

Sherritt International Corporation
Management's Discussion and Analysis
for First Quarter Ended
March 31, 2005

Sherritt International Corporation
First Quarter Report 2005

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Management's Discussion and Analysis

The following discussion and analysis of the consolidated financial results of Sherritt International Corporation for the three months ended March 31, 2005 should be read in conjunction with the unaudited consolidated financial statements and related notes contained in this interim report as well as the management's discussion and analysis, audited consolidated financial statements and related notes contained in the Corporation's 2004 annual report. Additional information relating to the Company, including the Corporation's 2004 Annual Information Form is on SEDAR at www.sedar.com or on the Corporation's web site at www.sherritt.com. This management's discussion and analysis is as of May 2, 2005.

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

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

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

Consolidated Earnings

First Quarter Results

For the first quarter of 2005, net earnings for \$35.5 million or \$0.25 per share were \$10.6 million lower than net earnings of \$46.1 million or \$0.35 per share in the first quarter of 2004 due mainly to lower realized cobalt prices and a higher effective income tax rate. Earnings per share for the quarter also reflected a higher weighted average number of shares outstanding.

	Q1 2005	Q1 2004 (restated)
Revenue	\$ 255.3	\$ 258.5

The decrease is mainly attributable to lower Metals revenue due to lower realized cobalt prices and the impact of a stronger Canadian dollar in the Metals and Oil and Gas businesses, offset in part by an increase in Oil and Gas revenue resulting from higher realized oil prices.

	Q1 2005	Q1 2004 (restated)
Operating costs	\$ 115.3	\$ 115.4
Selling costs	2.4	3.0
General and administrative costs	15.2	14.5
Operating, selling, general and administrative costs	\$ 132.9	\$ 132.9

There were no significant changes in consolidated operating, selling and general and administrative costs from the same quarter last year.

	Q1 2005	Q1 2004 (restated)
Depletion, amortization and accretion	\$ 44.7	\$ 44.0

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

	Q1 2005	Q1 2004 (restated)
Net financing expense	\$ 14.8	\$ 14.0

The small increase was primarily due to an increase in the foreign exchange loss as a result of the strengthening of the Canadian dollar against the U.S dollar and lower interest income reflecting a decrease in interest-bearing receivables offset in part by lower interest expense due to the repurchase and early redemption of the 6% convertible debentures.

	Q1 2005	Q1 2004 (restated)
Share of earnings of equity investments	\$ 0.5	\$ 0.5

The Corporation's equity earnings in the hotel investments has remained unchanged from the first quarter of 2004.

	Q1 2005	Q1 2004 (restated)
Effective tax rate	30%	18%

Sherritt's effective tax rate varies depending upon the relative profitability of its businesses, which are situated in different tax rate jurisdictions. The higher effective tax rate for the first quarter of 2005 as compared to the same period last year, mainly relates to a one time adjustment recorded by the Coal business in the first quarter of 2004 reflecting a reduction in provincial tax rates and a smaller proportion of profits in the Metals business recorded in a low tax rate jurisdiction relative to the first quarter last year. Assuming similar commodity prices for the remainder of the year, the Corporation expects an annual effective tax rate of approximately 32%.

	Q1 2005	Q1 2004 (restated)
Non-controlling interests	\$ 8.8	\$ 9.6

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

Consolidated Cash Flow

First Quarter Results

	Q1 2005	Q1 2004 (restated)
Cash from operating activities		
before working capital changes	\$ 86.0	\$ 85.9
Non-cash working capital changes	(12.6)	(33.3)
Cash provided by operating activities	\$ 73.4	\$ 52.6

Cash provided by operating activities includes net earnings of \$35.5 million adjusted for \$50.5 million of items not affecting cash offset by an increase in non-cash working capital in the first quarter of 2005. The increase in non-cash working capital is due mainly to an increase in inventories, mainly in the Metals and Coal businesses offset in part by an increase in accounts payable, mainly from increased drilling activities in Oil and Gas and advanced fertilizer sales in the Metal business.

	Q1 2005	Q1 2004 (restated)
Capital expenditures	\$ (59.4)	\$ (20.0)
Cash provided by (used for) other investing activities	4.9	(0.2)
Cash provided by (used for) financing activities	14.3	(0.1)

The major capital expenditures in the first quarter related to Oil and Gas development drilling in Cuba and expenditures for the Power expansion. Cash provided by other investing activities in the first quarter related to a decrease of restricted cash and proceeds received on the quarterly repayment of a note receivable offset in part by working capital advances to a joint venture operation. Cash provided by financing activities in the quarter related mainly to a drawdown of a working capital facility.

Consolidated Financial Position, Liquidity and Capital Resources

Total assets at March 31, 2005 were \$2.7 billion. Cash, cash equivalents, short-term investments and restricted cash totalled \$474.5 million at March 31, 2005, an increase of \$22.5 million since year end. This increase in cash included \$14.0 million of cash from operations after capital expenditures.

Current advances and loans receivable increased by \$9.0 million to \$36.7 million during the first quarter of 2005, primarily reflecting increases in working capital advances to joint ventures.

Accounts receivable were \$285.3 million at March 31, 2005 compared with \$282.6 million at year end. The small increase was primarily due to the timing of cash receipts in the Coal business, higher nickel prices and higher cobalt sales volume in Metals and higher oil prices in Oil and Gas offset in part by decreases of receivables in Power due to collections of receivables.

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

Oil and Gas, Power and soybean-based food processing accounts receivable due from Cuban government agencies have included overdue amounts. Overdue amounts bear interest and historically have not generally exceeded four months of average monthly revenues. With the current oil prices, oil sales to the Cuban government provide for payment normally within 180 days of invoicing with interest accruing on balances outstanding beyond 90 days. The Corporation manages its overall accounts receivable with the Cuban government agencies on a consolidated basis to provide for cash positive operation in its businesses, prudent growth and an orderly reduction of overdue balances. The Corporation has been a large foreign investor in Cuba for over a decade and continues to have a co-operative and mutually beneficial relationship with the state. Management of accounts receivable risk with Cuban government agencies requires taking into account payments made to Cuban agencies for labour, taxes, royalties and other local services in Metals, Oil and Gas, Power and soybean-based food processing; obtaining pledges of third party payments to Cuban agencies as security for the receivables; and managing sustaining and growth capital appropriately.

Inventories were \$121.8 million at March 31, 2005, an increase of \$18.7 million over year end. The increase relates mainly to the seasonal build up of fertilizer inventory in Metals and increases in Coal inventory due to delayed shipments from the Coal Valley mine caused by reduced rail service.

Capital assets were \$1,525.7 million at March 31, 2005 compared with \$1,500.5 million at December 31, 2004. Capital expenditures of \$59.4 million in the first quarter of 2005 were offset in part by amortization of capital assets of \$42.3 million.

The future tax asset (including current portion) of \$97.9 million at March 31, 2005 represented primarily the tax benefit of approximately of \$133.8 million of non-capital losses and \$71.3 million of capital losses. The non-capital losses have been generated primarily through interest on Sherritt's convertible debentures. The balance of the future tax asset relates mainly to accrued reclamation costs, which are deducted for tax when incurred. The tax benefit of the losses has been recognized in the financial statements on the expectation that sufficient taxable income will be realized in the future to utilize these losses.

Other assets were \$104.0 million at March 31, 2005, compared with \$114.3 million at the end of 2004. The decrease reflected partial repayments of a note receivable, reductions in long-term spare parts and equipment and the reduction of deferred interest and issue costs relating to the conversion and redemption of the 6% convertible debentures.

Short-term debt of \$63.2 million at March 31, 2005 increased by \$18.3 million during the period relating to a drawdown of a working capital facility. Accounts payable and accrued liabilities were \$192.3 million at the end of the first quarter compared with \$178.8 million at the end of 2004. The increase relates mainly to the advanced fertilizer sales in the Metals business, higher income taxes payable and an increase in Oil and Gas payables, mainly relating to the increase in drilling activity.

The future income tax liability of \$208.8 million at March 31, 2005 increased compared with the year end amount of \$203.7 million. The majority of this amount relates to the future income tax liability of the Coal business. The future income tax liability does not represent a current cash tax liability, but is a result of the temporary differences between the value of capital assets for tax purposes versus accounting purposes. These temporary differences are expected to reverse over time, with a corresponding credit to the income statement.

Long-term debt and other liabilities (including current portion) were \$587.6 million at the end of the first quarter compared with \$781.9 million at the end of 2004. The decrease is attributable to the redemption of the \$200 million 6% convertible debentures during the quarter.

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

In April 2005, the Corporation announced its intention to pay a quarterly dividend. A dividend of \$0.025 per share was declared for payment on May 24, 2005 to shareholders of record on May 10, 2005. Cash generated from operations and cash on hand are expected to be sufficient to finance ongoing operations and the quarterly dividend payment. Expansions or growth opportunities will be financed through a combination of cash from operations and, to the extent necessary, cash on hand and external financing.

During the quarter, the Corporation completed the redemption of all of its \$200 million par value 6% convertible debentures. The redemption was effected by the issue of common shares. As a result of the redemption, and of conversions of 6% debentures into common shares prior to the redemption, Sherritt issued a total of 22,735,062 common shares in satisfaction and discharge of the \$200 million of 6% convertible debentures that were outstanding at year end. In addition, during the quarter, 1,143 shares were issued on the conversion of \$8,000 principal amount of 7% convertible debentures.

The Corporation also acquired 545,432 of its common shares at \$10.00 per share as a result of an issuer bid that closed on March 17, 2005.

During the quarter, the Corporation entered into capital leases for equipment totalling \$2.8 million as part of long-term mine support equipment agreements.

In 2004, Sherritt entered into an agreement that allows for a part of the Moa Nickel S.A. income tax, royalty and labour tax payments, which are assigned to an international financial institution, to be redirected to Sherritt as payment for oil and power sales. The amount redirected to Sherritt is the excess of the international financial institution's minimum quarterly requirements. Sherritt received \$18.4 million under this agreement during the quarter. In the event that the amounts received by the financial institution do not meet their minimum payment requirements, the amounts received by Sherritt must be refunded to make up the shortfall. The refund is limited to the total amount received by Sherritt in the particular calendar year. Should a refund occur, the Oil and Gas and Power businesses would increase the amounts receivable from the Cuban agencies by a similar amount. As at March 31, 2005, the estimated maximum potential refund, which would result in a similar amount of receivables being reinstated, is \$18.4 million. Based on management's expectations for production, commodity prices and costs at Moa Nickel S.A. for the remainder of the year, the Corporation does not expect that it will be required to refund any amounts that relate to the 2005 calendar year and therefore no liability has been recorded in respect of potential refunds.

Review of Operations

Coal

The Coal business continues to focus on innovative opportunities to increase production. Improvements are being realized in safety performance, productivity and operating costs. Coal achieved record EBITDA of \$21.0 million on record production of 5.1 million tonnes during the first quarter of 2005.

First Quarter Results

	Q1 2005	Q1 2004
Revenue	\$ 62.9	\$ 63.2
Operating costs	(40.5)	(43.1)
Selling costs	(0.2)	(0.1)
General and administrative costs	(1.2)	(2.0)
EBITDA	21.0	18.0
Depletion, amortization and accretion	(13.8)	(12.8)
Operating earnings ⁽¹⁾	\$ 7.2	\$ 5.2

Record EBITDA of \$21.0 million was 3% higher than the previous record set in the fourth quarter of 2004 and record production of 5.1 million tonnes was 2% higher than the previous record set in the fourth quarter of 2004. EBITDA increased \$3.0 million compared to the same quarter last year mainly due to lower production costs, as mining practice efficiencies were realized. Operating costs for the first quarter of 2004 also reflected a nonscheduled dragline outage at the Boundary Dam mine and subsequent repair costs. General and administrative costs were \$0.8 million lower than the same quarter last year as benefits from corporate efficiencies were realized.

	Q1 2005	Q1 2004
Realized prices (\$/tonne)	\$ 12.68	\$ 12.51
Sales volumes (millions of tonnes)	5.0	5.1
Production volumes (millions of tonnes)	5.1	4.8

Average realized prices during the quarter were higher than average realized prices during the same quarter last year due to increased royalty revenues resulting from increased production on royalty properties. Slightly lower sales volumes resulted from delayed shipments at the Coal Valley mine caused by reduced rail service. The rail service provider has indicated that it is adding sufficient coal carrying capacity to address forecast shipment levels for the mines that it serves. Coal Valley rail freight rates for the contract year commencing April 1, 2005 are expected to be finalized by the end of May. Coal has received assurances that rail service levels will be able to meet Coal Valley's requirements for the remainder of the year. Higher production volume at the Boundary Dam, Coal Valley and Genesee mines contributed to record quarterly production.

	Q1 2005	Q1 2004
Capital expenditures	\$ 1.3	\$ 0.8

The increase in capital expenditures reflected spending on the Coal Valley expansion. Capital leases for equipment, totalling \$2.8 million were entered into during the quarter and recorded as additions to capital assets and long-term debt.

The \$38 million expansion at the Coal Valley mine is expected to increase production at Coal Valley from 1.0 million to 2.0 million tonnes per year. The mine is scheduled to be at full capacity by the second quarter of 2006

Metals

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

First Quarter Results

	Q1 2005	Q1 2004
Revenue	\$ 99.8	\$ 105.0
Operating costs	(48.7)	(44.8)
Selling costs	(1.7)	(2.9)
General and administrative costs	(0.1)	(0.1)
EBITDA	49.3	57.2
Depletion, amortization and accretion	(5.0)	(5.0)
Operating earnings	\$ 44.3	\$ 52.2

Lower revenues, EBITDA and operating earnings, relative to the prior period were mainly due to lower realized cobalt prices reflecting lower reference prices and a stronger Canadian dollar partly offset by higher nickel and cobalt sales volumes.

Prices	Q1 2005	Q1 2004
Nickel – realized (\$/lb)	\$ 8.58	\$ 8.66
Cobalt – realized (\$/lb)	21.66	33.32
Nickel – reference (U.S.\$/lb)	6.97	6.67
Cobalt – reference (U.S.\$/lb)	17.27	24.63

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

Production (tonnes)	Q1 2005	Q1 2004
Mixed sulphides	4,210	4,028
Finished nickel	3,911	3,826
Finished cobalt	417	402

Increased mixed sulphides production in the quarter relative to the same period last year reflected more stable operations. Higher finished nickel and cobalt production volumes in the first quarter were mainly a result of increased availability of feed relative to the first quarter of 2004. Weather related shipment delays and low on-site feed inventory impacted production in the first quarter of 2004.

Sales (thousands of pounds)	Q1 2005	Q1 2004
Finished nickel	8,955	8,274
Finished cobalt	829	826

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

	Q1 2005	Q1 2004
Capital expenditures	\$ 4.0	\$ 1.4

Capital expenditures in the first quarter of 2005 were primarily directed towards sustaining and upgrading the facilities at both Moa and Fort Saskatchewan, combined with various environmental initiatives.

	Q1 2005	Q1 2004
Fertilizer sales (tonnes)	13,553	16,967
Revenue	\$ 4.5	\$ 5.4
Operating earnings	0.2	0.9

The decrease in earnings in the first quarter of 2005 from the fertilizer operations was primarily due to reduced sales volumes, resulting from the timing of sales, partly offset by higher realized prices. Fertilizer sales are seasonal with the majority of sales occurring in the spring and fall. Depreciation expense for the quarter for the fertilizer operations was \$0.7 million, comparable to the first quarter of 2004.

During the first quarter, the shareholders of the Metals Enterprise, of which Sherritt has a 50% interest, signed an agreement to expand annual production, which included a provision attributing 100% of future earnings or losses from the sale of crystalline ammonium sulphate to the Metals Enterprise effective March 31, 2005. Prior to this agreement, 85% of earnings or losses were attributed to Sherritt, while the remaining 15% were attributed to the Metals Enterprise. This arrangement is not expected to have a material effect on the profitability of the Metals business in 2005, however, in future periods, reported fertilizer sales volumes and revenue will only reflect 50% of the sales and revenue related to crystalline ammonium sulphate compared with 100% prior to this agreement being in place.

Oil and Gas

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

First Quarter Results

	Q1 2005	Q1 2004
Revenue	\$ 49.7	\$ 47.6
Operating costs	(6.7)	(6.5)
General and administrative costs	(3.0)	(3.2)
EBITDA	40.0	37.9
Depletion, amortization and accretion	(18.9)	(20.5)
Operating earnings	\$ 21.1	\$ 17.4

Revenue, EBITDA and operating earnings increased compared to the first quarter of 2004 due mainly to higher realized prices offset in part by lower net production volumes and lower depletion, amortization and accretion costs reflecting from lower net production volumes.

Prices	Q1 2005	Q1 2004
Realized prices \$/barrel (Cuba)	\$ 28.40	\$ 24.21
Reference price – Fuel Oil No. 6 (U.S.\$/barrel)	27.57	22.37

Fuel oil reference prices for Sherritt's production in Cuba increased steadily during the first quarter of 2005 before reaching record levels in April.

Oil and Gas sells all heavy oil produced in Cuba to agencies of the Cuban government, generally at selling prices based on 79% to 83% of the Gulf Coast Fuel Oil No. 6 reference price. The reference price increased steadily during the first quarter before spiking to a record U.S. \$36.00 per barrel in April. The impact of higher fuel oil prices was partially reduced by the strength of the Canadian dollar.

Production	Q1 2005	Q1 2004
Gross oil production in Cuba (bopd)		
Operated ⁽¹⁾	39,219	43,157
Working interest ⁽²⁾	32,104	37,820
Net oil production (bopd)		
Cuba ⁽³⁾	17,523	19,964
Spain	462	938
Total	17,985	20,902

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

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

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

During the first quarter, gross operated oil production volumes decreased due to natural reservoir declines, well change-outs at the Yumuri battery, and temporary reductions on two wells, for which successful remedial action has been taken. In addition to the lower gross operated oil production, Cuban net oil production reflects higher Fuel Oil No. 6 reference prices, which reduced the barrels allocated to the Corporation for recovery of costs under the production sharing contracts.

	Q1 2005	Q1 2004
Capital expenditures	\$ 28.8	\$ 17.8

Oil and Gas has budgeted \$128 million of capital expenditures for 2005, which includes development drilling of Seboruco and other existing fields, appraisal of the Santa Cruz discovery, and exploration drilling on several prospects in Blocks 9 (San Anton), 10 (Playa Larga) and 7 (Guanabo and Tarara). To provide additional drilling capacity, a fourth rig was activated in December 2004 and the Cuban government plans to import three additional rigs later in 2005 which may also be utilized by Oil and Gas. The capital program also includes expansion of the Yumuri battery completed during the quarter, a collector pumping station at Seboruco and construction of the Canasi land-based treatment and ocean disposal system.

Four drilling rigs were active during the quarter, drilling a total of seven development wells and one exploratory well. During the quarter, Oil and Gas completed Seboruco 9 and Varadero West 720 and re-entered Seboruco 1. Yumuri 203 was successfully re-entered and completed in early April. Drilling of Varadero West 728 and the first Santa Cruz appraisal well started during the quarter. Sherritt initiated the re-entry of Varadero 703 and commenced drilling Seboruco 11 at the beginning of April. The Yumuri 211 re-entry and the Seboruco 15 outpost wells were not successful and are being evaluated for possible remedial action.

Power

Power continues to focus on the effective utilization of energy resources in the production of electricity. Sherritt has been an advocate of the construction of power facilities that derive both an economic and environmental benefit from processing natural gas being produced in Cuba which may otherwise be flared. The business currently has 226 megawatts (MW) of power capacity in Cuba, and construction is underway to expand capacity by 85 MW.

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

First Quarter Results

	Q1 2005	Q1 2004 (restated)
Revenue	\$ 25.7	\$ 26.7
Operating costs	(5.9)	(6.5)
General and administrative costs	(0.2)	(0.2)
EBITDA	19.6	20.0
Depletion, amortization and accretion	(5.2)	(4.3)
Operating earnings	\$ 14.4	\$ 15.7

Revenue was down slightly in the first quarter compared with the prior year as a stronger Canadian dollar resulted in lower realized prices. Revenue included \$2.7 million (2004 - \$2.1 million) from the sale of by-products and other miscellaneous sources. Costs were down slightly in the first quarter of 2005 also due in part to the stronger Canadian dollar. Depletion, amortization and accretion was higher than the previous year mainly due to the amortization of costs for an overhaul completed in late 2004.

	Q1 2005	Q1 2004
Realized prices (\$/MWh)	\$ 54.80	\$ 58.58

The sale price of electricity is fixed by a long-term U.S. dollar contract. Variations between the first quarter of 2005 and 2004 mainly reflect the impact of foreign exchange fluctuations.

	Q1 2005	Q1 2004
Electricity sold ⁽¹⁾ (MWh)	419,470	420,713

⁽¹⁾ Including non-controlling interest's share

Availability for each of the turbines exceeded 90% in the quarter with the exception of the peak plant at Varadero, which was shut down for maintenance in late February and early March.

	Q1 2005	Q1 2004
Capital expenditures	\$ 23.8	\$ –

Capital expenditures for the first quarter of 2005 reflect expenditures of \$23.4 million on the expansion.

Construction of the 85 MW expansion is progressing well and is expected to be operational in the fourth quarter. During the quarter, capital expenditures included \$23.4 million relating to the expansion. A further \$75 million will be spent in the remainder of the year to complete this project. An additional 75 MW expansion, comprising a combined-cycle facility, will proceed pending the confirmation and dedication of sufficient gas reserves. The Corporation and its Cuban partners are considering increasing this additional expansion to take full advantage of natural gas reserves. The magnitude and estimated cost of the additional expansion has not been finalized. Under the terms of the expansion, the Corporation will finance, construct and operate the expanded facilities, with all surplus net cash flow from the expansion being initially directed towards repayment of the financing and interest costs.

The expansion will be treated as a separate economic unit from the base operations for the purpose of determining cash flows for the repayment of financing and the calculation of taxes. During the payback period for each economic unit, Sherritt is entitled to 100% of the net cash flow of the economic unit. The price of electricity during the payback periods has been set at U.S. \$0.045 per kilowatt hour. Following the full repayment of financing for each economic unit and the payment of obligations to the Cuban government in respect of land rights, the tariff for electricity for that economic unit will drop to U.S. \$0.038 per kilowatt hour and Sherritt will be entitled to its proportionate share of the cash flow to be distributed from the economic unit. Gas will continue to be provided to the joint venture at no cost.

Final repayment of the financing and obligations in respect of land rights for the base operations is expected to take place during the second half of 2005. The resulting decrease in revenue due to the lower tariff on the base operations is expected to be largely offset by revenue generated from the expansion.

Other

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

First Quarter Results

(millions of dollars)	Q1 2005	Q1 2004 (restated)
Revenue	\$ 17.2	\$ 16.0
Operating costs	(13.9)	(14.6)
Selling costs		
General and administrative costs	(0.5)	(0.5)
EBITDA	2.8	0.9
Depletion, amortization and accretion	(0.7)	(0.4)
Operating earnings	\$ 2.1	\$ 0.5

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

Outlook

Strong nickel, cobalt, coal and oil prices and a high level of general economic activity are among the key factors that will continue to affect financial results for 2005. Although commodity prices are cyclical, early indications suggest that prices will remain at the higher end of the cycle throughout 2005.

Production levels in 2005 are expected to remain at close to 2004 levels for Metals and Power, while Coal production will increase at the Genesee and Coal Valley mines. Oil and Gas is expecting a modest increase in gross and net production in 2005 from current levels as a result of higher drilling activity. Total capital spending in 2005 is expected to be approximately \$300 million.

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

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

Coal production is expected to increase by 5% to 20 million tonnes in 2005 as a result of expansions at the Coal Valley and Genesee mines. Capital additions are expected to be approximately \$37 million in 2005, including \$24 million of capital expenditures and \$13 million of equipment acquired through capital leases. These capital additions include approximately \$16 million of equipment relating to the \$38 million expansion project at the Coal Valley mine. The mine is scheduled to be at full capacity by the second quarter of 2006. While there have been delays to certain shipments, the rail service provider has indicated that it is adding sufficient coal carrying capacity to address forecast shipment levels from the mines that it serves. It is anticipated that the Coal Valley mine freight rates for the year commencing April 1, 2005 will be finalized by the end of May.

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

In 2005, finished nickel and finished cobalt production is expected to be near record levels. Nickel prices are anticipated to remain strong in 2005 relative to historical prices as market fundamentals continue to be positive, and demand for high-grade cobalt is expected to improve cobalt prices by the fourth quarter of 2005. The benefits of strong nickel and cobalt prices are expected to be partly offset by continued high energy and raw materials prices and a strong Canadian dollar. Sustaining capital expenditures for Metals are expected to be approximately \$33 million in 2005 and are focused on improving operational efficiency, maintaining process reliability and implementing environmental initiatives. In addition, an estimated \$75 million for basic engineering and commitments for additional estimated expenditures related to the Metals expansion is anticipated for 2005.

Oil and Gas

Sherritt expects that 2005 fuel oil reference prices will, on average, be comparable to average prices in 2004. Capital expenditures for Oil and Gas are expected to increase to approximately \$128 million in 2005. Oil and Gas has launched an ambitious exploration and development program, with four drilling rigs in operation and three additional drilling rigs to be imported by the Cuban government later in 2005. In addition to its development drilling activity in Cuba, Sherritt intends to drill appraisal wells on the recent discovery at Santa Cruz and to drill several other exploration prospects in Block 7 (Guanabo and Tarara), Block 9 (San Anton) and Block 10 (Playa Larga). These prospects were identified from major seismic programs acquired and interpreted over the past two years. Sherritt expects that its development drilling program will result in modest increases in gross production volumes, offsetting natural production declines,

with the potential for further increases in production volumes if additional fields are discovered through the exploration drilling program. Sherritt anticipates that net oil production in 2005 will be comparable to 2004, assuming that fuel oil prices and production from new wells are in line with expectations.

Power

Construction of the 85 MW expansion is expected to be completed on schedule in the fourth quarter of 2005. As production from the expansion will be offset by scheduled maintenance at existing facilities, total expected production of 1.6 million megawatt hours will be basically unchanged from 2004. Capital expenditures in 2005 are estimated to be \$102 million with \$98 million relating to the expansion. The Corporation is committed to an additional 75 megawatt capacity expansion subject to confirmation and dedication of sufficient natural gas reserves from oil fields in Cuba. The Corporation and its Cuban partners are considering increasing further this additional expansion to take full advantage of natural gas reserves. The magnitude and estimated cost of the additional expansion has not been finalized.

Sherritt is proceeding with the regulatory approval process related to the Bow City power generation project and public reference documents were released in January 2005.

Other Businesses

The soybean-based food processing business will pursue opportunities to maximize consumption of its products in Cuba by continuing to improve production facilities and optimizing the distribution of its products. Production levels are expected to increase by 20% in 2005. Capital expenditures for 2005 are estimated to be \$1 million.

Summary Quarterly Results (unaudited)

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

(millions of dollars, except per share amounts)	Quarter ended							
	March 2005	Dec. 2004	Sept. 2004 ⁽²⁾	June 2004 ⁽²⁾	March 2004 ⁽²⁾	Dec. 2003 ⁽²⁾	Sept. 2003 ⁽²⁾	June 2003 ⁽²⁾
Revenue								
Coal ⁽¹⁾	\$ 62.9	\$ 65.4	\$ 60.2	\$ 61.6	\$ 63.2	\$ 60.3	\$ 61.5	\$ 60.1
Metals	99.8	107.6	100.9	142.8	105.0	99.6	61.8	95.3
Oil and Gas	49.7	45.1	51.1	53.3	47.6	51.2	54.0	48.6
Power	25.7	23.5	26.6	27.2	26.7	27.1	26.9	24.5
Other	17.2	20.3	20.8	21.1	16.0	12.2	9.1	13.5
	\$ 255.3	\$ 261.9	\$ 259.6	\$ 306.0	\$ 258.5	\$ 250.4	\$ 213.3	\$ 242.0
Earnings from continuing operations	\$ 35.5	\$ 22.7	\$ 35.2	\$ 53.3	\$ 46.1	\$ 20.5	\$ 12.4	\$ 26.2
Net earnings	35.5	24.4	35.2	54.3	46.1	20.5	12.4	26.2
Earnings from continuing operations per share								
Basic	0.25	0.15	0.27	0.41	0.35	0.20	0.09	0.22
Diluted	0.21	0.13	0.20	0.29	0.26	0.15	0.09	0.18
Earnings per share								
Basic	0.25	0.17	0.27	0.41	0.35	0.20	0.09	0.22
Diluted	0.21	0.14	0.20	0.30	0.26	0.15	0.09	0.18

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

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

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

Changes in Accounting Policies

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

Consolidation of Variable Interest Entities

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

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

Convertible Debentures – Disclosure and Presentation

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

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

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

Off Balance Sheet Arrangements

The Corporation had no material outstanding foreign exchange or commodity options, futures or forward contracts as at March 31, 2005.

Transactions with Related Party Transactions

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

The total value of all goods and services, including labour services, that the Corporation and its subsidiaries provided to joint ventures in the first quarter of 2005 amounted to \$10.6 million (2004 - \$19.2 million). The total value of goods and services purchased from affiliates in the first quarter of 2005 was \$1.5 million (2004 - \$1.4 million).

Accounts receivable from joint ventures at March 31, 2005, totalled \$4.9 million (2004 - \$2.9 million). Accounts payable to joint ventures at March 31, 2005 totalled \$0.8 million (2004 - \$1.4 million).

Contractual Obligations and Commitments

The Corporation is committed to purchases of equipment and services in the amount of \$29.3 million. As the Power and Metals expansion progresses, the Corporation expects to enter into additional commitments.

Additional Information

Share Capital

As at March 31, 2005, the Corporation had 153,982,548 common shares outstanding.

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