

Sherritt International Corporation
Management's Discussion and Analysis
for First Quarter Ended
March 31, 2006

Sherritt International Corporation
First Quarter Report 2006

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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, 2006 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 2005 annual report. Additional information relating to the Corporation, including the Corporation's Annual Information Form, is on SEDAR at www.sedar.com or on the Corporation's web site at www.sherritt.com. This management's discussion and analysis is as of April 28, 2006.

During the quarter, the Corporation reviewed the foreign currency translation method of its foreign operations and accordingly determined that the Metals business and the Oil and Gas operations in Cuba and Spain are largely self-sustaining and their economic exposure is more closely tied to their respective domestic currencies. The change in the foreign currency translation method resulted in unrealized foreign exchange losses being recorded in the cumulative translation account of shareholders' equity. Further description of this change and the impact on the financial statements can be found in notes 2 and 14 to the interim consolidated financial statements.

Consolidated Earnings

First Quarter Results

Net earnings for the first quarter of 2006 were \$35.7 million or \$0.24 per share, compared to net earnings of \$35.4 million or \$0.25 per share in the first quarter of 2005. The slight increase in net earnings reflects higher earnings in Oil and Gas due to higher realized prices and lower interest expense as a result of the decrease in long-term debt offset by lower earnings in Metals due to lower realized nickel and cobalt sales prices and lower nickel sales volumes.

		Q1 2006		Q1 2005 (restated)
Revenue	\$	259.6	\$	257.1

Revenue for the first quarter increased compared to the same period last year as a result of higher revenue in Oil and Gas due to higher realized prices and higher revenue in Coal due to increased sales volumes from Coal Valley. This was partially offset by lower revenues in Metals attributable to declines in realized nickel and cobalt sales prices and lower nickel sales volumes.

		Q1 2006		Q1 2005 (restated)
Operating costs	\$	129.1	\$	115.3
Selling costs		2.7		2.7
General and administrative costs		15.6		16.0
Operating, selling, general and administrative costs	\$	147.4	\$	134.0

Operating costs for the first quarter increased compared to the same period last year primarily due to higher operating costs in Coal as a result of increased sales and production from Coal Valley. Selling costs and general and administrative costs did not change significantly from the first quarter of 2005.

	Q1 2006	Q1 2005
Depletion, amortization and accretion	\$ 47.5	\$ 44.7

The increase in depletion, amortization and accretion expense is primarily due to the inclusion of depletion on the Santa Cruz oil field which was declared commercial during the first quarter and amortization on the newly commissioned 85 MW expansion in Power.

	Q1 2006	Q1 2005 (restated)
Net financing expense	\$ 8.3	\$ 15.1

The decrease in net financing expense was due to a lower foreign exchange loss resulting from a smaller movement in the fluctuation of the Canadian dollar relative to other currencies in the quarter compared to the prior year quarter and a change in the foreign currency translation method as described in note 2 to the interim consolidated financial statements. Interest expense also decreased as a result of the reduction in long-term debt.

	Q1 2006	Q1 2005
Share of earnings of equity accounted investments	\$ 0.6	\$ 0.5

The Corporation's equity earnings in the hotel investments have remained unchanged from the first quarter of 2005.

	Q1 2006	Q1 2005 (restated)
Effective tax rate	32%	31%

There was no significant change in the effective tax rate from the prior year quarter.

	Q1 2006	Q1 2005
Non-controlling interests	\$ 3.3	\$ 8.8

Non-controlling interests reflects the two-thirds outside interest in the net earnings of a variable interest entity in Power. The decrease in non-controlling interest is primarily the result of the variable interest entity becoming taxable in Cuba and the reduction in the tariff for electricity produced.

Consolidated Cash Flow

First Quarter Results

	Q1 2006	Q1 2005 (restated)
Cash provided by operating activities before non-cash working capital	\$ 81.8	\$ 86.0
Increase in non-cash working capital	(46.5)	(14.6)
Cash provided by operating activities	\$ 35.3	\$ 71.4

Cash provided by operating activities before non-cash working capital decreased mainly as a result of lower earnings in Metals due to lower realized nickel and cobalt prices, partly offset by higher earnings in Oil and Gas due to higher realized oil prices.

The increase in non-cash working capital of \$46.5 million was due to several factors. Accounts receivable increased in Oil and Gas by \$36.7 million due to record fuel oil prices and a delay in collections until April. Also, inventories increased due to reduced rail capacity at Coal Valley and seasonal build up of fertilizer inventory in Metals. Rail service availability and rail costs in Coal are currently under negotiation.

	Q1 2006	Q1 2005 (restated)
Capital expenditures	\$ (50.6)	\$ (57.7)
Cash (used for) provided by other investing activities	(64.6)	9.8
Cash (used for) provided by financing activities	(21.5)	14.3

Capital expenditures in the first quarter were primarily directed to the completion of the 85 megawatt expansion in Power, drilling activity and facilities construction in Oil and Gas, and basic engineering studies for the 16,000 tonne (100% basis) expansion project in Metals.

Cash used for other investing activities primarily related to the increase in short-term investments with maturity dates of greater than three months and less than one year. Cash used for financing activities was primarily due to a \$7.5 million repayment on the operating credit facility in Coal and the cash redemption of \$14.4 million on the remaining 9.875% senior unsecured debentures not exchanged on the offer of the 7.875% senior unsecured debentures.

Consolidated Financial Position, Liquidity and Capital Resources

Total assets at March 31, 2006 were \$2.8 billion. Cash and cash equivalents, restricted cash and short-term investments totalled \$437.0 million at March 31, 2006, a decrease of \$48.2 million since year end. The decrease in cash was primarily due to a higher net working capital as a result of the timing of collections of accounts receivable and the cash redemption of the remaining 9.875% senior unsecured debentures.

Current advances and loans receivable of \$34.7 million remained relatively unchanged in the first quarter of 2006. Accounts receivable were \$312.1 million at March 31, 2006 compared with \$278.2 million at year end. The increase was primarily the result of record fuel oil prices and a delay in collections until April 2006. Since 2000, Sherritt has had an arrangement to provide extended terms of credit to Cuban government agencies for oil sales in Cuba during periods of high oil prices. Payment terms may be extended under this arrangement up to 180 days and bear interest at 14.0%

Oil and Gas accounts receivable include amounts due from Cuban government agencies and a joint operating partner. Approximately 30% of the Corporation's Cuban oil and gas revenue is collected from the joint operating partner, and as such, it is exposed to the financial condition of the joint operating partner. As at March 31, 2006, accounts receivable from the joint operating partner in the oil and gas business was approximately \$58 million. Included in this amount, was approximately \$32.1 million in respect of cost recovery claims subject to approval pursuant to the Cuban production sharing contracts.

Coal accounts receivable arise principally from sales to Canadian power utilities. Metals accounts receivable include receivables from finished nickel and cobalt sales to customers primarily located in Europe and Asia, receivables from fertilizer sales to customers in Canada and receivables from by-product sales. Power and soybean-based food processing receivables include amounts due from Cuban government agencies.

Inventories were \$122.7 million at March 31, 2006, an increase of \$12.7 million over year end. The increase mainly relates to the seasonal build up of fertilizer inventory in Metals and to higher inventories in Coals from reduced rail capacity, which is limiting rail shipments.

Capital assets of \$1,610.6 million at March 31, 2006 decreased by \$38.2 million compared with \$1,648.8 million at December 31, 2005. The reduction in capital assets was primarily related to a \$46.3 million decrease due to the change in the foreign currency translation method as described in note 2 and 14 to the interim consolidated financial statements offset in part by \$4.5 million of capital expenditures net of amortization. Capital spending was mainly in support of the 85 MW expansion in Power, basic engineering related to the expansion of the facilities in Metals and the increased drilling activity and facilities construction in Oil and Gas.

The future tax asset (including current portion) of \$94.8 million at March 31, 2006 represented primarily the tax benefit of approximately of \$133.5 million of non-capital losses and \$75.7 million of capital losses. The non-capital losses have been generated primarily through interest on Sherritt's debt. 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 \$113.2 million at March 31, 2006, compared with \$104.1 million at the end of 2005. The increase reflects the progress payments of \$8.8 million for two turbines relating to the new 65 MW expansion in Power and an increase in loans with respect to the Metals expansion, offset by partial repayments of a note receivable.

Short-term debt of \$76.7 million at March 31, 2006 decreased by \$7.6 million during the period relating mainly to a partial repayment on an operating credit facility in Coal.

Accounts payable and accrued liabilities were \$177.5 million at the end of the first quarter compared with \$174.3 million at the end of 2005. The slight increase relates mainly to a higher trade payable in the soybean-based food processing business as a result of a large shipment of soybeans received in late March 2006, the interest accrual on long-term debt for three months compared to an average of one month at the end of 2005 offset by lower trade payables in Metals and Coal.

The future income tax liability of \$226.4 million at March 31, 2006 decreased compared with the year end amount of \$231.2 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.

Long-term debt and other liabilities (including current portion) were \$638.9 million at the end of the first quarter compared with \$649.0 million at the end of 2005. The decrease is attributable to the cash redemption of \$14.4 million on the remaining 9.875% senior unsecured debentures partially offset by the increase in the Metals expansion loan.

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

The cumulative translation account ("CTA") component of shareholders' equity relates to the change in the foreign currency translation method of certain foreign operations as described in notes 2 and 14 to the interim consolidated financial statements. The CTA balance of \$47.1 million represents the unrealized foreign exchange loss on the Corporation's net investment in its self-sustaining foreign operations of which \$47.7 million related to the translation of the opening balances, mostly capital assets, and a decrease of \$0.6 million related to the net foreign exchange change during the quarter.

During the quarter, the Corporation entered into capital leases for equipment totalling \$2.3 million as part of long-term mine support equipment agreements.

On March 2, 2006, the Corporation announced its intention to purchase up to \$50 million principal amount of its outstanding 7% convertible unsecured subordinated debentures due December 15, 2013 at a price of not more than \$1,620 nor less than \$1,530 for each \$1,000 principal amount of debentures. The offer expired on April 12, 2006 at which time the Corporation repurchased \$7.1 million principal amount of debentures at a price of \$1,620 per \$1,000 principal for a total consideration of \$11.7 million, including accrued interest. Of the \$4.3 million premium on the repurchase, \$0.1 million will be allocated to the liability component of the debenture, which will be charged to income in the second quarter of 2006, and \$4.2 million to the equity component, which will be reflected as a reduction to shareholders' equity.

The Corporation instituted a Normal Course Issuer Bid, which commenced July 5, 2005 and expires July 4, 2006, to acquire a maximum of five percent of its issued and outstanding shares. During the quarter, 200,000 shares were purchased pursuant to the bid at an average price of \$10.31 per share.

During the quarter, the Board of Directors of the Corporation approved a quarterly dividend of \$0.025 per share payable April 18, 2006 to shareholders of record at the close of business on March 31, 2006.

Review of Operations

Coal

The Coal business continues to focus on safety and productivity initiatives to improve operations, create efficiencies and generate cash.

Outlook (refer to “Forward-looking Statements”)

Together with its partner, the Ontario Teachers’ Pension Plan, Sherritt continues to examine options for the monetization of the mature and stable cash flow streams of its prairie mines and royalties, including the possibility of an income trust offering.

Although production volume increased at the Coal Valley mine in the first quarter, Coal is evaluating the optimal production profile for the mine while implementing various initiatives to improve operating performance and efficiencies. Rail service availability and rail costs, which have a potential impact on margins, are currently under negotiation.

On the development of the Bow City mine and power project in southern Alberta, potential partners have been identified and are in discussions.

Capital expenditures for the year are estimated at \$16 million, devoted mainly to sustaining expenditures. Projected expenditures for the second quarter are \$4.5 million.

First Quarter Highlights

- Record revenues of \$73.8 million
- Record coal production of 5.4 million tonnes; record sales volumes of 5.2 million tonnes
- Over 4.5 million man hours worked (1.5 years) without a lost time safety incident

First Quarter Results

	Q1 2006	Q1 2005
Revenue	\$ 73.8	\$ 62.9
Operating costs	(53.8)	(40.5)
Selling costs	(0.2)	(0.2)
General and administrative costs	(1.0)	(1.2)
EBITDA	18.8	21.0
Depletion, amortization and accretion	(14.0)	(13.8)
Operating earnings	\$ 4.8	\$ 7.2

Revenue for the first quarter of 2006 at a record of \$73.8 million, increased by \$10.9 million compared to 2005, due to \$7.2 million of higher revenues at Coal Valley to \$13.9 million and \$3.7 million of higher revenues at the Prairie mines to \$55.5 million. The increased revenue at Coal Valley reflected the increased production volumes as the mine ramps up the production. The increase in Prairie mines revenue was mainly due to an increase in contract operations due to higher costs recoveries and the increase at Genesee was due to the mine expansion related to the increase in capacity at the adjacent power plant. Royalty income of \$4.4 million was essentially the same as the first quarter of 2005.

	Q1 2006	Q1 2005
Realized prices (\$/tonne)		
Prairie mines (excluding royalties) ⁽¹⁾	\$ 11.31	\$ 10.73
Coal Valley ⁽²⁾	<u>46.45</u>	<u>47.94</u>
Total average realized prices	14.18	12.68
Sales volumes (millions of tonnes)		
Prairie mines ⁽¹⁾	4.9	4.8
Coal Valley ⁽²⁾	<u>0.3</u>	<u>0.2</u>
	5.2	5.0
Production volumes (millions of tonnes)		
Prairie mines ⁽¹⁾	5.0	4.8
Coal Valley ⁽²⁾	<u>0.4</u>	<u>0.3</u>
	5.4	5.1

⁽¹⁾ Prairie mines include the two contract operation, five mine mouth operations, and the Bienfait site and Char Plant.

⁽²⁾ The Coal Valley mine is primarily an export market mine.

Higher average realized prices at the Prairie mines reflected increased revenues at the contract operations as a result of higher recoverable expenditures. Realized prices at Coal Valley were lower primarily as a result of a stronger Canadian dollar.

Sales and production volumes were at record levels in the first quarter of 2006. There was an increase in shipments at the Prairie mines, due to increased demand by the power plants at the Paintearth mine, the expansion at the Genesee mine, and increases at the contract operations. In addition, sales and production were at record levels at Coal Valley as a result of the expansion in 2005.

Operating costs for the first quarter of 2006 were higher by \$13.3 million compared to the same period in the prior year. At the Prairie mines, operating costs increased by \$3.9 million, mainly due to higher costs at the contract operations resulting primarily from increased waste removal costs and increased operating costs at Genesee due to the higher capacity. As well, Coal Valley operating costs increased by \$8.2 million due to higher production costs reflecting increased capacity.

Overall, selling, general and administrative costs, net of other income, were lower than the same period in the prior year by \$0.2 million.

Coal's EBITDA for the first quarter was lower by \$2.2 million from the same period in 2005. At the Prairie mine operations, EBITDA, including royalty income, was \$21.2 million for the first quarter of 2006, compared to \$21.3 million for the prior year comparative period.

The expansion of the Coal Valley wash plant was undertaken to increase clean coal production and take advantage of the strong export coal market. Commissioning of the plant commenced

during the fourth quarter of 2005. Record production and sales volumes in the first quarter of 2006 were offset by high operating costs that resulted in negative EBITDA of \$2.2 million compared to negative EBITDA of \$0.1 million for the same period in 2005. Although production and sales are at record levels, results have still been hindered by limited rail sets availability and higher unit production costs.

Business development costs of \$0.2 million were comparable to the same period in 2005 and continued to be directed towards the beneficiation and gasification of coal.

Depletion, amortization and accretion was \$0.2 million higher than the same period last year, primarily as a result of the amortization of the Coal Valley expansion assets which commenced in 2006.

	Q1 2006	Q1 2005
Capital expenditures	\$ 3.1	\$ 1.3

Capital spending was mainly in support of the final stages of the Coal Valley expansion.

Metals

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

Outlook (refer to "Forward-looking Statements")

While continuing to maximize production from its existing facilities, Metals' primary focus in 2006 is the expansion of its business by approximately 50% to 49,000 tonnes per annum from Moa (100% basis). Basic engineering for the expansion at Moa was completed in the first quarter, and is scheduled for completion by the end of the second quarter for the refinery at Fort Saskatchewan. Procurement of major equipment is proceeding. Construction has commenced at the Moa mine and processing facilities and is planned for the Fort Saskatchewan refinery in the third quarter this year. Commissioning is expected to begin in mid 2008.

Taking into consideration process bottlenecks related to current ore characteristics, finished nickel production in 2006 is anticipated to be below 2005 levels. Finished cobalt production is likely to be similar to 2005 levels as a result of supplemental feed with higher cobalt content.

Total 2006 capital expenditures, assuming no significant fluctuations in foreign exchange rates, are planned at \$162 million. Capital expenditures for the second quarter are anticipated to be approximately \$58 million.

First Quarter Highlights

- Nickel and cobalt reference prices remain strong
- Higher cobalt sales volumes
- Basic engineering for 16,000 tonne expansion nearing completion

First Quarter Results

	Q1 2006	Q1 2005 (restated)
Revenue	\$ 81.1	\$ 100.9
Operating costs	(48.0)	(48.2)
Selling costs	(2.5)	(2.3)
General and administrative costs	(0.5)	(1.1)
EBITDA	30.1	49.3
Depletion, amortization and accretion	(4.6)	(5.0)
Operating earnings	\$ 25.5	\$ 44.3

Lower revenues reflected a stronger Canadian dollar, lower nickel sales volumes, plus lower nickel and cobalt prices partly offset by higher cobalt sales volumes. Operating costs, selling costs, general and administrative costs, as well as depletion, amortization and accretion costs were similar to the same period last year.

Prices	Q1 2006	Q1 2005 (restated)
Nickel – realized (\$/lb)	\$ 7.77	\$ 8.65
Cobalt – realized (\$/lb)	14.56	21.87
Nickel – reference (U.S. \$/lb)	\$ 6.72	\$ 6.97
Cobalt – reference (U.S. \$/lb)	12.43	17.27

Higher London Metal Exchange (LME) inventories contributed to lower reference prices for nickel. The cobalt reference price was lower due to an increase in the global availability of cobalt at a time when market demand was weaker relative to the same period last year.

Production (tonnes)	Q1 2006	Q1 2005
Mixed sulphides	3,533	4,210
Finished nickel	3,681	3,911
Finished cobalt	409	417

Mixed sulphide production at Moa decreased as a result of throughput limitations in the processing facilities. This in turn impacted total first quarter finished nickel production.

Sales (thousands of pounds)	Q1 2006	Q1 2005
Finished nickel	8,283	8,955
Finished cobalt	923	829

Nickel sales volumes were down primarily as the result of reduced finished nickel production volumes. However, cobalt sales increased as inventories were reduced below average levels taking advantage of strong spot demand.

	Q1 2006	Q1 2005 (restated)
Capital expenditures	\$ 15.1	\$ 8.2

Capital expenditures, excluding the expansion, of \$9.3 million in the first quarter of 2006 were directed towards sustaining and upgrading the facilities at both Moa and Fort Saskatchewan, combined with various compliance and environmental initiatives. In addition, \$5.8 million was spent on basic engineering related to the expansion of the facilities at Moa and Fort Saskatchewan.

	Q1 2006	Q1 2005
Fertilizer sales (tonnes)	8,830	13,553
Revenue	\$ 3.7	\$ 4.5
Operating earnings	0.1	0.2

Operating earnings were unchanged from the same period last year. The decrease in total fertilizer sales volumes reflects the realignment of profitability on crystalline ammonium sulphate sales to the Metals Enterprise. Amortization expense for the quarter was \$0.8 million, which was comparable to the first quarter of 2005.

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.

Outlook (refer to “Forward-looking Statements”)

Fuel oil reference prices reached record levels over U.S. \$50/barrel in April 2006, having averaged a record U.S. \$45.86 during the first quarter of 2006. Sherritt expects some moderation in fuel oil prices in the coming months, although average fuel oil reference prices for 2006 are anticipated to be higher than 2005. Sherritt still expects 2006 capital expenditures for Oil and Gas to be in the region of \$140 million, even though capital spending during the first quarter was lower than expected. Capital expenditures for the second quarter are expected to be approximately \$35 million. The outlook for net oil production for 2006 is dependent on several factors, including fuel oil reference prices, gross working interest production volumes and capital spending. Assuming that these factors are in line with expectations, average net oil production for 2006 will be comparable to 2005 levels.

Following on the declaration of commerciality of the Santa Cruz field in the first quarter, Oil and Gas will be implementing a full development drilling program at Santa Cruz this year. In addition, Oil and Gas plans to drill development wells in the Canasi, Seboruco, Yumuri and Varadero West fields. Facility development projects include completion of the Canasi water treatment facility and construction of the Yumuri gas transmission line and other infrastructure projects to tie in and optimize production. As part of its enhanced oil recovery initiative, Sherritt is installing the first of a series of high volume pumps, which are expected to mitigate the impact of natural reservoir declines. In addition, the Corporation is continuing with engineering and permitting of major initiatives for the Canasi and Puerto Escondido areas, including high volume lift production strategies and thermal projects that have the potential to increase production rates and recoverable reserves in future years.

Exploration drilling of the Playa Larga prospect on Block 10 commenced in mid April. On Block 9, Sherritt continues to test the San Anton exploration well, where drilling finished in January, and plans to carry out an appraisal drilling program on the Majaguillar-Corajol deposit, which was discovered several years ago. The results of the exploratory wells drilled in 2005 at the Tarara and Guanabo prospects continue to be evaluated.

Sherritt also holds a 15.8% interest in the Badar Mining Lease in south central Pakistan, which came into production on April 8, at approximately 2.2 mmcf (350 boe) per day. Selling prices are indexed against a basket of crude oils and are projected to be \$2.00 per mcf.

First Quarter Highlights

- Near record EBITDA of \$56.2 million
- Gross working interest oil production of 30,891 barrels per day in Cuba
- Commercialization of Santa Cruz realized 142,669 barrels of retroactive production from 2005
- Safety milestone surpassed of 1 million hours worked with no lost time injuries

First Quarter Results

	Q1 2006	Q1 2005 (restated)
Revenue	\$ 68.7	\$ 50.4
Operating costs	(8.6)	(6.7)
General and administrative costs	(3.9)	(3.0)
EBITDA	56.2	40.7
Depletion, amortization and accretion	(20.6)	(18.9)
Operating earnings	\$ 35.6	\$ 21.8

Revenue for the first quarter increased as a result of record fuel oil prices, partly offset by lower net production volumes. Operating costs were \$1.9 million higher due to costs accruing to retroactive Santa Cruz production and lower equipment costs allocations to capital projects. General and administration costs were \$0.9 million higher due to higher compensation costs and lower capitalization of general and administration costs. Depletion, amortization and accretion costs were up \$1.7 million as depletion rate calculations now include the costs of exploration and appraisal activity in Santa Cruz and other Block 7 exploration areas.

Prices	Q1 2006	Q1 2005
Realized prices \$/barrel (Cuba)	\$ 43.14	\$ 28.40
Reference price – Fuel Oil No. 6 (U.S. \$/barrel)	45.86	27.57

Oil and Gas sold all of its Cuban net oil production directly and indirectly 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. Pricing for Santa Cruz production is still under negotiation, however, pricing is expected to be higher than for other fields as the quality of Santa Cruz production is higher than the Gulf Coast Fuel Oil No. 6 benchmark crude. During the first quarter of 2006, the impact of the record fuel oil reference prices was partially offset by the strength of the Canadian dollar.

Production	Q1 2006	Q1 2005
Gross working interest oil production in Cuba (bpd) ⁽¹⁾⁽²⁾⁽⁴⁾	30,891	32,104
Net oil production (bpd) ⁽¹⁾⁽⁴⁾		
Cuba ⁽³⁾		
Cost recovery	7,303	8,294
Profit oil	<u>9,215</u>	<u>9,229</u>
	16,518	17,523
Spain	495	462
Total	17,013	17,985

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

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

(3) Net oil production (equivalent to net sales volume) represents the Corporation's share of gross working interest production. Net oil production for each production-sharing contract is comprised of cost recovery oil (based upon the Corporation's recoverable costs within each block) and profit oil (based upon a percentage of gross production less cost recovery oil). Recoverable costs, subject to certification by agencies of the Cuban government, are accumulated in cost recovery pools for each production-sharing contract and reduced by the allocation of cost recovery oil to the Corporation. 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. At higher oil prices, the reduction in cost recovery oil volumes is partially offset by an increase in profit oil barrels, after deducting the Cuban government's share, which is analogous to royalty interests in Canadian hydrocarbon fiscal regimes.

(4) Barrels per day ("bpd")

Gross working interest production volumes in Cuba decreased due to natural reservoir declines, partially offset by production from new oil wells. Production volumes now include the Santa Cruz field, for which the declaration of commerciality was granted during the first quarter. The Corporation's share of retroactive production from the Santa Cruz exploration and appraisal wells was 2,090 bopd gross working interest barrels and 1,050 bopd net barrels. Compared with the same period last year, record fuel oil prices reduced the number of cost recovery barrels allocated to the Corporation; however, profit oil barrels were comparable.

	Q1 2006	Q1 2005 (restated)
Capital expenditures	\$ 23.7	\$ 28.5

Six drilling rigs were active in the first quarter of 2006 compared with four active rigs during the same period in 2005. The Seboruco 13 development well was completed during the quarter as well as the San Anton exploration well on Block 9, which is currently under evaluation to determine its commercial potential. One development well is currently underway in Varadero West and one development well is being drilled at Yumuri. In addition, one exploration well is currently being drilled at Playa Larga. Commissioning of the Canasi land-based treatment and ocean disposal system is now underway, together with construction of pipelines to connect the Yumuri and Seboruco areas to the Cuban gas gathering system. The Canasi water system will enable the Corporation to optimize oil production volumes in the future as produced water rates increase, while the tie-in of gas production from the Yumuri battery will enable the Cuban government to eliminate flaring and conserve natural gas production for electricity generation and domestic uses.

The western portion of Block 7, including the Santa Cruz, Tarara and Guanabo areas, is operated by a joint venture partner. Three wells are currently being drilled in the Santa Cruz field. Based on recent testing results, it is unlikely that the Tarara exploration well can produce oil at commercial rates. Drilling of the Guanabo exploration well resumed during the quarter; however the well was later abandoned due to technical difficulties. The results from these wells continue to be evaluated.

Power

Power continues to focus on the effective utilization of energy resources in the production of electricity. Power 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.

Business in Cuba is conducted through Energas S.A. (“Energas”), a Cuban entity in which Power holds a one-third equity interest. The remainder is held by two Cuban agencies, each of which holds a one-third equity interest. Electricity is supplied to a Cuban agency under long-term fixed price contracts and natural gas is supplied to Energas at no cost. Current production capacity of 311 megawatts (“MW”) will increase to 376 MW with the completion of a 65 MW expansion in the second quarter of 2007. As with previous facilities, Power is responsible for the financing and construction of this expansion and will also operate the new facility.

Production from the 85 MW expansion, commissioned in the first quarter of 2006, will be sold at a tariff of U.S. \$45 per MWh. The investment in this expansion as well as future expansions will generate a reinvestment credit for Power of up to 30% of the amount invested. This reinvestment credit will be paid to Power by the Cuban state at the rate of one-third of Energas taxes paid. This equates to Power’s share of Energas taxes.

Outlook (refer to “Forward-looking Statements”)

The addition of three turbines in the first quarter with a total capacity of 85 MW is expected to result in record electricity production for 2006 of 1.9 million MWh. For the second quarter, electricity production is expected to be consistent with the first quarter as increased production from the turbines brought online in the first quarter will be offset by planned maintenance. Production levels are anticipated to be higher in the second half of the year. As production from the new turbines expands, realized prizes are also expected to increase.

Equipment orders and detailed engineering have commenced for a 65 MW expansion which is expected to be completed in the second quarter of 2007. The total cost of the project is estimated to be \$60 million, with approximately \$52 million being incurred during 2006. This expansion will bring Power’s total capacity to 376 MW. A further expansion at Boca de Jaruco, which would include the addition of a combined cycle facility, will also proceed subject to confirmation of economic feasibility and sufficiency of gas reserves from oil fields in Cuba. A decision on this expansion is expected in the second half of 2006.

Capital expenditures for 2006, including the 65 MW expansion project, are estimated to be \$71 million. In the second quarter, capital expenditures are expected to be about \$14 million, related mainly to the 65 MW expansion.

First Quarter Highlights

- 85 MW expansion commissioned
- Agreement finalized for additional 65 MW expansion

Operating results for Power reflect the consolidation of 100% of Energas S.A. as a result of Accounting Guideline AcG-15 – Consolidation of Variable Interest Entities. The two-thirds non-controlling interests are disclosed separately on the consolidated balance sheets and the statements of operations.

First Quarter Results

	Q1 2006	Q1 2005
Revenue	\$ 22.2	\$ 25.7
Operating costs	(6.6)	(5.9)
General and administrative costs	(0.5)	(0.2)
EBITDA	15.1	19.6
Depletion, amortization and accretion	(6.3)	(5.2)
Operating earnings	\$ 8.8	\$ 14.4

Lower revenue for the first quarter reflects the reduction in the tariff for electricity and a stronger Canadian dollar, partially offset by an increase in production. Revenue included \$2.8 million (2005 - \$2.7 million) from the sale of by-products. Operating costs were higher primarily due to the addition of the new turbines commissioned during the quarter. Higher general and administrative costs were due to higher personnel costs. Higher depletion, amortization and accretion reflect the expansion and the amortization of costs for major overhauls completed in 2005.

	Q1 2006	Q1 2005
Realized prices (\$/MWh)	\$ 44.61	\$ 54.80

The sale price of electricity is fixed by long-term U.S. dollar contracts. The tariff for electricity produced from facilities prior to the repayment of financing and surface land rights is U.S. \$45 per MWh while the tariff for post-repayment production is U.S. \$38 per MWh. The decrease in realized prices was mainly due to a reduction in the tariff in September 2005 following the repayment of financing for the original 226 MW Power facilities, combined with a stronger Canadian dollar.

	Q1 2006	Q1 2005
Electricity sold ⁽¹⁾ (MWh)	431,303	419,470

⁽¹⁾ Including non-controlling interest's share

Higher electricity production in the first quarter of 2006 reflects the initial production from the 85 MW expansion. Production from the new turbines was partly offset by increased planned maintenance outages in the first quarter of 2006 relative to the prior year period.

		Q1 2006	Q1 2005 (restated)
Capital expenditures	\$	8.1	\$ 18.2

Capital expenditures for the first quarter of 2006 were primarily directed towards the completion of the 85 MW expansion project. In addition to expenditures classified as capital, Power incurred expenditures of \$8.8 million, mainly in respect of progress payments for turbines relating to the new 65 MW expansion.

Other

Other primarily comprises the consolidated results of the Corporation's soybean-based food processing business.

Outlook (refer to "Forward-looking Statements")

The soybean-based food processing business continues to pursue opportunities to maximize consumption of its products in Cuba by improving production facilities and optimizing the distribution of its products. Capital expenditures for 2006 are estimated to be \$1 million.

Operating results for Other reflect the consolidation of this business as a result of Accounting Guideline AcG-15 – Consolidation of Variable Interest Entities. The non-controlling interest is disclosed separately on the consolidated balance sheets and the statements of operations.

First Quarter Results

		Q1 2006	Q1 2005
Revenue	\$	13.8	\$ 17.2
Operating costs		(12.1)	(13.9)
General and administrative costs		(0.5)	(0.6)
EBITDA		1.2	2.7
Depletion, amortization and accretion		(0.8)	(0.7)
Operating earnings	\$	0.4	\$ 2.0

Revenue for the first quarter of 2006 decreased compared to 2005, mainly due to lower realized sales prices, and a stronger Canadian dollar, partly offset by higher sales volumes. Operating costs decreased mainly due to lower soybean procurement costs partially offset by higher production. Selling, general, and administrative costs did not change significantly between periods.

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 2004 to March 2006.

(millions of dollars, except per share amounts)	Quarter Ended							
	March 2006	December 2005	September 2005 ⁽¹⁾	June 2005 ⁽¹⁾	March 2005 ⁽¹⁾	December 2004 ⁽¹⁾	September 2004 ⁽¹⁾	June 2004 ⁽¹⁾
Revenue								
Coal	\$ 73.8	\$ 62.7	\$ 64.8	\$ 65.3	\$ 62.9	\$ 65.4	\$ 60.2	\$ 61.6
Metals	81.1	98.0	86.6	143.3	100.9	109.5	101.8	145.6
Oil and Gas	68.7	58.6	60.8	67.7	50.4	45.9	52.0	54.5
Power	22.2	22.0	24.2	26.6	25.7	23.5	26.6	27.2
Other	13.8	17.4	20.9	19.6	17.2	20.3	20.8	21.1
	\$ 259.6	\$ 258.7	\$ 257.3	\$ 322.5	\$ 257.1	\$ 264.6	\$ 261.4	\$ 310.0
Earnings from continuing operations	\$ 35.7	\$ 9.1	\$ 26.1	\$ 53.7	\$ 35.4	\$ 25.8	\$ 38.6	\$ 53.0
Net earnings	35.7	9.1	26.1	53.7	35.4	27.5	38.6	54.0
Earnings from continuing operations per share								
Basic	0.24	0.06	0.17	0.35	0.25	0.18	0.29	0.40
Diluted	0.20	0.05	0.15	0.29	0.21	0.15	0.22	0.29
Earnings per share								
Basic	0.24	0.06	0.17	0.35	0.25	0.19	0.29	0.41
Diluted	0.20	0.05	0.15	0.29	0.21	0.16	0.22	0.29

⁽¹⁾ Restated – see note 2 of the Interim Consolidated Financial Statements.

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

Translation of foreign currencies

The method of translation of foreign operations depends on whether the foreign operations are integrated or self-sustaining. Prior to January 1, 2006, all of the Corporation's foreign operations were considered integrated and translated into Canadian dollars using current rates of exchange for monetary assets and liabilities, historical rates of exchange for non-monetary assets and liabilities and average rates of exchange for revenues and expenses, except depletion and amortization which are translated at the rates of exchange applicable to the related assets. Gains and losses resulting from these translation adjustments are included in income.

The ongoing review of the economic factors to be considered in determining whether foreign operations are integrated or self-sustaining has resulted in the determination that the Metals foreign operations and the Oil and Gas foreign operations in Cuba and Spain have changed to self-sustaining. This change was made as a result of the increasing proportion of operating, financing and investing transactions of these foreign operations that are denominated in currencies other than the Canadian dollar. This change in method was effective at January 1, 2006 and was applied prospectively. The self-sustaining operations are translated into Canadian dollars using the current rate method, whereby assets and liabilities are translated at period end exchange rates while revenues and expenses are converted using average rates for the period. Gains and losses on translation to Canadian dollars relating to self-sustaining operations are deferred and included in a separate component of shareholders' equity described as cumulative translation account.

Future income taxes

On October 1, 2005, the Corporation changed its methodology of accounting for income taxes in its Cuban oil and gas operations to provide a clearer presentation of income taxes in that operation. Prior to this change in accounting policy, the Corporation recorded tax on the Cuban oil and gas operations on the basis that cost recovery revenue and expenses were not subject to or deductible under the Cuban tax regime resulting in no temporary differences between the book value and the tax value of the relevant assets and liabilities. This methodology resulted in significant fluctuations in the effective tax rate for the Oil and Gas operations between reporting periods when the relative percentage of cost recovery revenue changed compared to total oil revenue.

Under the newly adopted accounting policy, temporary differences are recognized for the respective assets and liabilities at the effective Cuban tax rate of approximately 30%. This results in a clearer presentation of the effective tax rate in the Cuban oil operations over the life of the operating oil fields. The Corporation has implemented this change on a retroactive basis with restatement of prior periods. The cumulative effect of the change in policy on retained earnings at January 1, 2005 was \$40.3 million. The accounting change resulted in a decrease in net earnings of \$0.1 million (decrease in EPS – basic \$nil, diluted \$nil) in the first three months of 2005.

The Corporation also changed the methodology of accounting for income taxes paid on its behalf by an agency of the government of Cuba for the enhanced oil recovery blocks, to reflect these income taxes on a gross basis. As a result, current income tax expense and revenue have increased. This change was applied on a retroactive basis and resulted in an increase in revenue and current income tax expense of \$0.7 million for the three months ended March 31, 2005.

Comparative Amounts

Certain comparative amounts have been restated to correct their classification, with no impact on net earnings, to conform to the presentation in the current period.

In the Metals business, certain selling expenses which were previously netted against revenue, have been reclassified to operating, selling, general and administrative expenses, resulting in an increase in revenue of \$1.1 million with a corresponding increase in operating, selling, general and administrative expenses for the three months ended March 31, 2005.

Capital expenditures on the Consolidated Statements of Cash Flow exclude non-cash capital additions of \$1.7 million as at March 31, 2005.

Accounting Pronouncements

Financial Instruments – Recognition and Measurement

The Canadian Institute of Chartered Accountants (the “CICA”) issued Handbook Section 3855, Financial Instruments – Recognition and Measurement in April 2005. This pronouncement establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Under this standard, an entity would recognize a financial asset or liability only when the entity becomes party to the contractual provisions of the financial instrument. Financial assets and financial liabilities would, with certain exceptions, be initially measured at fair value. Gains and losses on financial instruments measured at fair value would be recognized in net income in the periods in which they arise, with the exception of certain gains and losses on financial assets classified as available for sale (which are recognized in other comprehensive income) and certain financial instruments that are part of a designated hedging relationship (which qualify for special accounting in accordance with Hedges, CICA Handbook Section 3865).

Hedges

The CICA issued Handbook Section 3865, Hedges in April 2005. This pronouncement establishes standards for when and how hedge accounting may be applied. Hedge accounting is a method for recognizing the gains, losses, revenues and expenses associated with the items in a hedging relationship such that those gains, losses, revenues and expenses are recognized in net income in the same period when they would otherwise be recognized in different periods. The application of hedge accounting is optional.

Comprehensive Income

The CICA issued Handbook Section 1530, Comprehensive Income in April 2005. The pronouncement establishes standards for the reporting and presentation of comprehensive income. Comprehensive income is the change in equity (net assets) of an enterprise during a period from transactions and other events and circumstances from non-owner sources, except those resulting from investments by owners and distributions to owners. Other comprehensive income is revenues, expenses, gains and losses that are recognized in comprehensive income, but excluded from net income. Disclosures required under this section include net income for the period, other comprehensive income for the period classified by its nature, reclassification from other comprehensive income to net income, and the tax impact of each component of other comprehensive income.

Equity

The CICA issued Handbook Section 3251, Equity in January 2005. This pronouncement establishes standards for the presentations of equity and the changes in equity. An enterprise should present separately the following components of equity: retained earnings, accumulated other comprehensive income by component, the total of retained earnings and accumulated other comprehensive income, contributed surplus, share capital, and reserves.

The new standards for financial instruments, hedges, comprehensive income and equity apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006, for which early adoption is permitted. The adoption of these pronouncements must be done concurrently. The Corporation is currently assessing the impact of these standards, which are expected to be adopted by the Corporation on January 1, 2007.

Non-monetary Transactions

In June 2005, the CICA issued Handbook Section 3831, Non-Monetary Transactions, which establishes that all nonmonetary transactions be measured at their fair value unless, generally, they lack commercial substance or their fair value is not reliably measurable. This new Section is effective for non-monetary transactions initiated in periods beginning on or after January 1, 2006. The adoption of this standard did not have a material impact on the interim consolidated financial statements.

EIC 156 – Accounting by a Vendor for Consideration Given to a Customer

In September 2005, the Emerging Issues Committee of the CICA issued Abstract EIC-156 "Accounting by a Vendor for Consideration Given to a Customer (Including a Reseller of the Vendor's Products)". EIC-156 addresses the classification, in the financial statements of a vendor, of considerations (including sales incentives such as discounts, rebates, "free" product/services and other similar arrangement) given to its customer. Its provisions determine whether a consideration is to be treated as an adjustment of the selling price or as a cost incurred by the vendor to sell goods or services. It also establishes the time at which such an amount should be recorded, and the appropriate evaluation procedure. This EIC is effective for fiscal years beginning on or after January 1, 2006 and must be applied retroactively, with appropriate adjustments to preceding financial statements. The adoption of this abstract did not have a material impact on the interim consolidated financial statements.

EIC 157 – Implicit Variable Interest under AcG-15

In October 2005, the Emerging Issues Committee of the CICA issued EIC Abstract 157, "Implicit Variable Interests under AcG-15", which must be applied by the Corporation in the first interim period beginning subsequent to October 17, 2005. Under AcG-15, an enterprise holding an interest in a variable interest entity has to consolidate that entity if the interest it holds exposes the enterprise to the majority of the entity's risks or rewards. EIC 157 clarifies that such interests do not have to be explicit and may be inferred from particular facts and circumstances. Such implicit variable interest must be evaluated in accordance with AcG-15 to determine if consolidation is appropriate. The adoption of this abstract did not have a material impact on the interim consolidated financial statements.

EIC 159 – Conditional Asset Retirement Obligations

In December 2005, the Emerging Issues Committee of the CICA issued Abstract EIC-159, "Conditional Asset Retirement Obligations". EIC 159 clarifies that the term "conditional asset retirement obligation", as used in CICA Section 3110 "Asset Retirement Obligations", refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The accounting treatment in this Abstract should be applied retroactively, with restatement of prior periods, to all financial statements for interim and annual reporting periods ending after March 31, 2006, although earlier adoption is encouraged. The Corporation is currently assessing the impact of the adoption of this abstract.

EIC 160 – Stripping Costs Incurred in the Production Phase of a Mining Operation

In March 2006, the Emerging Issues Committee of the CICA issued Abstract EIC-160, "Stripping Costs Incurred in the Production Phase of a Mining Operation". EIC 160 clarifies that stripping costs should be accounted for according to the benefit received by the entity. Generally, stripping costs should be accounted for as variable production costs that should be included in the costs of the inventory produced (that is, extracted) during the period that stripping costs are incurred. However, stripping costs should be capitalized if the stripping activity can be shown to represent a betterment to the mineral property. Capitalized stripping costs should be amortized in a rational and systematic manner over the reserves that directly benefit from the specific stripping activity, such as the unit of production method. The accounting treatment in this Abstract should be applied to stripping costs incurred in fiscal years beginning on or after July 1, 2006, and may be applied retroactively. The Corporation is currently assessing the impact of the adoption of this abstract.

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 2005 Consolidated Financial Statements.

Off Balance Sheet Arrangements

Financial Instruments

The Corporation had no material outstanding foreign exchange or commodity options, futures or forward contracts as at March 31, 2006.

Transactions with Related Parties

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 2006 amounted to \$16.7 million (2005 - \$10.6 million). The total value of goods and services purchased from affiliates in the first quarter of 2006 was \$1.6 (2005 - \$1.5 million).

Accounts receivable from joint ventures at March 31, 2006, totalled \$7.9 million (2005 - \$4.9 million).

Contractual Obligations and Commitments

The Corporation is committed to purchases of equipment and services in the amount of \$65.4 million. As the Power and Metals expansion progresses, the Corporation expects to enter into additional commitments.

The Corporation is in the process of amending existing arrangements with the Cuban agencies that provide security for receivables in the Oil and Gas and Power businesses. These arrangements would provide a guaranteed payment of U.S. \$4.0 million per month from a Cuban financial institution to Power, the ability to offset payables and receivables between agencies of the Cuban government and the Oil and Gas business, and would allow Energas and Metals Enterprise dividends payable to the Cuban partners to be redirected towards the payment of Oil and Gas and Power receivables. In addition, these arrangements would allow for the Energas and Oil and Gas Cuban income taxes to be redirected towards the payment of Oil and Gas and Power receivables as well as for Moa income tax, royalty and labour tax payments, in excess of an international financial institution's minimum payment requirements, to be redirected towards the payment of these receivables. Risks and uncertainties which the Corporation may not have control of, such as commodity prices for nickel and cobalt and foreign currency exchange rates, may impact the amount available to be redirected to Sherritt].

Additional Information

Share Capital

As at March 31, 2006, the Corporation had 151,313,889 common shares outstanding. If all of the convertible debentures were converted into shares at the option of the holders, up to 42,841,002 additional shares would be issued on or before December 14, 2013 with respect to the 7% convertible debentures.