Sherritt International Corporation

Third Quarter 2007

For Quarter Ending September 30, 2007

Sherritt International Corporation

Management's Discussion and Analysis

For the Third Quarter Ended

September 30, 2007

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 and nine months ended September 30, 2007 should be read in conjunction with the unaudited consolidated financial statements and related notes contained in this interim report and the interim reports issued for the first and second quarter of 2007, 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 October 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. References to "US$" are to United States dollars.

Forward-looking Statements

This Management's Discussion and Analysis contains certain forward-looking statements. Forward-looking statements generally can be identified by the use of statements that include words such as "believe", "expect", "anticipate", "intend", "plan", "forecast", "likely", "may" or other similar words or phrases. Similarly, statements contained in each of the "Outlook" sections of this Management's Discussion and Analysis, 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 Management's Discussion and Analysis depending on, among others, such key factors as business and economic conditions in Canada, Cuba, Madagascar and the principal markets for Sherritt's products.

Key factors that may result in material differences between actual results and developments and those contemplated by this Management's Discussion and Analysis also include the supply, demand and prices for Sherritt's products, dependence on significant customers, deliveries, production levels, production and other anticipated and unanticipated costs and expenses, energy costs, premiums or discounts realized over London Metals Exchange ("LME") cash and other benchmark prices, interest rates, foreign-exchange rates, rates of inflation, changes in tax legislation, the timing, capital costs and financing arrangements associated with development projects, the timing of the receipt of government and other approvals, political unrest or instability in the countries where Sherritt is active, risks related to collecting accounts receivable and repatriating profits and dividends from Cuba, risks related to foreign exchange controls on Cuban government enterprises to transact in foreign currency, risks associated with the United States embargo on Cuba and the Helms-Burton Act, risks associated with mining, processing and exploration activities, potential imprecision of reserve estimates, market competition, developments affecting labour relations, 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.

Significant Transactions

Financing of Ambatovy Project

On August 22, 2007, the Corporation entered into financing agreements with a group of international lenders for the provision of US$2.1 billion of debt financing for the Ambatovy Project companies, in which the Corporation currently has a 45% equity interest. The loan arrangements have a term of approximately 17 years. Upon the satisfaction of certain conditions, a subsidiary of SNC-Lavalin Inc. will acquire a 5% equity interest in the Ambatovy Project thereby reducing the Corporation's interest to 40%. The Corporation and the other equity sponsors (including SNC-Lavalin Inc.) have provided completion guarantees for the financing until the Ambatovy Project has satisfied certain required completion tests, at which time the indebtedness will become non-recourse to the Corporation and the other equity guarantors. The Corporation's pro-rata share of the completion guarantee totals US$840 million. The Corporation's guarantee obligation is supported by an aggregate of US$598 million further guarantees from the other equity sponsors and SNC-Lavalin Inc. As consideration for providing such guarantees, the Corporation has agreed to issue up to 3.8 million common shares which are issuable in four equal annual installments commencing on December 31 of the year in which the initial draw-down notice is delivered under the financing arrangements.

The other equity sponsors and SNC-Lavalin Inc. have also agreed to provide the Corporation with subordinated loans for an aggregate of approximately US$236 million to fund the Corporation's equity commitments to the Ambatovy Project.

First disbursement of funds under the loan arrangements is expected after the satisfactory completion of conditions precedent. The Corporation expects these conditions to be satisfied later this year.

The Corporation will operate the Ambatovy Project in Madagascar. When fully operational, Ambatovy is expected to have a production capacity of 60,000 tonnes (100% basis) of nickel and 5,600 tonnes (100% basis) of cobalt per year with an estimated reserve life of 27 years. The project is scheduled to be commissioned in 2010.

Sale of Mining Services

On October 15, 2007, pursuant to a call right granted to FNX Mining Company Inc. ("FNX") when the Corporation acquired Dynatec, the Corporation sold its Canadian and US mining services business ("Mining Services Division"), formerly owned by Dynatec, to FNX for cash proceeds of $53 million, subject to certain working capital adjustments. The call right is more fully described in the business acquisition report filed by Sherritt dated July 27, 2007.

Asset-Backed Commercial Paper Market

In August 2007, the Corporation announced that it had a $59.5 million exposure to the Canadian Asset-Backed Commercial Paper Market ("ABCP"). At September 30, 2007, all of the $59.5 million ABCP have matured and have not been repaid pending a resolution of the liquidity issue.

The ABCP exposure is less than 8.2% of the Corporation's overall available liquidity. In addition to available credit facilities, the Corporation believes that its remaining cash balances will be sufficient to meet its financial and operational obligations. However, the Corporation has estimated the fair value of the ABCP and has recorded a downward fair value adjustment of $6 million. In determining the fair value, the Corporation used discounted cash flows based on market interest rates and management's best estimate of credit ratings and risk factors.

The fair value estimate is subject to measurement uncertainty and is dependent on the likelihood, nature and timing of future restructurings of ABCP. The Corporation will monitor this investment on an ongoing basis to determine if future events result in a change to the fair value. Furthermore, the amount has been reclassified to long term investments.

Debenture Issue

Subsequent to quarter end, on October 24, 2007, the Corporation issued $225 million principal amount of 8.25% Senior Unsecured Debentures Series B due on October 24, 2014 pursuant to a Short Form Base Shelf Prospectus dated November 21, 2005, as supplemented by a prospectus supplement dated October 19, 2007. The net proceeds of this debt issue will be used for general corporate purposes.

Financial Results Highlights

(millions of dollars, except per share amounts)	**Q3 2007**	Q3 2006	**Nine Months 2007**	Nine Months 2006
Revenues by segment				
Metals	**$ 150.7**	$ 148.0	**$ 628.8**	$ 351.1
Oil and Gas	**81.5**	65.1	**217.6**	203.4
Power	**31.6**	29.0	**87.8**	79.6
Coal [(2)]	**28.1**	29.1	**72.5**	176.1
Corporate and other [(3)]	**9.4**	-	**10.1**	-
Revenues	**$ 301.3**	$ 271.2	**$ 1,016.8**	$ 810.2
EBITDA by segment				
Metals	**$ 87.3**	$ 78.9	**$ 388.7**	$ 155.3
Oil and Gas	**61.9**	52.6	**162.3**	163.5
Power	**21.8**	20.8	**63.2**	56.6
Coal [(2)]	**(2.5)**	0.6	**(3.4)**	32.7
Corporate and other [(3)]	**(9.9)**	(6.1)	**(33.4)**	(26.7)
EBITDA [(1)]	**$ 158.6**	$ 146.8	**$ 577.4**	$ 381.4
Operating earnings by segment				
Metals	**$ 81.5**	$ 73.8	**$ 371.4**	$ 140.6
Oil and Gas	**41.9**	30.1	**96.2**	99.1
Power	**14.5**	14.5	**43.3**	37.3
Coal [(2)]	**(3.7)**	(1.5)	**(9.7)**	3.0
Corporate and other [(3)]	**(11.0)**	(7.2)	**(36.6)**	(30.2)
Operating earnings [(1)]	**$ 123.2**	$ 109.7	**$ 464.6**	$ 249.8
Earnings from continuing operations	**$ 66.1**	$ 73.2	**$ 287.6**	$ 165.1
Earnings (loss) from discontinued operations	**(0.7)**	0.9	**(0.7)**	1.9
Net earnings	**$ 65.4**	$ 74.1	**$ 286.9**	$ 167.0
Capital expenditures				
Metals	**$ 48.4**	$ 21.1	**$ 128.5**	$ 47.7
Oil and Gas	**35.5**	29.0	**118.6**	89.8
Power	**1.2**	5.9	**16.9**	17.7
Coal	**0.9**	1.3	**2.0**	6.9
Corporate and other [(3)]	**3.0**	1.0	**3.3**	2.0
Total	**$ 89.0**	$ 58.3	**$ 269.3**	$ 164.1
Earnings per share				
Basic	**$ 0.28**	$ 0.49	**$ 1.46**	$ 1.10
Diluted	**$ 0.28**	$ 0.43	**$ 1.45**	$ 0.95

(1) 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.

(2) Coal results include the Corporation's 50% proportionate interest in Royal Utilities Income Fund ("Royal Utilities" or the "Fund") 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) Corporate and other results include Sherritt's Technology division which includes the former Dynatec Metallurgical Technologies division's results from June 14, 2007.

Consolidated Earnings

Net earnings of $65.4 million or $0.28 per share were realized in the third quarter of 2007, compared with net earnings of $74.1 million or $0.49 per share in the third quarter of 2006. For the nine months ended September 30, 2007, net earnings were a record $286.9 million, or $1.46 per share, compared to net earnings of $167 million or $1.10 per share for the comparable period last year. Higher cobalt sales volumes and prices and higher net oil production and realized oil prices in the third quarter contributed to an increase of $13.5 million in operating earnings as compared to the same period last year. This positive contribution was offset by higher foreign exchange losses in the amount of $7.8 million after tax resulting from the strengthening of the Canadian dollar, an increase of $6.3 million after tax in stock-based compensation, a downward after tax fair value adjustment of $5 million relating to the Corporation's investment in ABCP, and a higher effective tax rate due to the write off of $3.1 million in future tax assets, which contributed to an overall decrease in net earnings of $8.7 million for the quarter as compared to the same period last year. Excluding the above noted unusual and non-operating items, earnings per share for the quarter was $0.37. The increase in consolidated earnings for the nine months ended September 30, 2007 was mainly due to higher earnings in Metals as a result of higher nickel and cobalt prices combined with increased sales volumes.

	Q3 2007	Q3 2006	**Nine months 2007**	Nine months 2006
Revenue	**$ 301.3**	$ 271.2	**$ 1,016.8**	$ 810.2

Consolidated revenues increased by $30.1 million from the comparable quarter last year mainly due to higher net oil production and realized oil prices and revenue relating to the Metallurgical Technologies Division acquired through the acquisition of Dynatec. Consolidated revenues were $206.6 million higher than the comparable nine-month period of 2006, or $322.8 million higher after for adjusting the change in accounting for Royal Utilities, mainly due to record results in Metals in the second quarter. Consolidated revenues included $116.2 million of revenues related to Royal Utilities for the nine months ended September 30, 2006.

	Q3 2007	Q3 2006	**Nine months 2007**	Nine months 2006
Operating costs	**$ 115.0**	$ 109.4	**$ 358.0**	$ 368.5
Selling costs	**2.2**	2.0	**12.4**	9.4
General and administrative costs	**25.5**	13.0	**69.0**	50.9
Operating, selling, general and administrative costs	**$ 142.7**	$ 124.4	**$ 439.4**	$ 428.8

The increase in operating costs for the three-month period ended September 30, 2007 from the comparable period in 2006 was mainly due to costs relating to the Metallurgical Technologies Division acquired through the acquisition of Dynatec. General and administrative costs were $12.5 million higher than the comparable quarter last year mainly due to higher stock-based compensation expense.

Operating costs were $10.5 million lower than the comparable nine-month period in 2006, or $67.9 million higher after adjusting for the change in accounting for Royal Utilities. The increase, after adjustment, was due to higher sales volumes, increased third-party feed costs and higher production costs in Metals, higher net production in Oil and Gas and costs relating to the Metallurgical Technologies Division. In addition, higher operating costs were experienced at Coal Valley due to increased maintenance, fuel and tire costs. Consolidated operating costs included $78.4 million of costs related to Royal Utilities for the nine months ended September 30, 2006.

Selling costs were higher for the nine-month period reflecting higher nickel, cobalt and fertilizer sales by Metals.

Higher general and administrative costs for the nine-month period ended September 30, 2007 were mainly due to higher stock-based compensation expense resulting from the appreciation in the Corporation's share price, and in the issuance of other stock based compensation units.

	Q3 2007	Q3 2006	**Nine months 2007**	Nine months 2006
Depletion, amortization and accretion	**$ 35.4**	$ 37.1	**$ 112.8**	$ 131.6

Depletion, amortization and accretion expenses were $1.7 million lower than the comparable quarter in 2006. For the first nine months of 2007, these expenses were $18.8 million lower than the comparable nine-month period in 2006, or $4.6 million higher after adjusting for the change in accounting for Royal Utilities. The increase, after adjustment, was mainly due to higher depletion rates in Oil and Gas' Spanish operations. Consolidated depletion, amortization and accretion expenses included $23.4 million of Royal Utilities costs for the nine-months ended September 30, 2006.

	Q3 2007	Q3 2006	**Nine months 2007**	Nine months 2006
Net financing expense	**$ 16.5**	$ 6.0	**$ 23.9**	$ 25.8

Net financing expense increased from the comparable quarter mainly as a result of the strengthening of the Canadian dollar on translation of the US dollar denominated advances to the Metals expansion creating higher foreign exchange losses and a downward fair value adjustment of $6 million relating to the investments in ABCP. Net financing expense for the year-to-date period ended September 30, 2007 decreased compared to the comparable period in 2006 due to the reduction in interest expense resulting from the purchase and redemption of the 7% convertible debentures in 2006 offset by the downward fair value adjustment relating to the investment in ABCP.

	Q3 2007	Q3 2006	**Nine months 2007**	Nine months 2006
Share of earnings of equity-accounted investments	**$ 4.0**	$ 5.2	**$ 15.9**	$ 6.1

For the three- and nine-month periods ended September 30, 2007, share of earnings of equity-accounted investments represented the Corporation's share of Royal Utilities' earnings. Prior to the date of its initial public offering on June 27, 2006, Royal Utilities was proportionately consolidated.

	Q3 2007	Q3 2006	**Nine months 2007**	Nine months 2006
Effective tax rate	**37%**	28%	**34%**	24%

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 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, depending on the price of nickel and cobalt. Generally, the combined rate for the Metals business falls between 33% and 37%. The Corporation is taxed on the amount of distributions from Royal Utilities, in excess of equity income.

The 37% rate for the third quarter was slightly higher than the rate for the first two quarters due to a one-time write-off of $3.1 million of future tax assets arising from a decision not to re-enter an exploration well drilled in Cuba in 2006. The lower effective tax rate in the third quarter of 2006 was mainly the result of the recognition of tax assets, while the lower effective tax rate for the nine months ended September 30, 2006 was mainly the result of the significant tax rate reductions by the Alberta and Federal governments, including the elimination of the Federal large corporations tax.

	Q3 2007	Q3 2006	**Nine months 2007**	Nine months 2006
Non-controlling interests	**$ 5.0**	$ 5.4	**$ 16.2**	$ 13.7

Non-controlling interests reflects the two-thirds outside interest in Energas S.A. ("Energas"), a variable interest entity in Power. For the nine-month period ended September 30, 2007 non-controlling interests have increased relative to the prior year due to an increase in Energas operating earnings partially offset by foreign exchange losses and higher interest costs.

	Q3 2007	Q3 2006	**Nine months 2007**	Nine months 2006
Earnings (loss) from discontinued operations	**$ (0.7)**	$ 0.9	**$ (0.7)**	$ 1.9

In October 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 and presented as a discontinued operation in the consolidated financial statements.

The loss from discontinued operations in 2007 relates to the Mining Services, Mineral Products and Coal-Bed Methane Divisions acquired as a result of the acquisition of Dynatec on June 14, 2007.

Consolidated Cash Flow

	Q3 2007	Q3 2006	Nine months 2007	Nine months 2006
Cash provided by continuing operations before working capital changes	**$ 130.3**	$ 96.4	**$ 440.2**	$ 274.4
Decrease (increase) in non-cash working capital changes	**(49.0)**	2.4	**(77.1)**	(52.6)
Cash provided by continuing operations	**81.3**	98.8	**363.1**	221.8
Cash provided by (used for) discontinued operations	**(3.5)**	0.7	**2.2**	1.3
Cash provided by operating activities	**$ 77.8**	$ 99.5	**$ 365.3**	$ 223.1

Cash provided by continuing operations before working capital changes was higher than the comparable quarter primarily due to higher operating earnings and an increase in non-cash items, such as foreign exchange losses, the downward fair value adjustment for the investments in ABCP, and future income tax expense, added back this quarter compared to the comparable period in 2006.

Non-cash working capital increased by $49 million during the quarter mainly attributable to a $26 million decrease in advances received from a joint venture due to timing and a $10 million decrease in Corporate accrued liabilities due to the payment of transaction costs incurred on the Dynatec acquisition.

For the nine-month period ended September 30, 2007, the cash provided by continuing operations before working capital changes was significantly higher than the prior year mainly attributable to higher earnings in Metals.

For the nine-month period ended September 30, 2007, $77.1 million of cash outflow from working capital was mainly due to an increase in the Oil and Gas receivable resulting from higher sales volumes and realized selling prices.

	Q3 2007	Q3 2006	Nine months 2007	Nine months 2006
Capital expenditures	**$ (86.2)**	$ (58.3)	**$ (266.4)**	$ (163.2)
Change in non-cash capital expenditures	**2.6**	3.0	**0.7**	1.7
Cash capital expenditures	**(83.6)**	(55.3)	**(265.7)**	(161.5)
Cash provided by (used for) other investing activities	**(269.0)**	2.8	**(304.8)**	138.2
Cash used for investing activities	**$ (352.6)**	$ (52.5)	**$ (570.5)**	$ (23.3)

The increase in capital expenditures for the quarter ended September 30, 2007 related to the $36.5 million Metals expansion spending in the quarter. For the year-to-date period, the increase in capital expenditures relates to approximately $80 million of Metals Expansion costs, and the purchase of $18.1 million of capital assets in Oil and Gas from its joint-venture partner when it assumed operatorship of the Santa Cruz field in the first quarter.

Cash used for other investing activities for the quarter comprise of investments of approximately $173 million in short-term deposits, investments in ABCP of $59.5 million and $69 million of Ambatovy project costs, offset by $40.3 million of proceeds on sale of marketable securities acquired through the Dynatec acquisition. Cash used for investing activities on a year to date basis relates to investment in short-term deposits, reclassification of $59.5 million of ABCP to long-term investments, an increase in the Metals expansion loan of $42 million and $74 million of Ambatovy project costs.

Cash used for financing activities for the quarter primarily related to $6.7 million of dividends paid to non-controlling shareholders in Power, dividends of $7 million paid to the Corporation's shareholders offset by $13.2 million in proceeds received from financing relating to the 65 MW expansion in Power.

For the nine months ended September 30, 2007, cash used for financing activities of $7.8 million primarily related to the repayment of the operating credit facility of approximately $29.1 million, dividends of $19.6 million paid to the non-controlling interests in Power, and dividends to the Corporation's shareholders of $17.3 million. These payments were offset by $56.8 million of proceeds received from financing related to the 65 MW expansion in Power and advances on the Metals expansion loan. For the nine-month period ended September 30, 2006, cash used for financing activities primarily related to the repurchase of the 7% unsecured convertible debentures.

Consolidated Financial Position, Liquidity and Capital Resources

Total assets as at September 30, 2007 were $3.8 billion. The increase in total assets since the end of 2006 primarily relates to the assets acquired through the acquisition of Dynatec on June 14, 2007.

Cash and cash equivalents, restricted cash and short-term investments totalled $346.8 million as at September 30, 2007, a decrease of $22.9 million since year end. Cash inflows during the nine months ended September 30, 2007 included $363.1 million of cash generated from continuing operations and $29 million of distributions received from Royal Utilities. The cash inflows year to date were partly offset by $266.4 million of cash capital expenditures, $19.6 million of dividends paid to non-controlling shareholders in Power, and $17.3 million of dividends paid to Sherritt shareholders. During the quarter, $59.5 million of ABCP was reclassified from cash to long-term investments. The amount matured during the quarter and has not been repaid due to the liquidity disruptions in the credit markets related to ABCP.

Current advances and loans receivable of $43.6 million decreased from the year-end balance of $56 million due to lower working capital advances to Metals and scheduled repayments on a note receivable.

Accounts receivable were $354 million at September 30, 2007, an increase of $10.8 million since year end primarily due to an increase in Oil and Gas accounts receivable due to timing of collections.

Inventories decreased by $10.9 million since year end to $97.6 million as at September 30, 2007 largely as a result of lower production in Coal and the foreign exchange impact on inventory in Metals as a result of the strong Canadian dollar relative to the US dollar.

Capital assets increased $113.7 million since year end to $1.2 billion as at September 30, 2007 mainly in support of expansion projects in Metals and Power and development and exploration drilling in Oil and Gas.

Investments of $399 million as at September 30, 2007 are comprised of the Corporation's $328.1 million equity investment in Royal Utilities, $17.4 million investment in tourism and $53.5 million of ABCP, net of the fair value adjustment.

The future tax asset (including current portion) of $69.4 million as at September 30, 2007 primarily represented the tax benefit of approximately $76.6 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 realized a taxable capital gain on the disposition of the FNX shares on the acquisition of Dynatec, which resulted in the use of $42.5 million of future income tax assets that was included in the purchase price.

Other assets increased by $97.1 million to $228.8 million as at September 30, 2007. The increase was mainly due to the Metals expansion loan receivable balance increase of $42 million and the $74 million costs incurred relating to the Ambatovy Project acquired through Dynatec offset by an $11.1 million reclassification on January 1, 2007 of issuance 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 $52.7 million as at September 30, 2007, a decrease of $29.1 million since year end. The decrease in short-term debt was mainly due to the timing of working capital requirements.

Accounts payable and accrued liabilities increased by $79.3 million since year end to $297.4 million as at September 30, 2007. Accounts payable increased due to a $63.1 million increase in taxes payable on the sale of the FNX shares and the inclusion of Metallurgical Technologies Division accounts payable acquired through Dynatec. This was offset by lower taxes payable and third party feed costs in Metals and a decrease in Oil and Gas payables.

The future income tax liability (including current portion) of $78.3 million as at September 30, 2007, increased slightly from the 2006 year end amount of $74.6 million. The majority of the liability related to future income tax liabilities of the Oil and Gas, Power 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 $380.2 million as at September 30, 2007 compared with $342.6 million as at December 31, 2006. During the year, the Corporation entered into a $26.5 million loan agreement associated with the 65 MW expansion in Power. In addition, the Metals expansion loan increased by $25.9 million. These increases were partly offset by the reclassification from other assets of $11.1 million of issuance costs upon adoption of CICA Handbook Section 3861 – Financial Instruments – Disclosure and Presentation as previously discussed.

Subsequent to quarter end, on October 24, 2007, Sherritt issued $225 million of 8.25% Senior Unsecured Debentures Series B due on October 24, 2014 pursuant to a Short Form Base Shelf Prospectus dated November 21, 2005, as supplemented by a prospectus supplement dated October 19, 2007. The net proceeds of this debt issue will be used for general corporate purposes.

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 $190.7 million as at September 30, 2007, reflected payment of $19.6 million of dividends to the non-controlling interests, offset by $16.2 million of income attributed to non-controlling interests.

Accumulated other comprehensive loss increased from $43.8 million at December 31, 2006 to $152.6 million at September 30, 2007. The increase in loss was the result of the strengthening of the Canadian dollar relative to the US dollar on translation of the Corporation's self-sustaining operations. The majority of the translation losses come from capital assets, inventories, and accounts receivable which are partially offset by translation gains experienced in accounts payable.

During the quarter, the Board of Directors approved a quarterly dividend of $0.03 per share payable on October 12, 2007 to shareholders of record at the close of business on September 28, 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.

Moa / Fort Saskatchewan

Through a joint venture with a Cuban partner, Metals 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.

Current operations have the capacity to produce 33,000 tonnes of mixed sulphides from mining and processing facilities in Moa and refine 32,500 tonnes of nickel and 3,500 tonnes of cobalt at facilities in Fort Saskatchewan. Metals is currently expanding capacity in Moa and Fort Saskatchewan to process and refine a further 13,000 tonnes of mixed sulphides.

Ambatovy

The Ambatovy Project is a large-tonnage nickel and cobalt project located in Madagascar. According to the Project’s updated feasibility study, released in May 2006, the Project has proven and probable reserves of 125 million tonnes grading 1.04% nickel and 0.099% cobalt; annual production capacity estimated at 60,000 tonnes (100% basis) of nickel and 5,600 tonnes (100% basis) of cobalt with an estimated Project life of approximately 27 years. Cash operating costs per pound of nickel, after credits, are expected to place the Ambatovy Project in the lowest quartile of the global industry cost curve. The Project’s capital cost is currently estimated to be US$3.3 billion (100% basis).

As at September, 2007, the Corporation owned 45% of the Ambatovy Project companies and Sumitomo Corporation of Japan (“Sumitomo”) and Korea Resources Corporation (leading a consortium of Korean enterprises including Daewoo International Corporation, Keangnam Enterprises Ltd. and STX Corporation) each owned 27.5%. SNC Lavalin Inc. has the right to acquire a 5% equity interest in the Ambatovy Project companies, subject to the satisfaction of certain conditions precedent, thereby reducing the Corporation’s interest to 40%. Following completion of construction and the satisfaction of certain completion tests, a put/call option arrangement has been agreed to whereby the Corporation and Sumitomo can acquire SNC-Lavalin Inc.’s interest or SNC-Lavalin Inc. can divest of its interest to the Corporation and Sumitomo.

Outlook (refer to "Forward-looking Statements")

Mixed sulphide production in 2007 remains on track to meet full-year guidance of 33,000 tonnes (100% basis). Fourth-quarter finished nickel and cobalt production is expected to increase from third quarter levels, with full-year production forecast to be approximately 31,500 tonnes of nickel and 3,500 tonnes of cobalt (100% basis).

Sherritt is on track to complete its $1.73 billion Metals expansion plans by 2010. These expansions will increase existing nickel and cobalt production capacity by more than 245% while lowering unit operating costs.

Construction for the Phase 1 expansion in Moa is progressing and should allow for commissioning of the incremental 4,000 tonnes of mixed sulphide production capacity to begin in the first quarter of 2008. Phase 2, which will add a further 9,000 tonnes of mixed sulphide production, is progressing as planned, with projected start up scheduled for 2009. Phase 3 of the expansion, currently in the conceptual study stage, is expected to result in 3,000 to 6,000 tonnes of additional nickel plus cobalt production. The Ambatovy Project mine is scheduled to start commissioning in the first half of 2010. Full production, which is expected to be reached in 2012 will be approximately 60,000 tonnes (100% basis) of finished nickel and 5,600 tonnes (100% basis) of finished cobalt.

Sherritt's (50%) share of capital expenditures for Phases 1 and Phase 2 of the Moa/Fort Saskatchewan expansion is currently expected to be approximately $408 million, up from $358 million previously reported. This increase is largely due to escalation in labour and material costs, primarily in Fort Saskatchewan. The Ambatovy Project is ramping up towards maximum construction employment levels at the mine site and refinery as planned. Sherritt's (40%) share of capital spending is expected to be approximately $1.3 billion.

Capital expenditures for the remainder of 2007 are expected to be approximately $112 million, of which $97 million relates to the Moa/Fort Saskatchewan expansion and $15 million relates to sustaining capital. In addition, Sherritt's share of expected Ambatovy Project spending will be approximately $95 million for the remainder of 2007. In 2008, spending on the Moa/Fort Saskatchewan expansion is expected to be approximately $250 million and Sherritt's share of the Ambatovy Project is expected to be $633 million, $516 million of which is expected to be financed by Project financing.

Highlights

- Metal prices remain strong
- Executed agreements for US$2.1 billion of debt financing for Ambatovy project
- Continued progress on Phase 1 expansion at Moa and Fort Saskatchewan

Financial Analysis

	Q3 2007	Q3 2006	**Nine months 2007**	Nine months 2006
Revenue [1]	**$ 150.7**	$ 148.0	**$ 628.8**	$ 351.1
Operating costs	**(60.3)**	(66.4)	**(224.8)**	(184.6)
Selling costs	**(2.1)**	(1.9)	**(12.2)**	(8.9)
General and administrative costs	**(1.0)**	(0.8)	**(3.1)**	(2.3)
EBITDA	**87.3**	78.9	**388.7**	155.3
Depletion, amortization and accretion	**(5.8)**	(5.1)	**(17.3)**	(14.7)
Operating earnings	**$ 81.5**	$ 73.8	**$ 371.4**	$ 140.6

(1) Metals revenue includes revenue derived from nickel, cobalt and by-product sales and its share of fertilizer sales.

For the quarter ended September 30, 2007, the increase in revenue was due to higher cobalt sales volumes and prices, offset by lower nickel sales volumes and marginally lower realized prices due to the stronger Canadian dollar. The year-to-date revenue increased by $277.7 million from the prior-year period to $628.8 million due to higher nickel and cobalt prices combined with increased sales volumes.

Operating costs were lower than the third quarter of 2006 primarily due to lower nickel sales volumes, lower third-party feed costs and a stronger Canadian dollar, offset by the impact of higher commodity and maintenance costs. Third-party feed costs were approximately $11.3 million in the quarter and $39.1 million year to date compared with $14 million and $29.4 million, respectively in the same period last year.

Selling, general and administrative costs for the third quarter of 2007 were comparable to the same period last year. The increase in the nine months ended 2007 from the prior-year period is due to higher costs associated with the increased sales volumes. Depletion, amortization and accretion were also marginally higher reflecting recent capital spending trends.

Prices	**Q3 2007**	Q3 2006	**Nine months 2007**	Nine months 2006
Nickel – realized ($/lb)[1]	**$ 14.14**	$ 14.42	**$ 19.81**	$ 10.96
Cobalt – realized ($/lb)[1]	**26.61**	17.77	**28.98**	16.24
Nickel – reference (US$/lb)	**13.71**	13.24	**18.03**	9.69
Cobalt – reference (US$/lb)[2]	**25.84**	15.59	**26.54**	14.15

(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.

For the quarter ended September 30, 2007 nickel reference prices were comparable with the same period in 2006. However, the price declined from record high prices in the second quarter of 2007 reflecting lower demand from stainless steel producers. Cobalt prices remained well above prior year levels reflecting strong demand, particularly from China and the rest of Asia.

Production (tonnes)	**Q3 2007**	Q3 2006	**Nine months 2007**	Nine months 2006
Mixed sulphides	**4,195**	4,029	**12,399**	11,248
Finished nickel	**3,803**	3,878	**11,351**	10,897
Finished cobalt	**418**	419	**1,304**	1,198

In the third quarter of 2007 mixed sulphide production was comparable to the same period in 2006 and increased year to date due to process improvements implemented to alleviate the bottlenecks that were experienced in the prior year. On June 30, 2007, the mixed sulphides supply agreement between the joint venture subsidiary companies expired. Mixed sulphides continue to be supplied on the same terms while negotiations are ongoing.

Finished metals production in the quarter was comparable to the same period in 2006. Year-to-date production exceeded prior year levels when process bottlenecks at Moa restricted mixed sulphide feed availability.

Sales (thousands of pounds)	**Q3 2007**	Q3 2006	**Nine months 2007**	Nine months 2006
Finished nickel	**8,367**	8,795	**25,030**	24,291
Finished cobalt	**923**	879	**2,787**	2,663

Lower nickel sales in the quarter reflected the availability of finished nickel. Cobalt sales in the quarter were higher than the same quarter in the prior year due to the timing of shipments at quarter end. Year-to-date finished metals sales were higher reflecting increased metals production.

	Q3 2007	Q3 2006	**Nine months 2007**	Nine months 2006
Capital expenditures	**$ 48.4**	$ 21.1	**$ 128.5**	$ 47.7

Increased capital spending reflected higher expansion spending. Excluding growth initiatives, capital spending was $6.9 million compared with $5.3 million in the same quarter last year, reflecting increased construction costs and a higher level of investment required to sustain production. Year to date, excluding growth initiatives, capital spending was $37.1 million compared with $13.4 million reflecting increased construction costs and a higher level of investment required to sustain production.

	Q3 2007	Q3 2006	**Nine months 2007**	Nine months 2006
Fertilizer sales (tonnes)	**12,949**	7,614	**140,421**	107,830
Revenue [(1)]	**$ 4.9**	$ 3.1	**$ 44.7**	$ 35.8
Operating earnings	**(0.3)**	(1.7)	**0.6**	1.3

(1) Fertilizer revenue relates to the Corporation's share of fertilizer sales and is included in Metals revenue together with revenue derived from nickel, cobalt and by-product sales.

Third quarter fertilizer results exclude spring and fall fertilizer seasons. Fertilizer sales volumes improved as buyers continued to experience tight supply stemming from increased demand for crop-based ethanol. Higher revenues for the three and nine months ended September 30, 2007 reflect the higher sales volumes and prices. Operating earnings for the three months ended September 30, 2007 increased primarily due to higher sales volumes and prices, offset by higher amortization expense. Year-to-date operating earnings decreased due to higher operating costs, amortization and selling costs.

Ambatovy Project

	Q3 2007	Q3 2006	Nine months 2007	Nine months 2006
Mining and resource properties under development	**$ 69.0**	$ -	**$ 74.0**	$ -

The mining and resource properties under development comprise the Corporation's expenditures on the Ambatovy Project incurred since the acquisition. Construction commenced at the mine and plant site in Madagascar during the third quarter.

Coal

Coal has abundant, high quality, and strategically located reserves in Canada that 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, which Sherritt operates and in which it has a 41.2% interest, declared distributions of $23.5 million in the third quarter. Consistent with previous guidance, the Fund is targeting a payout ratio of 97% and expects to declare distributions of $93.8 million ($0.9596 per unit) in 2007.

At the Coal Valley mine, forecast full-year sales and shipments of 3.9 million tonnes (100% basis) remain unchanged, but continues to be largely dependent on the level of train service. Realized prices are expected to remain strong due to a strong export market. Looking into 2008, Coal Valley will have approximately 75% of its contracts coming up for renewal. Sherritt expects to settle these contracts at much higher prices than recent historic settlements.

Work on the Dodds-Roundhill coal gasification project feasibility study continues. Sherritt is working with off-take customers for syngas, hydrogen and CO_2. Final activities are also being undertaken to prepare for the submission of the Environmental Impact Assessment, which the Corporation intends to submit to the Alberta government in 2008.

Capital expenditures for the remainder of the year are expected to be approximately $4.4 million, which will be spent on sustaining capital at Coal Valley and development work on the Dodds-Roundhill coal gasification project.

Financial Analysis

The organizational structure for Coal changed significantly in 2006 as a result of the completion of the Initial Public Offering 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 its 41.2% interest in Royal Utilities.

		Q3 2007		Q3 2006		**Nine months 2007**		Nine months 2006
Revenue	**$**	**28.1**	$	29.1	**$**	**72.5**	$	176.1
Operating costs		**(29.6)**		(27.4)		**(71.6)**		(135.9)
Selling costs		**(0.1)**		(0.1)		**(0.4)**		(0.5)
General and administrative costs		**(0.9)**		(1.0)		**(3.9)**		(7.0)
EBITDA		**(2.5)**		0.6		**(3.4)**		32.7
Depletion, amortization and accretion		**(1.2)**		(2.1)		**(6.3)**		(29.7)
Operating (loss) earnings	**$**	**(3.7)**	$	(1.5)	**$**	**(9.7)**	$	3.0
Distributions declared from Royal Utilities[(1)]	**$**	**9.7**	**$**	6.8	**$**	**29.0**	$	6.8
Equity-accounted earnings in Royal Utilities [(2)]	**$**	**4.0**	$	5.2	**$**	**15.9**	$	5.2

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

Coal revenues for the quarter ended September 30, 2007 decreased by $1 million in comparison to the same period last year due to lower sales volumes. Coal revenue was at record levels for the period ended September 30, 2006. After adjusting for the change in accounting for Royal Utilities to equity accounting, revenues for the nine-month period were up $12.6 million due to increased sales volumes and realized prices at Coal Valley.

Third quarter 2007 EBITDA comprised of a loss of $2.3 million compared to $1.2 million in earnings in 2006 for the Coal Valley mine, and non-capitalized coal development expenditures of $0.2 million compared to $0.6 million in 2006.

Coal Valley's EBITDA declined $3.5 million from the third quarter of 2006 to a loss of $2.3 million in the third quarter of 2007. The decrease was as a result of higher unit production costs due to increased maintenance, fuel and tire costs on lower coal production.

Coal Valley's EBITDA for the first nine months of 2007 was a loss of $1.2 million compared to $0.9 million loss in 2006. The decrease was due to higher fuel, maintenance and tire costs that were partially offset by increased revenues on higher sales volumes and realized prices.

During the quarter, $1.4 million of coal development costs were capitalized as deferred developments costs, primarily consisting of Dodds-Roundhill coal gasification costs. For the nine-month period ended September 30, 2007, $4.1 million of coal development costs have been capitalized.

		Q3 2007		Q3 2006		Nine months 2007		Nine months 2006
Coal Valley (1)								
Realized prices ($/tonne)	**$**	**50.39**	$	48.47	**$**	**50.93**	$	47.58
Sales volumes (millions of tonnes) (2)		**0.5**		0.6		**1.4**		1.3
Production volumes (millions of tonnes) (2)		**0.4**		0.5		**1.3**		1.3

(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 improved pricing on export thermal coal contracts, partially offset by the stronger Canadian dollar against the US dollar. Sales volumes and production volumes for the three- and nine-month periods ended of 2007 were comparable to the prior year.

		Q3 2007		Q3 2006		Nine months 2007		Nine months 2006
Capital expenditures	**$**	**0.9**	$	1.3	**$**	**2.0**	$	6.9

For the third quarter of 2007, capital expenditures of $0.9 million related primarily to maintenance of the wash plant, permitting and development work at Coal Valley. Year-to-date 2006 capital expenditures include $3.2 million of capital expenditures related to Royal Utilities. Excluding the capital expenditures related to Royal Utilities, Coal Valley capital expenditures for the nine-month period ended September 30, 2006 were $3.7 million. Year-to-date expenditures in 2007 of $2 million were lower than 2006 due to completion of plant expansion spending in the first quarter of 2006.

Oil and Gas

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

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

Outlook (refer to "Forward-looking Statements")

Gross working-interest oil production for the full year is expected to remain comparable to 2006 levels. Net working-interest oil volumes, which are based on oil prices and capital and operational spending levels, are expected to remain in line with year-to-date production.

For the remainder of 2007 Sherritt is planning to drill four development and one exploration wells. The Corporation is working to finish its seismic activities on certain Cuban offshore blocks during 2007 and intends to undertake seismic activities on its recently acquired East Irish Sea blocks in 2008. Sherritt also is working to conclude final negotiations with respect to certain enhanced oil recovery concessions and production sharing contracts in Cuba during 2007, with a view to starting piloting during 2008.

Total capital expenditures in Oil and Gas in 2007 are expected to be approximately $154 million. Capital expenditures for 2008 are expected to be $135 million without including the expenditures on the enhanced oil recovery pilot program. Pilot program expenditures are in the process of being finalized.

Highlights

- Record revenue of $81.5 million
- Record EBITDA of $61.9 million

Financial Analysis

	Q3 2007	Q3 2006	**Nine months 2007**	Nine months 2006
Revenue	**$** 81.5	$ 65.1	**$** 217.6	$ 203.4
Operating costs	(12.2)	(7.4)	(34.6)	(25.9)
General and administrative costs	(7.4)	(5.1)	(20.7)	(14.0)
EBITDA	61.9	52.6	162.3	163.5
Depletion, amortization and accretion	(20.0)	(22.5)	(66.1)	(64.4)
Operating earnings	**$** 41.9	$ 30.1	**$** 96.2	$ 99.1

Revenue for the third quarter was higher than the comparable quarter of 2006 mainly due to significantly higher net production and higher realized oil prices. Net production for the nine-month period of 2007 was higher than the comparable period in 2006, resulting in increased revenues. 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. At the end of the second quarter, the Corporation had accumulated approximately $1.5 million of costs to be recovered as cost recovery revenue, all of which was recovered in the third quarter of 2007. There are no cost recoveries carried forward for the fourth quarter.

Operating costs for the quarter and the year to date increased from the prior-year periods mainly due to increased workover activity and higher treatment and transportation rates. Consequently, on a per barrel basis for the quarter, operating costs increased by $1.85 per net barrel from the same period last year.

General and administrative costs for the third quarter increased over 2006 due to lower allocations of costs to the joint venture partner and drilling operations. For the nine-month period ended September 30, 2007, the increase in general and administrative costs was due to these lower field allocations and higher employee severance costs than the comparable period in 2006.

The depletion rate on a per barrel basis was lower in the quarter due to lower rates in Cuba and the strengthening of the Canadian dollar. This decrease was partially offset by higher depletion rates in Spain. Depletion is slightly higher year to date because of increased depletion and accretion in Spain due to the revised abandonment plan for the Casablanca field.

Prices		Q3 2007		Q3 2006		Nine months 2007		Nine months 2006
Realized prices:								
Cuba ($/barrel)	$	**44.13**	$	41.88	$	**40.12**	$	43.40
Spain ($/barrel)		**78.00**		77.32		**74.01**		75.53
Pakistan ($/boe) (1)		**7.88**		8.75		**8.42**		8.73
Reference price (US$/barrel)								
Gulf Coast Fuel Oil No. 6		**55.32**		46.38		**47.91**		47.11
Brent		**75.92**		68.97		**67.56**		66.59

(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 increased 5% in the quarter primarily due to increasing fuel oil reference prices, which reached a record high of US$59 per barrel at the end of September 2007. This was offset by the revised crude oil pricing structure for 2007 production and the strengthening of the Canadian dollar relative to the US dollar. The revised pricing reflects additional qualitative discounts for viscosity, water and sulphur content. The 8% decline in realized prices for the nine months ended September 30, 2007 was also due to the impact of the new pricing and the strengthening of the Canadian dollar offset by the increase in the reference prices in the third quarter.

Realized prices for Spanish production increased due to the impact of higher 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)	Q3 2007	Q3 2006	Nine months 2007	Nine months 2006
Gross working-interest oil production (3) (5)	**31,401**	30,763	**31,262**	31,102
Net oil production (4)				
Cuba (heavy oil)				
Cost recovery (5)	**10,689**	6,480	**10,653**	6,616
Profit oil (5)	**8,037**	9,088	**7,912**	9,279
Total	**18,726**	15,568	**18,565**	15,895
Spain (light / medium oil) (4)	**586**	505	**497**	486
Pakistan (natural gas) (4)	**395**	403	**403**	261
Total	**19,707**	16,476	**19,465**	16,642

(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) Gross working-interest production includes the Corporation's working-interest shares of gross production in Cuba, Spain and Pakistan before the allocation of production to CUPET under the production-sharing contracts and before deduction of any royalty obligations under other concession agreements. This figure excludes production from wells for which commercially has not been established under the production-sharing contracts as well as the working interests for other participants under the production-sharing contracts and other concession agreements.

(4) Net production (equivalent to net sales volume) represents the Corporation's share of gross working-interest production, less the share of production allocated to CUPET under the production-sharing contracts and any royalty obligations associated with other concession agreements.

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

Gross working-interest oil production in Cuba for the three- and nine-month periods in 2007 was comparable to the same periods in 2006. Total net oil production increased over 3,000 bpd in the third quarter over the same period in 2006 due to increased development drilling activity over the same period in 2006.

	Q3 2007	Q3 2006	**Nine months 2007**	Nine months 2006
Capital expenditures	**$ 35.5**	$ 29.0	**$ 118.6**	$ 89.8

Capital expenditures for the third quarter were $6.5 million higher than the third quarter of 2006, and were mainly in support of development and exploration drilling along with facility construction. During the quarter, five development wells were initiated. Four development wells and one exploration well were completed. Capital expenditures for the first nine months of 2007 were impacted by the Corporation's purchase of $18.1 million of capital assets from its joint venture partner in the first quarter when it assumed operatorship of the Santa Cruz field.

Power

Power continues to focus on the effective utilization of energy resources in the production of electricity and is currently involved in the construction and operation of electricity generating facilities in Cuba. 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, fuel oil or coal-based energy facilities. Power is actively pursuing opportunities to expand its scope of operations.

Power conducts business in Cuba through Energas, a Cuban entity in which Power holds a one-third equity interest. Each of two Cuban agencies also holds 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")

Sherritt and its partners are finalizing the design and commercial terms for a 125 MW combined cycle facility at Boca de Jaruco, agreed to in principle during the second quarter. As with previous expansions, Power will finance and construct this project, which is expected to start-up in the 2010/2011 time frame.

Over the remainder of the year, scheduled maintenance will be performed on several turbines, which is expected to result in a net capacity factor of approximately 80% for the fourth quarter. Fourth-quarter net production is expected to be approximately 600 GWh.

Sustaining capital expenditures for the remainder of the year are estimated to be less than $2 million. Expenditures during the fourth quarter with respect to the new combined cycle are not expected to be significant; however, expenditures may be required for down payments on long-lead time components.

Sherritt has also initiated discussions with the state power company in Madagascar to review potential power opportunities.

Highlights

- Record production of 628 GWh during the quarter.
- On target for record annual production of almost 2,300 GWh.

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.

	Q3 2007	Q3 2006	**Nine months 2007**	Nine months 2006
Revenue	**$ 31.6**	$ 29.0	**$ 87.8**	$ 79.6
Operating costs	**(8.1)**	(8.1)	**(22.0)**	(22.1)
General and administrative costs	**(1.7)**	(0.1)	**(2.6)**	(0.9)
EBITDA	**21.8**	20.8	**63.2**	56.6
Depletion, amortization and accretion	**(7.3)**	(6.3)	**(19.9)**	(19.3)
Operating earnings	**$ 14.5**	$ 14.5	**$ 43.3**	$ 37.3

Revenue from electricity sales for the quarter was higher than the prior year due to the addition of the 65 MW expansion in the second quarter, partly offset by lower realized prices due to the strength of the Canadian dollar. Revenue from by-product sales and other sources increased compared with the same quarter in 2006 due to increased volumes and prices for by-products. Year-to-date revenue from electricity sales increased over the prior year due to the addition of the 85 MW expansion at the end of the first quarter of 2006 and the 65 MW expansion in the second quarter of 2007. Revenue from by-product sales and other sources was $13.6 million for the first nine months of 2007, an increase of $2.8 million from the prior year due mainly to increased volumes and prices for by-products.

Operating costs in the third quarter and year to date were unchanged from the prior year as operating costs related to the addition of the 65 MW expansion were offset by lower maintenance costs for the other facilities as a result of less scheduled maintenance. General and administrative costs for the quarter and year were higher than the prior year mainly due to a decrease in cost recoveries from projects in 2007.

Depletion, amortization and accretion increased in the quarter and year to date due to the addition of the 65 MW expansion in the second quarter of 2007.

	Q3 2007	Q3 2006	**Nine months 2007**	Nine months 2006
Realized prices ($/MWh) [1]	**$ 42.38**	$ 44.43	**$ 44.18**	$ 44.49

[1] Megawatt hours ("MWh").

The tariff for electricity sales is fixed by long-term US dollar contracts. The decrease in realized prices for the quarter and year was due mainly to the strengthing of the Canadian dollar, partly offset by a higher proportion of electricity sales from the expansions, which received a higher tariff.

	Q3 2007	Q3 2006	**Nine months 2007**	Nine months 2006
Electricity sold (1) (GWh) (2)	**628**	566	**1,681**	1,547

(1) Including non-controlling interest's share

(2) Gigawatt hours ("GWh")

Electricity sales volumes were higher in the third quarter and the first nine months of 2007 versus the comparable periods in 2006 as the 65 MW expansion commenced operation during the second quarter of 2007.

	Q3 2007	Q3 2006	**Nine months 2007**	Nine months 2006
Capital expenditures	**$ 1.2**	$ 5.9	**$ 16.9**	$ 17.7

Capital expenditures in the quarter were mainly in respect of sustaining capital. Capital expenditures for the nine months ended September 30, 2007 were primarily directed to the 65 MW expansion. In the prior year, capital expenditures related mainly to the 85 MW expansion. Expenditures during the fourth quarter in respect of the new combined cycle are not expected to be significant; however, expenditures may be required for deposits on long-lead time components.

In addition to the amounts recorded as capital expenditures, Power incurred $5.3 million during the year for progress payments, mainly in respect of equipment purchases for the 65 MW expansion. These expenditures were included in other assets in the investing section of the consolidated statement of cash flows and were reclassified to capital assets when the Corporation took possession of the assets.

Other

Technologies

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

Revenues from the Technologies division were $3.8 million in the third quarter of 2007, which included the former Dynatec Metallurgical Technologies division's operations.

Risk Management

Sherritt manages a number of risks in each of its businesses in order to achieve an acceptable level of risk without hindering the ability to maximize returns. Management has procedures to identify and manage significant operational and financial risks. In addition to the risks identified below, other risk factors are set forth in the "Risk Management" section of the Corporation's 2006 Annual Report as well as its Annual Information Form.

Ambatovy Project

The capital cost of the Ambatovy Project in Madagascar is currently estimated to be US$3.3 billion (100% basis). Unforeseen conditions or developments could arise during the construction period which could delay or prevent completion, and/or substantially increase the cost of construction of the necessary facilities and infrastructure to develop the project. Such events may include, without limitation, shortages of equipment, materials or labour, delays in delivery of equipment or materials, labour disruptions, delays in attaining regulatory permits, political events, adverse weather conditions, unanticipated increases in equipment, material and labour costs, unfavourable currency fluctuations, natural or man-made disasters, accidents and unforeseen engineering, technical and technological design, geotechnical, environmental, infrastructure or geological problems. Such events could delay production. In addition, the level of production and sustaining capital and operating cost estimates relating to the project are predicated upon certain assumptions and are inherently subject to uncertainties. It is very likely that actual results for the project will differ from our current estimates and assumptions, and these differences may be material.

The Ambatovy Project's partners have executed financing agreements of US$2.1 billion (100% basis) with a syndicate of lenders. Although project financing, subject to certain conditions precedent to disbursement, has been arranged, there can be no assurance that any other additional funding required will be made available on acceptable terms, if at all. The partners guarantee their pro rata share of the project debt financing until the project passes certain completion tests. There is no assurance that the project will pass all completion tests. Once the project passes the completion tests all the project debt becomes non-recourse to the sponsors.

There are numerous conditions that must be satisfied or waived before funds can be drawn on the project financing. Many of these conditions are beyond the control of the Corporation. The failure to satisfy or obtain waivers of any of the conditions could result in significant delays or in abandonment of the development of the Ambatovy Project.

Madagascar is a developing country and may be considered to be, or may become, politically or economically unstable. The Ambatovy Project could be adversely affected by uncertain political or economic environments, war, civil or other disturbances, and a changing fiscal regime and by Madagascar's underdeveloped industrial and economic infrastructure.

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.

	Q3 2007	Q3 2006	**Nine months 2007**	Nine months 2006
Revenue	**$ 123.4**	$ 120.7	**$ 373.8**	357.2
Net earnings	**9.7**	11.6	**38.7**	17.5
Total assets	**1,261.6**	1,321.6	**1,261.6**	1,321.6
Total liabilities	**523.2**	551.4	**523.2**	551.4

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 December 2005 to September 2007.

	Quarter Ended							
(millions of dollars, except per share amounts)	**September 2007**	June 2007	March 2007	December 2006	September 2006	June 2006[1]	March 2006[1]	December 2005
Revenue								
Metals	**$ 150.7**	$ 274.1	$ 204.0	$ 192.3	$ 148.0	$ 120.3	$ 82.8	$ 98.0
Oil and Gas	**81.5**	77.7	58.4	68.7	65.1	69.6	68.7	58.6
Power	**31.6**	28.3	27.9	26.1	29.0	28.4	22.2	22.0
Coal	**28.1**	24.6	19.8	17.1	29.1	73.2	73.8	62.7
Corporate and other	**9.4**	0.7	-	-	-	-	-	-
	$ 301.3	$ 405.4	$ 310.1	$ 304.2	$ 271.2	$ 291.5	$ 247.5	$ 241.3
Earnings from continuing operations	**$ 66.1**	132.4	$ 89.1	$ 77.8	$ 73.2	$ 56.6	$ 35.3	$ 9.6
Earnings (loss) from discontinued operations	**(0.7)**	-	-	0.8	0.9	0.6	0.4	(0.5)
Net earnings	**65.4**	132.4	89.1	78.6	74.1	57.2	35.7	9.1
Earnings from continuing operations per share								
Basic	**0.28**	0.72	0.52	0.50	0.48	0.38	0.24	0.06
Diluted	**0.28**	0.72	0.52	0.47	0.42	0.33	0.20	0.05
Earnings (loss) from discontinued operations per share								
Basic	-	-	-	0.01	0.01	-	-	-
Diluted	-	-	-	-	0.01	-	-	-
Earnings per share								
Basic	**0.28**	0.72	0.52	0.51	0.49	0.38	0.24	0.06
Diluted	**0.28**	0.72	0.52	0.47	0.43	0.33	0.20	0.05

(1) Restated – as previously reported, 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.

Accounting Changes

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 three- and nine-month period ended September 30, 2007.

Change in Accounting for Royal Utilities

On June 27, 2006, the Corporation completed the initial public offering ("IPO") of 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.

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 and Financial Instruments – Disclosure and Presentation

In December 2006, the CICA issued three new accounting standards: Section 1535, “Capital Disclosures”, Section 3862, “Financial Instruments Disclosures”, and Section 3863, “Financial Instruments Presentation”.

Section 1535 establishes guidelines for the disclosure of information regarding a company’s capital and how it is managed. Enhanced disclosures with respect to the objective, policies, and processes for managing capital and quantitative disclosure about what a company regards as capital are required.

Section 3862 and Section 3863 replace 3861, “Financial Instruments – Disclosure and Presentation”. Section 3862 requires increased disclosures regarding the risks associated with financial instruments and how these risks are managed. Section 3863 carries forward standards for presentation of financial instruments and non-financial derivatives and provides additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity.

These standards are effective for fiscal years beginning on or after October 1, 2007 and therefore the Corporation will implement them in the first quarter of 2008

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 provides guidance on how the issuer should account for and the financial statement presentation of the instrument, embedded derivatives within the hybrid instrument, the future tax aspects of the instrument and how the instrument is to be treated in earnings per share computation. The adoption of this abstract did not have an impact on the interim consolidated financial statements.

EIC 165 – Accounting by an Investor Upon a Loss of Significant Influence

In April 2007, the Emerging Issues Committee of the CICA issued EIC 165, “Accounting by an Investor Upon a Loss of Significant Influence”. This guidance provides that if the company no longer has a significant influence over an equity method accounted investee, but continues to be an equity investor, then as part of discontinuing the equity method of accounting, the company would derecognize its portion of investee Other Comprehensive Income, with an offset to the carrying value of the investment. Prior periods are restated as if significant influence had never been in place. EIC 165 will be effective for the Corporation on July 1, 2007. The adoption of this abstract did not have an impact on the interim consolidated financial statements.

Inventories

In June 2007, the CICA issued a new section 3031, Inventories, in March 2007, which will replace the existing section 3030 of the same title. The new standard provides guidance on the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. The standard is effective for fiscal years beginning on or after January 1, 2008 and will be implemented by the Corporation in the first quarter of 2008. The Corporation is currently assessing the implications of adopting the standard.

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 September 30, 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. 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, a portion of the nickel, cobalt 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 third quarter of 2007 amounted to $21.8 million (2006 - $29.7 million) and for the nine months ended September 30, 2007 was $77.6 million (2006 - $75.4 million). The total value of goods and services purchased from joint ventures in the third quarter 2007 was $2.2 million (2006 - $nil million) and for the nine months ended September 30, 2007 was $6.9 million (2006 - $12.9 million).

Accounts receivable from joint ventures and Royal Utilities as at September 30, 2007, was $8.4 million (2006 - $9.3 million). Accounts payable to joint ventures as at September 30, 2007 was $5.7 million (2006 - $8.9 million).

Contractual Obligations and Commitments

Coal Valley Resources Inc. ("CVRI") in which the Corporation has a 50% interest, signed an agreement with CN Rail to pledge 300,000 tonnes of clean coal inventory as security on the liability outstanding to CN Rail. The outstanding liability had increased due to delays in sales as a resulting from a strike that had decreased rail service.

The Corporation is committed to purchases of equipment and services in the amount of $64.6 million. As the Power and Metals expansions progress, the Corporation expects to enter into additional commitments.

Additional Information

Share Capital

As at September 30, 2007 and October 26, 2007, the Corporation had 233,645,908 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 September 30, 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 September 30, 2007 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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Sherritt International Corporation

Interim Consolidated Financial Statements

Nine Months Ended September 30, 2007

Sherritt International Corporation
Third Quarter Report

Interim Consolidated Financial Statements

Supplementary Financial Information

Consolidated Balance Sheets

[$ millions]	September 30, 2007 (unaudited)	December 31, 2006 (restated – note 2)
ASSETS		
Current assets		
Cash and cash equivalents	**$ 127.6**	$ 353.3
Restricted cash	**36.1**	6.5
Short-term investments	**183.1**	9.9
Advances and loans receivable (note 6)	**43.6**	56.0
Accounts receivable	**354.0**	343.2
Inventories	**97.6**	108.5
Prepaid expenses and other assets	**13.2**	8.1
Future income taxes	**23.5**	21.8
Assets of discontinued operations (note 4a)	**47.2**	-
	925.9	907.3
Capital assets	**1,193.6**	1,079.9
Investments (note 5)	**399.0**	355.9
Future income taxes	**45.9**	78.7
Other assets (note 6)	**228.8**	131.7
Unallocated purchase price (note 3)	**941.5**	-
Assets of discontinued operations (note 4a)	**46.2**	-
	$ 3,780.9	$ 2,553.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term debt	**$ 52.7**	$ 81.8
Accounts payable and accrued liabilities	**297.4**	218.1
Long-term debt and other long-term liabilities (note 8)	**14.7**	9.1
Asset retirement obligations (note 9)	**3.6**	2.4
Future income taxes	**0.4**	-
Liabilities of discontinued operations (note 4a)	**34.8**	-
	403.6	311.4
Long-term debt and other long-term liabilities (note 8)	**365.5**	333.5
Asset retirement obligations (note 9)	**64.6**	62.6
Future income taxes	**77.9**	74.6
	911.6	782.1
Non-controlling interests	**190.7**	194.1
Guarantees, commitments and contingencies (note 15)		
Shareholders' equity		
Capital stock (note 10)	**1,871.9**	929.2
Contributed surplus (note 12)	**191.8**	191.8
Accumulated other comprehensive loss (note 19)	**(152.6)**	(43.8)
Retained earnings	**767.5**	500.1
	2,678.6	1,577.3
	$ 3,780.9	$ 2,553.5

Consolidated Statements of Operations

[$ millions]	Three months ended September 30 (unaudited) 2007	Three months ended September 30 (unaudited) 2006 (restated – note 2 and 4b)	Nine months ended September 30 (unaudited) 2007	Nine months ended September 30 (unaudited) 2006 (restated – note 2 and 4b)
Revenue	**$ 301.3**	$ 271.2	**$ 1,016.8**	$ 810.2
Operating, selling, general and administrative	**142.7**	124.4	**439.4**	428.8
Earnings before undernoted items	**158.6**	146.8	**577.4**	381.4
Depletion, amortization and accretion	**35.4**	37.1	**112.8**	131.6
Net financing expense (note 13)	**16.5**	6.0	**23.9**	25.8
Gain on sale of investments	**(1.4)**	-	**(1.4)**	(5.0)
Share of earnings of equity accounted investments	**(4.0)**	(5.2)	**(15.9)**	(6.1)
Earnings from continuing operations before income taxes and non-controlling interests	**112.1**	108.9	**458.0**	235.1
Income taxes (note 14)	**41.0**	30.3	**154.2**	56.3
Non-controlling interests	**5.0**	5.4	**16.2**	13.7
Earnings from continuing operations	**66.1**	73.2	**287.6**	165.1
Earnings (loss) from discontinued operations (note 4)	**(0.7)**	0.9	**(0.7)**	1.9
Net earnings	**$ 65.4**	$ 74.1	**$ 286.9**	$ 167.0
Earnings from continuing operations per share (note 10)				
Basic	**$ 0.28**	$ 0.48	**$ 1.46**	$ 1.09
Diluted	**0.28**	0.42	**1.45**	0.94
Earnings per share (note 10)				
Basic	**$ 0.28**	$ 0.49	**$ 1.46**	$ 1.10
Diluted	**0.28**	0.43	**1.45**	0.95
Weighted average number of shares (millions of shares)				
Basic	**233.6**	151.3	**196.6**	151.3
Diluted	**234.5**	179.1	**197.5**	188.8

Consolidated Statements of Retained Earnings

[$ millions]	Three months ended September 30 (unaudited) 2007	2006	Nine months ended September 30 (unaudited) 2007	2006
Beginning of period, as previously reported	**$ 709.1**	$ 385.0	**$ 500.1**	$ 371.7
Change in accounting policies (note 2)	**-**	-	**(0.3)**	-
Beginning of period, as restated	**709.1**	385.0	**499.8**	371.7
Net earnings	**65.4**	74.1	**286.9**	167.0
Excess of cost of repurchase of common shares over stated value	**-**	-	**-**	(0.8)
Purchase of convertible debentures	**-**	-	**-**	(71.2)
Dividends on common shares	**(7.0)**	(3.8)	**(19.2)**	(11.4)
End of period	**$ 767.5**	$ 455.3	**$ 767.5**	$ 455.3

Consolidated Statements of Comprehensive Income

[$ millions]	Three months ended September 30 (unaudited) 2007	2006	Nine months ended September 30 (unaudited) 2007	2006
Net earnings	**$ 65.4**	$ 74.1	**$ 286.9**	$ 167.0
Other comprehensive loss (note 19)				
Unrealized foreign currency losses on self-sustaining foreign operations	**(42.7)**	-	**(108.8)**	-
Comprehensive income	**$ 22.7**	$ 74.1	**$ 178.1**	$ 167.0

Consolidated Statements of Cash Flow

[$ millions]	Three months ended September 30 (unaudited) 2007	2006 (restated – note 4)	Nine months ended September 30 (unaudited) 2007	2006 (restated – note 4)
Operating activities				
Net earnings from continuing operations	**$ 66.1**	$ 73.2	**$ 287.6**	$ 165.1
Add (deduct)				
Non-controlling interests	**5.0**	5.4	**16.2**	13.7
Depletion, amortization and accretion	**35.4**	37.1	**112.8**	131.6
Amortization of financing costs	**0.1**	0.6	**0.2**	1.5
Stock-based compensation expense (recovery)	**6.1**	(3.5)	**15.5**	(0.1)
Pension expense	**2.0**	2.1	**5.9**	9.2
Share of earnings of equity accounted investments	**(4.0)**	(5.2)	**(15.9)**	(6.1)
Gains on sale of investments	**(1.4)**	-	**(1.4)**	(5.0)
Fair value adjustment of ABCP (note 5)	**6.0**	-	**6.0**	-
Future income taxes expense (recovery)	**4.0**	(13.7)	**(4.9)**	(38.4)
Foreign exchange loss	**10.7**	1.3	**19.2**	2.2
Asset retirement obligations	**(0.8)**	(0.2)	**(2.2)**	(3.7)
Accretion of convertible debentures	**-**	-	**-**	0.3
Loss on debt settlement	**-**	-	**-**	3.1
Other items	**1.1**	(0.7)	**1.2**	1.0
	130.3	96.4	**440.2**	274.4
Net (increase) decrease in non-cash working capital (note 16)	**(49.0)**	2.4	**(77.1)**	(52.6)
Cash provided by continuing operations	**81.3**	98.8	**363.1**	221.8
Cash provided by (used for) discontinued operations	**(3.5)**	0.7	**2.2**	1.3
Cash provided by operating activities	**77.8**	99.5	**365.3**	223.1
Investing activities				
Capital expenditures	**(86.2)**	(58.3)	**(266.4)**	(163.2)
Other assets	**(95.2)**	(12.6)	**(157.5)**	(30.6)
Restricted cash	**9.6**	(5.0)	**4.0**	(10.2)
Net proceeds from sale of capital assets	**0.1**	-	**0.1**	0.4
Short-term investments	**(173.2)**	(1.8)	**(173.2)**	37.3
Proceeds from sale of investments	**40.3**	-	**40.3**	2.8
Reclassification of investments (note 5)	**(59.5)**	-	**(59.5)**	-
Cash balances acquired from Dynatec	**-**	-	**12.8**	-
Distribution from investments	**10.3**	22.2	**29.7**	139.4
Net change in non-cash capital expenditures	**2.6**	3.0	**0.7**	1.7
Cash used for continuing operations	**(351.2)**	(52.5)	**(569.0)**	(22.4)
Cash used for discontinued operations	**(1.4)**	-	**(1.5)**	(0.9)
Cash used for investing activities	**(352.6)**	(52.5)	**(570.5)**	(23.3)
Financing activities				
Decrease in short-term debt	**(0.2)**	-	**(29.1)**	(10.1)
Increase in long-term debt	**13.2**	4.0	**56.8**	7.4
Dividends paid to non-controlling interest	**(6.7)**	(5.8)	**(19.6)**	(28.1)
Dividends paid	**(7.0)**	(3.8)	**(17.3)**	(11.4)
Purchase of convertible debentures	**-**	-	**-**	(181.6)
Payment of unsecured debentures	**-**	-	**-**	(14.4)
Issuance of common shares	**1.4**	2.2	**1.4**	3.2
Repurchase of common shares	**-**	-	**-**	(2.1)
Cash provided by (used for) financing activities	**0.7**	(3.4)	**(7.8)**	(237.1)
Effect of exchange rate changes on cash and cash equivalents	**(4.6)**	(0.1)	**(8.8)**	(0.4)
Increase (decrease) in cash and cash equivalents	**(278.7)**	43.5	**(221.8)**	(37.7)
Cash and cash equivalents at beginning of period	**410.2**	356.4	**353.3**	437.6
Cash and cash equivalents at end of period	**$ 131.5**	$ 399.9	**$ 131.5**	$ 399.9
Consist of:				
Cash and cash equivalents of continuing operations	**$ 127.6**	$ 399.2	**$ 127.6**	$ 399.2
Cash and cash equivalents of discontinued operations	**3.9**	0.7	**3.9**	0.7
Cash and cash equivalents at end of period	**$ 131.5**	$ 399.9	**$ 131.5**	$ 399.9

Supplementary Cash Flow Information				
Cash received for interest	**$ 4.6**	$ 4.0	**$ 13.3**	$ 13.6
Cash paid for interest on debt	**2.2**	10.9	**16.3**	25.4
Cash paid for income taxes	**50.9**	27.2	**153.7**	49.9
Cash and cash equivalents consist of:				
Cash on hand and balances with banks	**$ 67.9**	$ 100.9	**$ 67.9**	$ 100.9
Cash equivalents	**63.6**	299.0	**63.6**	299.0
	$ 131.5	$ 399.9	**$ 131.5**	$ 399.9

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 implementation of CICA Handbook Sections 3855, 3865, 1530, 3251, 3861, 1506 and EIC-160. 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 establish standards for reporting and presenting comprehensive income. The standards set out in Sections 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 cost of the underlying instruments, 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 ("OCI") 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 loss (note 19).

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 requires 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 September 30, 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) Convertible and Other Debt Instruments

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 for 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 adoption of this abstract did not have an impact on the interim consolidated financial statements.

e) Accounting by an investor upon a loss of significant influence

In April 2007, the Emerging Issues Committee of the CICA issued EIC 165, "Accounting by an Investor Upon a Loss of Significant Influence". This abstract provides that if a company no longer has significant influence over an equity method accounted investee, but continues to be an equity investor, then as part of discontinuing the equity method of accounting, the company would derecognize its portion of investee OCI, with an offset to the carrying value of the investment. The accounting treatment in this Abstract is to be applied retrospectively, with restatement of prior periods, to all financial statements for interim and annual reporting periods ending after June 30, 2007. EIC 165 is effective for the Corporation on July 1, 2007. The adoption of this abstract did not have an impact on the interim consolidated financial statements.

2. Accounting changes (continued)

f) 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 November 2006, the CICA issued the new handbook Section 1535, "Capital Disclosures," effective for annual and interim periods related to fiscal years 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.

iii. The CICA issued a new section 3031, "Inventories", in March 2007, which is based on International Accounting Standard 2. The new section replaced the existing section 3030, Inventories. Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the existing guidance of the "lower of cost and market". The new section also allows the reversal of any write-downs previously recognized. Further, due to the changes in the section and the consequential amendments, some of the Corporation's spare parts which are currently reported as other assets on the consolidated balance sheet, may be accounted for in the future as property, plant and equipment. The new accounting standard and any consequential amendments will be effective for the Corporation beginning January 1, 2008. The Corporation is currently evaluating the implications of the new standard.

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.

2. Accounting changes (continued)

g) Comparative amounts

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

3. Acquisition of Dynatec Corporation

On April 20, 2007, the Corporation and Dynatec Corporation ("Dynatec") jointly announced a proposed transaction whereby the Corporation would acquire all of the issued and outstanding common shares of Dynatec, a company that specialized in providing mining and metallurgical technologies services as well as developing mining properties in which it had an ownership interest. Under the agreement, each Dynatec common share would be exchanged for 0.19 of a common share of the Corporation and an interest in a note issued by the Corporation, which would be promptly satisfied by the FNX Mining Company Inc. ("FNX") common shares held by Dynatec prior to the date of announcement.

On June 14, 2007, the Corporation completed the transaction to acquire Dynatec. The Corporation issued 61,439,408 common shares and settled the note by delivery of the FNX common shares. The purchase price consisted of 61,439,408 common shares with a fair value of $15.32 per share, 20,500,000 FNX common shares at the price of $25.46 per share, the acquisition costs directly related to the transaction and the tax impact of the disposition of the FNX shares. The fair value of the Corporation shares of $15.32 per share used in the purchase price calculation was based upon the average closing price of the Corporation's common shares for the period from two days prior to until two days after the public announcement of the acquisition. The price of FNX common shares was based on the closing price on April 19, 2007, the day before the date of announcement of the acquisition.

The acquisition is accounted for under the purchase method of accounting. The purchase cost will be allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. The Corporation is in the process of finalizing the estimated fair values of all identifiable assets and liabilities acquired and the amount of the purchase price that may be allocated to goodwill, and the complete impact of applying purchase accounting on the consolidated statement of operations. The following table summarizes the components of the total purchase price and net assets acquired. It reflects only fair value adjustments for certain of the identifiable assets and liabilities acquired; in particular, the assets and liabilities of the Mining Services and Coal-bed Methane Divisions. The purchase price allocation is in progress of being finalized and subject to adjustment upon the completion of the valuation process. The final allocation of fair value to the assets acquired and liabilities assumed could differ materially from the amounts presented in the consolidated financial statements. The difference between the cost of acquisition and the fair values of certain of the net assets acquired has been presented as "unallocated purchase price".

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

3. Acquisition of Dynatec Corporation (continued)

Purchase price:		
61,439,408 common shares issued	$	941.3
20,500,000 FNX shares [a]		521.9
Tax impact associated with FNX share/distribution [a] (note 14)		105.6
Transaction costs		38.0
	$	1,606.8
Value of investment in FNX on announcement date		521.9
Net assets acquired and liabilities assumed:		
Cash		12.8
Net working capital		43.8
Marketable securities and other investments		38.7
Capital assets		33.0
Mining and resource properties under development		5.3
Future income tax assets		0.4
Other assets		10.5
Assets retirement obligation		(1.1)
		665.3
Unallocated Purchase Price		941.5
	$	1,606.8

(a) The fair market value of the FNX shares at June 13, 2007 was $33.46 per share, totalling $685.9 million. The tax impact was calculated based on this fair market value.

The results of operations of Dynatec are included in the consolidated statement of operations since June 14, 2007.

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

4. Discontinued operations

a) Mining Services, Mineral Products and Coal-Bed Methane Divisions

Following the acquisition of Dynatec on June 14, 2007, the Corporation determined to sell Dynatec's mining services, mineral products and coal-bed methane assets. Accordingly, these businesses are classified as discontinued operations.

Subsequent to the third quarter of 2007, and as described in note 20, FNX exercised its call option to purchase the Mining Services Division. The Corporation is in the process of selling the Mineral Products and Coal-Bed Methane Divisions.

The earnings from the respective discontinued operations are as follows:

Three months ended September 30, 2007	**Mining Services**	**Mineral Products**	**Coal-bed Methane**	**Total**
Revenue	$ 64.8	$ 0.8	$ -	$ 65.6
Operating, selling, general and administrative	63.5	1.7	-	65.2
Earnings (loss) before undernoted item	1.3	(0.9)	-	0.4
Depletion, amortization and accretion	1.5	-	-	1.5
Loss from operations before financing income and income taxes	(0.2)	(0.9)	-	(1.1)
Financing Income	0.4	-	-	0.4
Income taxes	-	-	-	-
Net earnings (loss) from discontinued operations	$ 0.2	$ (0.9)	$ -	$ (0.7)
Earnings (loss) from discontinued operations per share				
Basic	$ -	$ -	$ -	$ -
Diluted	-	-	-	-

For the period from June 14 to September 30, 2007	**Mining Services**	**Mineral Products**	**Coal-bed Methane**	**Total**
Revenue	$ 75.2	$ 1.1	$ -	$ 76.3
Operating, selling, general and administrative	73.7	2.0	-	75.7
Earnings (loss) before undernoted item	1.5	(0.9)	-	0.6
Depletion, amortization and accretion	1.7	-	-	1.7
Loss from operations before financing income and income taxes	(0.2)	(0.9)	-	(1.1)
Financing Income	0.4	-	-	0.4
Income taxes	-	-	-	-
Net earnings (loss) from discontinued operations	$ 0.2	$ (0.9)	$ -	$ (0.7)
Earnings (loss) from discontinued operations per share				
Basic	$ -	$ -	$ -	$ -
Diluted	-	-	-	-

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

4. Discontinued operations (continued)

The carrying values of the net assets related to the discontinued operations are as follows:

		September 30, 2007
Assets		
Current assets[1]	$	47.2
Long-term assets		46.2
Total Assets		93.4
Liabilities		
Current liabilities		34.8
Net assets of discontinued operations	$	58.6

[1] Current assets include cash and cash equivalents of $3.9 million.

b) Soybean-based food processing business

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 and nine months ended September 30, 2006 are summarized as follows:

		Three months ended September 30, 2006		Nine months ended September 30, 2006
Revenue	$	14.3	$	43.2
Operating, selling, general and administrative		12.8		39.3
Earnings before undernoted item		1.5		3.9
Depletion, amortization and accretion		0.6		2.0
Earnings from operations before income taxes		0.9		1.9
Income taxes		-		-
Net earnings from discontinued operation	$	0.9	$	1.9
Earnings from discontinued operation per share				
Basic	$	0.01	$	0.01
Diluted		0.01		0.01

5. Investments

As at September 30, 2007, investments included the Corporation's interest in Royal Utilities of $328.1 million, hotel investments in Cuba of $17.4 million, and $53.5 million invested in Canadian Asset-Backed Commercial Paper ("ABCP"), net of $6 million fair value adjustment. The ABCP portfolio matured between mid August 2007 and mid September 2007 but was not repaid. A group of participants in the ABCP market, including banks, liquidity providers and major investors (the "Consortium"), have agreed to a standstill period with respect to ABCP to permit time for the issuers of the ABCP to be restructured. On October 15, 2007, the Consortium agreed to extend the period to December 14, 2007 to allow for more time to restructure the issuers.

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

5. Investments (continued)

The Corporation has classified the ABCP as long-term investments as it is anticipated that this investment may be realized beyond a 365-day period.

6. Other assets

	September 30, 2007	December 31, 2006
Advances and loans receivable[(a)]	**$ 111.1**	$ 75.3
Mining and resource properties under development[(b)]	**74.0**	-
Notes receivable	**34.9**	44.6
Intangible assets	**22.1**	23.7
Progress payments and deposits	**1.2**	7.3
Deferred financing costs	**-**	11.1
Long-term spare parts and equipment	**9.9**	10.7
Pension asset	**5.2**	4.1
Deferred items	**2.3**	2.5
Other	**11.7**	8.4
	272.4	187.7
Current portion of advances and loans receivable	**(43.6)**	(56.0)
	$ 228.8	$ 131.7

(a) As at September 30, 2007, the proportionately consolidated 50% of the loan from the joint venture partner was $63.7 million; $10.6 million was also receivable from the Metals business for funding of a specific project relating to the metals expansion. In addition, the Corporation has provided working capital and other advances, net of the elimination of the proportionately consolidated 50% of the advances.

(b) On June 14, 2007, the Corporation acquired mining and resources properties under development in Madagascar through the acquisition of Dynatec. The properties acquired are subject to purchase price allocation adjustment (see Note 3). The Corporation has since spent $74 million for the nine month period ended September 30, 2007 or $69 million during the third quarter.

7. Post-retirement benefits

The Corporation’s pension expense for the three months ended September 30, 2007 was $2.0 million (2006 - $2.1 million). For the nine months ended September 30, 2007, pension expense was $5.9 million (2006 - $9.2 million).

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

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

	September 30, 2007	December 31, 2006
7.875% senior unsecured debentures due 2012	**$ 263.9**	$ 273.6
Loans from financial institution	**44.0**	22.5
Other	**58.3**	32.4
	366.2	328.5
Capital lease obligations	**13.6**	13.7
Other long-term liabilities	**0.4**	0.4
	380.2	342.6
Current portion of long-term debt	**(14.7)**	(9.1)
	$ 365.5	$ 333.5

Interest and accretion on long-term debt for the three months ended September 30, 2007 was $6.9 million (2006 - $9.9 million). For the nine months ended September 30, 2007, interest and accretion on long-term debt was $18.6 million (2006 - $34.4 million). The 7.875% senior unsecured debentures are net of issuance costs of $9.7 million as at September 30, 2007.

During the first quarter, the Corporation entered into an additional $26.5 million loan from a financial institution. The loan bears interest at bankers' acceptance rates plus an applicable margin, and is payable semi-annually in ten equal installments over a five-year term.

In 2005, the Corporation and its joint venture partner entered into funding agreements with companies within the Metals business to finance the metals expansion. Under these agreements, the projected capital cost is to be funded equally by the Corporation and its joint venture partner. As at September 30, 2007, the proportionately consolidated 50% of the loan from the joint venture partner was $58.3 million.

9. 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.

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

9. Asset retirement obligations (continued)

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

	Nine months ended September 30, 2007	Year ended December 31, 2006
Balance, beginning of period	**$ 65.0**	$ 81.6
Additions to liabilities	**7.1**	10.1
Liabilities settled	**(3.7)**	(4.7)
Accretion expense	**3.5**	4.8
Change in foreign exchange rates	**(3.7)**	0.4
Adjustment for Royal Utilities	**-**	(27.2)
Balance, end of period	**68.2**	65.0
Current portion	**(3.6)**	(2.4)
	$ 64.6	$ 62.6

The Corporation has estimated the undiscounted cash flow required to settle the asset retirement obligation at approximately $189 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.

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

10. Capital stock

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

	Number		Stated Capital	
	Nine months ended September 30, 2007	Year ended December 31, 2006	**Nine months ended September 30, 2007**	Year ended December 31, 2006
Balance, beginning of period	**172,011,570**	151,333,889	**$ 929.2**	$ 781.7
Shares issued:				
Acquisition of Dynatec (note 3)	**61,439,408**	-	**941.3**	-
Share purchase plan	**89,930**	87,585	**0.8**	0.6
Repurchase of shares	**-**	(337,216)	**-**	(1.8)
Stock options exercised	**105,000**	660,000	**0.6**	4.4
7% convertible debenture conversion	**-**	20,023,460	**-**	141.7
7% convertible debenture redemption	**-**	243,852	**-**	2.6
Balance, end of period	**233,645,908**	172,011,570	**$ 1,871.9**	$ 929.2

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

	Three months ended September 30		Nine months ended September 30	
	2007	2006	**2007**	2006
Earnings from continuing operations	**$ 66.1**	$ 73.2	**$ 287.6**	$ 165.1
Earnings (loss) from discontinued operations	**(0.7)**	0.9	**(0.7)**	1.9
Net earnings - basic	**65.4**	74.1	**286.9**	167.0
Loss on purchase of convertible debentures	**-**	-	**-**	3.1
Interest and accretion on convertible debentures	**-**	2.3	**-**	9.4
Net earnings – diluted	**65.4**	76.4	**286.9**	179.5
Earnings (loss) from discontinued operations	**(0.7)**	0.9	**(0.7)**	1.9
Earnings from continuing operations - diluted	**$ 66.1**	$ 75.5	**$ 287.6**	$ 177.6
Weighted average number of common shares - basic	**233.6**	151.3	**196.6**	151.3
Weighted average effect of dilutive securities:				
Stock options	**0.9**	0.3	**0.9**	0.4
Convertible debentures	**-**	27.5	**-**	37.1
Weighted average number of common shares - diluted	**234.5**	179.1	**197.5**	188.8
Earnings from continuing operations per common share				
Basic	**$ 0.28**	$ 0.48	**$ 1.46**	$ 1.09
Diluted	**0.28**	0.42	**1.45**	0.94
Earnings from discontinued operations per common share				
Basic	**$ -**	$ 0.01	**$ -**	$ 0.01
Diluted	**-**	0.01	**-**	0.01
Earnings per common share				
Basic	**$ 0.28**	$ 0.49	**$ 1.46**	$ 1.10
Diluted	**0.28**	0.43	**1.45**	0.95

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

11. Stock-based compensation plans

The following is a summary of stock option activity including options with share appreciation rights, during the three months and nine months ended September 30, 2007.

	Three months ended September 30, 2007		Three months ended September 30, 2006	
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
Outstanding at beginning of period	**2,401,667**	**$ 9.48**	3,075,000	$ 9.10
Issued	**945,000**	**14.95**	25,000	11.57
Exercised	**(130,000)**	**7.22**	(242,780)	6.38
Expired or forfeited	**(76,667)**	**13.42**	(155,000)	9.98
Outstanding at end of period	**3,140,000**	**11.12**	2,702,220	9.32
Options exercisable, end of period	**722,555**	**$ 7.64**	607,220	$ 5.44

	Nine months ended September 30, 2007		Nine months ended September 30, 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	**945,000**	**14.95**	1,275,000	10.45
Exercised	**(146,666)**	**7.54**	(422,780)	6.11
Expired or forfeited	**(110,001)**	**12.40**	(155,000)	9.98
Outstanding at end of period	**3,140,000**	**11.12**	2,702,220	9.32
Options exercisable, end of period	**722,555**	**$ 7.64**	607,220	$ 5.44

As at September 30, 2007, 2,875,001 (2006 – 2,095,000) options with a share appreciation right attachment remained outstanding for which the Corporation has recognized compensation expense of $2.2 million and $5.8 million, for the three months and nine months ended September 30, 2007, respectively (recovery of $0.5 million and $nil for the three months and nine months ended September 30, 2006, respectively).

The Corporation also recorded compensation expense of $3.9 million and $9.7 million, for the three and nine months ended September 30, 2007, respectively (recovery of $3.0 million and $0.1 million for the three months and nine months ended September 30, 2006, respectively) for the other stock-based compensation plans.

	Three months ended September 30, 2007		Three months ended September 30, 2006	
	SLP/Power Units	**RSU/DSU**	SLP/Power Units	RSU/DSU
Balance, beginning of period	**1,969,625**	**323,001**	2,132,750	528,120
Issued	**-**	**339,559**	-	3,787
Exercised/Forfeited	**(720,000)**	**(37,925)**	-	(2,100)
Outstanding at end of period	**1,249,625**	**624,635**	2,132,750	529,807
Units exercisable, end of period	**1,249,625**	**149,955**	2,132,750	333,871
Weighted-average exercise price	**$ 4.60**		$ 4.85	

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

11. Stock-based compensation plans (continued)

	Nine months ended September 30, 2007		Nine months ended September 30, 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	**-**	**353,135**	-	212,474
Exercised/Forfeited	**(883,125)**	**(213,832)**	(32,625)	(129,400)
Outstanding at end of period	**1,249,625**	**624,635**	2,132,750	529,807
Units exercisable, end of period	**1,249,625**	**149,955**	2,132,750	333,871
Weighted-average exercise price	**$ 4.60**		$ 4.85	

12. Contributed surplus

	Nine months ended September 30, 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 a 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.

13. Net financing expense

	Three months ended September 30		Nine months ended September 30	
	2007	2006	**2007**	2006
Interest income on cash, cash equivalents, short-term investments and loans receivable	**$ (6.2)**	$ (4.4)	**$ (18.0)**	$ (12.6)
Interest expense on debt	**6.9**	9.9	**18.6**	34.4
Foreign exchange losses	**10.7**	1.3	**19.2**	2.2
Other	**5.1**	(0.8)	**4.1**	1.8
	$ 16.5	$ 6.0	**$ 23.9**	$ 25.8

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

14. Income taxes

	Three months ended September 30		Nine months ended September 30	
	2007	2006	**2007**	2006
Current	**$ 37.0**	$ 44.0	**$ 159.1**	$ 94.7
Future	**4.0**	(13.7)	**(4.9)**	(38.4)
	$ 41.0	$ 30.3	**$ 154.2**	$ 56.3

The Corporation realized a taxable capital gain of $325 million on the disposition of the FNX shares on its acquisition of Dynatec, which resulted in the use of $42.5 million of future income tax assets and the creation of a $63.1 million current tax liability. These tax costs have been included in the purchase price of Dynatec.

15. Guarantees, commitments and contingencies

Guarantees

On October 18, 2006, a shareholder agreement (the “Shareholders Agreement”) was entered into by Dynatec, Sumitomo Corporation (“Sumitomo”), Korea Resources Corporation (“Kores”) and SNC-Lavalin Inc. (“SNC-Lavalin”) establishing the shareholder structure for the Madagascar project companies, Ambatovy Minerals S.A. (“AMSA”) and Dynatec Madagascar S.A. (“DMSA”). The agreement stipulated that Dynatec would retain a 45% interest, and Sumitomo and Kores (leading a consortium of Korean enterprises including Daewoo International Corporation, Keangnam Enterprises Ltd. and STX Corporation) would each hold a 27.5% interest in AMSA and DMSA. Upon completion of certain conditions, a subsidiary of SNC-Lavalin will acquire a 5% interest, thereby reducing the Corporation’s interest to 40%. Following completion of the Project, a put/call option arrangement has been agreed to whereby Dynatec and Sumitomo can acquire such SNC-Lavalin subsidiary’s interest or such subsidiary can divest of its interest to Dynatec and Sumitomo following completion of construction and the satisfaction of certain completion tests.

In August 2007, agreements for a US$2.1 billion, approximately 17-year limited recourse project financing were executed with a group of international lenders based in Japan, Korea, Europe, Canada and Africa. AMSA and DMSA will be the borrowers of the project debt and the first disbursement of funds is expected after the satisfactory completion of certain conditions precedent.

Each project sponsor is required to provide its pro rata share of completion guarantees to the project lenders until the Ambatovy Project has satisfied certain completion tests, at which time the indebtedness will become non-recourse to Sherritt and the other sponsors. As a result, Sherritt is required to provide up to US$840 million in completion guarantees. Under the terms of the Shareholders Agreement, each of Sumitomo and Kores are to provide cross guarantees of US$274 million and SNC-Lavalin is to provide a cross guarantee of US$50 million. The total amount of cross guarantees is US$598 million, which reduces the Corporation’s completion guarantee exposure to US$242 million.

15. Guarantees, commitments and contingencies (continued)

Coincident with entering into the shareholder agreement, Dynatec entered into cross guarantee fee letters with Sumitomo and SNC-Lavalin in which Dynatec agreed to issue 13.3 million common shares to Sumitomo and SNC-Lavalin in consideration for providing the cross guarantees. The Corporation, as the successor to Dynatec, agreed to an exchange ratio of 0.19 Sherritt common shares and 0.0634 FNX common shares for each Dynatec common share. The Corporation common shares to be issued as consideration for the cross guarantee fees to Sumitomo and SNC total approximately 3.8 million shares. The share issues are to be made in four equal installments with the first issuance required on December 31st of the year in which the initial drawdown notice under the project financing is delivered and the remaining issuances are to occur on December 31st of the three following years.

Sumitomo, Kores and SNC-Lavalin will provide limited recourse subordinated loans to the Corporation totaling US$236 million, subject to certain conditions. The loans will be provided at an interest rate of LIBOR plus 1.125% with a 15-year term. Repayment of principal and interest will be made from 70% of the Corporation's share distributions from AMSA and DMSA. Should such distributions be insufficient to repay the loans in full, the Corporation will have the option to repay any outstanding balance in either cash or its common shares. Sumitomo and Kores have made capital contributions to the Project Companies totaling US$219.6 million.

The Corporation entered into a Nickel Offtake Agreement whereby DMSA will sell its nickel production to end consumers through Sumitomo and Kores. Nickel sales are guaranteed by either Sumitomo or Kores at market prices for the purposes of the financing arrangement. Kores has an offtake right to 30,000 tonnes of the expected 60,000 tonnes nickel capacity.

Commitments

In May 2007, Coal Valley Resources Inc., in which the Corporation has a 50% interest, signed an agreement with CN Rail to pledge 300,000 tonnes of clean coal inventory as security on the liability outstanding to CN Rail. The outstanding liability had increased due to delays in sales resulting from a strike that had decreased rail service.

As at September 30, 2007, the Corporation was committed to purchases of equipment and services in the amount of $64.6 million. As the Power and Metals expansions progress, the Corporation expects to enter into additional commitments.

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

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

	Three months ended September 30		Nine months ended September 30	
	2007	2006	**2007**	2006
Accounts receivable	**$ (20.0)**	$ (29.0)	**$ (69.2)**	$ (65.3)
Inventories	**(0.6)**	(8.1)	**(2.1)**	(21.6)
Prepaid expenses	**(1.2)**	2.0	**(9.3)**	(5.3)
Accounts payable and accrued liabilities	**(27.2)**	37.5	**3.5**	39.6
	$ (49.0)	$ 2.4	**$ (77.1)**	$ (52.6)

17. Segmented information

Operating earnings from continuing operations by segment is a non-GAAP measure to earnings before income taxes. 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. 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.

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

Three months ended September 30, 2007

[$ millions]	**Metals**	**Oil and Gas**	**Power**	**Coal** [1]	**Corporate and Other** [3]	**Consolidated**
Revenue	$ 150.7	$ 81.5	$ 31.6	$ 28.1	$ 9.4	$ 301.3
Operating, selling, general and administrative	63.4	19.6	9.8	30.6	19.3	142.7
Earnings (loss) before undernoted items	87.3	61.9	21.8	(2.5)	(9.9)	158.6
Depletion, amortization and accretion	5.8	20.0	7.3	1.2	1.1	35.4
Operating earnings (loss) from continuing operations	81.5	41.9	14.5	(3.7)	(11.0)	123.2
Share of earnings of equity accounted investments	-	-	-	4.0	-	4.0
Net financing expense						(16.5)
Gain on sale of investments						1.4
Income taxes						(41.0)
Non-controlling interests						(5.0)
Earnings from continuing operations						66.1
Loss from discontinued operations (note 4a)						(0.7)
Net earnings						65.4
Capital expenditures [2]	48.4	35.5	1.2	0.9	3.0	89.0
Total Assets	**$** 680.1	$ 709.3	**$** 553.5	$ 442.1	$ 1,395.9	$ 3,780.9

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

17. Segmented information (continued)

Three months ended September 30, 2006

[$ millions]	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
Earnings (loss) before undernoted items	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 accounted investments	-	-	-	5.2	-	5.2
Net financing expense						(6.0)
Income taxes						(30.3)
Non-controlling interests						(5.4)
Earnings from continuing operations						73.2
Earnings from discontinued operation (note 4b)						0.9
Net earnings						74.1
Capital expenditures[(2)]	21.1	29.0	5.9	1.3	1.0	58.3
Total Assets	$ 481.4	$ 648.0	$ 543.8	100.9	$ 699.2	$ 2,473.3

(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 $2.8 million (2006 - $nil million) from the discontinued operations and total assets include $93.4 million (2006 – 54.2 million) from the discontinued operations (see note 4).

(3) The Corporate and Other segment includes result of the metallurgical technology division acquired from Dynatec.

Nine months ended September 30, 2007

[$ millions]	Metals	Oil and Gas	Power	Coal [(1)]	Corporate and Other [(3)]	Consolidated
Revenue	$ 628.8	$ 217.6	$ 87.8	$ 72.5	$ 10.1	$ 1,016.8
Operating, selling, general and administrative	240.1	55.3	24.6	75.9	43.5	439.4
Earnings (loss) before undernoted items	388.7	162.3	63.2	(3.4)	(33.4)	577.4
Depletion, amortization and accretion	17.3	66.1	19.9	6.3	3.2	112.8
Operating earnings (loss) from continuing operations	371.4	96.2	43.3	(9.7)	(36.6)	464.6
Share of earnings of equity accounted investments	-	-	-	15.9	-	15.9
Net financing expense						(23.9)
Gain on sale of investment						1.4
Income taxes						(154.2)
Non-controlling interests						(16.2)
Earnings from continuing operations						287.6
Loss from discontinued operations (note 4a)						(0.7)
Net earnings						286.9
Capital expenditures [(2)]	128.5	118.6	16.9	2.0	3.3	269.3
Total Assets	$ 680.1	$ 709.3	$ 553.5	$ 442.1	$ 1,395.9	$ 3,780.9

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

17. Segmented information (continued)

Nine months ended September 30, 2006

[$ millions]	Metals	Oil and Gas	Power	Coal [1]	Corporate	Consolidated
Revenue	$ 351.1	$ 203.4	$ 79.6	$ 176.1	$ -	$ 810.2
Operating, selling, general and administrative	195.8	39.9	23.0	143.4	26.7	428.8
Earnings (loss) before undernoted items	155.3	163.5	56.6	32.7	(26.7)	381.4
Depletion, amortization and accretion	14.7	64.4	19.3	29.7	3.5	131.6
Operating earnings (loss) from continuing operations	140.6	99.1	37.3	3.0	(30.2)	249.8
Share of earnings of equity accounted investments	-	-	-	5.2	0.9	6.1
Net financing expense						(25.8)
Income taxes						(56.3)
Non-controlling interests						(13.7)
Gain on disposition of investments						5.0
Earnings from continuing operations						165.1
Earnings from discontinued operation (note 4b)						1.9
Net earnings						167.0
Capital expenditures[2]	47.7	89.8	17.7	6.9	2.0	164.1
Total Assets	$ 481.4	$ 648.0	$ 543.8	$ 100.9	$ 699.2	$ 2,473.3

(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 $2.9 million (2006 - $0.9 million) from the discontinued operations and total assets include $93.4 million (2006 - $54.2 million) from the discontinued operations (see note 4).

(3) The Corporate and Other segment includes result of the metallurgical technology division acquired from Dynatec, for the period from June 14 to September 30, 2007.

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

17. Segmented information (continued)

Three months ended September 30	2007 Revenue	2007 Capital Assets	2006 (restated-note 4b) Revenue	2006 (restated-note 4b) Capital Assets
Canada	**$ 20.7**	**$ 285.9**	$ 17.7	$ 205.3
Cuba	**109.1**	**894.8**	89.8	788.2
Europe	**68.2**	**6.2**	67.6	1.0
Asia	**99.2**	**6.6**	86.9	7.0
Other foreign countries	**4.1**	**0.1**	9.2	-
	$ 301.3	**$ 1,193.6**	$ 271.2	$ 1,001.5

Nine months ended September 30	2007 Revenue	2007 Capital Assets	2006 (restated-note 4b) Revenue	2006 (restated-note 4b) Capital Assets
Canada	**$ 87.5**	**$ 285.9**	$ 185.9	$ 205.3
Cuba	**295.2**	**894.8**	272.8	788.2
Europe	**335.5**	**6.2**	182.3	1.0
Asia	**279.6**	**6.6**	143.5	7.0
Other foreign countries	**19.0**	**0.1**	25.7	-
	$ 1,016.8	**$ 1,193.6**	$ 810.2	$ 1,001.5

18. 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.

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

18. Financial instruments (continued)

(b) Fair values

As at September 30, 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:

	September 30, 2007 Carrying Value	**September 30, 2007 Fair Value**	December 31, 2006 Carrying Value	December 31, 2006 Fair Value
7.875% senior unsecured debentures	**$ 263.9**	**$ 277.8**	$ 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.

Currently, there is no market quotation available for ABCP. In determining fair values, the Corporation used discounted cash flows based upon market interest rates and management's best estimate of risk factors. The fair value estimate is subject to measurement uncertainty and is dependent on the likelihood, nature and timing of future restructuring of ABCP. The Corporation will monitor this investment on an ongoing basis to determine if future events result in a change to the provision. Furthermore, the amount has been reclassified to long term investments (see Note 5).

Unutilized lines of credit as at September 30, 2007 were $49.1 million.

19. Accumulated other comprehensive loss

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

	Nine months ended September 30, 2007	Year ended December 31, 2006
Foreign currency losses on self-sustaining foreign operations		
Balance, beginning of period	**$ (43.8)**	$ (43.8)
Other comprehensive loss	**(108.8)**	-
Balance, end of period	**$ (152.6)**	$ (43.8)

20. Subsequent events

(a) Sale of Mining Services Division

On October 15, 2007, the Corporation sold the Dynatec's Mining Services assets to FNX for a price of $53 million, subject to final working capital adjustments. No gains or losses are expected to result from this transaction.

(b) Issuance of 8.25 % senior unsecured debentures

On October 24, 2007, the Corporation issued $225 million principal amount of 8.25% Senior Unsecured Debentures Series B due on October 24, 2014 pursuant to the Short Form Base Shelf Prospectus dated November 21, 2005, as supplemented by a prospectus supplement dated October 19, 2007. The net proceeds of this debt issue will be used for general corporate purposes.

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Schedule of Selected Current Assets and Accounts Payable by Operating Segment (Unaudited)

September 30, 2007

[$ millions]		Metals		Oil and Gas		Power		Coal		Corporate and Other		Consolidated
Accounts receivable	$	80.7	$	222.7	$	28.2	$	0.3	$	22.1	$	354.0
Inventories		72.0		-		15.3		10.3		-		97.6
Prepaid expenses and other assets		4.8		1.8		0.9		1.6		4.1		13.2
Future income taxes		22.5		-		-		1.4		(0.4)		23.5
	$	180.0	$	224.5	$	44.4	$	13.6	$	25.8	$	488.3
Accounts payable and accrued liabilities	$	102.0	$	36.9	$	9.3	$	19.9	$	129.3	$	297.4

June 30, 2007

[$ millions]		Metals		Oil and Gas		Power		Coal		Corporate and Other		Consolidated
Accounts receivable	$	110.4	$	209.3	$	28.1	$	1.1	$	19.0	$	367.9
Inventories		69.3		-		15.4		17.4		0.1		102.2
Prepaid expenses and other assets		37.6		2.8		1.7		3.2		7.0		52.3
Future income taxes		26.0		-		-		1.3		(0.1)		27.2
	$	243.3	$	212.1	$	45.2	$	23.0	$	26.0	$	549.6
Accounts payable and accrued liabilities	$	134.1	$	38.9	$	9.6	$	20.1	$	153.5	$	356.2

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 and other assets		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 and other assets		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

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