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International Corporation

Second Quarter 2007

Report to Shareholders

For Quarter Ending June 30, 2007

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Contents

Corporate Profile

Sherritt International Corporation is a leading diversified resource company involved in the production of thermal coal, nickel, cobalt, oil, gas and electricity. It also licenses its proprietary technologies to other mining companies. Sherritt's success is built on utilizing innovative technologies and the breadth of its financial and operational expertise to increase productivity and profitability. Sherritt continues to explore opportunities to grow its $3.8 billion asset base through expansion of its existing businesses, capital projects and strategic acquisitions.

Sherritt is a world leader in producing nickel from lateritic ore, with operations in Cuba and Canada, and a significant project under development in Madagascar. In addition, Sherritt operates and owns 41.2% of Royal Utilities Income Fund, the largest thermal coal producer in Canada. Sherritt also produces more than 31,000 barrels of oil equivalent per day and manages 376 megawatts of power generation capacity.

Sherritt's 233.5 million common shares trade on the Toronto Stock Exchange under the symbol S. Sherritt's $273.6 million principal amount of 7.875% Senior Unsecured Debentures Series A due November 26, 2012, trade on the over-the-counter bond market.

Forward-looking Statements

This interim report contains forward-looking statements. Forward-looking statements generally can be identified by the use of statements that include words such as "believe", "expect", "anticipate", "intend", "plan", "likely", "will" or other similar words or phrases. Similarly, statements contained in each of the "Outlook" sections of this interim report including those with respect to expectations concerning assets, prices, foreign exchange rates, earnings, production, market conditions, capital expenditures, commodity demand, risks, availability of regulatory approvals, corporate objectives and plans or goals, are or may be forward-looking statements. These forward-looking statements are not based on historic facts, but rather on current expectations, assumptions and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that are beyond the Corporation's ability to control or predict. Actual results and developments may differ materially from those contemplated by this interim report depending on, among others, such key factors as business and economic conditions in Canada, Cuba, 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 interim report also include the supply, demand and prices for Sherritt's products; dependence on significant customers; deliveries; production levels, production and other anticipated and unanticipated costs and expenses; energy costs; premiums or discounts realized over LME cash and other benchmark prices; interest rates; foreign-exchange rates; rates of inflation; changes in tax legislation; the timing, capital costs and financing arrangements associated with development projects; the timing of the receipt of government and other approvals; political unrest or instability in the countries where Sherritt is active; risks related to collecting accounts receivable and repatriating profits and dividends from Cuba; risks related to foreign exchange controls on Cuban government enterprises to transact in foreign currency; risks associated with the United States embargo on Cuba and the Helms-Burton Act; risks associated with mining, processing and exploration activities; potential imprecision of reserve estimates; market competition; developments affecting labour relations; environmental regulation and other risk factors listed from time to time in Sherritt's continuous disclosure documents such as its annual report, annual information form and management information circular.

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

For further information, please contact:
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Highlights

- Record net earnings of $132.4 million and earnings per share of $0.72
- Record results in Metals and Oil and Gas
- Dynatec acquisition completed with overwhelming support
- Power's 65 MW expansion commissioned on time and under budget

Financial Highlights (unaudited)

(millions of dollars, except per share amounts)	Q2 2007	Q1 2007	Q2 2006 [(3)]	Six months ended June 30 2007	Six months ended June 30 2006 [(3)]
Revenue	$ 405.4	$ 310.1	$ 291.5	$ 715.5	$ 539.0
EBITDA [(1)]	245.9	172.9	123.6	418.8	234.6
Net earnings	132.4	89.1	57.2	221.5	92.9
Basic earnings per share	0.72	0.52	0.38	1.24	0.61
Diluted earnings per share	0.72	0.52	0.33	1.24	0.53
Basic book value per share [(2)]	11.40	9.61	8.57	11.40	8.57
Total cash and short-term investments[(3)]	470.3	397.9	367.5	470.3	367.5
Total assets[(3)]	3,804.0	2,682.0	2,354.3	3,804.0	2,354.3
Weighted average number of shares (millions)					
Basic	183.5	172.0	151.3	177.8	151.2
Diluted	184.5	172.8	193.3	178.7	193.9

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

(2) Basic book value per share, a non-GAAP measure, is calculated by dividing shareholders' equity by the outstanding number of shares of 233.5 million as at June 30, 2007, 172.0 million as at March 31, 2007, 172.0 million as at December 31, 2006, and 151.3 million as at June 30, 2006.

(3) Total cash and short-term investments exclude $0.2 million (2006 - $nil million) from the discontinued operations. Total assets include $79.9 million (2006 - $52.4 million) from the discontinued operations.

Sherritt International Corporation ("Sherritt" or the "Corporation") today announced record 2007 second-quarter results. Record net earnings of $132.4 million or $0.72 per share were achieved in the second quarter of 2007, compared with net earnings of $57.2 million or $0.33 per share in the second quarter of 2006. These results were driven by strong sales volumes in the Metals and Oil and Gas businesses and robust metal prices. Earnings per share for the second quarter of 2007 included the dilution impact ($0.05 per share) of the 61,439,408 common shares issued as part of the Plan of Arrangement between Sherritt and Dynatec Corporation. This was offset by a $6.1 million favourable mark-to-market adjustment related to stock-based compensation during the quarter.

In Power, an additional 65 MW of power generation capacity was commissioned in the second quarter, bringing total capacity to 376 MW. In addition, an agreement in principle was reached during the quarter to add a further 125 MW of capacity by 2010.

Total assets at June 30, 2007, were $3.8 billion. Cash and short-term investments were $470.3 million at the end of the second quarter of 2007. Capital expenditures in the second quarter of 2007 amounted to $91.4 million, as the Corporation continued to focus on growth opportunities across all business units. The Metals expansion project in Cuba and the completion of the 65 MW expansion in Power were the main drivers behind capital expenditures in the quarter.

Sherritt's operations across all business units continue to perform at or near capacity as the Sherritt remains focused on delivering strong operating results and executing capital projects.

Sherritt anticipates that nickel prices will continue to be above historical averages, despite having declined from the record levels experienced in the second quarter. Among other factors, the market is being influenced by Chinese nickel pig iron production and lower demand from stainless steel producers. Prices have stabilized and are expected to remain strong over the balance of the year. Oil and cobalt prices are expected to remain strong for the remainder of the year. Sherritt remains focused on extracting additional efficiencies out of its operations and exploring accretive business opportunities.

Total capital expenditures, funding requirements for Ambatovy and deferred expenditures for the Dodds-Roundhill coal gasification project for the year are expected to be approximately $680 million. Expenditures for the remainder of the year are mainly allocated to the Metals expansion in Moa and Fort Saskatchewan, construction start-up at Ambatovy and continued oil drilling in Cuba. Capital expenditures and funding will be met from cash on hand, cash flow from operations and project financing. With respect to the Ambatovy project, discussions with a syndicate of international lending agencies for the provision of US$2.1 billion (100% basis) of project debt financing are nearing a conclusion, with signing of the financing agreement expected during the third quarter of 2007.

Metals

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

Metals expansion activities, which now include Ambatovy and Moa/Fort Saskatchewan, are proceeding as planned. Construction activities for the phased expansion in Moa and Fort Saskatchewan are moving towards the completion of Phase 1 by the end of the year. Once operational in the first quarter of 2008, this incremental production will allow the Metals refinery to process additional mixed sulphide feed from Moa, while reducing its reliance on less profitable third-party feed materials. Phase 2 construction is proceeding as planned with projected start up scheduled for 2009. In combination with Phase 2, progress continues on the construction of the sulphuric acid plant, which is expected to be commissioned in conjunction with Phase 2.

Initial works for pre-construction activities at the Ambatovy nickel project in Madagascar commenced in the second quarter at the site for the proposed processing plant and refinery near Toamasina and at the mine site near Moramanga. Based on the ongoing mobilization of personnel and resources, the advancement of preparatory work related to the Project's initial works program and progress being made on the project debt financing, the Ambatovy Project ended the second quarter on track for construction to commence in the third quarter of 2007. According to the construction schedule, this would result in mechanical completion being achieved in the first half of 2010. Capital, excluding financing costs, for the Ambatovy project is forecasted to be approximately US$3.3 billion (100% basis). It is anticipated that the timing of capital expenditures will be spread out evenly over the next two and a half years.

Capital expenditures for the remainder of 2007 are expected to total approximately $400 million, divided relatively evenly between the Moa/Fort Saskatchewan Metals expansion and Ambatovy.

Coal

Royal Utilities Income Fund ("Royal Utilities" or the "Fund"), which Sherritt operates and in which it has a 41.2% interest, declared distributions of $23.5 million in the second quarter. Consistent with previous guidance, the Fund intends to declare distributions of $93.8 million ($0.9596 per unit) in 2007, for a target payout ratio of 97%. Business development initiatives continue to be pursued, including the manufacture of activated carbon for mercury capture to meet pending legislative requirements. In addition, Royal Utilities continues to review the feasibility of providing contract mining services to the proposed Dodds-Roundhill coal gasification project.

At the Coal Valley mine, forecasted full-year sales and shipments of 3.9 million tonnes (100% basis) remain unchanged, but will be largely dependent on the level of train service. Realized prices are expected to remain strong due to a strong export market, partially offset by the stronger Canadian dollar.

The Dodds-Roundhill coal gasification project continues to proceed as planned with the feasibility study expected to be completed in the third quarter.

Capital expenditures for the remainder of the year are expected to be approximately $12.9 million, which will be spent on sustaining capital at Coal Valley and development work on the Dodds-Roundhill coal gasification project.

Oil and Gas

Discussions and evaluations with CUPET, Cuba's state oil company, are ongoing regarding the processing alternatives for Cuban crude. The objective of the discussions is to determine the process modifications required to produce oil that is more marketable. Average gross working-interest oil production for the full year is expected to be comparable to 2006 levels.

Total capital expenditures in Oil and Gas in 2007 are expected to be approximately $130 million.

Power

In the second quarter of 2007, Sherritt and its partners agreed in principle to a further 125 MW combined cycle facility expansion at Boca de Jaruco, Cuba (Phase 8). The facilities would be operational in 2010 at which time Energas' total capacity will increase to 501 MW. As with previous expansions, Power would finance and construct this project.

Over the remainder of the year, scheduled maintenance will be performed on several turbines which will result in a net generation capacity factor of approximately 80% over the last six months of 2007. Third-quarter production is expected to approach 600 GWh.

Capital expenditures for the remainder of the year are estimated to be $15 million and include approximately $5 million for sustaining capital. Preliminary engineering and a final project cost estimate for the 125 MW expansion are expected to be completed by the end of the third quarter.

Business Segment Review

Metals

	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Six months ended June 30 2007	Six months ended June 30 2006
Production (tonnes)							
Nickel	4,035	3,514	4,209	3,878	3,338	7,549	7,019
Cobalt	452	434	458	419	370	886	779
Mixed sulphides	4,198	4,006	3,680	4,029	3,686	8,204	7,219
Sales (thousands of pounds)							
Nickel	8,887	7,776	9,250	8,795	7,213	16,663	15,496
Cobalt	976	888	1,022	879	861	1,864	1,784
Revenue ($mm)	$ 274.1	$ 204.0	$ 192.3	$ 148.0	$ 120.3	$ 478.1	$ 203.1
EBITDA ($mm)	$ 166.7	$ 134.7	$ 108.5	$ 78.9	$ 46.3	$ 301.4	$ 76.4
Realized Prices (1)							
Nickel ($/lb)	$ 23.37	$ 21.84	$ 16.88	$ 14.42	$ 10.42	$ 22.65	$ 9.00
Cobalt ($/lb)	30.26	30.02	20.85	17.77	16.46	30.15	15.48
Reference Prices							
Nickel (US$/lb)	$ 21.76	$ 18.80	$ 15.00	$ 13.24	$ 9.09	$ 20.25	$ 7.87
Cobalt (US$/lb) (2)	28.01	25.82	18.86	15.59	14.43	26.89	13.41
Capital Expenditures($mm)	$ 49.1	$ 31.0	$ 25.1	$ 21.1	$ 13.7	$ 80.1	$ 26.6

(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.

The combination of year-over-year production and sales increases of 21% and 23%, respectively, and strong average realized prices of $23.37 for nickel and $30.26 for cobalt, resulted in record revenue of $274.1 million and record EBITDA of $166.7 million in the second quarter, representing increases of 128% and 260%, respectively, over comparable levels in the second quarter of 2006. Finished nickel and cobalt production increased relative to the first quarter, as rail shipments of mixed-sulphide feed returned to normal levels. Production exceeded prior year levels when process bottlenecks at Moa restricted availability of mixed-sulphide feed.

Operating costs were higher primarily due to higher sales volumes, increased third-party feed costs reflecting the increase in nickel and cobalt prices, and higher sulphuric acid and maintenance costs. Third-party feed costs were approximately $15 million in the second quarter 2007 and $29 million year to date, compared with $10 million in the second quarter 2006 and $16 million for the first six months last year.

Record nickel prices in May settled 34% lower by quarter end as lower demand from China and stainless steel producers led to LME quarter-end pricing of US$16.27 per pound. Cobalt prices remained well above prior year levels, but decreased 12% in the quarter.

Fertilizer sales improved as buyers experienced tight supply stemming from increased demand for crop-based ethanol.

Coal

	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Six months ended June 30 2007	Six months ended June 30 2006
Coal							
EBITDA($mm)							
Coal Valley and other coal development assets	$ 0.3	$ (1.2)	$ (1.3)	$ 0.6	$ (0.7)	$ (0.9)	$ (2.8)
Royal Utilities [1]	-	-	-	-	14.0	-	34.9
Total	0.3	(1.2)	(1.3)	0.6	13.3	(0.9)	32.1
Equity-accounted earnings in Royal Utilities [1]	$ 5.0	$ 6.9	$ 4.7	$ 5.2	$ -	$ 11.9	$ -
Distributions received from Royal Utilities [1]	$ 9.7	$ 9.6	$ 9.6	$ 6.8	$ -	$ 19.3	$ -
Capital Expenditures							
Coal Valley and other coal development assets	$ 0.7	$ 0.4	$ 1.9	$ 1.3	$ 0.7	$ 1.1	$ 2.4
Royal Utilities [1]	-	-	-	-	2.6	-	3.2
Total	0.7	0.4	1.9	1.3	3.3	1.1	5.6
Royal Utilities [2]							
Realized prices ($/tonne)	$ 13.37	$ 12.41	$ 11.86	$ 12.45	$ 12.63	$ 12.86	$ 11.92
Sales volumes (millions of tonnes) [4]	8.4	9.4	9.3	9.0	8.5	17.8	18.3
Production volumes (millions of tonnes) [4]	8.4	9.5	9.5	8.4	8.3	18.0	18.3
Coal Valley [3]							
Realized prices ($/tonne)	$ 51.55	$ 50.93	$ 46.98	$ 48.47	$ 47.05	$ 51.27	$ 46.78
Sales volumes (millions of tonnes) [4]	0.5	0.4	0.3	0.6	0.4	0.9	0.7
Production volumes (millions of tonnes) [4]	0.4	0.5	0.5	0.5	0.4	0.9	0.8

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

The Corporation's Coal business includes its 41.2% interest in Royal Utilities and its 50% interest in Coal Valley. Effective June 27, 2006, the Corporation began recording its interest in Royal Utilities using the equity method of accounting and, therefore, including its share of earnings as a separate line item in the Consolidated Statements of Earnings. Prior to this date, the 50% interest in Royal Utilities was proportionally consolidated. In the second quarter of 2006, this interest contributed $56.4 million of revenue and $14.0 million of EBITDA to the Corporation's financial results.

On a 100% basis, Royal Utilities' sales volumes in the second quarter of 2007 were similar to those recorded a year earlier as higher sales volumes at Poplar River and Sheerness offset reduced demand at Boundary Dam from an unplanned unit outage and higher availability of hydro power in Saskatchewan. Paintearth sales volumes were down compared with the same quarter of 2006, due to planned and unplanned maintenance at the generating station in 2007.

Average realized prices increased by $0.74 per tonne to $13.37 per tonne from the prior year quarter. This increase was primarily due to higher cost and capital recoveries at the contract and Genesee mines, as well as inflation adjustments to coal prices at certain owned mines.

Royal Utilities is committed to leadership in health and safety practices and continues to focus, maintain and target zero lost-time incidents among workers. During the second quarter, three mines achieved milestones since their last recordable lost-time incidents: Genesee (19 years), Sheerness (12 years) and Poplar River (3 years).

Revenues were $7.8 million and $13.6 million higher than the comparable three- and six-month period of 2006, respectively, after adjusting the change in accounting for Royal Utilities to equity accounting. The increase was driven by higher sales volumes and higher realized prices at Coal Valley which resulted in the second quarter of 2007 being the second-best revenue generating quarter in the history of Coal Valley.

Sherritt's Coal EBITDA for the second quarter of 2007 of $0.3 million represented the results from Coal Valley. Net expenditures on the coal development assets in the second quarter of $2.7 million were deferred, recognizing the future benefits of the work being performed. Coal Valley's EBITDA improved by $0.6 million from the second quarter of 2006 as a result of higher realized prices and increased sales volumes.

Higher realized prices at Coal Valley were due to improving export thermal coal contracts, as a result of improved market prices. Sales volumes were higher than the same period in 2006 as Coal Valley began to reduce inventory accumulated during the CN Rail strike.

Capital expenditures related to permitting and development work at Coal Valley were $0.7 million in the second quarter of 2007.

Activities at the Dodds-Roundhill coal gasification project continue to advance. Pre-engineering studies have been completed and results will be delivered in the third quarter. In addition to those activities, significant work continues to be carried out to identify potential off-take customers, develop community relations and complete the required Environmental Impact Assessment application – which is to be submitted in the next six months.

Oil and Gas

	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Six months ended June 30 2007	2006
Daily Production Volumes [1] [2]							
Production (boepd)							
Gross working-interest production [3] [5]	31,731	30,644	31,295	30,763	31,162	31,190	31,273
Net production [4]							
Cuba (heavy oil)							
Cost recovery [5]	12,201	9,051	11,832	6,480	6,074	10,635	6,685
Profit oil [5]	7,248	8,456	7,339	9,088	9,535	7,848	9,376
Total Cuba	19,449	17,507	19,171	15,568	15,609	18,483	16,061
Spain (light/medium oil) [4]	427	476	379	505	457	451	476
Pakistan (natural gas) [4]	405	409	406	403	375	407	188
Total	20,281	18,392	19,956	16,476	16,441	19,341	16,725
Revenues	$ 77.7	$ 58.4	$ 68.7	$ 65.1	$ 69.6	$ 136.1	$ 138.3
EBITDA($mm)	$ 59.3	$ 41.1	$ 51.0	$ 52.6	$ 54.7	$ 100.4	$ 110.9
Realized Prices							
Cuba (per barrel)	$ 41.19	$ 34.52	$ 36.87	$ 41.88	$ 45.20	$ 38.05	$ 44.15
Spain (per barrel)	$ 76.11	$ 67.10	$ 67.43	$ 77.32	$ 78.09	$ 71.38	$ 74.57
Pakistan (per barrel)	$ 8.31	$ 9.06	$ 8.84	$ 8.75	$ 8.71	$ 8.69	$ 8.71
Reference Prices							
US Gulf Coast Fuel Oil #6 (US$ per barrel)	$ 49.48	$ 38.89	$ 39.53	$ 46.38	$ 48.88	$ 44.21	$ 47.47
Capital Expenditures($mm)	$ 35.8	$ 47.3	$ 35.6	$ 29.0	$ 33.3	$ 83.1	$ 60.8

(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 volumes) 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.

Revenues in the second quarter of 2007 increased from the comparable quarter in 2006 mainly due to significantly higher net production, reflecting higher cost recovery oil, partially offset by lower realized oil prices. The increase in cost recovery oil in the second quarter reflected the recognition of $3.7 million in cost recovery carried forward from the first quarter. Production for the quarter from the Badar gas field in Pakistan was up 8% over the second quarter of 2006, while production from Spain decreased marginally due to natural reservoir declines and scheduled workovers.

Through its ongoing exploration and development programs, Sherritt expects to realize production increases from new oil wells and from workovers and other production enhancement initiatives. Pending the results from additional wells, the corporation expects Majaguillar commercialization to be approved in late 2007/early 2008.

EBITDA in the second quarter of 2007 increased by 8% over the second quarter of 2006, as increased net production was marginally impacted by lower realized prices, which decreased 9% year over year. The new pricing reflects additional quality-related discounts for viscosity, water and sulphur.

Capital expenditures for the second quarter were $35.8 million, and were mainly in support of development and exploration drilling along with facility construction. During the quarter, three development wells were initiated and three development wells were completed.

Power

						Six months ended June 30	
	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	2007	2006
Electricity sold (GWh) (1)	566	487	501	566	549	1,052	981
Revenue ($mm)	$ 28.3	$ 27.9	$ 26.1	$ 29.0	$ 28.4	$ 56.2	$ 50.6
EBITDA ($mm)	$ 21.2	$ 20.2	$ 14.9	$ 20.8	$ 20.7	$ 41.4	$ 35.8
Realized price per MWh	$ 43.95	$ 46.77	$ 45.27	$ 44.43	$ 44.46	$ 45.25	$ 44.52
Capital Expenditures($mm)	$ 5.6	$ 10.1	$ 16.0	$ 5.9	$ 5.5	$ 15.7	$ 11.8

(1) Includes non-controlling interest.

Sherritt and its partners have agreed in principle to proceed with a 125 MW combined-cycle expansion at Boca de Jaruco. Preliminary engineering commenced for this incremental capacity, which is expected to come online in 2010.

Revenue from electricity sales was $0.4 million higher than the prior year due to a 3% increase in electricity sales as the 65 MW expansion commenced operation late in the second quarter of 2007. Revenue from by-product sales and other sources decreased $0.7 million compared to the prior year's second quarter. The decrease in realized prices during the second quarter of 2007 was due to the strength of the Canadian dollar on the fixed long-term US dollar-denominated power generation contracts. Net capacity factor in the second quarter was 85%.

Operating costs were lower in the second quarter of 2007 than the second quarter of 2006, due to less scheduled maintenance and a decrease in turbine leasing costs, partly offset by additional operating costs relating to the 65 MW expansion.

Capital expenditures of $5.6 million in the second quarter 2007 were primarily directed to the 65 MW expansion.

Summary Financial Results by Segment (unaudited)

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

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

Three months ended June 30, 2007

($ millions)	Metals (1)	Oil and Gas	Power	Coal (2)	Corporate and Other (5)	Consolidated
Revenue	$ 274.1	$ 77.7	$ 28.3	$ 24.6	$ 0.7	$ 405.4
Operating, selling, general and administrative	107.4	18.4	7.1	24.3	2.3	159.5
EBITDA	166.7	59.3	21.2	0.3	(1.6)	245.9
Depletion, amortization and accretion	5.5	23.0	6.6	2.7	1.1	38.9
Operating earnings (loss)	161.2	36.3	14.6	(2.4)	(2.7)	207.0
Share of earnings of equity investments (3)	-	-	-	5.0	-	5.0
Net financing expense						(6.6)
Income taxes						(67.2)
Non-controlling interests						(5.8)
Gain on disposition of investments						-
Earnings from continuing operations						132.4
Earnings from discontinued operations						-
Net earnings						132.4
Capital expenditures(4)	$ 49.1	$ 35.8	$ 5.6	$ 0.7	$ 0.2	$ 91.4

(1) Comparable periods have been restated to reflect a change in the reclassification and adjustment of certain revenues, operating, selling, general and administrative costs in the Metals business.
(2) Coal results include the Corporations 50% proportionate interest in Royal Utilities up to June 27, 2006 and the Corporation's 50% proportionate interest in the Coal Valley export thermal coal mine and other coal development assets.
(3) Share of earnings of equity investments includes Royal Utilities.
(4) Total capital expenditures include $0.1 million from discontinued operations.
(5) The Corporate and Other segment includes result of the metallurgical technology business acquired from Dynatec, for the period from June 14 to June 30, 2007.

Three months ended June 30, 2006

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

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

Six months ended June 30, 2007

($ millions)	Metals [1]	Oil and Gas	Power	Coal [2]	Corporate and Other[4]	Consolidated
Revenue	$ 478.1	$ 136.1	$ 56.2	$ 44.4	$ 0.7	$ 715.5
Operating, selling, general and administrative	176.7	35.7	14.8	45.3	24.2	296.7
Earnings (loss) before undernoted items	301.4	100.4	41.4	(0.9)	(23.5)	418.8
Depletion, amortization and accretion	11.5	46.1	12.6	5.1	2.1	77.4
Operating earnings (loss)	289.9	54.3	28.8	(6.0)	(25.6)	341.4
Share of earnings of equity investments	-	-	-	11.9	-	11.9
Net financing expense						(7.4)
Income taxes						(113.2)
Non-controlling interests						(11.2)
Earnings from continuing operations						221.5
Earnings from discontinued operations						-
Net earnings						221.5
Capital expenditures [3]	80.1	83.1	15.7	1.1	0.3	180.3
Assets[3]	$ 766.9	$ 707.1	$ 552.2	$ 119.8	$ 1,658.0	$ 3,804.0

Six months ended June 30, 2006

($ millions)	Metals [1]	Oil and Gas	Power	Coal [2]	Corporate and Other	Consolidated
Revenue	$ 203.1	$ 138.3	$ 50.6	$ 147.0	$ -	$ 539.0
Operating, selling, general and administrative	126.7	27.4	14.8	114.9	20.6	304.4
Earnings (loss) before undernoted items	76.4	110.9	35.8	32.1	(20.6)	234.6
Depletion, amortization and accretion	9.6	41.9	13.0	27.6	2.4	94.5
Operating earnings (loss) from continuing operations	66.8	69.0	22.8	4.5	(23.0)	140.1
Share of earnings of equity investments	-	-	-	-	0.9	0.9
Net financing expense						(19.8)
Income taxes						(26.0)
Non-controlling interests						(8.3)
Gain on disposition of investments						5.0
Earnings from continuing operations						91.9
Earnings from discontinued operations						1.0
Net earnings						92.9
Capital expenditures [3]	26.6	60.8	11.8	5.6	1.0	105.8
Assets[3]	$ 418.4	$ 630.7	$ 536.7	$ 446.5	$ 322.0	$ 2,354.3

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

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

(3) Total capital expenditures include $0.1 million (2006 - $0.9 million) and Assets include $79.9 million (2006 - $52.4 million) from discontinued operations.

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

Supplementary Information

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

Three months ended March 31, 2007

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

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

Three months ended December 31, 2006

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

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

Three months ended September 30, 2006

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

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

Year ended December 31, 2006

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

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

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

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

Management's Discussion and Analysis

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

The following Management's Discussion and Analysis of the consolidated financial results of Sherritt International Corporation for the three and six months ended June 30, 2007 should be read in conjunction with the unaudited consolidated financial statements and related notes contained in this interim report and the interim report issued for the first 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 July 26, 2007.

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

Significant Transactions

On April 20, 2007, the Corporation and Dynatec Corporation (Dynatec) jointly announced a proposed transaction whereby under a court-approved Plan of Arrangement Sherritt would acquire all of the issued and outstanding common shares of Dynatec.

The Plan of Arrangement was approved at the special meeting of shareholders of Dynatec on June 8, 2007, received Ontario Superior Court of Justice approval on June 12, 2007, and the acquisition was completed on June 14, 2007. Under the terms of the Plan of Arrangement and related steps, shareholders of Dynatec received 0.19 of a Sherritt common share and 0.0634 of a common share of FNX Mining Company Inc. (FNX), which were owned by Dynatec prior to the acquisition, for each of their Dynatec common shares. Sherritt issued 61,439,408 common shares on completion of the Plan of Arrangement.

Through the transaction, Sherritt now owns a 45% interest in, and will operate, the Ambatovy nickel project in Madagascar. When fully operational, Ambatovy will 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.

The transaction also strengthens Sherritt's Technologies business with the addition of Dynatec's experienced Metallurgical Technologies division. The combined Technologies group is well positioned for future growth and its expertise will be leveraged to support Sherritt's other growth projects.

In a separate agreement between Sherritt, Dynatec and FNX, FNX was granted a right, subject to closing of the transaction, to purchase Dynatec's Mining Services division for cash at a price based upon independent assessments of value. This process is on-going and, assuming FNX exercises its right, is expected to close in the third quarter of 2007. In addition, the Corporation is undergoing a process to sell Dynatec's Coal-Bed Methane assets.

The consolidated second quarter results of the Corporation include the results of Dynatec from June 14, 2007, the date of acquisition, to June 30, 2007. The results of Mining Services and Coal-Bed Methane businesses for this period are presented as discontinued operations.

Currently, of the $1.6 billion purchase price, $522 million has been allocated to the FNX common shares acquired and $259 million has been allocated to the other assets acquired and liabilities assumed from Dynatec at Dynatec's book values at the acquisition date of June 14, 2007. The remaining $826 million has been recorded as ''unallocated purchase price''.

Management, with the assistance of external consultants, is working through the allocation of the purchase price based on the fair market value of the net assets acquired. It is expected that the final valuation of these assets will be completed in the third quarter of 2007.

Financial Results Highlights

(millions of dollars, except per share amounts)	**Second Quarter 2007**	Second Quarter 2006	**Six Months 2007**	Six Months 2006
Revenues by segment				
Metals	**$ 274.1**	$ 120.3	**$ 478.1**	$ 203.1
Oil and Gas	**77.7**	69.6	**136.1**	138.3
Power	**28.3**	28.4	**56.2**	50.6
Coal (2)	**24.6**	73.2	**44.4**	147.0
Corporate and other (3)	**0.7**	-	**0.7**	-
Revenues	**$ 405.4**	$ 291.5	**$ 715.5**	$ 539.0
EBITDA by segment				
Metals	**$ 166.7**	$ 46.3	**$ 301.4**	$ 76.4
Oil and Gas	**59.3**	54.7	**100.4**	110.9
Power	**21.2**	20.7	**41.4**	35.8
Coal (2)	**0.3**	13.3	**(0.9)**	32.1
Corporate and other (3)	**(1.6)**	(11.4)	**(23.5)**	(20.6)
EBITDA (1)	**$ 245.9**	$ 123.6	**$ 418.8**	$ 234.6
Operating earnings by segment				
Metals	**$ 161.2**	$ 41.3	**$ 289.9**	$ 66.8
Oil and Gas	**36.3**	33.4	**54.3**	69.0
Power	**14.6**	14.0	**28.8**	22.8
Coal (2)	**(2.4)**	(0.3)	**(6.0)**	4.5
Corporate and other (3)	**(2.7)**	(12.6)	**(25.6)**	(23.0)
Operating earnings (1)	**$ 207.0**	$ 75.8	**$ 341.4**	$ 140.1
Earnings from continuing operations	**$ 132.4**	$ 56.6	**$ 221.5**	$ 91.9
Earnings from discontinued operations	**-**	0.6	**-**	1.0
Net earnings	**$ 132.4**	$ 57.2	**$ 221.5**	$ 92.9
Capital expenditures				
Metals	**$ 49.1**	$ 13.7	**$ 80.1**	$ 26.6
Oil and Gas	**35.8**	33.3	**83.1**	60.8
Power	**5.6**	5.5	**15.7**	11.8
Coal	**0.7**	3.3	**1.1**	5.6
Corporate	**0.2**	0.4	**0.3**	1.0
Total	**$ 91.4**	$ 56.2	**$ 180.3**	$ 105.8
Earnings per share				
Basic	**$ 0.72**	$ 0.38	**$ 1.24**	$ 0.61
Diluted	**0.72**	0.33	**1.24**	0.53

(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 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 Metallurgical Technologies division acquired from Dynatec on June 14, 2007.

Consolidated Earnings

Record net earnings of $132.4 million or $0.72 per share were achieved in the second quarter of 2007, compared with net earnings of $57.2 million or $0.33 per share in the second quarter of 2006. For the six months ended June 30, 2007, net earnings were $221.5 million or $1.24 per share compared to net earnings of $92.9 million or $0.53 per share for the comparable period last year. The increase in consolidated earnings was mainly due to higher earnings in Metals as a result of increases in sales volumes and record nickel and high cobalt prices.

Earnings per share for the quarter was impacted by the dilution of the 61,439,408 common shares issued as part of the Plan of Arrangement between Sherritt and Dynatec, a decrease of $0.05 per share for the second quarter of 2007. This was offset by a $6.1 million favourable mark-to-market adjustment related to stock-based compensation during the quarter.

	Q2 2007	Q2 2006	**Six months 2007**	Six months 2006
Revenue	**$ 405.4**	$ 291.5	**$ 715.5**	$ 539.0

Consolidated revenues were $113.9 million higher than the comparable quarter last year or $170.3 million higher after adjusting the change in accounting for Royal Utilities to equity accounting. Consolidated revenues for the second quarter of 2006 included $56.4 million of revenue related to Royal Utilities. The increase in revenues in the quarter was primarily due to higher Metal prices and sales volumes in Metals, Coal and Oil and Gas, offset by lower realized prices in Oil and Gas.

Consolidated revenues were $176.5 million higher than the comparable six-month period of 2006, or $292.7 million higher after adjusting the change in accounting for Royal Utilities, mainly due to record results in Metals, increased electricity sales in Power and higher sales volumes in Coal. Consolidated revenues included $116.2 million of revenues related to Royal Utilities for the six months ended June 30, 2006.

	Q2 2007	Q2 2006	**Six months 2007**	Six months 2006
Operating costs	**$ 143.6**	$ 140.5	**$ 242.9**	$ 259.2
Selling costs	**7.0**	4.7	**10.4**	7.4
General and administrative costs	**8.9**	22.7	**43.4**	37.8
Operating, selling, general and administrative costs	**$ 159.5**	$ 167.9	**$ 296.7**	$ 304.4

Operating costs were $3.1 million higher than the comparable quarter last year or $42.0 million higher after adjusting the change in accounting for Royal Utilities. Consolidated operating costs included $38.9 million of costs related to Royal Utilities for the second quarter of 2006. The increase, after adjusting for Royal Utilities, was mainly due to higher costs in Metals, the Coal Valley mine and Oil and Gas. Metals operating costs increased due to higher sales volumes, increased third-party feed costs and higher production costs and Coal Valley mine costs increased due to higher production costs associated with both increases in volumes and cost of inputs. The increase in operating costs at Oil and Gas was due to increased workover activity and higher treatment and transportation costs.

General and administrative costs were $13.8 million lower than the comparable quarter last year or $10.3 million lower after adjusting the change in accounting for Royal Utilities. This decrease was mainly due to a $6.1 million mark-to-market adjustment to stock-based compensation, compared to an expense of $1.9 million for the second quarter of 2006.

Operating costs were $16.3 million lower than the comparable six-month period in 2006, or $62.1 million higher after adjusting 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 as well as higher net production in Oil and Gas and increased production costs in Coal. In addition, higher operating costs were experienced at Coal Valley due to scheduled maintenance activities that were accelerated as a result of the CN rail strike which ended in April 2007. Consolidated operating costs included $78.4 million of costs related to Royal Utilities for the six months ended June 30, 2006.

Selling costs were higher for both the three- and six-month periods reflecting higher nickel, cobalt and fertilizer sales by Metals.

Higher general and administrative costs for the six-month period ended June 30, 2007 were mainly due to higher stock-based compensation expense resulting from the appreciation in the Corporation's share price since year end and employee severance costs in Oil and Gas.

	Q2 2007	Q2 2006	**Six months 2007**	Six months 2006
Depletion, amortization and accretion	**$ 38.9**	$ 47.8	**$ 77.4**	$ 94.5

Depletion, amortization and accretion expenses were $8.9 million lower than the comparable quarter in 2006, or $2.6 million higher after adjusting for the change in accounting for Royal Utilities. For the first six months of 2007, these expenses were $17.1 million lower than the comparable six-month period in 2006, or $6.3 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 $11.5 million and $23.4 million of Royal Utilities costs for the three and six months ended June 30, 2006, respectively.

	Q2 2007	Q2 2006	**Six months 2007**	Six months 2006
Net financing expense	**$ 6.6**	$ 11.5	**$ 7.4**	$ 19.8

Lower net financing expense for the comparable three- and six-month periods was mainly due to a reduction in interest expense resulting from the purchase and redemption of the 7% convertible debentures in 2006 combined with higher interest income on cash, short-term investments, and other interest-bearing receivables. These reductions were partly offset by higher foreign exchange losses.

	Q2 2007		Q2 2006		**Six months 2007**		Six months 2006
Share of earnings of equity-accounted investments	**$**	**5.0**	$	0.3	**$**	**11.9**	$	0.9

For the three- and six-month periods ended June 30, 2007, share of earnings of equity-accounted investments primarily 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.

	Q2 2007	Q2 2006	**Six months 2007**	Six months 2006
Effective tax rate	**33%**	11%	**33%**	21%

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 lower effective tax rates in the second quarter of 2006 and six months ended June 30, 2006 were mainly the result of the significant tax rate reductions by the Alberta and Federal governments, including the elimination of the Federal large corporations tax.

		Q2 2007		Q2 2006		**Six months 2007**		Six months 2006
Non-controlling interests	**$**	**5.8**	$	5.0	**$**	**11.2**	$	8.3

Non-controlling interests reflects the two-thirds outside interest in Energas S.A. ("Energas"), a variable interest entity in Power. The increase in non-controlling interest is primarily the result of increased Energas earnings due to expanded power generation.

		Q2 2007		Q2 2006		**Six months 2007**		Six months 2006
Earnings from discontinued operations	**$**	**-**	$	0.6	**$**	**-**	$	1.0

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 discontinued operations in the consolidated financial statements.

Discontinued operations in 2007 relate to the results of Mining Services and Coal-Bed Methane businesses from the date of acquisition of June 14, 2007 to June 30, 2007.

Consolidated Cash Flow

	Q2 2007	Q2 2006	Six months 2007	Six months 2006
Cash provided by continuing operations before working capital changes	**$ 182.1**	$ 93.3	**$ 309.9**	$ 178.0
Increase in non-cash working capital changes	**(34.4)**	(7.1)	**(28.1)**	(53.9)
Cash provided by continuing operations	**147.7**	86.2	**281.8**	124.1
Cash provided by (used for) discontinued operations	**5.7**	(1.4)	**5.7**	(0.5)
Cash provided by operating activities	**$ 153.1**	$ 84.8	**$ 287.5**	$ 123.6

Cash provided by operating activities before working capital changes was higher than the comparable quarter primarily due to higher earnings in Metals.

The increase in quarterly non-cash working capital of $34.4 million mainly due to an increase in the Oil and Gas receivable by approximately $29 million excluding the effect of the foreign exchange impact from the strengthening of Canadian dollar relative to the US dollar. The increase was partially offset by a lower inventory balance at Metals due to an increase in sales volume for the current quarter. In addition, Corporate accounts payable increased due to additional accruals made on transaction costs relating to the acquisition of Dynatec.

The increase in non-cash working capital of $28.1 million for the six-month period ended June 30, 2007 resulted from increased accounts receivable arising from higher realized prices for nickel in Metals, a higher Oil and Gas receivable balance and receivables acquired from Dynatec near the end of June 2007. The combined Metals and Oil and Gas increase in accounts receivable balance was approximately $54 million excluding the effect of the foreign exchange impact from the strong Canadian dollar. These were offset by higher accounts payable in Metals mainly due to higher current taxes payable as a result of increased earnings, and to liabilities assumed from Dynatec and related acquisition costs incurred by the Corporation.

	Q2 2007	Q2 2006	Six months 2007	Six months 2006
Capital expenditures	**$ (91.3)**	$ (55.8)	**$ (180.2)**	$ (104.9)
Change in non-cash capital expenditures	**3.4**	(0.3)	**(1.9)**	(1.3)
Cash capital expenditures	**(87.9)**	(56.1)	**(182.1)**	(106.2)
Cash provided by (used for) other investing activities	**(24.9)**	200.2	**(35.8)**	135.4
Cash provided by (used for) financing activities	**1.3**	(208.4)	**(8.5)**	(233.7)

Capital expenditures during the quarter supported development and exploration drilling in Oil and Gas and sustaining capital expenditures across all business units. Capital expenditures continued to focus on growth opportunities across all business units.

The increases for the three- and six-month periods ended June 30, 2007 were driven by expansion projects in Metals and Power. As well, in the first quarter of 2007, the Corporation purchased $18.1 million of capital assets in Oil and Gas from its joint-venture partner when it assumed operatorship of the Santa Cruz field.

Cash used for other investing activities for the quarter related to advances for the Metals expansion and to cash distributions in Metals partly offset by $9.7 million of distributions received from Royal Utilities and by $6.9 million from short-term investments.

Cash provided by other investing activities for the six months ended June 30, 2006, mainly related to $117.2 million of proceeds received from the restructuring of Coal and the disposition of a partial interest in Royal Utilities, coupled with a decrease in short-term investments of $39.1 million due to the timing of maturity of these investments. Cash used for Other Assets of $18.0 million mainly related to increased advances for the Metals expansion and progress payments on the Power expansion.

Cash used for financing activities for the quarter primarily related to $6.4 million of dividends paid to non-controlling shareholders in Power and dividends of $5.1 million paid to the Corporation’s shareholders. Long-term debt increased by $12.7 million due to the timing of working capital requirements.

For the six months ended June 30, 2007, cash used for financing activities primarily related to the repayment of the operating credit facility of approximately $28.9 million, dividends of $12.9 million paid to the non-controlling interests in Power, and dividends to the Corporation’s shareholders of $10.3 million. These payments were offset by proceeds received from financing relating to the 65 MW expansion in Power. For the three- and six-month periods ended June 30, 2006, cash used for financing activities primarily related to the repurchase of the 7% convertible debentures.

Consolidated Financial Position, Liquidity and Capital Resources

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

Cash and cash equivalents, restricted cash and short-term investments totalled $470.3 million as at June 30, 2007, an increase of $100.6 million since year end. Cash and short-term investments from Dynatec totalled $67.3 million. Cash inflows during the quarter included $147.7 million of cash generated from continuing operations and $9.7 million of distributions received from Royal Utilities. These cash inflows were partly offset by $87.9 million of cash capital expenditures, $6.4 million of dividends paid to non-controlling shareholders in Power, and $5.1 million of dividends paid to Sherritt shareholders.

Current advances and loans receivable totalled $71.0 million compared to the year-end balance of $56.0 million due to increased cash distributions from Metals of $34.6 million offset by lower working capital advances to Metals.

Accounts receivable were $367.9 million at June 30, 2007, an increase of $24.7 million since year end. Metals accounts receivable increased due to higher Metals and Fertilizer prices. Oil and Gas accounts receivable increased due to higher balances on Block 7, a jointly operated block. Dynatec accounts receivable amounted to $3.3 million as at June 30, 2007.

Oil and Gas accounts receivable included US$31.8 million of cost recovery claims, for Sherritt's 100%-owned blocks, which are subject to approval by a Cuban agency pursuant to the Cuban production-sharing contracts.

As at June 30, 2007, Sherritt's accounts receivable position for Block 7 was US$54.9 million, of which US$35.9 million was overdue from its joint venture partner. In addition, Sherritt's share of unbilled cost recovery relating to Block 7 as at June 30, 2007 was US$26.5 million. The overdue balances are expected to be collected during 2007.

Inventories decreased $6.3 million since year end to $102.2 million as at June 30, 2007 largely as a result of lower fertilizer inventories in Metals following the spring fertilizer season.

Prepaid expenses and other assets significantly increased from $8.1 million since year end to $52.3 million as at June 30, 2007 primarily due to $34.2 million of prepaid expenses being acquired from Dynatec consisting of cash calls relating to the Ambatovy project.

Capital assets increased $209 million since year end to $1.3 billion as at June 30, 2007. Capital expenditures during the year were mainly in support of expansion projects in both Metals and Power, development and exploration drilling in Oil and Gas, and the purchase of $18.1 million of capital assets from Oil and Gas' joint venture partner when it assumed operatorship of the Santa Cruz field. Capital assets relating to Dynatec amounted to $124.1 million as at June 30, 2007.

The future tax asset (including current portion) of $68.7 million as at June 30, 2007 primarily represented the tax benefit of approximately of $69.0 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 acquisition of Dynatec, which resulted in the use of $42.5 million of future income tax assets that was included in the purchase price.

Investments of $356.8 million as at June 30, 2007, comprised mainly of the Corporation's $333.7 million equity investment in Royal Utilities and $18.1 million equity investment in the tourism and other businesses.

Other assets were $120.5 million as at June 30, 2007, compared to the year-end balance of $131.7 million. The change was mainly due to advances with respect to the Metals expansion that increased by $16.6 million which is offset by an $11.1 million reclassification on January 1, 2007 of deferred financing costs to long-term debt upon adoption of CICA Handbook Section 3861 – Financial Instruments – Disclosure and Presentation (see "Accounting Changes" and note 2 of the Consolidated Financial Statements).

Short-term debt was $52.9 million as at June 30, 2007, a decrease of $28.9 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 $138.1 million since year end to $356.2 million as at June 30, 2007. A current tax liability in the amount of $63.2 million was recorded on disposal of the FNX common shares to former shareholders of Dynatec. Accounts payable and accrued liabilities also included $26.4 million related to Dynatec as at June 30, 2007. Accounts payable increased in Metals mainly due to higher current taxes resulting from increased earnings and the timing of expenditures and payments. In addition, Corporate accounts payable increased mainly due to acquisition costs relating to the Dynatec acquisition and dividends of $34.6 million payable to a joint venture partner.

The future income tax liability (including current portion) of $75.3 million as at June 30, 2007 decreased 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 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 $373.9 million as at June 30, 2007 compared with $342.6 million as at December 31, 2006. In the first quarter of 2007, 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 $16.6 million. These increases were partly offset by the reclassification from other assets of $11.1 million of deferred financing costs upon adoption of CICA Handbook Section 3861 – Financial Instruments – Disclosure and Presentation as previously discussed.

Non-controlling interests reflects third-party interests in Energas. The decrease in non-controlling interest from $194.1 million as at December 31, 2006 to $192.4 million as at June 30, 2007, reflected payment of $12.9 million of dividends to the non-controlling interests, partly offset by $11.2 million of income attributed to non-controlling interests.

Accumulated other comprehensive loss of $109.9 million represents the unrealized foreign exchange loss on the Corporation's net investment in its self-sustaining foreign operations. The strengthening of the Canadian dollar relative to the US dollar, the functional currency of these foreign operations, resulted in increased foreign currency losses.

During the quarter, the Board of Directors approved a quarterly dividend of $0.03 per share payable on July 13, 2007 to shareholders of record at the close of business on June 29, 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.

Joint venture in Cuba

Through a joint venture with a Cuban company, 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.

Ambatovy Project

The Ambatovy Project is a large-tonnage nickel and cobalt project located in Madagascar, approximately 80 kilometers due east of the capital city of Antananarivo. 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, 5,600 tonnes (100% basis) of cobalt and approximately 190,000 tonnes (100% basis) of ammonium sulphate; and an estimated Project life of approximately 27 years. Cash operating costs per pound of nickel, after credits, are expected to place Ambatovy 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 June 30, 2007, Sherritt owned 45% of Ambatovy and Sumitomo Corporation of Japan 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 agreed to acquire a 5% interest in Ambatovy from Sherritt coincident with the closing of the project debt financing.

On March 28, 2007, the Ambatovy partners received notification from the Madagascar Government of the Project's certification under Madagascar's Loi sur les Grands Investissements Miniers (Large Mining Investment Act or "LGIM"). The LGIM, which was promulgated by the Madagascar Government in 2002 and developed with the support and assistance of the World Bank, establishes the legal framework for developing and operating large-scale resource projects in the country. Certification effectively provides Ambatovy with a project stability agreement, ensuring tax and legal certainty for the Project.

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). Expectations for full-year finished nickel and cobalt production remain at approximately 32,000 tonnes of nickel and 3,500 tonnes of cobalt (100% basis).

Metals expansion activities, which now include Ambatovy and Moa/Fort Saskatchewan, are proceeding as planned. Construction activities for the phased expansion in Moa and Fort Saskatchewan are moving towards the completion of Phase 1 by the end of the year. Once operational in the first quarter of 2008, this incremental production will allow the Metals refinery to process additional mixed sulphide feed from Moa, while reducing its reliance on less profitable third-party feed materials. Phase 2 construction is proceeding as planned with projected start up scheduled for 2009. In combination with Phase 2, progress continues on the construction of the sulphuric acid plant, which is expected to be commissioned in conjunction with Phase 2.

Initial works for pre-construction activities at the Ambatovy nickel project in Madagascar commenced in the second quarter at the site for the proposed processing plant and refinery near Toamasina and at the mine site near Moramanga. Based on the ongoing mobilization of personnel and resources, the advancement of preparatory work related to the Project's initial works program and progress being made on the project debt financing, the Ambatovy Project ended the second quarter on track for construction to commence in the third quarter of 2007. According to the construction schedule, this would result in mechanical completion being achieved in the first half of 2010. Capital, excluding financing costs, for the Ambatovy project is forecasted to be approximately US$3.3 billion (100% basis). It is anticipated that the timing of capital expenditures will be spread out evenly over the next two and a half years.

Capital expenditures for the remainder of 2007 are expected to total approximately $400 million, divided relatively evenly between the Moa/Fort Saskatchewan Metals expansion and Ambatovy.

Highlights

- Record high nickel prices
- Record revenue and operating earnings
- Acquired interest in the Ambatovy nickel project in Madagascar
- Continued progress on Phase 1 expansion

Financial Analysis

	Q2 2007	Q2 2006	**Six months 2007**	Six months 2006
Revenue [(1)]	**$ 274.1**	$ 120.3	**$ 478.1**	$ 203.1
Operating costs	**(99.6)**	(68.5)	**(164.6)**	(118.2)
Selling costs	**(6.8)**	(4.5)	**(10.1)**	(7.0)
General and administrative costs	**(1.0)**	(1.0)	**(2.0)**	(1.5)
EBITDA	**166.7**	46.3	**301.4**	76.4
Depletion, amortization and accretion	**(5.5)**	(5.0)	**(11.5)**	(9.6)
Operating earnings	**$ 161.2**	$ 41.3	**$ 289.9**	$ 66.8

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

Higher revenue reflected record nickel and cobalt prices combined with increased sales volumes.

Operating costs were higher primarily due to higher sales volumes, increased third-party feed costs reflecting the increase in nickel and cobalt prices and higher purchased sulphuric acid and maintenance costs. Third-party feed costs were approximately $15 million in the quarter and $29 million year to date compared with $10 million and $16 million respectively last year.

Selling costs, general and administrative costs, depletion, amortization and accretion were marginally higher, largely reflecting higher nickel, cobalt, and fertilizer sales and increased capital spending.

Prices	**Q2 2007**	Q2 2006	**Six months 2007**	Six months 2006
Nickel – realized ($/lb)	**$ 23.37**	$ 10.42	**$ 22.65**	$ 9.00
Cobalt – realized ($/lb)	**30.26**	16.46	**30.15**	15.48
Nickel – reference (US$/lb)	**21.76**	9.09	**20.25**	7.87
Cobalt – reference (US$/lb)	**28.01**	14.43	**26.89**	13.41

Record nickel prices were posted in the quarter, although prices declined significantly during June in response to lower demand from China and stainless steel producers. Cobalt prices remained well above prior year levels.

Production (tonnes)	**Q2 2007**	Q2 2006	**Six months 2007**	Six months 2006
Mixed sulphides	**4,198**	3,686	**8,204**	7,219
Finished nickel	**4,035**	3,338	**7,549**	7,019
Finished cobalt	**452**	370	**886**	779

Mixed sulphide production remained at normal levels as a result of process improvements implemented to alleviate the bottlenecks that were experienced in the prior year.

Finished metals production increased relative to the first quarter as rail shipments of mixed sulphides returned to normal levels. Production exceeded prior year levels when process bottlenecks at Moa restricted mixed sulphide feed availability.

Sales (thousands of pounds)	**Q2 2007**	Q2 2006	**Six months 2007**	Six months 2006
Finished nickel	**8,887**	7,213	**16,663**	15,496
Finished cobalt	**976**	861	**1,864**	1,784

Higher nickel and cobalt sales reflected increased production levels.

	Q2 2007	Q2 2006	**Six months 2007**	Six months 2006
Capital expenditures	**$ 49.1**	$ 13.7	**$ 80.1**	$ 26.6

Increased capital spending reflected higher expansion spending and the acquisition of real estate assets at the Fort Saskatchewan site. Excluding growth initiatives, capital spending was $9.6 million compared with $2.3 million in the same quarter last year, reflecting increased construction costs and a higher level of investment required to sustain production.

	Q2 2007	Q2 2006	**Six months 2007**	Six months 2006
Fertilizer sales (tonnes)	**110,338**	91,386	**127,473**	100,216
Revenue [(1)]	**$ 34.4**	$ 29.0	**$ 40.1**	$ 32.7
Operating earnings	**1.7**	2.9	**0.8**	3.0

[(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.

Fertilizer sales volumes improved as buyers experienced tight supply stemming from increased demand for crop-based ethanol.

Higher revenues reflect the higher sales volumes and netbacks.

Operating earnings decreased primarily due to increased operating costs related to higher energy prices, selling costs and higher amortization expense. For the six-month period ended June 30, 2007, amortization expense for the fertilizer operations was $2.4 million compared to $1.5 million in 2006.

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 Income Fund ("Royal Utilities" or the "Fund"), which Sherritt operates and in which it has a 41.2% interest, declared distributions of $23.5 million in the second quarter. Consistent with previous guidance, the Fund intends to declare distributions of $93.8 million ($0.9596 per unit) in 2007, for a target payout ratio of 97%. Business development initiatives continue to be pursued, including the manufacture of activated carbon for mercury capture to meet pending legislative requirements. In addition, Royal Utilities continues to review the feasibility of providing contract mining services to the proposed Dodds-Roundhill coal gasification project.

At the Coal Valley mine, forecasted full-year sales and shipments of 3.9 million tonnes (100% basis) remain unchanged, but will be largely dependent on the level of train service. Realized prices are expected to remain strong due to a strong export market, partially offset by the stronger Canadian dollar.

The Dodds-Roundhill coal gasification project continues to proceed as planned with the feasibility study expected to be completed in the third quarter.

Capital expenditures for the remainder of the year are expected to be approximately $12.9 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 Royal Utilities.

	Q2 2007	Q2 2006	Six months 2007	Six months 2006
Revenue	**$ 24.6**	$ 73.2	**$ 44.4**	$ 147.0
Operating costs	**(23.8)**	(54.7)	**(42.0)**	(108.5)
Selling costs	**(0.2)**	(0.2)	**(0.3)**	(0.4)
General and administrative costs	**(0.3)**	(5.0)	**(3.0)**	(6.0)
EBITDA	**0.3**	13.3	**(0.9)**	32.1
Depletion, amortization and accretion	**(2.7)**	(13.6)	**(5.1)**	(27.6)
Operating (loss) earnings	**$ (2.4)**	$ (0.3)	**$ (6.0)**	$ 4.5
Distributions declared from Royal Utilities[(1)]	**$ 9.7**	$ -	**$ 19.3**	$ -
Equity-accounted earnings in Royal Utilities [(2)]	**$ 5.0**	$ -	**$ 11.9**	$ -

(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.

Revenues were $7.8 million and $13.6 million higher than the comparable three- and six-month period of 2006, respectively, after adjusting the change in accounting for Royal Utilities to equity accounting. The increase was driven by higher sales volumes and higher realized prices at Coal Valley which resulted in the second quarter of 2007 being the second-best revenue generating quarter in the history of Coal Valley.

Second quarter 2007 EBITDA comprised $0.3 million (2006 - $0.3 million loss) for the Coal Valley mine, $nil million (2006 - $0.4 million expenditures) for the coal development assets and $nil (2006 – $14.0 million earnings) for Royal Utilities.

Coal Valley's EBITDA improved by $0.6 million from the second quarter of 2006 to $0.3 million in the second quarter of 2007 as a result of higher realized prices and higher sales volumes.

Coal Valley's EBITDA for the first six months of 2007 was $1.0 million (2006 - $2.1 million loss). The significant improvement was due to higher revenues on increased sales tonnages despite the negative impact from the CN rail strike, which lowered sales volumes, accelerated maintenance programs, and lead to cost and inventory inefficiencies in the first four months of 2007.

Net expenditures on the coal development assets of $1.9 million for the first six months of 2007 (2006 - $0.7 million expenditures) were related to engineering and associated work for the Dodds-Roundhill coal gasification project. In the second quarter, costs of $2.7 million were deferred recognizing the future benefits of the work being performed.

		Q2 2007		Q2 2006		Six months 2007		Six months 2006
Coal Valley [1]								
Realized prices ($/tonne)	**$**	**51.55**	$	47.05	**$**	**51.27**	$	46.78
Sales volumes (millions of tonnes) [2]		**0.5**		0.4		**0.9**		0.7
Production volumes (millions of tonnes) [2]		**0.4**		0.4		**0.9**		0.8

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

Higher realized prices at Coal Valley were due to improving export thermal coal contracts, as a result of improved market prices. Sales volumes were higher than the same period in 2006 as Coal Valley began to reduce inventory accumulated in the first quarter of 2007 as a result of the CN Rail strike.

		Q2 2007		Q2 2006		Six months 2007		Six months 2006
Capital expenditures	**$**	**0.7**	$	3.3	**$**	**1.1**	$	5.6

Second quarter and year to date 2006 capital expenditures also included $2.6 million and $3.2 million of capital expenditures related to Royal Utilities, respectively. Capital expenditures related to permitting and development work at Coal Valley were $0.7 million in the second quarter of 2007 compared to $0.7 million in the second quarter of 2006. Coal Valley capital expenditures were lower on a year to date basis for 2007 as compared to 2006 due to plant expansion spending in the first quarter of 2006.

Oil and Gas

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

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

Outlook (refer to "Forward-looking Statements")

Discussions and evaluations with CUPET, Cuba's state oil company, are ongoing regarding the processing alternatives for Cuban crude. The objective of the discussions is to determine the process modifications required to produce oil that is more marketable. Average gross working-interest oil production for the full year is expected to be comparable to 2006 levels.

Total capital expenditures in Oil and Gas in 2007 are expected to be approximately $130 million.

Highlights

- Record revenue of $77.7 million
- EBITDA of $59.3 million
- Full-field development at Santa Cruz continues

Financial Analysis

	Q2 2007	Q2 2006	Six months 2007	Six months 2006
Revenue	**$ 77.7**	$ 69.6	**$ 136.1**	$ 138.3
Operating costs	**(13.1)**	(9.9)	**(22.4)**	(18.5)
General and administrative costs	**(5.3)**	(5.0)	**(13.3)**	(8.9)
EBITDA	**59.3**	54.7	**100.4**	110.9
Depletion, amortization and accretion	**(23.0)**	(21.3)	**(46.1)**	(41.9)
Operating earnings	**$ 36.3**	$ 33.4	**$ 54.3**	$ 69.0

Revenue for the second quarter was higher than the comparable quarter of 2006 mainly due to significantly higher net production partially offset by lower realized oil prices. The impact of lower oil prices in the first six months of 2007 compared to the comparable 2006 period was mostly offset by higher production volumes. 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 first quarter, the Corporation had accumulated approximately $3.7 million of costs to be recovered as cost recovery revenue, all of which was recovered in the second quarter of 2007. The cost recovery carry forward for the third quarter was approximately $1.4 million.

Operating costs for the quarter and the year to date increased from the prior-year periods mainly due to increased workovers activity and higher treatment and transportation rates. Consequently, on a per barrel basis for the quarter, operating costs increased $1.09 per gross working interest barrel from the same period last year.

General and administrative costs in the quarters were not materially different. Year-to-date costs were higher than in 2006 primarily due to employee severance costs.

The depletion rate on a per barrel basis was lower in the quarter and year-to-date periods due to lower rates in Cuba, partially offset by higher depletion rates in Spain.

Prices	Q2 2007	Q2 2006	Six months 2007	Six months 2006
Realized prices:				
Cuba ($/barrel)	**$ 41.19**	$ 45.20	**$ 38.05**	$ 44.15
Spain ($/barrel)	**76.11**	78.09	**71.38**	74.57
Pakistan ($/boe) [1]	**8.31**	8.71	**8.69**	8.71
Reference price (US$/barrel)				
Gulf Coast Fuel Oil No. 6	**49.48**	48.88	**44.21**	47.47
Brent	**68.97**	69.43	**63.38**	65.40

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

The average realized prices for Cuban oil production decreased 9% in the quarter mainly due to the impact of the new crude oil pricing for 2007 production and the strengthening of the Canadian dollar relative to the US dollar. The new pricing reflects additional quality related discounts for viscosity, water and sulphur. The 14% decline in realized prices for the six months ended June 30, 2007, was due to the impact of the new pricing and a decline in the reference prices.

Realized prices for production in Spain decreased 3% due to the impact of lower Brent reference prices. Natural gas selling prices in Pakistan are indexed to international crude oil prices. Natural gas production from Pakistan came on-stream in April 2006.

Daily Production Volumes (1) (2)	**Q2 2007**	Q2 2006	**Six months 2007**	Six months 2006
Gross working-interest oil production (3) (5) (6)	**31,731**	31,162	**31,190**	31,273
Net oil production (4)				
Cuba (heavy oil)				
Cost recovery (5)	**12,201**	6,074	**10,635**	6,685
Profit oil (5)	**7,248**	9,535	**7,848**	9,376
Total	**19,449**	15,609	**18,483**	16,061
Spain (light / medium oil) (4)	**427**	457	**451**	476
Pakistan (natural gas) (4)	**405**	375	**407**	188
Total	**20,281**	16,441	**19,341**	16,725

(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 typically decreases over time due to natural reservoir declines, which vary from field to field. Through its ongoing exploration and development programs, the Corporation expects to realize production increases from new oil wells and from workovers and other production enhancement initiatives. Pending the results from additional wells, the Corporation expects Majaguillar commercialization to be approved in late 2007/early 2008.

Gross working-interest oil production in Cuba was comparable to the second quarter and year to date of 2006 as natural reservoir declines were offset by production from new oil wells. The increase in cost recovery oil in the second quarter reflects the recognition of $3.7 million in cost recovery carry forward from the first quarter. Production for the quarter from the Badar gas field in Pakistan was up 8% for the quarter and 219 boepd year to date, as the Badar field came on production in April 2006. Production from Spain decreased by 30 bpd in the quarter and 26 bpd year to date due to natural reservoir declines and scheduled workovers.

	Q2 2007	Q2 2006	**Six months 2007**	Six months 2006
Capital expenditures	**$ 35.8**	$ 33.3	**$ 83.1**	$ 60.8

Capital expenditures for the second quarter were at the same level as in 2006, and were mainly in support of development and exploration drilling along with facility construction. During the quarter, three development wells were initiated and three development wells were completed. Capital expenditures for the first six 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 S.A. ("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")

In the second quarter of 2007, Sherritt and its partners agreed in principle to a further 125 MW combined cycle facility expansion at Boca de Jaruco, Cuba (Phase 8). The facilities would be operational in 2010 at which time Energas' total capacity will increase to 501 MW. As with previous expansions, Power would finance and construct this project.

Over the remainder of the year, scheduled maintenance will be performed on several turbines which will result in a net generation capacity factor of approximately 80% over the last six months of 2007. Third-quarter production is expected to approach 600 GWh.

Capital expenditures for the remainder of the year are estimated to be $15 million and include approximately $5 million for sustaining capital. Preliminary engineering and a final project cost estimate for the 125 MW expansion are expected to be completed by the end of the third quarter.

Highlights

- 65 MW expansion commenced operation with final costs expected to be under budget
- Preliminary engineering commenced for a 125 MW combined cycle expansion at Boca de Jaruco

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.

	Q2 2007	Q2 2006	**Six months 2007**	Six months 2006
Revenue	**$ 28.3**	$ 28.4	**$ 56.2**	$ 50.6
Operating costs	**(7.0)**	(7.4)	**(13.8)**	(14.0)
General and administrative costs	**(0.1)**	(0.3)	**(1.0)**	(0.8)
EBITDA	**21.2**	20.7	**41.4**	35.8
Depletion, amortization and accretion	**(6.6)**	(6.7)	**(12.6)**	(13.0)
Operating earnings	**$ 14.6**	$ 14.0	**$ 28.8**	$ 22.8

Revenue from electricity sales for the quarter was $0.4 million higher than the prior year due to the addition of the 65 MW expansion late in the quarter. Revenue from by-product sales and other sources of $3.4 million decreased by $0.5 million compared with the same quarter in 2006. 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 $8.6 million for the first six months of 2007, an increase of $1.6 million from the prior year due mainly to increased volumes and prices for by-products.

Operating costs were lower in the second quarter of 2007 than the comparable quarter of 2006 due to less scheduled maintenance and a decrease in turbine leasing costs, partly offset by additional operating costs relating to the 65 MW expansion. Year to date, slightly lower operating costs resulted from less scheduled maintenance, offset by operating costs from new expansions. General and administrative costs for the year were slightly higher than the prior period.

Depletion, amortization and accretion were comparable between periods as amortization of the new phases was offset by lower amortization in respect of assets that became fully amortized in 2007.

	Q2 2007	Q2 2006	**Six months 2007**	Six months 2006
Realized prices ($/MWh) (1)	**$ 43.95**	$ 44.46	**$ 45.25**	$ 44.52

(1) Megawatt hours ("MWh").

The tariff for electricity sales is fixed by long-term US dollar contracts. The small decrease in realized prices for the quarter was due to the strength of the Canadian dollar. The increase in the realized price for the first six months of 2007 compared with the prior period was due to a higher proportion of electricity sales from the new phases, which have a higher tariff.

	Q2 2007	Q2 2006	**Six months 2007**	Six months 2006
Electricity sold [(1)] (GWh) [(2)]	**566**	549	**1,052**	981

(1) Including non-controlling interest's share

(2) Gigawatt hours ("GWh")

Electricity sales volumes were higher in the second quarter and the first six months of 2007 versus the comparable periods in 2006 as the 85 MW expansion commenced operation late in the first quarter of 2006 and the 65 MW expansion commenced operation during the second quarter of 2007.

	Q2 2007	Q2 2006	**Six months 2007**	Six months 2006
Capital expenditures	**$ 5.6**	$ 5.5	**$ 15.7**	$ 11.8

Capital expenditures in 2007 were primarily directed to the 65 MW expansion. In the prior year, capital expenditures related mainly to 85 MW expansion.

In addition to the amounts recorded as capital expenditures for the quarter, Power also incurred $1.7 million ($5.7 million year to date) 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

Sherritt Technologies

The Sherritt Technologies division is retained by mining and refining project owners to assist 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.

Sherritt Technologies is developing innovative clean-coal technologies to upgrade low-grade coals in an efficient and environmentally responsible manner.

Revenues from the Sherritt Technologies division were $0.7 million in the second quarter of 2007, which included the former Dynatec Metallurgical Technologies division's operations from June 14, 2007 to the end of second quarter.

Coal-Bed Methane

The Corporation has assumed certain coal-bed methane rights as part of the Dynatec acquisition, which the Corporation is in the process of selling.

Mining Services

The principal activities of the Mining Services division include contract mining, mine shaft sinking, lateral mine development, mine construction, civil underground construction, raise boring and Alimak raising. The division provides services primarily in Canada and the United States, but has also performed a significant number of international assignments.

In a separate agreement between Sherritt, Dynatec and FNX, FNX was granted a right to purchase Dynatec's Mining Services division for cash at a price based upon independent assessments of value. This process is on-going and, assuming FNX exercises its right, is expected to close in the third quarter of 2007.

For the second quarter of 2007, revenues and operating earnings relating to this business amounted to $10.4 million and $nil million, respectively.

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.

Ambatovy Project

The capital cost of the Ambatovy Project in Madagascar is currently estimated to be $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 entered into a term sheet for, and are currently negotiating, project financing of approximately $2.1 billion (100% basis) with a syndicate of lenders. While the Corporation is encouraged by the completion of the term sheet and progress is being made towards completion of the financing, there can be no assurance that financing will be obtained. Even if project financing is obtained, there can be no assurance that any other required funding 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. Sherritt's partners will provide $598 million of cross-guarantee effectively reducing Sherritt's completion guarantee exposure to $242 million. 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 the development of the Ambatovy Project can be completed. 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 disturbances, 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.

	Q2 2007	Six months 2007
Revenue	**$ 122.4**	$ 250.4
Net earnings	**12.3**	28.9
Total assets	**1,275.7**	1,275.7
Total liabilities	**523.5**	523.5

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 September 2005 to June 2007.

	Quarter Ended							
(millions of dollars, except per share amounts)	**June 2007**	March 2007	December 2006	September 2006	June 2006(1)	March 2006(1)	December 2005	September 2005
Revenue								
Metals	**$ 274.1**	$ 204.0	$ 192.3	$ 148.0	$ 120.3	$ 82.8	$ 98.0	$ 86.6
Oil and Gas	**77.7**	58.4	68.7	65.1	69.6	68.7	58.6	60.8
Power	**28.3**	27.9	26.1	29.0	28.4	22.2	22.0	24.2
Coal	**24.6**	19.8	17.1	29.1	73.2	73.8	62.7	64.8
Corporate and other	**0.7**	-	-	-	-	-	-	-
	$ 405.4	$ 310.1	$ 304.2	$ 271.2	$ 291.5	$ 247.5	$ 241.3	$ 236.4
Earnings from continuing operations	**$ 132.4**	$ 89.1	$ 77.8	$ 73.2	$ 56.6	$ 35.3	$ 9.6	$ 25.4
Earnings (loss) from discontinued operations	**-**	-	0.8	0.9	0.6	0.4	(0.5)	0.7
Net earnings	**132.4**	89.1	78.6	74.1	57.2	35.7	9.1	26.1
Earnings from continuing operations per share								
Basic	**0.72**	0.52	0.50	0.48	0.38	0.24	0.06	0.17
Diluted	**0.72**	0.52	0.47	0.42	0.33	0.20	0.05	0.15
Earnings (loss) from discontinued operations per share								
Basic	**-**	-	0.01	0.01	-	-	-	-
Diluted	**-**	-	-	0.01	-	-	-	-
Earnings per share								
Basic	**0.72**	0.52	0.51	0.49	0.38	0.24	0.06	0.17
Diluted	**0.72**	0.52	0.47	0.43	0.33	0.20	0.05	0.15

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

The analysis of financial results for the last eight quarters is generally consistent with the consolidated financial results and selected interim information presented previously in this document. Further details in respect of historical quarterly results can be found in the Corporation's quarterly reports filed on SEDAR at www.sedar.com or on the Corporation's web site at www.sherritt.com.

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 six-month period ended June 30, 2007.

Change in Accounting for Royal Utilities

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

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

Discontinued Operations

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

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 disclosure 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 Company is currently evaluating the impact of adopting this guidance.

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.

Employee Future Benefits

On March 29, 2007, the Accounting Standards Board issued an exposure draft to amend handbook Section 3461, Employee Future Benefits and on May 17, 2007 published a Background Information and Basis for Conclusions document thereon. The exposure draft addresses, in a limited manner, the recognition, measurement, presentation and disclosure requirements of accounting for employee future benefits. In particular, the amendments improve the completeness and understandability of balance sheet information by recognizing the funded status of a defined benefit pension plan in the balance sheet. The recognition and disclosures provisions will be effective for the fiscal year ending on December 31, 2007 and the measurement date provisions will be effective for the fiscal year ending on December 31, 2008. The Corporation is currently assessing the impact this exposure draft will have on its consolidated financial statements.

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 June 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. The Corporation and its subsidiaries also market, pursuant to sales agreements, all of the cobalt, a portion of the nickel and certain by-products produced by certain jointly-owned entities in the Metals business.

The total value of all goods and services, including labour services, that the Corporation and its subsidiaries provided to joint ventures and its affiliate in the second quarter of 2007 amounted to $28.5 million (2006 - $29 million) and for the six months ended June 30, 2007 was $55.8 million (2006 - $45.7 million). The total value of goods and services purchased from joint ventures in the second quarter 2007 was $2.7 million (2006 - $11.3 million) and for the six months ended June 30, 2007 was $4.7 million (2006 - $12.9 million).

Accounts receivable from joint ventures and Royal Utilities as at June 30, 2007, totalled $10.5 million (2006 - $7.7 million). Accounts payable to joint ventures as at June 30, 2007 totalled $6.4 million (2006 - $5.6 million).

Contractual Obligations and Commitments

Coal Valley Resources Inc. ("CVRI") in which the Corporation had a 50% interest, signed an agreement with CN Rail to pledge 300,000 tonnes of clean coal inventory as security on the liability outstanding with CN Rail which had increased due to delays in sales as a result of rail service. CVRI expects the security agreement to be cancelled before the end of 2007.

The Corporation is committed to purchases of equipment and services in the amount of $62.5 million. As the Power and Metals expansions progress, the Corporation expects to enter into additional commitments.

Additional Information

Share Capital

As at June 30, 2007 and July 26, 2007, the Corporation had 233,450,978 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 June 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 June 30, 2007 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Consolidated Balance Sheets

[$ millions]		June 30, 2007 (unaudited)		December 31, 2006 (restated – note 2)
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**410.0**	$	353.3
Restricted cash		**11.7**		6.5
Short-term investments		**48.6**		9.9
Advances and loans receivable		**71.0**		56.0
Accounts receivable		**367.9**		343.2
Inventories		**102.2**		108.5
Prepaid expenses and other assets		**52.3**		8.1
Future income taxes		**27.2**		21.8
Assets of discontinued operations (note 4a)		**47.5**		-
		1,138.4		907.3
Capital assets		**1,288.9**		1,079.9
Investments		**356.8**		355.9
Future income taxes		**41.5**		78.7
Other assets		**120.5**		131.7
Unallocated purchase price (note 3)		**825.5**		-
Assets of discontinued operations (note 4a)		**32.4**		-
	$	**3,804.0**	$	2,553.5
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Short-term debt	**$**	**52.9**	$	81.8
Accounts payable and accrued liabilities		**356.2**		218.1
Long-term debt and other long-term liabilities (note 6)		**14.8**		9.1
Asset retirement obligations (note 7)		**3.2**		2.4
Future income taxes		**0.1**		-
Liabilities of discontinued operations (note 4a)		**24.2**		-
		451.4		311.4
Long-term debt and other long-term liabilities (note 6)		**359.1**		333.5
Asset retirement obligations (note 7)		**64.4**		62.6
Future income taxes		**75.2**		74.6
		950.1		782.1
Non-controlling interests		**192.4**		194.1
Contingencies and commitments (note 13)				
Shareholders' equity				
Capital stock (note 8)		**1,870.5**		929.2
Contributed surplus (note 10)		**191.8**		191.8
Accumulated other comprehensive loss (note 17)		**(109.9)**		(43.8)
Retained earnings		**709.1**		500.1
		2,661.5		1,577.3
	$	**3,804.0**	$	2,553.5

Consolidated Statements of Operations

[$ millions]	Three months ended June 30 (unaudited) 2007	Three months ended June 30 (unaudited) 2006 (restated – note 2 and 4b)	Six months ended June 30 (unaudited) 2007	Six months ended June 30 (unaudited) 2006 (restated – note 2 and 4b)
Revenue	**$ 405.4**	$ 291.5	**$ 715.5**	$ 539.0
Operating, selling, general and administrative	**159.5**	167.9	**296.7**	304.4
Earnings before undernoted items	**245.9**	123.6	**418.8**	234.6
Depletion, amortization and accretion	**38.9**	47.8	**77.4**	94.5
Net financing expense (note 11)	**6.6**	11.5	**7.4**	19.8
Gain on sale of investments	**-**	(5.0)	**-**	(5.0)
Share of earnings of equity accounted investments	**(5.0)**	(0.3)	**(11.9)**	(0.9)
Earnings from continuing operations before income taxes and non-controlling interests	**205.4**	69.6	**345.9**	126.2
Income taxes (note 12)	**67.2**	8.0	**113.2**	26.0
Non-controlling interests	**5.8**	5.0	**11.2**	8.3
Earnings from continuing operations	**132.4**	56.6	**221.5**	91.9
Earnings from discontinued operations (note 4)	**-**	0.6	**-**	1.0
Net earnings	**$ 132.4**	$ 57.2	**$ 221.5**	$ 92.9
Earnings from continuing operations per share (note 8)				
Basic	**$ 0.72**	$ 0.38	**$ 1.24**	$ 0.60
Diluted	**0.72**	0.33	**1.24**	0.52
Earnings per share (note 8)				
Basic	**$ 0.72**	$ 0.38	**$ 1.24**	$ 0.61
Diluted	**0.72**	0.33	**1.24**	0.53
Weighted average number of shares (millions of shares)				
Basic	**183.5**	151.3	**177.8**	151.2
Diluted	**184.5**	193.3	**178.7**	193.9

Consolidated Statements of Retained Earnings

[$ millions]	Three months ended June 30 (unaudited) 2007	2006	Six months ended June 30 (unaudited) 2007	2006
Beginning of period, as previously reported	**$ 583.7**	$ 402.8	**$ 500.1**	$ 371.7
Change in accounting policies (note 2)	**-**	-	**(0.3)**	-
Beginning of period, as restated	**583.7**	402.8	**499.8**	371.7
Net earnings	**132.4**	57.2	**221.5**	92.9
Excess of cost of repurchase of common shares over stated value	**-**	-	**-**	(0.8)
Purchase of convertible debentures	**-**	(71.2)	**-**	(71.2)
Dividends on common shares	**(7.0)**	(3.8)	**(12.2)**	(7.6)
End of period	**$ 709.1**	$ 385.0	**$ 709.1**	$ 385.0

Consolidated Statements of Comprehensive Income

[$ millions]	Three months ended June 30 (unaudited) 2007	2006	Six months ended June 30 (unaudited) 2007	2006
Net earnings	**$ 132.4**	$ 57.2	**$ 221.5**	$ 92.9
Other comprehensive loss (note 17)				
Unrealized foreign currency losses on self-sustaining foreign operations	**(58.2)**	-	**(66.1)**	-
Comprehensive income	**$ 74.2**	$ 57.2	**$ 155.4**	$ 92.9

Consolidated Statements of Cash Flow

[$ millions]	Three months ended June 30 (unaudited) 2007	2006 (restated – note 4)	Six months ended June 30 (unaudited) 2007	2006 (restated – note 4)
Operating activities				
Net earnings from continuing operations	**$ 132.4**	$ 56.6	**$ 221.5**	$ 91.9
Add (deduct)				
Non-controlling interests	**5.8**	5.0	**11.2**	8.3
Accretion of convertible debentures	**-**	0.2	**-**	0.3
Depletion, amortization and accretion	**38.9**	47.8	**77.4**	94.5
Amortization of financing costs	**-**	0.3	**0.1**	0.9
Stock-based compensation expense	**(6.1)**	1.9	**9.4**	3.4
Pension expense	**2.0**	4.2	**3.9**	7.1
Loss on debt settlement	**-**	3.1	**-**	3.1
Share of earnings of equity accounted investments	**(5.0)**	(0.3)	**(11.9)**	(0.9)
Gains on sale of investments	**-**	(4.7)	**-**	(5.0)
Future income taxes	**7.0**	(21.0)	**(8.9)**	(24.7)
Foreign exchange loss	**6.8**	0.5	**8.5**	0.9
Asset retirement obligations	**(0.6)**	(2.0)	**(1.4)**	(3.5)
Other items	**0.9**	1.7	**0.1**	1.7
	182.1	93.3	**309.9**	178.0
Net increase in non-cash working capital (note 14)	**(34.4)**	(7.1)	**(28.1)**	(53.9)
Cash provided by continuing operations	**147.7**	86.2	**281.8**	124.1
Cash provided by (used for) discontinued operations	**5.7**	(1.4)	**5.7**	(0.5)
Cash provided by operating activities	**153.4**	84.8	**287.5**	123.6
Investing activities				
Capital expenditures	**(91.3)**	(55.8)	**(180.2)**	(104.9)
Other assets	**(50.9)**	(6.2)	**(62.3)**	(18.0)
Restricted cash	**(3.3)**	(4.4)	**(5.6)**	(5.2)
Net proceeds from sale of capital assets	**-**	0.2	**-**	0.4
Short-term investments	**6.9**	93.8	**-**	39.1
Proceeds from sale of investments	**-**	-	**-**	2.8
Cash balances acquired from Dynatec	**12.8**	-	**12.8**	-
Distribution from investments	**9.7**	117.2	**19.4**	117.2
Net change in non-cash capital expenditures	**3.4**	(0.3)	**(1.9)**	(1.3)
Cash provided by (used for) continuing operations	**(112.7)**	144.5	**(217.8)**	30.1
Cash used for discontinued operations	**(0.1)**	(0.4)	**(0.1)**	(0.9)
Cash provided by (used for) investing activities	**(112.8)**	144.1	**(217.9)**	29.2
Financing activities				
Increase (decrease) in short-term debt	**0.1**	(2.4)	**(28.9)**	(10.1)
Increase (decrease) in long-term debt	**12.7**	1.7	**43.6**	3.4
Dividends paid to non-controlling interest	**(6.4)**	(22.3)	**(12.9)**	(22.3)
Dividends paid	**(5.1)**	(3.8)	**(10.3)**	(7.6)
Purchase of convertible debentures	**-**	(181.6)	**-**	(181.6)
Payment of unsecured debentures	**-**	-	**-**	(14.4)
Issuance of common shares	**-**	-	**-**	1.0
Repurchase of common shares	**-**	-	**-**	(2.1)
Cash provided by (used for) financing activities	**1.3**	(208.4)	**(8.5)**	(233.7)
Effect of exchange rate changes on cash and cash equivalents	**(4.0)**	(0.5)	**(4.2)**	(0.3)
Increase (decrease) in cash and cash equivalents	**37.9**	20.0	**56.9**	(81.2)
Cash and cash equivalents at beginning of period	**372.3**	336.4	**353.3**	437.6
Cash and cash equivalents at end of period	**$ 410.2**	$ 356.4	**$ 410.2**	$ 356.4
Consist of:				
Cash and cash equivalents of continuing operations	**$ 410.0**	$ 356.4	**$ 410.0**	$ 356.4
Cash and cash equivalents of discontinued operations	**0.2**	-	**0.2**	-
Cash and cash equivalents at end of period	**$ 410.2**	$ 356.4	**$ 410.2**	$ 356.4

Supplementary Cash Flow Information				
Cash received for interest	**$ 5.6**	$ 6.0	**$ 8.7**	$ 9.6
Cash paid for interest on debt	**12.1**	12.6	**14.1**	14.5
Cash paid for income taxes	**56.0**	7.1	**102.8**	22.7
Cash and cash equivalents consist of:				
Cash on hand and balances with banks	**$ 110.3**	$ 69.3	**$ 110.3**	$ 69.3
Cash equivalents	**299.9**	287.1	**299.9**	287.1
	$ 410.2	$ 356.4	**$ 410.2**	$ 356.4

1. Summary of accounting policies

These interim consolidated financial statements have been prepared on a basis consistent with those followed in the consolidated financial statements for the year ended December 31, 2006, with the exception of the implementation of CICA Handbook Sections 3855, 3865, 1530, 3251, 3861, EIC-160, and 1506. The disclosures contained in these interim consolidated financial statements do not include all requirements of Canadian generally accepted accounting principles for annual financial statements. Accordingly, the interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2006.

2. Accounting changes

a) Financial Instruments, Hedges, Comprehensive Income and Equity

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

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

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

Classification and measurement

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

2. Accounting changes (continued)

Loans and receivables

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

Held-for-trading

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

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

Held to maturity

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

Available for sale

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

Other liabilities

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

2. Accounting changes (continued)

Transaction costs

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

Comprehensive income

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

Derivatives and hedge accounting

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

b) Overburden removal costs

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

The Corporation applied this standard prospectively and prior years' financial statements were not restated. Application of this new accounting policy did not have a material impact on the financial position or results of operations as at or for the period ended June 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 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) 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 beginning on or after October 1, 2007. This section establishes standards for disclosing information about a Corporation’s capital and how it is managed in order that a user of the financial statements may evaluate the company’s objectives, policies, and processes for managing capital. This new standard is not expected to have a material effect on the Corporation’s consolidated financial statements.

2. Accounting changes (continued)

iii. 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 will be effective for the Corporation on July 1, 2007.

iv. 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 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 in the process of assessing the impact of the new standard.

v. On March 29, 2007, the Accounting Standards Board issued an exposure draft to amend handbook Section 3461, Employee Future Benefits and on May 17, 2007 published a Background Information and Basis for Conclusions document thereon. The exposure draft addresses, in a limited manner, the recognition, measurement, presentation and disclosure requirements of accounting for employee future benefits. In particular, the amendments improve the completeness and understandability of balance sheet information by recognizing the funded status of a defined benefit pension plan in the balance sheet. The recognition and disclosures provisions will be effective for the fiscal year ending on December 31, 2007 and the measurement date provisions will be effective for the fiscal year ending on December 31, 2008. The Corporation is currently assessing the impact this exposure draft will have on its consolidated financial statements.

vi. 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)

f) 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 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 determining 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 certain fair value adjustments for identifiable assets and liabilities acquired. The purchase price allocation is preliminary and subject to adjustment upon the completion of the valuation process. The final allocation of fair value to the assets acquired and liabilities assumed could differ materially from the amounts presented in the consolidated financial statements. The difference between the cost of acquisition and the values of 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 12)		105.6
Transaction costs		38.0
	$	1,606.8
Value of investment in FNX on announcement date	$	521.9
Net assets retained:		
Cash		12.8
Net working capital		52.2
Marketable securities and other investments		38.7
Capital assets		20.6
Mining and resource properties under development		134.5
Future income tax assets		1.3
Other assets		2.3
Short-term debt		(1.9)
Assets retirement obligation		(1.1)
		781.3
Unallocated Purchase Price		825.5
	$	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) Dynatec Mining Services, Mineral Products and Coal-bed Methane

Immediately after the acquisition of Dynatec, the Corporation has committed to a plan to sell Dynatec's mining services, mineral products and coal-bed methane assets. Accordingly, these businesses are classified as discontinued operations.

The earnings from the respective discontinued operations from the date of acquisition of June 14 to June 30, 2007 are as follows:

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

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 six months ended June 30, 2006 are summarized as follows:

	Three months ended June 30, 2006	Six months ended June 30, 2006
Revenue	**$ 15.1**	$ 28.9
Operating, selling, general and administrative	**13.9**	26.5
Earnings before undernoted item	**1.2**	2.4
Depletion, amortization and accretion	**0.6**	1.4
Earnings from operations before income taxes	**0.6**	1.0
Income taxes	**-**	-
Net earnings from discontinued operation	**$ 0.6**	$ 1.0
Earnings from discontinued operation per share		
Basic	**$ -**	$ 0.01
Diluted	**-**	0.01

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

5. Post-retirement benefits

The Corporation's pension expense for the three months ended June 30, 2007 was $2.0 million (2006 - $4.2 million). For the six months ended June 30, 2007, pension expense was $3.9 million (2006 - $7.1 million).

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

	June 30, 2007	December 31, 2006
7.875% senior unsecured debentures due 2012	**$ 263.5**	$ 273.6
Loans from financial institution	**46.5**	22.5
Other	**48.9**	32.4
	358.9	328.5
Capital lease obligations	**14.5**	13.7
Other long-term liabilities	**0.5**	0.4
	373.9	342.6
Current portion of long-term debt	**(14.8)**	(9.1)
	$ 359.1	$ 333.5

Interest and accretion on long-term debt for the three months ended June 30, 2007 was $6.2 million (2006 - $12.3 million). For the six months ended June 30, 2007, interest and accretion on long-term debt was $11.7 million (2006 - $24.5 million). The 7.875% senior unsecured debentures are net of deferred financing costs of $10.1 million as at June 30, 2007.

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

7. 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)

7. Asset retirement obligations (continued)

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

	Six months ended June 30, 2007	Year ended December 31, 2006
Balance, beginning of period	**$ 65.0**	$ 81.6
Additions to liabilities	**5.5**	10.1
Liabilities settled	**(2.8)**	(4.7)
Accretion expense	**2.4**	4.8
Change in foreign exchange rates	**(2.5)**	0.4
Adjustment for Royal Utilities	**-**	(27.2)
Balance, end of period	**67.6**	65.0
Current portion	**(3.2)**	(2.4)
	$ 64.4	$ 62.6

The Corporation has estimated the undiscounted cash flow required to settle the asset retirement obligation at approximately $192.4 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)

8. 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	
	Six months ended June 30, 2007	Year ended December 31, 2006	**Six months ended June 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	**-**	87,585	-	0.6
Repurchase of shares	**-**	(337,216)	-	(1.8)
Stock options exercised	**-**	660,000	-	4.4
7% convertible debenture conversion	**-**	20,023,460	-	141.7
7% convertible debenture redemption	**-**	243,852	-	2.6
Balance, end of period	**233,450,978**	172,011,570	**$ 1,870.5**	$ 929.2

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

	Three months ended June 30 (unaudited)		Six months ended June 30 (unaudited)	
	2007	2006	**2007**	2006
Earnings from continuing operations	**$ 132.4**	$ 56.6	**$ 221.5**	$ 91.9
Earnings from discontinued operation	**-**	0.6	**-**	1.0
Net earnings - basic	**132.4**	57.2	**221.5**	92.9
Loss on purchase of convertible debentures	**-**	3.1	**-**	3.1
Interest and accretion on convertible debentures	**-**	3.6	**-**	7.2
Net earnings – diluted	**132.4**	63.9	**221.5**	103.2
Earnings from discontinued operation	**-**	0.6	**-**	1.0
Earnings from continuing operations - diluted	**$ 132.4**	$ 63.3	**$ 221.5**	$ 102.2
Weighted average number of common shares - basic	**183.5**	151.3	**177.8**	151.2
Weighted average effect of dilutive securities:				
Stock options	**1.0**	0.5	**0.9**	0.5
Convertible debentures	**-**	41.5	**-**	42.2
Weighted average number of common shares - diluted	**184.5**	193.3	**178.7**	193.9
Earnings from continuing operations per common share				
Basic	**$ 0.72**	$ 0.38	**$ 1.24**	$ 0.60
Diluted	**0.72**	0.33	**1.24**	0.52
Earnings from discontinued operations per common share				
Basic	**$ -**	$ -	**$ -**	$ 0.01
Diluted	**-**	-	**-**	0.01
Earnings per common share				
Basic	**$ 0.72**	$ 0.38	**$ 1.24**	$ 0.61
Diluted	**0.72**	0.33	**1.24**	0.53

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

9. Stock-based Compensation Plans

The following is a summary of stock option activity during the three months and six months ended June 30, 2007.

	Three months ended June 30, 2007		Three months ended June 30, 2006	
	Options	**Weighted-average exercise price**	Options	Weighted-average exercise price
Outstanding at beginning of period	**2,451,667**	**$ 9.49**	2,970,000	$ 9.01
Issued	**-**	**-**	105,000	11.69
Exercised	**(16,666)**	**10.06**	-	-
Expired or forfeited	**(33,334)**	**10.06**	-	-
Outstanding at end of period	**2,401,667**	**9.48**	3,075,000	9.10
Options exercisable, end of period	**892,555**	**$ 7.81**	850,000	$ 5.71

	Six months ended June 30, 2007		Six months ended June 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	**-**	**-**	1,250,000	10.43
Exercised	**(16,666)**	**10.06**	(180,000)	5.74
Expired or forfeited	**(33,334)**	**10.06**	-	-
Outstanding at end of period	**2,401,667**	**9.48**	3,075,000	9.10
Options exercisable, end of period	**892,555**	**$ 7.81**	850,000	$ 5.71

As at June 30, 2007, 2,031,667 (2006 – 2,225,000) options with a share appreciation right attachment remained outstanding for which the Corporation has recognized a compensation recovery of $1.9 million and an expense of $3.6 million, respectively, for the three months and six months ended June 30, 2007 (expense of $0.4 million and $0.5 million for the three months and six months ended June 30, 2006, respectively).

In July 2007, the Corporation granted 830,000 stock options with an exercise price of $14.91 per share, and 278,050 RSUs to executives and non-executive employees.

The Corporation also recorded a compensation recovery of $4.2 million and an expense of $5.8 million, respectively, for the three and six months ended June 30, 2007 (expense of $1.5 million and $2.9 million for the three months and six months ended June 30, 2006, respectively) for the other stock-based compensation plans.

	Three months ended June 30, 2007		Three months ended June 30, 2006	
	SLP/Power Units	**RSU/DSU**	SLP/Power Units	RSU/DSU
Balance, beginning of period	**1,969,625**	**337,608**	2,132,750	330,202
Issued	**-**	**588**	-	197,918
Exercised/Forfeited	**-**	**(15,195)**	-	-
Outstanding at end of period	**1,969,625**	**323,001**	2,132,750	528,120
Units exercisable, end of period	**1,969,625**		2,132,750	331,377
Weighted-average exercise price	**$ 5.08**		$ 4.85	

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

9. Stock-based Compensation Plans (continued)

	Six months ended June 30, 2007		Six months ended June 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	**-**	**13,576**	-	208,687
Exercised	**(163,125)**	**(160,712)**	(32,625)	(127,300)
Forfeited	**-**	**(15,195)**		
Outstanding at end of period	**1,969,625**	**323,001**	2,132,750	528,120
Units exercisable, end of period	**1,969,625**		2,132,750	331,377
Weighted-average exercise price	**$ 5.08**		$ 4.85	

10. Contributed surplus

	Six months ended June 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.

11. Net financing expense

	Three months ended June 30 (unaudited)		Six months ended June 30 (unaudited)	
	2007	2006	**2007**	2006
Interest income on cash, cash equivalents, short-term investments and loans receivable	**$ (6.2)**	$ (4.3)	**$ (11.8)**	$ (8.2)
Interest expense on debt	**6.2**	12.3	**11.7**	24.5
Foreign exchange losses	**6.8**	0.5	**8.5**	0.9
Other	**(0.2)**	3.0	**(1.0)**	2.6
	$ 6.6	$ 11.5	**$ 7.4**	$ 19.8

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

12. Income taxes

	Three months ended June 30 (unaudited)		Six months ended June 30 (unaudited)	
	2007	2006	**2007**	2006
Current	**$ 60.2**	$ 29.0	**$ 122.1**	$ 50.7
Future	**7.0**	(21.0)	**(8.9)**	(24.7)
	$ 67.2	$ 8.0	**$ 113.2**	$ 26.0

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.

13. Commitments and contingencies

In May 2007, Coal Valley Resources Inc. ("CVRI") in which the Corporation had a 50% interest, signed an agreement with CN Rail to pledge 300,000 tonnes of clean coal inventory as security on the liability outstanding with CN Rail which had increased due to delays in sales as a result of rail service. CVRI expects the security agreement to be cancelled before the end of 2007.

As at June 30, 2007, the Corporation was committed to purchases of equipment and services in the amount of $62.5 million. As the Power and Metals expansions progress, the Corporation expects to enter into additional commitments.

14. Net increase in non-cash working capital

	Three months ended June 30 (unaudited)		Six months ended June 30 (unaudited)	
	2007	2006	**2007**	2006
Accounts receivable	**$ (23.0)**	$ (2.9)	**$ (49.2)**	$ (36.3)
Inventories	**18.6**	(3.0)	**(1.5)**	(13.5)
Prepaid expenses	**(7.0)**	(9.0)	**(8.1)**	(7.3)
Accounts payable and accrued liabilities	**(23.0)**	7.8	**30.7**	3.2
	$ (34.4)	$ (7.1)	**$ (28.1)**	$ (53.9)

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

15. 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 June 30, 2007

[$ millions]	Metals	Oil and Gas	Power	Coal [(1)]	Corporate and Other [(3)]	Consolidated
Revenue	$ 274.1	$ 77.7	$ 28.3	$ 24.6	$ 0.7	$ 405.4
Operating, selling, general and administrative	107.4	18.4	7.1	24.3	2.3	159.5
Earnings (loss) before undernoted items	166.7	59.3	21.2	0.3	(1.6)	245.9
Depletion, amortization and accretion	5.5	23.0	6.6	2.7	1.1	38.9
Operating earnings (loss) from continuing operations	161.2	36.3	14.6	(2.4)	(2.7)	207.0
Share of earnings of equity accounted investments	-	-	-	5.0	-	5.0
Net financing expense						(6.6)
Income taxes						(67.2)
Non-controlling interests						(5.8)
Earnings from continuing operations						132.4
Earnings from discontinued operations (note 4a)						-
Net earnings						132.4
Capital expenditures [(2)]	49.1	35.8	5.6	0.7	0.2	91.4
Assets	$ 766.9	$ 707.1	$ 552.2	$ 119.8	$ 1,658.0	$ 3,804.0

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

15. Segmented information (continued)

Three months ended June 30, 2006

[$ millions]	Metals	Oil and Gas	Power	Coal [1]	Corporate	Consolidated
Revenue	$ 120.3	$ 69.6	$ 28.4	$ 73.2	$ -	$ 291.5
Operating, selling, general and administrative	74.0	14.9	7.7	59.9	11.4	167.9
Earnings (loss) before undernoted items	46.3	54.7	20.7	13.3	(11.4)	123.6
Depletion, amortization and accretion	5.0	21.3	6.7	13.6	1.2	47.8
Operating earnings (loss) from continuing operations	41.3	33.4	14.0	(0.3)	(12.6)	75.8
Share of earnings of equity accounted investments	-	-	-	-	0.3	0.3
Net financing expense						(11.5)
Income taxes						(8.0)
Non-controlling interests						(5.0)
Gain on disposition of investments						5.0
Earnings from continuing operations						56.6
Earnings from discontinued operation (note 4b)						0.6
Net earnings						57.2
Capital expenditures[2]	13.7	33.3	5.5	3.3	0.4	56.2
Assets	$ 418.4	$ 630.7	$ 536.7	$ 446.5	$ 322.0	$ 2,354.3

(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 $0.1 million (2006 - $0.4 million) from the discontinued operations and total assets include $79.9 million (2006 - 52.4 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 June 30, 2007.

Six months ended June 30, 2007

[$ millions]	Metals	Oil and Gas	Power	Coal [1]	Corporate and Other [3]	Consolidated
Revenue	$ 478.1	$ 136.1	$ 56.2	$ 44.4	$ 0.7	$ 715.5
Operating, selling, general and administrative	176.7	35.7	14.8	45.3	24.2	296.7
Earnings (loss) before undernoted items	301.4	100.4	41.4	(0.9)	(23.5)	418.8
Depletion, amortization and accretion	11.5	46.1	12.6	5.1	2.1	77.4
Operating earnings (loss) from continuing operations	289.9	54.3	28.8	(6.0)	(25.6)	341.4
Share of earnings of equity accounted investments	-	-	-	11.9	-	11.9
Net financing expense						(7.4)
Income taxes						(113.2)
Non-controlling interests						(11.2)
Earnings from continuing operations						221.5
Earnings from discontinued operations (note 4a)						-
Net earnings						221.5
Capital expenditures [2]	80.1	83.1	15.7	1.1	0.3	180.3
Assets	$ 766.9	$ 707.1	$ 552.2	$ 119.8	$ 1,658.0	$ 3,804.0

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

15. Segmented information (continued)

Six months ended June 30, 2006

[$ millions]	Metals	Oil and Gas	Power	Coal (1)	Corporate	Consolidated
Revenue	$ 203.1	$ 138.3	$ 50.6	$ 147.0	$ -	$ 539.0
Operating, selling, general and administrative	126.7	27.4	14.8	114.9	20.6	304.4
Earnings (loss) before undernoted items	76.4	110.9	35.8	32.1	(20.6)	234.6
Depletion, amortization and accretion	9.6	41.9	13.0	27.6	2.4	94.5
Operating earnings (loss) from continuing operations	66.8	69.0	22.8	4.5	(23.0)	140.1
Share of earnings of equity accounted investments	-	-	-	-	0.9	0.9
Net financing expense						(19.8)
Income taxes						(26.0)
Non-controlling interests						(8.3)
Gain on disposition of investments						5.0
Earnings from continuing operations						91.9
Earnings from discontinued operation (note 4b)						1.0
Net earnings						92.9
Capital expenditures(2)	26.6	60.8	11.8	5.6	1.0	105.8
Assets	$ 418.4	$ 630.7	$ 536.7	$ 446.5	$ 322.0	$ 2,354.3

(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 $0.1 million (2006 - $0.9 million) from the discontinued operations and total assets include $79.9 million (2006 - $52.4 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 June 30, 2007.

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

15. Segmented information (continued)

Three months ended June 30	**2007**		2006 (restated-note 4b)	
	Revenue	**Capital Assets**	Revenue	Capital Assets
Canada	**$ 44.6**	**$ 276.5**	$ 96.4	$ 202.4
Cuba	**104.2**	**879.7**	95.0	761.2
Europe	**174.5**	**6.5**	59.9	1.3
Asia	**75.1**	**6.6**	29.2	7.3
Other foreign countries	**7.0**	**119.6**	11.0	-
	$ 405.4	**$ 1,288.9**	$ 291.5	$ 972.2

Six months ended June 30	**2007**		2006 (restated-note 4b)	
	Revenue	**Capital Assets**	Revenue	Capital Assets
Canada	**$ 66.8**	**$ 276.5**	$ 168.2	$ 202.4
Cuba	**186.1**	**879.7**	183.0	761.2
Europe	**267.3**	**6.5**	114.7	1.3
Asia	**180.4**	**6.6**	56.6	7.3
Other foreign countries	**14.9**	**119.6**	16.5	-
	$ 715.5	**$ 1,288.9**	$ 539.0	$ 972.2

16. 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)

16. Financial Instruments (continued)

(b) Fair values

As at June 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:

	June 30, 2007 Carrying Value	**June 30, 2007 Fair Value**	December 31, 2006 Carrying Value	December 31, 2006 Fair Value
7.875% senior unsecured debentures	**$ 263.5**	**$ 283.6**	$ 273.6	$ 288.4

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

Unutilized lines of credit as at June 30, 2007 were $48.6 million.

17. Accumulated other comprehensive loss

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

	Six months ended June 30, 2007	Year ended December 31, 2006
Foreign currency losses on self-sustaining foreign operations	**$ (43.8)**	$ (43.8)
Balance, beginning of period	**(43.8)**	(43.8)
Other comprehensive loss	**(66.1)**	-
Balance, end of period	**$ (109.9)**	$ (43.8)

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

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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