

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Chemtrade Logistics Income Fund (the "Fund") and all the information in this annual report are the responsibility of the management of the Fund. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and where appropriate include management's best estimates and judgements. Management has reviewed the financial information presented throughout this report and has ensured it is consistent with the consolidated financial statements.

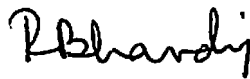
Management has developed and maintains a system of internal control over financial reporting. These controls are designed to provide reasonable assurance that assets are safeguarded, transactions are accurately recorded and financial information is timely and reliable.

The Trustees of the Fund are responsible for ensuring that management fulfills its financial reporting responsibilities and are ultimately responsible for reviewing and approving the consolidated financial statements. The Trustees carry out this responsibility principally through the Audit Committee. The Audit Committee is comprised entirely of independent Trustees.

The Audit Committee meets periodically with management and the external auditors to review internal controls over financial reporting, policies and procedures, and financial reporting issues. Acting on the recommendation of the Audit Committee, the Trustees approve the consolidated financial statements. KPMG LLP, an independent firm of Chartered Accountants, has been appointed by the Unitholders to express an independent professional opinion on the fairness of the consolidated financial statements. KPMG LLP has full and free access to the Audit Committee.



Mark Davis
President & Chief Executive Officer



Rohit Bhardwaj
Vice-President, Finance and CFO

Toronto, Canada
February 13, 2008

Auditors' Report

To the Unitholders of Chemtrade Logistics Income Fund

We have audited the consolidated balance sheets of Chemtrade Logistics Income Fund (the "Fund") as at December 31, 2007 and 2006 and the consolidated statements of earnings, comprehensive income, changes in unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The image shows the handwritten signature of KPMG LLP in black ink. The letters are bold and slanted, with a horizontal line underneath the signature.

Chartered Accountants

Toronto, Canada
February 13, 2008

Consolidated Balance Sheets

(in thousands of dollars)

December 31, 2007

December 31, 2006

ASSETS

Current assets

Cash and cash equivalents	\$ 11,804	\$ 6,147
Accounts receivable	76,203	71,909
Inventories (note 6)	23,857	26,900
Prepaid expenses and other assets (note 2)	5,942	6,380
	117,806	111,336
Property, plant and equipment (notes 5 and 7)	148,942	180,909
Other assets	1,413	3,370
Future tax asset (note 12)	10,272	8,829
Intangibles (note 8)	143,968	167,412
Goodwill (note 8)	87,700	96,255
	\$ 510,101	\$ 568,111

LIABILITIES AND UNITHOLDERS' EQUITY

Current liabilities

Operating line of credit (note 9)	\$ 41,113	\$ 13,191
Accounts payable	42,509	49,074
Accrued and other liabilities (notes 2 and 5)	26,496	24,013
Distributions payable	3,358	4,030
Income taxes payable	1,563	1,447
Current portion of long-term debt (note 9)	-	16,359
	115,039	108,114

Long-term debt (note 9)	155,206	173,932
Other long-term liabilities (note 5)	5,081	1,874
Post-employment benefits (note 13)	3,767	4,143
Future tax liability (note 12)	25,396	32,924
Minority interest	-	25

Unitholders' equity

Units (note 10)	412,957	412,944
Equity component of convertible debentures (note 10)	-	160
Deficit	(154,040)	(134,579)
Accumulated other comprehensive income (loss) (note 2)	(53,305)	(31,426)
	205,612	247,099

Subsequent event (note 14(c))


Commitments and contingencies (note 14)

\$ 510,101

\$ 568,111

See accompanying notes to consolidated financial statements.

On behalf of the Board of Trustees


Lorie Waisberg


Louis Hollander

Consolidated Statements of Earnings

(in thousands of dollars, except per unit amounts)

	Year Ended December 31, 2007	Year Ended December 31, 2006
Revenue	\$ 546,636	\$ 552,128
Cost of sales and services	437,263	455,860
Gross profit	109,373	96,268
Selling, general, administrative and other costs (note 11)	37,962	28,205
Restructuring costs (note 5)	1,971	2,706
Earnings before the under-noted	69,440	65,357
Depreciation and amortization	38,631	44,367
Impairment and write-down of property, plant and equipment (note 5)	-	12,276
Net interest and accretion expense	12,633	11,438
Earnings (loss) before income taxes and minority interest	18,176	(2,724)
Income taxes (note 12)		
Current	2,219	1,372
Future	(4,699)	(7,916)
	(2,480)	(6,544)
Earnings before minority interest	20,656	3,820
Minority interest	(22)	-
Net earnings	\$ 20,678	\$ 3,820
Net earnings per unit (note 10)		
Basic	\$ 0.62	\$ 0.11
Diluted	\$ -	\$ 0.11

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Unitholders' Equity

(in thousands of dollars)

	Year Ended Dec. 31, 2007	Year Ended Dec. 31, 2006
Units		
Balance, beginning of year	\$ 412,944	\$ 412,944
Issued on conversion of debentures (note 10)	13	-
Balance, end of year	\$ 412,957	\$ 412,944
Equity component of convertible debentures		
Balance, beginning of year	\$ 160	\$ 160
Redemption of debentures (note 10)	(160)	-
Balance, end of year	-	\$ 160
Deficit		
Balance, beginning of year	\$ (134,579)	\$ (90,266)
Redemption of debentures (note 10)	160	-
Net earnings	20,678	3,820
Distributions	(40,299)	(48,133)
Balance, end of year	\$ (154,040)	\$ (134,579)
Accumulated other comprehensive income		
Balance, beginning of year	\$ (31,426)	\$ (29,775)
Changes in accounting policies (note 2)	1,783	-
Balance, beginning of year, as adjusted	(29,643)	(29,775)
Other comprehensive loss	(23,662)	(1,651)
Balance, end of year	\$ (53,305)	\$ (31,426)

See accompanying notes to consolidated financial statements

Consolidated Statements of Comprehensive Income

(in thousands of dollars)

	Year Ended Dec. 31, 2007	Year Ended Dec. 31, 2006
Net earnings	\$ 20,678	\$ 3,820
Change in unrealized loss on translation of self-sustaining foreign operations	(21,441)	(1,651)
Change in unrealized loss on derivatives designated as cash flow hedges	(2,221)	-
Other comprehensive loss	(23,662)	(1,651)
Comprehensive (loss) income	\$ (2,984)	\$ 2,169

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

(in thousands of dollars)

	Year Ended December 31, 2007	Year Ended December 31, 2006
Cash provided by (used in):		
Operating activities:		
Net earnings	\$ 20,678	\$ 3,820
Items not affecting cash:		
Depreciation and amortization	38,631	44,367
Future income taxes	(4,699)	(7,916)
Minority interest	(22)	–
Accretion expense	800	78
Gain on sale of property, plant and equipment	(232)	–
Early settlement of debt (note 10)	28	–
Impairment and write-down of property, plant and equipment (note 5)	–	12,276
Change in fair value of derivatives	(358)	–
Non-cash restructuring costs	48	–
Unrealized foreign exchange (gain) loss	(628)	230
	54,246	52,855
Increase in working capital	(6,504)	(10,905)
	47,742	41,950
Financing activities:		
Redemption of convertible debentures	(16,378)	–
Increase in operating line of credit	27,922	9,121
Distributions to unitholders	(40,971)	(47,908)
Increase in other long-term liabilities	3,084	–
Financing transaction costs	(317)	–
	(26,660)	(38,787)
Investing activities:		
Additions to property, plant and equipment	(9,066)	(7,547)
Acquisitions (note 4)	(6,535)	–
Proceeds from disposal of property, plant and equipment	325	–
	(15,276)	(7,547)
Effect of exchange rates on cash held in foreign currencies	(149)	136
Increase (decrease) in cash and cash equivalents	5,657	(4,248)
Cash and cash equivalents – beginning of year	6,147	10,395
Cash and cash equivalents – end of year	\$ 11,804	\$ 6,147
Supplemental information:		
Cash taxes paid	\$ 2,103	\$ 1,974
Cash interest paid	\$ 13,210	\$ 11,645

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(in thousands of dollars)

December 31, 2007

1. ORGANIZATION AND DESCRIPTION OF THE BUSINESS:

Chemtrade Logistics Income Fund (“the Fund”) commenced operations on July 18, 2001 when it completed an Initial Public Offering and purchased various assets and related businesses from Marsulex Inc. The Fund operates in four business segments: Sulphur Products & Performance Chemicals (“SPPC”), Pulp Chemicals, International and Corporate. For additional information regarding the Fund’s business segments see note 15.

2. CHANGES IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS:

(a) Changes in Accounting Policies

(i) Accounting Changes

Effective January 1, 2007, the Fund adopted the recommendations of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1506, Accounting Changes. This section describes the criteria for changing accounting policies, along with the accounting and disclosure for changes in accounting policies, changes in accounting estimates and corrections of errors.

(ii) Financial Instruments

Effective January 1, 2007, the Fund adopted the recommendations of 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 are measured at their fair values, except for held-to-maturity investments, loans and receivables and other financial liabilities, which are 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 earnings for the year in which it arises. If a financial asset is classified as available-for-sale, the gain or loss is recognized in other comprehensive income until the financial asset is de-recognized and all cumulative gain or loss is then recognized in net income.

The Fund has classified its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Operating line of credit, accounts payable, accrued liabilities, distributions payable and long-term debt, are classified as other financial liabilities, which are measured at amortized cost, using the effective interest method. The Fund had neither available-for-sale, nor held-to-maturity instruments during the year ended December 31, 2007.

The foreign currency translation adjustment on self-sustaining, foreign operations of \$(31,426) as of December 31, 2006 presented in the consolidated balance sheet has been reclassified to accumulate other comprehensive income.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability’s carrying value at inception. Transaction costs were previously recorded in other assets, and amortized on a straight-line basis over the term of the debt. With respect to the transaction costs attributable to long-term debt, the impact was a decrease in other assets of \$1,980, and a decrease in long-term debt of \$1,980 as at January 1, 2007. There was no impact on opening deficit.

In 2005, the Fund entered into swap arrangements with its principal bankers, which fix interest rates on all of its outstanding term debt. These swap arrangements qualify and have been designated by the Fund as cash flow hedges. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. Any gain or loss in fair value relating to the ineffective portion is recognized immediately in the statement of operations in net interest and accretion expense. As a result of the adoption of the new standards, as at January 1, 2007, other assets were increased by \$2,701 (US\$1,765 and \$644), future tax liability was increased by \$918 and accumulated other comprehensive income was increased by \$1,783 (net of future taxes of \$918).

The Fund has entered into forward foreign exchange contracts to manage its exposure to foreign currencies. The Fund buys and sells specific amounts of currencies at pre-determined dates and exchange rates, which are matched with the anticipated operational cash flows. These contracts are measured at fair value and the change in fair value is included in the statement of operations in selling, general, administrative and other costs. The new standard has no impact on these contracts, as the fair values had previously been recognized in prepaid expenses and other assets.

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. These contracts are measured at fair value and the change in fair value is included in the statement of operations in selling, general, administrative and other costs.

The Fund's International business segment has commitments to buy and sell commodities and has entered into commodity forward contracts to manage its exposure to commodity price changes. Under the change in accounting policies, the commitments to buy and sell commodities are treated as non-financial derivatives and are measured at fair value. The commodity forward contracts are derivatives and are measured at fair value. The change in fair value of both the commitments and the forward contracts is included in the statement of operations in revenue. Under the change in accounting policies, the net revenue generated from the commodity commitments is recorded as revenue. This change had an immaterial impact on the financial statements of the Fund.

Section 3855 requires that the Fund identify embedded derivatives that require separation from the related host contract and measure those embedded derivatives at fair value. Subsequent changes in fair value of embedded derivatives are recognized in the consolidated statement of operations in the period the change occurs. This change had an immaterial impact on the financial statements of the Fund.

The components of accumulated other comprehensive income (loss) as at December 31, 2007 and 2006 for the years then ended:

Accumulated Other Comprehensive Income (loss)	Balance Dec. 31, 2005	Net Change	Balance Dec. 31, 2006	Change in Accounting Policies	Net Change	Balance Dec. 31, 2007
Unrealized loss on translation of self-sustaining foreign operations	\$ (29,775)	\$ (1,651)	\$ (31,426)	–	\$ (21,441)	\$ (52,867) ⁽¹⁾
Unrealized gain (loss) on derivatives designated as cash flow hedges	–	–	–	\$ 1,783	\$ (2,221)	\$ (438) ⁽²⁾
Accumulated other comprehensive income (loss)	\$ (29,775)	\$ (1,651)	\$ (31,426)	\$ 1,783	\$ (23,662)	\$ (53,305)

⁽¹⁾ Net of income tax expense of \$nil.

⁽²⁾ Net of income tax recovery of \$226.

(b) Recent Accounting Pronouncements

(i) 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.

(ii) 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 of 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.

(iii) 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.

3. SIGNIFICANT ACCOUNTING POLICIES:

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada.

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Fund and its wholly owned subsidiaries from their respective dates of acquisition. The principal operating subsidiaries are: Chemtrade Logistics Inc., Chemtrade Logistics (US) Inc., BCT Chemtrade Corporation, Kemmax GmbH, RuhrTrans Transport GmbH, Chemtrade Performance Chemicals Canada Inc., Chemtrade Performance Chemicals US, LLC, Chemtrade Pulp Chemicals Limited Partnership, Chemtrade Refinery Services Inc. and Chemtrade Phosphorous Specialties L.L.C. All significant inter-company balances and transactions have been eliminated for the purposes of these consolidated financial statements.

(b) Cash and cash equivalents:

Cash equivalents are comprised of highly liquid investments having original terms to maturity of 90 days or less when acquired and are valued at fair value. At December 31, 2007 the value of cash equivalents held was nil (2006 - \$2,670).

(c) Inventories:

Finished goods are valued at the lower of average cost and net realizable value. Raw material inventory is recorded at the lower of cost determined on a first-in, first-out basis, and replacement cost.

(d) Property, plant and equipment:

Property, plant and equipment are depreciated on a straight-line basis with buildings depreciated over 15 to 20 years, equipment depreciated over 10 to 15 years, and furniture and other equipment depreciated over three to five years.

Facilities and equipment under construction do not begin to be depreciated until substantially complete and ready for productive use.

(e) Goodwill:

Goodwill is the residual amount that results when the purchase price for an acquired business exceeds the sum of the amounts allocated to assets acquired, less liabilities assumed, based on their fair values. Goodwill is not amortized and is tested for impairment at least annually.

(f) Intangibles:

Intangibles include the estimated value at the date of acquisition of long-term customer and vendor relationships and other intangible assets. Certain of the customer relationships have been in place for many years and have a history of renewal. Intangibles associated with these relationships are not amortized and are tested for impairment at least annually. Intangibles associated with other customer relationships and vendor relationships are amortized on a straight-line basis over six to fifteen years and other intangible assets are amortized on a straight-line basis over five years.

(g) Impairment of long-lived assets:

Long-lived assets, including property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(h) Deferred charges:

Deferred charges relating to debt are amortized on a straight-line basis over the term of the debt.

(i) Income taxes:

The Fund uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(j) Post-employment benefits:

The Fund provides certain health care and other benefits for certain employees upon retirement. The Fund accrues these employee future benefits over the periods from the date of hire to the full eligibility date. The cost of employee future benefits is actuarially determined using the accumulated benefit method prorated based on service. These actuarial valuations are prepared at least every three years, with the most recent one valuing the obligation as at December 31, 2007.

(k) Unit based compensation:

The Fund operates a Total Shareholder Return Long-Term Incentive Plan ("TSR LTIP") which grants cash awards based on achieving total Unitholder return. The two elements that comprise total Unitholder return, are changes in unit price and distributions paid to Unitholders, over the performance period. The Fund treats these awards as liabilities with the value of these liabilities being re-measured at each reporting period, based upon changes in the intrinsic value of the awards. Any gains or losses on re-measurement are recorded in the statement of earnings, provided that the compensation cost accrued during the performance period is not adjusted below zero. For any forfeiture of awards, accrued compensation costs are adjusted by decreasing compensation costs in the period of forfeiture.

(l) Foreign currency translation:

The accounts of the Fund's foreign operations, whose functional currency is U.S. dollars, are considered to be self-sustaining and are translated into Canadian dollars using the current rate method. Assets and liabilities are translated at the rates in effect at the balance sheet date and revenue and expenses are translated at average exchange rates for the period. Gains or losses arising from the translation of the financial statements of self-sustaining foreign operations are deferred in accumulated other comprehensive income until there is a realized reduction in the net investment.

Transactions in foreign currencies are recorded at the rate in effect at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the rate of exchange in effect at the balance sheet date and gains or losses are recognized in earnings.

(m) Revenue recognition:

Revenue from the sale of products is recognized upon shipment to, or receipt by customers, depending on contractual terms. Revenue earned on processing services is recognized when the services have been rendered in accordance with contractual terms. Revenue on the sale of certain commodities within the International segment are recorded on a net basis. In all cases, revenue is only recognized when selling prices have been fixed or are determinable, and collection is reasonably assured.

(n) Asset retirement obligations:

The fair value of estimated asset retirement obligations is recognized when identified and a reasonable estimate of fair value can be made. The asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. The asset retirement costs are depreciated over the asset's estimated useful life and included in depreciation and amortization expense. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion of asset retirement obligation. Actual expenditures incurred are charged against the accumulated obligation.

Chemtrade completed an analysis of existing properties. This analysis reviewed existing contracts and current statutory requirements, and management has determined that there are no new provisions. At December 31, 2007 \$505 (2006 – \$559) has been included in other long-term liabilities.

(o) Convertible debentures:

The convertible debentures are presented partially as debt and partially as equity. The equity component, representing the holder's option to convert into units, is presented as part of Unitholders' Equity. The liability component of convertible debentures increases to its face value over the term of the debenture. The offsetting charge to earnings is classified as debt accretion expense on the Consolidated Statements of Operations and Deficit. Conversions of debentures decreases the liability and the equity components of convertible debentures and increases the Fund's units.

(p) Financial instruments:

Financial instruments are 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, including embedded derivatives, are initially recorded on the balance sheet at fair value. After initial recognition, the financial instruments are measured at their fair values, except for held-to-maturity investments, loans and receivables and other financial liabilities, which are 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. If a financial asset is classified as available-for-sale, the gain or loss is recognized in other comprehensive income until the financial asset is de-recognized and all cumulative gain or loss is then recognized in net income.

The Fund has classified its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost.

Operating line of credit, accounts payable, accrued liabilities, distributions payable and long-term debt, are classified as other financial liabilities, which are measured at amortized cost, using the effective interest method. The Fund had neither available-for-sale, nor held-to-maturity instruments during the year ended December 31, 2007.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities are accounted for as part of the respective asset or liability's carrying value at inception. Costs considered as commitment fees paid to financial institutions are recorded in other assets, and amortized on a straight-line basis over the term of the debt.

Derivative financial instruments are utilized by the Fund in the management of its foreign currency and interest rate exposures. The Fund's policy is not to utilize derivative financial instruments for trading or speculative purposes. The Fund formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Fund also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. Upon settlement, the cumulative gain or loss is recognized in net income. Any gain or loss in fair value relating to the ineffective portion is recognized immediately in the statement of operations in net interest and accretion expense. All derivative instruments that do not qualify for hedge accounting, or are not designated as a hedge, are recorded as either an asset or liability with changes in fair value recognized in earnings.

The Fund has designated hedge accounting for interest swap arrangements. The Fund's foreign exchange contracts, natural gas forward contracts and commodity forward contracts have not been designated for hedge accounting.

(q) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

4. PURCHASE OF OLIN CUSTOMER CONTRACTS:

On May 1, 2007, the Fund completed the purchase of Olin Corporation's liquid sodium hydrosulphite ("SHS") customer contracts for \$6,744 (US\$6,043), of which \$2,248 (US\$2,014) had been accrued with respect to certain earn out provisions. During the fourth quarter of 2007, the Fund refined its earn out provision accrual and reduced the original accrual to \$1,869 (US\$1,675). As at December 31, 2007, the total accrual is \$1,365 (US\$1,377), with \$698 (US\$704) classified as other long-term liabilities and the balance as accrued liabilities. The acquisition does not include Olin's manufacturing assets. The Fund incurred transaction related costs of \$165.

These consolidated financial statements reflect the acquired contracts at assigned fair value as intangibles. These assets include the value associated with the customer relationships and are being amortized over their estimated useful lives of five years.

5. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND RESTRUCTURING COSTS:

In 2006, the Fund recorded a charge of \$12,276 with respect to the impairment of certain property, plant and equipment. These assets are 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. The fair value of the impaired assets was determined by using a discounted net present value of future cash flow method.

During the fourth quarter of 2006, the Fund decided to discontinue production of powder SHS and costs of \$2,706 related to this 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 recorded an additional \$1,971 with respect to this decision during 2007. The Fund estimates that substantially all costs related to this decision have now been recognized.

The following table provides a summary of the costs recognized and cash payments made in respect of these restructuring initiatives in 2006 and 2007, as well as the corresponding liability as at December 31, 2007.

Restructuring and other costs	Employee Severance	Site Closing and Other Costs	Total
Balance – January 1, 2006	\$ –	\$ –	\$ –
Charges during 2006	890	1,816	2,706
Cash draw downs	–	501	501
Balance – December 31, 2006	\$ 890	\$ 1,315	\$ 2,205
Charges during 2007	563	1,408	1,971
Accretion expense	–	42	42
Cash draw downs	1,453	1,564	3,017
Balance – December 31, 2007	\$ –	\$ 1,201	\$ 1,201

At December 31, 2007, the outstanding amount of site closing and other costs has been shown as other long-term liabilities on the Balance Sheet, as it is unlikely to be paid out within the next twelve months.

6. INVENTORIES:

	2007	2006
Raw materials and work in process	\$ 4,299	\$ 5,900
Finished goods	17,057	17,868
Operating supplies	2,501	3,132
Inventories	\$ 23,857	\$ 26,900

7. PROPERTY, PLANT AND EQUIPMENT:

	2007	2006
Land	\$ 5,540	\$ 6,443
Plant and equipment	230,552	253,712
Facilities and equipment under construction	4,907	2,458
	\$ 240,999	\$ 262,613
Accumulated depreciation	(92,057)	(81,704)
Property, plant and equipment	\$ 148,942	\$ 180,909
Depreciation expense	\$ 21,201	\$ 25,798

8. INTANGIBLES AND GOODWILL:

Intangibles	2007	2006
Intangibles subject to amortization:		
Customer relationships	\$ 164,742	\$ 173,696
Vendor relationships	7,706	8,864
Other	595	699
	\$ 173,043	\$ 183,259
Accumulated amortization	(58,232)	(45,004)
	\$ 114,811	\$ 138,255
Intangibles not subject to amortization:		
Customer relationships	29,157	29,157
Intangibles	\$ 143,968	\$ 167,412
Amortization expense	\$ 17,430	\$ 17,849

The decrease in goodwill of \$8,555 is due to translation of goodwill of foreign operations.

9. LONG-TERM DEBT:

	2007	2006
Term bank debt		
US\$100,285 (2006 - US\$100,285)	\$ 99,412	\$ 116,872
Canadian dollar denominated	57,060	57,060
	\$ 156,472	\$ 173,932
Liability component of convertible debentures	-	16,359
	\$ 156,472	\$ 190,291
Less: Current portion	-	(16,359)
	\$ 156,472	\$ 173,932
Less: Transaction costs	(1,266)	-
Long-term debt	\$ 155,206	\$ 173,932

During 2007, the Fund increased the aggregate amount that can be borrowed under the Fund's senior credit facilities with its principal bankers by \$50,000 in the form of operating lines of credit. The Fund incurred transaction costs of \$317 with respect to this amendment. These costs have been included in long-term debt and are being expensed in net interest and accretion expense using the effective interest method. The Fund used part of these funds to redeem the 16,378 convertible debentures outstanding for the principal amount plus accrued and unpaid interest.

At December 31, 2007, the Fund had senior credit facilities of \$232,134. Borrowings under this facility may be made in Canadian or U.S. dollars. The credit facilities are allocated as follows: \$156,472 term loan and \$75,662 in revolving credit facilities. The term bank debt is not due or payable until August 2009. Interest is payable on outstanding term loans at rates that vary with Banker's Acceptances or Libor. The related financing costs of \$3,101 have been included in long-term debt and are being expensed in net interest and accretion expense using the effective interest method. Under the credit agreement, the Fund has operating lines of credit of \$50,964 and US\$20,897 (\$20,715) as well as bank overdraft facilities of \$2,000 and US\$2,000 (\$1,983). Borrowings under these lines are subject to interest at rates that vary with Banker's Acceptances or Libor. At December 31, 2007, €4,950 (\$6,944) and US\$2,719 (\$2,695) of the total facility has been utilized in the form of standby Letters of Credit and another \$31,200 and US\$10,000 (\$9,913) has been utilized under the operating lines of credit (December 31, 2006 - \$2,700 and US\$9,002 (\$10,491)). 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.

The bank agreement contains various financial covenants that if not complied with, could result in a restriction on funds available for distribution.

The Fund has swap arrangements with its principal banker which fix interest rates on all of its U.S. dollar term debt and Canadian dollar denominated term debt until August 2009. Under the swap arrangements, which are treated as cash flow hedges, the effective interest rate on the outstanding U.S. dollar debt is 5.85%. The effective interest rate on the Canadian dollar debt is 5.22%.

During 2007, the Fund entered into a new swap arrangement with its principal banker which fixes the interest rate on US\$10,000 of its operating lines of credit until August 2009. Under the swap arrangement, which is treated as a cash flow hedge, the effective interest rate on the debt is 5.73%.

10. UNITS:

(a) Authorized:

Unlimited number of units.

(b) Outstanding:

	Number of Units	2007 Amount	Number of Units	2006 Amount
Units				
Balance – beginning of year	33,582,040	\$ 412,944	33,582,040	\$ 412,944
Issued on conversion of debentures	896	13	–	–
Balance – end of year	33,582,936	\$ 412,957	33,582,040	\$ 412,944

(c) Net earnings per unit:

Basic net earnings per unit has been calculated on the basis of the weighted average number of units outstanding for the year which amounted to 33,582,848 units (2006 – 33,582,040). At December 31, 2006, the Fund's convertible debentures outstanding could be converted into units. Diluted net earnings per unit was calculated using the "if-converted" method. In 2006, the effect of conversion of the convertible debentures into trust units was not included in the computation of diluted net earnings per unit as the effect of conversion was anti-dilutive.

(d) Equity component of convertible debentures:

For the year ended December 31, 2007, 13 (2006 – nil) convertible debentures were converted into 896 (2006 – nil) units which resulted in an increase in units of \$13 (2006 - \$nil) and a decrease in the debt and equity components of convertible debentures of \$13 (2006 - \$nil) and \$nil (2006 - \$nil), respectively.

During 2007, the Fund redeemed the remaining 16,378 convertible debentures, which resulted in a decrease in the debt and equity components of convertible debentures of \$16,349 and \$160, respectively. The Fund recorded a gain of \$28 related to the repayment of the debt component of the debentures in selling, general, administrative and other costs. The Fund also recorded a capital transaction on the equity component of \$160 in retained earnings.

(e) Distributions:

Distributions paid for year ended December 31, 2007 were \$40,971 (2006 - \$47,908). All of the Fund's distributions are discretionary.

(f) Long-term incentive plan:

The Fund operates a Total Shareholder Return Long-Term Incentive Plan ("TSR LTIP") which grants cash awards based on achieving total Unitholder return. The two elements that comprise total Unitholder return, are changes in unit price and distributions paid to Unitholders, over the performance period. The Fund treats these awards as liabilities with the value of these liabilities being re-measured at each reporting period, based upon changes in the intrinsic value of the awards. Any gains or losses on re-measurement are recorded in the Statement of Earnings, provided that the compensation cost accrued during the performance period is not adjusted below zero. For the year ended December 31, 2007, the Fund recorded total expenses of \$4,449 (2006 - \$701) related to the TSR LTIP, of which \$2,013 (2006 - \$nil) is outstanding and included in Other long-term liabilities.

11. SELLING, GENERAL, ADMINISTRATIVE AND OTHER COSTS:

Selling, general, administrative and other costs include a net foreign exchange gain of \$2,937 (2006 - \$1,667).

12. INCOME TAXES:

The provision for income taxes in the consolidated statements of operations and deficit represents an effective rate different than the Canadian statutory rate of 33.4% (2006 - 34.5%). The differences are as follows:

	2007	2006
Earnings (loss) before income taxes and minority interest	\$ 18,176	\$ (2,724)
Computed income tax expense at Canadian statutory rate	6,071	(940)
Increase (decrease) resulting from:		
Income of trust taxed directly to unitholders	(12,538)	(12,870)
Non-deductible goodwill and other intangibles	284	297
Difference in substantially enacted tax rate	912	228
International income tax rate differences	(4,092)	(3,092)
Change in valuation allowance	6,853	10,013
Other	30	(180)
Income tax recovery	\$ (2,480)	\$ (6,544)

The tax effect of temporary differences of the Fund's subsidiaries that give rise to significant portions of future tax assets and future tax liabilities are presented below:

	2007	2006
Non-current future tax assets:		
Inventories	\$ 1,012	\$ 1,588
Deferred charges	-	466
Loss carry forwards	45,591	45,011
Issuance costs	1,075	1,216
Long-term incentive plan	1,893	1,168
Interest	7,586	4,661
Asset retirement obligations	705	808
Other	109	56
	\$ 57,971	\$ 54,974
Valuation allowance	(24,137)	(18,471)
Total future tax assets	\$ 33,834	\$ 36,503
Non-current future tax liabilities:		
Property, plant and equipment	26,981	30,682
Intangible assets	20,742	28,889
Ground lease	547	559
Prepaid expenses	660	468
Deferred charges	28	-
Total future tax liabilities	\$ 48,958	\$ 60,598
Net future tax liability	\$ (15,124)	\$ (24,095)
Classified in the financial statements as:		
Future non-current tax asset	\$ 10,272	\$ 8,829
Future non-current tax liability	(25,396)	(32,924)
Net future tax liability	\$ (15,124)	\$ (24,095)

The aggregate tax bases of the Fund's assets and liabilities and the assets and liabilities of its flow-through subsidiaries exceed the aggregate carrying values by \$405. In 2006, the aggregate carrying values exceeded the aggregate tax bases by \$5,462. No future tax assets or liabilities have been recorded with respect to these temporary differences.

Certain corporate subsidiaries of the Fund have income tax losses available for carry forward that expire as follows:

2008	\$ 1,659
2009	2,801
2010	5,246
2014	7,594
2015	10,651
2022 and thereafter	113,841
	\$ 141,792

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.

13. POST-EMPLOYMENT BENEFITS:

The Fund provides certain health care and pension benefits for certain employees upon retirement of Pulp Chemicals and Kemmax.

Components of net periodic benefit cost	2007	2006
Current service cost	\$ 90	\$ 92
Interest cost	181	175
Actuarial gain	(693)	(139)
Costs arising in the period	\$ (422)	\$ 128
Differences between costs arising in the period and costs recognized in the period in respect of actuarial gain	224	20
Net periodic benefit cost recognized	\$ (198)	\$ 148
Weighted-average assumptions	2007	2006
Discount rate	5.25 – 5.50%	4.25 - 5.40%
Ultimate other medical trend rate	4.60%	5.00%
Change in accrued benefit obligation	2007	2006
Accrued benefit obligation at beginning of year	\$ 4,256	\$ 4,138
Current service cost	90	92
Interest cost	181	175
Plan amendments	88	(123)
Benefits paid	(170)	(172)
Foreign exchange	(178)	285
Actuarial gain	(693)	(139)
Accrued benefit obligation at end of year	\$ 3,574	\$ 4,256
Reconciliation of funded status	2007	2006
Deficit at end of year	\$ (3,574)	\$ (4,256)
Unamortized net actuarial (gain) loss	(193)	113
Accrued benefit liability	\$ (3,767)	\$ (4,143)

Both the pension and health care benefits are funded on a pay-as-you go basis. As both the pension and health care benefits are not funded, the Fund's accrued benefit liability was \$3,767 (2006 - \$4,143). Benefits paid in 2007 were \$170 (2006 - \$172). The Fund has not made any contributions during 2007 or 2006 for either plan. No assets have been segregated or restricted to provide for either plan.

Pulp Chemicals hourly employees participate in the Pulp and Paper Industry Pension Trust Fund, a multi-employer, defined contribution pension plan. The plan is funded by employer and employee contributions. The employer related expense under this plan in 2007 was \$206 (2006 - \$198).

BCT employees participate in a Swiss multi-employer defined benefit pension plan. The employer related expense under this Plan in 2007 was \$91 (2006 - \$95).

In 2006, the Fund recorded a pension prepayment and other income of \$717 (CHF 750), gross of future tax liability of \$73, in connection with the liquidation of a parental welfare fund. At December 2007, the balance of the pension prepayment was \$528 (CHF 599).

14. COMMITMENTS AND CONTINGENCIES:

(a) Operating leases:

Under the terms of operating leases, the Fund is committed to rental payments as follows:

2008	\$	16,208
2009		11,101
2010		6,109
2011		2,716
2012 and thereafter		3,018
	\$	39,152

The Fund has recorded deferred rent expense of \$1,366 (2006 - \$1,454) in other assets.

(b) Environmental clean-up costs:

The Fund's operations are subject to numerous laws, regulations and guidelines relating to air emissions, water discharges, solid and hazardous wastes, transportation and handling of hazardous substances and employee health and safety in Canada, the United States and other foreign countries where they operate. These environmental regulations are continually changing and are generally becoming more restrictive.

The Fund has purchased a number of sites as a result of the acquisitions of certain businesses. Subject to certain limitations, the Fund has been indemnified by the vendors for any remediation costs or environmental actions that may arise as a result of conditions existing at the time of acquisition and consequently the Fund has not accrued any amount with this respect. Environmental assessments were conducted prior to the purchase of the sites as a basis to, among other things, evaluate indemnity protections and, where applicable, to verify the appropriateness of estimates for remediation costs.

(c) Contingent liability:

The Fund has 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 \$72,800, 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 counter-claim in the amount of \$87,750 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.

(d) Other claims:

The Fund is involved in certain claims arising out of the ordinary course and conduct of its business which, in the opinion of management, will not have a material impact upon the financial position of the Fund. The Fund has received indemnities from the vendors with respect to claims arising prior to the related acquisitions.

15. BUSINESS SEGMENTS:

The Fund operates in four business segments: SPPC, Pulp Chemicals, International and Corporate.

SPPC markets, removes and/or produces five major products – merchant and regenerated sulphuric acid, liquid sulphur dioxide, sodium hydrosulphite, elemental sulphur and phosphorous pentasulphide. These products are marketed primarily to North American customers.

Pulp Chemicals operations produce sodium chlorate and crude tall oil. These products are marketed primarily to Canadian customers.

International operations provide removal and marketing services for two products – elemental sulphur and sulphuric acid. These products are marketed to customers in Europe, the Middle East, Latin America, South America and the Asia-Pacific region.

Corporate is a non-operating segment that provides centralized services such as treasury, finance, information systems, human resources and risk management.

Geographic segments:

The Fund operates primarily in Canada, the United States and Europe. Revenue is attributed to customers based on location of customer.

	Revenue Year ended December 31, 2007	Property, Plant and Equipment, Goodwill and Other Intangibles Year ended December 31, 2007	Revenue Year ended December 31, 2006	Property, Plant and Equipment, Goodwill and Other Intangibles Year ended December 31, 2006
Canada	\$ 135,221	\$ 133,900	\$ 125,602	\$ 143,779
USA and other	232,288	206,000	211,959	257,467
Europe	179,127	40,710	214,567	43,330
	\$ 546,636	\$ 380,610	\$ 552,128	\$ 444,576

In 2007, the Fund obtained product from a producer that accounted for 11.4% (2006 - 10.5%) of the Fund's total revenue. There were no customers that accounted for more than 10% of the Fund's total revenue in 2006 or 2007.

16. FAIR VALUES OF FINANCIAL INSTRUMENTS:

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these financial instruments.

The Fund has entered into swap arrangements with its principal banker, which fix interest rates on all of its outstanding term debt. Under the swap arrangements the effective interest rate on the outstanding U.S. dollar term debt is 5.85% and on the outstanding Canadian dollar term debt is 5.22%. In 2007, the Fund entered into a swap arrangement with its principal banker, which fixes interest rates on US\$10,000 of its operating lines of credit. The effective interest rate under this swap arrangement is 5.73%. As at December 31, 2007 the fair value loss of the U.S. swap arrangements is \$1,011 (US\$1,020) and the fair value gain of the Canadian swap arrangements is \$347. At December 31, 2006 the fair value gains of the U.S. and Canadian swap arrangements were \$2,057 (US\$1,765) and \$644 respectively. Fair value gains are included in other assets and fair value losses are included in other long-term liabilities.

The Fund has entered into foreign exchange contracts to manage its exposure to foreign currencies. The Fund buys and sells specific amounts of currencies at pre-determined dates and exchange rates, which are matched with the anticipated operational cash flows. Contracts in place at December 31, 2007 include future contracts of US\$9,340, CHF 1,950 and €1,468 at weighted average exchange rates of \$1.206, US\$0.89 and US\$1.46, respectively. There are unrealized gains of \$1,960 (2006 - \$1,162) and unrealized losses of \$26 from these contracts at December 31, 2007. The gain has been included in prepaid expenses and other assets, and the loss has been included in Accrued and other liabilities.

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. There is a net unrealized gain of \$367 (2006 - nil) from these forward contracts at December 31, 2007. This amount has been included in prepaid expenses and other assets.

The Fund's International business segment has commitments to buy and sell commodities and has entered into commodity forward contracts to manage its exposure to commodity price changes. Under the change in accounting policies, the commitments to buy and sell commodities are treated as derivatives and are measured at fair value. The commodity forward contracts are derivatives and are measured at fair value. At December 31, 2007, the net unrealized value of these transactions is immaterial.

17. COMPARATIVE FIGURES:

Certain comparative figures have been re-classified in order to comply with the current period's presentation.