

Management's Discussion and Analysis

The information in this Management's Discussion and Analysis, or MD&A, is intended to assist the reader in the understanding and assessment of the trends and significant changes in the results of operations and financial condition of Chemtrade Logistics Income Fund. Throughout this MD&A, the term the "Fund" refers to Chemtrade Logistics Income Fund and its consolidated subsidiaries. The terms "we", "us" or "our" similarly refers to the Fund. This MD&A should be read in conjunction with the audited consolidated financial statements of the Fund for the year ended December 31, 2007.

The Fund's financial statements are prepared in accordance with accounting principles generally accepted in Canada, or Canadian GAAP. The Fund's reporting currency is the Canadian dollar. In this MD&A per unit amounts are calculated using the weighted average number of units outstanding for the applicable period unless otherwise indicated.

This MD&A contains certain statements which may constitute "forward-looking" statements within the meaning of certain securities laws, including the "safe harbour" provisions of the Securities Act (Ontario). The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements.

This MD&A contains forward-looking statements about the objectives, strategies, financial condition, results of operations and businesses of the Fund. These statements are "forward-looking" as they are based on current expectations about our business and the markets we operate in, and on various estimates and assumptions.

- Forward-looking statements in this MD&A describe our expectations as of the date of this MD&A.
- Our actual results could be materially different from our expectations if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. As a result, we cannot guarantee that any forward-looking statement will materialize.
- Forward-looking statements do not take into account the effect that transactions or non-recurring items announced or occurring after the statements are made may have on our business.
- We disclaim any intention or obligation to update any forward-looking statement even if new information becomes available, as a result of future events or for any other reason.
- Risks that could cause our actual results to differ materially from our current expectations are discussed in the RISKS AND UNCERTAINTIES section of this MD&A.

FINANCIAL HIGHLIGHTS

(\$'000 except per unit amounts)	Three Months Ended		Year Ended		
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Revenue	\$ 144,580	\$ 146,930	\$ 546,636	\$ 552,128	\$ 425,416
Gross profit	\$ 33,808	\$ 24,904	\$ 109,373	\$ 96,268	\$ 84,852
Net earnings	\$ 9,071	\$ 5,385	\$ 20,678	\$ 3,820	\$ 13,217
Net earnings per unit					
- Basic	\$ 0.27	\$ 0.16	\$ 0.62	\$ 0.11	\$ 0.48
- Diluted	\$ -	\$ 0.16	\$ -	\$ 0.11	\$ 0.48
Total assets	\$ 510,101	\$ 568,111	\$ 510,101	\$ 568,111	\$ 595,455
Long term debt	\$ 155,206	\$ 173,932	\$ 155,206	\$ 173,932	\$ 190,019
EBITDA ⁽³⁾	\$ 22,746	\$ 13,917	\$ 69,440	\$ 65,357	\$ 58,909
EBITDA per unit ⁽¹⁾	\$ 0.68	\$ 0.41	\$ 2.07	\$ 1.95	\$ 2.15
Cash flows from operating activities	\$ 19,731	\$ 5,843	\$ 47,742	\$ 41,950	\$ 47,734
Cash flows from operating activities per unit ⁽¹⁾	\$ 0.59	\$ 0.17	\$ 1.42	\$ 1.25	\$ 1.75
Adjusted cash flows from operating activities ⁽³⁾	\$ 18,843	\$ 12,164	\$ 54,351	\$ 52,991	\$ 47,623
Adjusted cash flows from operating activities per unit ⁽¹⁾⁽³⁾	\$ 0.56	\$ 0.36	\$ 1.62	\$ 1.58	\$ 1.74
Distributable cash after maintenance capital expenditure ⁽³⁾	\$ 16,071	\$ 8,898	\$ 47,501	\$ 46,383	\$ 43,244
Distributable cash after maintenance capital expenditure per unit ⁽¹⁾⁽³⁾	\$ 0.48	\$ 0.26	\$ 1.41	\$ 1.38	\$ 1.58
Distributions declared	\$ 10,074	\$ 12,089	\$ 40,299	\$ 48,133	\$ 49,729
Distributions declared per unit ⁽²⁾	\$ 0.3000	\$ 0.3600	\$ 1.2000	\$ 1.4333	\$ 1.8165
Distributions paid	\$ 10,075	\$ 12,089	\$ 40,971	\$ 47,908	\$ 48,506
Distributions paid per unit ⁽²⁾	\$ 0.3000	\$ 0.3600	\$ 1.2200	\$ 1.4266	\$ 1.8132

(1) Based on weighted average number of units outstanding for the period of: **33,582,936** 33,582,040 **33,582,848** 33,582,040 27,340,711

(2) Based on actual number of units outstanding on record date.

(3) See NON-GAAP MEASURES.

NON-GAAP MEASURES

EBITDA

Throughout this MD&A, the term EBITDA is used to describe earnings before any deduction for net interest and debt accretion, taxes, depreciation and amortization and other non-cash charges such as minority interest. EBITDA is a metric used by many investors and analysts to compare organizations on the basis of ability to generate cash from operations. Management considers EBITDA (as defined) to be an indirect measure of operating cash flow, which is a significant indicator of the success of any business. It is not intended to be representative of cash flow from operations or results of operations determined in accordance with Canadian generally accepted accounting principles (“GAAP”) or cash available for distribution.

EBITDA is not a recognized measure under Canadian GAAP. The Fund’s method of calculating EBITDA may differ from methods used by other income funds or companies, and accordingly may not be comparable to similar measures presented by other organizations. A reconciliation of EBITDA to net earnings follows:

(\$'000)	Three Months Ended		Year Ended		
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Net earnings:	\$ 9,071	\$ 5,385	\$ 20,678	\$ 3,820	\$ 13,217
Add:					
Depreciation and amortization	9,088	9,970	38,631	44,367	35,855
Impairment and write-down of property, plant and equipment	–	(3,320)	–	12,276	586
Early settlement of debt	–	–	–	–	2,878
Net interest and debt accretion expense	3,050	2,992	12,633	11,438	8,942
Net income taxes	1,552	(1,110)	(2,480)	(6,554)	(2,575)
Minority interest	(15)	–	(22)	–	6
EBITDA ⁽¹⁾	\$ 22,746	\$ 13,917	\$ 69,440	\$ 65,357	\$ 58,909

(1) EBITDA for the three months and year ended December 31, 2007 includes charges for restructuring of \$nil and \$1,971 respectively. EBITDA for the three months and year ended December 31, 2006 included charges of \$2,706 for restructuring.

Cash Flow

The following table is derived from, and should be read in conjunction with, the consolidated statement of cash flows. Management believes this supplementary disclosure provides useful additional information related to the cash flows of the Fund including the amount of cash available for distribution to Unitholders, repayment of debt and other investing activities. Certain sub-totals presented within the cash flows table below, such as “Adjusted cash flows from operating activities”, “Distributable cash after maintenance capital expenditure” and “Distributable cash after all capital expenditure”, are not defined terms under Canadian GAAP. These sub-totals are used by management as measures of internal performance and as a supplement to the consolidated statement of cash flows. Investors are cautioned that these measures should not be construed as an alternative to using net income as a measure of profitability or as an alternative to the GAAP consolidated statement of cash flows. Further, the Fund’s method of calculating each measure may not be comparable to calculations used by other income trusts bearing the same description.

(\$'000)	Three Months Ended		Year Ended		
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Cash flows from operating activities	\$ 19,731	\$ 5,843	\$ 47,742	\$ 41,950	\$ 47,734
Add (deduct):					
Changes in non-cash working capital and other items	(888)	6,321	6,609	11,041	(111)
Adjusted cash flows from operating activities	18,843	12,164	54,351	52,991	47,623
Less:					
Maintenance capital expenditure	2,772	3,266	6,850	6,608	4,379
Distributable cash after maintenance capital expenditure	16,071	8,898	47,501	46,383	43,244
Less:					
Non-maintenance capital expenditure ⁽¹⁾	1,939	14	2,216	937	1,718
Distributable cash after all capital expenditure	14,132	8,884	45,285	45,446	41,526

⁽¹⁾ Non-maintenance capital expenditures are either pre-funded, usually as part of a significant acquisition and related financing or are considered to expand the capacity of the Fund's operations.

CONSOLIDATED OPERATING RESULTS

Consolidated revenue for the fourth quarter of 2007 was \$144.6 million, a decrease of \$2.3 million from consolidated revenue of \$146.9 million recorded in the fourth quarter of 2006. Consolidated revenues for the years ended December 31, 2007 and December 31, 2006 were \$546.6 million and \$552.1 million respectively. The principal reasons for the decrease in consolidated revenue was a result of the change in accounting policy implemented by the Fund in recording its revenue related to the International segment and due to the effect of the stronger Canadian dollar relative to the U.S. dollar, as some of the Fund's revenues are denominated in U.S. dollars. The change in policy is due to the adoption of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, Financial Instruments. This decrease was almost entirely offset by increases in revenue in the SPPC and Pulp Chemicals segments for the three months and year ended December 31, 2007.

The Fund's net earnings and EBITDA for the fourth quarter of 2007 were \$9.1 million and \$22.7 million respectively compared to \$5.4 million and \$13.9 million respectively for the fourth quarter of 2006. Net earnings and EBITDA for the year ended 2007 were \$20.7 million and \$69.4 million respectively. Comparable net earnings and EBITDA for the year ended 2006 were \$3.8 million and \$65.4 million respectively. The main reason for the improvement in EBITDA in 2007 was stronger results from the International segment and because the fourth quarter of 2006 included restructuring costs (as described in the ASSET IMPAIRMENT AND RESTRUCTURING section below). For the full year, the improved results reflect the strength in the SPPC and International segments. These improvements more than offset higher Corporate costs and weaker results in the Pulp Chemicals segment. 2006 net earnings were negatively impacted by a non-cash charge of \$12.3 million with respect to impairment in the net book value of property, plant and equipment used to manufacture powder SHS.

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

SPPC

(\$'000)	Three Months Ended		Year Ended	
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Revenue	\$ 73,848	\$ 72,490	\$ 309,416	\$ 284,966
Earnings before the under-noted	12,931	10,617	52,040	47,449
Depreciation and amortization	6,390	7,200	27,456	33,366
Impairment of property, plant and equipment	-	(3,320)	-	12,276
Net interest and debt accretion expense	2,613	2,100	10,762	8,009
Income tax (recovery)	315	(1,492)	(4,079)	(7,601)
Net earnings	\$ 3,613	\$ 6,129	\$ 17,901	\$ 1,399

SPPC manufactures and distributes sulphuric acid and other sulphur based products to an extensive customer base in Canada and the U.S., and provides acid regeneration services to the petroleum industry, primarily in the U.S. Gulf Coast area. SPPC also supplies liquid and powder sodium hydrosulphite, which is sold to the pulp and paper industry and to a lesser extent, to the textile industry.

Results for 2007 and 2006 were negatively impacted by the recording of \$2.0 million and \$2.7 million respectively, related to the cessation of production of powder SHS (as described in the ASSET IMPAIRMENT AND RESTRUCTURING section below).

For the fourth quarter of 2007, SPPC generated revenue of \$73.8 million, which compares to \$72.5 million for the fourth quarter of 2006. The increase in 2007 revenue is primarily the result of higher prices for merchant acid and higher volumes of SHS. The increase in revenues was partially offset by the effect of the stronger Canadian dollar relative to the U.S. dollar. SHS results include sales to customers acquired as the result of the Olin asset acquisition (as described in the LIQUIDITY AND CAPITAL RESOURCES - Investing Activities - Acquisitions section). During the fourth quarter of 2007, SPPC's EBITDA was higher than the levels achieved in 2006 by \$2.3 million, mainly due to the restructuring costs recorded in the fourth quarter of 2006, and net earnings were lower by \$2.5 million. During the fourth quarter of 2007, the benefit of higher prices for merchant acid was offset by higher sulphur and net zinc costs and by operating issues at a few of our customers. Despite the higher EBITDA in the fourth quarter of 2007, net earnings were lower than the fourth quarter of 2006, as that quarter benefited from an adjustment to the impairment charge, originally recorded in the third quarter of 2006.

For the year ended December 31, 2007, SPPC generated revenues of \$309.4 million, a significant increase over the level achieved during 2006. The increase in 2007 revenue is the result of higher merchant acid volumes and prices and higher SHS volumes. During 2007, SPPC's EBITDA increased by \$4.6 million. Stronger results across most products, particularly merchant acid, were partially offset by higher sulphur and net zinc costs. 2007 net earnings additionally benefited by having lower levels of depreciation and amortization relative to 2006. 2006 earnings were also negatively impacted by the recording of impairment charges of \$12.3 million (as described in the ASSET IMPAIRMENT AND RESTRUCTURING section below).

The fourth quarter and year ended December 31, 2007 income tax recovery related to increased future tax loss benefits and reduced temporary differences between the accounting and tax basis of certain future tax liabilities.

Pulp Chemicals

(\$'000)	Three Months Ended		Year Ended	
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Revenue	\$ 14,635	\$ 13,062	\$ 58,093	\$ 52,595
Earnings before the under-noted	5,326	4,346	19,546	20,853
Depreciation and amortization	2,346	2,333	9,364	9,299
Net interest expense	528	496	2,094	1,961
Net earnings	\$ 2,452	\$ 1,517	\$ 8,088	\$ 9,593

Pulp Chemicals produces sodium chlorate and crude tall oil ("CTO"), both of which are chemicals used in the pulp and paper industry. Sodium chlorate is used to bleach pulp and CTO is used as a less expensive alternative energy source to natural gas.

Fourth quarter 2007 Pulp Chemicals revenue was \$1.6 million higher than the level achieved during the fourth quarter of 2006. On a year-to-date basis, the improvement in revenue during 2007 was \$5.5 million. The main reason for this increase was higher selling prices and volumes for sodium chlorate. During the fourth quarter of 2006, production and sales were disrupted due to the declaration of force majeure by the previous supplier of salt, resulting in the plant operating at approximately 70% of planned capacity for the month of December. Net earnings and EBITDA for the fourth quarter were higher than the levels achieved during the comparable period in 2006, when operations were disrupted as described above. During the fourth quarter of 2007, costs were higher due to increases in costs for caustic soda and salt. Net earnings and EBITDA for 2007 were lower than the levels achieved in 2006. Higher selling prices and volumes for sodium chlorate were not enough to fully offset the increase in input costs, particularly for salt, a key raw material used in the production of sodium chlorate.

International

(\$'000)	Three Months Ended		Year Ended	
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Revenue	\$ 56,097	\$ 61,378	\$ 179,127	\$ 214,567
Earnings before the under-noted	9,409	3,548	14,942	9,120
Depreciation and amortization	352	437	1,811	1,702
Net interest income	(91)	(21)	(392)	(187)
Income tax expense	1,237	382	1,599	1,057
Minority interest	(15)	–	(22)	–
Net earnings	\$ 7,926	\$ 2,750	\$ 11,946	\$ 6,548

During the fourth quarter of 2007, International's revenue was \$56.1 million compared to \$61.4 million for the same period of 2006. For 2007, International's revenue was \$179.1 million compared to \$214.6 million for 2006. The decrease in 2007 revenue is primarily due to a change in accounting policy implemented by the Fund as a result of the adoption of the recommendations of the CICA Handbook Section 3855. This resulted in certain transactions being recorded on a net basis.

International net earnings and EBITDA during the fourth quarter and year ended December 31, 2007 were considerably higher than the comparable periods in 2006. Virtually all the improvement was in the fourth quarter and was primarily due to the tightness in the global sulphuric acid market. A relatively low volume of acid that was not committed to specific customers resulted in extremely high margins and was a key driver of the improved EBITDA and earnings.

Corporate

(\$'000)	Three Months Ended		Year Ended	
	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
Cost of services	\$ 4,920	\$ 4,594	\$ 17,088	\$ 12,065
Loss before the under-noted	(4,920)	(4,594)	(17,088)	(12,065)
Net interest and debt accretion expense	-	417	169	1,655
Net earnings	\$ (4,920)	\$ (5,011)	\$ (17,257)	\$ (13,720)

The Corporate segment includes the administrative costs of corporate activities which are not directly allocable to an operating segment, such as information technology, finance and human resources. For the fourth quarter and year ended December 31, 2007 corporate costs were \$4.9 million and \$17.1 million respectively compared to \$4.6 million and \$12.1 million respectively for the fourth quarter and year ended December 31, 2006.

Corporate costs in the fourth quarter of 2007 were slightly higher than the fourth quarter of 2006, although ignoring difference in foreign exchange gains/losses, costs were higher by \$1.7 million. Most of this increase is due to accruals for the Total Shareholder Return Long-Term Incentive Plan ("TSR LTIP") and for annual incentive compensation. The total level of corporate costs is affected by differences in foreign exchange. During the fourth quarter of 2006, an unrealized foreign exchange loss of \$1.4 million and a realized foreign exchange gain of \$0.1 million were recorded. During the fourth quarter of 2007, there were no net foreign exchange gains as realized gains were offset by unrealized losses.

The increase in corporate costs during 2007 was mainly due to the recording of \$3.8 million associated with the Fund's TSR LTIP, costs associated with the departure of a senior executive during the third quarter of 2007 (\$1.6 million) and costs related to the Fund's review of strategic alternatives that was announced in February 2007 (\$0.7 million). This was partially offset by the recognition of US\$0.8 million related to the Hurricane Rita insurance claim and higher net foreign exchange gains of \$1.4 million. During 2007, realized and unrealized foreign exchange gains of \$2.2 million and \$0.8 million respectively were recorded, whereas during 2006, there was an unrealized loss of \$0.4 million and a realized gain of \$2.0 million.

The TSR LTIP accruals relate to the 2006 transitional TSR LTIP and the 2006 and 2007 TSR LTIP. The 2006 transitional TSR LTIP was paid out in July 2007 and the 2006 and 2007 TSR LTIP's are payable at the beginning of 2009 and 2010 respectively. Although an accrual with respect to these two plans has been recorded, the payouts will be based upon Total Shareholder Return, as described in the Fund's Management Information Circular, achieved over the three-year performance periods of each plan.

The nature of this calculation makes it difficult to forecast the amount of TSR LTIP expenses that will be recordable in any period as it is based upon future distributions and changes in unit value.

Net interest and debt accretion expense in the fourth quarter and 2007 was \$nil and \$0.2 million respectively compared to \$0.4 million and \$1.7 million for the fourth quarter and 2006. The decrease in the expense in the fourth quarter of 2007 from 2006 was due to the redemption of all the remaining outstanding convertible debentures in the first quarter of 2007.

ASSET IMPAIRMENT AND RESTRUCTURING

During the fourth quarter of 2006, the Fund decided to discontinue production of powder SHS and costs of \$2.7 million related to that decision were recorded in that quarter. Accounting rules prescribe when costs are to be recorded in such situations and certain costs can only be recorded when they are incurred. Consequently, the Fund has recorded an additional \$2.0 million of costs with respect to this decision during 2007 (fourth quarter - \$nil). These costs consist of severances and other costs required to effect the cessation of production. The Fund estimates that substantially all costs related to this decision have now been recorded.

During 2006, the Fund recorded a charge of \$12.3 million with respect to the impairment of certain property, plant and equipment. These assets were within the SPPC business segment and were used to manufacture powder SHS. Due to rising input costs and declining demand, the cash flows associated with these assets had been declining and could no longer support their carrying value.

FOREIGN EXCHANGE

The Fund has operating subsidiaries that are U.S. based. BCT, the Fund's international subsidiary, uses the U.S. dollar as its reporting currency. As the Fund reports in Canadian dollars, its reported earnings are exposed to fluctuations in the Canadian/U.S. dollar exchange rate. The Fund now estimates that, on an unhedged basis, a \$0.01 increase in the Canadian/U.S. dollar exchange rate reduces distributable cash after maintenance capital expenditures by less than \$0.15 million on an annual basis and vice-versa.

To manage the volatility of foreign exchange rates, the Fund has entered into a series of foreign exchange contracts with its principal bankers. All foreign exchange contracts are under International Swap and Derivatives Association ("ISDA") agreements. As of December 31, 2007, approximately all planned transfers for 2008 have been effectively hedged at \$0.8292.

Contracts in place at December 31, 2007 include future contracts of US\$ 9.3 million, CHF 2.0 million and € 1.5 million at weighted average exchange rates of \$1.206, US\$0.89 and US\$1.46, respectively. There are unrealized gains of \$2.0 million and unrealized losses of less than \$0.1 million from these hedge contracts at December 31, 2007.

The purpose of these contracts is to hedge the value of the funds which are used to pay dividends and interest by subsidiary companies to the Fund and to meet other commitments. The amount of the related derivative must be recorded at fair market value at the period end. The resultant non-cash charge or gain is grouped with Selling, General and Administrative expense and is also included with Prepaid expenses and other assets on the balance sheet. The impact of this non-cash charge or gain is excluded from the computation of distributable cash after maintenance capital expenditure.

The rate of exchange used to translate U.S. denominated balances has changed from \$0.8581 at December 31, 2006 to \$1.0088 at December 31, 2007.

The Fund's International and U.S. based operations are considered to be self-sustaining, as they are financially independent. As a result, gains or losses arising from the translation of the assets and liabilities of self-sustaining operations are recorded in other comprehensive income. The changes recorded in the accumulated other comprehensive income account since December 31, 2006 were a result of changes in the Canadian/U.S. dollar exchange rate between December 31, 2006 and December 31, 2007. See RISKS AND UNCERTAINTIES for additional comments on foreign exchange.

NET INTEREST AND DEBT ACCRETION EXPENSE

Net interest and debt accretion expense was \$3.1 million in the fourth quarter of 2007 compared to \$3.0 million in the fourth quarter of 2006. Net interest and debt accretion expense was \$12.6 million for 2007 compared to \$11.4 million for 2006. Interest expenses were higher as the Fund recorded additional accretion expenses pursuant to the adoption of the new CICA handbook section on Financial Instruments and due to increased usage of the operating lines of credit.

Interest on the Canadian dollar denominated debt amounted to \$1.2 million and \$4.6 million in the fourth quarter and 2007 respectively and \$0.6 million and \$2.9 million in the fourth quarter and 2006 respectively. The increase in interest expense was a result of increased usage of the operating lines of credit, primarily due to the redemption of all of the outstanding convertible debentures and an increase in the effective annual interest rate. These loans have an effective annual interest rate of 5.22% at December 31, 2007 (December 31, 2006 - 4.97%).

The interest on the U.S. dollar denominated debt was \$1.6 million and \$7.0 million for the fourth quarter and 2007 respectively, compared to \$1.9 million and \$6.8 million for the fourth quarter and 2006 respectively. The increase in interest is due to increased usage of the operating lines of credit and an increase in the effective annual interest rate. The effective annual interest rate at December 31, 2007 was 5.85% (December 31, 2006 – 5.60%). See LIQUIDITY AND CAPITAL RESOURCES - Financing Activities - Financial Instruments for information concerning swap arrangements.

Interest on the outstanding 10% convertible debentures was \$nil for the fourth quarter of 2007 and \$0.2 million in 2007, compared to \$0.4 million for the fourth quarter of 2006 and \$1.7 million in 2006. The expense in the fourth quarter and 2007 was lower than 2006 due to the redemption of all of the outstanding convertible debentures in the first quarter of 2007. At December 31, 2007, there were no debentures outstanding compared to 16,391 debentures outstanding at December 31, 2006.

During the fourth quarter and 2007, the Fund recorded \$0.2 million and \$0.8 million of accretion expense respectively, which was due to the adoption of the new Canadian Institute of Chartered Accountants recommendations with respect to Financial Instruments. This accretion is due to the amortization of transaction costs related to the Fund's borrowings, which were previously recorded in depreciation and amortization.

INCOME TAXES

Current income tax expense was \$1.3 million for the fourth quarter of 2007 and \$2.2 million for 2007, compared to \$0.2 million and \$1.4 million for the fourth quarter and 2006 respectively. The increase in current tax expense for 2007 reflects increased earnings in certain International business operations.

The increase in future tax asset of \$1.4 million at December 31, 2007 compared to December 31, 2006 is the result of increased tax loss carry forwards, net of valuation allowances, and other tax benefits reported by certain operating subsidiaries.

The decrease in future tax liability of \$7.5 million at December 31, 2007 compared to December 31, 2006 is the result of reduced timing differences between the accounting basis and the tax basis of assets associated with certain operating subsidiaries and the impact of the exchange rate used to translate U.S. denominated balances.

CONTINGENT LIABILITIES

See RISKS AND UNCERTAINTIES - Marsulex Claim for a discussion of this issue, in the context of CONTINGENT LIABILITIES.

EXCESS CASH FLOWS AND NET INCOME OVER DISTRIBUTIONS PAID

The following table presents excess cash flows from operating activities and net income over distributions paid for the three month period ended December 31, 2007 and for the years ended December 31, 2007, 2006 and 2005.

(\$'000)	Three Months Ended		Year Ended	
	Dec. 31, 2007	Dec. 31, 2007	Dec. 31, 2006 ⁽¹⁾	Dec. 31, 2005 ⁽¹⁾
Cash flows from operating activities	\$ 19,731	\$ 47,742	\$ 41,950	\$ 47,734
Net earnings	9,071	20,678	3,820	13,217
Distributions paid during period	10,075	40,971	47,908	48,506
Excess (shortfall) of cash flows from operating activities over cash distributions paid	9,656	6,771	(5,958)	(772)
Excess (shortfall) of net income over cash distributions paid	\$ (1,004)	\$ (20,293)	\$ (44,088)	\$ (35,289)

⁽¹⁾ Cash flow from operating activities for the years ended 2006 and 2005 have been restated to comply with the current period's presentation.

The Fund considers the amount of cash generated by the business in determining the amount of distributions payable to its Unitholders. In general, the Fund does not take into account quarterly working capital fluctuations as these tend to be temporary in nature. The Fund does not generally consider net income in setting the level of distributions as this is a non-cash metric and is not reflective of the level of cash flow that the Fund can generate. This divergence is particularly relevant for the Fund as it has a relatively high level of depreciation and amortization expenses.

For the year ended December 31, 2005, distributions to Unitholders exceeded cash flows from operating activities mainly because 2005 cash flows were negatively impacted by Hurricane Rita. The additional distribution was funded by an increase in bank debt. A portion of this loss was covered by insurance and the Fund recovered approximately US\$0.8 million in 2007.

For the year ended December 31, 2006 distributions to Unitholders exceeded cash flows from operating activities mainly due to an increase in working capital. The additional distribution was funded by an increase in bank debt.

Distributions

On January 4, 2007, the Fund announced a change in the monthly distribution rate to \$0.10 per unit, effective with the January 2007 declaration. Since inception, the Fund has distributed \$240.9 million.

Distributions to Unitholders for the three months and year ended December 31, 2007 were declared as follows:

Record Date	Payment Date	Distribution Per Unit	Total (\$'000)
Three months ended December 31:			
October 31, 2007	November 30, 2007	\$ 0.10	\$ 3,358
November 30, 2007	December 31, 2007	0.10	3,358
December 31, 2007	January 31, 2008	0.10	3,358
Sub-Total		\$ 0.30	\$ 10,074
Nine months ended September 30		\$ 0.90	\$ 30,225
Total for year ended December 31		\$ 1.20	\$ 40,299

Distributions declared in the three months and year ended December 31, 2006 were as follows:

Record Date	Payment Date	Distribution Per Unit	Total (\$'000)
Three months ended December 31:			
October 31, 2006	November 30, 2006	\$ 0.12	\$ 4,030
November 30, 2006	December 29, 2006	0.12	4,030
December 29, 2006	January 31, 2007	0.12	4,029
Sub-Total		\$ 0.36	\$ 12,089
Nine months ended September 30		\$ 1.07	\$ 36,044
Total for year ended December 31		\$ 1.43	\$ 48,133

Treatment of the Fund's distributions for Canadian Income Tax purposes for 2006 and 2007 is as follows:

	Other Income	Eligible Dividends	Foreign Non-Business Income	Return of Capital	Total
2006	53.7%	25.8%	20.5%	0.0%	100.0%
2007⁽¹⁾	60%	15%	25%	0%	100%

(1) Represents planned distributions treatment. The final treatment of 2007 distributions will be determined by February 28, 2008.

LIQUIDITY AND CAPITAL RESOURCES

The Fund's distributions to Unitholders are sourced entirely from its investments in operating subsidiary companies. The Fund's investments are financed by trust units held by Unitholders, long-term debt and operating lines of credit. The cash flow of the Fund is required to fund distributions to Unitholders, capital expenditures and third party interests.

Cash from Operating Activities

Cash flow from operating activities for the fourth quarter of 2007 was \$19.7 million, an increase of \$13.9 million from the level generated during the fourth quarter of 2006. The increase in cash flow is primarily due to the improvement in earnings.

For 2007, cash flow from operating activities was \$47.7 million, an increase of approximately \$5.7 million from the level achieved in 2006. The increase in cash flow is primarily due to the improvement in earnings.

Financing Activities

Distributions to Unitholders during the fourth quarter and 2007 were \$2.0 million and \$6.9 million lower respectively than the same periods in 2006. These decreased distributions were due to the lower distribution rates in 2007.

During the first quarter of 2007, the Fund increased the aggregate amount that can be borrowed under the Fund's senior credit facilities with its principal bankers by \$50.0 million.

During the first quarter of 2007, the Fund used part of this increased credit facility to redeem the 16,378 convertible debentures outstanding for the principal amount plus accrued and unpaid interest.

For additional information on cash distributions, see DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS.

Financial Instruments

The Fund has entered into swap agreements with its principal bankers in order to fix the interest rates on its long-term debt. Under the swap agreements, which are treated as a cash flow hedge for accounting purposes, the effective interest rate on the outstanding U.S. long-term debt is 5.85% and on the Canadian dollar long-term debt is 5.22%. In the fourth quarter of 2007, the Fund entered into a new swap arrangement to fix the interest rate on US\$10,000 of its operating lines of credit. The effective interest rate under the swap arrangement is 5.73%. At December 31, 2007, the fair values of these agreements were a loss of US\$1.0 million and a gain of \$0.3 million. See comments under NET INTEREST AND DEBT ACCRETION EXPENSE for comments on these rates.

See RESULTS OF OPERATIONS BY BUSINESS SEGMENT - Foreign Exchange for additional comments on hedging.

To manage its exposure to changes in the price of natural gas, the Fund has entered into natural gas forward contracts. The Fund buys and sells specific quantities of natural gas at pre-determined dates on indices which are matched with the anticipated operational cash flows. At December 31, 2007, the fair value of these agreements is \$0.4 million in favour of the Fund. These contracts are accounted for as derivatives.

Investing Activities

Investment in capital expenditures was \$4.7 million in the fourth quarter of 2007, compared to \$3.3 million in the fourth quarter of 2006. These amounts include \$2.8 million in the fourth quarter of 2007 and \$3.3 million in the fourth quarter of 2006 for maintenance capital requirements. Investment in capital expenditures for 2007 was \$9.1 million compared to \$7.5 million for 2006. The maintenance capital expenditure components were \$6.9 million for 2007 and \$6.6 million for 2006. Owing to the high demand for skilled labour and materials, there has been an escalation in the cost of capital projects. Accordingly, maintenance capital expenditures for 2008 are expected to be approximately \$11.0 million.

Investment in non-maintenance capital expenditures were \$1.9 million and \$2.2 million during the fourth quarter and 2007 respectively compared to \$nil and \$0.9 million during the fourth quarter and 2006 respectively. Most of the non-maintenance capital expenses during the fourth quarter were related to the expansion of the Rotterdam terminal. The project is expected to be completed by the fall of 2008. Non-maintenance capital expenditures are either pre-funded, usually as part of a significant acquisition and related financing or are considered to expand or improve the capacity of the Fund's operations.

Acquisitions

On May 1, 2007, the Fund completed the purchase of Olin Corporation's liquid sodium hydrosulphite ("SHS") customer contracts for \$6.4 million (US\$5.7 million), a portion of which is subject to certain earn out provisions. The acquisition does not include Olin's manufacturing assets. The Fund incurred transaction related costs of \$0.2 million.

Cash Balances

At December 31, 2007 the Fund had net cash balances of \$11.8 million and working capital of \$35.5 million. Comparable numbers for December 31, 2006 were \$6.1 million and \$30.7 million, respectively. The Fund defines working capital to exclude cash, operating line of credit, distributions payable and current portion of long-term debt. Cash generated by the Fund will be used to fund cash distributions to Unitholders, capital requirements, interest and other legal obligations.

Future Liquidity

The future liquidity of the Fund will be primarily dependant on cash flows of its operating subsidiaries. These cash flows will be used to finance ongoing expenditures, including maintenance capital, distributions to Unitholders and normal course financial commitments. Cash flows are sensitive to changes in volume, sales prices and input costs and any changes in these may impact future liquidity. Management believes that cash flows from operating activities will be sufficient for the Fund to meet future obligations and commitments that arise in the normal course of business activities.

Capital Resources

During the first quarter of 2007, the Fund increased the aggregate amount that can be borrowed under the Fund's senior credit facilities with its principal bankers by \$50.0 million. The term bank debt facility and the operating lines are secured by a fixed and floating charge on the assets of the Fund and certain of its subsidiaries.

At December 31, 2007, the Fund had senior credit facilities of \$232.1 million, consisting of a term loan of \$156.5 million and a revolving credit facility of \$75.7 million. The term bank debt is not due or payable until August 2009. At December 31, 2007, in addition to the entire term loan, the Fund had used a total of \$50.7 million (including US\$12.7 million) of its revolving credit facility. Subject to certain limits set out in the credit agreement, the credit facilities may be used to finance working capital, fund acquisitions, invest in capital assets, buy back units and pay distributions to Unitholders.

Debt Covenants

As at December 31, 2007, the Fund was compliant with all debt covenants contained in its credit facility.

SUMMARY OF QUARTERLY RESULTS

(\$'000)	Three Months Ended			
	Mar. 31, 2007	Jun. 30, 2007	Sep. 30, 2007	Dec. 31, 2007
Revenue	\$ 128,661	\$130,163	\$ 143,232	\$ 144,580
Cost of sales and services	108,654	103,291	114,546	110,772
Gross profit	20,007	26,872	28,686	33,808
Selling, general, administrative and other costs	7,502	10,093	9,305	11,062
Restructuring costs	1,481	490	–	–
Earnings before the under-noted	11,024	16,289	19,381	22,746
Depreciation and amortization	10,218	9,729	9,596	9,088
Net interest and accretion expense	3,060	3,162	3,361	3,050
Income taxes (net)	(1,714)	(1,671)	(647)	1,552
Minority interest	(2)	(2)	(3)	(15)
Net earnings (loss)	\$ (538)	\$ 5,071	\$ 7,074	\$ 9,071

(\$'000)	Three Months Ended			
	Mar. 31, 2006	Jun. 30, 2006	Sep. 30, 2006	Dec. 31, 2006
Revenue	\$ 121,925	\$ 134,581	\$ 148,692	\$ 146,930
Cost of sales and services	98,926	110,075	124,833	122,026
Gross profit	22,999	24,506	23,859	24,904
Selling, general, administrative and other costs	7,316	5,496	7,112	8,281
Restructuring costs	–	–	–	2,706
Earnings before the under-noted	15,683	19,010	16,747	13,917
Depreciation and amortization	11,262	11,858	11,277	9,970
Impairment of property, plant and equipment	–	–	15,596	(3,320)
Net interest and accretion expense	2,665	2,763	3,018	2,992
Income taxes (net)	(2,030)	(478)	(2,926)	(1,110)
Minority interest	1	(1)	–	–
Net earnings	\$ 3,785	\$ 4,868	\$ (10,218)	\$ 5,385

The Fund generally has higher earnings in the second half of the year than the first half. This is because demand for SHS and Refinery Services is typically highest in the summer months. The effect is exacerbated because owing to the demand pattern, the Fund generally schedules maintenance turnarounds at its major plants in the first half of the year.

In 2006, the earnings pattern described above was not readily apparent as the third and fourth quarters of 2006 included asset impairment and restructuring costs (as described in the ASSET IMPAIRMENT AND RESTRUCTURING section above) of \$12.3 million and \$2.7 million respectively. The first half of 2006 also benefited from the inclusion of foreign exchange gains of \$2.6 million.

In 2007, earnings were even more weighted to the second half of the year, as the first half of the year included restructuring costs of \$2.0 million. Additionally, to match the timing of a key customer's major maintenance turnaround, the Fund decided to schedule turnarounds at two of its largest regen plants during the first quarter. These factors resulted in the first quarter of 2007 having an inordinately low level of earnings.

Selling, general, administrative and other costs ("S,G&A") during the second quarter of 2007 were unusually high mainly due to the accrual of \$3.1 million in connection with the Fund's TSR LTIP. The accrual related to the 2006 transitional TSR LTIP and the 2006 and 2007 TSR LTIP. The 2006 transitional TSR LTIP was paid out in July 2007 and the 2006 and 2007 TSR LTIP's are payable at the beginning of 2009 and 2010 respectively. S,G&A was also high in the third quarter of 2007 mainly due to the recording of expenses related to the departure of a senior executive at the end of the third quarter (approximately \$0.9 million) and certain activities related to the Fund's review of strategic alternatives that was announced in February 2007 (approximately \$0.5 million). Finally, S,G&A in the fourth quarter of 2007 was high due to accruals for the TSR LTIP and for annual incentive compensation.

CONTRACTUAL OBLIGATIONS

Information concerning contractual obligations is shown below:

Contractual Obligations (\$'000)	Total	Less Than			After
		1 Year	1-3 Years	4-5 Years	5 years
Long Term Debt	\$ 156,473	\$ -	\$ 156,473	\$ -	\$ -
Operating Leases	39,153	16,208	17,211	3,940	1,795
Interest on Long Term Debt	13,924	8,794	5,130	-	-
Total Contractual Obligations	\$ 209,550	\$ 25,002	\$ 178,814	\$ 3,940	\$ 1,795

RISKS AND UNCERTAINTIES

The Fund is one of the world's largest suppliers of sulphuric acid ("acid"), liquid sulphur dioxide ("SO₂") and sodium hydrosulphite ("SHS") and a leading processor of spent acid, particularly in the U.S. Gulf Coast region. The Fund is also a leading regional supplier of sulphur, sodium chlorate and phosphorus pentasulphide, and also produces zinc oxide at three North American locations. As such the Fund faces various risks associated with its business. These risks include, amongst others, the loss of a portion of its customer base, the interruption of the supply of sulphur-based products or raw materials, price fluctuations in the products sold and/or raw materials purchased, industry over-capacity, acquisition integration and operational and product hazard risks associated with the nature of its business. The Fund imports key raw materials and products from overseas and as such has additional risks associated with the sourcing activity. The Fund makes extensive use of the railway system to transport material within North America. Certain locations are serviced by a sole carrier and thus a disruption in service could have a significant negative impact on results. In addition, the Fund sells a significant portion of its major products to large customers. While many of these customers are under contract, there can be no assurance that these contracts will be renewed.

As the Fund's business is international in nature, it is exposed to foreign exchange risks related to the payment of dividends and other transactions by its foreign subsidiaries.

The Fund manages the risks associated with its customer base and sales price by seeking to obtain contractual protection to mitigate these risks. The Fund also seeks to differentiate its products and services with customers to mitigate price fluctuations and uses its scale to obtain beneficial raw material contracts.

All members of the Fund's senior management team were involved in an enterprise-wide business risk assessment, which included a review of the North American and international operations. Key risks were identified and prioritized for review and the development of action plans. This enterprise-wide risk review process will be an ongoing aspect of the Fund's risk management program. In addition, the Fund maintains an extensive insurance program which includes general liability and environmental coverage.

Marsulex Claim

During the fourth quarter of 2005, the Fund received and responded to a claim from Marsulex Inc. ("Marsulex") against the Fund alleging that the acquisition of Peak Sulfur, Inc. and Peak Chemical LLC is a breach of a non-competition agreement in favour of Marsulex. Marsulex is seeking damages in the amount of \$72.8 million, as well as other relief. The Fund has received advice from its legal advisors that the non-competition covenants contained in such agreement are likely unenforceable. The Fund has filed a statement of defence and a counter-claim in the amount of \$87.8 million in respect of this action and intends to defend the claim brought against it by Marsulex and pursue its counter-claim. In February 2008, the Fund announced that it has reached an agreement with Marsulex on this matter and that the resolution did not have a material impact on the Fund.

Dependence on Vale Inco Relationship

Vale Inco is the Fund's largest sulphur products supplier. While the Fund's relationship with Inco has been in place for more than 75 years, there is no assurance that the Fund will be able to maintain this relationship beyond the current agreement term. If this agreement is not renewed, it will expire at the end of 2010. There is also no assurance that any subsequent agreement with Vale Inco will have terms as favourable as those contained in the current agreement. The Fund has recorded an intangible asset with respect to this relationship. In 2007, this supply source accounted for approximately 11% of the Fund's revenues.

Income Taxes

The Fund is a mutual fund trust for income tax purposes. As such, the Fund is subject to current income taxes on taxable income not distributed to its Unitholders. For 2007 the Fund has distributed all current taxable income to its Unitholders and plans to continue to distribute all future current taxable income to its Unitholders. Accordingly, no provision for current income taxes or for future income taxes on temporary differences reversing prior to 2011 has been made in these consolidated financial statements with respect to the income earned directly by the Fund and its flow-through subsidiaries.

On June 22, 2007, legislation (the "SIFT Rules") relating to the federal income taxation of publicly-listed or traded trusts (such as income trusts and real estate investment trusts) and partnerships received royal assent. The SIFT Rules apply to a publicly-traded trust that is a specified investment flow-through entity (a "SIFT") which existed before November 1, 2006 ("Existing Trust") commencing with taxation years ending in 2011.

Certain distributions of a SIFT will not be deductible in computing the SIFT's taxable income, and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. Distributions paid by a SIFT as returns of capital will not be subject to this tax. There will be circumstances where an Existing Trust may lose its transitional relief where its equity capital grows beyond certain dollar limits measured by reference to the Existing Trust's market capitalization at the close of trading on October 31, 2006. As at December 31, 2007, the Fund has not exceeded these growth limits.

The Fund is a SIFT as defined in the SIFT Rules. Accordingly, commencing January 1, 2011, the Fund will be subject to taxes on distributions of certain income earned from investments in its subsidiaries. The Fund is also required to recognize future income tax assets and liabilities with respect to the temporary differences between the carrying amount and tax bases of its assets and liabilities and those of its flow-through subsidiaries that are expected to reverse in or after 2011. The Fund expects that its aggregate temporary differences and those of its flow-through subsidiaries will reverse prior to 2011. Accordingly, the Fund has not provided for future taxes on these temporary differences. The Fund expects that its distributions will not be subject to tax prior to 2011 and accordingly has not provided for future income taxes on the temporary differences expected to reverse prior to then.

Under the existing SIFT Rules, although not entirely clear, certain flow-through subsidiaries of the Fund may also meet the definition of a SIFT. If it is determined that these flow-through subsidiaries of the Fund meet the definition of a SIFT, there would be no impact on the future tax assets and liabilities of the Fund. On December 20, 2007, the Minister of Finance announced proposed technical amendments to the SIFT Rules which clarify that, in certain circumstances, flow-through subsidiaries of a SIFT will not meet the definition of a SIFT. The flow-through subsidiaries of the Fund will not be SIFTs under the proposed technical amendments.

The SIFT Rules do not affect the current and future tax amounts of the Fund's corporate subsidiaries.

The Fund quantified certain of its risks and uncertainties which could have a material impact.

Exchange Rates

The Fund is exposed to fluctuations in the exchange rate of the U.S. dollar relative to the Canadian dollar, as a portion of the Fund's distributable cash is earned in U.S. dollars. On an unhedged basis, the Fund currently estimates that a one-cent change in the exchange rate will have an impact of less than \$0.15 million per annum. The Fund is fully hedged for 2008 at a rate of US\$0.83 per Canadian dollar.

Interest Rates

The Fund has a credit facility with term debt and operating lines of credit which bear variable rates of interest. As at December 31, 2007, on an unhedged basis, a change in interest rates of 1% per annum would have an impact of approximately \$2 million per annum. As at December 31, 2007, the Fund had fixed interest rates on approximately 80% of its total debt, for the remainder of its current credit agreement.

Sulphuric Acid Pricing

A change in sulphuric acid pricing, net of freight, of \$1 per tonne, would have an impact on annual revenues in North America of approximately \$1.1 million. However, given the risk-sharing aspect of a key supply contract, this would have an impact of approximately \$0.6 million on EBITDA. The supply contract does have a lag and therefore changes in net pricing are shared six months in arrears. In any specific period, the exact impact would also depend upon the volume that is subject to sales contracts, where pricing has been fixed for a period of time.

Sulphur Costs

The Fund uses sulphur in the manufacturing of several of its products, including sulphuric acid. At current operating levels, an increase of \$1 per tonne would have an impact of approximately \$0.15 million per annum. It is important to note that a change in the cost of sulphur may lead to a change in the price for sulphuric acid as this is a key input cost in the manufacturing of sulphuric acid. Thus, the net impact of changes in sulphur costs would depend upon changes in sulphuric acid pricing.

Sodium Chlorate Pricing

Approximately 65% of the Fund's sodium chlorate sales are to Canfor on a long-term contract, whereby selling price is adjusted based on changes in virtually all variable costs. Thus, the Fund's exposure to changes in market prices of sodium chlorate is limited to the remainder of its output.

Other Input Costs

There are several other large input costs, such as natural gas, zinc, salt and electricity, but in most cases there are contractual arrangements with customers, or other offsets within the business, which mitigate the exposure to changes in these costs.

CRITICAL ACCOUNTING POLICIES

The Fund's accounting policies are described in Note 3 to the consolidated financial statements for the year ended December 31, 2007.

Financial Instruments

Effective January 1, 2007, the Fund adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; and Section 3865, Hedges. These sections apply to fiscal years beginning on or after October 1, 2006 and provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities, non-financial derivatives and embedded derivatives, and describe when and how hedge accounting may be applied. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated.

Under the new standards, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are initially recorded on the balance sheet at fair value. After initial recognition, the financial instruments should be measured at their fair values, except for held-to-maturity investments, loans and receivables and other financial liabilities, which should be measured at amortized cost. The effective interest related to the financial liabilities and the gain or loss arising from the change in the fair value of a financial asset or liability classified as held-for-trading is included in net income for the period in which it arises.

RECENT ACCOUNTING PRONOUNCEMENTS

Capital Disclosures

In December 2006, the CICA issued Handbook Section 1535, Capital Disclosures, which establishes standards for disclosing information about an entity's capital and how it is managed. The entity's disclosure should include information about its objectives, policies and processes for managing capital and disclose whether or not it has complied and the consequences of non-compliance with any capital requirements to which it is subject. The new standard will become effective on January 1, 2008 for the Fund. The Fund is currently evaluating the impact of the adoption of this new section on the consolidated financial statements.

Financial Instruments – Disclosures and Financial Instruments – Presentation

In December 2006, the CICA issued Handbook Sections 3862, Financial Instruments – Disclosures, and 3863, Financial Instruments – Presentation. Section 3862 modifies the disclosure requirements of Section 3861, Financial Instruments – Disclosure and Presentation, including required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the extent of risks arising from financial instruments to which the Fund is exposed and how the Fund manages those risks, whereas Section 3863 carries forward the presentation related requirements of Section 3861.

The new standards will become effective on January 1, 2008 for the Fund. The Fund is currently evaluating the impact of the adoption of Section 3862 while the Fund does not expect the adoption of 3863 to have a significant effect on the consolidated financial statements.

Inventories

In March 2007, the CICA issued Handbook Section 3031, Inventories, which replaces Section 3030, Inventories. Under the new section, inventories are required to be measured at the “lower of cost and net realizable value”, which is different from the existing guidance of the “lower of cost and market”. The new section contains guidance on the determination of cost and also requires the reversal of any write-downs previously recognized, if applicable. Certain minimum disclosures are required, including the accounting policies used, carrying amounts, amounts recognized as an expense, write-downs, and the amount of any reversal of any write-downs recognized as a reduction in expenses. The new standard will become effective on January 1, 2008 for the Fund. The Fund evaluated the impact of the adoption of this new section on the consolidated financial statements and concluded the effect will not be material.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

In accordance with the requirements of Canadian securities regulators, the CEO and CFO of the Fund are required to certify that they have designed the Fund’s disclosure controls and have evaluated their effectiveness for the applicable period. Disclosure controls are those controls and procedures which ensure that information that is required to be disclosed is recorded, processed and reported within the time frames specified by the regulators.

The effectiveness of the Fund’s Disclosure Policies and Procedures is reviewed by the CEO and CFO. The CEO and CFO of the Fund have concluded that the Disclosure Policies and Procedures of the Fund will provide reasonable assurance that the Fund’s policy of providing timely, consistent, fair and accurate public disclosure of material information will be achieved.

OUTLOOK

We anticipate generally stable demand for most of our products and robust demand for sulphuric acid. We agree with industry experts’ opinions that strong demand and limited supply will result in a continuation of the current elevated price environment for sulphuric acid throughout the remainder of 2008. Strong demand for sulphur, a raw material used to produce sulphuric acid, has also resulted in a dramatic increase in its cost. Despite this increase we anticipate that the sulphuric acid price increases will be sufficient to more than offset this cost pressure. Accordingly, we expect to generate higher earnings in 2008 than in 2007.

As previously indicated, in 2008 we expect to invest at a higher level in our plants with a view to improving reliability. The increased investment coupled with rapidly escalating material and labour costs associated with our capital program mean that we expect 2008 capital expenditures to be significantly higher than 2007. We expect the increased capital program to largely offset the higher level of earnings. Thus we expect to generate similar levels of Distributable Cash after Maintenance Capital Expenditures over the next 12 months, relative to the previous 12 months.

Finally, similar to 2007, we expect to generate higher Distributable Cash after Maintenance Capital Expenditures in the second half of the year than the first.

OTHER

Additional information concerning the Fund, including the Annual Information Form, is filed on SEDAR and can be accessed at www.sedar.com.

February 14, 2008