

# Management's Discussion & Analysis

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

The purpose of this Management's Discussion and Analysis is to provide readers the ability to view Sherritt International in much the same way as management. The following combination of historic and prospective information and financial and business analyses, together with the consolidated financial statements, are intended to impart useful knowledge to investors and other readers. This Management's Discussion and Analysis should be read in conjunction with the audited consolidated financial statements and related notes of Sherritt for the year ended December 31, 2007. Additional information relating to the Corporation, including the Corporation's Annual Information Form, is on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Corporation's web site at [www.sherritt.com](http://www.sherritt.com). This Management's Discussion and Analysis is current as of February 29, 2008.

References to "Sherritt", "Sherritt International" or "the Corporation" refer to Sherritt International Corporation and its share of consolidated subsidiaries and joint ventures unless the context indicates otherwise. References to "US\$" are to United States dollars.

## FORWARD-LOOKING STATEMENTS

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

Further, any forward-looking statement speaks only as of the date on which such statement is made, and except as required by law, Sherritt undertakes no obligation to update any forward-looking statements.

## HIGHLIGHTS

- Net earnings increased by 51% to a record \$370 million
- Record annual revenue achieved in all four business units
- Record production in Metals and Power
- Acquired Dynatec Corporation for \$1.6 billion
- Metals and Power expansions progressing well
- Purchased 1,836,600 common shares valued at \$25.3 million

Net earnings for the year of \$370.4 million, an increase of 51% over 2006, translated into record basic earnings per share of \$1.80. The combination of a robust commodity environment in 2007 and strong operational performance across all business units helped drive the record earnings. 2007 has seen record revenues resulting from record nickel and higher cobalt prices and sales volumes in Metals, higher net production and realized oil prices in Oil and Gas, record annual production of 2,288 GWh in Power and higher realized prices in Coal.

In Metals, mixed sulphide production was a record 33,661 tonnes (100% basis) of contained nickel and cobalt compared with 29,855 tonnes (100% basis) in 2006. Full-year finished nickel production was 31,392 tonnes (100% basis), exceeding last year's production by 1,180 tonnes. Annual cobalt production of 3,573 tonnes (100% basis) exceeded last year's production by over 260 tonnes to establish an annual production record. Metals revenue and EBITDA increased by 48% and 83%, respectively, primarily due to strong commodity prices and increased production.

In Coal, Royal Utilities Income Fund (Royal Utilities) produced 36.1 million tonnes of coal, which is consistent with production in 2006 and maintained steady distributions of \$93.8 million (100% basis).

In Oil and Gas, Sherritt's gross oil production in Cuba was 30,637 barrels per day, consistent with gross production in 2006. Revenue and EBITDA increased 12% and 6%, respectively, as strong oil prices, steady production and operating efficiencies helped drive profitability growth. The significant rise in the Canadian dollar in the latter half of the year offset a portion of the gains resulting from higher oil prices. The Corporation also signed an additional Production-Sharing Agreement for a contiguous block and continues to finalize negotiations for enhanced oil recovery and certain other exploration concessions.

In Power, EBITDA increased by \$12.1 million in 2007 to a record \$83.6 million as a result of increased capacity with the commissioning of the 65 MW expansion at Boca de Jaruco. Annual production was a record of 2,288 GWh.

On June 14, 2007, Sherritt acquired all of the issued and outstanding common shares of Dynatec Corporation (Dynatec). Through the transaction Sherritt acquired an interest in the Ambatovy Joint Venture in Madagascar. This large-scale nickel and cobalt project is progressing well and is on target for commissioning in 2010.

Phase 1 and Phase 2 of the Moa Joint Venture expansion are progressing well and will increase mixed sulphide production capacity by a further 4,000 tonnes and 9,000 tonnes, respectively. In Power, construction on the recently approved 150 MW combined cycle expansion at Boca de Jaruco is scheduled to begin in 2008.

During the year, Sherritt acquired 1,836,600 of its common shares under a normal course issued bid, which commenced on February 28, 2007, for a total consideration of \$25.3 million. As at December 31, 2007, there were 231,809,308 common shares issued and outstanding.