.8**	0.9
Realized prices ($/tonne)	**$ 87.87**	$ 51.55	**$ 77.56**	$ 51.27
Unit cash operating costs ($/tonne)	**$ 72.19**	$ 50.01	**$ 63.44**	$ 48.63
Revenue				
Prairie Operations [5]	**$ 139.2**	$ 122.4	**$ 275.0**	$ 250.4
Mountain Operations and other coal development assets[4]	**$ 34.2**	$ 24.6	**$ 65.1**	$ 44.4
	$ 173.4	$ 147.0	**$ 340.1**	$ 294.8
EBITDA				
Prairie Operations [5]	**$ 30.2**	$ 30.7	**$ 71.0**	$ 70.4
Mountain Operations and other coal development assets[4]	**$ 5.6**	$ 0.3	**$ 10.9**	$ (0.9)
	$ 35.8	$ 31.0	**$ 81.9**	$ 69.5
Distributions paid by Royal Utilities [6]	**$ 15.1**	$ 23.5	**$ 38.6**	$ 46.9
Capital Expenditures				
Prairie Operations [5]	**$ 7.5**	$ 2.5	**$ 11.5**	$ 3.9
Mountain Operations and other coal development assets [4]	**$ 0.5**	$ 0.7	**$ 1.1**	$ 1.1
	$ 8.0	$ 3.2	**$ 12.6**	$ 5.0

(1) Prairie Operations includes the seven mine-mouth operations, of which two are contract mines, the Bienfait mine and Char plant, and certain coal and potash royalties.

(2) Prairie Operations' sales and production volumes are presented on a 100% basis. Mountain Operations' sales and production volumes are presented on a 50% basis.

(3) Mountain Operations include the results of the Coal Valley mine, which is primarily involved in the export of thermal coal.

(4) Coal development assets include certain undeveloped reserves that produce coal-bed methane and technologies under development, including the Dodds-Roundhill coal gasification project.

(5) Prairie Operations' revenue, EBITDA and capital expenditures are shown on a 100% basis.

(6) Distributions paid by Royal Utilities are shown on a 100% basis.

Realized prices at Prairie Operations in the second quarter of 2008 were $14.61/tonne, approximately 9% higher than in the comparable period of 2007, primarily as a result of higher demand for coal in Saskatchewan and higher cost and capital recoveries at the contract and Genesee mines. Consequently, revenue in the second quarter of $139.2 million was $16.8 million higher than in the same quarter last year, as increased production and sales volumes further augmented the impact of higher realized prices and higher royalties. EBITDA was essentially unchanged from the prior-year period, as higher supply-related diesel costs and takeover and restructuring costs related to the acquisition of Royal Utilities offset increases in potash royalties and realized prices.

Record average realized prices at the Mountain Operations were $87.87/tonne during the second quarter of 2008, 70% higher than the same period in 2007, as pricing improved on export thermal coal contracts. As a result, revenue in the second quarter grew by 39% versus the second quarter of 2007, to a record $34.2 million. Operating costs per tonne in the second quarter increased by 44% as a result of the materially higher input costs including fuel, steel, power and tires, expanding coal haul distances, and slightly lower production volumes. Despite the cost pressures, Mountain Operations and coal development assets generated a combined EBITDA of $5.6 million compared to $0.3 million for the second quarter of 2007, as the impact of record realized prices more than offset the challenging operating cost environment.

During the second quarter, both the Genesee and Paintearth mines received the John T. Ryan Trophy, which is awarded by the Canadian Institute of Mining, Metallurgy and Petroleum to Canadian mines that experienced the lowest reportable injury frequency per 200,000 hours worked, in Canada. This marks the ninth time that Genesee, and fifth time that Paintearth, have received this award for their outstanding safety performance. On June 1, 2008, Genesee achieved another significant safety milestone, reaching 20 years of operation without a lost time injury.

Second quarter capital expenditures for the Prairie Operations consisted mainly of capital repairs at Genesee and infrastructure spending at Poplar River and Boundary Dam mines. In the Mountain Operations, capital expenditures were comparable to 2007.

Oil and Gas

			Six months ended June 30	
	Q2 2008	Q2 2007	2008	2007
Daily Production Volumes [1] [2]				
Production (boepd)				
Gross working-interest production in Cuba [3] [5]	33,813	30,899	32,409	30,332
Net production [4]				
Cuba (heavy oil)				
Cost recovery [5]	5,320	12,201	6,683	10,635
Profit oil [5]	11,879	7,248	10,653	7,848
Total Cuba	17,199	19,449	17,336	18,483
Spain (light/medium oil) [4]	476	427	485	451
Pakistan (natural gas) [4]	385	405	392	407
Total	18,060	20,281	18,213	19,341
Reference Prices				
US Gulf Coast Fuel Oil #6 (US$ per bbl)	$ 84.44	$ 49.48	$ 77.11	$ 44.21
Realized Prices				
Cuba (per bbl)	$ 62.01	$ 41.19	$ 56.63	$ 38.05
Spain (per bbl)	124.76	76.11	110.78	71.38
Pakistan (per boepd)	7.36	8.31	7.21	8.69
Unit Operating Costs				
Operating costs (per boe)	$ 6.13	$ 7.11	$ 6.39	$ 6.39
Revenues	$ 104.5	$ 77.7	$ 192.0	$ 136.1
EBITDA ($mm)	$ 86.5	$ 59.3	$ 154.5	$ 100.4
Capital Expenditures	$ 30.8	$ 35.8	$ 55.1	$ 83.1

(1) Production figures exclude production from wells for which commerciality has not been established.

(2) Oil production is stated in barrels per day ("bpd"). Natural gas production is stated in barrels of oil equivalent per day ("boepd"), which is converted at 6,000 cubic feet per barrel.

(3) In Cuba, Oil and Gas delivers all of its gross working-interest oil production to CUPET at the time of production. Gross working-interest oil production excludes (i) production from wells for which commerciality has not been established in accordance with production-sharing contracts; and (ii) working interests of other participants in the production-sharing contracts.

(4) Net production (equivalent to net sales volume) represents the Corporation's share of gross working-interest production. In Spain and Pakistan, net oil production volumes equal 100% of gross working-interest production volumes.

(5) Gross working-interest oil production is allocated between Oil and Gas and CUPET in accordance with production-sharing contracts. The Corporation's share, referred to as 'net oil production', includes (i) cost recovery oil (based upon the recoverable capital and operating costs incurred by Oil and Gas under each production-sharing contract) and (ii) a percentage of profit oil (gross working-interest production remaining after cost recovery oil is allocated to Oil and Gas). Cost recovery pools for each production-sharing contract include cumulative recoverable costs, subject to certification by CUPET, less cumulative proceeds from cost recovery oil allocated to Oil and Gas. Cost recovery revenue equals capital and operating costs eligible for recovery under the production-sharing contracts. Therefore, cost recovery oil volumes increase as a result of higher capital expenditures and decrease when selling prices increase. When oil prices increase, the resulting reduction in cost recovery oil volumes is partially offset by an increase in profit oil barrels.

Record revenue and EBITDA were achieved during the quarter ended June 30, 2008, due to the continued and unprecedented strength in world oil prices. Revenue of $104.5 million was 34% higher than in the second quarter of 2007, while EBITDA of $86.5 million increased 46% from the prior-year period. The record operating performance is directly attributable to average realized oil prices in Cuba and Spain during the quarter, which were 51% and 64% higher, respectively, than in the comparable quarter in 2007. A strengthening of the Canadian dollar relative to the U.S. dollar and lower overall net production relative to the comparable quarter slightly offset the impact of higher realized prices. The second quarter of 2008 marked the fifth consecutive quarter of record EBITDA in Oil and Gas.

Capital expenditures during the quarter were $30.8 million, and were mainly in support of development and exploration drilling along with facility construction. During the second quarter of 2008, four development wells were initiated and five development wells and one exploration well were completed. Year to date, eight development wells and one exploration well were initiated, and eight development wells and one exploration well were completed.

The Corporation relinquished four offshore blocks in Cuban sector of the Gulf of Mexico during the second quarter due to the inability to attract a partner to share the significant development costs and risks associated with these deepwater blocks.

Power

					Six months ended June 30			
		Q2 2008		Q2 2007		2008		2007
Electricity sold (000's of MWh) [1]		567		566		1,164		1,052
Realized price per MWh	$	40.83	$	43.95	$	40.72	$	45.25
Unit cash operating cost ($ per MWh)	$	11.80	$	12.44	$	10.13	$	13.17
Revenue ($mm)	$	30.3	$	28.3	$	60.1	$	56.2
EBITDA ($mm)	$	22.9	$	21.2	$	46.7	$	41.4
Capital Expenditures ($mm)	$	7.5	$	5.6	$	11.3	$	15.7

(1) Includes non-controlling interest.

Electricity production during the second quarter of 2008 was essentially unchanged from the prior-year period at 567 GWh, as a result of a 32.5 MW turbine being offline for most of the quarter for repairs. The turbine was repaired ahead of schedule and contributed to overall electricity production starting in mid-June. Net capacity factor for the quarter was 76%, which includes downtime of the recently repaired turbine.

Revenue grew by over 7% from the prior-year period to $30.3 million in the second quarter of 2008, as higher by-product prices and sales volumes offset a slight revenue decline from electricity production that was primarily a result of lower average realized prices and a strengthening Canadian dollar compared to the U.S. dollar. Operating costs were lower during the second quarter of 2008 compared with the same quarter in 2007 due to timing of scheduled project maintenance and accrual of recoveries for a business interruption insurance claim that occurred in late 2007. As a result, EBITDA of $22.9 million during the quarter grew by over 8% relative to the prior-year period.

Second-quarter expansion capital expenditures in support of Boca de Jaruco project were $4.6 million, while sustaining capital expenditures were $2.9 million.

Summary Financial Results by Segment (unaudited)

The tables below present EBITDA and operating earnings from continuing operations by segment and reconcile these non-GAAP measures to earnings before income taxes. EBITDA is a measurement of revenue less cash operating expenses. Operating earnings is a measure used by Sherritt to evaluate the operating performance of its businesses as it excludes interest charges, which are a function of the particular financing structure for the business, and certain other charges. EBITDA and operating earnings do not have any standardized meaning prescribed by Canadian generally accepted accounting principles, so they may or may not be comparable with similar measures presented by other issuers.

All amounts in this news release represent Sherritt's 100% interest unless otherwise indicated. Amounts relating to Metals reflect the Corporation's 50% interest in the Moa Joint Venture, 100% of utility and fertilizer operations in Fort Saskatchewan and the consolidation of the Ambatovy Joint Venture. Amounts relating to Coal reflect the Corporation's 50% proportionate interest in Coal Valley. Amounts relating to Power reflect the consolidation of Energas S.A. The non-controlling interests in the Ambatovy Joint Venture and in Energas S.A. are disclosed separately in the consolidated financial statements.

Three months ended June 30, 2008

($ millions)	Metals	Coal [1]	Oil and Gas	Power	Corporate and Other[3]	Consolidated
Revenue	$ 177.7	$ 124.5	$ 104.5	$ 30.3	$ 4.2	$ 441.2
Operating, selling, general and administrative [2]	106.4	102.5	18.0	7.4	16.5	250.8
EBITDA	71.3	22.0	86.5	22.9	(12.3)	190.4
Depletion, amortization and accretion	(5.8)	(20.7)	(29.2)	(7.2)	(1.2)	(64.1)
Operating earnings (loss)	65.5	1.3	57.3	15.7	(13.5)	126.3
Share of earnings of equity investments[4]	-	1.9	-	-	1.1	3.0
Net financing expense						(13.5)
Income taxes						(28.3)
Non-controlling interests						(6.7)
Earnings from continuing operations						80.8
Earnings (loss) from discontinued operations						(0.5)
Net earnings						80.3
Capital expenditures	$ 566.3	$ 6.9	$ 30.8	$ 7.5	$ 7.8	$ 619.3

(1) Coal includes the Corporation's 50% proportionate interest in the Mountain Operations (previously known as Coal Valley). It also includes the equity earnings of Royal Utilities up to May 2, 2008 and 100% of Royal Utilities' results from May 2, 2008 to June 30, 2008.
(2) Excluding depreciation of $3.4 million in Metals and $9.2 million in Coal.
(3) The Corporate and Other segment includes result of the metallurgical technology business acquired from Dynatec.
(4) Share of earnings of equity investments includes Royal Utilities.

Three months ended June 30, 2007

($ millions)	Metals [1]	Coal [2]	Oil and Gas	Power	Corporate and Other [5]	Consolidated
Revenue	$ 274.1	$ 24.6	$ 77.7	$ 28.3	$ 0.7	$ 405.4
Operating, selling, general and administrative	107.4	24.3	18.4	7.1	2.3	159.5
EBITDA	166.7	0.3	59.3	21.2	(1.6)	245.9
Depletion, amortization and accretion	(5.5)	(2.7)	(23.0)	(6.6)	(1.1)	(38.9)
Operating earnings (loss)	161.2	(2.4)	36.3	14.6	(2.7)	207.0
Share of earnings of equity investments [3]	-	5.0	-	-	-	5.0
Net financing expense						(6.6)
Income taxes						(67.2)
Non-controlling interests						(5.8)
Earnings from continuing operations						132.4
Earnings from discontinued operations						-
Net earnings						132.4
Capital expenditures[4]	$ 57.0	$ 0.7	$ 35.8	$ 5.6	$ 0.1	$ 99.2

(1) Comparable periods have been restated to reflect a change in the reclassification and adjustment of certain revenues, operating, selling, general and administrative costs in the Metals business.
(2) Coal includes the Corporation's 50% proportionate interest in the Coal Valley export thermal coal mine and other coal development assets.
(3) Share of earnings of equity investments includes Royal Utilities.
(4) Total capital expenditures include $0.1 million from discontinued operations.
(5) The Corporate and Other segment includes result of the metallurgical technology business acquired from Dynatec, for the period from June 14 to June 30, 2007.

Six months ended June 30, 2008

($ millions)	Metals	Coal [1]	Oil and Gas	Power	Corporate and Other [3]	Consolidated
Revenue	$ 340.0	$ 155.4	$ 192.0	$ 60.1	$ 7.9	$ 755.4
Operating, selling, general and administrative [2]	179.5	128.1	37.5	13.4	30.8	389.3
EBITDA	160.5	27.3	154.5	46.7	(22.9)	366.1
Depletion, amortization and accretion	(10.7)	(22.9)	(52.9)	(14.7)	(2.6)	(103.8)
Operating earnings (loss)	149.8	4.4	101.6	32.0	(25.5)	262.3
Share of earnings of equity investments [4]	-	8.3	-	-	1.1	9.4
Net financing expense						(12.6)
Income taxes						(76.2)
Non-controlling interests						(12.9)
Earnings from continuing operations						170.0
Earnings (loss) from discontinued operations						(0.7)
Net earnings						169.3
Capital expenditures	$ 999.5	$ 7.5	$ 55.1	$ 11.3	$ 8.1	$ 1,081.5

(1) Coal includes the Corporation's 50% proportionate interest in the Mountain Operations (previously known as Coal Valley). It also includes the equity earnings of Royal Utilities up to May 2, 2008 and 100% of Royal Utilities' results from May 2, 2008 to June 30, 2008.
(2) Excluding depreciation of $6.5 million in Metals and $11.1 million in Coal.
(3) The Corporate and Other segment includes result of the metallurgical technology business acquired from Dynatec.
(4) Share of earnings of equity investments includes Royal Utilities.

Six months ended June 30, 2007

($ millions)	Metals [1]	Coal [2]	Oil and Gas	Power	Corporate and Other[4]	Consolidated
Revenue	$ 478.1	$ 44.4	$ 136.1	$ 56.2	$ 0.7	$ 715.5
Operating, selling, general and administrative	176.7	45.3	35.7	14.8	24.2	296.7
EBITDA	301.4	(0.9)	100.4	41.4	(23.5)	418.8
Depletion, amortization and accretion	(11.5)	(5.1)	(46.1)	(12.6)	(2.1)	(77.4)
Operating earnings (loss)	289.9	(6.0)	54.3	28.8	(25.6)	341.4
Share of earnings of equity investments	-	11.9	-	-	-	11.9
Net financing expense						(7.4)
Income taxes						(113.2)
Non-controlling interests						(11.2)
Earnings from continuing operations						221.5
Earnings from discontinued operations						-
Net earnings						221.5
Capital expenditures [3]	$ 88.0	$ 1.1	$ 83.1	$ 15.7	$ 0.2	$ 188.1

[1] Comparable periods have been restated to reflect a change in the reclassification and adjustment of certain revenues, operating, selling, general and administrative costs in the Metals business.

[2] Coal results include the Corporation's 50% proportionate interest in the Coal Valley export thermal coal mine and coal development assets.

[3] Total capital expenditures include $0.1 million from discontinued operations.

[4] The Corporate and Other segment includes results of metallurgical technology division acquired from Dynatec, for the period from June 14 to June 30, 2007.

Supplementary Information

The tables below present EBITDA and operating earnings from continuing operations by segment and reconcile these non-GAAP measures to earnings before income taxes. 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 the operating performance of its businesses as it excludes interest charges, which are a function of the particular financing structure for the business, and certain other charges. EBITDA and operating earnings do not have any standardized meaning prescribed by Canadian generally accepted accounting principles and, therefore, they may or may not be comparable with similar measures presented by other issuers

Three months ended March 31, 2008

($ millions)	Metals	Coal [1]	Oil and Gas	Power	Corporate and Other[4]	Consolidated
Revenue	$ 162.3	$ 30.9	$ 87.5	$ 29.8	$ 3.7	$ 314.2
Operating, selling, general and administrative [2]	73.1	25.6	19.5	6.0	14.3	138.5
EBITDA	89.2	5.3	68.0	23.8	(10.6)	175.7
Depletion, amortization and accretion	(4.9)	(2.2)	(23.7)	(7.5)	(1.4)	(39.7)
Operating earnings (loss) from continuing operations	84.3	3.1	44.3	16.3	(12.0)	136.0
Share of earnings of equity investments[3]	-	6.4	-	-	-	6.4
Net financing income						0.9
Income taxes						(47.9)
Non-controlling interests						(6.2)
Loss from discontinued operations						(0.2)
Net earnings						89.0
Capital expenditures	$ 433.2	$ 0.6	$ 24.3	$ 3.8	$ 0.3	$ 462.2

(1) Coal includes the Corporation's 50% proportionate interest in the Coal Valley export thermal coal mine and other coal development assets
(2) Figures exclude depreciation totaling $5.0 million on a consolidated basis.
(3) Share of earnings of equity investments includes Royal Utilities.
(4) The Corporate and Other segment includes results of the metallurgical technology business acquired from Dynatec.

Three months ended December 31, 2007

($ millions)	Metals	Coal [1]	Oil and Gas	Power	Corporate and Other[4]	Consolidated
Revenue	$ 176.9	$ 23.2	$ 85.9	$ 29.9	$ 7.7	$ 323.6
Operating, selling, general and administrative [1]	83.8	28.3	20.3	9.5	6.2	148.1
EBITDA	93.1	(5.1)	65.6	20.4	1.5	175.5
Depletion, amortization and accretion	(6.0)	(2.6)	(21.8)	(7.5)	(1.7)	(39.6)
Operating earnings (loss) from continuing operations	87.1	(7.7)	43.8	12.9	(0.2)	135.9
Share of earnings of equity investments [2]		18.7			-	18.7
Fair value adjustment						(8.9)
Net financing expense						(3.8)
Income taxes						(53.9)
Non-controlling interests						(4.9)
Earnings from continuing operations						83.1
Earnings from discontinued operations						0.4
Net earnings						83.5
Capital expenditures[3]	$ 538.9	$ 1.2	$ 29.2	$ 1.9	$ 2.4	$ 573.6

[1] Coal includes the Corporation's 50% proportionate interest in the Coal Valley export thermal coal mine and other coal development assets.
[2] Share of earnings of equity investments includes Royal Utilities.
[3] Total capital expenditures include $0.5 million from discontinued operation.
[4] The Corporate and Other segment includes results of the metallurgical technology business acquired from Dynatec.

Three months ended September 30, 2007

($ millions)	Metals	Coal [1]	Oil and Gas	Power	Corporate and Other[4]	Consolidated
Revenue	$ 150.7	$ 28.1	$ 81.5	$ 31.6	$ 9.4	$ 301.3
Operating, selling, general and administrative	63.4	30.6	19.6	9.8	19.3	142.7
EBITDA	87.3	(2.5)	61.9	21.8	(9.9)	158.6
Depletion, amortization and accretion	(5.8)	(1.2)	(20.0)	(7.3)	(1.1)	(35.4)
Operating earnings (loss)	81.5	(3.7)	41.9	14.5	(11.0)	123.2
Share of earnings of equity investments [2]	-	4.0	-	-	-	4.0
Net financing expense						(16.5)
Income taxes						(41.0)
Non-controlling interests						(5.0)
Gain on sale of Investments						1.4
Earnings from continuing operations						66.1
Loss from discontinued operations						(0.7)
Net earnings						65.4
Capital expenditures[3]	$ 200.4	$ 0.9	$ 35.5	$ 1.2	$ 3.0	$ 241.0

[1] Coal includes the Corporation's 50% proportionate interest in the Coal Valley export thermal coal mine and other coal development assets.
[2] Share of earnings of equity investments includes Royal Utilities.
[3] Total capital expenditures include $2.8 million from discontinued operations.
[4] The Corporate and Other segment includes results of the metallurgical technology business acquired from Dynatec.

About Sherritt

Sherritt is a diversified natural resource company that produces nickel, cobalt, thermal coal, oil, gas and electricity. It also licenses its proprietary technologies to other metals companies. Sherritt's common shares are listed on the Toronto Stock Exchange under the symbol "S".

Forward-looking Statements

This news release contains certain forward-looking statements. Forward-looking statements generally can be identified by the use of statements that include words such as "believe", "expect", "anticipate", "intend", "plan", "forecast", "likely", "may" or other similar words or phrases. Similarly, statements in respect to expectations concerning assets, prices, costs, dividends, foreign-exchange rates, earnings, production, market conditions, capital expenditures, commodity demand, risks, availability of regulatory approvals, corporate objectives and plans or goals, are or may be forward-looking statements. These forward-looking statements are not based on historical facts, but rather on current expectations, assumptions and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that are beyond the Corporation's ability to control or predict. Actual results and developments may differ materially from those contemplated by this news release depending on, among others, such key factors as business and economic conditions in Canada, Cuba, Madagascar and the principal markets for Sherritt's products. Key factors that may result in material differences between actual results and developments and those contemplated by this news release also include the supply, demand and prices for Sherritt's products; dependence on significant customers; deliveries; production levels; production and other anticipated and unanticipated costs and expenses; energy costs; premiums or discounts realized over London Metals Exchange ("LME") cash and other benchmark prices; interest rates; foreign exchange rates; rates of inflation; changes in tax legislation; the timing, capital costs and financing arrangements associated with development projects; the timing of the receipt of government and other approvals; political unrest or instability in the countries where Sherritt operates; 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; market competition; developments affecting labour relations and the market for skilled workers; environmental and utility industry regulation; and other risk factors listed in this news release and from time to time in Sherritt's continuous disclosure documents such as its annual information form and management information circular.

Further, any forward-looking statement speaks only as of the date on which such statement is made, and except as required by law, Sherritt undertakes no obligation to update any forward-looking statements.

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Sherritt International Corporation

Management's Discussion and Analysis

For the Second Quarter Ended
June 30, 2008

Sherritt International Corporation
Second Quarter 2008

Management's Discussion and Analysis

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Management's Discussion and Analysis

The following Management's Discussion and Analysis of the consolidated financial results of Sherritt International Corporation for the three and six months ended June 30, 2008 should be read in conjunction with the unaudited consolidated financial statements and related notes contained in this interim report, as well as Management's Discussion and Analysis, audited consolidated financial statements and related notes contained in the Corporation's 2007 annual report. Additional information relating to the Corporation, including the Corporation's 2007 Annual Information Form, is on SEDAR at www.sedar.com or on the Corporation's web site at www.sherritt.com. This Management's Discussion and Analysis is as of July 25, 2008.

References to "Sherritt", "Sherritt International" or "the Corporation" refer to Sherritt International Corporation and its share of consolidated subsidiaries and joint ventures unless the context indicates otherwise. All dollar references are in millions of Canadian dollars unless otherwise specifically indicated. References to (U.S.$) are to United States dollars.

Forward-looking statements

This Management's Discussion and Analysis contains certain forward-looking statements. Forward-looking statements generally can be identified by the use of statements that include words such as "believe", "expect", "anticipate", "intend", "plan", "forecast", "likely", "may" or other similar words or phrases. Similarly, statements with respect to expectations concerning assets, prices, costs, dividends, foreign-exchange rates, earnings, production, market conditions, capital expenditures, commodity demand, risks, availability of regulatory approvals, the impact of investments in asset-backed commercial paper, corporate objectives and plans or goals, are or may be forward-looking statements. These forward-looking statements are not based on historical facts, but rather on current expectations, assumptions and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that are beyond the Corporation's ability to control or predict. Actual results and developments may differ materially from those contemplated by this Management's Discussion and Analysis depending on, among others, such key factors as business and economic conditions in Canada, Cuba, Madagascar and the principal markets for Sherritt's products. Key factors that may result in material differences between actual results and developments and those contemplated by this Management's Discussion and Analysis also include the supply, demand and prices for Sherritt's products; dependence on significant customers; deliveries; production levels; production and other anticipated and unanticipated costs and expenses; energy costs; premiums or discounts realized over London Metals Exchange (LME) cash and other benchmark prices; interest rates; foreign-exchange rates; rates of inflation; changes in tax legislation; the timing, capital costs and financing arrangements associated with development projects; the timing of the receipt of government and other approvals; political unrest or instability in the countries where Sherritt is active; risks related to collecting accounts receivable and repatriating profits and dividends from Cuba; risks related to foreign exchange controls on Cuban Government enterprises to transact in foreign currency; risks associated with the United States embargo on Cuba and the Helms-Burton Act; risks associated with mining, processing and exploration activities; potential imprecision of reserve estimates; market competition; developments affecting labour relations and the market for skilled workers; environmental and utility industry regulation; and other risk factors listed in this Management's Discussion and Analysis and from time to time in Sherritt's continuous disclosure documents such as its annual information form and management information circular. Further, any forward-looking statement speaks only as of the date on which such statement is made, and except as required by law, Sherritt undertakes no obligation to update any forward-looking statements.

Highlights

- Record results in Oil and Gas
- Successful acquisition of Royal Utilities Income Fund
- Continued progress in Metals and Power expansion projects

Sherritt achieved revenue of $441.2 million, EBITDA of $190.4 million and net earnings of $80.3 million in the second quarter of 2008 compared with revenue of $405.4 million, EBITDA of $245.9 million and net earnings of $132.4 million in the second quarter of 2007. The impact of significantly lower average realized nickel prices of $12.12/lb compared to $23.37/lb in the same period in the prior year, more than offset record results from Oil and Gas and Mountain Operations (as defined in the Coal section).

Oil and Gas continued to benefit from unprecedented strength in global oil prices leading to its fifth consecutive quarter of record EBITDA. The record EBITDA, of $86.5 million, represented a 46% increase compared to the second quarter of 2007. Average realized oil prices in Cuba and Spain of $62.01 per barrel and $124.76 per barrel, during the second quarter, were 51% and 64% higher, respectively, than in the same period in the prior year. The benefit of higher average realized prices was partially offset by the strength of the Canadian dollar relative to the U.S. dollar. Gross working-interest production in Cuba increased to 33,813 barrels per day (bpd) during the quarter, from 30,899 bpd in the second quarter of 2007.

Mountain Operations in Coal achieved record EBITDA of $5.6 million mainly due to improved pricing on its export thermal coal contracts. Average realized prices increased $36.32 per tonne to $87.87 per tonne in the second quarter of 2008 compared to the same period in the prior year. The increase in average realized prices was partially offset by higher costs for fuel, steel, power, and tires.

The Corporation completed the acquisition of Royal Utilities Income Fund (Royal Utilities). For further information see the “Significant Events” section. The results of Royal Utilities were combined with the Mountain Operations in Coal as of the acquisition date, resulting in a $16.4 million increase in EBITDA in the second quarter.

In the Moa Joint Venture, the Moa/Fort Saskatchewan expansion is progressing well with commissioning of equipment necessary to achieve Phase 1 production rates completed during the second quarter of 2008. Going forward, mixed sulphide production is expected to be 4,000 tonnes (100% basis) higher on an annualized basis increasing nominal capacity to 37,000 tonnes (100% basis) per year. Efforts are now focused on completing the 9,000 tonne (100% basis) Phase 2 construction and commissioning, currently scheduled for the second quarter of 2009 at Moa and the third quarter of 2009 at Fort Saskatchewan.

The 60,000 tonne nickel (100% basis) Ambatovy Project in Madagascar is progressing with almost all key equipment, fabrication and construction contracts in place and commencement of mechanical construction activities. Mechanical completion is expected during 2010. Second quarter capital expenditures for the Ambatovy Project were $501.7 million.

Sherritt signed an agreement to develop 25 Megawatt (MW) of thermal generating capacity in Madagascar, as part of its memorandum of understanding with the Government of Madagascar to develop up to 100 MW capacity. Production is expected to commence in the second quarter of 2009. Progress continues with Sherritt’s 150 MW Boca de Jaruco combined cycle expansion project which will allow construction to begin in the fourth quarter of 2008.

Financial results highlights

$ millions, except per share amounts	For the three months ended 2008 June 30	2007 June 30	For the six months ended 2008 June 30	2007 June 30
Revenue by segment				
Metals	**$ 177.7**	$ 274.1	**$ 340.0**	$ 478.1
Coal [1]	**124.5**	24.6	**155.4**	44.4
Oil and Gas	**104.5**	77.7	**192.0**	136.1
Power	**30.3**	28.3	**60.1**	56.2
Corporate and other [2]	**4.2**	0.7	**7.9**	0.7
Revenue	**$ 441.2**	$ 405.4	**$ 755.4**	$ 715.5
EDITDA by segment				
Metals	**$ 71.3**	$ 166.7	**$ 160.5**	$ 301.4
Coal [1]	**22.0**	0.3	**27.3**	(0.9)
Oil and Gas	**86.5**	59.3	**154.5**	100.4
Power	**22.9**	21.2	**46.7**	41.4
Corporate and other [2]	**(12.3)**	(1.6)	**(22.9)**	(23.5)
EBITDA [3]	**$ 190.4**	$ 245.9	**$ 366.1**	$ 418.8
Operating earnings by segment				
Metals	**$ 65.5**	$ 161.2	**$ 149.8**	$ 289.9
Coal [1]	**1.3**	(2.4)	**4.4**	(6.0)
Oil and Gas	**57.3**	36.3	**101.6**	54.3
Power	**15.7**	14.6	**32.0**	28.8
Corporate and other [2]	**(13.5)**	(2.7)	**(25.5)**	(25.6)
Operating earnings [3]	**$ 126.3**	$ 207.0	**$ 262.3**	$ 341.4
Earnings from continuing operations	**$ 80.8**	$ 132.4	**$ 170.0**	$ 221.5
Loss from discontinued operation	**(0.5)**	-	**(0.7)**	-
Net Earnings	**$ 80.3**	$ 132.4	**$ 169.3**	$ 221.5
Net earnings per share				
Basic	**$ 0.28**	$ 0.72	**$ 0.66**	$ 1.24
Diluted	**$ 0.28**	$ 0.72	**$ 0.65**	$ 1.24
Royal Utilities				
Distributions declared by Royal Utilities [4]	**$ 6.2**	$ 9.7	**$ 15.9**	$ 19.4
Capital expenditures				
Metals	**$ 566.3**	$ 49.1	**$ 999.5**	$ 80.1
Coal [1]	**6.9**	0.7	**7.5**	1.1
Oil and Gas	**30.8**	35.8	**55.1**	83.1
Power	**7.5**	5.6	**11.3**	15.7
Corporate and other [2]	**7.8**	0.1	**8.1**	0.2
Total	**$ 619.3**	$ 91.3	**$ 1,081.5**	$ 180.2
Balance sheet				
Cash and short-term investments	**$ 784.5**	$ 470.3	**$ 784.5**	$ 470.3
Total assets	**8,255.0**	3,804.0	**8,255.0**	3,804.0
Long term debt and other long-term liabilities	**1,715.3**	373.9	**1,715.3**	373.9
Non-controlling interests	**1,312.0**	192.4	**1,312.0**	192.4

(1) Coal results include the Corporation's 100% interest in Royal Utilities from the date of acquisition to June 30, 2008 and the Corporation's 50% proportionate interest in the Coal Valley export thermal coal mine and other coal development assets.
(2) Corporate and other results include Sherritt's Technology division which includes the former Dynatec Metallurgical Technologies division's results from June 14, 2007.
(3) For additional information, see the "Non-GAAP Measures" section.
(4) Distributions declared by Royal Utilities represent the Corporation's 41.2% share to May 2, 2008.

Significant events

- Successful acquisition of Royal Utilities Income Fund
- Senior unsecured debt rating upgraded to BBB (low)
- Issued $275 million of 7.75% senior unsecured debentures series C
- Drawdowns for an aggregate of U.S.$632 million, were made under the Ambatovy project financing

On March 18, 2008, the Corporation announced its intention to make an offer to purchase all of the issued and outstanding trust units of Royal Utilities Income Fund (Royal Utilities) trust units that it did not already own. Sherritt and OTPPB SCP Inc., a wholly-owned subsidiary of Ontario Teachers' Pension Plan Board (Teachers') each owned and controlled approximately 40.3 million units, representing approximately 41.2% of the outstanding units for each of Sherritt and Teachers'. The balance of the units, representing approximately 17.6%, was widely held. Teachers' and Sherritt entered into a lock-up agreement pursuant to which Teachers' agreed to tender its 40.3 million units to the Corporation's offer.

On April 14, 2008, Sherritt and Royal Utilities reached an agreement pursuant to which Sherritt agreed to amend its offer such that unitholders of Royal Utilities could elect to receive for each unit (i) $12.68 in cash, (ii) 0.8315 of a Sherritt common share, or (iii) a combination of cash and Sherritt common shares, provided that the aggregate cash consideration paid by Sherritt did not exceed approximately $250 million and the aggregate number of Sherritt common shares issuable did not exceed approximately 31.4 million shares. The Sherritt offer expired on April 28, 2008.

On May 2, 2008, Sherritt acquired approximately 56.7 million units representing approximately 98.5% of the issued and outstanding units not already owned by Sherritt. The remaining 0.8 million units were acquired on May 5, 2008 pursuant to a compulsory acquisition in accordance with the terms of the declaration of trust of Royal Utilities.

As a result of the transaction, Sherritt now owns 100% of Royal Utilities, which holds all of the securities of Prairie Mines & Royalty Ltd. (PMRL), the largest thermal coal producer in Canada. PMRL owns and operates the Paintearth, Sheerness, Genesee (50% joint venture interest), Poplar River, Boundary Dam and Bienfait mines and operates the Highvale and Whitewood mines under contract. A total of 36.1 million tonnes of coal was produced by PMRL in 2007. PMRL also holds a portfolio of mineral rights located in Alberta and Saskatchewan on which it earns royalties from the production of coal and potash.

The consolidated second quarter results of the Corporation include equity earnings of Royal Utilities up to May 2, 2008 (the date of acquisition). Royal Utilities results are consolidated with those of the Corporation as of the date of acquisition to June 30, 2008.

The purchase price of $721.7 million consisted of the issuance of approximately 31.4 million common shares with a value of $465.0 million, cash consideration of $249.7 million and directly related to the acquisition costs of $7.0 million. The purchase price has been allocated to the book value of the assets acquired and liabilities assumed from Royal Utilities at the acquisition date of May 2, 2008. The remaining $283.3 million has been recorded as an "unallocated purchase price". Management, with the assistance of external consultants, will allocate the purchase price based on the fair market value of the net assets acquired. It is expected that the final valuation of these assets will be completed in the third quarter of 2008.

On June 2, 2008, Sherritt's senior unsecured debt rating was upgraded by the Dominion Bond Rating Service (DBRS) from BB (high) to BBB (low). On June 17, 2008, the Corporation issued $275 million principal amount of 7.75% senior unsecured debentures series C due on October 15, 2015 pursuant to a short-form base shelf prospectus dated June 4, 2008, and a prospectus supplement dated June 10, 2008. Approximately $140 million of the net proceeds of this debt issue will be used to reduce the outstanding balance on a PMRL credit facility. The balance of the net proceeds will be used to fund growth capital expenditures and general corporate purposes in Canada and Madagascar.

On March 17, 2008, the conditions precedent to the initial disbursement of the U.S.$2.1 billion limited recourse project financing for the Ambatovy Project were all satisfied or waived. The Ambatovy Joint Venture has borrowed approximately U.S.$632 million of the project financing to date. Interest and commitment charges related to the project financing are capitalized until the project achieves commercial production. Sherritt owns 40% of the Ambatovy Project and consolidates the joint venture under the variable interest entities accounting guidelines.

Consolidated earnings

For the quarter ended June 30, 2008, Sherritt reported revenue of $441.2 million, EBITDA of $190.4 million and net earnings of $80.3 million. The increase in revenue for the second quarter and first six months of 2008 from the same periods in the prior year was primarily attributable to the inclusion of revenue from Royal Utilities from the date of acquisition, higher average realized oil, cobalt, and coal prices, offset by a significant decrease in average realized nickel prices.

Basic earnings per share (EPS) was $0.28 in the second quarter of 2008. The decrease in basic EPS from $0.72 in the second quarter of 2007 was due to lower earnings in the period, the issuance of 61.4 million shares for the acquisition of Dynatec in June 2007, the issuance of 31.4 million shares for the acquisition of Royal Utilities in May 2008 and the issuance of 28.5 million shares related to a share offering on March 31, 2008 which included 2.3 million shares issued pursuant to an over-allotment option under the offering. The increase in shares outstanding and lower earnings were also responsible for the decrease in EPS for the first six months of 2008 compared to the same period in the prior year.

	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
$ millions	**June 30**	June 30	**June 30**	June 30
Revenue	**$ 441.2**	$ 405.4	**$ 755.4**	$ 715.5

Consolidated revenue was $35.8 million and $39.9 million higher for the second quarter and first six months of 2008, respectively, than the same periods in the prior year. With the acquisition of the remaining units of Royal Utilities, the second quarter and first six months of 2008 include $90.4 million of revenue from Royal Utilities from the date of acquisition. Average realized nickel prices decreased significantly from $23.37/lb to $12.12/lb for the second quarter of 2008 and from $22.65/lb to $12.53/lb for the first six months of 2008 primarily due to weaker demand for stainless steel. The impact of lower nickel prices was partially offset by increased oil, cobalt and coal prices. Oil reached a record high average realized price of $62.01 per barrel while Mountain Operations in Coal reached a record high average realized price of $87.87 per tonne.

	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
$ millions	**June 30**	June 30	**June 30**	June 30
Operating costs	**$ 228.2**	$ 143.6	**$ 348.0**	$ 242.9
Selling costs	**5.0**	7.0	**7.5**	10.4
General and administrative costs	**30.2**	8.9	**51.4**	43.4
Operating, selling, general and administrative costs	**$ 263.4**	$ 159.5	**$ 406.9**	$ 296.7

Operating costs were $84.6 million and $105.1 million higher for the second quarter and first six months of 2008, respectively, than the same periods in the prior year mainly due to the reallocation of $12.6 million of amortization to operating costs in the second quarter and $17.6 million in the first six months of 2008, as a result of adopting the Canadian Institute of Chartered Accountants (CICA) Section 3031 “Inventories” beginning January 1, 2008 and the inclusion of $68.4 million of costs, prior to the reallocation of amortization to operating costs, from Royal Utilities in 2008.

Operating costs, in the Mountain Operations in Coal, for the second quarter and first six months of 2008 increased from the same periods in the prior year due to higher input commodity costs and an increase in costs due to expanding coal haul distances. These increases were partially offset by lower repair and maintenance costs and net production costs in Oil and Gas. Metals operating costs increased in the second quarter and the first six months of 2008 compared to the same periods in the prior year due to higher input commodity costs, partially offset by lower third-party feed costs.

General and administrative costs were $21.3 million higher for the second quarter than the same period in the prior year mainly due to an increase in stock-based compensation expense of $9.3 million. The second quarter of 2008 also included lower overhead cost recoveries in Oil and Gas and the addition of Royal Utilities takeover and restructuring costs incurred subsequent to the acquisition date. For the first six months of 2008, costs were $8.0 million higher than the prior year period primarily due to the inclusion of costs from Royal Utilities and the increase in costs in Oil and Gas, partially offset by a decrease in stock compensation expense due to a smaller increase in the Corporation's share price in the 2008 period compared to the same period in the prior year.

In addition, general and administrative costs in the first quarter of 2007 included Dodds-Roundhill development costs. Development costs for Dodds-Roundhill incurred subsequent to the first quarter of 2007 have been capitalized as a result of reaching the feasibility stage.

	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
$ millions	**June 30**	June 30	**June 30**	June 30
Depletion, amortization and accretion	**$ 51.5**	$ 38.9	**$ 86.2**	$ 77.4

Depletion, amortization and accretion were $12.6 million and $8.8 million higher for the second quarter and first six months of 2008, respectively, than the same periods in the prior year. A significant portion of this increase is due to the inclusion of Royal Utilities from the date of acquisition to June 30, 2008. This was partially offset by the reallocation of $12.6 million and $17.6 million of amortization to operating costs in the second quarter and first six months of 2008, respectively, as a result of adopting the CICA Section 3031 "Inventories".

	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
$ millions	**June 30**	June 30	**June 30**	June 30
Net financing expense	**$ 13.5**	$ 6.6	**$ 12.6**	$ 7.4

The increase in net financing expense in the second quarter and first six months of 2008 was primarily due to an increase in interest and accretion expense on debt of $8.1 million and $14.2 million for the second quarter and first six months of 2008, respectively, primarily pertaining to the debentures issued in October 2007 and June 2008, partially offset by interest income on cash balances, short-term investments and other interest-bearing receivables.

$ millions	For the three months ended 2008 June 30	2007 June 30	For the six months ended 2008 June 30	2007 June 30
Share of earnings of equity-accounted investments	**$ 3.0**	$ 5.0	**$ 9.4**	$ 11.9

The share of earnings from equity-accounted investments decreased in the second quarter and first six months of 2008, respectively, from the same periods in the prior year, primarily due to earnings from Royal Utilities being consolidated with the Corporation as of the date of acquisition.

	For the three months ended 2008 June 30	2007 June 30	For the six months ended 2008 June 30	2007 June 30
Effective tax rate	**24%**	33%	**29%**	33%

The effective tax rate for the second quarter of 2008 decreased from the second quarter of 2007 and from the 2007 year end. The decrease in the effective tax rate was primarily due to the increase in future tax recoveries in the quarter as a result of the acquisition of Royal Utilities and an increase in income from the Oil and Gas business which has a lower tax rate. The Corporation's effective tax rate varies depending upon the relative profitability of its businesses, which are situated in different tax jurisdictions. The Oil and Gas business and the original 226 MW of generation capacity in Power are taxed at a relatively constant combined rate of 30%, while the Phase 6 and 7 expansions are non-taxable in Cuba until the related financing and land rights are fully repaid. The combined rate for the Metals business can vary quite substantially from year to year depending on the price of nickel and cobalt. Generally, the combined rate for the Metals business falls between 30% and 33%. In addition, the Corporation is taxed on distributions from Royal Utilities, in excess of the associated equity income.

$ millions	For the three months ended 2008 June 30	2007 June 30	For the six months ended 2008 June 30	2007 June 30
Non-controlling interests	**$ 6.7**	$ 5.8	**$ 12.9**	$ 11.2

Non-controlling interests reflects the two-thirds outside interest in Energas S.A. (Energas), a variable interest entity in Power. The increase in non-controlling interests was primarily the result of an increase in Energas earnings due to increased production from the commissioning of the 65 MW Phase 7 expansion in the second quarter of 2007 and higher by-product pricing.

$ millions	For the three months ended 2008 June 30	2007 June 30	For the six months ended 2008 June 30	2007 June 30
Loss from discontinued operation	**$ (0.5)**	$ -	**$ (0.7)**	$ -

The loss from the discontinued operation related to the Mineral Products division acquired from Dynatec on June 14, 2007.

Consolidated cash flow, liquidity and capital resources

$ millions	For the three months ended 2008 June 30	2007 June 30	For the six months ended 2008 June 30	2007 June 30
Cash from operating activities before working capital changes	**$ 153.5**	$ 182.1	**$ 283.5**	$ 309.9
Increase in non-cash working capital	**(133.7)**	(34.4)	**(113.8)**	(28.1)
Cash used for discontinued operation	**1.5**	5.7	**3.1**	5.7
Cash provided by operating activities	**$ 21.3**	$ 153.4	**$ 172.8**	$ 287.5

Cash provided by operating activities before working capital changes decreased by $28.6 million and $26.4 million for the second quarter and first six months of 2008, respectively, compared to the same periods in the prior year primarily due to lower earnings.

The increase in non-cash working capital for the second quarter and first six months of 2008 of $133.7 million and $113.8 million, respectively, primarily resulted from higher accounts receivable and lower accounts payable in the second quarter and lower accounts payable for the first six months of 2008. Accounts receivable in Oil and Gas and Power increased for the quarter and for the first six months of 2008 but was partially offset by payments received in Metals from the other partners of the Ambatovy Joint Venture in those periods. The increase in non-cash working capital for the first six months of 2008 included the impact of the payment for taxes payable related to the disposition of FNX shares upon acquisition of Dynatec in 2007.

$ millions	For the three months ended 2008 June 30	2007 June 30	For the six months ended 2008 June 30	2007 June 30
Capital expenditures	**$ (619.3)**	$ (91.3)	**$ (1,081.5)**	$ (180.2)
Change in non-cash capital expenditures	**12.7**	3.4	**181.2**	(1.9)
Cash capital expenditures	**$ (606.6)**	$ (87.9)	**$ (900.3)**	$ (182.1)
Cash used for other investing activities	**(244.5)**	(24.8)	**(194.5)**	(35.7)
Cash provided by (used for) financing activities	**873.2**	1.2	**1,316.3**	(8.6)

Capital expenditures during the second quarter of 2008 of $619.3 million were driven by the expansion projects in the Ambatovy and Moa Joint Ventures of $553.6 million along with expenditures to support the development and exploration drilling in Oil and Gas of $30.8 million, and sustaining capital expenditures across all business units. Capital expenditures during the second quarter of 2007 of $91.3 million were primarily a result of investing in the development and exploration drilling in Oil and Gas and sustaining capital expenditures across all business units.

Capital expenditures for the first six months of 2008 of $1.1 billion primarily included investment in the expansion projects in the Ambatovy and Moa Joint Ventures of $976.7 million as well as the development and exploration drilling in Oil and Gas of $55.1 million. Capital expenditures for the first six months of 2007 of $180.2 million were driven by expansion projects in Metals and Power.

Cash used for other investing activities for the second quarter and first six months of 2008 of $244.5 million and $194.5 million, respectively, was primarily related to the acquisition of Royal Utilities and advances for the Metals expansion.

Cash used for other investing activities for the second quarter and first six months of 2007 related to advances for the Metals expansion, partially offset by distributions received from Royal Utilities and cash received upon acquisition of Dynatec.

Cash provided by financing activities for the second quarter of 2008 of $873.2 million primarily related to financing of disbursements for the Ambatovy project of $580.8 million (net of deferred financing costs), the issuance of 7.75% senior unsecured debentures series C for $271.4 million (net of transaction costs) and $33.3 million (net of transaction costs) received from the exercise of an over-allotment option from the equity offering in March 2008 by the Underwriters. Cash used for financing activities for the second quarter of 2007 did not change significantly.

Cash provided by financing activities for the first six months of 2008 of $1.3 billion primarily related to second quarter financing activities and the issuance of 26.3 million common shares for net proceeds of $383.0 million (net of transaction costs) in the first quarter.

The effect of foreign exchange rate changes on cash and cash equivalents was a decrease of $5.2 million for the second quarter of 2008 compared to a decrease of $4.0 million in the second quarter of 2007. For the first six months of 2008, cash and cash equivalents declined by $1.1 million due to foreign exchange rate changes compared to a decrease of $4.2 million in the first six months of 2007.

Consolidated financial position

Total assets of $8.3 billion were at record levels as at June 30, 2008. Cash and cash equivalents and restricted cash totaled $784.5 million, an increase of $397.9 million since year end. Cash inflows during the quarter included the issuance of $271.4 million (net of transaction costs) 7.75% senior unsecured debentures series C, due 2015, and approximately U.S.$632 million of advances on the project financing related to the Ambatovy Joint Venture, partially offset by $619.3 million of capital expenditures and $249.7 million of cash consideration paid for the acquisition of Royal Utilities and advances to the Moa Joint Venture. It is expected that the Corporation's existing cash balances, cash flow from operations, existing credit facilities, including the Ambatovy Project financing signed in August 2007 and the availability of loans from the other shareholders of the Ambatovy Joint Venture will be sufficient to fund the Corporation's capital, exploration and reclamation programs budgeted for 2008.

Current advances and loans receivable were $66.2 million at June 30, 2008, an increase of $14.7 million since year end. Current advances and loans receivable primarily related to a working capital advance to the Moa Joint Venture.

Accounts receivable were $546.9 million at June 30, 2008, an increase of $51.8 million since year end. The majority of this increase is due to the inclusion of the Royal Utilities accounts receivable balance of $44.6 million. Prior to the acquisition of the remaining outstanding units of Royal Utilities in the second quarter, the company was accounted for as an equity investment. Metals accounts receivable decreased $90.8 million primarily due to the receipt of Ambatovy Joint Venture partner contributions, partially offset by an increase in Oil and Gas receivables due to higher oil prices and higher balances on a jointly operated block. Oil and Gas and Power accounts receivable included amounts due from Cuban Government agencies**.** Management continues to evaluate the overall exposure to the Cuban Government and in particular, management is monitoring the ongoing discussions between an agency of the Government of Cuba and Peberco Limited with respect to payment of the outstanding Block 7 receivables.

Inventories were $178.9 million at June 30, 2008, an increase of $84.9 million since year end. The addition of Royal Utilities to the consolidated balance resulted in an increase of $48.9 million. In addition, inventories in Metals increased by $28.3 million due to an increase in the feed pipeline resulting from lower finished metals production, caused by shipping delays and CN rail disruptions, and raw material price increases. There was an increase at all business segments due to the impact of CICA Section 3031 "Inventories" which required certain costs to be capitalized to inventories beginning January 1, 2008. The overall impact to the Corporation was $3.2 million (or $2.7 million after-tax).

Capital assets were $5.4 million at June 30, 2008, an increase of $2.2 billion since year end. The consolidation of Royal Utilities resulted in an increase of $1.1 billion. Capital expenditures primarily consisted of $976.7 million in support of expansion projects in both the Moa and Ambatovy Joint Ventures, and $55.1 million for development and exploration drilling in Oil and Gas. The Ambatovy Joint Venture awarded various construction contracts, purchased a significant amount of equipment and capitalized a substantial amount of labour costs associated with the construction.

The future tax asset (including current portion) of $151.7 million as at June 30, 2008 increased from the 2007 year end amount of $60.2 million. The June 30, 2008 amount primarily represented the tax benefit of approximately $261 million of non-capital losses, $65 million of capital losses, and unrealized profit in inventory. The non-capital losses were generated primarily through interest on the Corporation's debt, and from loss carryforwards acquired through the acquisition of Royal Utilities. The tax benefit of the losses was recognized on the expectation that sufficient taxable income will either be realized in the future to utilize these losses, or carried back to recover prior years taxes paid.

Investments were $69.7 million at June 30, 2008, a decrease of $335.1 million from year end. The balance at June 30, 2008 primarily consisted of $47.6 million of Asset-Backed Commercial Paper (ABCP) and $16.4 million equity investment in tourism, which was comparable to the year end balance. The year end balance primarily consisted of the Corporation's $337.1 million equity investment in Royal Utilities, which is no longer equity accounted.

The Corporation estimated the fair value of its ABCP in the quarter and determined that the current provision is adequate based on the portfolio of investments held. In December 2007, the Pan-Canadian Investors Committee proposed a restructuring for the $32 billion Canadian ABCP market that has been frozen since August 2007, suggesting the ABCP be converted into long-term notes. The investors voted on April 25, 2008 and approved the restructuring plan. The restructuring plan received court approval on June 18, 2008. Certain investors subsequently appealed the approval of the plan to the Ontario Court of Appeal and the Court of Appeal has not yet issued its ruling. The investment in ABCP of $47.6 million is net of a $15.9 million downward fair value adjustment. The acquisition of the remaining trust units of Royal Utilities resulted in the addition of $3.0 million of ABCP, net of a $1.0 million downward fair value adjustment. Management continues to assess the impact of the vote on its investment in ABCP. The investment is described further in note 7 of the interim consolidated financial statements.

Other assets were $325.8 million at June 30, 2008, an increase of $128.8 million from year end. The increase from year end is mainly due to the addition of a $52.5 million asset (net of amortization) relating to the cross guarantee fee to be paid to Sumitomo and SNC-Lavalin in the form of shares as described in note 4 of the interim consolidated financial statements and an increase of $49.4 million in advances with respect to the Metals expansion.

Goodwill of $385.4 million related to the acquisition of Dynatec. The balance is denominated in U.S. dollars and as such the increase from year end relates to the weakening of the Canadian dollar relative to the U.S. dollar since December 31, 2007.

Short-term debt was a nominal balance as at June 30, 2008, a decrease of $52.8 million from the balance at year end as the short-term financing was repaid in the second quarter.

Accounts payable and accrued liabilities was $640.7 million as at June 30, 2008, an increase of $173.1 million since year end. Accounts payable increased in Metals primarily due to higher spending at the Ambatovy project. The addition of Royal Utilities to the consolidated balance resulted in an increase of $46.9 million. Corporate accounts payable decreased from year end primarily due to the payment in 2008 of taxes payable related to the disposition of FNX shares upon acquisition of Dynatec in 2007.

The future income tax liability (including current portion) of $646.0 million as at June 30, 2008 increased $267.1 million from the 2007 year end amount of $378.9 million primarily due to the future tax liability associated with Royal Utilities' assets. The overall future income tax liability does not represent a current cash liability, but is primarily a result of the temporary differences between the values of capital assets for tax purposes compared to their values for accounting purposes.

Long-term debt and other liabilities (including current portion) were $1.7 billion at June 30, 2008, an increase of $1.1 billion since year end, primarily due to advances on the Ambatovy Project financing of $580.8 million (net of deferred financing costs), the issuance of 7.75% senior unsecured debentures Series C for $271.4 million (net of transaction costs), and $224.3 million from the addition of Royal Utilities long-term debt in the second quarter of 2008.

Non-controlling interests included third-party interests in the Ambatovy Joint Venture in Metals and in Energas, a company in which Power has a one-third interest. Non-controlling interests were $1.3 billion at June 30, 2008, an increase of $109.7 million since year end. The increase in the non-controlling interest in Energas from $185.8 million as at December 31, 2007 to $192.0 million is due to $13.2 million of net earnings attributed to non-controlling interests and $3.3 million due to the adoption of CICA Section 3031 "Inventories", partially offset by the payment of $10.3 million of dividends to the non-controlling interests. The increase in non-controlling interests in the Ambatovy Joint Venture from $1.0 billion to $1.1 billion was primarily due to the increase in net assets in the first six months of 2008.

The Corporation's share capital of $2.7 billion at June 30, 2008 increased from $1.9 billion at December 31, 2007 due to the issuance of 28.5 million common shares, for net proceeds of $416.3 million (net of transaction costs) related to a share offering on March 31, 2008 which included 2.3 million shares issued pursuant to an over-allotment option under the offering and the issuance of 31.4 million common shares for attributed value of $465.0 million for the Royal Utilities acquisition. The Corporation intends to use the net proceeds from the share issuances for general corporate purposes and growth capital expenditures.

Accumulated other comprehensive loss was $175.6 million at June 30, 2008, a decrease of $55.4 million from year end primarily due to the effect of the weakening of the Canadian dollar relative to the U.S. dollar on the translation of the Corporation's self-sustaining operations, which are comprised of the foreign operations of Metals and Oil and Gas. The majority of the translation gains related to capital assets, inventories, and accounts receivable which were partially offset by translation losses in accounts payable.

During the quarter, the Board of Directors of the Corporation approved a quarterly dividend of $0.036 per share payable July 14, 2008 to shareholders of record at the close of business on June 30, 2008. This dividend is an "eligible dividend" as defined in the *Income Tax Act* (Canada).

Review of operations

Metals

Sherritt Metals is the pre-eminent operator of pressure hydrometallurgical technologies for the extraction of nickel and cobalt from lateritic ores. Sherritt Metals is focused on low-cost production of nickel and cobalt through stable production, implementation of operating efficiencies, and the expansion of production to maximize profitability.

Moa Joint Venture

The Moa Joint Venture, which is conducted through a joint venture with a Cuban partner, mines, processes, and refines nickel and cobalt for sale worldwide (except the United States of America). The Moa Joint Venture has mining operations and associated processing facilities in Moa, Cuba, refining facilities in Fort Saskatchewan, Alberta, and international marketing and sales operations. The Moa mining operations provide access to extensive resources in Cuba, which will be developed as market conditions permit.

With the commissioning of the expansion equipment necessary to achieve Phase 1 production rates, current operations now have the capacity to produce approximately 37,000 tonnes (100% basis) of mixed sulphides from mining and processing facilities in Moa and to refine 35,000 tonnes (100% basis) of nickel and 3,700 tonnes (100% basis) of cobalt at facilities in Fort Saskatchewan. Efforts are now focused on completing the 9,000 tonne (100% basis) Phase 2 construction and commissioning, currently scheduled for the second quarter of 2009 at Moa and the third quarter of 2009 at Fort Saskatchewan. On July 18, 2008 Sherritt reached agreement with its Cuban partner on the terms of a U.S.$75 million construction financing agreement for the sulphuric acid plant at Moa.

Ambatovy Joint Venture

The Ambatovy Joint Venture is conducted with partners in Japan, Korea and Canada and is responsible for the Ambatovy Project. The Ambatovy Project is a large-tonnage nickel and cobalt project currently under development in Madagascar. According to a feasibility study released in May 2006, the project has proven and probable reserves of 125 million tonnes grading 1.04% nickel and 0.099% cobalt and annual production capacity estimated at 60,000 tonnes (100% basis) of nickel and 5,600 tonnes (100% basis) of cobalt with an estimated life of approximately 27 years. Cash operating costs per pound of nickel, after credits, are expected to place the Ambatovy Project in the lowest quartile of the global industry cost curve.

Outlook (refer to "Forward-looking statements")

Consistent with previous guidance, full-year production (100% basis) for 2008 is expected to be approximately 32,500 tonnes of nickel and 3,500 tonnes of cobalt. This includes the additional production from Phase 1 of the Moa/Fort Saskatchewan expansion and reflects the impact of vessel delays and CN Rail disruptions, which limited feed availability earlier in the year.

Sherritt expects that mining, processing and refining costs will be higher than in the prior year as a result of increased input commodity costs. On a year-to-date basis, key commodity costs have increased by approximately 85% compared to the same period last year, increasing direct cash costs by approximately U.S.$2.00/lb, before by-product credits and third-party feed costs. On a net direct cash cost basis, this increase has been more than offset by the impact of higher cobalt prices and lower third-party feed costs year-to-date. Completion of the new sulphuric acid plant in Moa in 2009 will largely eliminate reliance on purchased acid and is expected to partly mitigate these cost increases. Sustaining capital expenditures are expected to be $21.9 million in the third quarter and $71.2 million for 2008, $14.8 million lower than previous guidance reflecting a deferral of spending associated with the utility upgrades at Fort Saskatchewan from 2008 to 2009. With the design and construction timetable for the utility assets further advanced, the majority of spending on these upgrades is now projected to occur in 2009.

Commissioning of Phase 2 is currently targeted to commence in the second quarter of 2009 at Moa and the third quarter at Fort Saskatchewan. Phase 2 is designed to increase capacity by a further 9,000 tonnes (100% basis) of nickel and cobalt contained in mixed sulphide. Phase 3 of the Moa/Fort Saskatchewan expansion, which will add 3,000 to 6,000 additional tonnes (100% basis) of annual nickel plus cobalt production, continues at the conceptual stage, as efforts are focused on meeting Phase 2 construction and commissioning timelines. Estimated capital expenditures for the Moa/Fort Saskatchewan expansion (including funding for the sulphuric acid plant) are expected to be $79 million in the third quarter and $254 million in 2008. Sherritt's share of the overall expansion costs is projected to total approximately $584 million (U.S.$566 million), marginally higher than earlier guidance of $569 million (U.S.$544 million).

At the end of June, engineering, procurement and construction at the Moa/Fort Saskatchewan expansion were estimated to be 98%, 71% and 59% complete, respectively, at Moa, compared to 96%, 66% and 48%, respectively, at the end of the first quarter. At Fort Saskatchewan, engineering, procurement and construction were 37%, 53% and 14% complete, respectively, compared to 28%, 29% and 14%, respectively, at the end of the first quarter.

The Ambatovy Joint Venture is making good progress with most of the major equipment, fabrication and construction contracts now awarded. The first of five 16-metre autoclaves arrived in Madagascar in late June and is now installed on its foundation at the plant and mechanical construction in other areas of the plant site has commenced. With support infrastructure such as water, sewage, power and worker accommodation complete, the plant site is ready for the significant ramping up of construction activities during the third quarter. Work at the mine site is also progressing well, with over 4 million cubic meters of earth excavated to date. Construction of the ore processing plant is expected to commence in the third quarter. Substantial progress is also being made on clearing of the 220 km slurry pipeline route between the mine site and the refinery. Sherritt continues to expect commissioning in 2010.

At the end of June, engineering procurement and construction at Ambatovy were estimated to be 69%, 74% and 25% complete, respectively, compared to 57%, 62% and 14%, respectively, at the end of the first quarter. Currently, the construction workforce is just over 8,000 workers and the project has achieved over 16 million exposure hours without a lost time injury to the end of June.

Estimated capital expenditures at Ambatovy are $438 million for the third quarter and $1.6 billion budgeted for 2008. The capital budget established in 2007 of $3.8 billion (U.S.$3.3 billion) is expected to increase as a result of cost escalation. Sherritt intends to revise and disclose its new estimate in early 2009 as detailed engineering nears completion and construction and fabrication activities are further ahead. The capital budget amount does not include certain indirect costs such as accrued financing charges, inflation and working capital requirements. The budget established for these indirect costs in 2007 was approximately $0.5 billion (U.S.$0.4 billion).

Highlights

- Commissioning of the expansion equipment necessary to achieve Phase 1 production rates completed
- Continued progress on the Ambatovy Project

Financial analysis

	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
$ millions	**June 30**	June 30	**June 30**	June 30
Revenue [1]	**$ 177.7**	$ 274.1	**$ 340.0**	$ 478.1
Operating costs [2]	**(100.5)**	(99.6)	**(170.0)**	(164.6)
Selling costs	**(4.9)**	(6.8)	**(7.3)**	(10.1)
General and administrative costs	**(1.0)**	(1.0)	**(2.2)**	(2.0)
EBITDA [3]	**71.3**	166.7	**160.5**	301.4
Depletion, amortization and accretion	**(5.8)**	(5.5)	**(10.7)**	(11.5)
Operating earnings [3]	**$ 65.5**	$ 161.2	**$ 149.8**	$ 289.9

(1) Metals revenue includes revenue derived from nickel, cobalt, by-products and fertilizer sales.
(2) Excluding depreciation and amortization of $3.4 million in the second quarter of 2008 and $6.5 million in the six months ended June 30, 2008. For additional information see “Inventories” in the “Changes in Significant Accounting Policies” section.
(3) For additional information, see the “Non-GAAP Measures” section.

Revenue for the second quarter and for the first six months of 2008 decreased by $96.4 million and $138.1 million, respectively, compared to the same periods in the prior year mainly due to a significant decline in nickel prices and a decrease in nickel and cobalt sales volumes, partially offset by higher cobalt prices. Sales volumes were restricted by lower finished metals production and due to the annual shutdown being advanced to the second quarter of 2008.

Operating costs were higher in the second quarter and for the first six months of 2008 compared to the same periods in the prior year primarily due to increased commodity input costs, partially offset by lower third-party feed costs and the impact of a stronger Canadian dollar compared to the U.S. dollar. Third-party feed costs were approximately $8.5 million and $19.5 million in the second quarter and first six months of 2008, respectively, compared to $15.0 million and $29.0 million in the same periods in the prior year, respectively, as a result of third-party feed rates being lower due to the timing of an annual maintenance shutdown and lower nickel prices, partially offset by higher cobalt prices. The annual shutdown was advanced to the second quarter of 2008 to expedite the integration of Phase 1 expansion equipment at the Fort Saskatchewan refinery, compared with 2007 when the shutdown was in the third quarter.

Selling, general and administrative costs were lower for the second quarter and first six months of 2008, compared to the same periods in the prior year largely reflecting lower fertilizer sales volumes.

Depletion, amortization and accretion were marginally higher this quarter due to the impact of adopting CICA Section 3031 “Inventories”, partially offset by the strengthening of the Canadian dollar compared to the U.S. dollar. For the first six months of 2008, the marginal decrease is due to the allocation of depreciation, amortization and accretion to inventory upon implementation of CICA Section 3031 “Inventories”, as well as the strengthening of the Canadian dollar compared to the U.S. dollar.

Prices	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
	June 30	June 30	**June 30**	June 30
Nickel - average realized ($/lb)	**$ 12.12**	$ 23.37	**$ 12.53**	$ 22.65
Cobalt - average realized ($/lb)	**45.67**	30.26	**45.90**	30.15
Nickel - reference (U.S.$/lb)	**11.67**	21.76	**12.38**	20.25
Cobalt - reference (U.S.$/lb) (1)	**45.93**	28.01	**46.06**	26.89

(1) Average Metals Bulletin: Low grade cobalt published price.

The nickel reference price averaged U.S.$11.67/lb in the second quarter, which was down U.S.$10.09/lb from the second quarter of 2007 reflecting weaker demand for stainless steel. During the quarter, LME nickel prices fluctuated between U.S.$9.00/lb and U.S.$13.00/lb as LME stocks remained above 45,000 tonnes. For the first six months of 2008, the nickel reference price averaged U.S.$12.38/lb, down U.S.$7.87/lb, compared to the same period in the prior year.

The cobalt reference price averaged U.S.$45.93/lb up U.S.$17.92/lb from the second quarter of 2007. Prices were marginally down from record prices recorded in the first quarter of 2008, reflecting lower demand, particularly from China. The benefit of higher reference prices was partially offset by the stronger Canadian dollar compared to the U.S. dollar. For the first six months of 2008, the cobalt reference price averaged U.S.$46.06/lb, U.S.$19.17/lb higher than in the same period in the prior year.

Production (tonnes)	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
	June 30	June 30	**June 30**	June 30
Mixed sulphides	**4,323**	4,198	**8,647**	8,204
Finished nickel	**3,704**	4,035	**7,452**	7,549
Finished cobalt	**406**	452	**813**	886

Mixed sulphide production increased marginally in the second quarter and first six months of 2008, compared to the same periods in the prior year, due to higher ore grades and stable operations, partially offset by the impact of the annual maintenance shutdown. The mixed sulphides supply agreement between the joint venture companies expired in June 2007. Mixed sulphides are being supplied on the same terms while negotiations continue.

Finished nickel production decreased by 331 tonnes in the second quarter of 2008 compared to the second quarter of the prior year primarily due to the timing of the annual maintenance shutdown, which occurred during the third quarter in 2007. The shutdown also impacted second quarter finished cobalt production, which was 46 tonnes lower than in the same period last year. For the first six months of 2008, finished nickel and cobalt production was 97 tonnes and 73 tonnes, respectively, lower than in the same period in the prior year.

Sales (thousands of pounds)	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
	June 30	June 30	**June 30**	June 30
Finished nickel	**8,200**	8,887	**16,562**	16,663
Finished cobalt	**902**	976	**1,822**	1,864

Decreased sales volumes reflect a decrease in the availability of finished metals primarily due to lower production during the second quarter and first six months of 2008 compared to the same periods in the prior year.

Capital Expenditures [(1)]	For the three months ended				For the six months ended			
		2008		2007		**2008**		2007
$ millions		**June 30**		June 30		**June 30**		June 30
Moa Joint Venture								
Sustaining	**$**	**12.7**	$	24.1	**$**	**22.8**	$	30.2
Expansion		**51.9**		25.0		**92.1**		49.9
	$	**64.6**	$	49.1	**$**	**114.9**	$	80.1
Ambatovy Joint Venture		**501.7**		-		**884.6**		-
Total	**$**	**566.3**	$	49.1	**$**	**999.5**	$	80.1

(1) Capital expenditures include the Corporation's 50% interest in the Moa Joint Venture and 100% of utility and fertilizer operations in Fort Saskatchewan and 100% of the Ambatovy Joint Venture.

Capital expenditures increased in the second quarter and the first six months of 2008 compared to the same periods in the prior year, primarily due to higher capital spending associated with the Moa/Fort Saskatchewan expansion and the Ambatovy Project. The Ambatovy Joint Venture awarded various construction contracts, purchased a significant amount of equipment and incurred substantial labour costs**.** The Ambatovy Joint Venture was accounted for as an equity investment until the fourth quarter of 2007. Sustaining capital expenditures in the Moa Joint Venture were $12.7 million and $22.8 million for the second quarter and first six months of 2008, respectively, compared to $24.1 million and $30.2 million for the same periods in the prior year, respectively, when real estate assets were acquired at the Fort Saskatchewan site.

Unit Operating Costs		For the three months ended		For the six months ended
	2008	2007	**2008**	2007
	June 30	June 30	**June 30**	June 30
Net direct cash cost of nickel [1] (U.S.$/lb of nickel)	**$ 2.41**	$ 3.36	**$ 2.18**	$ 3.06
Third-party feed costs (U.S.$/lb of nickel)	**1.02**	1.53	**1.17**	1.52
Natural gas costs ($ per gigajoule)	**9.63**	6.76	**8.54**	6.93
Sulphur costs (U.S.$ per tonne)	**383.71**	95.61	**320.21**	98.94
Sulphuric acid costs (U.S.$ per tonne)	**224.73**	110.05	**217.54**	105.23

(1) Net direct cash cost of nickel after cobalt and by-product credits.

The reduction in net direct cash cost of nickel for the second quarter and the first six months of 2008 largely reflects the impact of higher cobalt prices and lower third-party feed costs, partially offset by higher commodity input costs, lower sales, and the impact of a stronger Canadian dollar compared to the U.S. dollar. Commodity costs are strongly influenced by sulphur, sulphuric acid and energy prices that have increased significantly from the prior year. In particular, sulphur prices increased by approximately 300% in the second quarter compared with the same period in the prior year.

		For the three months ended		For the six months ended
	2008	2007	**2008**	2007
	June 30	June 30	**June 30**	June 30
Fertilizer sales (tonnes)	**83,326**	110,338	**105,705**	127,473
Revenue ($ millions)	**$ 33.5**	$ 34.4	**$ 42.0**	$ 40.1
Operating earnings ($ millions)	**$ 1.8**	$ 1.7	**$ 1.6**	$ 0.8

Fertilizer sales decreased in the second quarter of 2008 compared to the second quarter of the prior year. While there was strong demand during the spring season, sales were limited by inventory levels that were lower than normal because of strong sales in the fourth quarter of 2007.

Higher fertilizer revenue for the first six months of 2008 reflects stronger prices partially offset by lower sales volumes. Stronger prices reflect tight supply and a buoyant agricultural market that has allowed producers to pass on the impact of higher input costs to their end customers.

Operating earnings for fertilizer operations for the quarter and first six months of 2008 increased marginally from the same periods in the prior year as the impact of higher revenue was partially offset by increased operating costs largely due to higher energy prices. Amortization expense for the fertilizer operations was $1.4 million and $2.4 million for the second quarter and for the first six months of 2008, respectively, compared to $1.2 million and $2.4 million for the same periods in the prior year.

Coal

Coal has abundant, high quality, and strategically located reserves in Canada that are suited to providing customers with a stable long-term fuel supply. The opportunity also exists to capitalize on coal's economic pricing as a commodity relative to other energy sources such as oil and natural gas. Sherritt is engaged in a series of long-term initiatives to develop its substantial coal reserves in Canada with a view to supplying energy in the form of power, steam or gases such as hydrogen, through gasification, and related hydrocarbon fuels. While some of these initiatives are in various stages of negotiations with potential customers, others are in the formative research and design stages. The Coal division consists of three operations, Prairie Operations which includes all of the assets of Royal Utilities Income Fund (Royal Utilities), Mountain Operations which includes Coal Valley Resources Inc. (CVRI), and the coal development assets where Sherritt is working to monetize significant coal reserves.

In the second quarter, Sherritt acquired 100% of Royal Utilities which owns and operates the Paintearth, Sheerness, Genesee (50% joint venture interest), Poplar River, Boundary Dam and Bienfait mines and operates the Highvale and Whitewood mines under contract. A total of 36.1 million tonnes of coal was produced by Royal Utilities in 2007. Royal Utilities also holds a portfolio of mineral rights located in Alberta and Saskatchewan on which it earns royalties from the production of coal and potash.

The Mountain Operations include CVRI, which is indirectly owned 50% by Sherritt, that mines and sells thermal coal and owns the Coal Valley mine, Obed Mountain mine, Gregg River mine and Coleman properties. Presently, the Coal Valley mine is the only active mine and sold 3.8 million tonnes of thermal coal in 2007, a vast majority of which was sold on the export market.

The coal development assets include Carbon Development Partnership (CDP), a general partnership owned 50% by Sherritt that holds more than 10 billion tonnes of coal reserves and resources. CDP is currently assessing the potential for monetizing its coal reserves through the development of various projects. The foremost project within CDP is the Dodds-Roundhill coal gasification project where Sherritt is working to develop Canada's first commercial application of coal gasification technology. The project includes a surface coal mine and a coal gasification facility.

Outlook (refer to "Forward-looking statements")

Production for 2008 at Prairie Operations is expected to remain similar to 2007 levels of 36.1 million tonnes. Revenue and EBITDA from Prairie Operations are both expected to exceed 2007 levels, as higher realized prices, coupled with increased potash and coal royalties, should more than offset the operating cost pressures. Given the robust pricing environment currently present in coal and potash, royalties at Prairie Operations are expected to grow by over 35% in 2008, with potash royalties becoming a more significant contributor relative to 2007. Unit operating costs continue to face upward pressures due to the impact that the world economic and Western Canadian market conditions are having on pricing for diesel, labour, equipment and maintenance costs. As a result, Sherritt expects 2008 unit operating costs at Prairie Operations to be approximately 10% higher than 2007.

In July, Sherritt's wholly-owned subsidiary, Prairie Mines & Royalty Ltd. ("PMRL"), entered into a joint venture agreement and related agreements with Norit Canada Inc. ("Norit Canada"), a wholly-owned subsidiary of Norit N.V. ("Norit"), to construct the first of four 15,000 short ton activated carbon plants in Saskatchewan. The total cost of this four-phase project is expected to be approximately $200 million. Under the 50/50 joint venture agreement, Norit will provide the design and will work with Sherritt to jointly construct Canada's first activated carbon plant for the coal-fired utility market. The decision to enter a new market was driven by the anticipated growth in market demand for activated carbon, the lack of existing Canadian production, and the opportunity to leverage existing coal reserves. Production at the first plant is expected to begin in 2009.

At Mountain Operations, final price settlement of some contracts during the second quarter has resulted in record realized prices that were over 70% higher than during the second quarter of 2007. All of the contracts linked to market prices for export coal have now been settled for 2008, and realized prices for the remainder of the year are expected to show marginal increases. Approximately 50% of Mountain Operations' 2008 sales volumes are linked to the Newcastle FOB settlement prices. Production at the Coal Valley mine has been negatively affected by poor weather in the first half of 2008, and as a result, Sherritt expects full-year output from the mine to be approximately 3.9 million tonnes, down from the previous guidance of 4 million tonnes (100% basis). In spite of the lower expected output, Sherritt continues to expect 2008 EBITDA from the Coal Valley mine to be approximately $50 million due to the robust pricing environment for export thermal coal. Sustaining capital expenditures at Mountain Operations for the third quarter and full year 2008 are expected to be approximately $4 million and $7 million, respectively.

Based on the greatly improved economics for export thermal coal, work has begun on re-opening the Obed Mountain mine, in which Sherritt has a 50% interest. The mine will have an estimated annual production capacity of 1.2 million tonnes (100% basis), which is expected to commence in the second half of 2009. Sherritt's share of the anticipated capital cost of re-opening the mine is approximately $12 million, with the majority of expenses likely to take place early in 2009 and be directed toward plant re-start, load-out facilities and conveyor upgrades. An off-take contract for 100% of the mine's production has already been secured that guarantees a floor price for three years with a sharing of the price upside.

Sherritt continues to develop the Dodds-Roundhill coal gasification project. Current activities are focused on finalizing the scope of the project with respect to the alternate non-hydrogen based outputs of the gasification plant, CO_2 reduction process modifications and abatement costs, completing the regulatory application and other initiatives. Capital expenditures in support of Dodds-Roundhill in 2008 are currently projected to be approximately $6 million.

Highlights

- Sherritt acquired all of the issued and outstanding units of Royal Utilities that it did not already own
- Record quarterly revenue, EBITDA and operating earnings for the Mountain Operations
- Continued progress on the Dodds-Roundhill coal gasification project
- Prairie Operations signed a joint venture agreement with Norit Canada Inc. to construct four 15,000 short ton activated carbon plants

Financial analysis

On March 18, 2008, the Corporation announced its intention to make an offer to purchase all of the issued and outstanding trust units of Royal Utilities that it did not already own. On April 14, 2008, Sherritt and Royal Utilities reached an agreement pursuant to which Sherritt agreed to amend its offer such that unitholders of Royal Utilities could elect to receive for each unit (i) $12.68 in cash, (ii) 0.8315 of a Sherritt common share, or (iii) a combination of cash and Sherritt common shares, provided that the aggregate cash consideration paid by Sherritt did not exceed approximately $250 million and the aggregate number of Sherritt common shares issuable did not exceed approximately 31.4 million shares. The Sherritt offer expired on April 28, 2008.

On May 2, 2008, Sherritt acquired approximately 56.7 million units representing approximately 98.5% of the issued and outstanding units not already owned by Sherritt. The remaining 0.8 million units were acquired on May 5, 2008 pursuant to a compulsory acquisition in accordance with the terms of the declaration of trust of Royal Utilities.

The consolidated second quarter results of the Corporation include equity earnings of Royal Utilities up to the date of acquisition. Royal Utilities' results are consolidated with the Corporation as of the date of acquisition.

Sherritt currently proportionately consolidates its 50% interest in Mountain Operations and in CDP.

Prairie Operations (100% basis) [1]		For the three months ended			For the six months ended		
		2008		2007		**2008**		2007
		June 30		June 30		**June 30**		June 30
Revenue	**$**	**139.2**	$	122.4	**$**	**275.0**	$	250.4
Operating costs [2]		**(100.4)**		(88.8)		**(193.3)**		(174.1)
General and administrative costs [3]		**(8.6)**		(2.9)		**(11.5)**		(5.9)
EBITDA [4]		**30.2**		30.7		**70.2**		70.4
Depletion, amortization and accretion		**(26.7)**		(27.9)		**(51.8)**		(54.7)
Operating earnings	**$**	**3.5**	$	2.8	**$**	**18.4**	$	15.7
Distributions declared by Royal Utilities (100% basis)	**$**	**15.1**	$	23.5	**$**	**38.6**	$	46.9
Equity-accounted earnings of Royal Utilities	**$**	**3.0**	$	5.0	**$**	**9.4**	$	11.9

Mountain Operations and coal development assets (50% basis)		For the three months ended				For the six months ended		
		2008		2007		**2008**		2007
		June 30		June 30		**June 30**		June 30
Revenue	**$**	**34.2**	$	24.6	**$**	**65.1**	$	44.4
Operating costs [5]		**(28.0)**		(23.8)		**(53.1)**		(42.0)
General and administrative costs		**(0.6)**		(0.5)		**(1.1)**		(3.3)
EBITDA [4]		**5.6**		0.3		**10.9**		(0.9)
Depletion, amortization and accretion		**(2.6)**		(2.7)		**(4.8)**		(5.1)
Operating earnings (loss)	**$**	**3.0**	$	(2.4)	**$**	**6.1**	$	(6.0)

(1) Prairie Operations have been presented on a 100% basis. Sherritt equity accounted for the Prairie Operations up to the date of acquisition. The revenue and EBITDA for the period from the date of acquisition to June 30, 2008 was $90.4 million and $16.4 million.
(2) Excluding depreciation and amortization of $9.7 million for second quarter and $18.2 million for the six months ended June 30, 2008. For additional information see “Inventories” in the “Changes in Significant Accounting Policies” section.
(3) Includes restructuring and other costs related to being acquired by Sherritt of $5.5 million and $6.8 million for the second quarter and first six months of 2008, respectively.
(4) For additional information, see the “Non-GAAP Measures” section.
(5) Excluding depreciation and amortization of $2.1 million for second quarter and $4.0 million for the six months ended June 30, 2008. For additional information see “Inventories” in the “Changes in Significant Accounting Policies” section.

Revenue for the Prairie Operations increased for the second quarter and the first six months of 2008 by $16.8 million and $24.6 million due to increases in demand at the Boundary Dam mine, higher pass through costs at the contract mines and increases in royalties due to strong potash demand and prices. Mountain Operations’ revenue increased for the second quarter and the first six months of 2008 by $9.6 million and $20.7 million, respectively, due to a significant increase in the average realized coal prices.

Prairie Operations EBITDA for the second quarter and first six months of 2008 was consistent with the same period from the prior year. Operating costs increased from the prior period due to the higher cost of fuel at the owned mines and higher pass through costs at the contract mines. In addition, general and administrative costs for the second quarter and the first six months of 2008 include $5.5 million and $6.8 million, respectively, of takeover and restructuring costs. Mountain Operations EBITDA for the second quarter and the first six months of 2008 increased to $5.6 million and $10.9 million, respectively, mainly due to record realized prices on sales that exceeded the increased operating costs at Mountain Operations.

Depletion, amortization and accretion for the Prairie Operations decreased for the second quarter and the first six months by $1.2 million and $2.9 million, respectively, due to certain capital assets becoming fully amortized. Mountain Operations' depletion, amortization and accretion for the second quarter and the first six months of 2008 were consistent with the prior year.

Coal development asset spending of $1.3 million on coal development assets in the second quarter of 2008 and $2.4 million in the first six months of 2008 primarily related to engineering and associated work for the Dodds-Roundhill coal gasification project. These costs were capitalized as deferred project development costs.

Prices ($/tonne)	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
	June 30	June 30	**June 30**	June 30
Prairie Operations - average realized price [1]	**$ 14.61**	$ 13.37	**$ 14.12**	$ 12.86
Mountain Operations - average realized price	**$ 87.87**	$ 51.55	**$ 77.56**	$ 51.27

(1) Excludes royalty revenue.

In the Prairie Operations, average realized prices increased by $1.24 to $14.61 per tonne for the second quarter of 2008 compared to the second quarter of 2007 and by $1.26 to $14.12 for the first six months of 2008 compared to the same period in the prior year. This increase was primarily due to higher cost and capital recoveries at the contract and Genesee mines.

In the Mountain Operations, record average realized prices in the second quarter of 2008 were 70% higher than the same period in the prior year due to improved pricing on export thermal coal contracts, which is anticipated to continue through the remainder of 2008.

	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
	June 30	June 30	**June 30**	June 30
Production (millions of tonnes)				
Prairie Operations (100% basis)	**8.8**	8.4	**17.6**	18.0
Mountain Operations (50% basis)	**0.4**	0.4	**0.8**	0.9
Sales (millions of tonnes)				
Prairie Operations (100% basis)	**8.5**	8.4	**17.5**	17.8
Mountain Operations (50% basis)	**0.4**	0.5	**0.8**	0.9

In the Prairie Operations, total sales volumes for the second quarter of 2008 increased from the prior year period mainly due to increased electrical demand in Saskatchewan. Additionally, production and sales volumes increased due to improved coal recovery at the Genesee mine as a result of less waste material. Volumes for the first six months of 2008 were negatively impacted by the timing of a planned power plant shutdown at Poplar River which occurred earlier than last year and by lower demand for Bienfait coal in Ontario.

In the Mountain Operations, production volumes for the second quarter of 2008 were comparable to the same period in the prior year. For the first six months of 2008, production volumes were down from the same period in the prior year primarily due to weather-related issues that have hindered raw coal release in 2008. For the second quarter and first six months of 2008, sales volumes were lower than the same periods in the prior year due to reduced coal production and inventory levels at Mountain Operations in the first six months of the year.

Capital Expenditures	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
$ millions	**June 30**	June 30	**June 30**	June 30
Prairie Operations (100% basis)	**$ 7.5**	$ 2.5	**$ 11.5**	$ 3.9
Mountain Operations (50% basis)	**$ 0.5**	$ 0.7	**$ 1.1**	$ 1.1

In the Prairie Operations, capital expenditures in the second quarter and first six months of 2008 were made in respect of productive capacity maintenance, mainly for infrastructure development and capital repairs on mobile equipment at Sheerness, Poplar River, Boundary Dam and Genesee.

In the Mountain Operations, capital expenditures were comparable to the prior year.

Unit Cash Operating Costs ($ per tonne)	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
	June 30	June 30	**June 30**	June 30
Prairie Operations	**$ 11.88**	$ 10.59	**$ 11.04**	$ 9.78
Mountain Operations	**$ 72.19**	$ 50.01	**$ 63.44**	$ 48.63

In the Prairie Operations, unit cash operating costs increased by $1.29 to $11.88 per tonne for the second quarter of 2008 compared to the second quarter of 2007 and increased $1.26 to $11.04 per tonne for the first six months of 2008 compared to the same period in the prior year largely due to higher diesel prices and higher cost and capital recoveries at the contract and Genesee mines.

In the Mountain Operations, operating costs per tonne in the second quarter of 2008 and first six months of 2008 increased by 44% and 30%, respectively, from the same periods last year as a result of the strong commodity market impacting costs such as fuel, steel, power and tires; the expanding coal haul distances that increased fuel, tire and equipment maintenance costs; and lower production volumes.

Oil and Gas

Oil and Gas derives its production from near-shore deposits in Cuba, which are explored and developed from land-based drilling locations using specialized skills in fold and thrust belt geology and directional drilling, as well as from fields in Spain and Pakistan.

Oil and Gas employs a diverse, highly-skilled workforce with extensive experience in all facets of exploration, development, production, and field operations around the world, with specialized experience in complex fold and thrust belt geology. In Cuba, Oil and Gas balances the Corporation's commitment to employment and training of local manpower with prudent use of experienced expatriate manpower in key positions. A team of geological and engineering professionals based in Calgary manages and directs the Corporation's exploration and development programs.

Outlook (refer to “Forward-looking statements”)

Sherritt expects the gross working-interest production volumes for 2008 to remain comparable to the levels experienced in 2007 at approximately 30,500 bpd. Sherritt’s net working-interest production is affected by recoverable capital, operational spending, as well as the price of oil. Higher oil prices, in an environment of steady capital and operational spending levels, result in lower net production attributable to Sherritt. Given the current world pricing levels, net production in Cuba will likely remain around 17,000 bpd. Consistent with previous guidance, net production in Spain and Pakistan is projected to remain steady in the 470 bpd and 400 boepd ranges, respectively.

Sherritt finalized and signed the production-sharing contract for the enhanced oil recovery pilot project in Cuba in the third quarter. The project has an estimated capital cost of U.S.$15 million, of which approximately U.S.$5 million will be incurred in the current year. The pilot phase will be conducted using carbon dioxide injection to increase the amount of oil extracted from the Varadero field. On receipt of the technical results, the Corporation will determine whether to proceed to a commercial scale operation. Also, during the third quarter of 2008, Sherritt signed a production-sharing contract for Block 8 in south-central Cuba.

In addition to its initiatives in Cuba, Sherritt continues to explore growth opportunities in Turkey, as well as the Alboran Sea area of Spain and the East Irish Sea in the U.K. The Corporation expects to be able to provide more details on these initiatives by the end of the year. Estimated capital expenditures for 2008 are approximately $150 million, with $35 million expected in the third quarter.

Highlights

- Record quarterly revenue of $104.5 million
- EBITDA of $86.5 million was the fifth consecutive quarterly record
- Gross production levels increased by 9% compared to the second quarter of the prior year

Financial analysis

$ millions	For the three months ended **2008 June 30**	2007 June 30	For the six months ended **2008 June 30**	2007 June 30
Revenue	**$ 104.5**	$ 77.7	**$ 192.0**	$ 136.1
Operating costs	**(10.1)**	(13.1)	**(21.2)**	(22.4)
General and administrative costs	**(7.9)**	(5.3)	**(16.3)**	(13.3)
EBITDA [1]	**86.5**	59.3	**154.5**	100.4
Depletion, amortization and accretion	**(29.2)**	(23.0)	**(52.9)**	(46.1)
Operating earnings [1]	**$ 57.3**	$ 36.3	**$ 101.6**	$ 54.3

(1) For additional information, see the "Non-GAAP Measures" section.

Due to the continued and unprecedented strength in global oil prices, revenue for both the second quarter and first six months of 2008 greatly exceeded the levels achieved in the same periods in the prior year. These increases have been offset somewhat by the strengthening of the Canadian dollar relative to the U.S. dollar and lower overall net production for both the second quarter and the first six months of 2008 compared to the same periods in the prior year. Under the terms of the Cuban production-sharing contracts, Sherritt is allocated between 40% and 70% of gross production for the recovery of capital and operating costs incurred through operations during the period. To the extent that recoverable costs exceed the maximum percentage assigned to that production-sharing contract, any excess is carried forward for future recovery. After the allowance for cost recovery is deducted from the gross production, the remaining production is shared between Sherritt and an agency of the Government of Cuba (CUPET) as negotiated in the production-sharing contract. In Spain and Pakistan, state oil companies have exercised rights under the concession agreements to acquire a specified percentage of the working interest as joint venture partners. Under the terms of petroleum regulations in Spain, once these rights have been exercised, no royalty is payable to the Government of Spain. In Pakistan, the joint venture partners pay a royalty on gross production to the Government of Pakistan.

Total operating costs for the second quarter and first six months of 2008 decreased from the same periods in the prior year mainly due to lower repair and maintenance costs on Sherritt operated assets, vehicles and equipment and lower net production partially offset by higher treatment and transportation rates.

General and administrative costs for the second quarter and first six months of 2008 were higher than the same periods in the prior year. This was the result of lower general and administrative overhead recoveries, which are based on a set percentage of operating and capital expenditures. These recoveries were lower due to reduced capital spending in the second quarter and first six months of 2008, compared to the same periods in the prior year.

EBITDA was $86.5 million for the second quarter of 2008, which was $27.2 million higher than EBITDA for the second quarter of the prior year, and $154.5 million for the first six months of 2008, which was $54.1 million higher than the same period in the prior year. These increases were directly attributable to higher average realized oil and gas prices in the current year period as compared to the same period in 2007. This was the fifth consecutive quarter of record EBITDA in Oil and Gas.

The depletion rates in Cuba for the second quarter and first six months of 2008, on a per barrel basis, have increased from the same periods in the prior year due to the inclusion of costs for wells drilled and exploration activity undertaken in prior periods that had been previously excluded from the depletable asset pools. The depletion rate for the Spanish and Pakistan operations in the second quarter and first six months of 2008 declined from the same periods in the prior year due to increases in the estimates for the cost to retire the assets supporting those operations that were made in the second quarter of 2007.

Prices	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
	June 30	June 30	**June 30**	June 30
Average realized prices:				
Cuba ($/barrel)	**$ 62.01**	$ 41.19	**$ 56.63**	$ 38.05
Spain ($/barrel)	**124.76**	76.11	**110.78**	71.38
Pakistan ($/boe) (1)	**7.36**	8.31	**7.21**	8.69
Reference price (U.S.$/barrel)				
Gulf Coast Fuel Oil No. 6	**84.44**	49.48	**77.11**	44.21
Brent	**121.38**	68.97	**109.46**	63.38

(1) Average realized price for natural gas production is stated in barrels of oil equivalent (boe), which is converted at 6,000 cubic feet per boe.

Average per barrel realized prices for Cuban oil for the second quarter and first six months of 2008 increased from the same periods in the prior year by $20.82 and $18.58 per barrel, respectively, due to the increase in the Gulf Coast Fuel Oil No. 6 reference price. This increase has been offset somewhat by the strengthening of the Canadian dollar against the U.S. dollar.

Average realized prices for Spanish production also increased in the second quarter and first six months of 2008 compared to the same periods in the prior year due to the impact of higher Brent reference prices. Natural gas selling prices in Pakistan are indexed to international crude oil prices. The decrease in average realized prices for the second quarter and first six months of 2008 compared to the same periods in the prior year is due to the inclusion of royalties netted against revenue in 2008 which were not recognized in the revenue stream until mid 2007.

Daily Production Volumes [1] [2]	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
	June 30	June 30	**June 30**	June 30
Gross working-interest oil production in Cuba [3] [5]	**33,813**	30,899	**32,409**	30,332
Net oil production [4]				
Cuba (heavy oil)				
Cost recovery [5]	**5,320**	12,201	**6,683**	10,635
Profit oil [5]	**11,879**	7,248	**10,653**	7,848
Total	**17,199**	19,449	**17,336**	18,483
Spain (light/ medium oil) [4]	**476**	427	**485**	451
Pakistan (natural gas) [4]	**385**	405	**392**	407
Total	**18,060**	20,281	**18,213**	19,341

(1) Production figures exclude production from wells for which commerciality has not been established.
(2) Oil production is stated in barrels per day (bpd). Natural gas production is stated in barrels of oil equivalent per day (boepd), which is converted at 6,000 cubic feet per boepd.
(3) In Cuba, Oil and Gas delivered all of its gross working-interest oil production during 2008 to CUPET at the time of production. Gross working-interest oil production excludes (i) production from wells for which commerciality has not been established in accordance with production-sharing contracts; and (ii) working interests of other participants in the production-sharing contracts.
(4) Net production (equivalent to net sales volume) represents the Corporation's share of gross working-interest production. In Spain and Pakistan, net oil production volumes equal 100% of gross working-interest production volumes.
(5) Gross working-interest oil production is allocated between Oil and Gas and CUPET in accordance with production-sharing contracts. The Corporation's share, referred to as 'net oil production', includes (i) cost recovery oil (based upon the recoverable capital and operating costs incurred by Oil and Gas under each production-sharing contract) and (ii) a percentage of profit oil (gross working-interest production remaining after cost recovery oil is allocated to Oil and Gas). Cost recovery pools for each production-sharing contract include cumulative recoverable costs, subject to certification by CUPET, less cumulative proceeds from cost recovery oil allocated to Oil and Gas. Cost recovery revenue equals capital and operating costs eligible for recovery under the production-sharing contracts. Therefore, cost recovery oil volumes increase as a result of higher capital expenditures and decrease when selling prices increase. When oil prices increase, the resulting reduction in cost recovery oil volumes is partially offset by an increase in profit oil barrels.

Gross working-interest oil production in Cuba typically decreases over time due to natural reservoir declines, which vary from field to field. Through its ongoing exploration and development programs, the Corporation expects to maintain its current level of production through new oil wells, workovers and other production enhancement initiatives. Gross working-interest oil production in Cuba was 2,914 bpd and 2,077 bpd higher for the second quarter and first six months of 2008, respectively, than the same periods in the prior year as natural reservoir declines were offset by production from new oil wells and the reduction of maintenance frequency on producing wells in the fields. Total net production allocated under the Cuban production-sharing contracts in the second quarter and first six months of 2008 was down by 2,250 bpd and 1,147 bpd, respectively, compared to the same periods in the prior year as a result of a reduced allocation of cost recovery barrels, which are determined by dividing the balance of capital and operating costs in the cost recovery pool by the average net selling price per barrel produced, being received due to the effect of higher average realized prices. Production from both the Badar gas field in Pakistan and from Spain remained steady compared to the second quarter and first six months of 2007.

Capital Expenditures	For the three months ended				For the six months ended			
		2008		2007		**2008**		2007
$ millions		**June 30**		June 30		**June 30**		June 30
Development and facilities	**$**	**21.9**	$	30.2	**$**	**44.6**	$	75.4
Exploration		**8.9**		5.6		**10.5**		7.7
	$	**30.8**	$	35.8	**$**	**55.1**	$	83.1

Capital expenditures are mainly in support of development and exploration drilling along with facility construction. During the second quarter of 2008, four development wells were initiated and five development wells and one exploration well were drilled. For the first six months of 2008, eight development wells and one exploration well were drilled.

During the quarter, Sherritt finalized the commercial terms for a production sharing contract for the Enhanced Oil Recovery pilot phase, estimated to cost approximately U.S.$15 million, of which approximately U.S.$5 million will be incurred in the current year. The pilot phase will be conducted using carbon dioxide injection to increase the amount of oil extracted from the Varadero field with preliminary results anticipated in early 2010. Based on these preliminary technical results, the Corporation and its Cuban partner will determine if the pilot period should be extended to confirm the preliminary results or proceed immediately to design a commercial scale operation. Sherritt has also successfully completed its negotiations to enter into a Production Sharing Contract for Block 8 which is located in south-central Cuba. The Corporation's interests in the production sharing contract for the offshore blocks in the Gulf of Mexico were allowed to expire as the Corporation was unable to attract an industry partner to participate in the drilling of an exploration well.

Unit Operating Costs	For the three months ended				For the six months ended			
		2008		2007		**2008**		2007
		June 30		June 30		**June 30**		June 30
Operating cost ($ per boe)	**$**	**6.13**	$	7.11	**$**	**6.39**	$	6.39

On a per barrel basis, operating costs for the second quarter of 2008 decreased by $0.98 per net barrel from the second quarter of the prior year due to lower repair and maintenance activities. For the first six months of 2008 on a net barrel basis, operating costs are similar to the same period in the prior year as overall per barrel spending is comparable.

Power

Power continues to focus on the effective utilization of energy resources in the production of electricity and is currently involved in the construction and operation of electricity generating facilities in Cuba and Madagascar. The Cuban facilities derive both an economic and environmental benefit from processing natural gas that may otherwise be flared.

Power is well positioned to leverage the experience gained in the construction and operation of power plants to acquire, build and operate natural gas, fuel oil or coal-based energy facilities. Power is actively pursuing opportunities to expand its scope of operations.

Power conducts business in Cuba through Energas, a Cuban entity in which Power holds a one-third equity interest. Two Cuban Government agencies each hold a one-third equity interest in Energas. Energas supplies electricity to one of these Cuban agencies under long-term fixed-price contracts. The other Cuban agency supplies natural gas to Energas at no cost.

Outlook (refer to "Forward-looking statements")

Total expected electricity production in 2008 remains 2,400 GWh, with 616 GWh estimated in the third quarter.

Progress continues with Sherritt's 150 MW Boca de Jaruco combined cycle expansion project. Earthwork commenced in the second quarter, and infrastructure contracts are being finalized to allow construction to begin in the fourth quarter of this year. To date, arrangements for the supply of all of the major equipment have been committed to, including a steam turbine, condenser, as well as heat recovery steam generators. As of the end of June, engineering, procurement and construction are 14%, 30% and 1% complete, respectively, compared to 7%, 2% and 0%, respectively, at the end of the first quarter. Consistent with previous guidance, the total expected project cost for the Boca de Jaruco expansion remains approximately $247 million.

As part of a Memorandum of Understanding to develop up to 100 MW of thermal and hydro power projects in Madagascar, which was signed earlier in the year, the Corporation has finalized terms for the development of 25 MW of thermal generating capacity in Madagascar. Production is expected to commence in the first half of 2009. The expected capital cost of these facilities is approximately $21 million, of which $16 million is expected to be incurred during the remainder of 2008. Discussions are proceeding regarding the potential development of an additional 75 MW of hydro and/or coal-fired facilities.

Total capital expenditures for the third quarter are expected to be in the range of $30 million to $35 million, while the full-year 2008 expenditures are expected to be approximately $75 million, taking into account the Madagascar expansion.

Highlights

- Signed agreement to develop 25 MW thermal power project in Madagascar. Production expected to commence in Q2 2009
- Pricing and delivery terms finalized for significant components of the 150 MW Boca de Jaruco combined cycle expansion project
- Turbine out of service since late 2007 returned to service ahead of schedule

Financial analysis

Energas is a variable interest entity of which Sherritt is the primary beneficiary. Accordingly, the results of Energas are shown on a consolidated basis and the two-thirds non-controlling interest in Energas is disclosed separately in the financial statements.

$ millions	For the three months ended **2008 June 30**	2007 June 30	For the six months ended **2008 June 30**	2007 June 30
Revenue	**$ 30.3**	$ 28.3	**$ 60.1**	$ 56.2
Operating costs	**(6.7)**	(7.0)	**(11.8)**	(13.8)
General and administrative costs	**(0.7)**	(0.1)	**(1.6)**	(1.0)
EBITDA [(1)]	**22.9**	21.2	**46.7**	41.4
Depletion, amortization and accretion	**(7.2)**	(6.6)	**(14.7)**	(12.6)
Operating earnings [(1)]	**$ 15.7**	$ 14.6	**$ 32.0**	$ 28.8

(1) For additional information, see the “Non-GAAP Measures” section.

Revenue for the second quarter of 2008 increased from the second quarter of 2007 by $2.0 million, mainly due to higher by-product and miscellaneous revenue. Revenue from electricity production decreased by $1.7 million compared to the second quarter of 2007 due mostly to lower average realized prices as a result of the strengthening of the Canadian dollar compared to the U.S. dollar. By-product and miscellaneous revenue of $7.1 million increased by $3.7 million compared to the second quarter of 2007 mainly due to higher prices and sales volumes for by-products. Revenue for the first six months of 2008 increased by $3.9 million from the same period in the prior year due to increased revenue from by-product sales as a result of higher volumes and prices. Increased U.S. dollar revenue from electricity sales was offset by lower average realized prices as a result of the strengthening of the Canadian dollar compared to the U.S. dollar.

Operating costs were lower during the second quarter of 2008 compared to the same quarter in the prior year as a scheduled maintenance project was deferred to the third quarter and a business interruption insurance recovery was recorded for a turbine that was out of service due to a fire late in 2007 for the period that it was out of service. General and administrative costs were higher in the second quarter of 2008 than in the second quarter of 2007 due to higher personnel and general office costs. Operating costs for the first six months of 2008 decreased from the same period in the prior year due to less scheduled maintenance, partially offset by the write off of parts from the two damaged turbines. The increase in general and administrative costs for the first six months of 2008 was caused by the increase in personnel and general office costs experienced in the second quarter.

Depletion, amortization and accretion was higher in the second quarter and first six months of 2008 than the same periods in the prior year as a result of the increase in capacity during the second quarter of 2007.

Prices	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
	June 30	June 30	**June 30**	June 30
Average realized prices ($/MWh) (1)	**$ 40.83**	$ 43.95	**$ 40.72**	$ 45.25

(1) Megawatt hours (MWh)

The tariff for electricity sales is fixed by long-term U.S. dollar contracts. Following the repayment of financing and land rights in respect of the base facilities of 226 MW in 2005, the tariff for electricity produced from these facilities was reduced from U.S.$45 per MWh to U.S.$38 per MWh. Production from the two recent expansions totalling 150 MW receives a tariff of U.S.$45 per MWh until the associated financing and land rights are fully repaid. The addition of the 150 MW combined cycle at Boca de Jaruco will extend the repayment of financing until approximately 2013.

The decrease in average realized prices for the second quarter and first six months of 2008 was due to the strengthening of the Canadian dollar compared to the U.S. dollar.

Production	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
	June 30	June 30	**June 30**	June 30
Electricity sold (1) (GWh) (2)	**567**	566	**1,164**	1,052

(1) Including non-controlling interest's share
(2) Gigawatt hours (GWh)

Electricity sales volumes were similar in the second quarters of 2008 and 2007 as the increased production from the 65 MW Phase 7 facilities that commenced operations during the second quarter of 2007 was offset by the lost production from two turbines that were out of service during the second quarter of 2008. One turbine had been out of service due to a fire late in 2007 and returned to service ahead of schedule in mid-June 2008. A second turbine has been out of service since mid-May 2008 due to a mechanical failure. This unit is expected to return to service by the end of July 2008. Electricity sales volumes for the first six months of 2008 increased as the 65 MW Phase 7 facilities commenced operations during the second quarter of 2007, partially offset by lost production from the two damaged turbines.

Capital Expenditures	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
$ millions	**June 30**	June 30	**June 30**	June 30
Sustaining	**$ 2.9**	$ -	**$ 4.6**	$ 1.7
Growth	**4.6**	5.6	**6.7**	14.0
	$ 7.5	$ 5.6	**$ 11.3**	$ 15.7

Sustaining capital expenditures in the second quarter of 2008 were not significant and related mainly to plant equipment. Growth capital expenditures during the second quarter of 2008 were related to engineering and initial payments for major components in respect of the 150 MW Phase 8 expansion. Capital expenditures in the second quarter of 2007 were primarily directed to the 65 MW Phase 7 expansion project. Capital expenditures for the first six months of 2008 were generally related to the same items as in the second quarter.

Unit Operating Costs	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
	June 30	June 30	**June 30**	June 30
Operating cost ($ per MWh)	**$ 11.80**	$ 12.44	**$ 10.13**	$ 13.17

Operating costs per MWh decreased in the second quarter of 2008 from the same period in the prior year mainly due to the deferral of a maintenance project to the third quarter and an accrual for a business interruption insurance claim in respect of a turbine that was out of service, which was partially offset by repair costs for the damaged unit. Operating costs per MWh decreased for the first six months of 2008 compared to the prior year period due to higher electricity production and lower operating costs.

Other
Technologies

The Technologies division provides assistance to mining and refining companies in the evaluation, design, construction, implementation and operation of processes for the treatment of metal-bearing materials. The basis of the division's business is its body of proprietary technology and expertise, developed through more than 50 years of research, development and commercial process implementation in the field of hydrometallurgy, which the Corporation customizes and licenses for use by clients. The division is also developing innovative clean-coal technologies to upgrade low-grade coals in an efficient and environmentally responsible manner.

Revenue from the Technologies division was $5.2 million and $7.9 million for the second quarter and first six months of 2008, respectively, as compared to $0.7 million for the same periods in the prior year and included the former Dynatec Metallurgical Technologies division's operations. The increase in revenue for the second quarter and first six months of 2008 compared to the same periods in the prior year was due to two major pilot-test work programs and technology licensing fees.

During the quarter, Sherritt and Western Mining Co. Ltd., a Chinese zinc producer, signed agreements whereby Western Mining Co. Ltd. will license and implement Sherritt Technologies' zinc pressure leach technology for a new zinc refinery to be located near Xining City, Qinghai Province, China.

Non-GAAP measures

The Corporation uses a number of financial measures to assess the performance of its businesses. Some measures are calculated in accordance with Canadian generally accepted accounting principles (GAAP), while others do not have a standardized meaning under GAAP, and, accordingly, these measures, described below, may not be comparable to similar measures used by other companies. Investors may find these non-GAAP measures useful in analyzing financial performance but should not be considered in isolation as a substitute for measures of performance prepared in accordance with GAAP.

Earnings before interest, taxes, depreciation and amortization (EBITDA) and operating earnings do not have a standardized meaning prescribed by Canadian GAAP. EBITDA is defined as revenue less operating (excluding depreciation in operating costs), selling, general and administrative costs. Operating earnings is defined as EBITDA less depletion, amortization, accretion and depreciation included in operating costs.

On adoption of CICA Section 3031 "Inventories" effective January 1, 2008, the Corporation has included depreciation from production related depreciable assets in inventories. For the second quarter and first six months of 2008, an adjustment was made to EBITDA to remove depreciation expense included in operating costs on sale of such inventories.

Reconciliation of non-GAAP measures

The table below presents EBITDA and Operating earnings and reconciles these non-GAAP measures to earnings from continuing operations before income taxes and non-controlling interests.

	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
$ millions	**June 30**	June 30	**June 30**	June 30
Revenue	**$ 441.2**	$ 405.4	**$ 755.4**	$ 715.5
Operating, selling and general and administrative costs	**263.4**	159.5	**406.9**	296.7
	177.8	245.9	**348.5**	418.8
Add: Depreciation included in operating costs	**12.6**	-	**17.6**	-
EBITDA	**190.4**	245.9	**366.1**	418.8
Less:				
Depreciation included in operating costs	**12.6**	-	**17.6**	-
Depletion, amortization and accretion	**51.5**	38.9	**86.2**	77.4
Operating earnings	**126.3**	207.0	**262.3**	341.4
Net financing expense	**(13.5)**	(6.6)	**(12.6)**	(7.4)
Share of earnings from equity-accounted investment	**3.0**	5.0	**9.4**	11.9
Earnings from continuing operations before income taxes and non-controlling interests	**$ 115.8**	$ 205.4	**$ 259.1**	$ 345.9

Summary of quarterly results (unaudited)

The following table presents a summary of the consolidated operating results by segment for each of the eight quarters from September 30, 2006 to June 30, 2008.

	For the three months ended							
	2008	2008	2007	2007	2007	2007	2006	2006
$ millions, except per share amounts	**June 30**	March 31	December 31	September 30	June 30	March 31	December 31	September 30
Revenue								
Metals	**$ 177.7**	$ 162.3	$ 176.9	$ 150.7	$ 274.1	$ 204.0	$ 192.3	$ 148.0
Coal [1]	**124.5**	30.9	23.2	28.1	24.6	19.8	17.1	29.1
Oil and Gas	**104.5**	87.5	85.9	81.5	77.7	58.4	68.7	65.1
Power	**30.3**	29.8	29.9	31.6	28.3	27.9	26.1	29.0
Corporate and other	**4.2**	3.7	7.7	9.4	0.7	-	-	-
	$ 441.2	$ 314.2	$ 323.6	$ 301.3	$ 405.4	$ 310.1	$ 304.2	$ 271.2
Earnings from continuing operations	**80.8**	89.2	83.1	66.1	132.4	89.1	77.8	73.2
(Loss) earnings from discontinued operations	**(0.5)**	(0.2)	0.4	(0.7)	-	-	0.8	0.9
Net earnings	**$ 80.3**	$ 89.0	$ 83.5	$ 65.4	$ 132.4	$ 89.1	$ 78.6	$ 74.1
Earnings from continuing operations per share								
Basic	**$ 0.29**	$ 0.38	$ 0.36	$ 0.28	$ 0.72	$ 0.52	$ 0.50	$ 0.48
Diluted	**$ 0.28**	$ 0.38	$ 0.36	$ 0.28	$ 0.72	$ 0.52	$ 0.47	$ 0.42
Earnings from discontinued operation per share								
Basic	**$ (0.01)**	$ -	$ -	$ -	$ -	$ -	$ 0.01	$ 0.01
Diluted	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ 0.01
Earnings per share								
Basic	**$ 0.28**	$ 0.38	$ 0.36	$ 0.28	$ 0.72	$ 0.52	$ 0.51	$ 0.49
Diluted	**$ 0.28**	$ 0.38	$ 0.36	$ 0.28	$ 0.72	$ 0.52	$ 0.47	$ 0.43

(1) Coal results include the Corporation's 100% interest in Royal Utilities from the date of acquisition to June 30, 2008 and the Corporation's 50% proportionate interest in the Coal Valley export thermal coal mine and other coal development assets.

The financial results for the last eight quarters is generally consistent with the consolidated financial results and selected interim information presented previously in this document. 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.

Risk management

Sherritt manages a number of risks in each of its businesses in order to achieve an acceptable level of risk while maintaining the ability to maximize returns. Management has developed procedures to identify and manage significant operational and financial risks. The risk factors are set forth in the "Risk Management" section of the Corporation's 2007 Annual Report as well as in the Annual Information Form filed on www.sedar.com.

Changes in significant accounting policies

Capital disclosures

On January 1, 2008, the Corporation adopted CICA Handbook Section 1535, Capital Disclosures, which specifies the disclosure of an entity's objectives, policies and processes for managing capital and how it is meeting those objectives. As a result of implementing this standard, the Corporation has included additional disclosures in note 24 of the interim consolidated financial statements in this interim report.

Financial instruments – disclosure and presentation

Effective January 1, 2008, the Corporation adopted the new recommendations of CICA Handbook Section 3862, Financial Instruments - Disclosure (Section 3862) and Section 3863, Financial Instruments - Presentation (Section 3863), which replace Section 3861, Financial Instruments - Disclosure and Presentation. The objective of the disclosure requirements of Section 3862 is to provide information about the significance of financial instruments on the Corporation's financial position and performance, the nature and extent of risks arising from financial instruments to which the Corporation is exposed and how the Corporation manages those risks. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, distributions, losses and gains, and circumstances in which financial assets and financial liabilities are offset.

The adoption of these standards did not have an impact on the classification and valuation of financial instruments in the Corporation's interim consolidated financial statements. As a result of implementing these standards, the Corporation has included additional disclosure in note 22 of its interim consolidated financial statements.

Inventories

Effective January 1, 2008, the Corporation adopted the CICA Handbook Section 3031, "Inventories", which replaced Section 3030, "Inventories". Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the existing guidance of the "lower of cost and market". The new section also requires, when applicable, the reversal of any inventory write-downs previously recognized.

This section has been applied retroactively as at January 1, 2008 without restatement by the Corporation. On adoption, the Corporation recorded a $6.5 million increase to opening inventories, a $3.3 million increase to non-controlling interest, and a $3.2 million ($2.7 million after-tax) increase to opening retained earnings. In addition, the Corporation reclassified $10.2 million of long-term spare parts from other assets to capital. Depreciation and amortization of $12.6 million and $17.6 million have been reclassified to operating expenses within Operating, selling, and general and administrative expenses for the three and six months ended June 30, 2008, respectively.

General standards of financial statement presentation

In June 2007, the CICA amended Section 1400, “General Standards of Financial Statement Presentation” to change the guidance related to management’s responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity’s ability to continue as a going concern and should take into account all available information about the future, which is at least but not limited to 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern. The amendments to Section 1400 apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

The adoption of this standard had no impact on the Corporation’s presentation of its financial position or consolidated results of operations as at June 30, 2008 and for the three and six months then ended.

For a description of the other principal changes on adoption of these new standards and for further details on changes in significant accounting policies, refer to note 2 to the interim consolidated financial statements for the three and six months ended June 30, 2008.

Future changes in significant accounting policies

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Corporation will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Corporation is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements. The Corporation does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

Convergence with International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed the mandatory changeover date for International Financial Reporting Standards (IFRS) for publicly accountable entities as being January 1, 2011, with early adoption allowed. Although IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosure. The AcSB plans to issue accounting standards, such as Section 3031, “Inventories” and Section 3064, “Goodwill and Intangible Assets” that are converged with IFRS in the period leading up to the changeover date thus mitigating the impact of IFRS adoption on the changeover date.

The Corporation will be required to prepare IFRS interim and annual financial statements, with comparatives, for its fiscal year beginning on January 1, 2011. The Corporation has established a dedicated IFRS team to develop and implement a plan for IFRS convergence and is progressing with training for key employees. Changes in accounting policies are likely and may materially impact the Corporation's consolidated financial statements.

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, including critical accounting policies that require critical accounting estimates are discussed in note 2 to the interim consolidated financial statements for the three and six months ended June 30, 2008.

Comparative amounts

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

Off balance sheet arrangements

Financial Instruments

As at June 30, 2008, the Corporation had no outstanding foreign exchange or commodity options, futures or forward contracts.

Transactions with related parties

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

The total value of all goods and services, including labour services, that the Corporation and its subsidiaries provided to joint ventures and its affiliates in the second quarter and first six months of 2008 amounted to $39.2 million and $63.9 million (June 30, 2007 - $28.5 million and $55.8 million), respectively. The total value of goods and services purchased from joint ventures in the second quarter and first six months of 2008 was $47.2 million and $62.7 million (June 30, 2007 - $2.7 million and $4.7 million), respectively.

Accounts receivable from joint ventures as at June 30, 2008, was $20.0 million (December 31, 2007 - $74.9 million). Accounts payable to joint ventures as at June 30, 2008 was $8.5 million (December 31, 2007 - $7.3 million).

Commitments

Commitments for the Ambatovy Project amounted to $1,284.9 million (December 31, 2007 - $941.4 million), including the share of non-controlling interest. In addition, as at June 30, 2008, the Corporation was committed to purchases of equipment, office space, vehicles, and services in the amount of $421.2 million (December 31, 2007 - $343.2 million), including its proportionate share of joint venture commitments.

Additional information

Share Capital

As at July 25, 2008, the Corporation had 291,882,999 common shares outstanding. An additional 3,975,001 common shares are issuable upon exercise of outstanding stock options granted to employees and directors pursuant to the Corporation's stock option plan.

Controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. Management, with the participation of the certifying officers, has evaluated the effectiveness of the design and operation, as of June 30, 2008, of the Corporation's disclosure controls and procedures (as defined by the Canadian Securities Administrators). Based on that evaluation, the certifying officers have concluded that such disclosure controls and procedures are effective and designed to ensure that material information relating to the Corporation and its subsidiaries is known to them by others within those entities.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and compliance with Canadian generally accepted accounting principles in the financial statements. Management has evaluated the design of internal controls over financial reporting and has concluded that such internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in Canada. In addition, there have been no changes in the Corporation's internal control over financial reporting during the period ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Sherritt International Corporation

Interim Consolidated Financial Statements
(unaudited)

For the Second Quarter Ended June 30, 2008

Sherritt International Corporation
Second Quarter 2008

Interim Consolidated Financial Statements

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Consolidated Balance Sheets

Unaudited, $ millions, as at	2008 June 30	2007 December 31
ASSETS		
Current assets		
Cash and cash equivalents	**$ 748.9**	$ 355.2
Restricted cash	**35.6**	31.4
Short-term investments	**-**	103.5
Advances and loans receivable (note 8)	**66.2**	51.5
Accounts receivable, net (note 22)	**546.9**	495.1
Inventories (note 9)	**178.9**	94.0
Prepaid expenses	**22.4**	11.2
Future income taxes	**20.4**	24.9
Assets of discontinued operation (note 5)	**3.5**	2.2
	1,622.8	1,169.0
Capital assets (note 6)	**5,434.2**	3,282.2
Investments (note 7)	**69.7**	404.8
Future income taxes	**131.3**	35.3
Other assets (note 8)	**325.8**	197.0
Goodwill	**385.4**	373.8
Assets of discontinued operation (note 5)	**2.5**	2.4
Unallocated purchase price (note 3)	**283.3**	-
	$ 8,255.0	$ 5,464.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term debt	**$ -**	$ 52.8
Accounts payable and accrued liabilities	**640.7**	467.6
Deferred revenue	**6.7**	29.9
Long-term debt and other long-term liabilities (note 11)	**41.3**	15.3
Asset retirement obligations (note 12)	**22.6**	5.0
Future income taxes	**3.6**	3.2
Liabilities of discontinued operation (note 5)	**3.2**	3.2
	718.1	577.0
Long-term debt and other long-term liabilities (note 11)	**1,674.0**	589.8
Asset retirement obligations (note 12)	**112.5**	68.4
Future income taxes	**642.4**	375.7
Liabilities of discontinued operation (note 5)	**1.2**	1.2
	3,148.2	1,612.1
Non-controlling interests (note 14)	**1,312.0**	1,202.3
Commitments (note 19)		
Shareholders' equity		
Capital stock (note 13)	**2,738.6**	1,857.2
Contributed surplus (note 16)	**245.9**	190.3
Retained earnings	**985.9**	833.6
Accumulated other comprehensive loss (note 23)	**(175.6)**	(231.0)
	810.3	602.6
	3,794.8	2,650.1
	$ 8,255.0	$ 5,464.5

The accompanying notes are an integral part of these interim consolidated financial statements.

Consolidated Statements of Operations

Unaudited, $ millions, except per share amounts	For the three months ended 2008 June 30	2007 June 30	For the six months ended 2008 June 30	2007 June 30
Revenue	**$ 441.2**	$ 405.4	**$ 755.4**	$ 715.5
Operating, selling, general and administrative expenses (note 2) [1]	**263.4**	159.5	**406.9**	296.7
Earnings before undernoted items	**177.8**	245.9	**348.5**	418.8
Depletion, amortization and accretion	**51.5**	38.9	**86.2**	77.4
Net financing expense (note 17)	**13.5**	6.6	**12.6**	7.4
Share of earnings of equity-accounted investments	**(3.0)**	(5.0)	**(9.4)**	(11.9)
Earnings from continuing operations before income taxes and non-controlling interests	**115.8**	205.4	**259.1**	345.9
Income taxes (note 18)	**28.3**	67.2	**76.2**	113.2
Non-controlling interests	**6.7**	5.8	**12.9**	11.2
Earnings from continuing operations	**80.8**	132.4	**170.0**	221.5
Loss from discontinued operation (note 5)	**(0.5)**	-	**(0.7)**	-
Net earnings	**$ 80.3**	$ 132.4	**$ 169.3**	$ 221.5
Earnings from continuing operations per share (note 13)				
Basic	**$ 0.29**	$ 0.72	**$ 0.66**	$ 1.24
Diluted	**$ 0.28**	$ 0.72	**$ 0.65**	$ 1.24
Net earnings per share (note 13)				
Basic	**$ 0.28**	$ 0.72	**$ 0.66**	$ 1.24
Diluted	**$ 0.28**	$ 0.72	**$ 0.65**	$ 1.24

(1) Includes depreciation on production related depreciable assets of $12.6 million and $17.6 million for the three and six months ended June 30, 2008, respectively.

The accompanying notes are an integral part of these interim consolidated financial statements.

Consolidated Statements of Retained Earnings

Unaudited, $ millions	For the three months ended 2008 June 30	2007 June 30	For the six months ended 2008 June 30	2007 June 30
Beginning of period, as previously reported	**$ 916.0**	$ 583.7	**$ 833.6**	$ 500.1
Change in accounting policy (note 2)	**-**	-	**2.7**	(0.3)
Beginning of period, as restated	**916.0**	583.7	**836.3**	499.8
Net earnings	**80.3**	132.4	**169.3**	221.5
Dividends on common shares	**(10.4)**	(7.0)	**(19.7)**	(12.2)
End of period	**$ 985.9**	$ 709.1	**$ 985.9**	$ 709.1

The accompanying notes are an integral part of these interim consolidated financial statements.

Consolidated Statements of Comprehensive Income

Unaudited, $ millions	For the three months ended 2008 June 30	2007 June 30	For the six months ended 2008 June 30	2007 June 30
Net earnings	**$ 80.3**	$ 132.4	**$ 169.3**	$ 221.5
Other comprehensive income (loss)				
Unrealized foreign currency (loss) gain on self-sustaining foreign operations (note 23)	**(15.7)**	(58.2)	**55.4**	(66.1)
Comprehensive income	**$ 64.6**	$ 74.2	**$ 224.7**	$ 155.4

The accompanying notes are an integral part of these interim consolidated financial statements.

Consolidated Statements of Cash Flow

Unaudited, $ millions	For the three months ended 2008 June 30	2007 June 30	For the six months ended 2008 June 30	2007 June 30
Operating activities				
Earnings from continuing operations	**$ 80.8**	$ 132.4	**$ 170.0**	$ 221.5
Add (deduct)				
Non-controlling interests	**6.7**	5.8	**12.9**	11.2
Depletion, amortization and accretion	**64.1**	38.9	**103.8**	77.4
Amortization of financing costs	**0.3**	-	**0.5**	0.1
Stock-based compensation expense	**3.2**	(6.1)	**7.0**	9.4
Share of earnings of equity-accounted investments	**(3.0)**	(5.0)	**(9.4)**	(11.9)
Future income taxes (note 18)	**(5.1)**	7.0	**(2.5)**	(8.9)
Foreign exchange loss	**6.1**	6.8	**1.0**	8.5
Asset retirement obligations	**0.9**	(0.6)	**0.5**	(1.4)
Other Items	**(0.5)**	2.9	**(0.3)**	4.0
	153.5	182.1	**283.5**	309.9
Net increase in non-cash working capital (note 20)	**(133.7)**	(34.4)	**(113.8)**	(28.1)
Cash provided by continuing operations	**19.8**	147.7	**169.7**	281.8
Cash provided by discontinued operation	**1.5**	5.7	**3.1**	5.7
Cash provided by operating activities	**21.3**	153.4	**172.8**	287.5
Investing activities				
Capital expenditures	**(619.3)**	(91.3)	**(1,081.5)**	(180.2)
Other assets	**(24.6)**	(50.9)	**(69.8)**	(62.3)
Restricted cash	**14.2**	(3.3)	**(3.9)**	(5.6)
Net proceeds from sale of capital assets	**-**	-	**0.1**	-
Short-term investments	**-**	6.9	**103.5**	-
RUIF acquisition	**(240.3)**	-	**(240.3)**	-
Cash balances acquired from Dynatec	**-**	12.8	**-**	12.8
Distribution from investment	**6.2**	9.7	**15.9**	19.4
Net change in non-cash capital expenditures	**12.7**	3.4	**181.2**	(1.9)
Cash (used for) investing activities	**(851.1)**	(112.7)	**(1,094.8)**	(217.8)
Financing activities				
Increase (decrease) in short-term debt	**(52.8)**	0.1	**(52.8)**	(28.9)
Payment of long-term debt	**(5.5)**	-	**(9.2)**	-
Increase in long-term debt	**906.9**	12.7	**926.2**	43.6
Contribution from partners	**6.1**	-	**64.6**	-
Issuance of common shares	**32.7**	-	**416.8**	-
Dividends paid to non-controlling interest	**(5.3)**	(6.4)	**(10.3)**	(12.9)
Dividends paid	**(9.3)**	(5.1)	**(17.6)**	(10.3)
Cash provided by (used for) financing activities	**872.8**	1.3	**1,317.7**	(8.5)
Cash provided by (used for) discontinued operation	**0.4**	(0.1)	**(1.4)**	(0.1)
Cash provided by (used for) financing activities	**873.2**	1.2	**1,316.3**	(8.6)
Effect of exchange rate changes on cash and cash equivalents	**(5.2)**	(4.0)	**(1.1)**	(4.2)
Increase in cash and cash equivalents	**38.2**	37.9	**393.2**	56.9
Cash and cash equivalents at beginning of period	**710.7**	372.3	**355.7**	353.3
Cash and cash equivalents at end of period	**$ 748.9**	$ 410.2	**$ 748.9**	$ 410.2
Cash and cash equivalents consist of:				
Cash and cash equivalents of continuing operations	**$ 748.4**	$ 410.0	**$ 748.4**	$ 410.0
Cash and cash equivalents of discontinued operation (note 5)	**0.5**	0.2	**0.5**	0.2
Cash and cash equivalents consist of:				
Cash on hand and balances with banks	**$ 260.9**	$ 110.3	**$ 260.9**	$ 110.3
Cash equivalents	**488.0**	299.9	**488.0**	299.9
Supplementary Cash Flow Information				
Cash received for interest	**$ 4.1**	$ 5.6	**$ 9.4**	$ 8.7
Cash paid for interest on debt	**21.5**	12.1	**23.6**	14.1
Cash paid for income taxes	**58.7**	56.0	**144.8**	102.8

The accompanying notes are an integral part of these interim consolidated financial statements.

Notes to the Interim Consolidated Financial Statements (Unaudited)

1. Summary of accounting policies

These interim consolidated financial statements have been prepared on a basis consistent with that followed in the consolidated financial statements of Sherritt International Corporation (the Corporation or Sherritt) for the year ended December 31, 2007, with the exception of the changes disclosed in note 2. 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, 2007.

2. Accounting changes

i. Effective January 1, 2008, the Corporation adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3862, “Financial Instruments – Disclosure” (Section 3862) and Section 3863, “Financial Instruments – Presentation” (Section 3863), which replaced Handbook Section 3861, “Financial Instruments - Disclosure and Presentation”. The objective of the disclosure requirements of Section 3862 is to provide information about the significance of financial instruments to the Corporation's financial position and performance, the nature and extent of risks arising from financial instruments to which the Corporation is exposed and how the Corporation manages those risks. Section 3863 carries forward standards for the presentation of financial instruments and non-financial derivatives and provides guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset.

   The adoption of these standards did not have an impact on the classification and valuation of financial instruments. The new disclosures resulting from the adoption of these standards are included in note 22.

ii. Effective January 1, 2008, the Corporation adopted the CICA Handbook Section 1535, “Capital Disclosures” which specifies the disclosure of an entity’s objectives, policies and processes for managing capital and how it is meeting those objectives. The new disclosures resulting from adoption of this standard are included in note 24.

iii. Effective January 1, 2008, the Corporation adopted the CICA Handbook Section 3031, “Inventories”, which replaced Section 3030, “Inventories”. Under the new section, inventories are required to be measured at the “lower of cost and net realizable value”, which is different from the existing guidance of the “lower of cost and market”. The new section also requires, when applicable, the reversal of any inventory write-downs previously recognized.

This section has been applied retroactively at January 1, 2008 without restatement by the Corporation. On adoption, the Corporation recorded a $6.5 million increase to opening inventories, a $3.3 million increase to non-controlling interest, and a $3.2 million ($2.7 million after-tax) increase to opening retained earnings. In addition, the Corporation reclassified $10.2 million of long-term spare parts from other assets to capital. Depreciation and amortization of $12.6 million and $17.6 million have been reclassified to operating expenses within Operating, selling, and general and administrative expenses for the three and six months ended June 30, 2008, respectively.

iv. In June 2007, the CICA amended Section 1400, "General Standards of Financial Statement Presentation" to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least but not limited to 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The amendments to Section 1400 apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this standard had no impact on the Corporation's presentation of its financial position or consolidated results of operations at June 30, 2008 and for the three and six months ended.

v. In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". The Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Corporation will adopt the standards for its fiscal year beginning January 1, 2009. The new standard establishes the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The Corporation does not expect that the adoption of this Section will have a material impact on its consolidated financial statements.

vi. In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed the mandatory changeover date for International Financial Reporting Standards (IFRS) for publicly accountable entities as being January 1, 2011. (deleted - , with early adoption allowed.) Although IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosure. The AcSB plans to issue accounting standards, such as Section 3031, "Inventories" and Section 3064, "Goodwill and Intangible Assets", that are converged with IFRS in the period leading up to the changeover date thus mitigating the impact of IFRS adoption on the changeover date.

The Corporation will be required to prepare IFRS interim and annual financial statements, with comparatives, for its fiscal year beginning on January 1, 2011. The Corporation has established a dedicated IFRS team to develop and implement a plan for IFRS convergence and is progressing with training for key employees. Changes in accounting policies are likely and may materially impact the Corporation's consolidated financial statements.

vii. On adoption of CICA Section 3855 “Financial Instruments – Recognition and Measurement” on January 1, 2007, the Corporation recorded an opening retained earnings transitional adjustment of $0.3 million pertaining to the use of the effective interest-rate method in amortizing transaction costs on financial instruments.

3. Acquisition of Royal Utilities

On March 18, 2008, the Corporation announced its intention to make an offer to purchase all of the issued and outstanding trust units of Royal Utilities Income Fund (Royal Utilities) that it did not already own.

Sherritt and OTPPB SCP Inc., a wholly-owned subsidiary of Ontario Teachers’ Pension Plan Board (Teachers’) each owned and controlled 40,255,342 units, representing approximately 41.2% of the outstanding units for each of Sherritt and Teachers’. The balance of the units, representing approximately 17.6%, was widely held. Teachers’ and Sherritt entered into a lock-up agreement pursuant to which Teachers’ agreed to tender its 40,255,342 units to the Corporation’s offer.

On April 14, 2008, Sherritt and Royal Utilities reached an agreement pursuant to which Sherritt agreed to amend its offer (the Amended Offer) such that unitholders of Royal Utilities could elect to receive for each unit (i) $12.68 in cash, (ii) 0.8315 of a Sherritt common share, or (iii) a combination of cash and Sherritt common shares, provided that the aggregate cash consideration paid by Sherritt did not exceed $250 million and the aggregate number of Sherritt common shares issuable did not exceed 31,438,717. The Sherritt offer expired on April 28, 2008.

On May 2, 2008, Sherritt acquired 56,653,478 units of Royal Utilities representing approximately 98.5% of the issued and outstanding units it did not already own. On May 5, 2008, Sherritt acquired the remaining 851,864 units pursuant to a compulsory acquisition in accordance with the terms of the declaration of trust of Royal Utilities.

The aggregate purchase price consists of the issuance of 31,438,705 common shares to Royal Utilities unitholders with a fair value of $14.79 per share, $249.7 million cash consideration and $7.0 million of acquisition costs directly related to the acquisition. The fair value of $14.79 per share was based upon the average volume and value of the Corporation’s common shares traded for the period from two days prior to until two days after the Amended Offer was announced and agreed to by the Board of Trustees of Royal Utilities.

The acquisition is accounted for under the purchase method of accounting as a step acquisition. The Corporation will continue to carry its previously owned 41.2% interest in Royal Utilities at the carrying value and record the acquired amounts at their fair values in the Coal segment. The purchase cost will be allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. The Corporation is in the process of determining the estimated fair values of all identifiable assets and liabilities acquired, the amount of the purchase price that may be allocated to intangibles and goodwill, and the impact of applying purchase accounting on the interim consolidated statement of operations.

The following table summarizes the components of the total purchase price and net assets acquired. It reflects fair value adjustments for identifiable assets and liabilities acquired. The purchase price allocation is preliminary and subject to adjustment upon the completion of the valuation process. The final allocation of fair value to the assets acquired and liabilities assumed could differ materially from the amounts presented in these interim consolidated financial statements.

The difference between the cost of acquisition and the book value of net assets acquired has been presented as “unallocated purchase price”.

$ millions		
Purchase price:		
31,438,705 common shares issued (note 13)	$	465.0
Cash consideration		249.7
Transaction costs		7.0
		721.7

$ millions		
Net assets acquired and liabilities assumed:		
Cash	$	14.7
Net working capital		40.0
Property, plant and equipment		1,112.9
Other assets		9.5
Long term debt		(204.4)
Asset retirement obligation		(53.4)
Future income tax liabilities		(174.0)
Net assets (100% basis)	$	745.3
Percentage of assets acquired		58.8%
Net assets acquired		438.4
Unallocated purchase price		283.3
	$	721.7

The consolidated second quarter results of the Corporation include equity earnings of Royal Utilities up to May 2, 2008 (the date of acquisition). Royal Utilities results are consolidated with the Corporation from the date of acquisition to June 30, 2008.

4. Ambatovy Project

The Corporation has a 40% indirect equity interest in the Madagascar project companies, Ambatovy Minerals S.A. and Dynatec Madagascar S.A. (collectively referred to as the Ambatovy Joint Venture). The Ambatovy Joint Venture owns the Ambatovy exploration permits in Madagascar, which consists of ore deposits containing nickel and cobalt, and has embarked on a project to explore, develop and exploit the associated mineral rights and process, market and sell the ores mined (known as the Ambatovy Project).

On October 18, 2006, a shareholders agreement (the Shareholders’ Agreement) was entered into by Dynatec Corporation (Dynatec), Sumitomo Corporation (Sumitomo), Korea Resources Corporation (Kores) and SNC-Lavalin Inc. (SNC-Lavalin) establishing the shareholder structure for the Ambatovy Joint Venture.

In August 2007, agreements for U.S.$2.1 billion limited recourse project financing, with an approximate duration of 17 years, were executed by the Ambatovy Joint Venture with a group of international lenders. During the first quarter of 2008, the conditions precedent to the initial disbursement of the project financing were all satisfied or waived. Consequently, the Ambatovy Joint Venture has borrowed approximately U.S.$632 million of the project financing at June 30, 2008. Interest and commitment charges of $10.7 million related to the project financing have been capitalized as the project has not yet achieved commercial production.

Pursuant to the Shareholders' Agreement, prior to the initial disbursement of the project financing, Sherritt funded 45% of the cash calls from the Ambatovy Joint Venture, which included funding in respect of SNC-Lavalin's 5% interest in the Ambatovy Joint Venture. SNC-Lavalin deposited amounts equal to 5% of the cash calls in an escrow account. At June 30, 2008, $27.5 million was held in the escrow account and recorded as Restricted Cash. The funds in escrow will be released to Sherritt pending assignment of an equivalent interest in the Ambatovy Joint Venture. SNC-Lavalin is now funding its pro-rata share directly to the Ambatovy Joint Venture.

Sherritt has entered into cross-guarantee fee letters with Sumitomo and SNC-Lavalin in which Sherritt agreed to issue 3,773,107 common shares, in four equal annual instalments beginning on December 31, 2008, to Sumitomo and SNC-Lavalin in consideration for providing U.S.$324 million of a total of U.S.$598 million of cross-guarantees. Upon achieving initial disbursement, the Corporation recorded a guarantee fee asset (note 8) and contributed surplus (note 16) of $55.6 million. The amortization of the cross-guarantee fee asset will be capitalized to deferred development costs until the project begins commercial production. As the shares are issued, contributed surplus will be reduced accordingly. The expected issuances have been included in the calculation of the diluted number of shares.

5. Discontinued operation

On June 14, 2007, the Corporation acquired Dynatec. Immediately after the acquisition, the Corporation determined it would sell Dynatec's Mining Services, Mineral Products and Coal-bed Methane divisions. The Mining Services and Coal-bed Methane divisions were sold in 2007. At June 30, 2008, only the Mineral Products division remains unsold and is classified as a discontinued operation.

The carrying value of the net assets related to the discontinued operation is as follows:

$ millions, as at	**2008 June 30**	2007 December 31
Assets		
Current assets [(1)]	**$ 3.5**	$ 2.2
Capital assets	**1.4**	1.3
Other assets	**1.1**	1.1
	6.0	4.6
Liabilities		
Short-term debt	**2.2**	2.0
Current liabilities	**1.0**	1.2
Asset retirement obligations	**1.2**	1.2
Net assets of discontinued operation	**$ 1.6**	$ 0.2

(1) Current assets include cash and cash equivalents of $0.5 million at June 30, 2008 and December 31, 2007.

Loss from the discontinued operation for the three and six months ended June 30, 2008 is summarized as follows:

$ millions, except per share amounts		For the three months ended 2008 June 30		For the six months ended 2008 June 30
Revenue	**$**	**1.2**	**$**	**2.5**
Operating, selling, general and administrative expenses		**1.7**		**3.2**
Loss before undernoted item		**(0.5)**		**(0.7)**
Depletion, amortization and accretion		**-**		**-**
Loss from operations before income taxes		**(0.5)**		**(0.7)**
Income taxes		**-**		**-**
Loss from discontinued operation		**(0.5)**		**(0.7)**
Loss from discontinued operation per share				
Basic	**$**	**(0.01)**	**$**	**-**
Diluted	**$**	**-**	**$**	**-**

The earnings of the discontinued operations of the Dynatec acquisition for the period June 14 to June 30, 2007 are as follows:

$ millions, except per share amounts		Dynatec Mining Service		Mineral Products		Coal-bed Methane		Total
Revenue	$	10.4	$	0.3	$	-	$	10.7
Operating, selling, general and administrative expenses		10.2		0.3		-		10.5
Earnings before undernoted item		0.2		-		-		0.2
Depletion, amortization and accretion		0.2		-		-		0.2
Loss from operations before income taxes		-		-		-		-
Income taxes		-		-		-		-
Loss from discontinued operations	$	-	$	-	$	-	$	-
Loss from discontinued operations per share								
Basic	$	-	$	-	$	-	$	-
Diluted	$	-	$	-	$	-	$	-

6. Capital assets

$ millions, as at						2008 June 30						2007 December 31
		Cost		**Accumulated amortization and depletion**		**Net book value**		Cost		Accumulated amortization and depletion		Net book value
Metals	**$**	**3,617.7**	**$**	**164.3**	**$**	**3,453.4**	$	2,583.0	$	148.8	$	2,434.2
Oil and Gas		**1,441.1**		**1,103.7**		**337.4**		1,376.1		1,051.8		324.3
Power		**577.0**		**148.9**		**428.1**		566.9		135.3		431.6
Coal		**2,346.0**		**1,154.4**		**1,191.6**		284.5		210.6		73.9
Other		**77.3**		**53.6**		**23.7**		69.2		51.0		18.2
	$	**8,059.1**	**$**	**2,624.9**	**$**	**5,434.2**	$	4,879.7	$	1,597.5	$	3,282.2

The capital assets balance includes the capital assets acquired from Royal Utilities of $1,112.9 million (see note 3) and the mineral rights of $1,303.2 million (December 31, 2007 - $1,264.4 million) acquired from Dynatec.

Interest expense capitalized for the three and six months ended June 30, 2008 was $7.3 million (June 30, 2007 - $1.2 million) and $8.7 million (June 30, 2007 - $2.7 million), respectively.

The capital assets balance also included development and preproduction expenditures attributable to the Ambatovy Project of $1,606.4 million (December 31, 2007 - $767.0 million). In addition to the Ambatovy Project, $319.8 million related to assets under construction was included in capital assets at June 30, 2008 (December 31, 2007 - $201.5 million). The Ambatovy Project and assets under construction are not subject to depreciation or amortization until the project commences commercial production.

7. Investments

$ millions, as at	**2008 June 30**	2007 December 31
Royal Utilities	**$ -**	$ 337.1
Asset-Backed Commercial Paper	**47.6**	44.6
Other	**22.1**	23.1
	$ 69.7	$ 404.8

The Corporation acquired the remaining outstanding units of Royal Utilities in the second quarter of 2008 (note 3). This investment was accounted for as a long-term investment in accordance with the equity method of accounting prior to May 2, 2008.

Asset-Backed Commercial Paper (ABCP) with a book value of $47.6 million is net of a $15.9 million fair value adjustment and includes approximately $3.0 million net of a $1.0 million fair value adjustment acquired through the acquisition of Royal Utilities. At the dates the Corporation and Royal Utilities acquired these investments they were rated R-1 by Dominion Bond Rating Service, the highest credit rating issued for commercial paper. The ABCP portfolio matured between mid-August 2007 and mid-September 2007, but was not repaid as a result of liquidity issues in the ABCP market. In December 2007, a group of participants in the ABCP market, including banks, liquidity providers and major investors, known as the Pan-Canadian Investors Committee, proposed a restructuring for $32 billion of ABCP to be converted into long-term floating-rate notes (FRNs). On March 17, 2008, a court order was obtained through which the restructuring of the ABCP is expected to occur under the protection of the Companies' Creditors Arrangement Act. The investors voted on April 25, 2008 and approved the restructuring plan which received court approval on June 18, 2008. Certain investors subsequently appealed the approval of the plan to the Ontario Court of Appeal and the Court of Appeal has not yet issued its ruling. The Corporation has classified the ABCP as long-term investments, after initially classifying them as cash and cash equivalents, as it is anticipated that this investment may be realized beyond a 365-day period.

In determining the fair value, the Corporation used discounted cash flows based on interest rates of medium- to long-term Government of Canada bonds, and management's best estimate of credit ratings and risk factors. The restructuring plan identifies three basic categories of restructured notes and the Corporation believes its holdings of these restructured notes will include traditional securitized assets ($1.0 million of the $63.5 million principal amount) which are expected to be paid out at par, notes backed by synthetic and hybrid assets ($55.7 million of the $63.5 million principal amount) with an average maturity of 8.5 years and ABCP backed, in whole or in part, by U.S. sub-prime assets, referred to as ineligible assets ($6.8 million of the $63.5 million principal amount) with maturities of between 8 and 20 years.

The discount rates used to determine the fair value of the new notes range from 6.20% to 8.00% for synthetic and hybrid assets and from 10.00% to 11.00% for ineligible assets.

The Corporation performed a sensitivity analysis of certain fair value assumptions. Based on a 10% favourable and a 10% unfavourable change in the expected term, discount rate or expected principal loss, the Corporation determined that the fair value adjustment could range from approximately $14 million to $18 million.

8. Other assets

$ millions, as at	**2008 June 30**	2007 December 31
Advances and loans receivable	**$ 218.8**	$ 152.6
Cross-guarantee fee (note 4)	**52.5**	-
Notes receivable	**29.8**	33.2
Intangible assets	**28.7**	30.2
Long-term spare parts and equipment (note 2)	**-**	9.6
Pension asset	**5.8**	4.8
Put/call option (note 22)	**7.5**	7.5
Deferred reclamation recoveries (1)	**5.0**	-
Deferred items	**11.0**	8.7
Other	**32.9**	1.9
	392.0	248.5
Current portion of advances and loans receivable	**(66.2)**	(51.5)
	$ 325.8	$ 197.0

(1) Deferred reclamation recoveries relate to future recoveries of reclamation expenditures from domestic customers, obtained through the acquisition of Royal Utilities.

9. Inventories

$ millions, as at	**2008 June 30**	2007 December 31
Uncovered coal	**$ 6.8**	$ -
Raw materials	**27.0**	3.7
Materials in process	**48.0**	29.3
Finished products	**24.3**	22.4
	106.1	55.4
Spare parts and operating materials	**72.8**	38.6
	$ 178.9	$ 94.0

Uncovered coal, raw materials, materials in process, and finished products are valued at the lower of average production cost and net realizable value, with cost determined on a moving weighted-average basis or using standard costing. Spare parts and operating materials are valued at the lower of average cost and net realizable value.

For the three and six months ended June 30, 2008, the cost of inventories recognized as an expense and included in Operating, selling, general and administrative expenses amounted to $134.9 million (June 30, 2007 - $127.2 million) and $234.4 million (June 30, 2007 - $218.4 million), respectively.

10. Post-retirement benefits

The Corporation’s pension expense for the three and six months ended June 30, 2008 was $2.6 million (June 30, 2007 - $2.0 million) and $4.5 million (June 30, 2007 - $3.9 million).

11. Long-term debt and other long-term liabilities

$ millions, as at	2008 June 30	2007 December 31
7.875% senior unsecured debentures due 2012	**$ 265.1**	$ 264.3
8.25% senior unsecured debentures due 2014	**221.1**	221.1
7.75% senior unsecured debentures due 2015	**271.4**	-
Ambatovy Project financing	**580.8**	-
Senior credit facility agreement	**145.1**	-
Loan from financial institution	**36.2**	38.9
Other	**94.6**	64.1
	1,614.3	588.4
Capital lease obligations	**80.0**	16.3
Other long-term liabilities	**21.0**	0.4
	1,715.3	605.1
Current portion of long-term debt	**(41.3)**	(15.3)
	$ 1,674.0	$ 589.8

On June 17, 2008 the Corporation issued $275 million principal amount of 7.75% senior unsecured debentures series C due 2015 for net cash proceeds of $271.4 million after deferred financing costs of $3.6 million. The annual effective interest rate was 7.99%.

The 7.875% senior unsecured debentures, due 2012, are net of deferred financing costs of $8.4 million at June 30, 2008 (December 31, 2007 - $9.3 million).

The 8.25% senior unsecured debentures, due 2014, are net of deferred financing costs of $3.9 million, at June 30, 2008 (December 31, 2007 - $3.9 million).

The Ambatovy Joint Venture executed a U.S.$2.1 billion limited recourse project financing with a group of international lenders with a maturity date of June 15, 2024. The first repayment will be at the latest of six months after financial completion or thirty months after the final draw down but in no case later than February 2013. The project financing is guaranteed by the project sponsors until the project passes certain completion tests and is secured by the project assets. Sherritt has a completion guarantee of U.S.$840 million of which the first U.S.$598 million is cross guaranteed by its partners (note 4). Interest is payable based on LIBOR rates plus applicable margins, depending on the lenders, of 0.9% to 1.9% pre-completion. Interest is currently payable based on LIBOR rates plus applicable margins of approximately 1.40%.

During the second quarter, the Ambatovy Joint Venture borrowed U.S.$632 million under the project financing. The balance outstanding at June 30, 2008 of $580.8 million is net of deferred financing costs.

The Corporation acquired a senior credit facility arrangement through the acquisition of Royal Utilities. The senior credit facility agreement is with a syndicate of financial institutions in which the interest rates payable on advances under the facility are based on prime lending rates, bankers acceptance rates, U.S. based rates and/or LIBOR rates plus applicable margins ranging from 0% to 1.457% depending on Royal Utilities' ratio of debt to operating earnings before interest, taxes, depreciation and amortization.

Capital lease obligations for the Coal segment of $75.0 million bear interest at rates ranging from 4.11% to 6.92%. These capital leases mature between 2008 and 2013 and are repayable by blended monthly payments of principal and interest.

Capital lease obligations for the Metals segment of $5.0 million bear interest at rates ranging from 1.08% to 8.0%. These capital leases mature between 2008 and 2012 and are repayable by blended monthly payments of principal and interest.

Interest and accretion on long-term debt was $14.3 million (June 30, 2007 - $6.2 million) and $25.9 million (June 30, 2007 - $11.7 million) for the three and six months ended June 30, 2008.

12. Asset retirement obligations

Asset retirement obligations were recognized in respect of the mining operations of Metals and Coal, including associated infrastructure and buildings. Also, obligations were recorded for nickel and cobalt refining facilities, fertilizers and utilities facilities and oil and gas production facilities. Retirement of refinery, fertilizer and utilities facilities, oil and gas production facilities, infrastructure and buildings normally takes place at the end of the asset's useful life. 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 following is a reconciliation of the opening and closing asset retirement obligation balances:

$ millions	**For the six months ended 2008 June 30**	For the year ended 2007 December 31
Balance, beginning of period	**$ 73.4**	$ 65.0
Acquisition of Royal Utilities Income Fund	**53.4**	-
Additions to liabilities	**4.1**	12.0
Liabilities settled	**(2.2)**	(4.9)
Accretion expense	**2.9**	4.6
Change in foreign exchange rates	**3.5**	(3.3)
Balance, end of period	**135.1**	73.4
Current portion	**(22.6)**	(5.0)
	$ 112.5	$ 68.4

The Corporation has estimated that it will need approximately $302 million in undiscounted cash flows to settle these liabilities, payable over the next several decades. The payments are expected to be funded by cash generated from operations. Credit adjusted discount rates from 4% to 9% were applied to expected future cash flows to determine the carrying value of the asset retirement obligations.

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

13. Capital stock

The Corporation's authorized share capital consists of an unlimited number of common shares. The changes in the Corporation's outstanding common shares were as follows:

	Number		Stated Capital	
	For the six months ended	For the year ended	**For the six months ended**	For the year ended
	2008	2007	**2008**	2007
$ millions, except share amounts	**June 30**	December 31	**June 30**	December 31
Balance, beginning of period	**231,809,308**	172,011,570	**$ 1,857.2**	$ 929.2
Shares issued:				
Acquisition of Dynatec	**-**	61,439,408	**-**	941.3
Share issuance	**26,250,000**	-	**383.0**	-
Overallotment on share issuance	**2,276,951**	-	**33.3**	
Acquisition of Royal Utilities (note 3)	**31,438,705**	-	**465.0**	
Share purchase plan	**-**	89,930	**-**	0.8
Repurchase of shares	**-**	(1,836,600)	**-**	(14.7)
Stock options exercised	**28,335**	105,000	**0.1**	0.6
Balance, end of period	**291,803,299**	231,809,308	**$ 2,738.6**	$ 1,857.2

The following table presents the calculation of basic and diluted earnings per common share:

	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
$ millions, except per share amounts	**June 30**	June 30	**June 30**	June 30
Earnings from continuing operations	**$ 80.8**	$ 132.4	**$ 170.0**	$ 221.5
Loss from discontinued operation	**(0.5)**	-	**(0.7)**	-
Net earnings - basic	**80.3**	132.4	**169.3**	221.5
Net earnings - diluted	**80.8**	132.4	**170.0**	221.5
Loss from discontinued operation	**(0.5)**	-	**(0.7)**	-
Earnings from continuing operations - diluted	**$ 80.3**	$ 132.4	**$ 169.3**	$ 221.5
Weighted average number of common shares - basic	**282.1**	183.5	**257.1**	177.8
Weighted average effect of dilutive securities:				
Stock options	**0.7**	1.0	**0.8**	0.9
Cross guarantee (note 4)	**3.8**	-	**3.8**	-
Weighted average number of common shares - diluted	**286.6**	184.5	**261.7**	178.7
Earnings from continuing operations per common share				
Basic	**$ 0.29**	$ 0.72	**$ 0.66**	$ 1.24
Diluted	**$ 0.28**	$ 0.72	**$ 0.65**	$ 1.24
Loss from discontinued operation per common share				
Basic	**$ (0.01)**	$ -	**$ -**	$ -
Diluted	**$ -**	$ -	**$ -**	$ -
Net earnings per common share				
Basic	**$ 0.28**	$ 0.72	**$ 0.66**	$ 1.24
Diluted	**$ 0.28**	$ 0.72	**$ 0.65**	$ 1.24

On March 31, 2008, the Corporation closed an offering of 26,250,000 common shares at a price of $15.25 per common share, resulting in net proceeds of $383.0 million after deducting underwriters' fees of $16.2 million and transaction costs of $1.1 million. The Corporation granted the underwriters an over-allotment option, exercisable in whole or in part, to purchase up to an additional 3,937,500 common shares at the same price for a period of 30 days after closing. On April 17, 2008, the underwriters exercised the over-allotment option to purchase an additional 2,276,951 common shares at $15.25 per common share resulting in net proceeds of $33.3 million after deducting underwriter fees of $1.4 million.

14. Non-controlling interests

The Corporation is the primary beneficiary of two Variable Interest Entities (VIEs) as defined under CICA's Accounting Guideline 15.

The Corporation holds an indirect 40% interest in the equity of a VIE, the Ambatovy Joint Venture. As a result, the accounts of the Ambatovy Joint Venture are consolidated and the 60% equity interests of other shareholders are accounted for as non-controlling interests.

The Corporation also holds an indirect one-third interest in the equity of a VIE, Energas S.A, which owns and operates power plants in Cuba. The Corporation indirectly provided financing for the construction of the power plants. The two-thirds non-controlling interests in the entity are presented separately.

Non-controlling interests in the VIEs consolidated by the Corporation are as follows:

$ millions	**For the six months ended 2008 June 30**	For the year ended 2007 December 31
Ambatovy Joint Venture		
Balance, beginning of period	**$ 1,016.5**	$ -
Share of net earnings	**(0.3)**	0.6
Increase in net assets	**103.8**	1,015.9
	1,120.0	1,016.5
Energas S.A.		
Balance, beginning of period	**$ 185.8**	$ 194.1
Share of net earnings	**13.2**	20.5
Dividends paid to non-controlling interest	**(10.3)**	(28.8)
Change in accounting policy (note 2)	**3.3**	-
	192.0	185.8
Total balance, end of period	**$ 1,312.0**	$ 1,202.3

15. Stock-based compensation plans

The following is a summary of stock option activity:

	For the three months ended 2008 June 30		For the three months ended 2007 June 30	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
Outstanding at beginning of period	3,201,668	$ 11.32	2,451,667	$ 9.49
Granted	810,000	15.02	-	-
Exercised for cash	-	-	(16,666)	10.06
Exercised for shares	(28,335)	5.19	-	-
Forfeited	(8,332)	10.34	(33,334)	10.06
Outstanding at end of period	3,975,001	12.12	2,401,667	9.48
Options exercisable, end of period	1,145,667	$ 8.91	892,555	$ 7.81

	For the six months ended 2008 June 30		For the six months ended 2007 June 30	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
Outstanding at beginning of period	3,255,000	$ 11.30	2,451,667	$ 9.49
Granted	810,000	15.02	-	-
Exercised for cash	(48,332)	6.28	(16,666)	10.06
Exercised for shares	(28,335)	5.19	-	-
Forfeited	(13,332)	10.34	(33,334)	10.06
Outstanding at end of period	3,975,001	12.12	2,401,667	9.48
Options exercisable, end of period	1,145,667	$ 8.91	892,555	$ 7.81

At June 30, 2008, 3,730,001 (June 30, 2007 – 2,031,667) options with a share appreciation right (SAR) attachment remained outstanding for which the Corporation has recognized a compensation expense of $1.5 million and $3.5 million respectively, for the three and six months ended June 30, 2008. The Corporation recognized compensation recovery of $1.9 million and expense of $3.6 million, respectively, for the three and six months ended June 30, 2007.

In the second quarter of 2008, the Corporation granted 810,000 stock options with an exercise price of $15.02 per share, and 287,250 Restricted Share Units (RSUs) to executive and non-executive employees.

The Corporation also recorded compensation expense of $1.7 million and $3.5 million respectively, for the three and six months ended June 30, 2008 for the other stock-based compensation plans. The Corporation recognized compensation recovery of $4.2 million and compensation expense of $5.8 million respectively, for the three and six months ended June 30, 2007 for the other stock-based compensation plans.

	For the three months ended 2008 June 30		For the three months ended 2007 June 30	
	SAR	**RSU/DSU**	SAR	RSU/DSU
Balance, beginning of period	**448,125**	**631,927**	1,969,625	337,608
Issued	**-**	**289,353**	-	588
Exercised	**-**	**-**	-	(15,195)
Forfeited	**-**	**(22,547)**	-	-
Outstanding at end of period	**448,125**	**898,733**	1,969,625	323,001
Units exercisable, end of period	**-**	**162,636**	1,969,625	-
Weighted-average exercise price	**$ 3.10**	**Not Applicable**	$ 5.08	Not Applicable

	For the six months ended 2008 June 30		For the six months ended 2007 June 30	
	SAR	**RSU/DSU**	SAR	RSU/DSU
Balance, beginning of period	**549,625**	**636,052**	2,132,750	485,332
Issued	**-**	**302,477**	-	13,576
Exercised	**(101,500)**	**-**	(163,125)	(160,712)
Forfeited	**-**	**(39,796)**	-	(15,195)
Outstanding at end of period	**448,125**	**898,733**	1,969,625	323,001
Units exercisable, end of period	**-**	**162,636**	1,969,625	-
Weighted-average exercise price	**$ 3.10**	**Not Applicable**	$ 5.08	Not Applicable

16. Contributed surplus

$ millions	For the six months ended 2008 June 30	For the year ended 2007 December 31
Balance, beginning of period	**$ 190.3**	$ 191.8
Repurchase of common shares	**-**	(1.5)
Cross-guarantee (note 4)	**55.6**	-
Balance, end of period	**$ 245.9**	$ 190.3

17. Net financing expense

$ millions	For the three months ended 2008 June 30	2007 June 30	For the six months ended 2008 June 30	2007 June 30
Interest income on cash, cash equivalents, short-term investments and loans receivable (note 22)	**$ (6.8)**	$ (6.2)	**$ (13.3)**	$ (11.8)
Interest and accretion expense on debt	**14.3**	6.2	**25.9**	11.7
Foreign exchange losses	**6.1**	6.8	**1.0**	8.5
Other	**(0.1)**	(0.2)	**(1.0)**	(1.0)
	$ 13.5	$ 6.6	**$ 12.6**	$ 7.4

18. Income taxes

$ millions	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
	June 30	June 30	**June 30**	June 30
Current	**$ 33.4**	$ 60.2	**$ 78.7**	$ 122.1
Future	**(5.1)**	7.0	**(2.5)**	(8.9)
	$ 28.3	$ 67.2	**$ 76.2**	$ 113.2

19. Commitments

Commitments for the Ambatovy Project amounted to $1,284.9 million (December 31, 2007 - $941.4 million), including the share of non-controlling interest. In addition, at June 30, 2008, the Corporation was committed to purchases of equipment, office space, vehicles, and services in the amount of $421.2 million (December 31, 2007 - $343.2 million), including its proportionate share of joint venture commitments.

20. Net increase in non-cash working capital

$ millions	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
	June 30	June 30	**June 30**	June 30
Accounts receivable	**$ (48.9)**	$ (23.0)	**$ 6.2**	$ (49.2)
Inventories	**3.6**	18.6	**(26.6)**	(1.5)
Prepaid expenses	**(6.4)**	(7.0)	**(6.6)**	(8.1)
Accounts payable and accrued liabilities	**(82.0)**	(23.0)	**(86.8)**	30.7
	$ (133.7)	$ (34.4)	**$ (113.8)**	$ (28.1)

21. Segmented information

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

For the three months ended 2008 June 30

$ millions	**Metals**	**Coal [1]**	**Oil and Gas**	**Power**	**Corporate and Other**	**Consolidated**
Revenue	**$ 177.7**	**$ 124.5**	**$ 104.5**	**$ 30.3**	**$ 4.2**	**$ 441.2**
Operating, selling, general and administrative expenses [3]	**109.8**	**111.7**	**18.0**	**7.4**	**16.5**	**263.4**
Earnings (loss) before undernoted items	**67.9**	**12.8**	**86.5**	**22.9**	**(12.3)**	**177.8**
Depletion, amortization and accretion [3]	**(2.4)**	**(11.5)**	**(29.2)**	**(7.2)**	**(1.2)**	**(51.5)**
Share of earnings of equity accounted investments	**-**	**1.9**	**-**	**-**	**1.1**	**3.0**
Net financing expense						**(13.5)**
Income taxes						**(28.3)**
Non-controlling interests						**(6.7)**
Earnings from continuing operations						**80.8**
Loss from discontinued operation						**(0.5)**
Net earnings						**80.3**
Capital expenditures	**566.3**	**6.9**	**30.8**	**7.5**	**7.8**	**619.3**
Total Assets [2]	**$ 4,330.2**	**$ 1,364.9**	**$ 844.9**	**$ 582.7**	**$ 1,132.3**	**$ 8,255.0**

For the three months ended 2007 June 30

$ millions	Metals	Coal [1]	Oil and Gas	Power	Corporate and Other	Consolidated
Revenue	$ 274.1	$ 24.6	$ 77.7	$ 28.3	$ 0.7	$ 405.4
Operating, selling, general and administrative expenses	107.4	24.3	18.4	7.1	2.3	159.5
Earnings (loss) before undernoted items	166.7	0.3	59.3	21.2	(1.6)	245.9
Depletion, amortization and accretion	(5.5)	(2.7)	(23.0)	(6.6)	(1.1)	(38.9)
Share of earnings of equity accounted investments	-	5.0	-	-	-	5.0
Net financing income						(6.6)
Income taxes						(67.2)
Non-controlling interests						(5.8)
Net earnings						132.4
Capital expenditures	49.1	0.7	35.8	5.6	0.1	91.3
Total Assets	$ 766.9	$ 119.8	$ 707.1	$ 552.2	$ 1,658.0	$ 3,804.0

(1) The Coal segment includes the Corporation's 50% proportionate interest in the Mountain Operations (previously known as Coal Valley). It also includes the equity-accounted interest in the earnings of Royal Utilities to the acquisition date (note 3) and 100% of its results as of the acquisition date.

(2) Total assets include $6.0 million from the discontinued operation (note 5).

(3) Operating expenses include depreciation expense in the amount of $3.4 million in Metals and $9.2 million in Coal. For additional information refer to note 2.

For the six months ended 2008 June 30

$ millions

	Metals	**Coal [1]**	**Oil and Gas**	**Power**	**Corporate and Other**	**Consolidated**
Revenue	**$ 340.0**	**$ 155.4**	**$ 192.0**	**$ 60.1**	**$ 7.9**	**$ 755.4**
Operating, selling, general and administrative expenses [3]	**186.0**	**139.2**	**37.5**	**13.4**	**30.8**	**406.9**
Earnings (loss) before undernoted items	**154.0**	**16.2**	**154.5**	**46.7**	**(22.9)**	**348.5**
Depletion, amortization and accretion [3]	**(4.2)**	**(11.8)**	**(52.9)**	**(14.7)**	**(2.6)**	**(86.2)**
Share of earnings of equity accounted investments	**-**	**8.3**	**-**	**-**	**1.1**	**9.4**
Net financing expense						**(12.6)**
Income taxes						**(76.2)**
Non-controlling interests						**(12.9)**
Earnings from continuing operations						**170.0**
Loss from discontinued operation						**(0.7)**
Net earnings	**-**	**-**	**-**	**-**	**-**	**169.3**
Capital expenditures	**999.5**	**7.5**	**55.1**	**11.3**	**8.1**	**1,081.5**
Total Assets [2]	**$ 4,330.2**	**$ 1,364.9**	**$ 844.9**	**$ 582.7**	**$ 1,132.3**	**$ 8,255.0**

For the six months ended 2007 June 30

$ millions

	Metals	Coal [1]	Oil and Gas	Power	Corporate and Other	Consolidated
Revenue	$ 478.1	$ 44.4	$ 136.1	$ 56.2	$ 0.7	$ 715.5
Operating, selling, general and administrative expenses	176.7	45.3	35.7	14.8	24.2	296.7
Earnings (loss) before undernoted items	301.4	(0.9)	100.4	41.4	(23.5)	418.8
Depletion, amortization and accretion	(11.5)	(5.1)	(46.1)	(12.6)	(2.1)	(77.4)
Share of earnings of equity accounted investments	-	11.9	-	-	-	11.9
Net financing income						(7.4)
Income taxes						(113.2)
Non-controlling interests						(11.2)
Net earnings						221.5
Capital expenditures	80.1	1.1	83.1	15.7	0.2	180.2
Total Assets	$ 766.9	$ 119.8	$ 707.1	$ 552.2	$ 1,658.0	$ 3,804.0

(1) The Coal segment includes the Corporation's 50% proportionate interest in the Mountain Operations (previously known as Coal Valley). It also includes the equity-accounted interest in the earnings of Royal Utilities to the acquisition date (note 3) and 100% of its results as of the acquisition date.
(2) Total assets include $6.0 million from the discontinued operation (note 5).
(3) Operating expenses include depreciation expense in the amount of $6.5 million in Metals and $11.1 million in Coal. For additional information refer to note 2.

$ millions	Goodwill [1]	Revenue (For the three months ended June 30, 2008)	Capital Assets (For the three months ended June 30, 2008)	Revenue (For the three months ended June 30, 2007)	Capital Assets (For the three months ended June 30, 2007)
Canada	$ -	$ 129.3	$ 1,441.7	$ 44.6	$ 276.5
Cuba	-	128.3	1,046.2	104.2	879.7
Madagascar	385.4	-	2,934.5		
Europe	-	74.9	5.0	174.5	6.5
Asia	-	102.4	6.7	75.1	6.6
Other foreign countries	-	6.3	0.1	7.0	119.6
	$ 385.4	$ 441.2	$ 5,434.2	$ 405.4	$ 1,288.9

$ millions	Goodwill [1]	Revenue (For the six months ended June 30, 2008)	Capital Assets (For the six months ended June 30, 2008)	Revenue (For the six months ended June 30, 2007)	Capital Assets (For the six months ended June 30, 2007)
Canada	$ -	$ 149.5	$ 1,441.7	$ 66.8	$ 276.5
Cuba	-	242.2	1,046.2	186.1	879.7
Madagascar	385.4	-	2,934.5		
Europe	-	147.2	5.0	267.3	6.5
Asia	-	191.6	6.7	180.4	6.6
Other foreign countries	-	24.9	0.1	14.9	119.6
	$ 385.4	$ 755.4	$ 5,434.2	$ 715.5	$ 1,288.9

(1) At June 30, 2007 there was no goodwill recorded by the Corporation.

22. Financial instruments and financial risk management

(a) Financial instruments

The Corporation has classified financial instruments as follows:

$ millions, as at	2008 June 30	2007 December 31
Financial assets:		
Held-for-trading, measured at fair value		
Cash and cash equivalents	$ 748.9	$ 355.2
Restricted cash	35.6	31.4
Short-term investments	-	103.5
Asset-backed commercial paper	47.6	44.6
Put/call option - Ambatovy Project	7.5	7.5
Loans and receivables, measured at amortized costs		
Advances and loans receivable	218.8	152.6
Accounts receivable, net	546.9	495.1
Notes receivable	29.8	33.2
Deferred reclamation recoveries	5.0	-
Financial liabilities:		
Other liabilities, measured at amortized costs		
Short-term debt	$ -	$ 52.8
Accounts payable and accrued liabilities	640.7	467.6
Long-term debt and other long-term liabilities, including current portion	1,715.3	605.1

The Corporation had no held-to-maturity financial instruments during the quarter ended June 30, 2008 or during the year ended December 31, 2007.

(b) Short-term investments and cash equivalents

The Corporation’s short-term investments, including short-term investments in cash and cash equivalents, are comprised of the following:

$ millions, as at	**2008 June 30**	2007 December 31
Government of Canada Treasury bills	**$ 440.1**	$ 159.2
Bank term deposits	**48.0**	113.0
Bankers' acceptances	**-**	82.2
	$ 488.1	$ 354.4

(c) Allowance account for credit losses

The Corporation’s accounts receivable are comprised of the following:

$ millions, as at	**2008 June 30**	2007 December 31
Trade receivables	**$ 489.8**	$ 367.2
Allowances for doubtful accounts	**(4.6)**	(4.6)
Other	**61.7**	132.5
	$ 546.9	$ 495.1

Of which:

$ million, as at	**2008 June 30**	2007 December 31
Not past due	**$ 412.9**	$ 413.0
Past due no more than 30 days	**59.7**	10.6
Past due for more than 30 days but no more than 60 days	**6.0**	4.9
Past due for more than 60 days	**68.3**	66.6
	$ 546.9	$ 495.1

At June 30, 2008, approximately $134 million of accounts receivable was considered past due of which $68.3 million was more than 60 days old. Accounts receivable that are past due relate to receivables in Oil and Gas and are in respect of billed receivables and cost recovery claims approved pursuant to Cuban production sharing contracts. These cost recovery claims include amounts which are due from the joint operating partner on a block where Sherritt holds a participating interest and which are not subject to the payment pooling arrangement described in note 22 (f). These balances are not considered as past due until after 90 days but are not ultimately collected until the joint operating partner collects payment from an agency of the Cuban government. Billed accounts receivable of the Corporation due from the same agency of the Cuban government are not past due until after 180 days. The outstanding receivables in Oil and Gas are regularly reviewed by management and are monitored with the counterparties. All other accounts receivable amounts are current and wherever warranted, an allowance for doubtful accounts is provided in note 22 f.

(d) Fair values

At June 30, 2008, the carrying values of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, reclamation recoveries, short-term debt, accounts payable and accrued liabilities are at fair value or approximate fair value due to their immediate or short terms to maturity.

The carrying value of Asset-Backed Commercial Paper, which is held-for-trading, approximated its fair value at June 30, 2008 (see note 7).

Financial instruments with carrying values different from their fair values include the following:

		2008		2007
		June 30		December 31
$ millions, as at	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Investment in Royal Utilities	**$ -**	**$ -**	$ 337.1	$ 430.7
7.875% senior unsecured debentures due 2012	**265.1**	**278.7**	264.3	275.1
8.25% senior unsecured debentures due 2014	**221.1**	**231.5**	221.1	226.8
7.75% senior unsecured debentures due 2015	**271.4**	**276.3**	-	-
Short-term investments	**-**	**-**	103.5	104.6

Fair values of investments are determined based on published bid prices at period end or the last trade closest to period end. Fair value for the senior unsecured debentures was based on the period-end asking prices. The Corporation believes that the fair values of other long-term debt approximate their carrying value. The fair value of a financial instrument on initial recognition is normally the transaction price, (i.e. the fair value of the consideration given or received). Fair values of loans and advances receivable are estimated based on discounted cash flows. Due to the use of judgment and uncertainties in the determination of the estimated fair values, these values should not be interpreted as being realizable in the immediate term.

The fair value for the put/call option on the Ambatovy Project was not determinable as the variability in the range of reasonable fair value estimates is significant and the probabilities of the various estimates within the range cannot be reasonably assessed (see note 8).

The Corporation had approximately $2.0 billion available under its various credit facilities, at June 30, 2008, inclusive of approximately U.S.$1.5 billion (including the share of non-controlling interest) available under the Ambatovy Joint venture limited recourse project financing.

(e) Net investment income

The Corporation has recorded net investment income in relation to the following financial instruments:

	For the three months ended		For the six months ended	
	2008	2007	**2008**	2007
$ millions	**June 30**	June 30	**June 30**	June 30
Interest income earned on:				
Cash	**$ 0.1**	$ 0.1	**$ 0.3**	$ 0.2
Short-term investments	**2.9**	3.0	**5.7**	5.5
Advances	**2.0**	0.8	**3.4**	1.4
Receivables	**1.2**	1.0	**2.9**	2.3
Other	**0.6**	1.3	**1.0**	2.4
	$ 6.8	$ 6.2	**$ 13.3**	$ 11.8

(f) Risk management policies and hedging activities

The Corporation is sensitive to changes in commodity prices, foreign exchange and interest rates. The Corporation's board of directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. Although the Corporation has the ability to address its price-related exposures through the use of options, futures and forward contacts, it does not generally enter into such arrangements. The Corporation reduces the business-cycle risks inherent in its commodity operations through industry diversification. Similarly, derivative financial instruments are not used to reduce these financial risks.

Credit risk

Credit risk on financial instruments arises from the potential for counterparties to default on their obligations to the Corporation. Current credit exposure is limited to the loss that would be incurred if the Corporation's counterparties were to default at the same time.

The Corporation has credit risk exposure related to accounts receivable and advances and loans associated with its businesses in Cuba of $787.7 million at June 30, 2008 (December 31, 2007 – $582.7 million). The increase from December 31, 2007 was primarily due to funding related to the Moa Joint Venture expansion and the construction of an acid plant in Moa, Cuba, and higher accounts receivables in Oil and Gas (see note 22(c)). Management continues to evaluate the overall exposure to the Cuban Government and in particular, management is monitoring the ongoing discussions between an agency of the Government of Cuba and Peberco Limited with respect to payment of the outstanding Block 7 receivables. Although current global economic conditions have negatively impacted Cuba, the Corporation does not believe that the Cuban Government will be unable to meet its financial obligations to the Corporation. The Cuban Government's future policies related to foreign investors and foreign exchange payments could be affected by the political environmental and economic pressure resulting from the Cuban Government's limited access to foreign exchange.

The Corporation manages its overall accounts receivable with the Cuban Government agencies on a consolidated basis to provide for the cash-positive operation in its businesses, prudent growth, and an orderly reduction of overdue balances. The Corporation has been a large foreign investor 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 (the payment pooling arrangement) made to Cuban agencies for labour, taxes, royalties and other local services in Metals, Oil and Gas, and Power; obtaining pledges of third-party payments to Cuban agencies to enhance payment of such receivables; and managing sustaining and growth capital appropriately.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due. To the extent that the Corporation does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through equity or debt transactions.

The Corporation manages its liquidity risk by continuously monitoring forecast and cash flows from operations.

Financial liabilities consist of short-term debt, accounts payable and accrued liabilities and long-term debt. The short-term debt relates to the revolving-term credit facility which has a term of 364 days with the next renewal in May 2009. Trade payables and accrued liabilities are paid in the normal course of business and except under certain exceptions, no later than one month.

The following table outlines the contractual principal payments of the Ambatovy Project financing and the senior credit facility and the contractual principal and interest payments for all other long-term debt at June 30, 2008:

$ millions, as at	Total	2008	2009	2010	2011	2012	2013 and thereafter
Long-term debt	$ 1,709.3	$ 5.2	$ 10.2	$ 10.2	$ 7.7	$ 472.3	$ 1,203.7
Capital leases	88.9	26.1	23.2	17.7	13.1	8.8	-

On the Ambatovy Project financing, Sherritt has a completion guarantee of U.S.$840 million of which the first U.S.$598 million is cross guaranteed by its partners (see note 4).

Market risk

Market risk is the potential for financial loss from adverse changes in underlying market factors, including interest and foreign exchange rates, credit spreads, and equity and commodity prices.

Foreign exchange risk

Many of Sherritt's businesses transact in currencies other than the Canadian dollar. 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.

Interest rate risk

Interest on the Corporation's short-term and long-term debt is based on both fixed and variable rates and exposes the Corporation to interest rate risk. The Corporation has not entered into any derivative agreements to mitigate this risk. Increases in interest rates would increase the interest cost of the Corporation's variable rate short-term and long-term debt and have an adverse effect on the Corporation's net earnings and earnings per share. Based on short-term and long-term debt at June 30, 2008, a 1.0% increase or decrease in the market interest rate could impact the Corporation's annual interest expense by approximately $8.1 million.

Commodity price risk

Sherritt's principal businesses include the sale of several commodities. Revenues, earnings and cash flows from the sale of nickel, cobalt, oil and export-destined coal 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, future 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.

Stock-based compensation cost risk

The Corporation is exposed to a financial risk related to stock-based compensation costs.

Under the Stock Option Plan, options may have attached to them tandem stock appreciation rights (SARs) and these are issued to senior management and other employees. The Corporation previously issued SARs which represent a right to receive a cash amount from the Corporation equivalent to the amount by which the market price of the Corporation's common shares at the time of exercise exceeds the market price of such shares at the time of grant. At June 30, 2008, there were 448,125 SARs outstanding (June 30, 2007 – 1,969,625) with a weighted-average exercise price of $3.10 (June 30, 2007 – $5.08) and 3,730,001 (June 30, 2007 – 2,031,667) options with SARs remained outstanding with a weighted average exercise price of $8.91. All outstanding SARs were fully vested and exercisable while 1,145,667 options with SARs were exercisable at June 30, 2008.

The Corporation has Restricted Share Unit (RSU) and Deferred Share Unit (DSU) plans. The RSUs and DSUs represent a right to receive a cash amount payable by the Corporation to a participant at the end of the vesting period for RSUs or at retirement, death, termination or departure from the Board for DSUs, determined by reference to the market price of the common shares multiplied by the number of RSUs or DSUs held by the participant. The RSUs vest no later than the earlier of the third anniversary following December 1 of the calendar year in which the RSUs were granted or the death of the participant. The DSUs vest when granted. Compensation expense related to the RSUs and DSUs is accrued over the vesting period of the plan based on the expected total compensation to be paid out at the end of the vesting period; including adjustments for failure to meet performance-based targets and the impact of changes in the market price of the common shares.

Potential fluctuations in the price of Sherritt's common shares would have an impact on the charge related to its share unit plans described above. For the second quarter of fiscal 2008, a strengthening or weakening of $1.00 in the price of Sherritt's common shares would have had an unfavourable or favourable impact of approximately $4.3 million on net earnings, respectively.

23. Accumulated other comprehensive loss

$ millions		**For the six months ended 2008 June 30**		For the year ended 2007 December 31
Balance, beginning of period	**$**	**(231.0)**	$	(43.8)
Effect of exchange rate changes during the period		**55.4**		(187.2)
Balance, end of period	**$**	**(175.6)**	$	(231.0)

Accumulated other comprehensive loss relates to deferred exchange gains and losses arising from the translation of the financial statements of the Corporation's self-sustaining foreign operations. When there is a reduction in the Corporation's net investment in a self-sustaining foreign operation, a proportionate amount of the cumulative translation adjustment is removed from accumulated other comprehensive loss and included in the determination of consolidated net earnings.

24. Capital disclosures

The Corporation's objectives, when managing capital, are to safeguard cash as well as maintain financial liquidity and flexibility in order to preserve its ability to meet financial obligations and deploy capital to grow its businesses.

In the definition of capital the Corporation includes, as disclosed on its consolidated balance sheet: retained earnings; capital stock; short-term debt; long-term debt, including the current portion; short-term investments; restricted cash; cash and cash equivalents; and undrawn credit facilities.

The Corporation’s financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to business growth opportunities and changes in economic conditions. In order to maintain or adjust its capital structure, the Corporation may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, repay outstanding debt, issue new debt (secured, unsecured, convertible and/or other types of available debt instruments), refinance existing debt with different characteristics, acquire or dispose of assets, or adjust the amount of cash and short-term investment balances.

The Corporation and its subsidiaries are subject to leverage and earnings covenants on certain of its debt facilities. The Corporation monitors these covenants on a quarterly basis and is in compliance at and for the period ended June 30, 2008.

Other than the covenants required for the debt facilities, the Corporation is not subject to any externally imposed capital requirements.

25. Related party transactions

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

The total value of all goods and services, including labour services, that the Corporation and its subsidiaries provided to joint ventures and its affiliates in the three and six months ended June 30, 2008 amounted to $39.2 million and $63.9 million (June 30, 2007 - $28.5 million and $55.8 million), respectively. The total value of goods and services purchased from joint ventures in the three and six months ended June 30, 2008 was $47.2 million and $62.7 million (June 30, 2007 - $2.7 million and $4.7 million), respectively.

Accounts receivable from joint ventures at June 30, 2008, was $20.0 million (December 31, 2007 - $74.9 million). Accounts payable to joint ventures at June 30, 2008 was $8.5 million (December 31, 2007 - $7.3 million).

26. Comparative figures

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

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