



**IAN W. DELANEY**  
Executive Chairman

## To our shareholders,

We are pleased to report that your company had a very successful year in 2007, once again achieving record financial results. We also acquired Dynatec Corporation for \$1.6 billion in June of that year. This move will enable Sherritt to become a pre-eminent producer of lateritic nickel upon the completion of the Ambatovy project, in which your company now has a 40% interest. Your company's combination of exceptional operating results, key acquisitions and other growth initiatives provide a solid foundation to more than double our asset base over the next several years.

**“All of your company's key business divisions operated at or near capacity during 2007, with Metals, Oil & Gas, and Power delivering record revenue and EBITDA.”**

#### **2007 OVERVIEW**

Sherritt achieved record revenue of \$1.3 billion in 2007, up 20% over 2006, and net earnings of \$370 million, up 51% from the previous year. This success was primarily due to a combination of strong operating results from your company's principal businesses, bolstered by high commodity prices, though offset partly by the strength of the Canadian dollar in 2007.

All of your company's key business divisions operated at or near capacity during 2007, with Metals, Oil & Gas, and Power delivering record revenue and EBITDA. Metals and Power achieved record production, and they, along with Coal and Oil & Gas, all contributed to record annual revenue for Sherritt in 2007.

Your company also took several steps to strengthen its balance sheet last year. In the fourth quarter, we took advantage of favourable financing conditions in the debt market to issue \$225 million of Senior Unsecured Debentures. This offering, when combined with healthy internal cash flow, enabled your company to end the year with \$490.1 million in cash, cash equivalents and short-term investments.

We also increased your dividend for the second year in a row by 20% and repurchased approximately \$25 million worth of Sherritt shares in the open market. We continue to address the issue of asset-backed commercial paper, of which Sherritt holds \$44.6 million worth, by working to monetize these assets as market conditions warrant.



**JOWDAT WAHEED**  
President and Chief Executive Officer

“Your company is a leader in working with communities and stakeholders to ensure that regulatory, social and environmental issues and concerns are properly addressed.”

#### **ASSET GROWTH**

Your company has several significant growth projects in various stages of development. Full-year capital expenditures for 2008 are expected to be approximately \$2.2 billion, principally for growth capital in Metals for the Ambatovy project, as well as for sustaining and growth capital for the Metals expansion in Moa and Fort Saskatchewan, the Power expansion, and Oil & Gas development and exploration drilling expenditures.

In Metals, phase 1 of the Moa Joint Venture expansion is in the process of being commissioned and phase 2 is progressing well, with commissioning currently projected for mid-2009. These phases will increase annual mixed sulphide production capacity by an additional 4,000 and 9,000 tonnes, respectively. The Ambatovy project, which will have an annual production capacity of 60,000 tonnes of nickel and 5,600 tonnes of cobalt, is progressing well with an estimated commissioning target in 2010.

Ambatovy is the largest project of its type in Madagascar, representing an important milestone in that country's economic development. Sherritt is dedicated to developing additional business opportunities in Madagascar that contribute to the economic and social well-being of that country over the long term, just as we have done and continue to do in Cuba. In early 2008, Sherritt signed a memorandum of understanding with the Government of Madagascar to develop 100 megawatts (MW) of power generating capacity, which is separate from Ambatovy.

The Power expansion project in Cuba commissioned the 65 MW capacity plant at Boca de Jaruco in 2007. Construction of the 150 MW combined cycle expansion, which will take place at the same location, will begin in 2008. The completion of this expansion will increase Sherritt's total electricity generating capacity in Cuba to 526 MW, providing that country with additional low-cost, efficient power.

In the area of carbon development, we continue to make progress on the Dodds-Roundhill coal gasification project. A key component to developing this high-potential asset is public engagement. Your company is a leader in working with communities and stakeholders to ensure that regulatory, social and environmental issues and concerns are properly addressed.

Sherritt has further strengthened its leadership in hydrometallurgy and other areas with the integration of the former Dynatec technologies group into Sherritt's Technologies division. This business unit provides technical support to Metals projects in Canada, Cuba and Madagascar, and to the Dodds-Roundhill coal gasification project. In addition, the construction of the Centre for Clean Coal Technology, which will make use of Sherritt's significant coal resources, should be completed in 2008 with partial funding from the Alberta Energy Research Institute.



**AMBATOVY CONSTRUCTION CEREMONY:** Representing the largest-ever capital investment in Madagascar, Sherritt and its joint venture partners – Sumitomo Corporation, Korea Resources and SNC-Lavalin – celebrated the commencement of construction of the Ambatovy project in November 2007. As the project's operator, Sherritt is positioned to begin production in 2010.

“We have assembled a solid foundation of dedicated and professional employees to meet our growth targets and to deliver strong financial results.”

One of the challenges facing Sherritt in the coming year will be to manage the inflationary pressures affecting capital costs. We believe that we are well positioned, relative to others in the industry, to remain a low-cost producer. We will manage higher capital costs through focusing on delivering capital projects on time, implementing cost-containment measures and growing the business to take advantage of favourable commodity prices.

#### **RESPONSIBILITY AND SUSTAINABILITY**

As a responsible corporate citizen, your company strives to lead by example. In 2007, we made significant investments in the communities where we operate. Sherritt and its joint venture partners also delivered good results in the areas of environment, health and safety (EH&S). Across all of our business units, our workforce recorded an impressive lost-time incident rate of 0.21 after accumulating well over 10 million exposure hours in 2007. We also made significant progress with our environmental programs. In addition, Sherritt has worked carefully with all responsible levels of government in Madagascar in connection with the Ambatovy project to lay the foundation for industry-leading environmental practices. We will keep our shareholders informed of all significant developments in EH&S.

#### **OUR EMPLOYEES**

In the coming year, Sherritt will face many challenges as we strive to grow your company in all of its business divisions. We have assembled a solid foundation of dedicated and professional employees to meet our growth targets and to deliver strong financial results. They have demonstrated these attributes admirably in 2007 and we have every confidence that they will continue to do so in 2008. For this, we would like to express our gratitude.

We would also like to thank all of our shareholders and others who continue to show their confidence in your company.

**Jowdat Waheed**  
President and  
Chief Executive Officer

**Ian W. Delaney**  
Executive Chairman