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Sherritt International Corporation

Second quarter report, June 30, 2001

Corporate Profile

Sherritt International Corporation is a widely-held Canadian public company with assets of $2 billion. Sherritt's span of operations includes a 50% interest in Sherritt Coal Partnership which owns Luscar Ltd., Canada's largest coal producer; the exploration, development and production of oil and natural gas reserves worldwide; a 50% indirect interest in a vertically-integrated commodity nickel/cobalt metals business; and investments in power-generation, communications, soybean processing, tourism and agriculture in Cuba.

Sherritt International Corporation's 97.6 million shares and $600 million of convertible debentures trade under the symbols S and S.DB, respectively, on The Toronto Stock Exchange.

Financial Highlights

(unaudited)

thousands of Canadian dollars except share and per share amounts	Three months ended June 30 2001	Three months ended June 30 2000	Six months ended June 30 2001	Six months ended June 30 2000
Revenue	$ 161,732	$ 140,438	$ 260,885	$ 252,306
Operating earnings	22,570	35,474	35,642	74,643
Net earnings	15,026	31,903	37,360	66,617
Earnings per share				
Basic	0.11	0.40	0.34	0.80
Diluted	0.10	0.24	0.25	0.47
Weighted average number of shares (thousands)	85,559	72,367	78,954	72,331
Shareholders' equity	1,318,224	1,230,279	1,318,224	1,230,279

Management's Discussion and Analysis

The following discussion and analysis of financial results of Sherritt International Corporation for the three months and six months ended June 30, 2001 should be read in conjunction with the Corporation's unaudited consolidated financial statements and related notes contained in this interim report and the Corporation's Management's Discussion and Analysis and the audited consolidated financial statements and related notes contained in the 2000 annual report.

Sherritt International Corporation achieved net earnings of $15.0 million or $0.11 per restricted voting share (share) for the second quarter of 2001, compared with net earnings of $31.9 million or $0.40 per share in the prior year period. The reduction in the Corporation's earnings from the prior year period largely reflected a lower contribution from the Metals business, as a result of lower nickel and cobalt prices and higher energy costs, and an increase in financing costs.

In the second quarter of 2001, Sherritt Coal Partnership, a partnership between the Corporation and a subsidiary of Ontario Teachers' Pension Plan Board, acquired 100% of the outstanding Trust Units and Convertible Debentures of Luscar Coal Income Fund (Luscar). The Corporation's share of the total acquisition cost was $236 million, comprising cash consideration of $136 million and the issue of 25 million restricted voting shares. Results for the second quarter included the Corporation's 50% share of the results of Luscar from the date of acquisition, May 12, 2001.

Consolidated revenue for the second quarter of 2001 was $161.7 million compared with $140.4 million for the same period in 2000. Revenue for the quarter included approximately $43.2 million from the newly-acquired Coal business, which more than offset the $26.1 million reduction in Metals revenue due to lower nickel and cobalt prices.

Cash and short-term investments totalled $145.4 million at June 30, 2001 compared with $261.3 million at the end of 2000. Cash from operating activities for the six months of $78.5 million was $11.5 million higher than the prior year period. Significant cash usages during the six months comprised the Luscar acquisition ($136.0 million), other net investing activities ($44.6 million), convertible debenture interest payments ($18.0 million) and dividends ($16.9 million). External working capital debt increased by $20.7 million during the six month period to finance the build-up of working capital, primarily in the Metals business.

A financing expense of $4.2 million was recorded in the quarter compared with financing income of $8.0 million in the prior year period. A lower average cash balance during the quarter, combined with interest expense on debt assumed from Luscar and foreign exchange losses, resulted in the change from the prior year period. The decrease in the

Corporation's effective tax rate for the second quarter from 26% in 2000 to 14% in 2001 reflected the higher proportion of net earnings generated by the Oil and Gas business, which is taxed at a comparatively low effective rate.

The existing bank facilities of Luscar Ltd. comprise a $150 million operating line of credit and $333 million of term credit facilities. Under the provisions of the Luscar Credit Agreement, the bank has the right to terminate the bank facilities in the event of a change of control and declare all indebtedness to be immediately due and payable. The bank has waived its right to exercise the change of control provisions until mid-October, 2001. The Partnership is pursuing new debt financing to replace Luscar's existing bank credit facilities.

Operating Highlights

COAL The Corporation's Coal segment represents its 50% proportionate interest in Sherritt Coal Partnership. The Partnership's financial statements include the operations of Luscar from May 12 to June 30, 2001.

	May 12 to June 30, 2001
Financial (thousands of dollars) (1)	
Revenue	$ 43,205
Operating earnings	2,618
Capital expenditures	2,415
Sales (thousands of tonnes) (1)	
Export	337
Domestic (2)	2,168
	2,505
Realized prices (per tonne)	
Export	$ 55.28
Domestic	11.34

(1) Represents the Corporation's 50% share of Sherritt Coal Partnership.
(2) Primarily comprises sale of thermal coal to domestic power-generating utilities and contract mining operations.

The Coal business comprises the sale of coal in domestic markets primarily for use as fuel to generate electricity and the sale of export coal for use in steel making and as fuel to generate electricity. The Coal business generated operating earnings of $2.6 million on revenues of $43.2 million for the period from May 12 to June 30, 2001. Export operating margins (before amortization and selling and administrative costs) were $1.9 million on sales of 337,000 tonnes, while domestic operating margins were $8.4 million on sales of 2,168,000 tonnes. Operating costs during the period included expenditures related to planned increases in mine capacity at Line Creek and Coal Valley, and the extended life of the Cardinal River operation.

Sales of coal to domestic customers are primarily made under term contracts, for which price terms and operating margins are relatively fixed and renegotiated upon contract renewal. Prices in export markets are set annually and in 2001, improved significantly after having declined in the previous four years.

Capital expenditures for the balance of 2001 are expected to include costs to expand production at the Line Creek, Coal Valley and Bienfait mines.

METALS

	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Financial (thousands of dollars)				
Revenue	$ 71,927	$ 97,979	$ 128,981	$ 166,803
Operating earnings	8,515	24,520	10,537	47,616
Capital expenditures	4,399	5,663	7,587	9,167
Sales volumes				
Nickel (thousands of pounds) (1)	7,104	7,424	15,353	15,204
Cobalt (thousands of pounds) (1)	778	763	1,593	1,556
Fertilizers (tonnes)	111,981	177,406	141,124	207,002
Production volumes (tonnes)				
Mixed sulphides containing				
nickel and cobalt (1)	4,181	3,600	8,066	7,196
Nickel (1)	3,242	3,437	6,647	6,841
Cobalt (1)	337	363	693	729
Fertilizers (2)	61,313	91,936	114,776	192,004
Realized prices (per pound)				
Nickel	$ 4.72	$ 6.40	$ 4.50	$ 6.27
Cobalt	16.62	20.68	17.09	19.94

(1) Represents the Corporation's 50% share of the Metals Enterprise and the Corporation's marketing and trading activities in commodity metals.

(2) Before consumption in the production of metals, urea and 19-2-0.

Operating earnings for the second quarter of 2001 were \$8.5 million on revenue of \$71.9 million compared with operating earnings of \$24.5 million on revenue of \$98.0 million for the prior year period. For the first six months of 2001, the Metals business generated operating earnings of \$10.5 million on revenue of \$129.0 million compared with operating earnings of \$47.6 million on revenue of \$166.8 million for the same period in 2000. Lower nickel and cobalt prices and higher energy costs resulted in lower operating earnings for the quarter and six month period.

The London Metal Exchange average settlement price for nickel was U.S.\$3.03 per pound for the second quarter, 29% lower than the same period in 2000. The Metal Bulletin average free market price for 99.3% cobalt was U.S.\$10.47 per pound for the second quarter of 2001, down 27% from U.S.\$14.30 per pound during the same period last year. The worldwide economic slowdown contributed to the reduced commodity prices.

For the seventh consecutive quarter, the mining and processing facilities set a new mixed sulphides production record. Total production of nickel and cobalt contained in mixed sulphides for the second quarter was 8,362 tonnes, a 16% increase from 7,199 tonnes produced during the same period in 2000. Total production of mixed sulphides for the first six months of 2001 was a record 16,131 tonnes, 12% higher than the 14,392 tonnes produced during the same period of 2000.

The record production of mixed sulphides was not reflected in finished production, primarily due to the timing of annual maintenance activities. Total finished production of 6,485 tonnes of nickel and 674 tonnes of cobalt for the second quarter of 2001 was 6% and 7% lower, respectively, than the year earlier period. For the first half of 2001, total finished production was 13,294 tonnes of nickel and 1,386 tonnes of cobalt. Total finished production was 13,682 tonnes of nickel and 1,458 tonnes of cobalt during the same period a year ago.

The sale of Fertilizer products generated operating earnings of \$0.4 million during the second quarter of 2001. Fertilizer sales volumes of 111,981 tonnes during the quarter were 37% lower than the 177,406 tonnes sold during the same period in 2000. Sales volumes for the first six months of 141,124 tonnes were 32% less than the 207,002 tonnes sold during the first half of 2000. The lower sales volumes largely reflect the temporary suspension of the Urea production facilities in October 2000.

OIL & GAS

	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Financial (thousands of dollars)				
Revenue	$ 41,411	$ 38,368	$ 79,034	$ 77,580
Operating earnings	17,679	16,840	32,489	36,987
Capital expenditures	23,654	19,412	42,528	29,516
Sales volumes (thousands of barrels)				
Cuba	1,761	1,548	3,146	3,077
Spain	67	74	143	156
	1,828	1,622	3,289	3,233
Gross operated production (thousands of barrels)				
Cuba (1)	2,740	2,871	5,227	5,391
Spain	67	74	143	156
	2,807	2,945	5,370	5,547
Realized prices (per barrel)				
Cuba	$ 20.58	$ 22.47	$ 22.28	$ 22.62
Spain	40.57	39.32	38.06	38.98

(1) Oil production in Cuba is allocated to the Corporation and agencies of the Cuban Government in accordance with production-sharing arrangements. The Corporation's share of production for each production-sharing arrangement comprises profit oil (which is based upon a negotiated percentage) and cost recovery oil (which is based upon the Corporation's development and operating costs). Development and operating costs, upon certification by agencies of the Cuban Government, are accumulated in cost recovery pools by each production-sharing arrangement and reduced by an allocation of produced oil to the Corporation.

The Oil & Gas business generated second quarter operating earnings of $17.7 million compared with $16.8 million for the same period last year. Revenue for the second quarter was $41.4 million, 8% higher than the year earlier period. For the six months, the Oil and Gas business generated operating earnings of $32.5 million on revenue of $79.0 million compared with operating earnings of $37.0 million on revenue of $77.6 million. Higher revenue in comparison with the prior year periods, primarily due to higher sales volumes in Cuba, was offset by higher depletion and amortization rates. Depletion and amortization expense per barrel of oil produced was $5.04 for the first six months of 2001 compared with $4.46 for the same period last year, reflecting the impact of changes in reserve estimates from December 31, 2000.

Gross operated production from Cuba of 30,113 barrels per day for the second quarter was 10% higher than the first quarter of 2001 and 5% lower than the same period last year. The increase in production from the first quarter was mainly as a result of production from new wells in the Yumuri, Canasi and Seboruco oil fields. The Corporation's net share of gross operated oil production from Cuba during the quarter was 19,352 barrels per day compared with 17,018 barrels for the same period last year.

The U.S. Gulf Coast No. 6 fuel oil average reference price was U.S.$16.21 per barrel for the second quarter of 2001, compared with U.S.$21.03 per barrel for the same period of 2000.

The Corporation continued its participation in three development wells in Cuba during the second quarter of 2001. A step-out well was successfully drilled and placed on production in the Canasi field. Two additional development drills also commenced during this period, one in Puerto Escondido and one in Varadero West. Two field wells were re-entered and placed on production. A Seboruco well was deepened to 4,000 metres and a Yumuri well was re-entered to remove a mechanical obstruction.

OTHER

	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Financial (thousands of dollars)				
Revenue	$ 5,189	$ 4,091	$ 9,665	$ 7,923
Operating earnings	314	988	1,322	1,963
Share of earnings (loss)				
of equity investments	(228)	31	208	468
Capital expenditures	2,907	2,877	4,066	5,508

Second quarter operating earnings from Other operations of $0.3 million were $0.7 million lower than the second quarter of 2000, primarily due to start-up losses from the soybean processing business, which commenced operations in March 2001.

Frederic J. Wellhauser
President and Chief Executive Officer
August 9, 2001

Consolidated Balance Sheets

thousands of Canadian dollars	June 30, 2001 (unaudited)	December 31, 2000 (audited)
ASSETS		
Current assets		
Cash and short-term investments	$ 145,390	$ 261,343
Advances and loans receivable (note 3)	24,781	5,027
Accounts receivable	222,810	176,602
Inventories	112,674	76,759
Overburden removal costs	14,704	–
Prepaid expenses	8,217	9,059
Future income taxes	5,257	5,938
	533,833	534,728
Capital assets	1,169,096	507,406
Investments (note 3)	160,493	178,407
Future income taxes	27,812	19,896
Other assets	98,097	101,213
	$ 1,989,331	$ 1,341,650
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term debt (note 4)	$ 213,537	$ 8,000
Accounts payable and accrued liabilities	107,276	77,419
Current portion of long-term debt (note 5)	1,452	–
Site restoration and abandonment	10,621	–
Future income taxes	2,629	–
Swaps and forward contracts	2,452	–
	337,967	85,419
Long-term debt (note 5)	42,269	–
Site restoration and abandonment	44,851	26,649
Future income taxes	241,653	18,608
Swaps and forward contracts	942	–
Minority interest	3,425	2,865
	671,107	133,541
Shareholders' equity		
Convertible debentures (note 6)	587,314	587,314
Capital stock (note 7)	450,372	349,840
Contributed surplus	199,787	199,787
Retained earnings	80,751	71,168
	1,318,224	1,208,109
	$ 1,989,331	$ 1,341,650

Consolidated Statements of Operations

(unaudited)

thousands of Canadian dollars except per share amounts	Three months ended June 30 2001	Three months ended June 30 2000	Six months ended June 30 2001	Six months ended June 30 2000
Revenue	$ 161,732	$ 140,438	$ 260,885	$ 252,306
Expenses and other income				
Operating, selling, general and administrative	108,993	85,207	172,071	140,135
Depletion and amortization	27,593	19,216	47,489	36,450
Amortization of goodwill	338	306	676	618
Provision for site restoration and abandonment	2,576	541	3,609	1,078
Share of loss (earnings) of equity investments	228	(31)	(208)	(468)
Financing expense (income)	4,228	(8,047)	(7,112)	(14,969)
Minority interest	251	351	560	681
Earnings before taxes	17,525	42,895	43,800	88,781
Income taxes				
Current	4,318	6,069	6,015	15,863
Future	(1,819)	4,923	425	6,301
Net earnings	$ 15,026	$ 31,903	$ 37,360	$ 66,617
Earnings per restricted voting share (note 8)				
Basic	$ 0.11	$ 0.40	$ 0.34	$ 0.80
Diluted	0.10	0.24	0.25	0.47

Consolidated Statements of Retained Earnings (Deficit)

(unaudited)

thousands of Canadian dollars	Three months ended June 30 2001	Three months ended June 30 2000	Six months ended June 30 2001	Six months ended June 30 2000
Beginning of period	$ 80,831	$ 21,992	$ 71,168	$ (6,899)
Elimination of deficit at December 31, 1999 through a reduction in stated capital	–	6,899	–	6,899
Net earnings	15,026	31,903	37,360	66,617
Interest on convertible debentures (note 6)	(5,469)	(5,831)	(10,879)	(11,654)
Dividends on restricted voting shares	(9,637)	(7,237)	(16,898)	(7,237)
End of period	$ 80,751	$ 47,726	$ 80,751	$ 47,726

Consolidated Statements of Cash Flow

(unaudited)

thousands of Canadian dollars	Three months ended June 30 2001	2000	Six months ended June 30 2001	2000
Operating activities				
Net earnings	$ 15,026	$ 31,903	$ 37,360	$ 66,617
Items not affecting cash				
Depletion and amortization	27,593	19,216	47,489	36,450
Amortization of goodwill	338	306	676	618
Site restoration and abandonment	(2)	541	1,031	1,078
Future income taxes	(1,819)	4,923	425	6,301
Other items	2,594	(1,453)	645	(786)
Cash provided before working capital changes	43,730	55,436	87,626	110,278
Decrease (increase) in non-cash working capital				
Accounts receivable	2,919	(43,020)	(1,055)	(60,213)
Inventories	(3,142)	13,282	(6,914)	8,930
Overburden removal costs	(159)	–	(159)	–
Prepaid expenses	3,314	753	4,357	3,260
Accounts payable and accrued liabilities	(23,265)	108	(5,315)	4,736
	(20,333)	(28,877)	(9,086)	(43,287)
Cash provided from operating activities	23,397	26,559	78,540	66,991
Investing activities				
Capital expenditures	(33,382)	(28,077)	(56,711)	(44,334)
Net proceeds from sale of capital asset	–	–	7,848	–
Italy site restoration payments	–	(726)	–	(8,280)
Acquisition of business (note 2)	(125,710)	–	(136,039)	–
Investments (note 3)	14,193	598	17,914	598
Other assets (note 3)	(18,067)	5,747	(13,685)	523
Cash used for investing activities	(162,966)	(22,458)	(180,673)	(51,493)
Financing activities				
Short-term debt	12,650	(2,925)	20,689	(3,783)
Long-term debt	(143)	–	(143)	–
Convertible debenture interest payments	(18,000)	(19,500)	(18,000)	(19,500)
Dividends on restricted voting shares	(9,637)	(7,237)	(16,898)	(7,237)
Issue of restricted voting shares	80	–	532	308
Repurchase of convertible debentures	–	(18,230)	–	(18,230)
Cash used for financing activities	(15,050)	(47,892)	(13,820)	(48,442)
Decrease in net cash	(154,619)	(43,791)	(115,953)	(32,944)
Net cash at beginning of period	300,009	396,865	261,343	386,018
Net cash at end of period	$ 145,390	$ 353,074	$ 145,390	$ 353,074

Net cash consists of cash and short-term investments.
For the three month period, the Corporation received interest of $7.7 million (2000 – $9.1 million) and paid taxes of $2.8 million (2000 – $17.8 million). For the six month period, the Corporation received interest of $12.0 million (2000 – $12.7 million) and paid taxes of $4.3 million (2000 – $22.4 million).

Notes to Interim Consolidated Financial Statements

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

1 Summary of accounting policies

These interim consolidated financial statements follow the same accounting policies as the consolidated financial statements for the year ended December 31, 2000. The interim consolidated financial statements do not contain all the information required in annual financial statements and accordingly, should be read in conjunction with the consolidated financial statements for the year ended December 31, 2000.

Accounting policies for the newly acquired Coal business (note 2) are consistent with those of the Corporation. Significant accounting policies specific to the Coal business comprise:

a) Revenue recognition
Revenue is recognized upon transfer of title to the customer. For export sales, revenue is recognized when the coal has been loaded and the vessel has departed the shipping location.

b) Overburden removal costs
Costs of removing overburden are charged to earnings at average cost when the coal is produced. Costs incurred related to future production are recorded as current assets.

c) Capital assets
Capital assets are amortized using the straight-line method based on estimated useful lives. Such lives are limited to a maximum of 40 years.

d) Post employment benefits
Defined benefit pension plans are accounted for using the projected benefits method of accounting.

In the fourth quarter of 2000, the Corporation retroactively adopted the new accounting recommendations of The Canadian Institute of Chartered Accountants on earnings per share. Under the new standard, the diluted earnings per share calculation uses the treasury stock method to account for stock options instead of the imputed earnings approach. A detailed calculation of earnings per share is included in note 8.

2 Acquisition of business

On May 11, 2001, Sherritt Coal Partnership (the Partnership), a partnership between the Corporation and a subsidiary of Ontario Teachers' Pension Plan Board, acquired a majority of the outstanding Trust Units (Units) and Convertible Debentures (Debentures) of Luscar Coal Income Fund (the Fund). By June 29, 2001, the Partnership had acquired the remaining Units and Debentures of the Fund. The Fund is an open-ended trust, which has invested in the securities of Luscar Coal Ltd. and Luscar Ltd., a coal producer which will produce approximately 37 million tonnes of coal this year from mines in western Canada.

Under the terms of the purchase, Unitholders of the Fund chose to receive either cash of $4.00 per Unit or one restricted voting share of the Corporation for each Unit, provided that the aggregate number of the Corporation's shares issued were limited to 25 million shares. The Fund's Debentures were acquired for $1,050 cash per $1,000 principal amount of debentures plus accrued interest. The Corporation's share of the total acquisition cost was $236.0 million, comprising cash consideration of $136.0 million and the issue of 25 million restricted voting shares at an assigned value of $4.00 per share.

The acquisition was accounted for by the Partnership using the purchase method of accounting. The Partnership's financial statements include the combined financial statements of the Fund from May 12 to June 30, 2001. The Corporation proportionately consolidates its 50% interest in the results of the Partnership. The purchase price allocation has been determined based on available information at the time and may be subject to revision.

The Corporation's share of the net assets acquired at their fair values was:

Assets acquired	
Accounts receivable	$ 45,154
Inventories	29,002
Overburden removal costs	14,546
Other current assets	3,515
Capital assets	657,690
Other long-term assets	6,309
	756,216
Liabilities assumed	
Accounts payable and accrued liabilities	(35,173)
Debt assumed	(228,996)
Site restoration and abandonment	(27,689)
Future income taxes	(224,777)
Swaps and forward contracts	(3,542)
Net assets acquired	$ 236,039

3 Sherritt Power Corporation Note amendment

On March 21, 2001, Sherritt Power Corporation's Noteholders approved an Extraordinary Resolution to amend the trust indenture governing its $225 million of Senior Unsecured Amortizing Notes, including $75 million held by the Corporation. The amendment resulted in:

1 an acceleration of the first amortization of $198 per $1,000 principal amount to March 31, 2001 from March 31, 2002;

2 a revision to the remaining amortization schedule such that $200 per $1,000 principal amount is amortized on March 31 in each of 2003, 2004 and 2005 and $101 per $1,000 principal amount is amortized on each of March 31, 2006 and 2007. The original terms specified amortization payments of $401 per $1,000 principal amount on each of March 31, 2003 and 2004;

3 an increase in the interest rate from 11.50% to 12.125% effective April 1, 2001; and

4 the payment of a consent premium of $15 per $1,000 principal amount of the Notes.

As a result of this amendment, the Corporation received approximately $20.3 million from Sherritt Power on April 2, 2001 representing the payment of the first amortization, the consent premium and accrued interest. The Corporation also advanced Sherritt Power $19.6 million on April 2, 2001 under the Cash Flow Assurances Agreement dated March 1998 for the purposes of funding the accelerated amortization. This advance bears interest at LIBOR plus 6% and is included in current advances and loans receivable.

4 Short-term debt

Short-term debt at June 30, 2001 includes approximately $187.4 million representing the Corporation's 50% share of Luscar Ltd.'s bank indebtedness. The existing bank facilities of Luscar Ltd. comprise a $150 million operating line of credit and $333 million of term credit facilities. Approximately $62.2 million of Luscar Ltd.'s operating line of credit had also been utilized to issue letters of credit. These bank facilities are secured by a first floating charge over the assets of Luscar Ltd. and bear interest at floating rates. Under the provisions of the Luscar Credit Agreement, the bank has the right to terminate the bank facilities in the event of a change of control and declare all indebtedness to be immediately due and payable. The bank has waived its right to exercise the change of control provisions until October 15, 2001. The Partnership is pursuing new debt financing to replace Luscar's existing bank credit facilities.

5 Long-term debt

Long-term debt comprises the Corporation's 50% share of secured promissory notes and capital leases of Luscar Ltd., as follows:

12.75% promissory note, due May 18, 2003	$ 22,500
less: sinking funds	(10,053)
	12,447
9.625% promissory note, due December 30, 2004	44,650
less: sinking funds	(17,598)
	27,052
Capital lease obligations	4,222
	43,721
Current portion of long-term debt	(1,452)
	$ 42,269

The promissory notes were issued to finance the acquisition of a dragline and mine in conjunction with long-term coal supply agreements with a provincial Crown corporation. The 12.75% promissory note is secured by a mortgage on the dragline and the 9.625% promissory note is secured by the assets, rights and agreements related to the mine. Amounts paid to Luscar Ltd. under the terms of the coal supply agreements with the Crown corporation include a component intended to substantially reimburse Luscar Ltd. for the interest and sinking fund payments made in respect of the promissory notes. At maturity, Luscar Ltd. is obligated to repay the promissory notes, net of related sinking funds. The coal supply agreements require the Crown corporation to immediately reimburse Luscar Ltd. for any net repayment required above the sinking fund proceeds.

Long-term debt repayments for the balance of the year and future years are as follows:

Balance of 2001	$ 1,009
2002	1,772
2003	13,543
2004	27,126
2005	923
	44,373
Interest included therein	(652)
	$ 43,721

6 Convertible debentures

Convertible debentures comprise $600 million principal amount of 6% convertible unsecured subordinated debentures issued in November 1996. The debentures have a maturity date of December 15, 2006.

Interest on the convertible debentures for the six month period is stated net of tax relief of $8.1 million (2000 – $9.1 million).

7 Capital stock

Issued capital stock comprises 97,609,019 (December 31, 2000 – 72,496,036) restricted voting shares and 100 (December 31, 2000 – 100) multiple voting shares. The increase in capital stock primarily comprises the 25 million restricted voting shares issued as part of the acquisition described in note 2. The multiple voting shares are convertible into restricted voting shares on a share-per-share basis upon the occurrence of certain events. If all of the convertible debentures were converted into shares at the option of the holders, up to 68,376,068 additional restricted voting shares may be issued on or before December 14, 2006.

8 Earnings per restricted voting share

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

	Three months ended June 30		Six months ended June 30	
	2001	2000	2001	2000
Net earnings	$ 15,026	$ 31,903	$ 37,360	$ 66,617
Interest on convertible debentures	(5,469)	(5,831)	(10,879)	(11,654)
Effect of repurchase of convertible debentures	–	2,833	–	2,833
Net earnings applicable to shareholders	9,557	28,905	26,481	57,796
Interest on convertible debentures	5,469	5,831	10,879	11,654
Net earnings applicable to shareholders after assumed conversion	$ 15,026	$ 34,736	$ 37,360	$ 69,450
Weighted average number of shares – basic	85,559	72,367	78,954	72,331
Weighted average effect of dilutive securities:				
Employee stock options	258	204	244	149
Convertible debentures	68,376	74,418	68,376	75,671
Weighted average number of shares for dilution calculation	154,193	146,989	147,574	148,151
Earnings per restricted voting share				
Basic	$ 0.11	$ 0.40	$ 0.34	$ 0.80
Fully diluted	0.10	0.24	0.25	0.47

9 Segmented information

BUSINESS SEGMENTS

Reference should be made to note 17 of the Corporation's consolidated financial statements for the year ended December 31, 2000 for a full description of the Corporation's operating segments. During the first quarter of 2001, the Corporation changed its internal reporting of operating segments to include results from its Fertilizer operations as part of the Metals business. Segmented results for the three months ended June 30, 2000 and six months ended June 30, 2000 have been restated to conform to this new presentation.

The Corporation's new Coal segment represents its 50% proportionate interest in the consolidated financial statements of Sherritt Coal Partnership. The Partnership's financial statements include the combined financial statements of Luscar Coal Income Fund from May 12 to June 30, 2001.

Three months ended June 30, 2001 (unaudited)	Coal	Metals	Oil and Gas	Other	Corporate	Consolidated
Revenue from external customers	$ 43,205	$ 71,927	$ 41,411	$ 5,189	$ –	$ 161,732
Intersegment revenues	–	–	–	278	–	278
Depletion and amortization	6,176	4,368	14,252	1,733	1,064	27,593
Provision for site restoration and abandonment	1,559	606	411	–	–	2,576
Operating earnings (loss)	2,618	8,515	17,679	314	(6,556)	22,570
Goodwill amortization	–	–	–	(338)	–	(338)
Share of loss of equity investments	–	–	–	(228)	–	(228)
Financing income (expense)	(2,887)	(1,752)	(4,376)	(1,139)	5,926	(4,228)
Minority interest	–	–	–	(251)	–	(251)
Earnings (loss) before taxes	(269)	6,763	13,303	(1,642)	(630)	17,525
Capital expenditures	2,415	4,399	23,654	2,907	7	33,382

Three months ended June 30, 2000 (unaudited)	Metals	Oil and Gas	Other	Corporate	Consolidated
Revenue from external customers	$ 97,979	$ 38,368	$ 4,091	$ –	$ 140,438
Intersegment revenues	–	–	268	–	268
Depletion and amortization	3,677	13,379	949	1,211	19,216
Provision for site restoration and abandonment	511	30	–	–	541
Operating earnings (loss)	24,520	16,840	988	(6,874)	35,474
Goodwill amortization	–	–	(306)	–	(306)
Share of earnings of equity investments	–	–	31	–	31
Financing income (expense)	1,256	1,343	(2,065)	7,513	8,047
Minority interest	–	–	(351)	–	(351)
Earnings (loss) before taxes	25,776	18,183	(1,703)	639	42,895
Capital expenditures	5,663	19,412	2,877	125	28,077

Six months ended June 30, 2001 (unaudited)	Coal	Metals	Oil and Gas	Other	Corporate	Consolidated
Revenue from external customers	$ 43,205	$ 128,981	$ 79,034	$ 9,665	$ –	$ 260,885
Intersegment revenues	–	–	–	554	–	554
Depletion and amortization	6,176	8,929	27,089	3,158	2,137	47,489
Provision for site restoration and abandonment	1,559	1,169	881	–	–	3,609
Operating earnings (loss)	2,618	10,537	32,489	1,322	(11,324)	35,642
Goodwill amortization	–	–	–	(676)	–	(676)
Gain on sale of asset	–	–	–	–	2,074	2,074
Share of earnings of equity investments	–	–	–	208	–	208
Financing income (expense)	(2,887)	(2,020)	2,514	(2,222)	11,727	7,112
Minority interest	–	–	–	(560)	–	(560)
Earnings (loss) before taxes	(269)	8,517	35,003	(1,928)	2,477	43,800
Capital expenditures	2,415	7,587	42,528	4,066	115	56,711
Assets	752,165	308,404	426,954	226,492	275,316	1,989,331

Six months ended June 30, 2000 (unaudited)	Metals	Oil and Gas	Other	Corporate	Consolidated
Revenue from external customers	$ 166,803	$ 77,580	$ 7,923	$ –	$ 252,306
Intersegment revenues	–	–	530	–	530
Depletion and amortization	7,434	24,729	1,856	2,431	36,450
Provision for site restoration and abandonment	1,014	64	–	–	1,078
Operating earnings (loss)	47,616	36,987	1,963	(11,923)	74,643
Goodwill amortization	–	–	(618)	–	(618)
Share of earnings of equity investments	–	–	468	–	468
Financing income (expense)	418	842	(2,924)	16,633	14,969
Minority interest	–	–	(681)	–	(681)
Earnings (loss) before taxes	48,034	37,829	(1,792)	4,710	88,781
Capital expenditures	9,167	29,516	5,508	143	44,334
Assets	321,981	368,336	200,689	478,239	1,369,245

GEOGRAPHIC SEGMENTS

Three months ended June 30 (unaudited)	2001		2000	
	Revenue	Capital Assets and Goodwill	Revenue	Capital Assets and Goodwill
Canada	$ 60,373	$ 785,258	$ 42,113	$ 126,582
Cuba	44,227	374,802	39,277	332,845
Europe	36,299	18,306	44,407	20,179
Asia	14,910	6,494	14,581	6,126
Other foreign countries	5,923	6	60	20
	$ 161,732	$ 1,184,866	$ 140,438	$ 485,752

Six months ended June 30 (unaudited)	2001		2000	
	Revenue	Capital Assets and Goodwill	Revenue	Capital Assets and Goodwill
Canada	$ 70,626	$ 785,258	$ 53,108	$ 126,582
Cuba	83,913	374,802	78,906	332,845
Europe	75,697	18,306	89,246	20,179
Asia	24,622	6,494	30,936	6,126
Other foreign countries	6,027	6	110	20
	$ 260,885	$ 1,184,866	$ 252,306	$ 485,752

10 Financial instruments

Unutilized operating lines of credit as at June 30, 2001 were $73.7 million. Cash and short-term investments include cash subject to restrictions on use of $12.2 million.

The Coal business has an outstanding interest rate swap with a Canadian chartered bank, which effectively fixes the rate of interest of $100 million of debt at 5.72% per annum plus the applicable interest rate margin. The Coal business has also entered into forward currency contracts with Canadian chartered banks to sell U.S. currency, which it expects to receive pursuant to long-term sales agreements.

11 Comparative amounts

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

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