REVIEW OF OPERATIONS

Metals

Metals is the pre-eminent operator of pressure hydrometallurgical technologies for the extraction of nickel and cobalt from lateritic ores. Metals is focused on low-cost production of nickel and cobalt through stable production, implementation of operating efficiencies, and the expansion of production to maximize profitability.

Moa Joint Venture

The Moa Joint Venture, which is conducted through a joint venture with a Cuban partner, mines, processes, and refines nickel and cobalt for sale worldwide (except the United States of America). The Moa Joint Venture has mining operations and associated processing facilities in Moa, Cuba, refining facilities in Fort Saskatchewan, Alberta, and international marketing and sales operations. The Moa mine operations provide access to extensive resources in Cuba, which will be developed as market conditions permit.

Current operations have the capacity to produce approximately 33,000 tonnes of mixed sulphides from mining and processing facilities in Moa and to refine 32,500 tonnes of nickel and 3,500 tonnes of cobalt at facilities in Fort Saskatchewan. The Moa Joint Venture is currently expanding capacity in Moa and Fort Saskatchewan in two phases to process and refine a further 13,000 tonnes of mixed sulphides. Phase 3 of the expansion, which will add an additional 3,000 to 6,000 tonnes of nickel plus cobalt production, continues at the conceptual study stage, as efforts are focused on achieving Phase 1 and Phase 2 construction and commissioning timelines.

Ambatovy Joint Venture

The Ambatovy Joint Venture is conducted with partners in Japan, Korea and Canada and is responsible for the Ambatovy Project. The Ambatovy Project is a large-tonnage nickel and cobalt project currently under development in Madagascar. According to a feasibility study released in May 2006, the Ambatovy Project has proven and probable reserves of 125 million tonnes grading 1.04% nickel and 0.099% cobalt and annual production capacity estimated at 60,000 tonnes (100% basis) of nickel and 5,600 tonnes (100% basis) of cobalt with an estimated life of approximately 27 years. Cash operating costs per pound of nickel, after credits, are expected to place the Ambatovy Project in the lowest quartile of the global industry cost curve. The capital cost of the Ambatovy Project, excluding working capital requirements, financing costs and escalation, is currently estimated to be $3.3 billion (US$3.3 billion) (100% basis), which decreased from $3.5 billion (US$3.3 billion) in the second quarter of 2007 as a result of a stronger Canadian dollar. Further guidance will be provided as key milestones are achieved.

The Ambatovy Project is progressing well and is on target for commissioning in 2010. The Project to date has achieved over 5 million exposure hours without a lost time incident while continuing to build a large scale workforce for the construction stage. The Project currently employs over 5,700 individuals in Madagascar with Malagasy workers comprising over 97% of the workforce. Detailed engineering for the Project is approximately 50% complete and negotiations are close to completion for awarding of all major contracts and equipment.

Outlook for 2008

Full-year production (100% basis) is currently forecast to be approximately 32,500 of nickel and 3,500 tonnes of cobalt, reflecting the production from Phase I of the Moa Joint Venture and also the difficulties experienced with CN rail in the first quarter of 2008 in moving mixed sulphides across Canada.

The focus in 2008 will be on the commissioning of the Phase 1 expansion, which commenced in the first quarter, and the continued build out of Phase 2 at Moa and Fort Saskatchewan. Phase 1 is expected to increase annual production by 4,000 tonnes (100% basis) of mixed sulphides. The Corporation expects to realize operating margin improvements as mixed sulphides from Moa Nickel temporarily displace more expensive third-party feed as Phase 1 becomes operational.

Significant progress is also expected to be made on Phase 2 of the expansion in 2008, with commissioning forecasted to commence in mid-2009. Phase 2 is projected to add a further 9,000 tonnes per annum (100% basis) of mixed sulphide capacity.

Sustaining capital expenditures for the Moa Joint Venture and for the utility and fertilizer assets in Fort Saskatchewan in the first quarter and full-year 2008 are expected to be $8 million and $37 million, respectively. Growth capital spending, including a sulphuric acid plant in Moa, is estimated at approximately $89 million in the first quarter and $322 million for the full year. Sherritt's partner will contribute $257 million to the Moa Joint Venture growth capital in 2008.

Construction activities at the Ambatovy Project are progressing well and current forecasts call for commissioning in 2010.

Capital expenditures at Ambatovy for the full year 2008 are expected to be $1.6 billion (100% basis). Project Financing is expected to fund $1.3 billion of the Ambatovy Project's capital costs during 2008. The remaining obligations, which are expected to be approximately $280 million, will be funded by the Project's shareholders, with approximately $120 million to be funded by Sherritt. First-quarter capital expenditures (100% basis) are expected to be approximately $300 million.

Highlights

- Production records established
- Record revenue and operating earnings
- Moa Joint Venture expansion and the Ambatovy Project are proceeding well

Financial Analysis

		2007		2006
Revenue[(1)]	**$**	**805.7**	$	543.4
Operating costs		**(304.6)**		(263.9)
Selling costs		**(14.6)**		(12.2)
General and administrative costs		**(4.7)**		(3.5)
EBITDA		**481.8**		263.8
Depletion, amortization and accretion		**(23.3)**		(20.8)
Operating earnings	**$**	**458.5**	$	243.0

(1) Metals revenue includes revenue derived from nickel, cobalt, by-products and fertilizer sales.

Revenues increased by $262.3 million from the prior year to $805.7 million mainly due to record nickel and higher cobalt prices and an increase in sales volumes for both products.

Operating costs were higher, primarily due to higher commodity input and maintenance costs, and higher nickel and cobalt sales volumes, offset by the impact of a stronger Canadian dollar on operations.

Higher selling costs primarily reflected an increase in sales volumes, while general and administrative costs increased in response to overall business activity and cost escalation.

Depletion, amortization and accretion were also higher reflecting recent capital spending trends.

Prices		2007		2006
Nickel – realized ($/lb)	**$**	**17.85**	$	12.59
Cobalt – realized ($/lb)		**29.40**		17.52
Nickel – reference (US$/lb)		**16.87**		11.02
Cobalt – reference (US$/lb)[1]		**27.99**		15.22

(1) Average Metal Bulletin: Low Grade cobalt published price.

In 2007, the average nickel reference price increased by US$5.85/lb over the prior year reflecting record prices in the first half of the year including a high of approximately US$24/lb in May of 2007. Prices declined in the latter part of the year reflecting weaker stainless steel demand. Cobalt prices were also higher than in the prior year due to strong demand, particularly from China. In the fourth quarter, cobalt prices experienced a sharp increase generated by stronger demand and concerns over availability of cobalt concentrates. The benefit of higher reference prices was partially offset by the stronger Canadian dollar.

Production (tonnes)	2007	2006
Mixed sulphides	**16,831**	14,928
Finished nickel	**15,696**	15,106
Finished cobalt	**1,787**	1,656

In 2007, the Moa Joint Venture established an annual mixed sulphide production record reflecting the impact of process improvements. In June 30, 2007, the mixed sulphides supply agreement between joint venture subsidiary companies expired. Mixed sulphides are being supplied on the same terms while negotiations continue.

Finished metals production increased in response to higher feed availability. However, production was restricted by low mixed sulphide inventories at the beginning of the year, the rail strike in Canada and dusting issues that temporarily affected the processing of third party feed.

Sales (thousands of pounds)	2007	2006
Finished nickel	**34,398**	33,541
Finished cobalt	**3,974**	3,685

Increased sales volumes reflected an increase in finished metals production.

Capital Expenditure		2007		2006
Moa Joint Venture				
Sustaining	**$**	**47.5**	$	24.0
Expansion and other growth initiatives		**132.2**		48.8
	$	**179.7**	$	72.8
Ambatovy Joint Venture		**647.6**		–
Total	**$**	**827.3**	$	72.8

Capital spending increased due to higher capital expenditures related to the Moa Joint Venture expansion and increased spending related to on-going operations. Excluding growth initiatives, capital spending was $47.5 million compared with $24.0 million in the prior year, reflecting a higher level of investment required to sustain production and a $14.5 million purchase of real estate in Fort Saskatchewan.

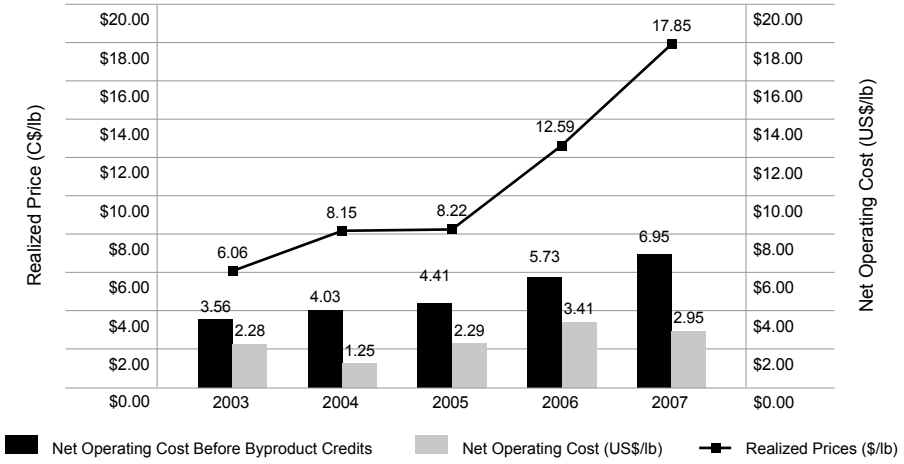
The Ambatovy Project is currently under development. Construction commenced at the mine and plant site in Madagascar during the year.

Unit Operating Costs		2007		2006
Net operating costs of nickel[(1)] (US$ per lb of nickel)	**$**	**2.95**	$	3.41
Third party feed costs (US$ per lb of nickel)		**1.27**		1.11
Natural gas costs ($ per GJ)		**6.24**		6.35
Sulphur costs (US$ per tonne)		**117.72**		109.7
Sulphuric acid costs (US$ per tonne)		**105.08**		89.3

(1) Net operating cost of nickel after cobalt and byproduct credits.

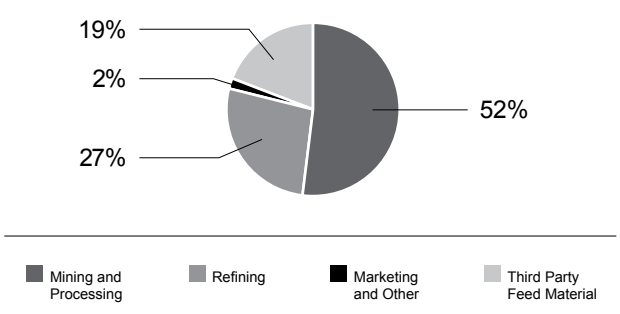
The reduction in net operating costs of nickel reflected the impact of higher cobalt prices, higher production and sales, partially offset by higher commodity input and maintenance costs as well as a stronger Canadian dollar.

The following charts show realized nickel prices (in C$/lb) and net operating costs (in US$/lb) for the five years ended December 31, 2007, and a breakdown of net operating costs before cobalt and byproduct credits for 2007 and 2006.

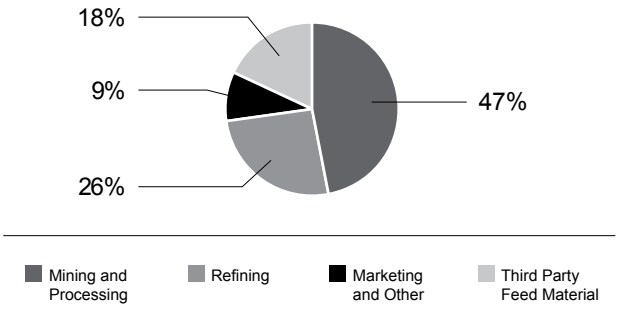


The trends reflect higher mining, refining and third-party feed costs. While higher commodity input and maintenance costs have driven mining and refining costs, increasing nickel and cobalt prices increased third-party feed costs substantially.

2006 Net operating cost before byproduct credits



2007 Net operating cost before byproduct credits



Between 2006 and 2007, the higher level of nickel spot sales decreased realized prices relative to reference prices as reflected in the higher proportion of costs attributable to marketing and other.

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.