International Corporation

# Third Quarter 2005

## Report to Shareholders

September 30, 2005

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## Corporate Profile

Sherritt International Corporation is a diversified resource company involved in the production of thermal coal, nickel, cobalt, oil and electricity. Its success is built upon utilizing innovative technologies and the breadth of its financial and operational expertise to increase productivity and profitability. Sherritt continues to explore opportunities to grow its $2.8 billion asset base through expansion of its existing businesses and strategic acquisitions.

A leader in employee health and safety, Sherritt is also dedicated to ensuring that its operations meet the highest standards in environmental stewardship.

Sherritt's 155 million common shares and $300 million 7% convertible debentures trade on the Toronto Stock Exchange under the symbols S and S.DB.A respectively. Sherritt's $105 million of 9.875% senior unsecured debentures trade on the over-the-counter bond market.

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

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

## Highlights

- **Metals earnings reflect lower commodity prices, higher Canadian dollar**
- **Increase in Earnings in Oil and Gas, Revenues and sales volumes in Coal**
- **Continuing Progress in Expansion Projects**

Sherritt International Corporation had net earnings of $23.1 million for the third quarter of 2005, a decrease of $12.1 million from third quarter 2004 results and $32.9 million compared with the second quarter this year. Earnings before interest, taxes, depreciation and amortization (EBITDA) for the quarter were $98.9 million compared with $123.4 million in 2004. Lower Metals earnings arising from lower cobalt and nickel prices and higher stock based compensation costs were the principal drivers in the decrease in EBITDA compared with the prior year's quarter. These were partly offset by higher Oil and Gas earnings due to higher realized oil prices.

**Financial Highlights (unaudited)**

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| (millions of dollars, except per share amounts) | 2005 | 2004 (restated)[3] | 2005 | 2004 (restated)[3] |
| Revenue from continuing operations | $253.4 | $259.6 | $828.8 | $824.1 |
| EBITDA[1] | 98.9 | 123.4 | 366.5 | 390.5 |
| Operating earnings from continuing operations[1] | 52.7 | 77.8 | 228.9 | 254.1 |
| Earnings from continuing operations[2] | 23.1 | 35.2 | 114.6 | 134.6 |
| Net earnings | 23.1 | 35.2 | 114.6 | 135.6 |
| Earnings per share – basic | | | | |
| From continuing operations[2] | 0.15 | 0.27 | 0.76 | 1.03 |
| Net earnings | 0.15 | 0.27 | 0.76 | 1.03 |
| Earnings per share – diluted | | | | |
| From continuing operations[2] | 0.13 | 0.20 | 0.64 | 0.75 |
| Net earnings | 0.13 | 0.20 | 0.64 | 0.76 |
| Weighted average number of shares (millions) | | | | |
| Basic | 155.2 | 131.3 | 149.6 | 131.3 |
| Diluted | 199.8 | 208.9 | 199.0 | 208.9 |
| Total cash | 522.6 | 517.5 | 522.6 | 517.5 |

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

(2) Earnings from discontinued operations for the three and nine months ended September 30, 2004 of $nil and $1.0 million (net of income taxes of $0.2 million), respectively, relate to the settlement of certain outstanding items from the disposal of the metallurgical coal operations in 2003.

(3) Effective October 1, 2004, the Corporation adopted new accounting pronouncements issued by the CICA in respect of accounting for convertible debentures and the consolidation of variable interest entities. Both changes have been applied retroactively with restatement of prior periods.

*All amounts in this interim report represent Sherritt's 100% interest, except for amounts relating to Coal and Metals, which reflect the Corporation's 50% interest in these businesses, unless otherwise indicated.*

Total cash increased to over $522 million during the quarter. In line with the Corporation's commitment to increasing shareholder value and in view of its strong balance sheet and cash flow, Sherritt introduced both a quarterly dividend and a share repurchase program during the year. Dividends of 2.5 cents per share were paid to shareholders of record on May 24, July 14, and October 14, 2005. On June 29, 2005, Sherritt announced a normal course issuer bid which would allow the purchase of up to 5% of its outstanding shares.

On November 1, 2005, the Corporation filed a preliminary short form base shelf prospectus permitting the issuance of up to $500 million of senior unsecured debentures. Upon regulatory clearance and filing of a final short form base shelf prospectus, the Corporation will be entitled to issue senior unsecured debentures from time to time over the next two years, in one or more series and at prices and on terms to be determined at the time of sale.

In the short term, if market conditions warrant, the Corporation intends to effect an issue of senior unsecured debentures. The Corporation intends to use the proceeds of such an offering, together with cash on hand, to permit it to (i) redeem all of its outstanding $105 million, 9.875% senior unsecured debentures due March 31, 2010; and (ii) effect a reduction or defeasance of its 50% share of the US$275 million, 9.75% senior unsecured notes, due October 15, 2011, in its coal business.

**Third Quarter Results**

**Coal** generated EBITDA of $14.5 million on revenue of $64.8 million compared to EBITDA of $15.6 million on revenue of $60.2 million in the third quarter of 2004. The majority of the work on the two million tonne (100% basis) expansion project, which necessitated a shutdown of the wash plant at the Coal Valley mine site, took place in this quarter, resulting in a decline in margins. The decrease in EBITDA was attributable primarily to slightly lower margins at the mine mouth operations due primarily to higher fuel prices, offset by increased royalties arising out of higher potash prices. Excluding Coal Valley's revenues and operating costs, EBITDA was $17.9 million for the quarter, compared to $18.8 million for the comparable quarter last year. Total sales volume at 4.7 million tonnes was slightly higher than the 4.6 million tonnes shipped last year.

Capital spending totalled $17.9 million, directed for the most part to the expansion at the Coal Valley mine.

**Metals** generated EBITDA of $34.2 million on revenue of $83.8 million, lower than the EBITDA of $52.3 million on revenue of $100.9 million in the third quarter of 2004. Results for the quarter primarily reflected lower realized cobalt and nickel prices, reduced nickel sales volumes and a stronger Canadian dollar, partly offset by increased cobalt sales volumes compared with the prior year period. From the second quarter of 2005, realized nickel prices decreased by $1.21/lb, and cobalt by $1.98/lb.

Capital spending was $14.1 million for the quarter, dedicated primarily to sustaining and upgrading facilities, including environmental initiatives, along with basic engineering for the 16,000 tonne Metals expansion project.

**Oil and Gas** generated EBITDA of $51.0 million on revenue of $59.7 million, up from EBITDA of $41.3 million on revenue of $51.1 million in the third quarter of 2004. Revenue and EBITDA increased as a result of record crude oil prices, partly offset by lower production volumes due to natural reservoir declines. In addition, hurricanes during the quarter had a negative impact on production of 130,000 barrels. Capital spending totaled $24.3 million during the third quarter of 2005 versus $21.4 million during the same period in 2004.

During the third quarter, the Corporation successfully completed two development wells at Seboruco 12 and Seboruco 102, and is participating in the second appraisal well at Santa Cruz, where a successful exploration well was drilled in late 2004. The first Santa Cruz appraisal well was drilled earlier this year and the Corporation expects that production testing will take place following a remedial workover planned for the fourth quarter. In addition to those wells, the Corporation is currently drilling or participating in exploration wells on three separate and distinct structures in Cuba.

**Power** generated EBITDA of $18.7 million on revenue of $24.2 million, compared with EBITDA of $20.6 million on revenue of $26.6 million in the third quarter of 2004. The decrease in EBITDA was mainly due to lower realized prices as a result of a stronger Canadian dollar and a decrease in the tariff charged on electricity sales following repayment of financing provided by Sherritt for the construction of the power plants. Production was also affected by three hurricanes during the quarter, resulting in approximately 3.5 days or 15,200 Megawatt (''MW'') hours of lost production. Capital spending in the quarter of $13.9 million was mainly related to the construction of an 85 MW expansion project, which will have two turbines operational by year end and a third in early 2006.

In **Other Businesses**, Sherritt's soybean-based food processing business generated revenue of $20.9 million and EBITDA of $1.7 million during the quarter.

In **Corporate**, costs increased to $21.2 million in the third quarter from $9.5 million in the same quarter in 2004 mainly due to higher stock based compensation expense as a result of the exercise of stock options with stock appreciation rights for cash consideration.

**Outlook**

Production levels in 2005 are expected to be similar to 2004 levels for Metals, Power, and Coal. Oil and Gas is expecting a modest increase in gross production for the balance of 2005 as a result of higher drilling activity. Total capital spending in 2005 is expected to be approximately $300 million.

The outlook for each of Sherritt's business units follows:

**Coal**

Coal production in 2005 is expected to remain at levels similar to 2004 as a result of already expanded production at the Genesee mine being offset by lower production from the contract mines. The one million tonne expansion of the Coal Valley mine is nearing completion, with final commissioning of the wash plant now underway. Total expenditures in respect of the Coal Valley mine expansion for 2005 and 2006, including capital expenditures and capital and operating leases, are now expected to be approximately $57.5 million compared with $37.5 million estimated previously. The delay of several weeks and increased costs can be attributed primarily to underestimation of the project and difficulties in organizing and staffing construction activities in the tight labour market in Alberta. 2005 production for the mine is now anticipated at 0.9 million tonnes.

Work is continuing on an applied research project to develop the process technology required to beneficiate and gasify coal. Testing of the gasification potential of Sherritt's coals is taking place in the fourth quarter of 2005.

Sherritt is engaged in a series of longer term initiatives to develop its substantial coal reserves in Canada with a view to supplying energy in the form of 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. As these initiatives advance to become definitive business prospects, the Corporation intends to fund the resulting capital requirements from cash on hand, cash flow from operations, and other forms of financing as required. The Corporation may also consider the sale or monetization of certain operations or mature cash flow streams.

**Metals**

In 2005, finished nickel and finished cobalt production is expected to be near record levels. Nickel prices for the balance of the year are anticipated to remain strong, relative to historical prices, as long-term market fundamentals continue to be positive. Cobalt prices for the balance of the year are expected to be lower than the prior year, although a recovery in high grade cobalt demand is expected to stabilize cobalt prices before the end of 2005. The benefits of relatively strong nickel and cobalt prices are expected to be partly offset by continued high energy and raw materials prices. Sustaining capital expenditures for Metals are expected to be approximately $33 million in 2005 and are focused on improving operational efficiency, maintaining process reliability and implementing environmental initiatives.

In March, 2005, Sherritt announced that it had reached a basic agreement for the expansion of its 50% owned metals joint venture by 50% to 49,000 tonnes per annum. Basic engineering for the project is scheduled for completion by the end of the first quarter of 2006 and construction is expected to begin in the second quarter. Agencies of the Government of Cuba have committed to dedicating sufficient reserves to the joint venture for 25 years of production at this expanded rate. The Corporation anticipates that it will be able to confirm the total capital expenditures required to complete the expansion at the end of basic engineering. Such expenditures (Sherritt's share) are currently estimated to be U.S.$225 million. Given the anticipated completion date of basic engineering, the Corporation does not expect to enter into significant expansion-related equipment purchase commitments during 2005.

**Oil and Gas**

During 2005, fuel oil reference prices have increased steadily reaching record levels at the end of September following hurricane damage in the Gulf Coast region. The Corporation expects some moderation in fuel oil reference prices during the fourth quarter as Gulf Coast production and refining capacity returns to normal levels. Sherritt anticipates that its allocated (net) oil production in 2005 will be lower than in 2004, due to higher fuel oil prices, lower gross production from new wells, and natural field declines, partly offset by increases in recoverable capital spending.

Oil and Gas is on track with an ambitious exploration and development program at an estimated cost of $128 million, with six drilling rigs currently in operation. In addition to its development drilling activity in Cuba, Sherritt is currently drilling several exploration and appraisal wells. The Corporation expects to complete and test three exploration wells during the fourth quarter on Block 7 (Guanabo and Tarara) and Block 9 (San Anton), and to spud a fourth exploration well on Block 10 (Playa Larga). A declaration of commerciality is expected to be made following completion of the appraisal wells, after which the Corporation will be entitled to a retroactive allocation of profit oil for all Santa Cruz production since the initial discovery. The level of exploration activity in the oil business is substantial and, to the extent new fields are discovered, significant capital may be required to bring such fields into production. The Corporation has also launched an initiative to improve recovery factors and increase reserves, including conventional gas lift and high volume lift technologies along with evaluating business combinations and other arrangements which will facilitate accelerated growth in the oil business.

**Power**

Commissioning of the 85 MW expansion has commenced and two of the turbines will be operational by year end. The third turbine, which will bring total capacity to over 310 MW, is now expected to be completed in February 2006. The slight delay in completing the expansion is due in part to three hurricanes that affected construction during the quarter. Capital expenditures for the year are estimated to be $87 million, of which $78 million is related to the expansion. Approximately $8 million will be incurred in 2006 to complete the project. Total production for the year is expected to be 1.6 million megawatt hours.

Discussions continue regarding a further expansion of approximately 190 MW in total. The project as planned would include two phases, the first of which involves two gas turbines providing a total of 65 MW. The second phase involves a combined cycle plant with capacity of approximately 125 MW and will be subject to confirmation and dedication of sufficient natural gas reserves from oil fields in Cuba. If the project proceeds, the gas turbines would be commissioned near the end of 2006 and the combined cycle would be completed in 2008. As with all previous Power projects, Sherritt would finance, construct and operate the expanded facilities, with all surplus net cash flow from the expansion being initially directed towards repayment of the financing and interest costs. Expenditures in respect of this project are expected to commence in the fourth quarter pending finalization of terms. A final decision on this project is expected soon.

**Other Businesses**

The soybean-based food processing business continues to pursue opportunities to maximize consumption of its products in Cuba. Production levels are expected to increase by 13% in 2005. Capital expenditures for 2005 are estimated to be $1 million.

## Summary Financial Results by Segment (unaudited)[1]

### Three months ended September 30, 2005

| (millions of Canadian dollars) | Coal | Metals | Oil and Gas | Power | Other[2] | Corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| Revenue | $64.8 | $83.8 | $59.7 | $24.2 | $20.9 | $ – | $253.4 |
| Operating, selling, general and administrative | 50.3 | 49.6 | 8.7 | 5.5 | 19.2 | 21.2 | 154.5 |
| EBITDA[1] | 14.5 | 34.2 | 51.0 | 18.7 | 1.7 | (21.2) | 98.9 |
| Depletion, amortization and accretion | 14.2 | 4.8 | 19.8 | 5.6 | 0.8 | 1.0 | 46.2 |
| Operating earnings (loss) from continuing operations[1] | 0.3 | 29.4 | 31.2 | 13.1 | 0.9 | (22.2) | 52.7 |
| Share of earnings of equity investments | | | | | | | 0.1 |
| Net financing expense | | | | | | | (7.4) |
| Earnings from continuing operations before income taxes and non-controlling interest | | | | | | | 45.4 |
| Capital expenditures | $17.9 | $14.1 | $24.3 | $13.9 | $ – | $ 0.3 | $ 70.5 |

### Three months ended September 30, 2004 (restated)

| (millions of Canadian dollars) | Coal | Metals | Oil and Gas | Power | Other[2] | Corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| Revenue | $60.2 | $100.9 | $51.1 | $26.6 | $20.8 | $ – | $259.6 |
| Operating, selling, general and administrative | 44.6 | 48.6 | 9.8 | 6.0 | 17.7 | 9.5 | 136.2 |
| EBITDA[1] | 15.6 | 52.3 | 41.3 | 20.6 | 3.1 | (9.5) | 123.4 |
| Depletion, amortization and accretion | 13.2 | 5.1 | 21.0 | 4.4 | 0.5 | 1.4 | 45.6 |
| Operating earnings (loss) from continuing operations[1] | 2.4 | 47.2 | 20.3 | 16.2 | 2.6 | (10.9) | 77.8 |
| Share of loss of equity investments | | | | | | | (0.1) |
| Net financing expense | | | | | | | (20.1) |
| Earnings from continuing operations before income taxes and non-controlling interest | | | | | | | 57.6 |
| Capital expenditures | $ 1.8 | $ 5.3 | $21.4 | $10.1 | $ – | $ 0.5 | $ 39.1 |

(1) This table presents EBITDA and operating earnings from continuing operations by segment and reconciles 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 are, therefore, unlikely to be comparable with similar measures presented by other issuers.

(2) Other includes the results of the soybean-based food processing business.

**Nine months ended September 30, 2005**

| (millions of Canadian dollars) | Coal | Metals | Oil and Gas | Power | Other[2] | Corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| Revenue | $193.0 | $325.4 | $176.2 | $76.5 | $57.7 | $ – | $828.8 |
| Operating, selling, general and administrative | 143.5 | 179.5 | 28.7 | 23.2 | 50.4 | 37.0 | 462.3 |
| EBITDA[1] | 49.5 | 145.9 | 147.5 | 53.3 | 7.3 | (37.0) | 366.5 |
| Depletion, amortization and accretion | 42.3 | 15.0 | 58.8 | 16.2 | 2.2 | 3.1 | 137.6 |
| Operating earnings (loss) from continuing operations[1] | 7.2 | 130.9 | 88.7 | 37.1 | 5.1 | (40.1) | 228.9 |
| Share of earnings of equity investments | | | | | | | 0.6 |
| Net financing expense | | | | | | | (35.5) |
| Earnings from continuing operations before income taxes and non-controlling interest | | | | | | | 194.0 |
| Capital expenditures | $ 25.0 | $ 24.5 | $ 92.1 | $71.2 | $ 0.2 | $ 1.8 | $214.8 |

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

| (millions of Canadian dollars) | Coal | Metals | Oil and Gas | Power | Other[2] | Corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| Revenue | $185.0 | $348.7 | $152.0 | $80.5 | $57.9 | $ – | $824.1 |
| Operating, selling, general and administrative | 132.4 | 176.7 | 28.2 | 17.1 | 52.1 | 27.1 | 433.6 |
| EBITDA[1] | 52.6 | 172.0 | 123.8 | 63.4 | 5.8 | (27.1) | 390.5 |
| Depletion, amortization and accretion | 42.4 | 15.1 | 61.3 | 13.0 | 1.5 | 3.1 | 136.4 |
| Operating earnings (loss) from continuing operations | 10.2 | 156.9 | 62.5 | 50.4 | 4.3 | (30.2) | 254.1 |
| Share of earnings of equity investments | | | | | | | 0.4 |
| Net financing expense | | | | | | | (45.2) |
| Earnings from continuing operations before income taxes and non-controlling interest | | | | | | | 209.3 |
| Capital expenditures | $ 4.1 | $ 9.3 | $ 61.0 | $10.2 | $ – | $ 0.7 | $ 85.3 |

(1) This table presents EBITDA and operating earnings from continuing operations by segment and reconciles 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 are, therefore, unlikely to be comparable with similar measures presented by other issuers.

(2) Other includes the results of the soybean-based food processing business.

## Key Operating Statistics

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | September 30, 2005 | September 30, 2004 | September 30, 2005 | September 30, 2004 |
| **Sales Volumes (Sherritt's share)** | | | | |
| Coal (000's of tonnes)[1] | 4,694 | 4,613 | 14,202 | 14,306 |
| Nickel (000's of pounds)[1] | 7,619 | 8,269 | 26,289 | 25,676 |
| Cobalt (000's of pounds)[1] | 955 | 888 | 2,768 | 2,642 |
| Fertilizers (000's of tonnes) | 21 | 9 | 143 | 167 |
| Oil – Cuba (net bbls per day)[2] | 15,173 | 19,399 | 17,384 | 19,672 |
| Oil – Spain (net bbls per day) | 569 | 584 | 498 | 736 |
| Electricity generation (000's of MWh)[1] | 377 | 415 | 1,223 | 1,248 |
| **Realized Prices** | | | | |
| Coal (per tonne) | 13.79 | 13.06 | 13.59 | 12.93 |
| Nickel (per pound) | 7.93 | 8.28 | 8.60 | 8.21 |
| Cobalt (per pound) | 17.50 | 31.70 | 19.45 | 33.66 |
| Oil – Cuba (per bbl) | 39.65 | 26.91 | 34.74 | 26.41 |
| Oil – Spain (per bbl) | 73.49 | 53.85 | 66.04 | 46.57 |
| Power (per MWh) | 50.67 | 58.42 | 53.67 | 59.12 |
| **Average Reference Prices** | | | | |
| Nickel (U.S.$ per pound) | 6.61 | 6.35 | 7.00 | 6.25 |
| Cobalt (U.S.$ per pound)[3] | 13.41 | 23.17 | 15.16 | 24.23 |
| U.S. Gulf Coast Fuel Oil No. 6 (U.S.$ per bbl) | 39.88 | 25.16 | 34.43 | 24.34 |

(1) Represents the Corporation's respective 50% share of Luscar Energy Partnership (Coal), 50% share of the Metals Enterprise (Metals) and 100% of Energas S.A. (Power), which includes the two-thirds non-controlling interest share in Energas S.A.

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

(3) Average Metal Bulletin 99.3% cobalt published price.

# Management's Discussion and Analysis

The following discussion and analysis of the consolidated financial results of Sherritt International Corporation for the three and nine months ended September 30, 2005 should be read in conjunction with the unaudited consolidated financial statements and related notes contained in this interim report and the interim reports issued for the first and second quarters of 2005, as well as the Management's Discussion and Analysis, audited consolidated financial statements and related notes contained in the Corporation's 2004 annual report. Additional information relating to the Corporation, including the Corporation's 2004 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 November 1, 2005.

This Management's Discussion and Analysis may contain 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'', ''likely'', ''will'' or other similar words or phrases. Similarly, statements contained in the ''Outlook'' section of this Management's Discussion and Analysis, including those with respect to expectations concerning assets, prices, earnings, production, market conditions, capital expenditures, commodity demand, risks, corporate objectives and plans or goals, are or may be forward-looking statements. These forward-looking statements are not based on historic facts, but rather on current expectations and projections about future events. These forward-looking statements are subject to risks and uncertainties. These risks and uncertainties could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements. They may include (i) the risks and uncertainties set forth in this Management's Discussion and Analysis, and in the Corporation's 2004 Annual Information Form and 2004 annual report, which is filed with Canadian securities regulators, (ii) changes in market conditions, including with respect to price and demand, (iii) changes in current cost or productivity estimates and (iv) changes in capital projects or other endeavours.

In the fourth quarter of 2004, Sherritt early adopted two accounting policies, based on new accounting pronouncements, which were implemented on a retroactive basis with restatement of prior periods. The implementation of these accounting policies resulted in the following:

- Consolidation of a variable interest entity in Power, which was previously proportionately consolidated based on Sherritt's one-third equity interest, and consolidation of the 49% owned soybean-based food processing business, which was previously accounted for on the equity basis.
- Classification of the liability and equity components of the 6% and 7% convertible debentures in accordance with the contractual agreement. The liability components of both debentures are accreted to their par values over their term to maturity.

Further description of these changes and their impact on the financial statements can be found in Note 2 to the interim consolidated financial statements.

The Corporation had earnings from discontinued operations for the three and nine months ended September 30, 2004 of $nil and $1.0 million (net of income taxes of $0.2 million), respectively, that relate to the settlement of certain outstanding items from the disposal of the metallurgical coal operations in 2003. The following analysis focuses on continuing operations.

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

## Consolidated Earnings

### *Third Quarter Results*

For the third quarter of 2005, net earnings from continuing operations was $23.1 million compared with $35.2 million in the third quarter of 2004. This decrease was primarily the result of lower revenue from Metals, higher stock-based compensation expense, and higher operating costs in Coal. This was partially offset by higher revenues from Oil and Gas due to higher realized oil prices. Earnings per share for the quarter was $0.15 compared with earnings per share of $0.27 in the third quarter of 2004. Earnings per share for the quarter also reflected a higher weighted average number of shares outstanding which had a $0.03 impact on earnings per share.

| | Q3 2005 | Q3 2004 (restated) |
|---|---|---|
| Revenue | $253.4 | $259.6 |

The decrease in revenue is mainly attributable to lower Metals revenue. Metals revenue decreased due to lower realized cobalt and nickel prices and a stronger Canadian dollar. The decrease in revenue was partially offset by higher Oil and Gas revenue due to higher realized oil prices.

| | Q3 2005 | Q3 2004 (restated) |
|---|---|---|
| Operating costs | $125.9 | $119.6 |
| Selling costs | 1.2 | 1.0 |
| General and administrative costs | 27.4 | 15.6 |
| Operating, selling, general and administrative costs | $154.5 | $136.2 |

Consolidated operating costs increased mainly due to higher operating costs in Coal, where the Coal Valley expansion project is impacting operating costs. Selling costs did not change materially quarter over quarter. General and administrative costs increased mainly due to increased stock-based compensation costs.

During the third quarter, the Board of Directors of the Corporation granted a Share Appreciation Right (''SAR'') to outstanding options that were scheduled to expire on November 20, 2005 and January 25, 2006. This allows option holders to exercise options for either shares or cash. If the option is exercised for cash, the option holder will be paid an amount equal to the excess of the market value of the shares over the option exercise price.

During the third quarter of 2005, 1,746,000 of these options were exercised for cash totaling $6.2 million for which this amount was charged to earnings during the period. As at September 30, 2005, 850,000 options with a SAR attachment remained outstanding. The Corporation has recognized a compensation expense of $3.7 million related to those outstanding options. Subsequent to September 30, 2005, all 850,000 options were exercised for cash totaling $3.7 million.

| | Q3 2005 | Q3 2004 (restated) |
|---|---|---|
| Depletion, amortization and accretion | $46.2 | $45.6 |

There were no material changes in consolidated depletion, amortization and accretion expense quarter over quarter.

| | Q3 2005 | Q3 2004 (restated) |
|---|---|---|
| Net financing expense | $7.4 | $20.1 |

The decrease was primarily due to a decrease in the foreign exchange loss as a result of the strengthening of the Canadian dollar relative to other currencies compared to the same quarter last year and lower interest expense due to the repurchase and early redemption of the 6% convertible debentures.

| | Q3 2005 | Q3 2004 (restated) |
|---|---|---|
| Effective tax rate | 33% | 26% |

Sherritt's effective tax rate varies depending upon the relative profitability of its businesses, which are situated in different tax rate jurisdictions. The higher effective tax rate for the third quarter of 2005, as compared to the same period last year, reflects the smaller proportion of profits earned in low tax rate jurisdictions and the expiry of a tax holiday in Cuba on a portion of Power's operations. Assuming relatively constant commodity prices for the remainder of the year, the Corporation expects an annual effective tax rate of approximately 30% compared with 26% in 2004.

Management is planning to amend its methodology of accounting for income taxes in the Oil and Gas business. Adjustments have not yet been determined and, if any, will be implemented during the fourth quarter and may be applied on a retroactive basis. Any adjustment will likely increase the future income tax liability, however, will not result in a cash tax obligation.

| | Q3 2005 | Q3 2004 (restated) |
|---|---|---|
| Non-controlling interests | $7.4 | $7.2 |

Non-controlling interests primarily reflect the two-thirds outside interest in the results of a variable interest entity in Power.

***Nine Months Ended September 30 Results***

For the first nine months of 2005, earnings from continuing operations of $114.6 million or $0.76 per share were lower than earnings from continuing operations of $134.6 million or $1.03 per share in the same period last year. This decrease was primarily the result of lower revenue from Metals, higher operating costs in Coal, lower earnings in Power, and higher stock-based compensation expense. These decreases were partially offset by higher revenues from Oil and Gas due to higher realized oil prices. Earnings per share for the quarter also reflected a higher weighted average number of shares outstanding which had a $0.12 impact on earnings per share.

| | Nine Months 2005 | Nine Months 2004 (restated) |
|---|---|---|
| Revenue | $828.8 | $824.1 |

The increase in revenue is mainly attributable to higher Oil and Gas revenue due to higher realized oil prices and higher Coal revenue due to higher export prices. This was mostly offset by lower Metals revenue. Metals revenue decreased due to lower realized cobalt prices, lower fertilizer sales volumes and a stronger Canadian dollar.

| | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| | | (restated) |
| Operating costs | $402.1 | $384.4 |
| Selling costs | 4.8 | 5.4 |
| General and administrative costs | 55.4 | 43.8 |
| Operating, selling, general and administrative costs | $462.3 | $433.6 |

Consolidated operating costs increased mainly due to higher operating costs in Coal, where the Coal Valley expansion project is impacting operating costs, higher operating costs in Power due to a reduction in the amount of an expected insurance recovery, and higher operating costs in Metals due to higher sales volumes and increased energy costs. Selling costs did not change materially quarter over quarter. General and administrative costs increased mainly due to increased stock-based compensation costs.

| | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| | | (restated) |
| Depletion, amortization and accretion | $137.6 | $136.4 |

There were no material changes in consolidated depletion, amortization and accretion expense period over period.

| | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| | | (restated) |
| Net financing expense | $35.5 | $45.2 |

The decrease was primarily due to lower interest expense as a result of the repurchase and early redemption of the 6% convertible debentures. This was partially offset by lower interest income from short-term investments and loans and an increase in the foreign exchange loss as a result of the strengthening of the Canadian dollar relative to other currencies compared to the same period last year.

| | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| | | (restated) |
| Effective tax rate | 29% | 22% |

Sherritt's effective tax rate varies depending upon the relative profitability of its businesses, which are situated in different tax rate jurisdictions. The higher effective tax rate for the first nine months of 2005, as compared to the same period last year, arises from a one-time adjustment recorded by the Coal business in the first six months of 2004 reflecting a reduction in provincial tax rates, a smaller proportion of profits in the Metals business recorded in a low tax rate jurisdiction relative to the same period last year, and the expiry of a tax holiday in Cuba on a portion of Power's operations. Assuming relatively constant commodity prices for the remainder of the year, the Corporation expects an annual effective tax rate of approximately 30% compared with 26% in 2004.

| | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| | | (restated) |
| Non-controlling interests | $22.2 | $28.8 |

Non-controlling interests primarily reflect the two-thirds outside interest in the results of a variable interest entity in Power. Non-controlling interest decreased due to lower operating earnings in the Power business.

## Consolidated Cash Flow

### *Third Quarter Results*

| | Q3 2005 | Q3 2004 (restated) |
|---|---|---|
| Cash from operating activities before working capital changes | $ 74.2 | $83.6 |
| Non-cash working capital changes | 33.3 | 13.7 |
| Cash provided by operating activities | $107.5 | $97.3 |

Cash provided by operating activities of $107.5 million includes net earnings of $23.1 million and $51.1 million of items not affecting cash, combined with the change in non-cash working capital. The increase in cash related to changes in non-cash working capital of $33.3 million in the quarter was due to several factors. Accounts receivable decreased in Metals primarily due to lower nickel revenues combined with the seasonal sales of fertilizer. Accounts payable increased as a result of higher capital accruals in Coal due to the Coal Valley mine site expansion and an increase in accrued payables for stock-based compensation expense. These were partially offset by an increase in inventory in Metals primarily due to the build up of fertilizer inventory for the fall sales season and the impact of increased energy costs on inventory values.

| | Q3 2005 | Q3 2004 (restated) |
|---|---|---|
| Capital expenditures | $70.5 | $39.1 |
| Cash provided by (used for) other investing activities | 13.1 | (2.0) |
| Cash used for financing activities | 17.2 | 1.8 |

The major capital expenditures in the third quarter related to Oil and Gas appraisal and development drilling in Cuba, expenditures for the expansion at the Coal Valley mine site, and expenditures for the Power expansion. Cash provided by other investing activities in the third quarter primarily relate to a decrease in restricted cash and a decrease in working capital advances to a joint venture operation. Cash used for financing activities in the quarter can be ascribed mainly to a repayment of a working capital facility.

### *Nine Months Ended September 30 Results*

| | Nine Months 2005 | Nine Months 2004 (restated) |
|---|---|---|
| Cash from operating activities before working capital changes | $269.3 | $272.5 |
| Non-cash working capital changes | 1.9 | (19.7) |
| Cash provided by operating activities | $271.2 | $252.8 |

Cash provided by operating activities of $271.2 million includes net earnings of $114.6 million adjusted for $154.7 million of items not affecting cash, combined with the changes in non-cash working capital. The increase in cash relating to changes in non-cash working capital of $1.9 million was the result of several factors. Accounts receivable decreased primarily due to the collection of receivables in Power, which was partially offset by an increase in receivables in Oil and Gas due to higher realized oil prices. Accounts payable increased as a result of higher capital accruals in Coal due to the Coal Valley mine site expansion and an increase in accrued payables for stock-based compensation expense. These were partially offset by an increase in inventory due to the build up of ammonia inventory for the fall sales season and the impact of increased energy costs on inventory values in Metals, and an accumulation of raw coal inventory due to the wash-plant shut down at Coal Valley relating to the on going expansion project.

| | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| | | (restated) |
| Capital expenditures | $214.8 | $85.3 |
| Cash provided by (used for) other investing activities | 12.6 | (3.3) |
| Cash provided by (used for) financing activities | 14.7 | (2.5) |

The major capital expenditures in the first nine months of the year were directed to Oil and Gas development and exploration drilling in Cuba, expenditures for the Power expansion, and expenditures for the expansion at the Coal Valley mine site. Cash provided by other investing activities in this period related to a decrease in restricted cash. Cash provided by financing activities in this period can be ascribed mainly to a drawdown of a working capital facility.

## Consolidated Financial Position, Liquidity and Capital Resources

Total assets at September 30, 2005 were $2.8 billion. Cash, cash equivalents, short-term investments and restricted cash totaled $522.6 million at September 30, 2005, an increase of $70.6 million since year end. This increase in cash included $56.4 million of cash from operations after capital expenditures.

Current advances and loans receivable increased to $34.4 million from the year end balance of $27.7 million, primarily reflecting increases in working capital advances to joint ventures.

Accounts receivable were $260.4 million at September 30, 2005 compared with $282.6 million at December 31, 2004. The decrease was primarily due to the collection of receivables in Power, which was partially offset by an increase in receivables in Oil and Gas due to higher realized oil prices.

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

Oil and Gas, Power and soybean-based food processing accounts receivable due from Cuban government agencies have, on occasion, included overdue amounts. Overdue amounts, if any, bear interest and historically have not generally exceeded four months of average monthly revenues. With the current oil prices, oil sales to the Cuban government provide for payment normally within 180 days of invoicing, with interest accruing on balances outstanding beyond 90 days. The Corporation manages its overall accounts receivable with the Cuban government agencies on a consolidated basis to provide for 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 made to Cuban agencies for labour, taxes, royalties and other local services in Metals, Oil and Gas, Power and soybean-based food processing; obtaining pledges of third party payments to Cuban agencies as security for the receivables; and managing sustaining and growth capital appropriately.

Inventories increased to $113.4 million at September 30, 2005, compared to $103.1 million at December 31, 2004. The increase relates mainly to the build up of ammonia inventory for the fall sales season and the impact of increased energy costs on inventory values in Metals and the accumulation of raw coal inventory due to the wash-plant shut down at Coal Valley resulting from the on going expansion project.

Capital assets were $1,627.4 million at September 30, 2005 compared with $1,500.5 million at December 31, 2004. The increase includes capital expenditures, asset retirement obligation additions and capital leases, net of depreciation and amortization of capital assets and capital asset disposals.

The future income tax asset (including current portion) of $98.7 million at September 30, 2005 represented primarily the tax benefit of approximately of $132.9 million of non-capital losses and $77.1 million of capital losses. The non-capital losses have been generated primarily through interest on Sherritt's convertible debentures. The balance of the future income tax asset relates mainly to accrued reclamation costs, which are deducted for tax when incurred. The tax benefit of the losses has been recognized in the financial statements on the expectation that sufficient taxable income will be realized in the future to utilize these losses.

Other assets were $96.4 million at September 30, 2005, compared with $114.3 million at December 31, 2004. The decrease reflected partial repayments of a note receivable, reductions in long-term spare parts, application of progress payments to equipment purchases, amortization of other assets, and the reduction of deferred interest and issue costs relating to the conversion and redemption of the 6% convertible debentures.

Short-term debt of $65.1 million at September 30, 2005, increased by $20.2 million during the period, relating to a drawdown of a working capital facility. Accounts payable and accrued liabilities were $202.1 million as at September 30, 2005 compared with $178.8 million at December 31, 2004. The increase relates mainly to capital accruals in Coal as a result of the on going expansion at the Coal Valley mine site and an increase in corporate accrued payables for stock-based compensation expense.

The future income tax liability of $207.4 million at September 30, 2005 increased slightly compared with the 2004 year end amount of $203.7 million. The majority of this amount relates to the future income tax liability of the Coal business. The future income tax liability does not represent a current cash tax liability, but is a result of the temporary differences between the values of capital assets for tax purposes versus accounting purposes.

Long-term debt and other liabilities (including current portion) were $593.6 million at the end of the third quarter compared with $781.9 million at the end of 2004. The decrease is primarily attributable to the redemption of the $200 million 6% convertible debentures during the first quarter.

The increase in non-controlling interests to $205.9 million reflects third party interests in the net earnings of a variable interest entity in Power.

On November 1, 2005, the Corporation filed a preliminary short form base shelf prospectus permitting the issuance of up to $500 million of senior unsecured debentures. Upon regulatory clearance and filing of a final short form base shelf prospectus, the Corporation will be entitled to issue senior unsecured debentures from time to time over the next two years, in one or more series and at prices and on terms to be determined at the time of sale.

In the short term, if market conditions warrant, the Corporation intends to effect an issue of senior unsecured debentures. The Corporation intends to use the proceeds of such an offering, together with cash on hand, to permit it to (i) redeem all of its outstanding $105 million, 9.875% senior unsecured debentures due March 31, 2010; and (ii) effect a reduction or defeasance of its 50% share of the US$275 million, 9.75% senior unsecured debentures, due October 15, 2011, in its coal business.

In April 2005, the Corporation announced its intention to pay a quarterly dividend. Dividends of $0.025 per share were paid on May 24 and July 15, 2005 and a subsequent dividend for the same amount was declared to shareholders of record on September 30, 2005 and paid on October 14, 2005. Cash generated from operations and cash on hand are expected to be sufficient to finance ongoing operations and the quarterly dividend payment. Expansions or growth opportunities will be financed through a combination of cash from operations and, to the extent necessary, cash on hand and external financing.

In the first quarter of 2005, the Corporation completed the redemption of all of its $200 million par value 6% convertible debentures. The redemption was effected by the issue of common shares. As a result of the redemption, and of conversions of 6% debentures into common shares prior to the redemption, Sherritt issued a total of 22,735,061 common shares in satisfaction and discharge of the $200 million of 6% convertible debentures that were outstanding at year end. In addition, during the nine month period, 1,142 shares were issued on the conversion of $8,000 principal amount of 7% convertible debentures and 2,144,000 shares were issued on stock option exercises.

The Corporation instituted a Normal Course Issuer Bid to acquire a maximum of five percent of its issued and outstanding shares which commenced July 5, 2005 and expires July 4, 2006. Between July 5, 2005, and September 30, 2005, 412,900 shares were purchased pursuant to the plan at an average price of $10.70 per share. The Corporation also acquired 545,432 of its common shares at $10.00 per share as a result of an issuer bid that closed on March 17, 2005.

During the nine month period, the Corporation entered into capital leases for equipment totalling $14.6 million as part of long-term mine support equipment agreements. The Corporation also finalized the renewal of a credit facility during the second quarter.

In 2004, Sherritt entered into an agreement that allows for a part of the Moa Nickel S.A. income tax, royalty and labour tax payments, which are assigned to an international financial institution, to be redirected to Sherritt as payment for oil and power sales. The amount redirected to Sherritt is the excess of the international financial institution's minimum quarterly requirements. Sherritt received $61.2 million under this agreement during the nine months ended September 30, 2005. In the event that the amounts received by the financial institution do not meet their minimum payment requirements, the amounts received by Sherritt must be refunded to make up the shortfall. The refund is limited to the total amount received by Sherritt in the particular calendar year. Should a refund occur, the Oil and Gas and Power businesses would increase the amounts receivable from the Cuban agencies by a similar amount. As at September 30, 2005, the estimated maximum potential refund, which would result in a similar amount of receivables being reinstated, is $9.9 million. Based on management's expectations for production, commodity prices and costs at Moa Nickel S.A. for the remainder of the year, the Corporation does not expect that it will be required to refund any amounts that relate to the 2005 calendar year and therefore no liability has been recorded in respect of potential refunds.

## Review of Operations

### Coal

The Coal business continues to focus on innovative opportunities to increase productivity with improvements also being realized in safety performance. Coal achieved EBITDA of $14.5 million on sales of 4.7 million tonnes during the third quarter of 2005.

***Third Quarter Results***

| | Q3 2005 | Q3 2004 |
|---|---|---|
| Revenue | $ 64.8 | $ 60.2 |
| Operating costs | (48.9) | (43.3) |
| Selling costs | (0.1) | (0.1) |
| General and administrative costs | (1.3) | (1.2) |
| EBITDA | 14.5 | 15.6 |
| Depletion, amortization and accretion | (14.2) | (13.2) |
| Operating earnings | $ 0.3 | $ 2.4 |

Revenue for the third quarter of 2005 increased by $4.6 million compared to the same quarter last year. The increase is due to higher export coal prices and slightly increased sales volume at the Coal Valley mine, as well as moderately higher revenues at the contract mines due to increased cost recoveries. These revenue increases were partially offset by a decrease of $2.4 million at the Poplar River mine due primarily to the loss of revenues related to a promissory note that matured in December 2004.

Operating costs have increased by $5.6 million in 2005. This increase is partially attributable to the Coal Valley mine, where the wash plant was shut down in early August due to the expansion project, thereby decreasing production and sales and increasing unit production costs. Additionally, operating costs at the Paintearth mine have increased over the same quarter in 2004 as a result of increased equipment repair costs, fuel costs and higher mining ratios. Selling, general and administrative costs were similar to the same period in 2004.

Excluding Coal Valley's revenues and operating costs, EBITDA from the mine mouth, contract and other operations was $17.9 million for the quarter compared with $18.8 million for the comparable quarter last year. Included in the third quarter 2004 EBITDA was revenue related to the Poplar River promissory note of $1.4 million. After adjusting for the promissory note, there was a slight increase in EBITDA of $0.5 million.

Depletion, amortization and accretion of $14.2 million during the quarter was $1.0 million higher than the same period last year due to a higher capital asset base resulting from the prior year's capital expenditure program.

| | Q3 2005 | Q3 2004 |
|---|---|---|
| Realized prices ($/tonne) | $13.79 | $13.06 |
| Sales volumes (millions of tonnes) | 4.7 | 4.6 |
| Production volumes (millions of tonnes) | 4.6 | 4.8 |

Average realized prices during the quarter were higher than the comparable quarter last year due to higher export prices. Sales and production volumes were similar to those in the same period last year. There was an increase in shipments at the mine mouth operations, due primarily to the expansion at the Genesee mine, which was partially offset by a decrease in shipments at the contract mining operations where production was negatively impacted during the quarter by the oil spill at Lake Wabamun that resulted from a CN train derailment.

| | Q3 2005 | Q3 2004 |
|---|---|---|
| Capital expenditures | $ 17.9 | $ 1.8 |

Capital spending was mainly in support of the Coal Valley expansion which is expected to double the capacity of the Coal Valley mine from 1.0 million to 2.0 million tonnes per year and is scheduled to be at full capacity by the second quarter of 2006.

Additionally, capital leases for equipment, totaling $9.1 million were entered into during the quarter at various mine sites and were recorded as additions to capital assets and long-term debt.

***Nine Months Ended September 30 Results***

| | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| Revenue | $ 193.0 | $ 185.0 |
| Operating costs | (139.5) | (128.4) |
| Selling costs | (0.4) | (0.3) |
| General and administrative costs | (3.6) | (3.7) |
| EBITDA | 49.5 | 52.6 |
| Depletion, amortization and accretion | (42.3) | (42.4) |
| Operating earnings | $ 7.2 | $ 10.2 |

Revenue for the nine months ended September 30, 2005 increased by $8.0 million compared to the same period last year. This increase is primarily due to higher export coal prices and slightly higher sales volume at the Coal Valley mine, where revenues have increased by $6.8 million. The Paintearth mine generated $1.7 million of higher revenues when compared to the same period last year due to increased sales volumes. Additionally, the contract operations have seen a $4.5 million increase in revenues due to increased cost recoveries. These increases were partially offset by a decrease of $5.7 million at the Poplar River mine due primarily to the loss of revenues related to the Poplar River promissory note that matured in December 2004.

Operating costs increased by $11.1 million in 2005 compared to the same period in 2004. This increase is primarily attributable to the Coal Valley mine where operating costs have increased by $8.4 million due to the on going expansion project where the wash plant shut down caused increased unit production costs. Operating costs at the contract mines also increased, mostly due to higher fuel costs and additional equipment hours arising from higher mining ratios, the impact of which was offset by higher revenue. Selling, general and administrative costs were similar to the same period in 2004.

Excluding Coal Valley's revenues and operating costs, EBITDA from the mine mouth, contract and other operations was $53.8 million for the period, compared with $55.3 million for the comparable period last year. Included in EBITDA for the 2004 period was revenue related to the Poplar River promissory note of $4.0 million and other income of $2.0 million. Other income is primarily the result of gains on the disposal of fixed assets and a one-time insurance refund received in the second quarter of 2004. After adjusting for these items, EBITDA for the remaining operations has increased $4.5 million primarily due to improvements at the remaining mines.

Depletion, amortization and accretion of $42.3 million was similar to the comparable period last year.

| | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| Realized prices ($/tonne) | $13.59 | $12.93 |
| Sales volumes (millions of tonnes) | 14.2 | 14.3 |
| Production volumes (millions of tonnes) | 14.2 | 14.1 |

Average realized prices during the nine months ended September 30, 2005 were higher than the comparable period last year due to higher export prices. Sales volumes and production volumes are essentially unchanged from the same period in 2004. There was an increase in shipments at the mine mouth operations, due primarily to the expansion at the Genesee mine, which was partially offset by a decrease in shipments at the contract mining operations where production was negatively impacted during the second quarter by excessive rainfall in Western Canada and in the third quarter by the oil spill at Lake Wabamun that resulted from a CN train derailment.

| | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| Capital expenditures | $25.0 | $4.1 |

Capital spending was mainly in support of the Coal Valley expansion.

Additionally, capital leases for equipment, totaling $14.6 million were entered into during the period at various mine sites and were recorded as additions to capital assets and long-term debt.

## Metals

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

***Third Quarter Results***

| | Q3 2005 | Q3 2004 |
|---|---|---|
| Revenue | $ 83.8 | $100.9 |
| Operating costs | (47.6) | (46.7) |
| Selling costs | (1.1) | (0.9) |
| General and administrative costs | (0.9) | (1.0) |
| EBITDA | 34.2 | 52.3 |
| Depletion, amortization and accretion | (4.8) | (5.1) |
| Operating earnings | $ 29.4 | $ 47.2 |

Lower revenues relative to the same quarter last year reflected lower realized cobalt and nickel prices, lower nickel sales volumes, and a stronger Canadian dollar, partly offset by higher cobalt sales volumes and higher granular ammonium sulphate sales volumes. Increased operating costs relative to the same quarter last year were mainly a result of increased energy costs, partly offset by lower nickel sales volumes. Increased selling costs in the quarter reflect increased granular ammonium sulphate sales volumes.

During the third quarter, Metals received notice from its contract hydrogen supplier that deliveries of hydrogen may cease as a result of a plant closure scheduled later in 2006 or early 2007. The Corporation is reviewing other sources of supply and does not expect this situation to result in interruption to its nickel and cobalt operations.

| **Prices** | Q3 2005 | Q3 2004 |
|---|---|---|
| Nickel – realized ($/lb) | $ 7.93 | $ 8.28 |
| Cobalt – realized ($/lb) | 17.50 | 31.70 |
| Nickel – reference (U.S.$/lb) | 6.61 | 6.35 |
| Cobalt – reference (U.S.$/lb) | 13.41 | 23.17 |

Continuing strong demand and lower London Metal Exchange (''LME'') inventories relative to the same period last year contributed to the higher reference prices for nickel. However, realized nickel prices were lower, reflecting the impact of the stronger Canadian dollar. The lower cobalt reference price was mainly a result of increased global availability of cobalt and lower market demand relative to the same period last year.

| **Production (tonnes)** | Q3 2005 | Q3 2004 |
|---|---|---|
| Mixed sulphides | 4,116 | 4,203 |
| Finished nickel | 3,825 | 4,215 |
| Finished cobalt | 417 | 428 |

Lower mixed sulphides production in the quarter relative to the same period last year reflected the impact of maintenance activities at Moa. Lower finished nickel and cobalt production volumes in the third quarter reflected reduced mixed sulphide availability due to timing of production and shipments.

| Sales (thousands of pounds) | Q3 2005 | Q3 2004 |
|---|---|---|
| Finished nickel | 7,619 | 8,269 |
| Finished cobalt | 955 | 888 |

Nickel sales volumes were lower due to lower production volumes. Cobalt sales volumes increased as a result of the timing of sales and shipments.

| | Q3 2005 | Q3 2004 |
|---|---|---|
| Capital expenditures | $14.1 | $5.3 |

Capital expenditures of $8.0 million in the third quarter of 2005 were primarily directed towards sustaining and upgrading the facilities at both Moa and Fort Saskatchewan, combined with various environmental initiatives. In addition, $6.1 million was spent on basic engineering related to the expansion of the Metals Enterprise.

| | Q3 2005 | Q3 2004 |
|---|---|---|
| Fertilizer sales (tonnes) | 21,039 | 9,242 |
| Revenue | $ 6.2 | $ 3.4 |
| Operating loss | (1.9) | (1.0) |

The higher operating loss in the third quarter of 2005 from the fertilizer operations was primarily due to scheduled biannual maintenance activities in the sulphuric acid plant, partly offset by higher sales volumes and margins for granular ammonium sulphate, and higher margins on ammonia. Fertilizer sales are seasonal with the majority of sales occurring in the spring and fall. The increase in fertilizer sales volumes was due to the timing of fall sales for granular ammonium sulphate, which was partly offset by the realignment of profitability on crystalline ammonium sulphate sales to the Metals Enterprise. Effective March 31, 2005, the shareholders of the Metals Enterprise, of which Sherritt has a 50% interest, entered into an agreement to expand annual production, which included a provision to attribute 100% of future earnings or losses from the sale of crystalline ammonium sulphate to the Metals Enterprise. Prior to this agreement, 85% of earnings or losses were attributed to Sherritt, while the remaining 15% were attributed to the Metals Enterprise. Depreciation expense for the quarter for the fertilizer operations was $0.7 million, which was comparable to the third quarter of 2004.

***Nine Months Ended September 30 Results***

| | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| Revenue | $ 325.4 | $ 348.7 |
| Operating costs | (172.4) | (169.0) |
| Selling costs | (4.4) | (5.1) |
| General and administrative costs | (2.7) | (2.6) |
| EBITDA | 145.9 | 172.0 |
| Depletion, amortization and accretion | (15.0) | (15.1) |
| Operating earnings | $ 130.9 | $ 156.9 |

Lower revenues relative to the prior period were mainly due to lower realized cobalt prices, lower fertilizer sales volumes, and a stronger Canadian dollar, partly offset by higher nickel and cobalt sales volumes and higher realized nickel prices. Increased operating costs relative to the first nine months of 2004 were mainly due to higher nickel and cobalt sales volumes and increased energy costs, partly offset by lower fertilizer sales volumes. Lower fertilizer sales volumes and selling costs reflect the realignment of profitability on crystalline ammonium sulphate sales to the Metals Enterprise.

| **Prices** | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| Nickel – realized ($/lb) | $ 8.60 | $ 8.21 |
| Cobalt – realized ($/lb) | 19.45 | 33.66 |
| Nickel – reference (U.S.$/lb) | 7.00 | 6.25 |
| Cobalt – reference (U.S.$/lb) | 15.16 | 24.23 |

For nickel, continuing strong demand and lower LME inventories relative to the same period last year contributed to the higher reference prices. The lower cobalt reference price was primarily a result of increased global availability of cobalt and lower market demand relative to the same period last year.

| **Production (tonnes)** | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| Mixed sulphides | 12,456 | 12,514 |
| Finished nickel | 12,085 | 12,100 |
| Finished cobalt | 1,287 | 1,244 |

Slightly decreased mixed sulphides production in the first nine months of 2005 relative to the same period last year reflected the impact of maintenance activities at Moa. Finished nickel production volumes were comparable with the same period last year. Higher cobalt production volumes were mainly a result of reduced in-process inventory relative to 2004.

| **Sales (thousands of pounds)** | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| Finished nickel | 26,289 | 25,676 |
| Finished cobalt | 2,768 | 2,642 |

Sales volumes were higher during the first nine months of 2005 than in the same period last year. For 2005, sales volumes of finished nickel and cobalt are expected to closely match production volumes, which are expected to be near the record levels established last year.

| | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| Capital expenditures | $24.5 | $9.3 |

Capital expenditures of $16.1 million in the first nine months of 2005 were primarily directed towards sustaining and upgrading the facilities at both Moa and Fort Saskatchewan, combined with various environmental initiatives. On a year to date basis spending was higher primarily as a result of capital improvements to the sulphuric acid plant that occurred during the recent shutdown. In addition, $8.4 million was spent on basic engineering related to the expansion of the Metals Enterprise.

| | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| Fertilizer sales (tonnes) | 143,222 | 167,067 |
| Revenue | $ 43.1 | $ 46.8 |
| Operating earnings | 2.8 | 6.1 |

Lower operating earnings relative to the first nine months of 2004 were mainly due to lower second quarter margins on granular ammonium sulphate, and lower profitability on crystalline ammonium sulphate resulting from the realignment of the crystalline ammonium sulphate business with the Metals Enterprise. Reported fertilizer sales volumes and revenue in the second and third quarters only reflect 50% of the crystalline ammonium sulphate sales and revenue. Depreciation expense for the first nine months of 2005 for the fertilizer operations was $2.0 million, compared to $1.7 million for the first nine months of 2004.

## Oil and Gas

Oil and Gas continues to focus its operations on exploration, development and production from sub-sea oil deposits in Cuba which are drilled from nearby onshore locations using specialized skills in fold and thrust belt geology and directional drilling.

***Third Quarter Results***

| | Q3 2005 | Q3 2004 |
|---|---|---|
| Revenue | $ 59.7 | $ 51.1 |
| Operating costs | (5.9) | (6.7) |
| General and administrative costs | (2.8) | (3.1) |
| EBITDA | 51.0 | 41.3 |
| Depletion, amortization and accretion | (19.8) | (21.0) |
| Operating earnings | $ 31.2 | $ 20.3 |

Revenue for the third quarter increased over the same period last year as a result of record fuel oil prices, partly offset by lower production volumes. Operating costs decreased as a result of lower production volumes. General and administration costs were comparable to the same period last year. Depletion, amortization and accretion costs were comparable to 2004, as the impact of lower production volumes was offset by higher depletion rates. Depletion rates have increased due to the expanded capital program and lower reserve additions.

| Prices | Q3 2005 | Q3 2004 |
|---|---|---|
| Realized prices $/barrel (Cuba) | $39.65 | $26.91 |
| Reference price – Fuel Oil No. 6 (U.S.$/barrel) | 39.88 | 25.16 |

Oil and Gas sells all oil produced in Cuba to agencies of the Cuban government, generally at selling prices based on 79% to 83% of the Gulf Coast Fuel Oil No. 6 reference price. The reference price reached record levels during the third quarter of 2005, reaching as high as U.S. $47.00 per barrel at the end of September. The impact of higher fuel oil prices was partially reduced by the strength of the Canadian dollar.

| Production | Q3 2005 | Q3 2004 |
|---|---|---|
| Gross oil production in Cuba (bopd)[(1)(4)] | | |
| Operated | 37,190 | 42,325 |
| Working interest[(2)] | 29,600 | 36,086 |
| Net oil production (bopd)[(4)] | | |
| Cuba[(3)] | 15,173 | 19,399 |
| Spain | 569 | 584 |
| Total | 15,742 | 19,983 |

(1) Gross oil production excludes production from the Santa Cruz discovery and other wells for which commerciality has not been declared.

(2) Gross working interest production in Cuba is allocated to the Corporation and agencies of the Cuban government in accordance with production-sharing arrangements.

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

(4) Barrels of oil per day (''bopd'').

During the third quarter, gross production volumes decreased from the same period last year due to natural reservoir declines, a higher gas/oil ratio in the Canasi field, and precautionary shutdowns due to hurricane activity. Due to the significant focus on exploration drilling, new production resulting from development drilling did not fully offset natural reservoir declines. In addition to lower gross production volumes, the decrease in Cuban net oil production reflects lower cost recovery oil allocations due to record fuel oil prices and exploration drilling on Block 9, which is not recoverable until commerciality is declared.

| | Q3 2005 | Q3 2004 |
|---|---|---|
| Capital expenditures | $24.3 | $21.4 |

During the third quarter of 2005, six drilling rigs were active compared with three active rigs during the same period in 2004. Development wells at Seboruco 12 and Seboruco 102 were completed during the quarter and offsetting wells at Seboruco 13 and Seboruco 101 are being drilled during the fourth quarter. The first Santa Cruz appraisal well, completed in July, was suspended due to high water production rates, for which a remedial workover is scheduled for the fourth quarter. Construction also continues on the Canasi land-based treatment and ocean disposal system, which began in the second quarter.

***Nine Months Ended September 30 Results***

| | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| Revenue | $176.2 | $152.0 |
| Operating costs | (19.6) | (20.0) |
| General and administrative costs | (9.1) | (8.2) |
| EBITDA | 147.5 | 123.8 |
| Depletion, amortization and accretion | (58.8) | (61.3) |
| Operating earnings | $ 88.7 | $ 62.5 |

Revenue for the first nine months of 2005 increased as a result of record fuel oil prices, partly offset by lower production volumes. Operating costs decreased as a result of lower production volumes. General and administration costs have increased by approximately $1.0 million due to higher activity levels. Depletion, amortization and accretion costs were comparable to 2004, as the impact of lower production volumes was offset by higher depletion rates. Depletion rates have increased due to the expanded capital program and lower reserve additions.

| Prices | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| Realized prices $/barrel (Cuba) | $34.74 | $26.41 |
| Reference price – Fuel Oil No. 6 (U.S.$/barrel) | 34.43 | 24.34 |

Oil and Gas sells all oil produced in Cuba to agencies of the Cuban government, generally at selling prices based on 79% to 83% of the Gulf Coast Fuel Oil No. 6 reference price. The reference price has increased steadily throughout the year reaching as high as U.S. $47.00 per barrel in September following hurricane damage in the Gulf Coast region. The impact of higher fuel oil prices was partially reduced by the strength of the Canadian dollar.

| Production | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| Gross oil production in Cuba (bopd)[(1)(4)] | | |
| Operated | 38,739 | 42,842 |
| Working interest[(2)] | 31,257 | 36,988 |
| Net oil production (bopd)[(4)] | | |
| Cuba[(3)] | 17,384 | 19,672 |
| Spain | 498 | 736 |
| Total | 17,882 | 20,408 |

(1) Gross oil production excludes production from the Santa Cruz discovery and other wells for which commerciality has not been declared.

(2) Gross working interest production in Cuba is allocated to the Corporation and agencies of the Cuban government in accordance with production-sharing arrangements.

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

(4) Barrels of oil per day (''bopd'').

During the first nine months of 2005, gross production volumes decreased due to natural reservoir declines, a higher gas/oil ratio in the Canasi field, and precautionary shutdowns due to hurricane activity. Due to the significant focus on exploration drilling, new production resulting from development drilling did not fully offset natural reservoir declines. In addition to lower gross production volumes, the decrease in Cuban net oil production reflects lower cost recovery oil allocations due to record fuel oil prices and exploration drilling on Block 9, which is not recoverable until commerciality is declared.

| | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| Capital expenditures | $92.1 | $61.0 |

Four drilling rigs were active during the first nine months of 2005 and two more rigs were added in August, compared with three active rigs during 2004. The 2005 capital program includes development drilling of Seboruco and other existing fields, appraisal of the Santa Cruz discovery, and exploration drilling on several prospects in Blocks 9 (San Anton), 10 (Playa Larga) and 7 (Guanabo and Tarara). The capital program also includes expansion of the Yumuri battery, which was finished during the second quarter, and construction of the Canasi land-based treatment and ocean disposal system, which started during the second quarter.

## Power

Power continues to focus on the effective utilization of energy resources in the production of electricity. Sherritt has been an advocate of the construction of power facilities that derive both an economic and environmental benefit from processing natural gas being produced in Cuba which may otherwise be flared. Current production capacity of 226 megawatts (MW) will increase to over 310 MW with the completion of the 85 MW expansion in early 2006.

Discussions continue regarding further expansions of up to 190 MW in total. The project as planned would include two phases, the first of which involves two gas turbines providing a total of 65 MW. The second phase involves a combined cycle plant with capacity of approximately 125 MW and will be subject to confirmation and dedication of sufficient natural gas reserves from oil fields in Cuba. If the project proceeds, the gas turbines would be commissioned near the end of 2006 and the combined cycle would be completed in 2008. As with all previous Power projects, Sherritt would finance, construct and operate the expanded facilities, with all surplus net cash flow from the expansion being initially directed towards repayment of the financing and interest costs. Expenditures in respect of the next expansion phase are expected to commence in the fourth quarter pending finalization of terms. A final decision on this project is expected soon.

During the third quarter of 2005, Energas S.A. (''Energas'') completed repayment of the financing provided by Sherritt for the construction of the existing Energas operations. Energas also paid $3.3 million to the Cuban state for surface land rights in respect of these operations. In accordance with the agreements in respect of Power's operations in Cuba, effective September 1, 2005, the tariff on electricity produced from these operations has been reduced to U.S.$0.038 per kilowatt hour from U.S.$0.045 per kilowatt hour. In addition, the profits generated from these operations are now subject to a 30% Cuban tax and cash not required for these operations will be distributed to the owners of Energas as dividends.

The investment in the current and planned expansions of Energas will trigger a reinvestment credit of up to 30% of the amount invested. This reinvestment credit will be paid to Sherritt in an amount equal to ⅓ of the taxes paid by Energas. A reinvestment credit of approximately $1 million is expected to be received in 2005.

The current and future expansions will be treated as a separate economic unit from the existing operations for the purpose of determining cash flows for the repayment of financing, calculation of taxes and payment of dividends. During the period in which financing for the expansion is repaid, Sherritt will be entitled to 100% of the net cash flow of the expansion as repayment of financing. The price of electricity during the payback period will be set at U.S.$0.045 per kilowatt hour. Following the full repayment of financing for the expansion and payment for surface land rights, Energas will receive a lower tariff for electricity and will be taxable as described above for the existing operations.

Operating results for Power reflect the consolidation of Energas S.A. as a result of the adoption of Accounting Guideline AcG-15 – Consolidation of Variable Interest Entities, in the fourth quarter of 2004. The two-thirds non-controlling interests are disclosed separately on the consolidated balance sheets and the statements of operations. Results for 2004 have been restated to reflect the adoption of the accounting guideline.

### *Third Quarter Results*

| | Q3 2005 | Q3 2004 (restated) |
|---|---|---|
| Revenue | $24.2 | $26.6 |
| Operating costs | (4.7) | (5.8) |
| General and administrative costs | (0.8) | (0.2) |
| EBITDA | 18.7 | 20.6 |
| Depletion, amortization and accretion | (5.6) | (4.4) |
| Operating earnings | $13.1 | $16.2 |

Revenue for the third quarter decreased from the same period last year due to lower realized prices as a result of a stronger Canadian dollar and a reduction in the tariff charged for electricity production commencing in September. Operating costs were lower than in the prior year due mainly to the timing of maintenance work. General and administrative costs were higher in the current year quarter due to higher personnel and office costs. Depletion, amortization and accretion were higher than the previous year mainly due to the amortization of costs for major overhauls completed in late 2004 and during the second quarter of the current year.

| | Q3 2005 | Q3 2004 |
|---|---|---|
| Realized prices ($/MWh) | $50.67 | $58.42 |

The sale price of electricity is fixed by a long-term U.S. dollar contract. Variations between the third quarter of 2005 and 2004 mainly reflect the strengthening of the Canadian dollar relative to the U.S. dollar, and the reduction in the electricity tariff in September 2005, following the repayment of the financing provided by Sherritt to construct the existing Energas operations.

| | Q3 2005 | Q3 2004 |
|---|---|---|
| Electricity sold[1] (MWh) | 377,014 | 414,985 |

(1) Including non-controlling interest's share

Electricity sales for the quarter were lower than in the prior year due to the temporary diversion of gas to one customer. The diversion of some gas from electricity production is expected to continue until the end of October, but will not affect revenue otherwise earned from the usage of the gas to produce electricity.

| | Q3 2005 | Q3 2004 |
|---|---|---|
| Capital expenditures | $13.9 | $10.1 |

Capital expenditures for the third quarter of 2005 include expenditures of $13.1 million for the expansion.

Commissioning of the 85 MW expansion has commenced and two of the turbines will be operational by year end. The third turbine, which will bring total capacity to over 310 MW, is now expected to be completed in February 2006. The slight delay in completing the expansion is due in part to three hurricanes that have delayed construction during 2005. A further $10 million is expected to be spent on the expansion in the remainder of the year and approximately $8 million is expected to be required to complete the project in 2006.

***Nine Months Ended September 30 Results***

| | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| | | (restated) |
| Revenue | $ 76.5 | $ 80.5 |
| Operating costs | (21.7) | (16.5) |
| General and administrative costs | (1.5) | (0.6) |
| EBITDA | 53.3 | 63.4 |
| Depletion, amortization and accretion | (16.2) | (13.0) |
| Operating earnings | $ 37.1 | $ 50.4 |

Revenue for the first nine months of the year decreased from the same period last year due to lower realized prices as a result of a stronger Canadian dollar and a reduction in the tariff charged for electricity production commencing in September 2005. Year to date operating costs were higher than prior year costs mainly due to a reduction in the amount of an expected insurance recovery. General and administrative costs increased due to higher personnel and office costs. Depletion, amortization and accretion were higher than the prior year mainly due to the amortization of costs for major overhauls completed in late 2004 and in the first six months of 2005.

| | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| Realized prices ($/MWh) | $53.67 | $59.12 |

The sale price of electricity is fixed by a long-term U.S. dollar contract. Variations between the first nine months of 2005 and 2004 mainly reflect the stronger Canadian dollar and the reduction in the electricity tariff in September 2005.

| | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| Electricity sold[1] (MWh) | 1,222,731 | 1,247,835 |

(1) Including non-controlling interest's share

Electricity sales for the year to date were slightly lower than the prior year due to the temporary diversion of gas to one customer. The diversion of some gas from electricity production is expected to continue until the end of October, but will not affect revenue otherwise earned from the usage of the gas to produce electricity.

| | Nine Months 2005 | Nine Months 2004 |
|---|---|---|
| Capital expenditures | $71.2 | $10.2 |

Capital expenditures for the first nine months of 2005 include expenditures of $68.3 million on the expansion.

### Other

Other primarily comprises the consolidated results of the Corporation's soybean-based food processing business. Operating results for Other reflect the consolidation of this business as a result of the adoption of Accounting Guideline AcG-15 – Consolidation of Variable Interest Entities, in the fourth quarter of 2004. Results for 2004 have been restated to reflect the adoption of the accounting guideline.

#### *Third Quarter Results*

| | Q3 2005 | Q3 2004 (restated) |
|---|---|---|
| Revenue | $ 20.9 | $ 20.8 |
| Operating costs | (18.8) | (17.1) |
| General and administrative costs | (0.4) | (0.6) |
| EBITDA | 1.7 | 3.1 |
| Depletion, amortization and accretion | (0.8) | (0.5) |
| Operating earnings | $ 0.9 | $ 2.6 |

Revenue for the third quarter of 2005 was consistent with the prior year as a result of higher sales volumes of soybean-based products that was offset by lower market prices. As a result of increased throughput for the soybean-based food processing business, operating costs have increased when compared to the prior period.

#### *Nine Months Ended September 30 Results*

| | Nine Months 2005 | Nine Months 2004 (restated) |
|---|---|---|
| Revenue | $ 57.7 | $ 57.9 |
| Operating costs | (48.9) | (50.5) |
| General and administrative costs | (1.5) | (1.6) |
| EBITDA | 7.3 | 5.8 |
| Depletion, amortization and accretion | (2.2) | (1.5) |
| Operating earnings | $ 5.1 | $ 4.3 |

EBITDA and operating earnings increased in the first nine months of the year compared with the prior period as throughput for the soybean-based food processing business increased due to the stable operation of the processing facility.

## Outlook

Production levels in 2005 are expected to be similar to 2004 levels for Metals, Power, and Coal. Oil and Gas is expecting a modest increase in gross production for the balance of 2005 as a result of higher drilling activity. Total capital spending in 2005 is expected to be approximately $300 million.

The outlook for each of Sherritt's business units follows:

**Coal** (all references are to Sherritt's 50% share)

Coal production in 2005 is expected to remain at levels similar to 2004 as a result of already expanded production at the Genesee mine being offset by lower production from the contract mines. The one million tonne expansion of the Coal Valley mine is nearing completion, with final commissioning of the wash plant now underway. Total expenditures in respect of the Coal Valley mine expansion for 2005 and 2006, including capital expenditures and capital and operating leases, are now expected to be approximately $57.5 million compared with $37.5 million estimated previously. The delay of several weeks and increased costs can be attributed primarily to underestimation of the project and difficulties in organizing and staffing construction activities in the tight labour market in Alberta. 2005 production for the mine is now anticipated at 0.9 million tonnes.

Work is continuing on an applied research project to develop the process technology required to beneficiate and gasify coal. Testing of the gasification potential of Sherritt's coals is taking place in the fourth quarter of 2005.

Sherritt is engaged in a series of longer term initiatives to develop its substantial coal reserves in Canada with a view to supplying energy in the form of 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. As these initiatives advance to become definitive business prospects, the Corporation intends to fund the resulting capital requirements from cash on hand, cash flow from operations, and other forms of financing as required. The Corporation may also consider the sale or monetization of certain operations or mature cash flow streams.

**Metals** (all references are to Sherritt's 50% share)

In 2005, finished nickel and finished cobalt production is expected to be near record levels. Nickel prices for the balance of the year are anticipated to remain strong, relative to historical prices, as long-term market fundamentals continue to be positive. Cobalt prices for the balance of the year are expected to be lower than the prior year, although a recovery in high grade cobalt demand is expected to stabilize cobalt prices before the end of 2005. The benefits of relatively strong nickel and cobalt prices are expected to be partly offset by continued high energy and raw materials prices. Sustaining capital expenditures for Metals are expected to be approximately $33 million in 2005 and are focused on improving operational efficiency, maintaining process reliability and implementing environmental initiatives.

In March, 2005, Sherritt announced that it had reached a basic agreement for the expansion of its 50% owned metals joint venture by 50% to 49,000 tonnes per annum. Basic engineering for the project is scheduled for completion by the end of the first quarter of 2006 and construction is expected to begin in the second quarter. Agencies of the Government of Cuba have committed to dedicating sufficient reserves to the joint venture for 25 years of production at this expanded rate. The Corporation anticipates that it will be able to confirm the total capital expenditures required to complete the expansion at the end of basic engineering. Such expenditures (Sherritt's share) are currently estimated to be U.S.$225 million. Given the anticipated completion date of basic engineering, the Corporation does not expect to enter into significant expansion-related equipment purchase commitments during 2005.

### Oil and Gas

During 2005, fuel oil reference prices have increased steadily reaching record levels at the end of September following hurricane damage in the Gulf Coast region. The Corporation expects some moderation in fuel oil reference prices during the fourth quarter as Gulf Coast production and refining capacity returns to normal levels. Sherritt anticipates that its allocated (net) oil production in 2005 will be lower than in 2004, due to higher fuel oil prices, lower gross production from new wells, and natural field declines, partly offset by increases in recoverable capital spending.

Oil and Gas is on track with an ambitious exploration and development program at an estimated cost of $128 million, with six drilling rigs currently in operation. In addition to its development drilling activity in Cuba, Sherritt is currently drilling several exploration and appraisal wells. The Corporation expects to complete and test three exploration wells during the fourth quarter on Block 7 (Guanabo and Tarara) and Block 9 (San Anton), and to spud a fourth exploration well on Block 10 (Playa Larga). A declaration of commerciality is expected to be made following completion of the appraisal wells, after which the Corporation will be entitled to a retroactive allocation of profit oil for all Santa Cruz production since the initial discovery. The level of exploration activity in the oil business is substantial and, to the extent new fields are discovered, significant capital may be required to bring such fields into production. The Corporation has also launched an initiative to improve recovery factors and increase reserves, including conventional gas lift and high volume lift technologies along with evaluating business combinations and other arrangements which will facilitate accelerated growth in the oil business.

### Power

Commissioning of the 85 MW expansion has commenced and two of the turbines will be operational by year end. The third turbine, which will bring total capacity to over 310 MW, is now expected to be completed in February 2006. The slight delay in completing the expansion is due in part to three hurricanes that affected construction during the quarter. Capital expenditures for the year are estimated to be $87 million, of which $78 million is related to the expansion. Approximately $8 million will be incurred in 2006 to complete the project. Total production for the year is expected to be 1.6 million megawatt hours.

Discussions continue regarding a further expansion of approximately 190 MW in total. The project as planned would include two phases, the first of which involves two gas turbines providing a total of 65 MW. The second phase involves a combined cycle plant with capacity of approximately 125 MW and will be subject to confirmation and dedication of sufficient natural gas reserves from oil fields in Cuba. If the project proceeds, the gas turbines would be commissioned near the end of 2006 and the combined cycle would be completed in 2008. As with all previous Power projects, Sherritt would finance, construct and operate the expanded facilities, with all surplus net cash flow from the expansion being initially directed towards repayment of the financing and interest costs. Expenditures in respect of this project are expected to commence in the fourth quarter pending finalization of terms. A final decision on this project is expected soon.

### Other Businesses

The soybean-based food processing business continues to pursue opportunities to maximize consumption of its products in Cuba. Production levels are expected to increase by 13% in 2005. Capital expenditures for 2005 are estimated to be $1 million.

## Summary Quarterly Results (unaudited)

The following table presents a summary of our segments and consolidated operating results for each of the eight quarters from December 2003 to September 2005.

| (millions of dollars, except per share amounts) | Quarter ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **September 2005** | **June 2005** | **March 2005** | **Dec. 2004** | **Sept. 2004[(2)]** | **June 2004[(2)]** | **March 2004[(2)]** | **Dec. 2003[(2)]** |
| Revenue | | | | | | | | |
| Coal[(1)] | **$ 64.8** | $ 65.3 | $ 62.9 | $ 65.4 | $ 60.2 | $ 61.6 | $ 63.2 | $ 60.3 |
| Metals | **83.8** | 141.8 | 99.8 | 107.6 | 100.9 | 142.8 | 105.0 | 99.6 |
| Oil and Gas | **59.7** | 66.8 | 49.7 | 45.1 | 51.1 | 53.3 | 47.6 | 51.2 |
| Power | **24.2** | 26.6 | 25.7 | 23.5 | 26.6 | 27.2 | 26.7 | 27.1 |
| Other | **20.9** | 19.6 | 17.2 | 20.3 | 20.8 | 21.1 | 16.0 | 12.2 |
| | **$253.4** | $320.1 | $255.3 | $261.9 | $259.6 | $306.0 | $258.5 | $250.4 |
| Earnings from continuing operations | **$ 23.1** | $ 56.0 | $ 35.5 | $ 22.7 | $ 35.2 | $ 53.3 | $ 46.1 | $ 20.5 |
| Net earnings | **23.1** | 56.0 | 35.5 | 24.4 | 35.2 | 54.3 | 46.1 | 20.5 |
| Earnings from continuing operations per share | | | | | | | | |
| Basic | **0.15** | 0.36 | 0.25 | 0.15 | 0.27 | 0.41 | 0.35 | 0.20 |
| Diluted | **0.13** | 0.30 | 0.21 | 0.13 | 0.20 | 0.29 | 0.26 | 0.15 |
| Earnings per share | | | | | | | | |
| Basic | **0.15** | 0.36 | 0.25 | 0.17 | 0.27 | 0.41 | 0.35 | 0.20 |
| Diluted | **0.13** | 0.30 | 0.21 | 0.14 | 0.20 | 0.30 | 0.26 | 0.15 |

(1) Coal revenue excludes revenue from the metallurgical coal operations disposed of in February 2003.

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

The analysis of 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.

## Changes in Accounting Policies

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

*Consolidation of Variable Interest Entities*

On October 1, 2004, the Corporation early adopted AcG-15, Consolidation of Variable Interest Entities. The guideline requires the primary beneficiary of a variable interest entity (VIE) to consolidate the VIE when the equity owners have not provided the VIE with sufficient funding through equity to allow it to finance its activities without relying on subordinated financial support from other parties or when the primary beneficiary holds a controlling financial interest through means other than the majority ownership of voting equity. The primary beneficiary is the enterprise that will absorb or receive the majority of the VIE's expected losses, expected residual returns, or both. The Corporation is the primary beneficiary of two VIE's.

The Corporation elected to implement the guideline on a retroactive basis with restatement of prior periods. The effect of the change in policy on current and prior year amounts is disclosed in note 2 of the consolidated financial statements.

*Convertible Debentures – Disclosure and Presentation*

On October 1, 2004, the Corporation early adopted changes to CICA section 3860, Financial Instruments – Disclosure and Presentation. Under Section 3860 the convertible debentures must be divided into liability and equity components in accordance with the substance of the contractual arrangement.

The liability component was determined by discounting the stream of future payments of interest and principal at the prevailing market rate for a similar liability without an associated equity component. The carrying amount of the equity component, represented by the holders' option to convert the convertible debentures into common shares, was determined by deducting the carrying amount of the liability component from the principal value of the convertible debentures that were originally issued at par. The liability is increased to the par value of the convertible debentures over the term to maturity through an accretion charge recorded in interest expense.

The Corporation elected to implement the guideline on a retroactive basis with restatement of prior periods. The effect of the change in policy on current and prior year amounts is disclosed in note 2 of the consolidated financial statements.

## Off Balance Sheet Arrangements

The Corporation had no material outstanding foreign exchange or commodity options, futures or forward contracts as at September 30, 2005.

## Transactions with Related Parties

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

The total value of all goods and services, including labour services, that the Corporation and its subsidiaries provided to joint ventures in the third quarter of 2005 amounted to $14.4 million (2004 – $23.6 million) and for the first nine months ended September 30, 2005 was $34.4 million (2004 – $57.9 million). The total value of goods and services purchased from affiliates in the third quarter of 2005 was $nil (2004 – $nil million) and for the first nine months ended September 30, 2005 was $1.5 million (2004 – $1.6 million).

Accounts receivable from joint ventures at September 30, 2005, totalled $4.4 million (2004 – $7.5 million). Accounts payable to joint ventures at September 30, 2005 totalled $2.1 million (2004 – $0.9 million).

## Contractual Obligations and Commitments

The Corporation is committed to purchases of equipment and services in the amount of $21.8 million. As the Power and Metals expansion progresses, the Corporation expects to enter into additional commitments.

## Additional Information

*Share Capital*

As at September 30, 2005, the Corporation had 155,426,847 common shares outstanding.

If all of the convertible debentures were converted into shares at the option of the holders, up to 42,855,143 additional shares would be issued on or before December 14, 2013 with respect to the 7% convertible debentures.

## Consolidated Balance Sheets

| (in millions of Canadian dollars) | September 30 2005 (unaudited) | December 31 2004 (audited) |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash, cash equivalents and short-term investments | **$ 510.7** | $ 427.0 |
| Restricted cash | **11.9** | 25.0 |
| Advances and loans receivable | **34.4** | 27.7 |
| Accounts receivable | **260.4** | 282.6 |
| Inventories | **113.4** | 103.1 |
| Overburden removal costs | **2.6** | 1.4 |
| Prepaid expenses | **9.5** | 8.6 |
| Future income taxes | **15.4** | 18.9 |
| | **958.3** | 894.3 |
| **Capital assets** | **1,627.4** | 1,500.5 |
| **Investments** | **21.4** | 21.7 |
| **Future income taxes** | **83.3** | 66.8 |
| **Other assets** | **96.4** | 114.3 |
| | **$2,786.8** | $2,597.6 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Short-term debt | **$ 65.1** | $ 44.9 |
| Accounts payable and accrued liabilities | **202.1** | 178.8 |
| Asset retirement obligations (note 5) | **9.8** | 11.8 |
| Current portion of long-term debt (note 4) | **7.6** | 4.2 |
| | **284.6** | 239.7 |
| **Long-term debt and other liabilities** (note 4) | **586.0** | 777.7 |
| **Asset retirement obligations** (note 5) | **69.9** | 65.4 |
| **Future income taxes** | **207.4** | 203.7 |
| **Non-controlling interests** (note 9) | **205.9** | 183.7 |
| | **1,353.8** | 1,470.2 |
| **Shareholders' equity** | | |
| Convertible debentures (note 6) | **12.6** | 25.0 |
| Capital stock (note 7) | **802.9** | 582.4 |
| Contributed surplus (note 10) | **193.7** | 199.2 |
| Retained earnings | **423.8** | 320.8 |
| | **1,433.0** | 1,127.4 |
| | **$2,786.8** | $2,597.6 |

## Consolidated Statements of Operations

| (unaudited – in millions of Canadian dollars except per share amounts) | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2005 | 2004 (restated – note 2) | 2005 | 2004 (restated – note 2) |
| **Revenue** | **$253.4** | $259.6 | **$828.8** | $824.1 |
| Operating, selling, general and administrative | **154.5** | 136.2 | **462.3** | 433.6 |
| **Earnings before undernoted items** | **98.9** | 123.4 | **366.5** | 390.5 |
| Depletion, amortization and accretion | **46.2** | 45.6 | **137.6** | 136.4 |
| Net financing expense (note 11) | **7.4** | 20.1 | **35.5** | 45.2 |
| Share of loss (earnings) of equity investment | **(0.1)** | 0.1 | **(0.6)** | (0.4) |
| **Earnings from continuing operations before income taxes and non-controlling interest** | **45.4** | 57.6 | **194.0** | 209.3 |
| Income taxes (note 12) | **14.9** | 15.2 | **57.2** | 45.9 |
| Non-controlling interest | **7.4** | 7.2 | **22.2** | 28.8 |
| **Earnings from continuing operations** | **23.1** | 35.2 | **114.6** | 134.6 |
| Discontinued operations | **–** | – | **–** | 1.0 |
| **Net earnings** | **$ 23.1** | $ 35.2 | **$114.6** | $135.6 |
| **Earnings from continuing operations per share** | | | | |
| Basic | **$ 0.15** | $ 0.27 | **$ 0.76** | $ 1.03 |
| Diluted | **0.13** | 0.20 | **0.64** | 0.75 |
| **Earnings per share** | | | | |
| Basic | **$ 0.15** | $ 0.27 | **$ 0.76** | $ 1.03 |
| Diluted | **0.13** | 0.20 | **0.64** | 0.76 |

## Consolidated Statements of Retained Earnings

| (unaudited – in millions of Canadian dollars) | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2005 | 2004 (restated – note 2) | 2005 | 2004 (restated – note 2) |
| Beginning of period, as previously reported | **$404.5** | $296.4 | **$320.8** | $194.9 |
| Change in accounting policies (note 2) | **–** | (35.2) | **–** | (34.1) |
| Beginning of period, as restated | **404.5** | 261.2 | **320.8** | 160.8 |
| Net earnings | **23.1** | 35.2 | **114.6** | 135.6 |
| Dividends on common shares | **(3.8)** | – | **(11.6)** | – |
| End of period | **$423.8** | $296.4 | **$423.8** | $296.4 |

## Consolidated Statements of Cash Flow

| (unaudited – millions of Canadian dollars) | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2005 | 2004 (restated – note 2) | 2005 | 2004 (restated – note 2) |
| **Operating activities** | | | | |
| Net earnings | **$ 23.1** | $ 35.2 | **$114.6** | $135.6 |
| Items not affecting cash | | | | |
| Non-controlling interests | **7.4** | 7.2 | **22.2** | 28.8 |
| Accretion on convertible debentures | **0.1** | 0.7 | **0.6** | 2.1 |
| Depletion, amortization and accretion | **46.2** | 45.6 | **137.6** | 136.4 |
| Amortization of financing cost | **0.2** | 0.8 | **0.6** | 2.1 |
| Share of (earnings) loss of equity investments | **(0.1)** | 0.1 | **(0.6)** | (0.4) |
| Future income taxes | **(1.0)** | (8.8) | **(8.0)** | (25.4) |
| Foreign exchange loss (gains) | **(0.6)** | 5.5 | **6.2** | 3.4 |
| Asset retirement obligations expenditures | **(1.3)** | (2.7) | **(3.6)** | (7.9) |
| Other items | **0.2** | – | **(0.3)** | (2.2) |
| Cash provided before working capital changes | **74.2** | 83.6 | **269.3** | 272.5 |
| Decrease (increase) in non-cash working capital | | | | |
| Accounts receivable | **26.4** | 7.3 | **8.1** | 9.9 |
| Inventories | **(17.7)** | (13.3) | **(13.3)** | (10.5) |
| Overburden removal costs | **0.3** | 0.4 | **(1.2)** | 0.6 |
| Prepaid expenses | **0.5** | 3.3 | **(0.9)** | 1.1 |
| Accounts payable and accrued liabilities | **23.8** | 16.0 | **9.2** | (20.8) |
| | **33.3** | 13.7 | **1.9** | (19.7) |
| Cash provided by operating activities | **107.5** | 97.3 | **271.2** | 252.8 |
| **Investing activities** | | | | |
| Capital expenditures | **(70.5)** | (39.1) | **(214.8)** | (85.3) |
| Net proceeds from sale of capital assets | **0.1** | 0.6 | **1.7** | 2.3 |
| Restricted cash | **2.1** | (7.0) | **13.1** | (13.7) |
| Other assets | **10.9** | 4.7 | **(3.1)** | 8.1 |
| Investments | **–** | (0.3) | **0.9** | – |
| Cash used for investing activities | **(57.4)** | (41.1) | **(202.2)** | (88.6) |
| **Financing activities** | | | | |
| Short-term debt | **(17.8)** | (1.1) | **20.2** | (0.4) |
| Long-term debt | **0.4** | (1.1) | **(2.2)** | (2.8) |
| Issue of common shares | **8.6** | 0.4 | **14.4** | 0.7 |
| Repurchase of common shares | **(4.5)** | – | **(9.9)** | – |
| Dividend paid | **(3.9)** | – | **(7.8)** | – |
| Cash provided by (used for) financing activities | **(17.2)** | (1.8) | **14.7** | (2.5) |
| **Increase in net cash** | **32.9** | 54.4 | **83.7** | 161.7 |
| **Net cash at beginning of period** | **477.8** | 441.4 | **427.0** | 334.1 |
| **Net cash at end of period** | **$510.7** | $495.8 | **$510.7** | $495.8 |
| **Supplementary Cash Flow Information** | | | | |
| Cash received for interest | **$ 4.2** | $ 2.8 | **$ 11.0** | $ 7.5 |
| Cash paid for interest on debt | **6.1** | 6.7 | **33.0** | 23.4 |
| Cash paid for income taxes | **12.7** | 18.5 | **46.7** | 59.1 |

Net cash consists of cash, cash equivalents and short-term investments. As at September 30, 2005, short-term investments with maturities greater than three months were $17.4 million (2004 – $40.1 million).

# NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**(Unaudited)**

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

### 1. SUMMARY OF ACCOUNTING POLICIES

These interim consolidated financial statements follow the same accounting policies as the consolidated financial statements for the year ended December 31, 2004. 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, 2004.

### 2. CHANGES IN ACCOUNTING POLICIES

(a) Consolidation of variable interest entities

On October 1, 2004, the Corporation early adopted AcG-15, Consolidation of Variable Interest Entities. The guideline requires the primary beneficiary of a variable interest entity (VIE) to consolidate the VIE. A VIE is an entity which either does not have sufficient equity at risk to finance its activities without additional subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. The primary beneficiary is the enterprise that will absorb or receive the majority of the VIEs expected losses, expected residual returns, or both. The Corporation is the primary beneficiary of two VIEs as described in note 9.

The Corporation has implemented the guideline on a retroactive basis with restatement of prior periods. The cumulative effect of the change in policy on the opening retained earnings for 2004 was a reduction of $5.4 million. The change in policy for the third quarter of 2004 resulted in an increase in earnings of $2.4 million (increase in EPS – basic $0.02, diluted $0.01). For the nine months ended September 30, 2004, the change in policy resulted in an increase in earnings of $2.6 million (increase in EPS – basic $0.02, diluted $0.01).

(b) Convertible debentures – disclosure and presentation

On October 1, 2004, the Corporation early adopted changes to CICA section 3860, Financial Instruments – Disclosure and Presentation. The convertible debentures are now divided into liability and equity components in accordance with the substance of the contractual arrangement.

The liability component was determined by discounting the stream of future payments of interest and principal at the prevailing market rate for a similar liability without an associated equity component. The carrying amount of the equity component represented the holders' option to convert the convertible debentures into common shares and was determined by deducting the carrying amount of the liability component from the principal value of the convertible debentures that were originally issued at par. The liability is increased to the par value of the convertible debentures over the term to maturity through an accretion charge recorded in interest expense (see note 4).

The changes have been implemented on a retroactive basis with restatement of prior periods. The cumulative effect of the change in policy on the opening retained earnings for 2004 was $28.7 million. The change in policy for the third quarter of 2004 resulted in a decrease in net earnings of $7.4 million (decrease in EPS – basic $0.01, diluted $nil). For the nine months ended September 30, 2004, the change in policy resulted in a decrease in net earnings of $22.0 million (decrease in EPS – basic $0.02, increase in EPS – diluted $0.01)

### 3. POST-RETIREMENT BENEFITS

The Corporation's pension expense for the third quarter of 2005 was $1.9 million (2004 – $3.5 million). For the nine months ended September 30, 2005, pension expense was $6.3 million (2004 – $7.7 million).

## 4. LONG-TERM DEBT AND OTHER LIABILITIES

| | September 30, 2005 | December 31, 2004 |
|---|---|---|
| | | (restated) |
| 6% convertible debentures due 2006[a] | **$ –** | $196.8 |
| 7% convertible debentures due 2013 | **293.7** | 293.3 |
| Senior notes | **159.7** | 165.5 |
| Senior unsecured debentures | **105.0** | 105.0 |
| | **558.4** | 760.6 |
| Capital lease obligations | **28.1** | 16.2 |
| Other long-term liabilities | **7.1** | 5.1 |
| | **593.6** | 781.9 |
| Current portion of long-term debt | **(7.6)** | (4.2) |
| | **$586.0** | $777.7 |

(a) $192.4 million principal amount of the 6% convertible debentures were converted into 21,923,924 shares and the remaining balance of $7.6 million was redeemed for 811,137 shares during the nine months ended September 30, 2005.

Interest and accretion on long-term debt for the third quarter of 2005 was $12.2 million (2004 – $17.4 million). For the nine months ended September 30, 2005, interest and accretion on long-term debt was $38.8 million (2004 – $53.0 million).

## 5. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations have been recognized in respect of the mining operations of Coal and Metals, including associated infrastructure and buildings. Obligations have also been recorded for nickel and cobalt refining facilities, fertilizers and utilities facilities and oil and gas production facilities. Reclamation of coal mining operations is typically carried out on a continuous basis over the life of each mine and is dependent on the rate that mining progresses over the area to be mined. Retirement of refinery, fertilizer and utility facilities, oil and gas production facilities, infrastructure and buildings normally takes place at the end of the assets' useful life.

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

| | Nine months ended September 30, 2005 | Year ended December 31, 2004 |
|---|---|---|
| Balance, beginning of period | **$77.2** | $ 79.4 |
| Additions to liabilities | **5.4** | 7.3 |
| Liabilities settled | **(4.8)** | (14.3) |
| Accretion expense | **4.4** | 5.5 |
| Change in foreign exchange rates | **(2.5)** | (0.7) |
| Balance, end of period | **79.7** | 77.2 |
| Current portion | **(9.8)** | (11.8) |
| | **$69.9** | $ 65.4 |

The Corporation has estimated the undiscounted cash flow required to settle the asset retirement obligation at approximately $211.9 million. Expenditures will be made on an ongoing basis over several decades and are expected to be funded by cash generated from operations. Credit adjusted discount rates from 3% to 9% were applied to expected future cash flows to determine the carrying value of the asset retirement obligation.

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

## 6. CONVERTIBLE DEBENTURES

| | September 30, 2005 | December 31, 2004 (restated) |
|---|---|---|
| 7% convertible debentures due 2013 | **$12.6** | $12.6 |
| 6% convertible debentures due 2006 | **—** | 12.4 |
| | **$12.6** | $25.0 |

The equity component in respect of the 7% convertible debentures represents the value of the debentureholders' option to convert the convertible debentures into common shares at the time the debentures were issued. The equity component in respect of the 6% convertible debentures was reclassified to capital stock as result of the conversion and redemption transactions described in note 4. The above amounts are shown net of related issue costs on an after tax basis.

## 7. 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 | |
|---|---|---|---|---|
| | Nine months ended September 30, 2005 | Year ended December 31, 2004 | Nine months ended September 30, 2005 | Year ended December 31, 2004 |
| Balance, beginning of period | **131,381,776** | 131,189,779 | **$582.4** | $581.7 |
| Increase(decrease): | | | | |
| Share purchase plan | **123,200** | 91,140 | **0.5** | 0.4 |
| Repurchase of shares | **(958,332)** | – | **(5.0)** | – |
| Stock options exercised | **2,144,000** | 100,000 | **13.9** | 0.3 |
| 6% convertible debenture conversion | **21,923,924** | – | **202.4** | – |
| 6% convertible debenture redemption | **811,137** | – | **8.7** | – |
| 7% convertible debenture conversion | **1,142** | 857 | **–** | – |
| Balance, end of period | **155,426,847** | 131,381,776 | **$802.9** | $582.4 |

The Company instituted a Normal Course Issuer Bid to acquire a maximum of five percent of its issued and outstanding shares which commenced July 5, 2005 and expires July 4, 2006. Between July 5, 2005, and September 30, 2005, 412,900 shares were purchased pursuant to the plan at an average price of $10.70 per share. The Corporation also acquired 545,432 of its common shares at $10.00 per share as a result of an issuer bid that closed on March 17, 2005.

If all of the 7% convertible debentures are converted into shares at the option of the holders, up to 42,855,143 additional common shares may be issued on or before December 14, 2013.

## 7. CAPITAL STOCK (Continued)

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | | (restated) | | (restated) |
| Earnings from continuing operations | **$ 23.1** | $ 35.2 | **$114.6** | $134.6 |
| Loss on redemption of convertible debentures | **–** | – | **(0.5)** | – |
| Earnings from continuing operations – basic | **23.1** | 35.2 | **114.1** | 134.6 |
| Earnings from discontinued operations | **–** | – | **–** | 1.0 |
| Net earnings – basic | **23.1** | 35.2 | **114.1** | 135.6 |
| Loss on redemption of convertible debentures | **–** | – | **0.9** | – |
| Interest and accretion on convertible debentures | **3.6** | 7.6 | **12.5** | 22.5 |
| Net earnings – diluted | **26.7** | 42.8 | **127.5** | 158.1 |
| Earnings from discontinued operations | **–** | – | **–** | (1.0) |
| Earnings from continuing operations – diluted | **$ 26.7** | $ 42.8 | **$127.5** | $157.1 |
| Weighted average number of shares – basic | **155.2** | 131.3 | **149.6** | 131.3 |
| Weighted average effect of dilutive securities: | | | | |
| Employee stock options | **1.7** | 0.6 | **1.7** | 0.6 |
| Convertible debentures | **42.9** | 77.0 | **47.7** | 77.0 |
| Weighted average number of shares – diluted | **199.8** | 208.9 | **199.0** | 208.9 |
| Earnings from continuing operations per common share | | | | |
| Basic | **$ 0.15** | $ 0.27 | **$ 0.76** | $ 1.03 |
| Diluted | **0.13** | 0.20 | **0.64** | 0.75 |
| Earnings from discontinued operations per common share | | | | |
| Basic | **–** | – | **–** | 0.01 |
| Diluted | **–** | – | **–** | – |
| Earnings per common share | | | | |
| Basic | **0.15** | 0.27 | **0.76** | 1.03 |
| Diluted | **0.13** | 0.20 | **0.64** | 0.76 |

## 8. STOCK COMPENSATION PLANS

The following is a summary of stock option activity during the three months and nine months ended September 30, 2005.

| | Three months ended September 30, 2005 | | Three months ended September 30, 2004 | |
|---|---|---|---|---|
| | **Options** | **Weighted average exercise price** | **Options** | **Weighted average exercise price** |
| Outstanding at beginning of period | **5,130,000** | **$6.66** | 6,055,000 | $6.65 |
| Exercised for shares | **(1,234,000)** | **6.51** | – | – |
| Exercised for cash | **(1,746,000)** | **7.21** | – | – |
| Outstanding at end of period | **2,150,000** | **$6.31** | 6,055,000 | $6.65 |

**8. STOCK COMPENSATION PLANS (Continued)**

| | Nine months ended September 30, 2005 | | Nine months ended September 30, 2004 | |
|---|---|---|---|---|
| | **Options** | **Weighted average exercise price** | **Options** | **Weighted average exercise price** |
| Outstanding at beginning of period | **6,040,000** | **$6.62** | 6,410,000 | $6.64 |
| Exercised for shares | **(2,144,000)** | **6.45** | (85,000) | 3.05 |
| Exercised for cash | **(1,746,000)** | **7.21** | – | – |
| Forfeited | **–** | **–** | (270,000) | 7.74 |
| Outstanding at end of period | **2,150,000** | **$6.31** | 6,055,000 | $6.65 |

During the third quarter, the Board of Directors of the Corporation granted a Share Appreciation Right (''SAR'') to outstanding options that were scheduled to expire on November 20, 2005 and January 25, 2006. This allows option holders to exercise options for either shares or cash. If the option is exercised for cash, the option holder will be paid an amount equal to the excess of the market value of the shares over the option exercise price.

During the third quarter of 2005, 1,746,000 of these options were exercised for cash totaling $6.2 million for which this amount was charged to earnings during the period. As at September 30, 2005, 850,000 options with a SAR attachment remained outstanding for which the Corporation has recognized a compensation expense of $3.7 million. Subsequent to September 30, 2005, all 850,000 options were exercised for cash totaling $3.7 million.

**9. VARIABLE INTEREST ENTITIES AND NON-CONTROLLING INTERESTS**

The Corporation is the primary beneficiary of two VIE's as defined under AcG-15.

The Corporation holds an indirect one-third interest in the equity of a VIE, which owns and operates natural gas-fired power plants in Cuba. In addition, the Corporation indirectly provided financing for the construction of the power plants. As the primary beneficiary of the VIE since March 28, 2003, the Corporation consolidates this entity under AcG-15. The two-thirds non-controlling interest in the entity is presented separately.

The Corporation holds a 49% indirect equity interest in a VIE which processes soybeans in Cuba. In addition, the Corporation indirectly provided financing for the construction of the soybean-based food processing facilities and working capital requirements. As the primary beneficiary of the VIE since its inception in 1998, the Corporation consolidates this entity under AcG-15. The 51% non-controlling interest in the soybean-based food processing entity is presented separately. Prior to the adoption of AcG-15, Sherritt's investment in the soybean-based food processing entity was proportionately consolidated until June 30, 2003 after which it was accounted for on an equity basis.

Until such time as the financing provided by the Corporation and interest thereon, is fully repaid, the Corporation will retain title to the related assets. Following full repayment of the respective financing, title will transfer to the VIE. Each of the VIEs has the exclusive right to use and enjoy the benefits of ownership of the relevant assets unless they default on their respective obligations under the terms of the financing.

**10. CONTRIBUTED SURPLUS**

| | Nine months ended September 30, 2005 | Year ended December 31, 2004 |
|---|---|---|
| Balance, beginning of period | **$199.2** | $201.8 |
| Repurchase of convertible debentures | **–** | (2.6) |
| Redemption of convertible debentures | **(0.5)** | – |
| Repurchase of common shares | **(5.0)** | – |
| Balance, end of period | **$193.7** | $199.2 |

Contributed surplus was reduced in 2005 by $5.5 million reflecting the loss on redemption of the 6% convertible debentures and the repurchase of shares. Contributed surplus was reduced in 2004 as a result of the repurchase of $100 million par value of the 6% convertible debenture. The amounts relating to both of these transactions are stated net of tax.

## 10. CONTRIBUTED SURPLUS (Continued)

Contributed surplus may be utilized to eliminate or reduce any deficit, which may arise as a result of the future payment or distribution of dividends or other distributions, from time to time, to holders of the common shares.

## 11. NET FINANCING EXPENSE

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | | (restated) | | (restated) |
| Interest income on cash, cash equivalents, short-term investments and loans receivable | **$ (5.3)** | $ (4.5) | **$(13.6)** | $(17.8) |
| Interest expense on debt | **12.7** | 18.8 | **41.9** | 57.8 |
| Foreign exchange losses/(gains) | **(0.6)** | 5.5 | **6.2** | 3.4 |
| Other | **0.6** | 0.3 | **1.0** | 1.8 |
| | **$ 7.4** | $20.1 | **$ 35.5** | $ 45.2 |

## 12. INCOME TAXES

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | | (restated) | | (restated) |
| Current | **$15.9** | $24.0 | **$65.2** | $ 71.3 |
| Future | **(1.0)** | (8.8) | **(8.0)** | (25.4) |
| | **$14.9** | $15.2 | **$57.2** | $ 45.9 |

Management is planning to amend its methodology of accounting for income taxes in the Oil and Gas business. Adjustments have not yet been determined and, if any, will be implemented during the fourth quarter and may be applied on a retroactive basis. Any adjustment will likely increase the future income tax liability, however, will not result in a cash tax obligation.

## 13. COMMITMENTS AND CONTINGENCIES

*Oil and Gas and Power Receivables*

The Corporation has entered into an agreement with an international financial institution, that has been assigned the right, by certain Cuban government agencies, to receive income tax, royalty and labour tax payments (Tax Amounts) made by Moa Nickel S.A. To the extent that the Tax Amounts received by the financial institution exceed the financial institution's minimum quarterly repayment requirements on its loans to Cuban government agencies, the excess is made available to release directly to the Corporation, net of a 4.5% release fee for payment of amounts owing by Cuban government agencies relating to oil, power and soybean-based food product purchases. The agreement expires in January 2006.

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

During the third quarter, the Corporation received $17.1 million under this agreement (2004 – $24.8 million), which was applied against Oil and Gas and Power receivables. Based on management's expectations for production, commodity prices and costs at Moa Nickel S.A. for the remainder of the year, the Corporation does not expect that it will be required to refund any amounts that relate to the 2005 calendar year and therefore no liability has been recorded in respect of potential refunds. As at September 30, 2005, the estimated maximum potential refund, which would result in a similar amount of receivables being reinstated, is $9.9 million.

**13. COMMITMENTS AND CONTINGENCIES (Continued)**

Since the base currency of all payments to the Corporation under this agreement is Euros, the Corporation assumes foreign exchange risk related to potential refunds.

*Commitments*

As at September 30, 2005 the Corporation was committed to purchases of equipment and services in the amount of $21.8 million.

**14. SEGMENT INFORMATION**

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

**Three months ended September 30, 2005**

| | Coal | Metals | Oil and Gas | Power | Other[1] | Corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| Revenue | $ 64.8 | $ 83.8 | $ 59.7 | $ 24.2 | $20.9 | $ – | $ 253.4 |
| Operating, selling, general and administrative | 50.3 | 49.6 | 8.7 | 5.5 | 19.2 | 21.2 | 154.5 |
| Earnings (loss) before undernoted items | 14.5 | 34.2 | 51.0 | 18.7 | 1.7 | (21.2) | 98.9 |
| Depletion, amortization and accretion | 14.2 | 4.8 | 19.8 | 5.6 | 0.8 | 1.0 | 46.2 |
| Operating earnings (loss) from continuing operations | 0.3 | 29.4 | 31.2 | 13.1 | 0.9 | (22.2) | 52.7 |
| Share of earnings of equity investments | | | | | | | 0.1 |
| Net financing expense | | | | | | | (7.4) |
| Earnings from continuing operations before income taxes and non-controlling interest | | | | | | | 45.4 |
| Capital expenditures | 17.9 | 14.1 | 24.3 | 13.9 | – | 0.3 | 70.5 |
| Assets | $782.0 | $401.6 | $604.8 | $528.8 | $94.3 | $375.3 | $2,786.8 |

**Three months ended September 30, 2004 (restated)**

| | Coal | Metals | Oil and Gas | Power | Other[1] | Corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| Revenue | $ 60.2 | $100.9 | $ 51.1 | $ 26.6 | $ 20.8 | $ – | $ 259.6 |
| Operating, selling, general and administrative | 44.6 | 48.6 | 9.8 | 6.0 | 17.7 | 9.5 | 136.2 |
| Earnings (loss) from continuing operations before undernoted items | 15.6 | 52.3 | 41.3 | 20.6 | 3.1 | (9.5) | 123.4 |
| Depletion, amortization and accretion | 13.2 | 5.1 | 21.0 | 4.4 | 0.5 | 1.4 | 45.6 |
| Operating earnings (loss) from continuing operations | 2.4 | 47.2 | 20.3 | 16.2 | 2.6 | (10.9) | 77.8 |
| Share of loss of equity investments | | | | | | | (0.1) |
| Net financing expense | | | | | | | (20.1) |
| Earnings from continuing operations before income taxes and non-controlling interest | | | | | | | 57.6 |
| Capital expenditures | 1.8 | 5.3 | 21.4 | 10.1 | – | 0.5 | 39.1 |
| Assets | $765.7 | $398.8 | $542.2 | $471.2 | $101.0 | $383.8 | $2,662.7 |

(1) Other includes the results of the soybean-based food processing business.

**14. SEGMENT INFORMATION (Continued)**

**Nine months ended September 30, 2005**

| | Coal | Metals | Oil and Gas | Power | Other[1] | Corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| Revenue | $193.0 | $325.4 | $176.2 | $ 76.5 | $57.7 | $ – | $ 828.8 |
| Operating, selling, general and administrative | 143.5 | 179.5 | 28.7 | 23.2 | 50.4 | 37.0 | 462.3 |
| Earnings (loss) before undernoted items | 49.5 | 145.9 | 147.5 | 53.3 | 7.3 | (37.0) | 366.5 |
| Depletion, amortization and accretion | 42.3 | 15.0 | 58.8 | 16.2 | 2.2 | 3.1 | 137.6 |
| Operating earnings (loss) from continuing operations | 7.2 | 130.9 | 88.7 | 37.1 | 5.1 | (40.1) | 228.9 |
| Share of earnings of equity investments | | | | | | | 0.6 |
| Net financing expense | | | | | | | (35.5) |
| Earnings from continuing operations before income taxes and non-controlling interest | | | | | | | 194.0 |
| Capital expenditures | 25.0 | 24.5 | 92.1 | 71.2 | 0.2 | 1.8 | 214.8 |
| Assets | $782.0 | $401.6 | $604.8 | $528.8 | $94.3 | $375.3 | $2,786.8 |

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

| | Coal | Metals | Oil and Gas | Power | Other[1] | Corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| Revenue | $185.0 | $348.7 | $152.0 | $ 80.5 | $ 57.9 | $ – | $ 824.1 |
| Operating, selling, general and administrative | 132.4 | 176.7 | 28.2 | 17.1 | 52.1 | 27.1 | 433.6 |
| Earnings (loss) before undernoted items | 52.6 | 172.0 | 123.8 | 63.4 | 5.8 | (27.1) | 390.5 |
| Depletion, amortization and accretion | 42.4 | 15.1 | 61.3 | 13.0 | 1.5 | 3.1 | 136.4 |
| Operating earnings (loss) from continuing operations | 10.2 | 156.9 | 62.5 | 50.4 | 4.3 | (30.2) | 254.1 |
| Share of earnings of equity investments | | | | | | | 0.4 |
| Net financing expense | | | | | | | (45.2) |
| Earnings from continuing operations before income taxes and non-controlling interest | | | | | | | 209.3 |
| Capital expenditures | 4.1 | 9.3 | 61.0 | 10.2 | – | 0.7 | 85.3 |
| Assets | $765.7 | $398.8 | $542.2 | $471.2 | $101.0 | $383.8 | $2,662.7 |

(1) Other includes the results of the soybean-based food processing business.

**14. SEGMENT INFORMATION (Continued)**

| | Three months ended September 30 | | | |
|---|---|---|---|---|
| | 2005 | | 2004 (restated) | |
| | Revenue[a] | Capital Assets | Revenue | Capital Assets |
| Canada | $ 67.4 | $ 816.1 | $ 67.1 | $ 796.2 |
| Cuba | 101.0 | 801.8 | 95.5 | 669.7 |
| Europe | 51.5 | 2.3 | 60.1 | 4.3 |
| Asia | 29.9 | 7.2 | 32.6 | 6.9 |
| Other foreign countries | 3.6 | – | 4.3 | – |
| | $253.4 | $1,627.4 | $259.6 | $1,477.1 |

| | Nine months ended September 30 | | | |
|---|---|---|---|---|
| | 2005 | | 2004 (restated) | |
| | Revenue[a] | Capital Assets | Revenue | Capital Assets |
| Canada | $227.9 | $ 816.1 | $239.7 | $ 796.2 |
| Cuba | 301.0 | 801.8 | 281.0 | 669.7 |
| Europe | 185.6 | 2.3 | 185.7 | 4.3 |
| Asia | 100.3 | 7.2 | 100.4 | 6.9 |
| Other foreign countries | 14.0 | – | 17.3 | – |
| | $828.8 | $1,627.4 | $824.1 | $1,477.1 |

(a) Revenues have been attributed to geographic segments based on location of customer.

**15. FINANCIAL INSTRUMENTS**

Unutilized lines of credit as at September 30, 2005 were $71.2 million.

**16. COMPARATIVE AMOUNTS**

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

**17. SUBSEQUENT EVENT**

On November 1, 2005, the Corporation filed a preliminary short form base shelf prospectus permitting the issuance of up to $500 million of senior unsecured debentures. Upon regulatory clearance and filing of a final short form base shelf prospectus, the Corporation will be entitled to issue senior unsecured debentures from time to time over the next two years, in one or more series and at prices and on terms to be determined at the time of sale.

In the short term, if market conditions warrant, the Corporation intends to effect an issue of senior unsecured debentures. The Corporation intends to use the proceeds of such an offering, together with cash on hand, to permit it to (i) redeem all of its outstanding $105 million, 9.875% senior unsecured debentures due March 31, 2010; and (ii) effect a reduction or defeasance of its 50% share of the US$275 million, 9.75% senior unsecured debentures, due October 15, 2011, in its coal business.

## Schedule of Selected Current Assets and Accounts Payable by Operating Segment

### September 30, 2005

| | Coal | Metals | Oil and Gas | Power | Other | Corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| Accounts receivable | $24.7 | $ 41.0 | $153.7 | $21.4 | $14.0 | $ 5.6 | $260.4 |
| Inventories | 23.8 | 70.2 | – | 12.7 | 6.7 | – | 113.4 |
| Overburden removal costs | 2.6 | – | – | – | – | – | 2.6 |
| Prepaid expenses | 1.7 | 2.9 | 1.2 | 0.7 | 1.5 | 1.5 | 9.5 |
| Future income taxes | 4.2 | 7.5 | 3.7 | – | – | – | 15.4 |
| | $57.0 | $121.6 | $158.6 | $34.8 | $22.2 | $ 7.1 | $401.3 |
| Accounts payable and accrued liabilities | $52.4 | $ 56.9 | $ 30.9 | $ 9.4 | $17.3 | $35.2 | $202.1 |

### June 30, 2005

| | Coal | Metals | Oil and Gas | Power | Other | Corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| Accounts receivable | $30.9 | $ 65.9 | $148.8 | $25.8 | $ 9.8 | $14.5 | $295.7 |
| Inventories | 24.0 | 55.9 | – | 13.8 | 3.5 | – | 97.2 |
| Overburden removal costs | 2.8 | – | – | – | – | – | 2.8 |
| Prepaid expenses | 1.2 | 3.7 | 1.7 | – | 1.5 | 1.9 | 10.0 |
| Future income taxes | 1.6 | 10.3 | 6.4 | – | – | – | 18.3 |
| | $60.5 | $135.8 | $156.9 | $39.6 | $14.8 | $16.4 | $424.0 |
| Accounts payable and accrued liabilities | $34.3 | $ 48.1 | $ 36.6 | $15.0 | $ 8.2 | $23.6 | $165.8 |

### March 31, 2005

| | Coal | Metals | Oil and Gas | Power | Other | Corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| Accounts receivable | $29.1 | $ 54.2 | $141.4 | $36.5 | $13.3 | $10.8 | $285.3 |
| Inventories | 24.3 | 76.1 | – | 12.2 | 9.2 | – | 121.8 |
| Overburden removal costs | 1.8 | – | – | – | – | – | 1.8 |
| Prepaid expenses | 0.8 | 4.0 | 3.9 | – | 1.2 | 1.8 | 11.7 |
| Future income taxes | 1.8 | 14.0 | 5.1 | – | – | – | 20.9 |
| | $57.8 | $148.3 | $150.4 | $48.7 | $23.7 | $12.6 | $441.5 |
| Accounts payable and accrued liabilities | $36.4 | $ 67.0 | $ 37.4 | $ 9.4 | $20.0 | $22.1 | $192.3 |

### December 31, 2004

| | Coal | Metals | Oil and Gas | Power | Other | Corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| Accounts receivable | $26.8 | $ 50.1 | $135.8 | $47.3 | $11.4 | $11.2 | $282.6 |
| Inventories | 20.0 | 65.8 | – | 11.0 | 6.3 | – | 103.1 |
| Overburden removal costs | 1.4 | – | – | – | – | – | 1.4 |
| Prepaid expenses | 1.2 | 3.8 | 1.3 | 0.2 | 1.4 | 0.7 | 8.6 |
| Future income taxes | 2.4 | 11.7 | 4.8 | – | – | – | 18.9 |
| | $51.8 | $131.4 | $141.9 | $58.5 | $19.1 | $11.9 | $414.6 |
| Accounts payable and accrued liabilities | $38.2 | $ 57.0 | $ 30.5 | $11.2 | $19.0 | $22.9 | $178.8 |

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