Fertilizers		2007		2006
Fertilizer sales (tonnes)		**198,429**		151,140
Revenue[1]	**$**	**64.1**	$	47.9
Operating losses		**(1.0)**		(0.8)

(1) Fertilizer revenue relates to the Corporation's share of fertilizer sales and is included in Metals revenue together with revenue derived from nickel, cobalt and by-product sales.

Fertilizer sales volumes and prices improved as buyers continued to experience tight supply stemming from increased demand for crop-based ethanol. Operating losses were marginally higher as increased revenue was offset by higher operating costs, amortization and selling costs. In addition to the impact of higher sales volumes, operating costs were affected by higher maintenance spending associated with the bi-annual acid plant shutdown.

Coal

Coal has abundant, high quality, and strategically located reserves in Canada that are suited to provide customers with a stable long-term fuel supply. The opportunity also exists to capitalize on coal's economic pricing as a commodity relative to other energy sources such as oil and natural gas. Sherritt is engaged in a series of long-term initiatives to develop its substantial coal reserves in Canada with a view to supplying energy in the form of power, steam or gases such as hydrogen, through gasification, and related hydrocarbon fuels. While some of these initiatives are in various stages of negotiations with potential customers, others are in the formative research and design stages.

Royal Utilities, which Sherritt operates and in which it has a 41.2% interest, owns and operates the Paintearth, Sheerness, Genesee (50% joint-venture interest), Poplar River, Boundary Dam and Bienfait mines and operates the Highvale and Whitewood mines under contract. A total of 36.1 million tonnes of coal was produced by Royal Utilities in 2007. Royal Utilities also holds a portfolio of mineral rights located in Alberta and Saskatchewan on which it earns royalties from the production of coal and potash.

Coal Valley, a general partnership owned 50 percent by Sherritt, mines and sells thermal coal and owns the Coal Valley mine, Obed Mountain mine, Gregg River mine and Coleman properties, of which the Coal Valley mine is the only active mine.

Outlook for 2008

Royal Utilities declared distributions of $93.8 million in 2007. Royal Utilities expects to maintain current levels of distributions in 2008. However, due to a rapid increase in diesel prices and the timing of productive capacity maintenance, fluctuations in payout ratios are likely to occur. The Fund anticipates that the payout ratio could exceed 100% of the distributable cash flow during 2008.

Coal Valley is in a position to renegotiate approximately 75% of its contracts in 2008. Given current market prices for export thermal coal, the settlement prices of the renewed contracts are likely to be materially higher than the average realized price in 2007. Full-year production is expected to be approximately 4 million tonnes (100% basis) – an increase of 17% from 2007 levels, as $32.1 million of newly leased equipment is anticipated to increase raw coal release capacity in the pits, which should result in increased production levels at the site.

Planning for the Dodds-Roundhill coal gasification project is proceeding and Sherritt expects to submit the Environmental Impact Assessment to Alberta government regulators in the second quarter.

Coal capital expenditures, excluding Royal Utilities, for the full year are expected to be approximately $12 million (100% basis), all of which are categorized as sustaining capital expenditures. Royal Utilities expects to spend approximately $40 million in productive capacity maintenance in 2008, excluding any spending on growth initiatives, to meet scheduled major repairs on draglines and equipment replacement.

Highlights

- Steady distributions received from Royal Utilities
- Continued progress on the Dodds-Roundhill coal gasification project

Financial Analysis

The organizational structure for Coal changed significantly in 2006 as a result of the Initial Public Offering for Royal Utilities on June 27, 2006. Coal previously included the Corporation's 50% proportionate interest in the Coal Valley export thermal coal mine and coal development assets, and the Corporation's 50% proportionate interest in Royal Utilities up to June 27, 2006. Subsequent to June 27, 2006, the Corporation equity accounts for its 41.2% interest in Royal Utilities.

	2007	2006
Royal Utilities (100% basis)		
Revenue	**$ 505.0**	$ 477.4
Operating costs	**(353.2)**	(325.3)
Foreign currency translation loss (gain)	**(0.1)**	17.8
Other	**(2.7)**	(1.1)
General and administrative costs	**(11.8)**	(12.5)
EBITDA(1)	**$ 137.2**	$ 156.3
Net earnings	**$ 84.0**	$ 29.1
Distributions declared by Royal Utilities (100% basis)	**$ 93.8**	$ 47.5
Equity-accounted earnings of Royal Utilities(2)	**$ 34.6**	$ 9.9

	2007	2006
Coal Valley and coal development assets(3)		
Revenue	**$ 95.7**	$ 77.0
Operating costs	**(99.6)**	(73.8)
Selling costs	**(0.4)**	(0.6)
General and administrative costs	**(4.2)**	(6.1)
EBITDA	**(8.5)**	(3.5)
Depletion, amortization and accretion	**(8.9)**	(9.2)
Operating loss	**$ (17.4)**	$ (12.7)

(1) EBITDA as defined by Royal Utilities. EBITDA does not have a standardized meaning prescribed by Canadian generally accepted accounting principles and is, therefore, unlikely to be comparable with similar measures presented by other issuers.

(2) The Corporation's share of earnings from its equity-accounted investment in Royal Utilities is from June 28, 2006, onwards. 2007 earnings from Royal Utilities represent full year equity-accounted earnings.

(3) Amounts represent the Corporation's 50% proportionate interest in the Coal Valley export thermal coal mine and coal development assets.

For 2007, Royal Utilities declared distributions of $93.8 million (100% basis). Net earnings were $84.0 million (100% basis) compared to net earnings of $29.1 million (100% basis) for 2006. Net earnings for 2006 included non-recurring charges for interest expense, foreign exchange gains, debt refinancing costs and discontinued operations, net of income taxes, all related to the 2006 restructuring of Royal Utilities prior to its initial public offering. Royal Utilities EBITDA for 2007 of $137.2 million (100% basis) was lower compared to EBITDA of

$156.3 million (100% basis) in 2006. This was largely the result of including in EBITDA, the foreign exchange gains from US denominated debt that was settled in the 2006 restructuring. Excluding this gain, EBITDA would have been $138.8 million (100% basis) in 2006. EBITDA for 2007 was impacted by lower margins at the owned mines, mainly due to the unexpected shutdowns at the Boundary Dam power station and lower demand for Bienfait coal in Ontario.

Coal Valley and coal development assets' EBITDA for the year ended December 31, 2007, was $(8.5) million compared to $(3.5) million for 2006. Coal Valley EBITDA in 2007 was $(6.1) million, and reflected an increase in revenue to $95.7 million primarily from record coal prices and volumes, despite a stronger Canadian dollar. Higher production costs, mainly in equipment, labour, fuel and tires, more than offset the increased revenues. Coal development assets' EBITDA in 2007 of $(2.4) million was primarily due to spending on the Dodds-Roundhill coal gasification project.

Prices ($/tonne)	**2007**	2006
Royal Utilities – realized price[1]	**$ 13.00**	$ 12.04
Coal Valley – realized price	**$ 50.50**	$ 47.45

(1) Excludes royalty revenue.

In Royal Utilities, average realized prices increased by $0.96 to $13.00 for 2007, primarily due to higher cost and capital recoveries at the contract and Genesee mines.

In Coal Valley, higher realized prices were due to improved pricing on export thermal coal contracts, partially offset by the stronger Canadian dollar.

Production (millions of tonnes)	**2007**	2006
Royal Utilities (100% basis)	**36.1**	36.2
Coal Valley[1]	**1.7**	1.8

(1) Volumes represent the Corporation's 50% share.

Sales (millions of tonnes)	**2007**	2006
Royal Utilities (100% basis)	**35.8**	36.5
Coal Valley[1]	**1.9**	1.6

(1) Volumes represent the Corporation's 50% share.

In Royal Utilities, total sales and production volumes were lower than last year largely due to unexpected power plant shutdowns at the contract and Genesee mines and an unfavourable timing impact of mining in areas with higher strip ratios at Genesee.

In Coal Valley, sales volumes for 2007 were at record levels and represent a 19% increase over the prior year. Production volumes were comparable to 2006.

Capital Expenditures		2007		2006
Royal Utilities (100% basis)	$	**9.2**	$	13.1
Coal Valley[(1)]		**3.2**		5.6

(1) Expenditures represent the Corporation's 50% share.

In Royal Utilities, capital expenditures in the year were made in respect of productive capacity maintenance, mainly infrastructure development and capital repairs on mobile equipment at Paintearth, Boundary Dam, and Genesee.

In Coal Valley, capital expenditures for the year ended December 31, 2007, were $3.2 million compared to $5.6 million for the year ended December 31, 2006. The decrease is due to the completion of plant expansion spending in the first quarter of 2006.

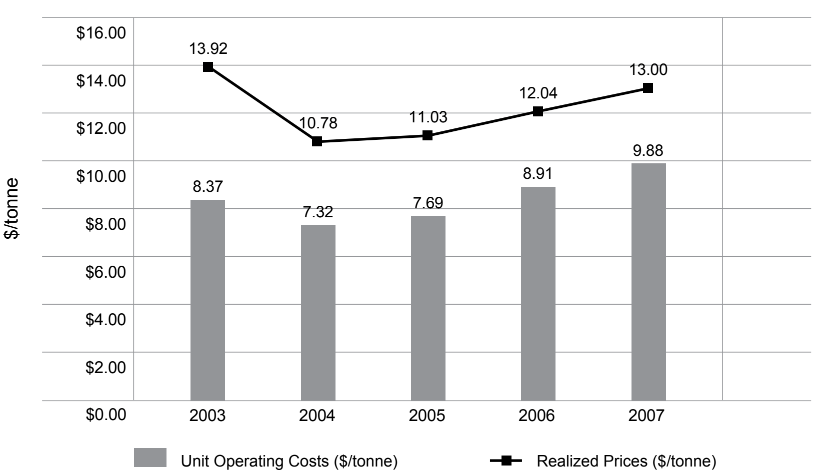
Unit Operating Costs		2007		2006
Royal Utilities				
Operating costs ($ per tonne)	$	**9.88**	$	8.91
Coal Valley				
Operating costs ($ per tonne)	$	**52.61**	$	46.50

In Royal Utilities, operating cost per tonne increased $0.97 to $9.88 for 2007 due to higher cost and capital recoveries at the contract and Genesee mines.

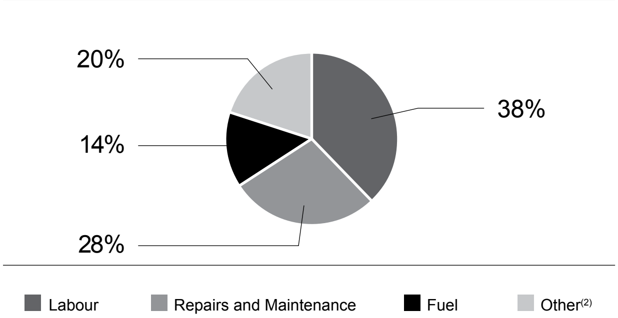
In Coal Valley, operating cost per tonne increased as a result of higher equipment, labour, fuel, and tire costs in the year, magnified by production that was 6% lower than 2006.

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

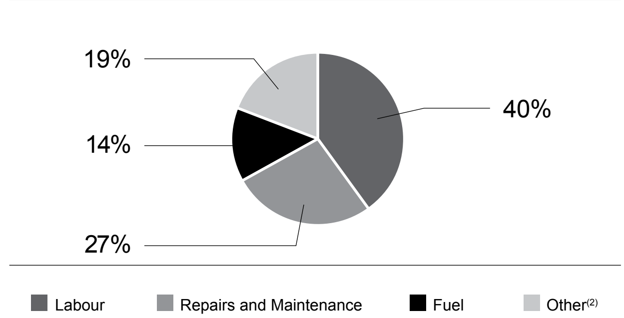
Royal Utilities



2006 Unit Operating Cost(1)



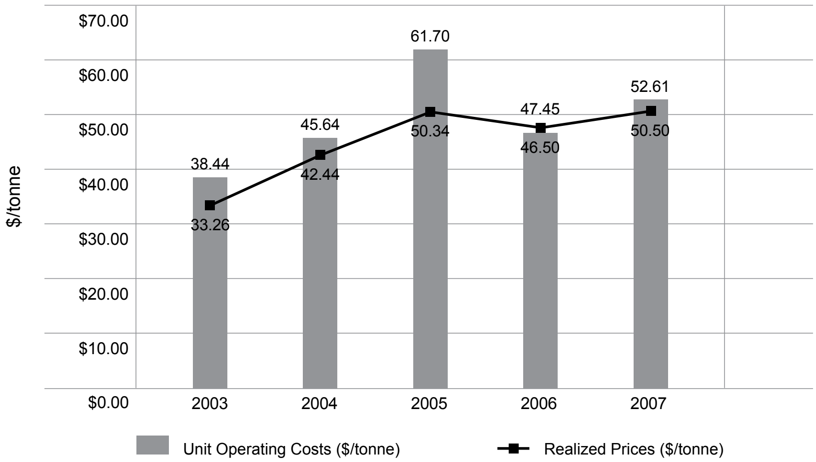
2007 Unit Operating Cost(1)



(1) For the owned mines, excluding Bienfait, with less than 5% of production.

(2) Comprised of rentals, subcontracts, explosives, power, taxes, tires, licenses and other miscellaneous expenses.

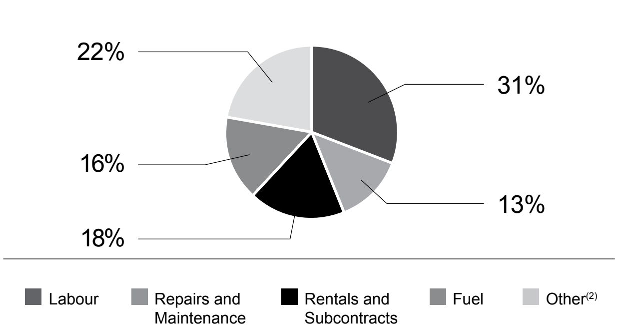
Coal Valley



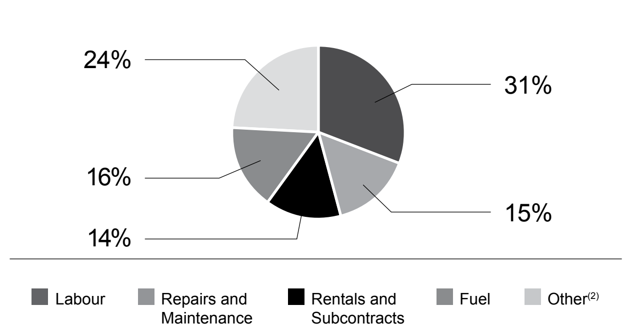
After a lengthy period of low export coal prices, a strengthening market led Coal Valley to undertake the wash-plant expansion in 2005. Export prices continued to increase in 2006 and 2007, however the impact to Coal Valley was dampened by a strong Canadian dollar and contracts that are subject to annual pricing. As 75% of Coal Valley's contracts will be renegotiated in 2008, realized prices are expected to be materially higher than 2007.

Unit production costs peaked in 2005 due to the expansion, and increased production reduced per-tonne operating costs in 2006. Escalating costs, particularly for equipment, fuel, labour and tires, combined with lower production, increased unit production costs in 2007. Investments in leased equipment in 2008 are expected to increase production and reduce unit operating costs, allowing Coal Valley to capitalize on higher realized prices.

2006 Unit Mining Cost[1]



2007 Unit Mining Cost[1]



(1) Excludes ex-mine costs.

(2) Comprised of explosives, power, taxes, tires, licenses and other miscellaneous expenses.

Oil and Gas

Oil and Gas production is derived from near-shore deposits in Cuba, which are explored and developed from land-based drilling locations using specialized skills in fold and thrust belt geology and directional drilling, as well as from fields in Spain and Pakistan.

Oil and Gas employs a diverse, highly-skilled workforce with extensive experience in all facets of exploration, development, production, and field operations around the world, with specialized experience in complex fold and thrust belt geology. In Cuba, Oil and Gas balances the Corporation’s commitment to employment and training of local manpower with prudent use of experienced expatriate manpower in key positions. A team of geological and engineering professionals based in Calgary manages and directs the Corporation’s exploration and development programs.

Outlook for 2008

In 2008, both gross working-interest and net working-interest production volumes are expected to remain consistent with prior year levels. In Cuba, negotiations continue with respect to the terms and conditions of an enhanced oil recovery concession and a number of new exploration blocks.

Total capital expenditures for 2008 are expected to be approximately $150 million and will include drilling 11 development wells and one exploratory well in Cuba, as well as one development well in Pakistan and a seismic program in the East Irish Sea.

Highlights

- Record Oil and Gas revenue of $303.5 million
- Record Oil and Gas EBITDA of $227.9 million
- Extensive drilling program in 2007 with 18 wells completed