

**Sherritt International Corporation**  
**Interim Consolidated**  
**Financial Statements**  
**Three Months Ended**  
**March 31, 2005**

**Sherritt International Corporation**  
**First Quarter Report**

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## Consolidated Balance Sheets

	March 31 2005 (unaudited)	December 31 2004 (audited)
(millions of Canadian dollars)		
<b>ASSETS</b>		
<b>Current assets</b>		
Cash, cash equivalents and short-term investments	\$ 460.2	\$ 427.0
Restricted cash	14.3	25.0
Advances and loans receivable	36.7	27.7
Accounts receivable	285.3	282.6
Inventories	121.8	103.1
Overburden removal costs	1.8	1.4
Prepaid expenses	11.7	8.6
Future income taxes	20.9	18.9
	<b>952.7</b>	<b>894.3</b>
<b>Capital assets</b>	<b>1,525.7</b>	<b>1,500.5</b>
<b>Investments</b>	<b>21.3</b>	<b>21.7</b>
<b>Future income taxes</b>	<b>77.0</b>	<b>66.8</b>
<b>Other assets</b>	<b>104.0</b>	<b>114.3</b>
	<b>\$ 2,680.7</b>	<b>\$ 2,597.6</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Short-term debt	\$ 63.2	\$ 44.9
Accounts payable and accrued liabilities	192.3	178.8
Asset retirement obligations (note 5)	8.8	11.8
Current portion of long-term debt (note 4)	4.8	4.2
	<b>269.1</b>	<b>239.7</b>
<b>Long-term debt and other liabilities (note 4)</b>	<b>582.8</b>	<b>777.7</b>
<b>Asset retirement obligations (note 5)</b>	<b>69.4</b>	<b>65.4</b>
<b>Future income taxes</b>	<b>208.8</b>	<b>203.7</b>
<b>Non-controlling interests (note 9)</b>	<b>192.5</b>	<b>183.7</b>
	<b>1,322.6</b>	<b>1,470.2</b>
<b>Shareholders' equity</b>		
Convertible debentures (note 6)	12.6	25.0
Capital stock (note 7)	793.2	582.4
Contributed surplus (note 10)	196.0	199.2
Retained earnings	356.3	320.8
	<b>1,358.1</b>	<b>1,127.4</b>
	<b>\$ 2,680.7</b>	<b>\$ 2,597.6</b>

## Consolidated Statements of Operations

	Three months ended March 31 (unaudited)	
	2005	2004
[millions of Canadian dollars except per share amounts]	(restated - note 2)	
<b>Revenue</b>	<b>\$ 255.3</b>	<b>\$ 258.5</b>
Operating, selling, general and administrative	<b>132.9</b>	132.9
<b>Earnings before undernoted items</b>	<b>122.4</b>	125.6
Depletion, amortization and accretion	<b>44.7</b>	44.0
Net financing expense (note 11)	<b>14.8</b>	14.0
Share of earnings of equity investments	<b>(0.5)</b>	(0.5)
Earnings before income taxes and non-controlling interests	<b>63.4</b>	68.1
Income taxes (note 12)	<b>19.1</b>	12.4
Non-controlling interest	<b>8.8</b>	9.6
<b>Net earnings</b>	<b>\$ 35.5</b>	<b>\$ 46.1</b>
<b>Earnings per share (note 7)</b>		
Basic	<b>\$ 0.25</b>	\$ 0.35
Diluted	<b>0.21</b>	0.26
<b>Weighted average number of shares (millions of shares)</b>		
Basic	<b>139.1</b>	131.3
Diluted	<b>198.6</b>	209.0

## Consolidated Statements of Retained Earnings

	Three months ended March 31 (unaudited)	
	2005	2004
[millions of Canadian dollars]	(restated - note 2)	
Beginning of period, as previously reported	<b>\$ 320.8</b>	\$ 194.9
Change in accounting policies (note 2)	<b>-</b>	(34.1)
Beginning of period, as restated	<b>320.8</b>	160.8
Net earnings	<b>35.5</b>	46.1
End of period	<b>\$ 356.3</b>	\$ 206.9

## Consolidated Statements of Cash Flow

	Three months ended March 31 (unaudited)	
	2005	2004
[millions of Canadian dollars]	(restated - note 2)	
<b>Operating activities</b>		
Net earnings	\$ 35.5	\$ 46.1
Items not affecting cash		
Non-controlling interest	8.8	9.6
Accretion on convertible debentures	0.4	0.7
Depletion, amortization and accretion	44.7	44.0
Amortization of financing costs	0.3	0.6
Share of earnings of equity investments	(0.5)	(0.5)
Future income taxes	(6.5)	(12.9)
Foreign exchange loss	3.8	0.7
Asset retirement obligations expenditures	(1.0)	(1.7)
Other items	0.5	(0.7)
Cash provided before working capital changes	86.0	85.9
Decrease (increase) in non-cash working capital		
Accounts receivable	(6.2)	(17.8)
Inventories	(18.7)	(8.3)
Overburden removal costs	(0.5)	0.5
Prepaid expenses	(3.1)	(2.3)
Accounts payable and accrued liabilities	15.9	(5.4)
	(12.6)	(33.3)
Cash provided by operating activities	73.4	52.6
<b>Investing activities</b>		
Capital expenditures	(59.4)	(20.0)
Investments	0.9	0.3
Net proceeds from sale of capital assets	0.9	0.8
Restricted cash	10.7	(2.4)
Other assets	(7.6)	1.1
Cash used for investing activities	(54.5)	(20.2)
<b>Financing activities</b>		
Short-term debt	18.3	0.2
Long-term debt	(1.1)	(0.6)
Issue of common shares	2.5	0.3
Repurchase of common shares	(5.4)	-
Cash provided by (used for) financing activities	14.3	(0.1)
<b>Increase in net cash</b>	<b>33.2</b>	<b>32.3</b>
<b>Net cash at beginning of period</b>	<b>427.0</b>	<b>334.1</b>
<b>Net cash at end of period</b>	<b>\$ 460.2</b>	<b>\$ 366.4</b>

### Supplementary Cash Flow Information

Cash received for interest	\$ 5.4	\$ 2.4
Cash paid for interest on debt	6.6	5.9
Cash paid for income taxes	14.7	24.7

Net cash consists of cash, cash equivalents and short-term investments. As at March 31, 2005, short-term investments with maturities greater than three months were \$2.5 million (2004 – \$12.0 million).

## Notes To Interim Consolidated Financial Statements (Unaudited)

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

### 1. Summary of accounting policies

These interim consolidated financial statements follow the same accounting policies as the consolidated financial statements for the year ended December 31, 2004. The disclosures contained in these interim consolidated financial statements do not include all requirements of Canadian generally accepted accounting principles for annual financial statements. Accordingly, the interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2004.

### 2. Changes in accounting policies

#### (a) Consolidation of variable interest entities

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

The Corporation has implemented the guideline on a retroactive basis with restatement of prior periods. The cumulative effect of the change in policy on the retained earnings at March 31, 2004 was \$5.4 million. The change in policy resulted in an increase in earnings of \$0.4 million in the first three months of 2004 (change in EPS – basic \$nil, diluted \$nil).

#### (b) Convertible debentures – disclosure and presentation

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

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

The changes have been implemented on a retroactive basis with restatement of prior periods. The cumulative effect of the change in policy on the retained earnings at March 31, 2004 was \$28.7 million. The change in policy resulted in a decrease in net earnings of \$7.2 million (increase in EPS – basic \$ nil, diluted \$0.01) in the first three months of 2004.

### 3. Post-retirement benefits

The Corporation's pension expense for the three months ended March 31, 2005 was \$2.2 million (2004 - \$2.3 million).

### 4. Long-term debt and other liabilities

	March 31, 2005	December 31, 2004 (restated)
6% convertible debentures due 2006 <sup>(a)</sup>	\$ -	\$ 196.8
7% convertible debentures due 2013	293.5	293.3
Senior notes	166.3	165.5
Senior unsecured debentures	105.0	105.0
	<b>564.8</b>	<b>760.6</b>
Capital lease obligations	17.9	16.2
Other long-term liabilities	4.9	5.1
	<b>587.6</b>	<b>781.9</b>
Current portion of long-term debt	(4.8)	(4.2)
	<b>\$ 582.8</b>	<b>\$ 777.7</b>

<sup>(a)</sup> \$192.4 million principal amount of the 6% convertible debentures were converted into 21,923,924 shares and the remaining balance of \$7.6 million was redeemed for 811,137 shares during the three months ended March 31, 2005.

Interest and accretion on long-term debt for the three months ended March 31, 2005 was \$14.3 million (2004 – \$17.6 million).

### 5. Asset retirement obligations

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

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

	Three months ended March 31, 2005	Year ended December 31, 2004
Balance, beginning of period	\$ 77.2	\$ 79.4
Additions to liabilities	1.3	7.3
Liabilities settled	(1.3)	(14.3)
Accretion expense	1.5	5.5
Change in foreign exchange rates	(0.5)	(0.7)
Balance, end of period	78.2	77.2
Current portion	(8.8)	(11.8)
	<b>\$ 69.4</b>	<b>\$ 65.4</b>

The Corporation has estimated the undiscounted cash flow required to settle the asset retirement obligation at approximately \$216.8 million. Expenditures will be made on an ongoing basis over several decades and are expected to be funded by cash generated from operations. Credit adjusted discount rates from 3% to 9% were applied to expected future cash flows to determine the carrying value of the asset retirement obligation.

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

## 6. Convertible debentures

	March 31, 2005	December 31, 2004 (restated)
7% convertible debentures due 2013	\$ 12.6	\$ 12.6
6% convertible debentures due 2006	-	12.4
	<b>\$ 12.6</b>	<b>\$ 25.0</b>

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

## 7. Capital stock

The Corporation's authorized share capital consists of an unlimited number of common shares.

The changes in the Corporation's outstanding common shares were as follows:

	Number		Stated Capital	
	March 31, 2005	December 31, 2004	March 31, 2005	December 31, 2004
Balance, beginning of period	131,381,776	131,189,779	\$ 582.4	\$ 581.7
Changes in 2005:				
Share purchase plan	-	91,140	-	0.4
Repurchase of shares	(545,432)	-	(2.8)	-
Stock options exercised	410,000	100,000	2.5	0.3
6% convertible debenture conversion	21,923,924	857	202.4	-
6% convertible debenture redemption	811,137	-	8.7	-
7% convertible debenture conversion	1,143	-	-	-
Balance, end of period	<b>153,982,548</b>	131,381,776	<b>\$ 793.2</b>	\$ 582.4

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

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

	Three months ended March 31	
	2005	2004
Earnings from continuing operations	\$ 35.5	\$ 46.1
Loss on redemption of convertible debentures	(0.5)	-
Net earnings – basic	35.0	46.1
Loss on redemption of convertible debentures	0.9	
Interest and accretion on convertible debentures	5.2	7.4
Net earnings – diluted	\$ 41.1	\$ 53.5
Weighted average number of shares – basic	139.1	131.3
Weighted average effect of dilutive securities:		
Employee stock options	1.9	0.7
Convertible debentures	57.6	77.0
Weighted average number of shares - diluted	198.6	209.0
Earnings per share		
Basic	\$ 0.25	\$ 0.35
Diluted	0.21	0.26

## 8. Stock Compensation Plans

The following is a summary of stock option activity during the three months ended March 31, 2005.

	Three months ended March 31, 2005		Three months ended March 31, 2004	
	Options	Weighted average exercise price	Options	exercise price
Outstanding at beginning of period	6,040,000	\$ 6.66	6,410,000	\$ 6.64
Exercised	(410,000)	6.14	(85,000)	3.05
Forfeited	-	-	(270,000)	7.74
Outstanding at end of period	5,630,000	\$ 6.70	6,055,000	\$ 6.65

## 9. Variable interest entities and non-controlling interests

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

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

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

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

## 10. Contributed surplus

	March 31, 2005	December 31, 2004
Balance, beginning of period	\$ 199.2	\$ 201.8
Repurchase of convertible debentures	-	(2.6)
Redemption of convertible debentures	(0.5)	
Repurchase of common shares	(2.7)	-
Balance, end of period	\$ 196.0	\$ 199.2

Contributed surplus was reduced in 2005 by \$3.2 million reflecting the loss on redemption of the 6% convertible debentures and the loss on repurchase of shares. Contributed surplus was reduced in 2004 as a result of a loss on the repurchase of \$100 million par value of the 6% convertible debenture. The amounts relating to both of these transactions are stated net of tax.

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

## 11. Net financing expense

	Three months ended March 31	
	2005	2004 (restated)
Interest income on cash, cash equivalents, short-term investments and loans	\$ (4.6)	\$ (6.0)
Interest expense on debt	15.1	19.3
Foreign exchange losses	3.8	0.7
Other	0.5	-
	\$ 14.8	\$ 14.0

## 12. Income taxes

	Three months ended March 31	
	2005	2004 (restated)
Current	\$ 25.6	\$ 25.3
Future	(6.5)	(12.9)
	\$ 19.1	\$ 12.4

## 13. Commitments and contingencies

### *Oil and Gas and Power Receivables*

The Corporation has entered into an agreement with an international financial institution, that has been assigned the right, by certain Cuban government agencies, to receive income tax, royalty and labour tax payments (Tax Amounts) made by Moa Nickel S.A. To the extent that the Tax Amounts received by the financial institution exceed the financial institution's minimum quarterly repayment requirements on its loans to Cuban government agencies, the excess is made available to release directly to the Corporation, net of a 4.5%

release fee for payment of amounts owing by Cuban government agencies relating to oil, power and soybean-based food product purchases. The agreement expires in January 2007.

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

During the quarter, the Corporation received \$18.4 million under this agreement (\$nil - 2004), which was applied against Oil and Gas, Power and soybean-based food processing receivables. Based on management's expectations for production, commodity prices and costs at Moa Nickel S.A. for the remainder of the year, the Corporation does not expect that it will be required to refund any amounts that relate to the 2005 calendar year and therefore no liability has been recorded in respect of potential refunds. As at March 31, 2005, the estimated maximum potential refund, which would result in a similar amount of receivables being reinstated, is \$18.4 million.

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

### *Commitments*

As at March 31, 2005 the Corporation was committed to purchases of equipment and services in the amount of \$29.3 million.

## 14. Segment information

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

### Three months ended March 31, 2005

(millions of Canadian dollars)	Coal	Metals	Oil and Gas	Power	Other <sup>(1)</sup>	Corporate	Consolidated
Revenue	\$ 62.9	\$ 99.8	\$ 49.7	\$ 25.7	\$ 17.2	\$ -	\$ 255.3
Operating, selling, general and administrative	41.9	50.5	9.7	6.1	14.4	10.3	132.9
Earnings (loss) before undernoted items	21.0	49.3	40.0	19.6	2.8	(10.3)	122.4
Depletion, amortization and accretion	13.8	5.0	18.9	5.2	0.7	1.1	44.7
Operating earnings (loss)	7.2	44.3	21.1	14.4	2.1	(11.4)	77.7
Share of earnings of equity investments							0.5
Net financing expense							(14.8)
Earnings before income taxes and non-controlling interest							63.4
Capital expenditures	1.3	4.0	28.8	23.8	0.1	1.4	59.4
Assets	\$ 763.2	\$ 419.2	\$ 558.4	\$ 502.3	\$ 100.8	\$ 336.8	\$ 2,680.7

### Three months ended March 31, 2004 (restated)

(millions of Canadian dollars)	Coal	Metals	Oil and Gas	Power	Other <sup>(1)</sup>	Corporate	Consolidated
Revenue	\$ 63.2	\$ 105.0	\$ 47.6	\$ 26.7	\$ 16.0	\$ -	\$ 258.5
Operating, selling, general and administrative	45.2	47.8	9.7	6.7	15.1	8.4	132.9
Earnings (loss) before undernoted items	18.0	57.2	37.9	20.0	0.9	(8.4)	125.6
Depletion, amortization and accretion	12.8	5.0	20.5	4.3	0.4	1.0	44.0
Operating earnings (loss)	5.2	52.2	17.4	15.7	0.5	(9.4)	81.6
Share of earnings of equity investments							0.5
Net financing expense							(14.0)
Earnings before income taxes and non-controlling interest							68.1
Capital expenditures	0.8	1.4	17.8	-	-	-	20.0
Assets	\$ 792.6	\$ 398.2	\$ 504.6	\$ 434.3	\$ 114.6	\$ 338.0	\$ 2,582.3

<sup>(1)</sup> Other includes the results of the soybean-based food processing business.

Three months ended March 31	<b>2005</b>		2004 (restated)	
	<b>Revenue</b>	<b>Capital Assets</b>	Revenue	Capital Assets
Canada	\$ 68.0	\$ 782.3	\$ 72.5	\$ 809.7
Cuba	90.0	733.6	86.7	665.7
Europe	61.2	2.9	61.8	4.8
Asia	29.8	6.9	33.1	6.9
Other foreign countries	6.3	-	4.4	-
	<b>\$ 255.3</b>	<b>\$ 1,525.7</b>	<b>\$ 258.5</b>	<b>\$ 1,487.1</b>

### 15. Financial instruments

Unutilized lines of credit as at March 31, 2005 were \$58.5 million.

### 16. Comparative amounts

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

### 17. Subsequent event

On April 28, 2005, the Corporation announced its intention to pay quarterly dividends, beginning with the payment of \$0.025 per share on May 24, 2005 to shareholders of record on May 10, 2005. Subsequent payments will be made to shareholders of record at the end of each quarter, beginning June 30, 2005.

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

### March 31, 2005

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

### December 31, 2004

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