International Corporation

First Quarter 2007

Report to Shareholders

For Quarter Ending March 31, 2007

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Corporate Profile

Sherritt International Corporation is a diversified resource company involved in the production of 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 $2.6 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 172 million common shares trade on the Toronto Stock Exchange under the symbol S. Sherritt's $274 million principal amount of 7.875% Senior Unsecured Debentures Series A due November 26, 2012 trade on the over-the-counter bond market.

Forward-looking Statements

This interim report contains 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 each of the "Outlook" sections of this interim report including those with respect to expectations concerning assets, prices, foreign exchange rates, earnings, production, market conditions, capital expenditures, commodity demand, risks, availability of regulatory approvals, corporate objectives and plans or goals, are or may be forward-looking statements. These forward-looking statements are not based on historic facts, but rather on current expectations, assumptions and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that are beyond the Corporation's ability to control or predict. Actual results and developments may differ materially from those contemplated by this 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.

The Corporation does not intend, and does not assume any obligations, to update these forward-looking statements.

For further information, please contact:
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Highlights

- Record revenue of $310.1 million and EBITDA of $172.9 million
- Record net earnings of $89.1 million and earnings per share of $0.52
- Sherritt to acquire Dynatec and its Ambatovy nickel project in Madagascar

Financial Highlights (unaudited)

(millions of dollars, except per share amounts)	Q1 2007	Q4 2006	Q1 2006 [3]
Revenue	$ 310.1	$ 304.2	$ 247.5
EBITDA [1]	172.9	159.0	111.0
Net earnings	89.1	78.6	35.7
Basic earnings per share	0.52	0.51	0.24
Diluted earnings per share	0.52	0.47	0.20
Basic book value per share [2]	9.61	9.17	8.88
Total cash and short-term investments	397.9	369.7	436.4
Total assets	2,682.0	2,553.5	2,757.7
Weighted average number of shares (millions)			
Basic	172.0	155.0	151.1
Diluted	172.8	174.2	194.3

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

(2) Basic book value per share, a non-GAAP measure, is calculated by dividing shareholders' equity by the outstanding number of shares of 172.0 million as at March 31, 2007, 172.0 million as at December 31, 2006 and 151.1 million as at March 31, 2006.

(3) Total cash and short-term investments exclude $0.6 million from the discontinued operation. Total assets include $52.8 million from the discontinued operation.

Sherritt International Corporation ("Sherritt" or the "Corporation") announced record 2007 first-quarter results. Record net earnings of $89.1 million or $0.52 per share were achieved in the first quarter of 2007, compared with net earnings of $35.7 million or $0.24 per share in the first quarter of 2006. These record results were mainly due to higher nickel prices. Earnings per share in the quarter were net of higher stock-based compensation costs ($0.06 per share) due to the higher share price and the shipment delays in Coal and Metals resulting from the CN Rail strike ($0.03 per share). Excluding the impact of these two items, Sherritt's earnings per share were $0.61. The effects of the delayed shipments should be recovered during the year. All of Sherritt's operations are running optimally and the Corporation is looking forward to a record year in safety, productivity and profitability.

Total assets at March 31, 2007, were $2.7 billion. Cash and short-term investments totalled $397.9 million, an increase of $28.2 million over the fourth quarter of 2006. First quarter 2007 capital expenditures amounted to $88.9 million and were mainly in support of expansion projects in Metals and Power, development and exploration drilling in Oil and Gas and the purchase of $18.1 million of capital assets associated with the Santa Cruz field for which Sherritt assumed operatorship.

Sherritt announced a transaction on April 20, 2007, whereby under a Plan of Arrangement Sherritt will acquire all of the issued and outstanding common shares of Dynatec Corporation. Among Dynatec's assets is the Ambatovy nickel project in Madagascar, one of the world's largest nickel projects under development. The Dynatec shareholders' meeting to vote on the proposed transaction is scheduled for June 8, 2007, with the close anticipated shortly thereafter.

Outlook for 2007

Sherritt remains on track to deliver bottom-line earnings growth in 2007. Full-year capital expenditures across all of Sherritt's business units for 2007 are expected to be approximately $470 million. The combination of cash flow from operations and cash on hand will fund operating and expansion capital expenditure commitments in 2007.

Metals

In Moa, Cuba, the Metals expansion is progressing according to plan. Phase 1, which will add 4,000 tonnes per year (100% basis) of mixed sulphide capacity, is forecast to be completed by the end of 2007 and will reduce reliance on less profitable third-party feed materials. At the Fort Saskatchewan facility, Phase 1 is expected to be completed by the end of 2007. Once operational, this incremental production will allow the Metals refinery to process additional mixed sulphide feed from Moa.

Phase 2, which will add an additional 9,000 tonnes (100% basis) of mixed sulphide capacity, remains on schedule for 2009.

Nickel continues to trade at record levels, with long-term supply/demand metrics remaining positive.

Mixed sulphide production in 2007 remains on track to meet full-year guidance of 33,000 tonnes (100% basis). Expectations for full-year finished nickel and cobalt production remain at approximately 32,000 tonnes of nickel and 3,500 tonnes of cobalt (100% basis), respectively.

Capital expenditures in the second quarter are expected to be approximately $77 million. For the full year, Sherritt's share of capital expenditures in Metals will be approximately $295 million, of which $190 million relates to the Metals expansion and $60 million to the sulphuric acid plant. Projections have increased from previous guidance due to the acceleration of the commencement of Phase 2.

Coal

Royal Utilities remains on track to meet 2007 per unit cash distribution guidance. Discussions continue on SaskPower's proposed clean coal unit at Boundary Dam, which may generate an additional 300 megawatts of power for Saskatchewan and could result in sales of up to 2.5 million additional tonnes of coal from the Boundary Dam mine. Royal Utilities also continues to review the feasibility of providing contract mining services for the proposed Dodds-Roundhill coal gasification project.

At the Coal Valley mine, forecasted full-year sales and shipments of 3.9 million tonnes (100% basis) remain intact, but will be dependent on CN's level of train service. Realized prices are expected to remain strong as the result of a strong export market.

Sherritt's Dodds-Roundhill coal gasification project continues to proceed as planned with the completed feasibility study expected by the end of the second quarter. During the first quarter 2007, extensive local stakeholder activities continued as well as discussions with potential off-take customers and service providers.

Sherritt's capital expenditures within Coal for 2007, including the Coal Valley mine and the gasification project, are forecast to be $10 million.

Oil and Gas

In March 2007, Sherritt was awarded permits to explore four offshore blocks in the Alboran Sea in southern Spain. The four blocks comprise a total area of 331,280 hectares, or approximately 818,261 acres. The blocks carry work commitments to be carried out over the next several years including a 3D seismic program and contingent wells. Sherritt is awaiting final regulatory approval to commence the work program.

Initial discussions are underway for the formation of a joint venture with CUPET, for the design, construction and operation of an oil processing facility for desalination and lowering the flashpoint of Cuban crude. It is expected that processed oil from this facility will be better suited to be marketed internationally.

Total capital expenditures in Oil and Gas for 2007 are expected to be approximately $130 million, of which approximately $28 million will be spent in the second quarter 2007.

Power

The construction of the 65 MW Phase 7 expansion is close to completion and production is expected to commence in the second quarter. Sherritt continues to evaluate an additional expansion involving a 125 MW combined cycle facility at Boca de Jaruco, Cuba (Phase 8). This expansion, if agreed upon by the partners, is expected to be completed by the end of 2009 and would increase Energas' capacity to 501 MW. As with previous facilities, Power will finance and construct this project.

Scheduled maintenance will be performed on several turbines during the remainder of the year. Overall net capacity factor (previously referred to as availability) is expected to be approximately 85% over the last nine months of 2007. Second quarter production is expected to exceed 500 GWh.

Capital expenditures for the remainder of the year are estimated to be $25 million. This consists of approximately $8 million for sustaining capital and $17 million for the completion of the expansion project.

Metals

	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Year ended December 31 2006
Production (tonnes)						
Nickel	3,514	4,209	3,878	3,338	3,681	15,106
Cobalt	434	458	419	370	409	1,656
Mixed sulphides	4,006	3,680	4,029	3,686	3,533	14,928
Sales (thousands of pounds)						
Nickel	7,776	9,250	8,795	7,213	8,283	33,541
Cobalt	888	1,022	879	861	923	3,685
EBITDA ($mm)	$ 134.7	$ 108.5	$ 78.9	$ 46.3	$ 30.1	$ 263.8
Realized Prices (1)						
Nickel ($/lb)	$ 21.84	$ 16.88	$ 14.42	$ 10.42	$ 7.77	$ 12.59
Cobalt ($/lb)	30.02	20.85	17.77	16.46	14.56	17.52
Reference Prices						
Nickel (US$/lb)	$ 18.80	$ 15.00	$ 13.24	$ 9.09	$ 6.72	$ 11.02
Cobalt (US$/lb) (2)	25.82	18.86	15.59	14.43	12.43	15.22
Capital Expenditures($mm)	$ 31.0	$ 25.1	$ 21.1	$ 13.7	$ 12.9	$ 72.8

(1) Comparable periods have been restated to reflect the change in accounting for certain selling expenses which were previously netted against revenues and have now been reclassified to operating, selling, general and administrative costs.
(2) Average Metal Bulletin: 99.3% cobalt published price.

In the first quarter of 2007, record commodity prices for nickel and strong cobalt pricing led to a 146% increase in Metals revenue and a more than four-fold increase in EBITDA compared to the first quarter of 2006. Nickel production and sales volumes in the first quarter of 2007 were impacted by the CN Rail strike.

Operating costs in the quarter were higher than the first quarter of 2006 primarily due to increased third-party feed costs as a result of higher nickel and cobalt prices. Higher maintenance costs due to the timing of maintenance activities at both Fort Saskatchewan and Moa also contributed to this increase. Third-party feed costs in the quarter were approximately $14 million compared with $6 million in the first quarter last year.

Low London Metal Exchange and producer inventories as well as uncertainty over future supply growth fuelled record nickel reference prices during the quarter. The cobalt reference price also increased, reflecting the impact of producer consolidation and international supply uncertainties caused by labour disputes and equipment failures.

Coal

	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Year ended December 31 2006
Coal						
EBITDA($mm)						
Coal Valley and other coal development assets	$ (1.2)	$ (1.3)	$ 0.6	$ (0.7)	$ (2.1)	$ (3.5)
Royal Utilities [1]	-	-	-	14.0	20.9	34.9
Total	(1.2)	(1.3)	0.6	13.3	18.8	31.4
Equity-accounted earnings in Royal Utilities [1]	$ 6.9	$ 4.7	$ 5.2	$ -	$ -	$ 9.9
Distributions received from Royal Utilities [1]	$ 9.6	$ 9.6	$ 6.8	$ -	$ -	$ 16.4
Capital Expenditures						
Coal Valley and other coal development assets	$ 0.4	$ 1.9	$ 1.3	$ 0.7	$ 1.7	$ 5.6
Royal Utilities [1]	-	-	-	2.6	0.6	3.2
Total	0.4	1.9	1.3	3.3	2.3	8.8
Royal Utilities [2]						
Realized prices ($/tonne)	$ 12.41	$ 11.86	$ 12.45	$ 12.63	$ 11.31	$ 12.04
Sales volumes (millions of tonnes) [4]	9.4	9.3	9.0	8.5	9.7	36.5
Production volumes (millions of tonnes) [4]	9.5	9.5	8.4	8.3	10.0	36.2
Coal Valley [3]						
Realized prices ($/tonne)	$ 50.93	$ 46.98	$ 48.47	$ 47.05	$ 46.45	$ 47.45
Sales volumes (millions of tonnes) [4]	0.4	0.3	0.6	0.4	0.3	1.6
Production volumes (millions of tonnes) [4]	0.5	0.5	0.5	0.4	0.4	1.8

[1] For all periods up to June 27, 2006, the Corporation proportionately consolidated its 50% interest in Royal Utilities. Subsequent to June 27, 2006, the Corporation is equity-accounting for Royal Utilities.
[2] Royal Utilities include the two contract operations, five mine-mouth operations, and the Bienfait mine and Char plant.
[3] Coal Valley mine is primarily an export market mine.
[4] Royal Utilities sales and production volumes are presented on a 100% basis. Coal Valley sales and production volumes are presented on a 50% basis.

Royal Utilities Income Fund (“Royal Utilities”), of which Sherritt has a 41.2% interest, met expectations as contract mine revenues and royalty revenues increased in the first quarter of 2007 as compared to the fourth quarter of 2006. In January 2007, distributions were increased by 1% as a result of strong and stable cash flow from operations.

Production from Royal Utilities operations remained steady in the first quarter of 2007. Year-over-year results were impacted slightly by repairs at the Paintearth, Sheerness and Boundary Dam mines. Production and sales volumes at Royal Utilities’ contract and Genesee mines in the quarter were marginally lower than the same quarter in the previous year.

Realized prices at Royal Utilities were up in the first quarter of 2007 compared to the fourth quarter of 2006. The 4.6% average increase at Royal Utilities was the result of higher cost recoveries from increased prices for tires and fuel at the contract and Genesee mines and inflation adjustments to coal prices at certain owned mines.

In January 2007, the Boundary Dam and Bienfait mines achieved three years or 2.3 million exposure hours without a recordable lost time incident.

Coal Valley mine sales and production were up in the first quarter of 2007 as compared to the same period in 2006, as a result of a full quarter of production from the wash plant expansion. Production has remained consistent over the last several quarters; however, sales were negatively impacted by the CN strike in the first quarter of 2007. Coal Valley management is working closely with CN to address the increase in inventory at the plant site. Coal inventories are expected to be drawn down over the remainder of the year.

Realized pricing at the Coal Valley mine in the first quarter of 2007 was higher than the same period last year due to improving export thermal coal contracts.

Positive EBITDA recorded by Coal Valley in the first quarter 2007 was offset by spending on the Dodds-Roundhill Coal Gasification Project, primarily involving public consultation costs and an engineering feasibility study scheduled for completion in the second quarter of 2007.

Capital expenditures at the Coal Valley mine and other development assets totalled $0.4 million in the quarter.

Oil and Gas

	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Year ended December 31 2006
Daily Production Volumes [1] [2]						
Production (boepd)						
Gross working-interest production [3] [5] [6]	30,644	31,295	30,763	31,162	31,386	31,150
Net production [4]						
Cuba (heavy oil)						
Cost recovery [5]	9,051	11,832	6,480	6,074	7,303	7,931
Profit oil [5]	8,456	7,339	9,088	9,535	9,215	8,790
Total Cuba	17,507	19,171	15,568	15,609	16,518	16,721
Spain (light/medium oil) [4]	476	379	505	457	495	459
Pakistan (natural gas) [4]	409	406	403	375	-	297
Total	18,392	19,956	16,476	16,441	17,013	17,477
EBITDA($mm)	$ 41.1	$ 51.0	$ 52.6	$ 54.7	$ 56.2	$ 214.5
Realized Prices						
Cuba (per bbl)	$ 34.52	$ 36.87	$ 41.88	$ 45.20	$ 43.14	$ 41.51
Spain (per bbl)	$ 67.10	$ 67.43	$ 77.32	$ 78.09	$ 71.28	$ 73.84
Reference Prices						
US Gulf Coast Fuel Oil #6 (US$ per bbl)	$ 38.89	$ 39.53	$ 46.38	$ 48.88	$ 45.86	$ 45.33
Capital Expenditures($mm)	$ 47.3	$ 35.6	$ 29.0	$ 33.3	$ 27.5	$ 125.4

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

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

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

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

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

(6) Gross working-interest production includes Cuba, Spain and Pakistan production.

During the quarter Sherritt entered into an agreement with its joint venture partner, Pebercan, to amend the Block 7 West joint operating agreement. Under the terms of the amendment, Sherritt became the technical operator of the Santa Cruz field under the same terms as Canasi and Seboruco. As part of this arrangement, Sherritt purchased $18.1 million of capital assets held by its joint venture partner. This arrangement is expected to result in operating and capital cost savings by combining all operations under one operator.

Gross working-interest production of 30,644 boepd in the first quarter of 2007 was similar to production levels that were recorded in first quarter of 2006 and the fourth quarter of 2006.

Total net production of 18,392 barrels of oil equivalent per day in the first quarter of 2007 was up 1,379 boepd compared to the same period in 2006, as a result of greater cost recovery barrels and new production from Pakistan. During the quarter, six development wells were drilled in Cuba.

EBITDA of $41.1 million in the first quarter of 2007 was $9.9 million lower than the previous quarter and $15.1 million lower than the same quarter in the previous year. Lower revenues, as a result of a decline in realized prices, along with slightly higher operating costs were the main factors behind the decrease in EBITDA.

Capital expenditures of $47.3 million in the quarter were mainly in support of development and exploration drilling along with facility construction and the purchase of $18.1 million of capital assets from Sherritt’s joint venture partner when it assumed operatorship of the Santa Cruz field.

Power

	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Year ended December 31 2006
Electricity sold (GWh) [1]	487	501	566	549	431	2,047
EBITDA ($mm)	$ 20.2	$ 14.9	$ 20.8	$ 20.7	$ 15.1	$ 71.5
Realized price per MWh	$ 46.77	$ 45.27	$ 44.43	$ 44.46	$ 44.61	$ 44.68
Capital Expenditures($mm)	$ 10.1	$ 16.0	$ 5.9	$ 5.5	$ 6.3	$ 33.7

(1) Includes non-controlling interest.

Electricity sales increased by 13% over the first quarter 2006 as a result of higher capacity from the 85 MW Phase 6 expansion completed in the first quarter of 2006. Sales compared to the fourth quarter of 2006 were marginally lower due to unscheduled maintenance and interruptions in the 20 MW peak plant. Net capacity factor was 78% in the first quarter.

EBITDA in the first quarter of 2007 increased by 36% over the fourth quarter of 2006 to $20.2 million and by 34% over the same quarter last year. These increases were mainly due to higher by-product revenue and higher realized prices.

Capital expenditures of $10.1 million in the first quarter of 2007 were primarily directed to the 65 MW Phase 7 expansion project. In addition to this amount, Power also incurred $4.0 million for progress payments, mainly for equipment orders for the 65 MW Phase 7 expansion project. These expenditures were presented in other assets in the investing section of the consolidated statement of cash flows, and will be reclassified to capital assets when the Corporation takes possession of the assets.

Summary Financial Results by Segment (unaudited)

The tables below present EBITDA and operating earnings from continuing operations by segment and reconcile these non-GAAP measures to earnings before income taxes. 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.

All amounts in this news release represent Sherritt's 100% interest unless otherwise indicated. Amounts relating to Metals and Coal Valley reflect the Corporation's 50% interest in these operations. Amounts relating to Coal reflect the Corporation's 50% proportionate interest in Royal Utilities up to June 27, 2006. Subsequent to June 27, 2006, the Corporation changed its accounting for Royal Utilities to the equity method. Sherritt holds a one-third interest in the Power business. The non-controlling interests are disclosed separately in the consolidated financial statements.

Three months ended March 31, 2007

($ millions)	Metals [1]	Oil and Gas	Power	Coal [2]	Corporate	Consolidated
Revenue	$ 204.0	$ 58.4	$ 27.9	$ 19.8	$ -	$ 310.1
Operating, selling, general and administrative	69.3	17.3	7.7	21.0	21.9	137.2
EBITDA	134.7	41.1	20.2	(1.2)	(21.9)	172.9
Depletion, amortization and accretion	6.0	23.1	6.0	2.4	1.0	38.5
Operating earnings (loss)	128.7	18.0	14.2	(3.6)	(22.9)	134.4
Share of earnings of equity investments [3]	-	-	-	6.9	-	6.9
Net financing expense						(0.8)
Income taxes						(46.0)
Non-controlling interests						(5.4)
Net earnings						89.1
Capital expenditures	$ 31.0	$ 47.3	$ 10.1	$ 0.4	$ 0.1	$ 88.9

[1] Comparable periods have been restated to reflect a change in the reclassification and adjustment of certain revenues, operating, selling, general and administrative costs in the Metals business.
[2] Coal results include the Corporation's 50% proportionate interest in the Coal Valley export thermal coal mine and the coal development assets.
[3] Share of earnings of equity investments includes Royal Utilities.

Three months ended March 31, 2006

($ millions)	Metals [1]	Oil and Gas	Power	Coal [2]	Corporate	Consolidated
Revenue	$ 82.8	$ 68.7	$ 22.2	$ 73.8	$ -	$ 247.5
Operating, selling, general and administrative	52.7	12.5	7.1	55.0	9.2	136.5
EBITDA	30.1	56.2	15.1	18.8	(9.2)	111.0
Depletion, amortization and accretion	4.6	20.6	6.3	14.0	1.2	46.7
Operating earnings (loss)	25.5	35.6	8.8	4.8	(10.4)	64.3
Share of earnings of equity investments	-	-	-	-	0.6	0.6
Net financing expense						(8.3)
Income taxes						(18.0)
Non-controlling interests						(3.3)
Earnings from continuing operations						35.3
Earnings from discontinued operations						0.4
Net earnings						35.7
Capital expenditures[3]	$ 12.9	$ 27.5	$ 6.3	$ 2.3	$ 0.6	$ 49.6

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

(2) Coal results include the Corporations 50% proportionate interest in Royal Utilities for the three months ended March 31, 2006, and the Corporation's 50% proportionate interest in the Coal Valley export thermal coal mine and the coal development assets.

(3) Total capital expenditures include $0.5 million from discontinued operation.

Supplementary Information

Three months ended December 31, 2006

($ millions)	Metals	Oil and Gas	Power	Coal [1]	Corporate	Consolidated
Revenue	$ 192.3	$ 68.7	$ 26.1	$ 17.1	$ -	$ 304.2
Operating, selling, general and administrative	83.8	17.7	11.2	18.4	14.1	145.2
EBITDA	108.5	51.0	14.9	(1.3)	(14.1)	159.0
Depletion, amortization and accretion	6.1	21.4	6.0	2.9	1.0	37.4
Operating earnings (loss) from continuing operations	102.4	29.6	8.9	(4.2)	(15.1)	121.6
Share of earnings of equity investments[2]	-	-	-	4.7	0.1	4.8
Net financing expense						(3.5)
Income taxes						(39.0)
Non-controlling interests						(3.5)
Loss on disposition of investments						(0.3)
Write down of investments						(2.3)
Earnings from continuing operations						77.8
Earnings from discontinued operations						0.8
Net earnings						78.6
Capital expenditures[3]	$ 25.1	$ 35.6	$ 16.0	$ 1.9	$ 0.1	$ 78.7

[1] Coal includes the Corporation's 50% proportionate interest in the Coal Valley export thermal coal mine and other coal development assets.
[2] Share of earnings of equity investments includes Royal Utilities and the tourism businesses.
[3] Total capital expenditures include $nil million from discontinued operation.

Three months ended September 30, 2006

(millions of Canadian dollars)	Metals	Oil and Gas	Power	Coal [1]	Corporate	Consolidated
Revenue	$ 148.0	$ 65.1	$ 29.0	$ 29.1	$ -	$ 271.2
Operating, selling, general and administrative	69.1	12.5	8.2	28.5	6.1	124.4
EBITDA	78.9	52.6	20.8	0.6	(6.1)	146.8
Depletion, amortization and accretion	5.1	22.5	6.3	2.1	1.1	37.1
Operating earnings (loss) from continuing operations	73.8	30.1	14.5	(1.5)	(7.2)	109.7
Share of earnings of equity investments[2]	-	-	-	5.2	-	5.2
Net financing expense						(6.0)
Income taxes						(30.3)
Non-controlling interests						(5.4)
Gain on disposition of investments						-
Earnings from continuing operations						73.2
Earnings from discontinued operations						0.9
Net earnings						74.1
Capital expenditures[3]	$ 21.1	$ 29.0	$ 5.9	$ 1.3	$ 1.0	$ 58.3

[1] Coal includes the Corporation's 50% proportionate interest in the Coal Valley export thermal coal mine and other coal development assets.
[2] Share of earnings of equity investments includes Royal Utilities and the tourism businesses.
[3] Total capital expenditures include $nil million from discontinued operation.

Three months ended June 30, 2006

($ millions)	Metals [1]	Oil and Gas	Power	Coal [2]	Corporate	Consolidated
Revenue	$ 120.3	$ 69.6	$ 28.4	$ 73.2	$ -	$ 291.5
Operating, selling, general and administrative	74.0	14.9	7.7	59.9	11.4	167.9
EBITDA	46.3	54.7	20.7	13.3	(11.4)	123.6
Depletion, amortization and accretion	5.0	21.3	6.7	13.6	1.2	47.8
Operating earnings (loss)	41.3	33.4	14.0	(0.3)	(12.6)	75.8
Share of earnings of equity investments [3]	-	-	-	-	0.3	0.3
Net financing expense						(11.5)
Income taxes						(8.0)
Non-controlling interests						(5.0)
Gain on disposition of investments						5.0
Earnings from continuing operations						56.6
Earnings from discontinued operations						0.6
Net earnings						57.2
Capital expenditures[4]	$ 13.7	$ 33.3	$ 5.5	$ 3.3	$ 0.4	$ 56.2

[1] Comparable periods have been restated to reflect a change in the reclassification and adjustment of certain revenues, operating, selling, general and administrative costs in the Metals business.
[2] Coal results include the Corporations 50% proportionate interest in Royal Utilities up to June 27, 2006 and the Corporation's 50% proportionate interest in the Coal Valley export thermal coal mine and other coal development assets.
[3] Share of earnings of equity investments includes Royal Utilities and the tourism businesses.
[4] Total capital expenditures include $0.4 million from discontinued operation.

Year ended December 31, 2006

($ millions)	Metals	Oil and Gas	Power	Coal [1]	Corporate	Consolidated
Revenue	$ 543.4	$ 272.1	$ 105.7	$ 193.2	$ -	$ 1,114.4
Operating, selling, general and administrative	279.6	57.6	34.2	161.8	40.8	574.0
EBITDA	263.8	214.5	71.5	31.4	(40.8)	540.4
Depletion, amortization and accretion	20.8	85.8	25.3	32.6	4.5	169.0
Operating earnings (loss) from continuing operations	243.0	128.7	46.2	(1.2)	(45.3)	371.4
Share of earnings of equity investments [2]	-	-	-	9.9	1.0	10.9
Net financing expense						(29.3)
Income taxes						(95.3)
Non-controlling interests						(17.2)
Gain on disposition of investments						4.7
Write down of investments						(2.3)
Earnings from continuing operations						242.9
Earnings from discontinued operations						2.7
Net earnings						245.6
Capital expenditures[3]	$ 72.8	$ 125.4	$ 33.7	$ 8.8	$ 2.1	$ 242.8

(1) Coal results include the Corporation's 50% proportionate interest in Royal Utilities up to June 27, 2006 and the Corporation's 50% proportionate interest in the Coal Valley export thermal coal mine and other coal development assets.

(2) Share of earnings of equity investments includes Royal Utilities and the tourism businesses.

(3) Total capital expenditures include $0.9 million from discontinued operation.

Management's Discussion and Analysis

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

The following Management's Discussion and Analysis of the consolidated financial results of Sherritt International Corporation for the three months ended March 31, 2007 should be read in conjunction with the unaudited consolidated financial statements and related notes contained in this interim report, as well as the Management's Discussion and Analysis, audited consolidated financial statements and related notes contained in the Corporation's 2006 annual report. Additional information relating to the Corporation, including the Corporation's 2006 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 April 26, 2007.

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

Non-GAAP Measures

Earnings before interest, taxes, depreciation and amortization ("EBITDA") and operating earnings do not have any standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and are unlikely to be comparable with similar measures presented by other issuers. These measures should not be considered in isolation as a substitute for measures of performance prepared in accordance with generally accepted accounting principles. Reference should be made to the Review of Operations for discussion of EBITDA and operating earnings by business segment.

Accounting Changes

Change in Accounting Policies

Effective January 1, 2007, the Corporation adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 3865, Hedges; Section 1530, Comprehensive Income; Section 3251, Equity; and Section 3861, Financial Instruments – Disclosure and Presentation with respect to the accounting for financial instruments and hedges as well as the recognition of certain transition adjustments that have been recorded in opening retained earnings or opening accumulated other comprehensive income. These standards were adopted retroactively without restating prior years, except for the presentation of translation gains or losses on self-sustaining operations.

On adoption of Section 1530 Comprehensive Income, the Corporation prepared an additional statement, Consolidated Statements of Comprehensive Income, as part of the consolidated financial statements.

For a description of the other principal changes on adoption of these new standards and for further details on changes in significant accounting policies, refer to Note 2 to the Interim Consolidated Financial Statements for the three months ended March 31, 2007.

Change in Accounting for Royal Utilities

Last year, on June 27, 2006, the Corporation completed the initial public offering ("IPO") of Royal Utilities Income Fund ("Royal Utilities"). The Corporation prospectively changed the method of accounting for Royal Utilities from proportionate consolidation to equity accounting as a result of the IPO.

The 2006 consolidated statement of operations presents separately the Corporation's proportionate interest in the revenues and expenses of Royal Utilities for periods up to June 27, 2006. Subsequent to June 27, 2006, the change to the equity accounting resulted in the net revenues and expenses of Royal Utilities being reported as a one-line item as earnings of equity-accounted investments.

Discontinued Operations

On October 31, 2006, the Corporation disposed of its interest in the soybean-based food processing business. The 2006 consolidated financial statements have been restated to present amounts related to this business as discontinued operations.

Consolidated Earnings

Record net earnings of $89.1 million or $0.52 per share were achieved in the first quarter of 2007, compared with net earnings of $35.7 million or $0.24 per share in the first quarter of 2006. Higher earnings in Metals due to record nickel prices were partly offset by higher stock-based compensation costs which had a $0.06 per share impact, the CN rail strike which had an estimated negative impact of $0.03 per share, and lower earnings in Oil and Gas.

Sales volumes were materially affected by delays in the arrival of feed materials in the case of Metals and shipments of finished products in Coal. Sherritt estimates that 335 tonnes (100% basis) of production and sales in Metals and 288,000 tonnes (100% basis) from the Coal Valley mine were pushed into latter quarters, representing an effect of approximately $0.03 per share, which should be recovered during the year.

		Q1 2007		Q1 2006 (restated)
Revenue	**$**	**310.1**	$	247.5

Consolidated revenues were $62.6 million higher than the comparable quarter last year or $122.4 million higher after adjusting for Royal Utilities. Consolidated revenues included $59.8 million of revenue related to Royal Utilities for the period January 1 to March 31, 2006. The increase was primarily due to higher commodity prices in Metals. This was partly offset by lower realized prices in Oil and Gas, and lower sales volumes in Metals reflecting lower feed availability in the quarter due to the CN rail strike.

		Q1 2007		Q1 2006 (restated)
Operating costs	**$**	**99.2**	$	118.7
Selling costs		**3.4**		2.7
General and administrative costs		**34.6**		15.1
Operating, selling, general and administrative costs	**$**	**137.2**	$	136.5

Operating costs were $19.5 million lower than the comparable quarter last year or $19.1 million higher after adjusting for Royal Utilities. Consolidated operating costs included $38.6 million of costs related to Royal Utilities for the period January 1 to March 31, 2006. The increase, after adjusting for Royal Utilities, was mainly due to higher costs in Metals and the Coal Valley mine. Metals operating costs increased due to higher third-party feed costs and Coal Valley mine costs increased due to higher production. In addition, higher operating costs were experienced in Coal Valley due to scheduled maintenance activities that were accelerated as a result of the CN rail strike.

General and administrative costs were $19.5 million higher than the comparable quarter last year. This increase was mainly due to $14.0 million of higher stock-based compensation expense resulting from the 34% appreciation in the Corporation's share price since year end. In addition, general and administrative costs for Oil and Gas were higher due to expatriate labour shortages, higher service rates with Cuban agencies that were negotiated in the second quarter of 2006, and lower cost allocations to joint venture partners due to lower activity on contract operated blocks.

		Q1 2007		Q1 2006 (restated)
Depletion, amortization and accretion	**$**	**38.5**	$	46.7

Depletion, amortization and accretion were $8.2 million lower than the comparable quarter last year, or $3.7 million higher after adjusting for Royal Utilities. Consolidated depletion, amortization and accretion included $11.9 million of Royal Utilities' costs for the period January 1 to March 31, 2006. The increase after adjustment for Royal Utilities was mainly due to higher depletion rates in Spain for Oil and Gas.

		Q1 2007		Q1 2006
Net financing expense	**$**	**0.8**	$	8.3

Lower net financing expense was mainly due to a $5.2 million reduction in interest expense resulting from the elimination of the 7% convertible debentures in 2006, combined with higher interest income on cash, short-term investments, and other interest-bearing receivables. This was partly offset by higher foreign exchange losses.

		Q1 2007		Q1 2006
Share of earnings of equity-accounted investments	**$**	**6.9**	$	0.6

This increase in earnings of equity-accounted investments is due to the first quarter of 2007 including Royal Utilities while the first quarter of 2006 did not include Royal Utilities as it was proportionately consolidated until the IPO on June 27, 2006.

	Q1 2007	Q1 2006
Effective tax rate	**33%**	32%

The higher effective tax rate for the first quarter of 2007 as compared to the same period last year arises mainly from a smaller proportion of profits in the Metals business being recorded in a low tax rate jurisdiction and from having changed the accounting for Royal Utilities to the equity method. This was partly offset by a change in the estimated timing of the reversal of temporary differences associated with the tax benefit of non-capital losses.

The Corporation's effective tax rate varies depending upon the relative profitability of its businesses, which are situated in different tax rate jurisdictions. The Oil and Gas business is taxed at a relatively constant combined rate of 30%. For the Power business, the original 226 MW of power generation capacity is taxed at a relatively constant combined rate of 30%, while the Phases 6 and 7 expansions are subject to a Cuban tax holiday until the relevant financing and land rights are fully repaid. The combined rate for the Metals business can vary quite substantially from year to year, depending on the price of nickel and cobalt. Generally, the combined rate for the Metals business falls between 33% and 37%. Finally, the Corporation is taxed on the distributions from Royal Utilities, which exceed the equity income.

		Q1 2007		Q1 2006
Non-controlling interests	**$**	**5.4**	$	3.3

Non-controlling interests reflects the two-thirds outside interest in Energas S.A. ("Energas"), a variable interest entity in Power. The increase in non-controlling interest is primarily the result of increased earnings from the 85 MW expansion completed in 2006.

		Q1 2007		Q1 2006 (restated)
Earnings from discontinued operations	**$**	**-**	$	0.4

On October 31, 2006, the Corporation disposed of its 49% interest in the soybean-based food processing business at book value. The disposition of the soybean-based food processing business was accounted for as discontinued operations in the consolidated financial statements and the amounts related to that business have accordingly been restated to present them as discontinued operations.

Consolidated Cash Flow

		Q1 2007		Q1 2006 (restated)
Cash from operating activities before working capital changes	**$**	**110.4**	$	80.3
Increase (decrease) in non-cash working capital		**23.7**		(42.4)
Cash provided by discontinued operations		**-**		0.9
Cash provided by operating activities	**$**	**134.1**	$	38.8

Cash provided by operating activities before working capital changes was higher than the comparable year primarily due to higher earnings in Metals which were driven by record nickel prices.

Cash provided by non-cash working capital of $23.7 million resulted from higher accounts payable and partly offset by higher accounts receivable and inventories. Higher accounts payable in Metals was mainly due to higher current taxes resulting from increased earnings, higher third-party feed costs, and the timing of payments. In addition, Corporate accounts payable increased due to higher stock-based compensation liabilities. Accounts receivable increased in Metals due to higher realized prices for nickel, and in Oil and Gas due to higher balances on Block 7. Inventories increased at Metals and the Coal Valley mine due to shipping delays resulting from the CN rail strike. Inventories in Metals also increased due to higher third-party feed costs.

		Q1 2007		Q1 2006 (restated)
Capital expenditures	**$**	**88.9**	$	49.1
Change in non-cash capital expenditures		**5.3**		1.0
Cash capital expenditures	**$**	**94.2**	$	50.1
Cash used for other investing activities		**(10.9)**		(64.8)
Cash used for financing activities		**(9.8)**		(25.3)

Capital expenditures continued to focus on growth opportunities across all business units. The quarter-over-quarter increase was driven by expansion projects in Metals and Power, and Oil and Gas' purchase of $18.1 million of capital assets from its joint venture partner when it assumed operatorship of the Santa Cruz field. Capital expenditures during the quarter were also in support of development and exploration drilling in Oil and Gas, and sustaining capital expenditures across all business units.

Cash used for other investing activities for the quarter relate to $7.6 million of advances for the Metals expansion and $4.0 million of progress payments for the Power expansion. In addition, $6.9 million of cash was used for short-term investments. These uses of cash were partly offset by $9.7 million of distributions received from Royal Utilities.

Cash used for financing activities for the quarter primarily related to $6.5 million of dividends paid to non-controlling shareholders in Power and dividends of $5.2 million paid to the Corporation's shareholders. Short-term debt decreased by $29.0 million due to the timing of working capital requirements. These uses of cash were partly offset by a $30.9 million increase to long-term debt.

Consolidated Financial Position, Liquidity and Capital Resources

Total assets as at March 31, 2007 were $2.7 billion. Cash and cash equivalents, restricted cash and short-term investments totalled $397.9 million as at March 31, 2007, an increase of $28.2 million since year end. Cash inflows during the quarter included $134.1 million of cash generated from operations and $9.7 million of distributions received from Royal Utilities. These cash inflows were partly offset by $88.9 million of capital expenditures, $6.5 million of dividends paid to non-controlling shareholders in Power, $5.2 million of dividends paid to Sherritt shareholders, a $7.6 million increase in Metals expansion loans, and $4.0 million for progress payments related to the Power expansion.

Current advances and loans receivable primarily relate to a working capital advance to Metals and the current portion of the promissory notes received on disposition in 2006 of the soybean-based food processing business. Current advances and loans receivable totalling $55.6 million was comparable to the year-end balance of $56.0 million.

Accounts receivable were $360.2 million as at March 31, 2007, an increase of $17.0 million since year end. Metals accounts receivable increased due to higher realized prices for nickel sales. Oil and Gas accounts receivable increased due to higher balances on Block 7, a jointly operated block.

Oil and Gas accounts receivable also included US$28.5 million of cost recovery claims, for Sherritt's 100%-owned blocks, which are subject to approval by a Cuban agency pursuant to the Cuban production-sharing contracts.

As at March 31, 2007, Sherritt's accounts receivable position for Block 7 was US$51.6 million, of which US$35.1 million was overdue from its joint venture partner. In addition, Sherritt's share of unbilled cost recovery relating to Block 7 as at March 31, 2007 was US$25.0 million. The overdue balances are expected to be collected during 2007.

Metals accounts receivable included receivables from finished nickel and cobalt sales to customers located in Europe and Asia, receivables from fertilizer sales to customers in Canada and receivables from by-product sales to Asia. Power receivables included amounts due from Cuban government agencies. Coal Valley mine accounts receivable arise principally from sales of export coal to Asia and domestically.

Inventories increased $18.3 million since year end to $126.8 million as at March 31, 2007. Inventories increased at Metals and Coal Valley due to shipping delays resulting from the CN rail strike. Inventories in Metals also increased due to higher third-party feed costs.

Capital assets increased $49.2 million since year end to $1,129.1 million as at March 31, 2007. Capital expenditures of $88.9 million were mainly in support of expansion projects in both Metals and Power, development and exploration drilling in Oil and Gas, and the purchase of $18.1 million of capital assets from Oil and Gas' joint venture partners when it assumed operatorship of the Santa Cruz field.

The future tax asset (including current portion) of $115.8 million as at March 31, 2007 represented primarily the tax benefit of approximately of $156.6 million of non-capital losses, $65.3 million of capital losses, and unrealized profit in inventory. The non-capital losses were generated primarily through interest on the Corporation's debt. The tax benefit of the losses was recognized on the expectation that sufficient taxable income will be realized in the future to utilize these losses. Also, the Corporation anticipates a taxable capital gain on the disposition of the FNX shares (see "Subsequent Events") under the plan of arrangement, which has resulted in a reclassification of $28.8 million of the long-term future income tax asset to a current future income tax asset. Classification as a current future income tax asset has increased the value of the asset by $3.3 million due to a change in the tax rates that were expected to apply at the time of the reversal of the timing differences.

Investments of $356.4 million as at March 31, 2007, comprised the Corporation's $338.3 million equity investment in Royal Utilities and $18.1 million equity investment in the tourism and other businesses.

Other assets were $130.8 million as at March 31, 2007, comparable to the year-end balance of $131.7 million. Advances with respect to the Metals expansion increased $7.6 million and net progress payments for the Power expansion increased by $3.1 million. These increases were offset by an $11.1 million reclassification on January 1, 2007 of deferred financing costs to long-term debt upon adoption of CICA Handbook Section 3861 – Financial Instruments – Disclosure and Presentation (see "Accounting Changes" and note 2 of the Consolidated Financial Statements).

Short-term debt was $52.8 million as at March 31, 2007, a decrease of $29.0 million since year end. The decrease in short-term debt was due mainly to the timing of working capital requirements.

Accounts payable and accrued liabilities increased by $64.1 million since year end to $282.2 million as at March 31, 2007. Accounts payable increased in Metals mainly due to higher current taxes resulting from increased earnings, higher third-party feed costs, and the timing of expenditures and payments. In addition, Corporate accounts payable increased mainly due to higher stock-based compensation liabilities.

The future income tax liability of $73.8 million as at March 31, 2007 decreased from the 2006 year-end amount of $74.6 million. The majority of the liability related to the future income tax liability of the Oil and Gas and Coal businesses. The future income tax liability does not represent a current cash liability, but is primarily a result of the temporary differences between the values of capital assets for tax purposes versus accounting purposes.

Long-term debt and other liabilities (including current portion) increased to $362.4 million as at March 31, 2007 compared with $342.6 million as at December 31, 2006. During the quarter, the Corporation entered into a $26.5 million loan agreement associated with the Phase 7 (65 MW) expansion in Power. The loan is to be repaid in ten equal installments over a five-year term. Borrowings under this loan bear interest at the bankers' acceptance rates plus an applicable margin of 2.9%, payable semi-annually. In addition, the Metals expansion loan increased by $7.6 million. These increases were partly offset by the reclassification from other assets of $11.1 million of deferred financing costs upon adoption of CICA Handbook Section 3861 – Financial Instruments – Disclosure and Presentation as previously discussed.

Non-controlling interests reflects third-party interests in Energas. The decrease in non-controlling interest from $194.1 million as at December 31, 2006 to $193.0 million as at March 31, 2007, related to the payment of $6.5 million of dividends to the non-controlling interests, partly offset by $5.4 million of income attributed to non-controlling interests.

Accumulated other comprehensive loss of $51.7 million represents the unrealized foreign exchange loss on the Corporation's net investment in its self-sustaining foreign operations.

During the quarter, the Board of Directors of the Corporation approved a quarterly dividend of $0.03 per share payable April 13, 2007 to shareholders of record at the close of business on March 30, 2007. This dividend is an "eligible dividend" as defined in the *Income Tax Act* (Canada).

Review of Operations

Metals

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

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

Outlook (refer to "Forward-looking Statements")

In Moa, Cuba, the Metals expansion is progressing according to plan. Phase 1, which will add 4,000 tonnes per year (100% basis) of mixed sulphide capacity, is forecast to be completed by the end of 2007 and will reduce reliance on less profitable third-party feed materials. At the Fort Saskatchewan facility, Phase 1 is expected to be completed by the end of 2007. Once operational, this incremental production will allow the Metals refinery to process additional mixed sulphide feed from Moa.

Phase 2, which will add an additional 9,000 tonnes (100% basis) of mixed sulphide capacity, remains on schedule for 2009.

Nickel continues to trade at record levels, with long-term supply/demand metrics remaining positive.

Mixed sulphide production in 2007 remains on track to meet full-year guidance of 33,000 tonnes (100% basis). Expectations for full-year finished nickel and cobalt production remain at approximately 32,000 tonnes of nickel and 3,500 tonnes of cobalt (100% basis), respectively.

Capital expenditures in the second quarter are expected to be approximately $77 million. For the full year, Sherritt's share of capital expenditures in Metals will be approximately $295 million, of which $190 million relates to the Metals expansion and $60 million to the sulphuric acid plant. Projections have increased from previous guidance due to the acceleration of the commencement of Phase 2.

Highlights

- Record high nickel prices
- Record revenue and operating earnings
- Continued progress on Phase 1 expansion; Phase 2 remains on schedule

Financial Analysis

		Q1 2007		Q1 2006
Revenue	**$**	**204.0**	$	82.8
Operating costs		**(65.0)**		(49.7)
Selling costs		**(3.3)**		(2.5)
General and administrative costs		**(1.0)**		(0.5)
EBITDA		**134.7**		30.1
Depletion, amortization and accretion		**(6.0)**		(4.6)
Operating earnings	**$**	**128.7**	$	25.5

Higher first-quarter revenue reflected record nickel prices and significantly higher cobalt prices offset by slightly lower nickel and cobalt sales volumes.

Operating costs were higher primarily due to increased third-party feed costs reflecting the increase in nickel and cobalt prices and higher maintenance costs reflecting the timing of maintenance activities both at Fort Saskatchewan and Moa. Third-party feed costs were approximately $14 million in the first quarter of 2007 compared with $6 million in the first quarter last year.

Selling costs, general and administrative costs, depletion, amortization and accretion were marginally higher than the comparative quarter, largely reflecting higher fertilizer sales, and increased capital spending.

Prices		**Q1 2007**		Q1 2006
Nickel – realized ($/lb)	**$**	**21.84**	$	7.77
Cobalt – realized ($/lb)		**30.02**		14.56
Nickel – reference (US$/lb)		**18.80**		6.72
Cobalt – reference (US$/lb)		**25.82**		12.43

The increase in the nickel reference price was fuelled by extremely low London Metal Exchange and producer inventories as well as uncertainty over future supply growth. The cobalt reference price also increased reflecting the impact of producer consolidation and supply uncertainty caused by labour disputes and equipment failures.

Production (tonnes)	**Q1 2007**	Q1 2006
Mixed sulphides	**4,006**	3,533
Finished nickel	**3,514**	3,681
Finished cobalt	**434**	409

Mixed sulphide production returned to near normal levels as a result of process improvements that were implemented to alleviate the bottlenecks experienced in the comparative quarter.

Finished nickel production was affected by the availability of mixed sulphides feed, as rail transportation between Halifax and Fort Saskatchewan was disrupted by the CN rail strike. While the shortfall in rail shipments was partly mitigated by trucking material from Halifax, the impact on operating earnings was approximately $5.5 million based on the average realized nickel price during the quarter. Higher cobalt content in the Moa mixed sulphides feed increased cobalt production.

Sales (thousands of pounds)	**Q1 2007**	Q1 2006
Finished nickel	**7,776**	8,283
Finished cobalt	**888**	923

Nickel sales were below the comparative quarter reflecting lower production, while cobalt sales were impacted by weak market conditions in January.

		Q1 2007		Q1 2006
Capital expenditures	**$**	**31.0**	$	12.9

Higher capital expenditures for the quarter were a result of spending on Phase 1 of the expansion. Excluding the expansion, $6.1 million was spent on sustaining, upgrading, compliance and environmental initiatives compared with $7.4 million in the comparative quarter.

		Q1 2007		Q1 2006
Fertilizer sales (tonnes)		**17,135**		8,830
Revenue	**$**	**5.7**	$	3.7
Operating (losses) earnings		**(0.9)**		0.1

Fertilizer sales improved over the comparative quarter as buyers anticipated tight supply stemming from increased demand for crop-based ethanol.

Higher revenues for the first quarter primarily reflect the higher sales volumes.

Operating earnings decreased primarily due to increased operating costs related to higher energy prices and higher amortization expense. Amortization expense for the fertilizer operations was $1.2 million compared to $0.8 million for 2006.

Coal

The organizational structure for Coal changed significantly in 2006 as a result of the completion of the IPO for Royal Utilities on June 27, 2006. Coal previously included the Corporation's 50% proportionate interest in the Coal Valley export thermal coal mine and coal development assets, and the Corporation's 50% proportionate interest in Royal Utilities up to June 27, 2006. Subsequent to June 27, 2006, the Corporation equity accounts for Royal Utilities.

Coal has abundant, high quality, and strategically located reserves in Canada which are suited to provide customers with a stable long-term fuel supply. The opportunity also exists to capitalize on coal's economic pricing as a commodity relative to other energy sources such as oil and natural gas. Sherritt is engaged in a series of long-term initiatives to develop its substantial coal reserves in Canada with a view to supplying energy in the form of power, steam or gases such as hydrogen, through gasification, and related hydrocarbon fuels. While some of these initiatives are in various stages of negotiations with potential customers, others are in the formative research and design stages.

Outlook (refer to "Forward-looking Statements")

Royal Utilities remains on track to meet 2007 per unit cash distribution guidance. Discussions continue on SaskPower's proposed clean coal unit at Boundary Dam, which may generate an additional 300 megawatts of power for Saskatchewan and could result in sales of up to 2.5 million additional tonnes of coal from the Boundary Dam mine. Royal Utilities also continues to review the feasibility of providing contract mining services for the proposed Dodds-Roundhill coal gasification project.

At the Coal Valley mine, forecasted full-year sales and shipments of 3.9 million tonnes (100% basis) remain intact, but will be dependent on CN's level of train service. Realized prices are expected to remain strong as the result of a strong export market.

Sherritt's Dodds-Roundhill coal gasification project continues to proceed as planned with the feasibility study expected by the end of the second quarter. During the first quarter 2007, extensive local stakeholder activities continued as well as discussions with potential off-take customers and service providers.

Sherritt's capital expenditures within Coal for 2007, including Coal Valley and the gasification project, are forecast to be $10 million.

Financial Analysis

		Q1 2007		Q1 2006
Revenue	**$**	**19.8**	$	73.8
Operating costs		**(18.2)**		(53.8)
Selling costs		**(0.1)**		(0.2)
General and administrative costs		**(2.7)**		(1.0)
EBITDA		**(1.2)**		18.8
Depletion, amortization and accretion		**(2.4)**		(14.0)
Operating (loss) earnings	**$**	**(3.6)**	$	4.8
Distributions declared from Royal Utilities	**$**	**9.7**	$	-
Equity-accounted earnings of Royal Utilities [1]	**$**	**6.9**	$	-

[1] The Corporation's share of earnings from its equity-accounted investment in Royal Utilities is from June 28, 2006 onwards.

First quarter 2007 EBITDA comprised $0.7 million (2006 - $1.8 million loss) for the Coal Valley mine, net expenditures of $1.9 million (2006 - $0.3 million expenditures) related to the coal development assets and $nil (2006 – $20.9 million earnings) related to Royal Utilities.

Coal Valley's EBITDA improved by $2.5 million due to higher realized prices and higher sales volumes. This was despite the negative impact from the CN rail strike, which lowered sales volumes, accelerated maintenance programs, and lead to cost and inventory inefficiencies. Project spending on the coal development assets primarily related to engineering and associated work for the Dodds-Roundhill coal gasification project.

Royal Utilities sales volumes were 9.4 million tonnes (100% basis) for the first quarter of 2007 compared to 9.8 million tonnes (100% basis) in 2006. Average realized price per tonne (excluding royalty revenue) for the first quarter was $12.41 in 2007 compared to $11.31 in 2006. Higher realized prices were mainly due to higher cost recoveries at the contract mines. Sales and production volumes decreased due to power plant shutdowns for maintenance and the timing of mining in higher strip ratio areas at the contract and Genesee mines.

		Q1 2007		Q1 2006
Coal Valley [1]				
Realized price ($/tonne)	**$**	**50.93**	$	46.45
Sales volumes (millions of tonnes) [2]		**0.4**		0.3
Production volumes (millions of tonnes) [2]		**0.5**		0.4

(1) The Coal Valley mine is primarily an export market mine.
(2) Sale and production volumes represent the Corporation's 50% share.

Higher realized prices at Coal Valley were due to improving export thermal coal contracts, as a result of improved market prices. Sales and production volumes were higher than the comparative period as the wash-plant expansion and the ramp-up of production began in the first quarter of 2006. Sales volumes were negatively impacted by the CN rail strike during the quarter.

		Q1 2007		Q1 2006
Capital expenditures	**$**	**0.4**	$	2.3

Capital expenditures at Coal Valley were $0.4 million in the first quarter of 2007 compared to $1.7 million in the first quarter of 2006. Current year capital expenditures at Coal Valley related to permitting and development work while the 2006 expenditures were to complete the final stages of the Coal Valley expansion. First quarter 2006 capital expenditures also included $0.6 million of capital expenditures related to Royal Utilities.

Oil and Gas

Oil and Gas produces oil from near-shore oil deposits in Cuba, which are explored and developed from land-based drilling locations using specialized skills in fold and thrust belt geology and directional drilling.

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

Outlook (refer to "Forward-looking Statements")

In March 2007, Sherritt was awarded permits to explore four offshore blocks in the Alboran Sea in southern Spain. The four blocks comprise a total area of 331,280 hectares, or approximately 818,261 acres. The blocks carry work commitments to be carried out over the next several years including a 3D seismic program and contingent wells. Sherritt is awaiting final regulatory approval to commence the work program.

Initial discussions are underway for the formation of a joint venture with CUPET, for the design, construction and operation of an oil processing facility for desalination and lowering the flashpoint of Cuban crude. It is expected that processed oil from this facility will be better suited to be marketed internationally.

Total capital expenditures in Oil and Gas for 2007 are expected to be approximately $130 million, of which approximately $28 million will be spent in the second quarter 2007.

Highlights

- Assumed role of operator for all Block 7 fields in Cuba
- Acquired the right to explore four offshore blocks in the Alboran Sea, southern Spain
- Finalized the terms of the crude oil pricing for 2007 production
- Full-field development at Santa Cruz continues

Sherritt entered into an agreement with its joint venture partner, Pebercan, to amend the Block 7 West joint operating agreement. Under the terms of the amendment, Sherritt became the technical operator of the Santa Cruz field. As part of this arrangement, Sherritt purchased capital assets held by its joint venture partner and retained some of its personnel. This arrangement is expected to result in operating synergies and lower drilling costs.

Financial Analysis

	Q1 2007	Q1 2006
Revenue	**$ 58.4**	$ 68.7
Operating costs	**(9.2)**	(8.6)
General and administrative costs	**(8.1)**	(3.9)
EBITDA	**41.1**	56.2
Depletion, amortization and accretion	**(23.1)**	(20.6)
Operating earnings	**$ 18.0**	$ 35.6

Lower revenue for the quarter was mainly due to lower realized oil prices and the inclusion of $3.9 million of retroactive production from Santa Cruz upon declaration of commerciality in the first quarter of 2006. Under the terms of the production sharing contracts, Sherritt is allocated between 40% and 60% of gross production for the recovery of capital and operating costs incurred by the operations during the quarter. To the extent that recoverable costs exceed the maximum percentage assigned to that production sharing contract, any excess is carried forward for future recovery. As at March 31, 2007, the Corporation had accumulated approximately $3.7 million of costs to be recovered as cost recovery revenue in future periods.

Operating costs for the quarter increased mainly due to higher net production. This increase was partly offset by a change in allocation of costs between operating costs and general and administrative costs.

Higher general and administrative costs for the quarter were mainly due to higher cost allocations from operations described previously, and employee severance costs. As well, a lower amount of general and administrative costs were charged to joint venture partners due to lower activity on contract operated blocks.

Depletion rate on a per barrel basis in Cuba were consistent with prior years. Higher depletion, amortization and accretion costs for the quarter were mainly due to higher depletion rates in Spain.

Prices	Q1 2007	Q1 2006
Realized prices:		
Cuba ($/barrel)	**$ 34.52**	$ 43.14
Spain ($/barrel)	**67.10**	71.28
Pakistan ($/boe) [1]	**9.06**	-
Reference price (US$/barrel)		
Gulf Coast Fuel Oil No. 6	**38.89**	45.86
Brent	**57.69**	61.36

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

The average realized prices for Cuban oil production decreased 20% mainly due to a decline in Gulf Coast Fuel Oil No. 6 reference prices and the impact of the new crude oil pricing for 2007 production. The new pricing reflects additional quality related discounts for viscosity, water and sulphur.

Similarly, realized prices for production in Spain decreased 6% due to the impact of lower Brent reference prices. Natural gas selling prices in Pakistan are indexed to international crude oil prices. Natural gas production from Pakistan came on-stream in April 2006.

Daily Production Volumes [1] [2]	**Q1 2007**	Q1 2006
Gross working-interest oil production [3] [5] [6]	**30,644**	31,386
Net oil production [4]		
Cuba (heavy oil)		
Cost recovery [5]	**9,051**	7,303
Profit oil [5]	**8,456**	9,215
Total	**17,507**	16,518
Spain (light / medium oil) [4]	**476**	495
Pakistan (natural gas) [4]	**409**	-
Total	**18,392**	17,013

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

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

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

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

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

(6) Gross working-interest production includes Cuba, Spain and Pakistan production.

Gross working-interest oil production in Cuba typically decreases over time due to natural reservoir declines, which vary from field to field. Through its ongoing exploration and development programs, the Corporation expects to realize production increases from new oil wells and from workovers and other production enhancement initiatives. The long-term benefits of the exploration program include commercialization of the Santa Cruz oil field in the first quarter of 2006. The Corporation expects Majaguillar commercialization to be approved in late 2007.

Gross working-interest oil production in Cuba was comparable to the first quarter of 2006 as natural reservoir declines were offset by production from new oil wells. First quarter 2006 production included the Corporation's share of retroactive production from Santa Cruz totalling 2,090 bopd gross working interest barrels or 1,050 bopd net barrels. Production allocated under the Cuban production sharing contracts was higher in the first quarter of 2007 compared to 2006 due to an increase in cost recoverable spending during the period. Production from the Badar gas field in Pakistan contributed 409 boepd while production from Spain decreased by 19 bpd due to natural reservoir declines.

	Q1 2007	Q1 2006
Capital expenditures	**$ 47.3**	$ 27.5

During the quarter, the Corporation purchased $18.1 million of capital assets from its joint venture partner when it assumed operatorship of the Santa Cruz field. Capital expenditures were mainly in support of development and exploration drilling along with facility construction. During the quarter, six development wells were initiated and six development wells were completed.

Power

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

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

Power conducts business in Cuba through Energas S.A. ("Energas"), a Cuban entity in which Power holds a one-third equity interest. Each of two Cuban agencies also hold a one-third equity interest in Energas. Energas supplies electricity to one of these Cuban agencies under long-term fixed-price contracts. The other Cuban agency supplies natural gas to Energas at no cost.

Outlook (refer to "Forward-looking Statements")

The construction of the 65 MW phase 7 expansion is close to completion and production is expected to commence in the second quarter. Sherritt continues to evaluate an additional expansion involving a 125 MW combined cycle facility at Boca de Jaruco, Cuba (Phase 8). This expansion, if agreed upon by the partners, is expected to be completed by the end of 2009 and would increase Energas' capacity to 501 MW. As with previous facilities, Power will finance and construct this project.

Scheduled maintenance will be performed on several turbines during the remainder of the year. Overall net capacity factor (previously referred to as availability) is expected to be approximately 85% over the last nine months of 2007. Second quarter production is expected to exceed 500 GWh.

Capital expenditures for the remainder of the year are estimated to be $25 million. This consists of approximately $8 million for sustaining capital and $17 million for the completion of the expansion project.

Highlights

- 65 MW expansion (“Phase 7”) is under budget and is expected to be completed in the second quarter
- Continuing to evaluate 125 MW expansion (“Phase 8”)

Financial Analysis

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

		Q1 2007		Q1 2006
Revenue	**$**	**27.9**	$	22.2
Operating costs		**(6.8)**		(6.6)
General and administrative costs		**(0.9)**		(0.5)
EBITDA		**20.2**		15.1
Depletion, amortization and accretion		**(6.0)**		(6.3)
Operating earnings	**$**	**14.2**	$	8.8

Revenue for the quarter increased due mainly to higher production resulting from increased capacity. By-product and miscellaneous revenue of $5.1 million increased by $2.2 million compared with the same quarter in 2006 due mainly to higher prices and increased volumes for by-products.

Operating costs were comparable between quarters as higher operating costs associated with the Phase 6 expansion were partly offset by lower operating costs for the remaining facilities. Higher general and administrative costs for the quarter were due to lower cost recoveries in the quarter.

Depletion, amortization and accretion were comparable between periods.

		Q1 2007		Q1 2006
Realized prices ($/MWh) [1]	**$**	**46.77**	$	44.61

(1) Megawatt hours (“MWh”).

The tariff for electricity sales is fixed by long-term US dollar contracts. The increase in realized prices was due to a higher proportion of sales from the 85 MW Phase 6 facilities, which receive a higher price per MWh than the base facilities. The Phase 6 facilities commenced operation near the end of the first quarter of 2006.

	Q1 2007	Q1 2006
Electricity sold [1] (GWh) [2]	**487**	431

[1] Including non-controlling interest's share

[2] Gigawatt hours ("GWh")

Electricity sales volumes were higher in the first quarter of 2007 as the 85 MW Phase 6 facilities commenced operations near the end of the first quarter of 2006.

		Q1 2007		Q1 2006
Capital expenditures	**$**	**10.1**	$	6.3

Capital expenditures in the first quarter of 2007 were primarily directed to the Phase 7 expansion project. In the prior year, capital expenditures related mainly to Phase 6.

In addition to the amounts recorded as capital expenditures, Power also incurred $4.0 million for progress payments, mainly in respect of equipment purchases for the Phase 7 expansion project. These expenditures were included in other assets in the investing section of the consolidated statement of cash flows, and will be reclassified to capital assets when the Corporation takes possession of the assets.

Subsequent Event

On April 20, 2007, the Corporation and Dynatec Corporation (“Dynatec”), a public mining company, jointly announced a proposed transaction whereby Sherritt will acquire all of the issued and outstanding common shares of Dynatec for a total value of approximately $1.6 billion. Under the proposed transaction, Dynatec shareholders will receive 0.190 of a Sherritt common share and approximately 0.0635 of an FNX Mining Company Inc. (“FNX”) common share, which are currently owned by Dynatec, for each Dynatec common share held.

The transaction is subject to all requisite regulatory and court approvals, third-party consents and other conditions customary to transactions of this nature. The combination must be approved by at least 66 2/3 % of the votes cast by shareholders of Dynatec at a meeting of holders of common shares. The Dynatec shareholder meeting is expected to be held in early June with the transaction anticipated to close shortly thereafter.

Supplementary Disclosures

Summary of Equity Investment in Royal Utilities

The Corporation holds 40.3 million units or approximately 41.2% of the issued and outstanding units of Royal Utilities. The following table presents a summary of selected financial information of Royal Utilities on a 100% basis.

		Q1 2007
Revenue	$	128.0
Net earnings		16.6
Total assets		1,308.2
Total liabilities		544.9

Summary of Quarterly Results (unaudited)

The following table presents a summary of the segments and consolidated operating results for each of the eight quarters from June 2005 to March 2007.

	Quarter Ended							
(millions of dollars, except per share amounts)	**March 2007**	December 2006	September 2006	June 2006[1]	March 2006[1]	December 2005	September 2005	June 2005
Revenue								
Metals	**$ 204.0**	$ 192.3	$ 148.0	$ 120.3	$ 82.8	$ 98.0	$ 86.6	$ 143.3
Oil and Gas	**58.4**	68.7	65.1	69.6	68.7	58.6	60.8	67.7
Power	**27.9**	26.1	29.0	28.4	22.2	22.0	24.2	26.6
Coal	**19.8**	17.1	29.1	73.2	73.8	62.7	64.8	65.3
	$ 310.1	$ 304.2	$ 271.2	$ 291.5	$ 247.5	$ 241.3	$ 236.4	$ 302.9
Earnings from continuing operations	**$ 89.1**	$ 77.8	$ 73.2	$ 56.6	$ 35.3	$ 9.6	$ 25.4	$ 52.6
Earnings (loss) from discontinued operations	-	0.8	0.9	0.6	0.4	(0.5)	0.7	1.1
Net earnings	**89.1**	78.6	74.1	57.2	35.7	9.1	26.1	53.7
Earnings from continuing operations per share								
Basic	**0.52**	0.50	0.48	0.38	0.24	0.06	0.17	0.34
Diluted	**0.52**	0.47	0.42	0.33	0.20	0.05	0.15	0.28
Earnings (loss) from discontinued operations per share								
Basic	**-**	0.01	0.01	-	-	-	-	0.01
Diluted	**-**	-	0.01	-	-	-	-	0.01
Earnings per share								
Basic	**0.52**	0.51	0.49	0.38	0.24	0.06	0.17	0.35
Diluted	**0.52**	0.47	0.43	0.33	0.20	0.05	0.15	0.29

[1] Restated – as previously reporting diluted earnings per share for the quarters ended June 30, 2006 and March 31, 2006 have been restated to reflect the proper diluted weighted number of shares associated with the 7% convertible debentures. This diluted EPS change did not affect the Corporation's financial position or net earnings.

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

Financial Instruments, Hedges, Comprehensive Income, and Equity

Effective January 1, 2007, the Corporation adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 3865, Hedges; Section 1530, Comprehensive Income; Section 3251, Equity; and Section 3861, Financial Instruments – Disclosure and Presentation with respect to the accounting for financial instruments and hedges as well as the recognition of certain transition adjustments that have been recorded in opening retained earnings or opening accumulated other comprehensive income. These standards were adopted retroactively without restating prior years, except for the presentation of translation gains or losses on self-sustaining operations.

On adoption of Section 1530 Comprehensive Income, the Corporation prepared an additional statement, Consolidated Statement of Comprehensive Income, as part of the consolidated financial statements.

For a description of the other principal changes on adoption of these new standards and for further details on changes in significant accounting policies, refer to Note 2 to the Interim Consolidated Financial Statements for the three months ended March 31, 2007.

Investments

The results for Coal reflected the Corporation's 50% proportionate interest in Royal Utilities up to June 27, 2006. Subsequent to June 27, 2006, the Corporation changed its accounting for Royal Utilities to the equity method of accounting. The Corporation will continue to proportionately consolidate its 50% interest in the Coal Valley export thermal coal mine and coal development assets that continue to be held jointly by Sherritt and Ontario Teachers' Pension Plan.

Comparative Amounts

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

Accounting Pronouncements

CICA 1535 – Capital Disclosures

In November 2006, the CICA issued the new handbook Section 1535, "Capital Disclosures" effective for annual and interim periods beginning on or after October 1, 2007. This section establishes standards for disclosing information about a Corporation's capital and how it is managed in order that a user of the financial statements may evaluate the company's objectives, policies, and processes for managing capital. This new standard is not expected to have a material effect on the Corporation's consolidated financial statements.

CICA 3862 and 3863 - Disclosures and presentation of financial instruments

Effective January 1, 2008, the Corporation will be required to adopt two new CICA standards, Section 3862, Financial Instruments Disclosures and Section 3863, Financial Instruments Presentation, which will replace Section 3861 Financial Instruments Disclosure and Presentation. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The new financial instruments presentation and disclosure requirements were issued in December 2006 and the Corporation is currently assessing the impact on its consolidated financial statements.

EIC 164 – Convertible and Other Debt Instruments with Embedded Derivatives

In March 2007, the Emerging Issues Committee of the CICA issued EIC-164 "Convertible and other debt instruments with embedded derivatives." EIC-164 clarifies the accounting treatments for instruments that contain both a liability element and an equity element that are required to be accounted for separately under CICA 3861 "Financial instruments – presentation" and any "embedded derivatives" that are required to be accounted separately under CICA 3855 "Financial instruments – recognition and measurement." The accounting treatment in this Abstract is to be applied retrospectively to financial instruments accounted for in accordance with Section 3855 in financial statements issued for interim and annual periods ending on or after June 30, 2007. The Corporation is currently evaluating the implications of this Abstract.

Convergence with International Reporting Standards

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards over a transitional period currently expected to be about five years. The precise timing of convergence will depend on an Accounting Standards Board progress review to be undertaken by early 2008. The impact of this transition on the Corporation's consolidated financial statements has not yet been determined; however, management continues to monitor these regulatory developments.

Critical Accounting Estimates

The preparation of financial statements requires the Corporation to estimate the effect of various matters that are inherently uncertain as of the date of the financial statements. Each of these required estimates varies with respect to the level of judgment involved and the potential impact on the Corporation's reported financial results. Estimates are deemed critical when the Corporation's financial condition, change in financial condition or results of operations would be materially impacted by a different estimate or a change in estimate from period to period. The Corporation's significant accounting policies, including critical accounting policies that require critical accounting estimates are discussed in note 2 of the 2006 Consolidated Financial Statements.

Off Balance Sheet Arrangements

Financial Instruments

As at March 31, 2007, the Corporation had no outstanding foreign exchange or commodity options, futures or forward contracts.

Transactions with Related Parties

Subsidiaries of the Corporation provide goods, labour, advisory and other administrative services to joint ventures and its affiliate 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 and its affiliate in the first quarter of 2007 amounted to $27.3 million (2006 - $16.7 million). The total value of goods and services purchased from joint ventures in the first quarter 2007 was $2.0 million (2006 - $1.6 million).

Accounts receivable from joint ventures and Royal Utilities as at March 31, 2007, totalled $11.1 million (2006 - $7.9 million). Accounts payable to joint ventures as at March 31, 2007 totalled $7.3 million (2006 - $8.9 million).

Contractual Obligations and Commitments

The Corporation is committed to purchases of equipment and services in the amount of $67.3 million. As the Power and Metals expansions progress, the Corporation expects to enter into additional commitments.

Additional Information

Share Capital

As at March 31, 2007 and April 26, 2007, the Corporation had 172,011,570 common shares outstanding.

Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. Management, with the participation of the certifying officers, has evaluated the effectiveness of the design and operation, as of March 31, 2007, of the Corporation's disclosure controls and procedures (as defined by the Canadian Securities Administrators). Based on that evaluation, the certifying officers have concluded that such disclosure controls and procedures are effective and designed to ensure that material information relating to the Corporation and its subsidiaries is known to them by others within those entities.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of our financial reporting and compliance with Canadian generally accepted accounting principles in our financial statements. Management has evaluated the design of internal controls over financial reporting and has concluded that such internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in Canada. In addition, there have been no changes in the Corporation's internal control over financial reporting during the quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Consolidated Balance Sheets

[$ millions]	March 31, 2007 (unaudited)	December 31, 2006 (restated –note 2)
ASSETS		
Current assets		
Cash and cash equivalents	**$ 372.3**	$ 353.3
Restricted cash	**8.8**	6.5
Short-term investments	**16.8**	9.9
Advances and loans receivable	**55.6**	56.0
Accounts receivable	**360.2**	343.2
Inventories	**126.8**	108.5
Prepaid expenses and other assets	**9.4**	8.1
Future income taxes	**64.3**	21.8
	1,014.2	907.3
Capital assets	**1,129.1**	1,079.9
Investments	**356.4**	355.9
Future income taxes	**51.5**	78.7
Other assets	**130.8**	131.7
	$ 2,682.0	$ 2,553.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term debt	**$ 52.8**	$ 81.8
Accounts payable and accrued liabilities	**282.2**	218.1
Long-term debt and other long-term liabilities (note 5)	**14.3**	9.1
Asset retirement obligations (note 6)	**2.5**	2.4
	351.8	311.4
Long-term debt and other long-term liabilities (note 5)	**348.1**	333.5
Asset retirement obligations (note 6)	**62.3**	62.6
Future income taxes	**73.8**	74.6
Non-controlling interests	**193.0**	194.1
	1,029.0	976.2
Contingencies and commitments (note 12)		
Shareholders' equity		
Capital stock (note 7)	**929.2**	929.2
Contributed surplus (note 9)	**191.8**	191.8
Accumulated other comprehensive income (loss) (note 16)	**(51.7)**	(43.8)
Retained earnings	**583.7**	500.1
	1,653.0	1,577.3
	$ 2,682.0	$ 2,553.5

Consolidated Statements of Operations

[$ millions]		Three months ended March 31 (unaudited) 2007		2006 (restated – notes 2 and 3)
Revenue	**$**	**310.1**	$	247.5
Operating, selling, general and administrative		**137.2**		136.5
Earnings before undernoted items		**172.9**		111.0
Depletion, amortization and accretion		**38.5**		46.7
Net financing expense (note 10)		**0.8**		8.3
Share of earnings of equity accounted investments		**(6.9)**		(0.6)
Earnings from continuing operations before income taxes and non-controlling interests		**140.5**		56.6
Income taxes (note 11)		**46.0**		18.0
Non-controlling interests		**5.4**		3.3
Earnings from continuing operations		**89.1**		35.3
Earnings from discontinued operation (note 3)		**-**		0.4
Net earnings	**$**	**89.1**	$	35.7
Earnings from continuing operations per share (note 7)				
Basic	**$**	**0.52**	$	0.24
Diluted		**0.52**		0.20
Earnings per share (note 7)				
Basic	**$**	**0.52**	$	0.24
Diluted		**0.52**		0.20
Weighted average number of shares (millions of shares)				
Basic		**172.0**		151.1
Diluted		**172.8**		194.3

Consolidated Statements of Retained Earnings

[$ millions]	Three months ended March 31 (unaudited) 2007	2006
Beginning of period, as previously reported	**$ 500.1**	$ 371.7
Change in accounting policies (note 2)	**(0.3)**	-
Beginning of period, as restated	**499.8**	371.7
Net earnings	**89.1**	35.7
Excess of cost of repurchase of common shares over stated value	**-**	(0.8)
Dividends on common shares	**(5.2)**	(3.8)
End of period	**$ 583.7**	$ 402.8

Consolidated Statements of Comprehensive Income

[$ millions]	Three months ended March 31 (unaudited) 2007	2006 (restated – note 2a)
Net earnings	**$ 89.1**	$ 35.7
Other comprehensive income (loss) (note 16)		
Unrealized foreign currency losses on self-sustaining foreign operations	**(7.9)**	-
Comprehensive income	**$ 81.2**	$ 35.7

Consolidated Statements of Cash Flow

[$ millions]	Three months ended March 31 (unaudited) 2007	2006 (restated-note 3)
Operating activities		
Net earnings from continuing operations	$ **89.1**	$ 35.3
Add (deduct)		
Non-controlling interests	**5.4**	3.3
Accretion of convertible debentures	**-**	0.1
Depletion, amortization and accretion	**38.5**	46.7
Amortization of financing costs	**0.1**	0.6
Share of earnings of equity accounted investments	**(6.9)**	(0.6)
Gains on sale of investments	**-**	(0.3)
Future income taxes	**(15.9)**	(3.7)
Foreign exchange loss	**1.7**	0.4
Asset retirement obligations	**(0.8)**	(1.5)
Other items	**(0.8)**	-
	110.4	80.3
Net (increase) decrease in non-cash working capital (note 13)	**23.7**	(42.4)
Cash provided by continuing operations	**134.1**	37.9
Cash provided by discontinued operation	**-**	0.9
Cash provided by operating activities	**134.1**	38.8
Investing activities		
Capital expenditures	**(88.9)**	(49.1)
Other assets	**(11.4)**	(11.8)
Restricted cash	**(2.3)**	(0.8)
Net proceeds from sale of capital assets	**-**	0.2
Short-term investments	**(6.9)**	(54.7)
Proceeds from sale of investments	**-**	2.8
Distribution from investment	**9.7**	-
Net change in non-cash capital expenditures	**(5.3)**	(1.0)
Cash used for continuing operations	**(105.1)**	(114.4)
Cash used for discontinued operation	**-**	(0.5)
Cash used for investing activities	**(105.1)**	(114.9)
Financing activities		
Decrease in short-term debt	**(29.0)**	(7.7)
Increase in long-term debt	**30.9**	1.7
Payment of unsecured debentures	**-**	(14.4)
Issuance of common shares	**-**	1.0
Repurchase of common shares	**-**	(2.1)
Dividends paid to non-controlling interest	**(6.5)**	-
Dividends paid	**(5.2)**	(3.8)
Cash used for financing activities	**(9.8)**	(25.3)
Effect of exchange rate changes on cash and cash equivalents	**(0.2)**	0.2
Increase (decrease) in cash and cash equivalents	**19.0**	(101.2)
Cash and cash equivalents at beginning of period	**353.3**	437.6
Cash and cash equivalents at end of period	$ **372.3**	$ 336.4
Consist of:		
Cash and cash equivalents of continuing operations	$ **372.3**	$ 335.8
Cash and cash equivalents of discontinued operation	**-**	0.6
Cash and cash equivalents at end of period	**372.3**	336.4
Supplementary Cash Flow Information		
Cash received for interest	$ **3.1**	$ 3.6
Cash paid for interest on debt	**2.0**	1.9
Cash paid for income taxes	**46.8**	15.6
Cash and cash equivalents consist of:		
Cash on hand and balances with banks	$ **70.8**	$ 72.8
Cash equivalents	**301.5**	263.6
	$ **372.3**	$ 336.4

1. Summary of accounting policies

These interim consolidated financial statements have been prepared on a basis consistent with those followed in the consolidated financial statements for the year ended December 31, 2006, with the exception of the changes detailed in note 2. The disclosures contained in these interim consolidated financial statements do not include all requirements of Canadian generally accepted accounting principles for annual financial statements. Accordingly, the interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2006.

2. Accounting changes

a) Financial Instruments, Hedges, Comprehensive Income and Equity

On January 1, 2007, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 3865, Hedges; Section 1530, Comprehensive Income; Section 3251, Equity and Section 3861, Financial Instruments – Disclosure and Presentation.

These new accounting standards provide the requirements for the recognition, measurement, disclosure and presentation of financial instruments, the use of hedge accounting and also establishes standards for reporting and presenting comprehensive income. The standards set out in Section 3855, 3865, and 1530 were adopted retroactively without restating prior year except for the presentation of translation gains or losses on self-sustaining operations. Section 3251 and 3861 were applied prospectively as recommended in the CICA guidance.

The principal changes on adoption of these new accounting standards are described below:

Classification and measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as loans and receivables, held-for-trading, held-to-maturity, available-for-sale, or other liabilities. The classification depends on the purpose for which the financial instruments were acquired, their characteristics and/or management's intent. Management determines the classification of financial assets and financial liabilities at initial recognition and, except in very limited circumstances, the classification is not changed subsequent to initial recognition.

2. Accounting changes (continued)

Loans and receivables

Loans and receivables are initially recognized at fair value including direct and incremental transaction costs and are subsequently measured at amortized cost, using the effective interest method. The classification of the Corporation's accounts receivable and advances and loans receivable into loans and receivables did not have any impact on the interim consolidated financial statements.

Held-for-trading

Financial assets and financial liabilities that are purchased and incurred with the intention of generating income in the near term are classified as held-for-trading. Financial instruments included in this category are initially recognized at fair value and transaction costs are taken directly to earnings along with gains and losses arising from changes in fair value.

Short-term investments and cash equivalents totaling approximately $219 million were classified as held-for-trading on January 1, 2007. The classification did not have a material impact on the interim consolidated financial statements. No other financial assets and financial liabilities were designated as held-for-trading under the fair value option.

Held to maturity

Held to maturity investments are financial assets with fixed or determinable payments that the Corporation has the intention and ability to hold to maturity. These are initially recognized at fair value including direct and incremental transaction costs and are subsequently valued at amortized costs using the effective interest rate method. No financial assets were classified as held to maturity on January 1, 2007.

Available for sale

Available for sale assets are financial assets that are designated as available for sale and are not categorized into any other categories described above. These are initially recognized at fair value including direct and incremental transaction costs and are subsequently held at fair value, with gains and losses arising from changes in fair value included in other comprehensive income until sale when the cumulative gain or loss is transferred to earnings. No financial assets were classified as Available for sale on January 1, 2007.

Other liabilities

Financial liabilities were classified as "other liabilities". After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. The classification of the Corporation's short-term debt, accounts payable and accrued liabilities and long-term debt into Other Liabilities had no material impact on the interim consolidated financial statements.

2. Accounting changes (continued)

Transaction costs

Transaction costs with respect to instruments not classified as held-for-trading are recognized as an adjustment to the costs of the underlying instrument, when it is recognized, and amortized using the effective interest method. Consequently, the unamortized financing costs of $11.1 million as at January 1, 2007 relating to the issuance of the 7.875% senior unsecured debentures which were previously recorded in Other Assets, have been reclassified against long-term debt and a transition adjustment of $0.3 million has been recorded in opening retained earnings.

Comprehensive income

Comprehensive income is composed of the Corporation's net income and other comprehensive income. Other comprehensive income includes any unrealized gains and losses on available-for-sale securities, foreign currency translation gains and losses on the net investment in self-sustaining foreign operations and changes in the fair market value of derivative instruments designated as cash flow hedges, all net of income taxes. The components of comprehensive income are disclosed in the Interim Consolidated Statement of Comprehensive Income. On January 1, 2007, the previously recorded cumulative translation adjustment of $43.8 million as at December 31, 2006 is now presented in Accumulated Other Comprehensive Income (Loss) (note 16).

Derivatives and hedge accounting

Derivative instruments, including embedded derivatives, are recorded at fair value unless exempted from derivative treatment as normal purchase and sale. All changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income. The Corporation elected to apply this accounting treatment for embedded derivatives on the transition date of January 1, 2003; the change in accounting policy had no impact on the interim consolidated financial statements.

b) Overburden removal costs

Effective January 1, 2007, the Corporation adopted the CICA Emerging Issues Committee Abstract 160 (EIC-160), "Stripping Costs Incurred in the Production Phase of a Mining Operation". EIC-160 required stripping costs to be accounted for as variable production costs to be included in the costs of inventory produced, unless the stripping activity can be shown to be a betterment of the mineral property, in which case the stripping costs would be capitalized. Betterment occurs when stripping activity increases future output of the mine by providing access to additional sources of reserves. Capitalized stripping costs would be amortized on a unit-of-production basis over the proven and probable reserves to which they relate.

The Corporation applied this standard prospectively and prior years' financial statements were not restated. Application of this new accounting policy did not have a material impact on the financial position or results of operations as at or for the period ended March 31, 2007. As at January 1, 2007, the opening balance of capitalized overburden removal costs was $2.1 million.

2. Accounting changes (continued)

c) Accounting Changes

Effective January 1, 2007, the Corporation also adopted CICA Handbook Section 1506, "Accounting Changes", which establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies and estimates, and correction of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or required by the transitional provisions of a primary source of GAAP or where impracticable to determine. As well, voluntary changes in accounting policy are made only when the change results in more relevant and reliable information.

d) Future accounting pronouncements

i. Effective January 1, 2008, the Corporation will be required to adopt two new CICA standards, Section 3862, Financial Instruments Disclosures and Section 3863, Financial Instruments Presentation, which will replace Section 3861 Financial Instruments Disclosure and Presentation. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The Corporation is currently evaluating the implications of these standards.

ii. In March 2007, the Emerging Issues Committee of the CICA issued EIC-164 "Convertible and other debt instruments with embedded derivatives." EIC-164 clarifies the accounting treatments for instruments that contain both a liability element and an equity element that are required to be accounted for separately under CICA 3861 "Financial instruments – presentation" and any "embedded derivatives" that are required to be accounted separately under CICA 3855 "Financial instruments – recognition and measurement." The accounting treatment in this Abstract is to be applied retrospectively to financial instruments accounted for in accordance with Section 3855 in financial statements issued for interim and annual periods ending on or after June 30, 2007. The Corporation is currently evaluating the implications of this Abstract.

iii. In November 2006, the CICA issued the new handbook Section 1535, "Capital Disclosures," effective for annual and interim periods beginning on or after October 1, 2007. This section establishes standards for disclosing information about a Corporation's capital and how it is managed in order that a user of the financial statements may evaluate the company's objectives, policies, and processes for managing capital. This new standard is not expected to have a material effect on the Corporation's consolidated financial statements.

2. Accounting changes (continued)

iv. In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being converged with International Financial Reporting Standards over a transitional period currently expected to be about five years. The precise timing of convergence will depend on an Accounting Standards Board progress review to be undertaken by early 2008. The impact of this transition on the Corporation's consolidated financial statements has not yet been determined; however, management continues to monitor these regulatory developments.

e) Comparative amounts

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

3. Discontinued operation

On October 31, 2006, the Corporation sold its 49% interest in the soybean-based food processing business. As a result, this operation was classified as a discontinued operation.

The earnings from discontinued operation for the three months ended March 31, 2006 are summarized as follows:

		Three months ended March 31, 2006
Revenue	$	13.8
Operating, selling, general and administrative		12.6
Earnings before undernoted item		1.2
Depletion, amortization and accretion		0.8
Earnings from operations before income taxes		0.4
Income taxes		-
Net earnings from discontinued operation	$	0.4
Earnings from discontinued operation per share		
Basic	$	-
Diluted		-

4. Post-retirement benefits

The Corporation's pension expense for the three months ended March 31, 2007 was $1.9 million (2006 - $2.9 million).

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

	March 31, 2007	December 31, 2006
7.875% senior unsecured debentures due 2012	**$ 263.1**	$ 273.6
Loans from financial institution	**46.5**	22.5
Other	**40.0**	32.4
	349.6	328.5
Capital lease obligations	**12.3**	13.7
Other long-term liabilities	**0.5**	0.4
	362.4	342.6
Current portion of long-term debt	**(14.3)**	(9.1)
	$ 348.1	$ 333.5

Interest and accretion on long-term debt for the three months ended March 31, 2007 was $5.5 million (2006 - $12.2 million). The 7.875% senior unsecured debentures are net of deferred financing costs of $10.5 million as at March 31, 2007 (note 2).

During the quarter, the Corporation entered into a loan agreement with a certain financial institution for $26.5 million. The loan bears interest at the bankers' acceptance rates plus an applicable margin, payable semi-annually in ten equal instalments over a five-year term.

6. Asset retirement obligations

Asset retirement obligations were recognized in respect of the mining operations of Metals and Coal, including associated infrastructure and buildings. Obligations were recorded for nickel and cobalt refining facilities, fertilizers and utilities facilities and oil and gas production facilities. 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. Reclamation of coal mining operations is typically carried out on a continuous basis over the life of each mine and is dependent on the rate that mining progresses over the area to be mined.

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

	Three months ended March 31, 2007	Year ended December 31, 2006
Balance, beginning of period	**$ 65.0**	$ 81.6
Additions to liabilities	**0.6**	10.1
Liabilities settled	**(1.8)**	(4.7)
Accretion expense	**1.1**	4.8
Change in foreign exchange rates	**(0.1)**	0.4
Adjustment for Royal Utilities	**-**	(27.2)
Balance, end of period	**64.8**	65.0
Current portion	**(2.5)**	(2.4)
	$ 62.3	$ 62.6

6. Asset retirement obligations (continued)

The Corporation has estimated the undiscounted cash flow required to settle the asset retirement obligation at approximately $184.2 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 obligations.

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.

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	
	Three months ended March 31, 2007	Year ended December 31, 2006	**Three months ended March 31, 2007**	Year ended December 31, 2006
Balance, beginning of period	**172,011,570**	151,333,889	**$ 929.2**	$ 781.7
Shares issued:				
Share purchase plan	**-**	87,585	**-**	0.6
Repurchase of shares	**-**	(337,216)	**-**	(1.8)
Stock options exercised	**-**	660,000	**-**	4.4
7% convertible debenture conversion	**-**	20,023,460	**-**	141.7
7% convertible debenture redemption	**-**	243,852	**-**	2.6
Balance, end of period	**172,011,570**	172,011,570	**$ 929.2**	$ 929.2

7. Capital stock (continued)

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

	Three months ended March 31	
	2007	2006
Earnings from continuing operations	**$ 89.1**	$ 35.3
Earnings from discontinued operation	**-**	0.4
Net earnings - basic	**89.1**	35.7
Interest and accretion on convertible debentures	**-**	3.6
Net earnings – diluted	**89.1**	39.3
Earnings from discontinued operation	**-**	0.4
Earnings from continuing operations - diluted	**$ 89.1**	$ 38.9
Weighted average number of common shares - basic	**172.0**	151.1
Weighted average effect of dilutive securities:		
Stock options	**0.8**	0.4
Convertible debentures	**-**	42.8
Weighted average number of common shares - diluted	**172.8**	194.3
Earnings from continuing operations per common share		
Basic	**$ 0.52**	$ 0.24
Diluted	**0.52**	0.20
Earnings from discontinued operation per common share		
Basic	**$ -**	$ -
Diluted	**-**	-
Earnings per common share		
Basic	**$ 0.52**	$ 0.24
Diluted	**0.52**	0.20

8. Stock-based Compensation Plans

The following is a summary of stock option activity during the three months ended March 31, 2007.

	Three months ended March 31, 2007		Three months ended March 31, 2006	
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
Outstanding at beginning of period	**2,451,667**	**$ 9.49**	2,005,000	$ 7.97
Issued	**-**	**-**	1,145,000	10.31
Exercised for shares	**-**	**-**	(180,000)	5.74
Outstanding at end of period	**2,451,667**	**9.49**	2,970,000	9.01
Options exercisable, end of period	**849,222**	**$ 7.63**	850,000	$ 5.71

As at March 31, 2007, 2,081,667 (2006 – 975,000) options with a share appreciation right attachment remained outstanding for which the Corporation has recognized a compensation expense of $5.5 million for the three months ended March 31, 2007 (2006 – expense of $0.1 million).

The Corporation also recorded a compensation expense of $10 million for the three months ended March 31, 2007 (2006 – $1.4 million) for the other stock-based compensation plans.

	Three months ended March 31, 2007		Three months ended March 31, 2006	
	SLP/Power Units	**RSU/DSU**	SLP/Power Units	RSU/DSU
Balance, beginning of period	**2,132,750**	**485,332**	2,165,375	446,733
Issued	**-**	**12,988**	-	10,769
Exercised	**(163,125)**	**(160,712)**	(32,625)	(127,300)
Outstanding at end of period	**1,969,625**	**337,608**	2,132,750	330,202
Units exercisable, end of period	**1,969,625**	**166,248**	2,132,750	330,202
Weighted-average exercise price	**$ 5.08**		$ 4.85	

9. Contributed surplus

	Three months ended March 31, 2007	Year ended December 31, 2006
Balance, beginning of period	**$ 191.8**	$ 192.3
Repurchase of common shares	**-**	(0.5)
Balance, end of period	**$ 191.8**	$ 191.8

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.

10. Net financing expense

	Three months ended March 31	
	2007	2006
Interest income on cash, cash equivalents, short-term investments and loans receivable	**$ (5.6)**	$ (3.9)
Interest expense on debt	**5.5**	12.2
Foreign exchange losses	**1.7**	0.4
Other	**(0.8)**	(0.4)
	$ 0.8	$ 8.3

11. Income taxes

	Three months ended March 31	
	2007	2006
Current	**$ 61.9**	$ 21.7
Future	**(15.9)**	(3.7)
	$ 46.0	$ 18.0

12. Commitments and contingencies

As at March 31, 2007, the Corporation was committed to purchases of equipment and services in the amount of $67.3 million.

13. Net (increase) decrease in non-cash working capital

	Three months ended March 31	
	2007	2006 (restated-note 3)
Accounts receivable	**$ (26.2)**	$ (33.4)
Inventories	**(20.1)**	(10.5)
Prepaid expenses	**(1.1)**	1.7
Accounts payable and accrued liabilities	**71.1**	(0.2)
	$ 23.7	$ (42.4)

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 March 31, 2007

[$ millions]	Metals	Oil and Gas	Power	Coal [(1)]	Corporate	Consolidated
Revenue	$ 204.0	$ 58.4	$ 27.9	$ 19.8	$ -	$ 310.1
Operating, selling, general and administrative	69.3	17.3	7.7	21.0	21.9	137.2
Earnings (loss) before undernoted items	134.7	41.1	20.2	(1.2)	(21.9)	172.9
Depletion, amortization and accretion	6.0	23.1	6.0	2.4	1.0	38.5
Operating earnings (loss)	128.7	18.0	14.2	(3.6)	(22.9)	134.4
Share of earnings of equity accounted investments	-	-	-	6.9	-	6.9
Net financing expense						(0.8)
Income taxes						(46.0)
Non-controlling interests						(5.4)
Net earnings						89.1
Capital expenditures	31.0	47.3	10.1	0.4	0.1	88.9
Assets	$ 613.9	$ 702.4	$ 553.3	$ 443.0	$ 369.4	$ 2,682.0

Three months ended March 31, 2006

[$ millions]	Metals	Oil and Gas	Power	Coal [(1)]	Corporate	Consolidated
Revenue	$ 82.8	$ 68.7	$ 22.2	$ 73.8	$ -	$ 247.5
Operating, selling, general and administrative	52.7	12.5	7.1	55.0	9.2	136.5
Earnings (loss) before undernoted items	30.1	56.2	15.1	18.8	(9.2)	111.0
Depletion, amortization and accretion	4.6	20.6	6.3	14.0	1.2	46.7
Operating earnings (loss) from continuing operations	25.5	35.6	8.8	4.8	(10.4)	64.3
Share of earnings of equity accounted investments	-	-	-	-	0.6	0.6
Net financing expense						(8.3)
Income taxes						(18.0)
Non-controlling interests						(3.3)
Earnings from continuing operations						35.3
Earnings from discontinued operation						0.4
Net earnings						35.7
Capital expenditures[(2)]	12.9	27.5	6.3	2.3	0.6	49.6
Assets	$ 396.1	$ 617.4	$ 545.8	$ 775.7	$ 422.7	$ 2,757.7

(1) The Coal segment includes the Corporation's 50% proportionate interest in the Coal Valley export thermal coal mine and coal development assets. Up to June 27, 2006, it includes the Corporation's 50% proportionate interest in Royal Utilities and after June 27, 2006, it includes the equity accounted interest in the earnings of Royal Utilities.

(2) Total capital expenditures include $0.5 million in 2006 from the discontinued operation and total assets include $52.8 million from the discontinued operation (see note 3).

14. Segmented information (continued)

Three months ended March 31	**2007**		2006 (restated-note 3)	
	Revenue	**Capital Assets**	Revenue	Capital Assets
Canada	**$ 22.2**	**$ 252.4**	$ 71.8	$ 809.5
Cuba	**81.9**	**866.7**	88.0	757.6
Europe	**92.8**	**3.2**	54.8	1.6
Asia	**105.3**	**6.6**	27.4	7.1
Other foreign countries	**7.9**	**0.2**	5.5	-
	$ 310.1	**$ 1,129.1**	$ 247.5	$ 1,575.8

15. Financial Instruments

(a) Risk management policies and hedging activities

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

(b) Fair values

As at March 31, 2007, the carrying values of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, short-term debt, accounts payable and accrued liabilities are at fair value due to their immediate or short-terms to maturity. The Corporation believes that the fair values of other long-term debt approximate their carrying value.

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

	March 31, 2007 Carrying Value	**March 31, 2007 Fair Value**	December 31, 2006 Carrying Value	December 31, 2006 Fair Value
7.875% senior unsecured debentures	**$ 262.7**	**$ 287.5**	$ 273.6	$ 288.4

The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. Fair values of investments are determined based on published market quotes at period end or the last trade closest to period end. Fair values of loans and advances receivable are estimated based on discounted cash flows. Fair value for the senior unsecured debentures was based on the period-end closing price. Due to the use of judgment and uncertainties in the determination of estimated fair values, these values should not be interpreted as being realizable in the immediate term.

Unutilized lines of credit as at March 31, 2007 were $47.2 million.

16. Accumulated other comprehensive income (loss)

The accumulated balances related to each component of other comprehensive income (loss), net of income taxes are as follows:

	Three months ended March 31, 2007	Year ended December 31, 2006 (restated – note 2a)
Foreign currency losses on self-sustaining foreign operations	**$ (43.8)**	$ (43.8)
Balance, beginning of period	**(43.8)**	(43.8)
Other comprehensive income (loss)	**(7.9)**	-
Balance, end of period	**$ (51.7)**	$ (43.8)

17. Subsequent event

On April 20, 2007, the Corporation and Dynatec Corporation (Dynatec), a public mining company, jointly announced a proposed transaction whereby under a Plan of Arrangement Sherritt will acquire all of the issued and outstanding common shares of Dynatec. Under the proposed transaction, Dynatec shareholders will receive 0.190 of a Sherritt common share and approximately 0.0635 of an FNX Mining Company Inc. common share, which are currently owned by Dynatec, for each Dynatec common share held. The transaction is subject to all requisite regulatory and court approvals, third-party consents and other conditions customary to transactions of this nature. The combination must be approved by at least 66 2/3 % of the votes cast by shareholders of Dynatec at a meeting of holders of common shares. The Dynatec shareholder meeting is expected to be held in early June with the transaction anticipated to close shortly thereafter.

Schedule of Selected Current Assets and Accounts Payable by Operating Segment

March 31, 2007

[$ millions]	Metals	Oil and Gas	Power	Coal	Corporate	Consolidated
Accounts receivable	$ 113.8	$ 204.9	$ 24.7	$ 0.6	$ 16.2	$ 360.2
Inventories	93.5	-	14.8	18.5	-	126.8
Prepaid expenses	6.0	-	-	0.7	2.7	9.4
Future income taxes	30.8	-	-	1.3	32.2	64.3
	$ 244.1	$ 204.9	$ 39.5	$ 21.1	$ 51.1	$ 560.7
Accounts payable and accrued liabilities	$ 141.4	$ 31.4	$ 15.2	$ 17.1	$ 77.1	$ 282.2

December 31, 2006

[$ millions]	Metals	Oil and Gas	Power	Coal	Corporate	Consolidated
Accounts receivable	$ 99.5	$ 199.3	$ 24.6	$ 2.2	$ 17.6	$ 343.2
Inventories	76.9	-	15.3	16.3	-	108.5
Prepaid expenses	3.1	0.9	0.8	0.6	2.7	8.1
Future income taxes	20.5	-	-	1.3	-	21.8
	$ 200.0	$ 200.2	$ 40.7	$ 20.4	$ 20.3	$ 481.6
Accounts payable and accrued liabilities	$ 88.8	$ 42.2	$ 16.7	$ 18.2	$ 52.2	$ 218.1

[GRAPHIC]

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[GRAPHIC]

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