Power

Power continues to focus on the effective utilization of energy resources in the production of electricity and is currently involved in the construction and operation of electricity generating facilities in Cuba. These facilities derive both an economic and environmental benefit from processing natural gas produced in Cuba, which may otherwise be flared.

Power is well positioned to lever the experience gained in the construction and operation of power plants to acquire, build and operate natural gas, fuel oil or coal-based energy facilities. Power is actively pursuing opportunities to expand its scope of operations.

Power conducts business in Cuba through Energas, a Cuban entity in which Power holds a one-third equity interest. Each of two Cuban agencies also holds a one-third equity interest in Energas. Energas supplies electricity to one of these Cuban agencies under long-term fixed-price contracts. The other Cuban agency supplies natural gas to Energas at no cost.

Outlook for 2008

Construction on the recently approved 150 MW combined cycle expansion at Boca de Jaruco is expected to begin in 2008, with approximately $59 million of the project's $247 million in estimated capital costs scheduled for 2008. The increase in capacity from the initial 125 MW estimate reflects the optimal configuration for the project considering existing infrastructure and capital costs. The combined cycle expansion will increase Sherritt's total capacity in Cuba to 526 MW and provide Cuba with additional low cost, efficient power. The project is also expected to generate certified emission credits through the UN's Clean Development Mechanism. Full operation of the facility is scheduled to begin in late 2010.

Sherritt expects 2008 power production to be approximately 2,400 GWh, reflecting production from the 65 MW expansion for a full year as well as an expected seven month outage for one turbine following a fire late in 2007. The net capacity factor for 2008 is estimated to be approximately 80%.

Subsequent to quarter end, Sherritt signed a memorandum of understanding with the Government of Madagascar to develop 100 MW of power generating capacity, which is separate from the power plant that will be built to support the Ambatovy Project. The initial 20 MW of capacity will involve oil or diesel fired units, while the remaining 80 MW of capacity is expected to utilize a portion of Madagascar's extensive hydro resources.

Power capital expenditures are expected to be approximately $75 million for 2008, of which $64 million relate to expansion activities in Cuba.

Highlights

- Record annual production of 2,288 GWh
- Commissioned a 65 MW expansion in the second quarter of 2007
- Reached agreement with partners to develop a 150 MW combined cycle facility in Cuba

Financial Analysis

Energas is a variable interest entity of which Power is the primary beneficiary. Accordingly, the results of Energas are shown on a consolidated basis and the two-thirds non-controlling interest in Energas is disclosed separately in the financial statements.

	2007	2006
Revenue	**$ 117.7**	$ 105.7
Operating costs	**(30.6)**	(32.7)
General and administrative costs	**(3.5)**	(1.5)
EBITDA.	**83.6**	71.5
Depletion, amortization and accretion	**(27.4)**	(25.3)
Operating earnings	**$ 56.2**	$ 46.2

Revenue from electricity sales was higher due to the addition of a 65 MW expansion in the second quarter which was partly offset by lower realized prices due to the strength of the Canadian dollar. Revenue from by-product sales and other sources of $19.0 million for the year increased by $4.8 million compared to 2006 due to increased volumes and prices for by-products.

Operating costs of $30.6 million decreased from the prior year due to a decrease in scheduled maintenance costs, partly offset by operating costs associated with the addition of the 65 MW expansion.

Depletion, amortization and accretion increased in 2007 due to the addition of the 65 MW expansion in the second quarter.

Prices	**2007**	2006
Realized prices ($/MWh)(1)	**$ 43.11**	$ 44.68

(1) Megawatt hours (MWh).

The tariff for electricity sales is fixed by long-term US dollar contracts. Following the repayment of financing and land rights in respect of the base facilities (initial 226 MW) in 2005, the tariff for electricity produced from these facilities was reduced from US$45 per MWh to US$38 per MWh. Production from the recent expansions (150 MW) receives a tariff of US$45 per MWh until the associated financing and land rights are fully repaid. The addition of the 150 MW combined cycle (phase 8) would extend the repayment of financing until 2013.

The decrease in realized prices for the year was mainly due to the strengthening of the Canadian dollar, partly offset by a higher proportion of electricity sales from the recent expansions, which receive a higher tariff.

Production	2007	2006
Electricity sold (GWh)[1]	**2,288**	2,047

(1) Gigawatt hours (GWh).

Electricity sales volumes were 241 GWh higher in the year ended December 31, 2007, compared to 2006 as a result of the 65 MW expansion which commenced operation in the second quarter of 2007.

Capital Expenditures		2007		2006
Sustaining	**$**	**2.2**	$	1.5
Growth		**16.6**		32.2
	$	**18.8**	$	33.7

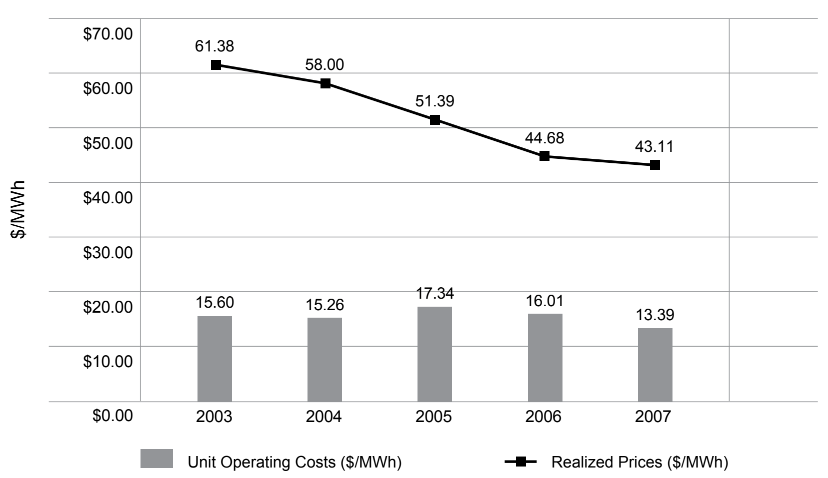
For the year ended December 31, 2007, capital expenditures were mainly related to the completion of the 65 MW expansion. Capital expenditures for 2006 related to the 85 MW expansion completed in 2006 as well as initial costs incurred for the 65 MW expansion.

In addition to the amounts recorded as capital expenditures, Power made $5.3 million of progress payments during the year in respect of equipment purchases for the 65 MW expansion. These expenditures were included in other assets in the investing section of the consolidated statement of cash flows and were reclassified to capital assets when the Corporation took possession of the assets.

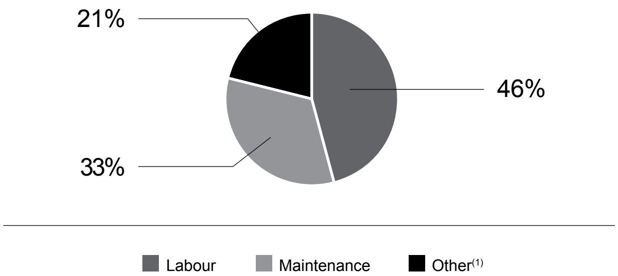
Unit Operating Costs		2007		2006
Operating cost ($ per MWh)	**$**	**13.39**	$	16.01

Per unit operating costs of $13.39 for the year ended December 31, 2007, decreased from the prior year due to a decrease in labour and associated costs and increased electricity production, partly offset by operating costs associated with the addition of the 65 MW expansion.

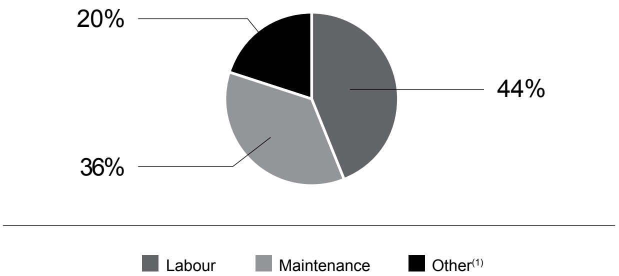
The following charts show realized electricity prices and unit operating costs for the five years ended December 31, 2007 and the major components of unit operating costs in 2007 and 2006.



2006 Unit Operating Cost



2007 Unit Operating Cost



(1) Comprised mainly of insurance, freight and duty.

Other

Technologies

The Technologies division provides assistance to mining and refining project owners in the evaluation, design, construction, implementation and operation of processes for the treatment of metal-bearing materials. The basis of the division's business is its body of proprietary technology and expertise, developed through more than 50 years of research, development and commercial process implementation in the field of hydrometallurgy, which the Corporation customizes and licenses for use by clients. The division is also developing innovative clean-coal technologies to upgrade low-grade coals in an efficient and environmentally responsible manner.

Revenues from the Technologies division for the year ending December 31, 2007, were $10.0 million. The Technologies division includes the results of the Metallurgical Technologies division.

Outlook for 2008

Sherritt Technologies will continue to support Metals' Moa Joint Venture expansion and Ambatovy Project. There continues to be a strong interest in Sherritt's nickel, cobalt and zinc pressure leach technologies, particularly from China, where additional license agreements are anticipated to be signed in 2008. The construction of the Centre for Clean Coal Technology should be completed in 2008 with partial funding from the Alberta Energy Research Institute. In addition, Technologies will continue to provide support for the Dodds-Roundhill coal gasification project.