

2004



CHEMTRADE LOGISTICS INCOME FUND

First Quarter Report \_

## President's Letter

Chemtrade started 2004 on a sound note, generating distributable cash that was slightly ahead of expectations. The results reflected good performance from our businesses and lower than expected capital expenditures in the first quarter.

Revenue for the period was \$80.9 million, and net earnings were \$7.0 million. Cash available for distribution of \$12.3 million, or \$0.54 per unit, was generated from earnings before interest, income taxes, depreciation and amortization (EBITDA) of \$15.1 million. For the first quarter of 2003, revenue was \$67.4 million, and net earnings \$4.7 million. Distributable cash was \$7.6 million (\$0.47 per unit), which was generated from EBITDA of \$9.7 million. As the latest results include the Pulp Chemicals acquisition that was completed on August 29, 2003, they are not directly comparable with the same period last year.

*Note: Per unit amounts are based on the weighted average number of units outstanding for the first quarter of 2004 of 22,619,543 and 16,109,861 for the three months ended March 31, 2003.*

### Distributions

Distributions attributable to the first quarter total \$0.45 per unit, including the supplemental distribution for the quarter of \$0.12 per unit, which was declared on April 20, 2004 and will be paid on April 30, 2004 to unitholders of record on April 28, 2004.

### Operations

The increased diversity and scope of Chemtrade's operations had a positive impact on the first quarter results. Slightly below plan performances in some parts of the operations were offset by above plan results in others. Lower capital expenditures were a timing issue and will now occur in the second quarter, so eliminating that factor, our results were as we expected.

Sulphur Products and Performance Chemicals ("SPPC") reported EBITDA of \$11.6 million for the first quarter compared with \$10.8 million in the same period last year. All major product areas of SPPC were ahead of last year. Sulphuric acid volumes were ahead of expectations, and the segment also benefited from favourable product cost. Sodium hydrosulphite volumes met anticipated levels despite some continuing softness in demand from newsprint customers in the first two months of the quarter.

Pulp Chemicals reported EBITDA of \$5.1 million, which was slightly below expectations, reflecting weather issues in January that affected operating rates at Canfor's mills in Prince George. However, these results were ahead of the \$4.6 million reported for the fourth quarter of 2003.

BCT Chemtrade reported EBITDA of \$1.4 million, which was essentially level with the \$1.3 million reported for the first quarter last year.

### Outlook

A 3-week maintenance shutdown of Performance Chemicals' Leeds plant and a shorter shutdown at Pulp Chemicals will affect earnings in the second quarter. However, Chemtrade's businesses continue to perform well and we remain confident of meeting our operating objectives and the planned distribution target for 2004 of \$1.80 per unit.

Mark Davis  
*President and Chief Executive Officer*

April 20, 2004

**CHEMTRADE LOGISTICS INCOME FUND**  
**Consolidated Balance Sheet**  
(in thousands of dollars)

	March 31, 2004 (unaudited)	December 31, 2003
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 12,616	\$ 8,852
Accounts receivable	46,494	46,371
Inventories	13,228	12,741
Prepaid expenses and other assets	1,264	1,368
	<b>73,602</b>	<b>69,332</b>
Property, plant and equipment	144,457	147,250
Deferred charges	5,065	4,156
Future tax asset	3,562	2,510
Other intangibles	110,876	109,812
Goodwill	50,644	50,533
	<b>\$ 388,206</b>	<b>\$ 383,593</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Operating line of credit	\$ 6,541	\$ 2,330
Accounts payable	35,339	34,836
Accrued liabilities	7,770	11,467
Distributions payable	2,520	2,447
Income taxes payable	1,632	1,459
Current portion of long-term debt (note 5)	900	900
	<b>54,702</b>	<b>53,439</b>
Long-term debt (note 5)	97,830	91,417
Post-employment benefits	358	343
Future tax liability	1,414	1,109
Minority interest	18	48
<b>Unitholders' equity</b>		
Units (note 6)	254,947	245,316
Convertible debentures (note 7)	26,581	36,212
Foreign currency translation adjustment	(15,268)	(15,976)
Deficit	(32,376)	(28,315)
	<b>233,884</b>	<b>237,237</b>
	<b>\$ 388,206</b>	<b>\$ 383,593</b>

**CHEMTRADE LOGISTICS INCOME FUND**  
**Consolidated Statement of Operations and Deficit**  
(in thousands of dollars)  
(unaudited)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Revenue	\$ 80,864	\$ 67,369
Cost of sales and services	59,795	52,110
Gross profit	21,069	15,259
Selling, general, administrative and other costs	5,990	5,590
Earnings before the under-noted	15,079	9,669
Depreciation and amortization	7,334	4,901
Net interest expense	1,169	554
Earnings before income taxes and minority interest	6,576	4,214
Income taxes		
Current	429	221
Future	(820)	(729)
	(391)	(508)
Earnings before minority interest	6,967	4,722
Minority interest	2	(12)
Net earnings	6,965	4,734
Deficit, beginning of period	(28,315)	(10,577)
Distributions		
Convertible debentures	(773)	(1,116)
Units	(10,253)	(6,936)
Deficit, end of period	\$(32,376)	\$(13,895)
Net earnings per unit (note 6)		
Basic	\$0.27	\$0.22
Diluted	\$0.27	\$0.22

## CHEMTRADE LOGISTICS INCOME FUND

### Consolidated Statement of Cash Flows

(in thousands of dollars)

(unaudited)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
<b>Cash provided by (used in):</b>		
<b>Operating activities:</b>		
Net earnings	\$ 6,965	\$ 4,734
Items not affecting cash:		
Depreciation and amortization	7,334	4,901
Future income taxes	(820)	(729)
Minority interest	2	(12)
Unrealized foreign exchange gain (loss)	5	(116)
	<b>13,486</b>	<b>8,778</b>
Decrease (increase) in working capital	<b>1,119</b>	<b>(11,190)</b>
	<b>14,605</b>	<b>(2,412)</b>
<b>Financing activities:</b>		
Distributions to unitholders	(10,180)	(6,764)
Distributions to convertible debenture holders	(773)	(1,116)
Increase in long-term bank debt	6,000	-
Payment of dividends by subsidiary to minority shareholders	(34)	(239)
Deferred financing charges	(1,674)	-
	<b>(6,661)</b>	<b>(8,119)</b>
<b>Investing activities:</b>		
Acquisitions	(1,638)	-
Additions to property, plant and equipment	(683)	(236)
Purchase of customer contracts	(1,854)	-
	<b>(4,175)</b>	<b>(236)</b>
Effect of exchange rates on cash held in foreign currencies	<b>(5)</b>	<b>116</b>
Increase (decrease) in cash and cash equivalents	<b>3,764</b>	<b>(10,651)</b>
Cash and cash equivalents – beginning of period	<b>8,852</b>	<b>21,338</b>
Cash and cash equivalents – end of period	<b>\$ 12,616</b>	<b>\$ 10,687</b>
<b>Supplemental information:</b>		
Cash taxes paid	\$ 256	\$ 414
Cash interest paid	\$ 1,275	\$ 551
Cash interest received	\$ 23	\$ 73

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

(dollar amounts in thousands)

(unaudited)

March 31, 2004

---

## 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.

These interim consolidated financial statements of the Fund have been prepared by management in accordance with accounting principles generally accepted in Canada. These interim consolidated financial statements include the accounts of the Fund and its wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated. These statements have been prepared following the same accounting policies and methods of computation as the annual consolidated financial statements of the Fund for the year ended December 31, 2003 except as noted in note 2. These interim consolidated financial statements do not contain all disclosures required by generally accepted accounting principles and accordingly should be read in conjunction with the consolidated financial statements and the notes thereto.

## 2. NEW ACCOUNTING POLICIES:

### (a) Asset retirement obligations:

Effective January 1, 2004, the fair value of estimated asset retirement obligations is recognized in the Consolidated Balance Sheet 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 on the Consolidated Statement of Earnings. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion of asset retirement obligation in the Consolidated Statement of Earnings. Actual expenditures incurred are charged against the accumulated obligation.

During the first quarter of 2004, Chemtrade completed an analysis of existing properties. This analysis reviewed existing contracts and current statutory requirements, and management has determined that a provision for retirement obligations is not currently required.

## **CHEMTRADE LOGISTICS INCOME FUND**

Notes to Consolidated Financial Statements

(dollar amounts in thousands)

(unaudited)

March 31, 2004

---

### **2. NEW ACCOUNTING POLICIES (continued):**

#### **(b) Hedge relationships:**

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 highly effective in offsetting changes in fair values or cash flows of hedged items.

All derivative instruments that qualify for hedge accounting are recorded in the balance sheet and changes in fair value are deferred and recognized in earnings at the end of the hedge relationship. All derivative instruments that do not qualify for hedge accounting, or are not designated as a hedge, are recorded in the balance sheet as either an asset or liability with changes in fair value recognized in earnings.

The Fund has designated hedge accounting for its foreign currency purchase contracts and its interest swap arrangements. Accordingly all changes in fair value have been deferred. As of March 31, 2004 the Fund has not entered into derivative instruments that do not qualify for hedge accounting.

## CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

(dollar amounts in thousands)

(unaudited)

March 31, 2004

---

### 3. PULP CHEMICALS BUSINESS ACQUISITION:

On August 29, 2003 the Fund purchased the Pulp Chemicals Business from Canadian Forest Products Ltd. ("Canfor") for total consideration of \$116,438. The Fund incurred transaction related costs of \$2,998. The purchase was financed by the issuance of 5,860,000 units for gross proceeds of \$86,435 and an increase in the Fund's term banking facility of \$40,000. Issuance costs related to the units of \$4,227 have been deducted from the proceeds thereof. Financing costs related to the banking facility of \$700 and other financing costs of \$1,151 have been included in deferred charges.

The acquisition has been accounted for by the purchase method. These consolidated financial statements reflect the acquired assets and liabilities at assigned fair values as follows:

---

Working capital	\$	907
Property, plant and equipment		50,194
Intangible assets		68,642
Post-employment benefits		(307)
<hr/>		
Consideration paid in cash	\$	119,436

---

The allocation of the purchase price was finalized as of March 31, 2004.

### 4. PURCHASE OF RHODIA CUSTOMER CONTRACTS:

On March 19, 2004 the Fund purchased certain customer contracts and assets relating to the SPPC Business from Rhodia Inc. ("Rhodia"), a non-related party, for total cash consideration of \$1,572 (US\$1,169).

The purchase price is subject to contingent consideration up to a maximum amount of US\$850 and will be paid between March 31, 2004 and December 31, 2006 based on realized sales. As at March 31, 2004 the outcome of the contingency is uncertain and therefore has not been recognized as part of the cost of the purchase.

## CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

(dollar amounts in thousands)

(unaudited)

March 31, 2004

### 5. LONG-TERM DEBT:

	March 31, 2004	December 31, 2003
Term bank debt		
US\$43,565 (2003 - US\$39,031)	\$ 56,930	\$ 50,517
Canadian dollars	40,000	40,000
Amount due to Marsulex Inc.	1,800	1,800
	<b>98,730</b>	92,317
Less: Current portion	900	900
Long-term debt	<b>\$ 97,830</b>	\$ 91,417

On March 11, 2004, the Fund renewed its bank debt with its principal bankers. The bank debt which was due and payable on May 31, 2005, is now not due or payable prior to March 2008. In addition, the Fund increased its original term debt of US\$24,031 to US\$28,565 offset by decreases in its lines of credit.

The interest rate on the \$40,000 term debt varies with the rate for Bankers' Acceptances. At March 31, 2004 the interest rate was 2.35% plus a stamping fee of 1.60%.

The interest rate on the US\$43,565 term debt varies based on three month Libor. At March 31, 2004 the interest rate was 1.10% plus a stamping fee of 1.60%.

Chemtrade has entered into a swap arrangement with its principal bankers which fixes interest rates on all of its current outstanding term debt. Under the swap arrangements, which will be treated as a hedge, the interest rate on the outstanding U.S. debt is 2.99%, plus the current spread of 1.60%. The interest rate on the outstanding Canadian dollar debt is 3.42% plus a stamping fee currently set at 1.60%.

The Fund also has two operating lines of credit for \$5,000 (2003 - \$10,000) and US\$4,989 (2003 - US\$6,500) and bank overdrafts of \$1,000 (2003 - nil). As at March 31, 2004 \$2,000 (2003 - nil) and US\$1,800 (2003 - US\$1,800) was drawn.

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 facility is subject to certain financial covenants.

## CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

(dollar amounts in thousands)

(unaudited)

March 31, 2004

---

### 6. UNITS:

#### (a) Outstanding:

	Number of Units	Amount
Units		
Balance – January 1, 2004	22,247,099	\$245,316
Issued on conversion of debentures (note 7)	664,130	9,631
Balance – March 31, 2004	22,911,229	\$254,947

#### (b) Net earnings per unit:

Net earnings per unit has been calculated on the basis of the weighted average number of units outstanding for the three months ended March 31, 2004 which amounted to 22,619,543 units (2003 - 16,109,861 units). Distributions to convertible debenture holders during the period were deducted from net earnings in determining basic net earnings per unit. 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 would be anti-dilutive.

### 7. CONVERTIBLE DEBENTURES:

During the three months ended March 31, 2004, convertible debentures totalling \$9,631 were converted into 664,130 units.

## CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

(dollar amounts in thousands)

(unaudited)

March 31, 2004

### 8. BUSINESS SEGMENTS:

The Fund operates in four business segments: Sulphur Products & Performance Chemicals ("SPPC"), Pulp Chemicals ("Pulp"), International ("Intl") and Corporate Services ("Corp").

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

Pulp Chemicals operations produce sodium chlorate and crude tall oil. These products are marketed 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 Services is a non-operating segment that provides centralized services such as treasury, finance, information systems, human resources and risk management. As Corporate Services is a new reporting segment in 2004, certain 2003 comparative balances have been restated.

#### Three Months Ended March 31, 2004

	SPPC	Pulp	Intl	Corp	Total
Revenue from external customers	\$ 52,027	\$ 11,973	\$ 16,864	\$ -	\$ 80,864
Inter-segment revenues	-	-	-	-	-
Earnings before interest, income taxes, depreciation and amortization	11,618	5,104	1,364	(3,007)	15,079
Depreciation and amortization	4,648	2,619	67	-	7,334
Interest expense (net)	735	444	-	(10)	1,169
Income tax expense	(575)	-	184	-	(391)
Minority interest	-	-	2	-	2
Net earnings	6,810	2,041	1,111	(2,997)	6,965
Total assets	218,705	124,611	43,059	1,831	388,206
Goodwill	26,958	-	23,686	-	50,644
Other intangible assets	45,395	65,481	-	-	110,876
Capital expenditures	391	292	-	-	683

## CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

(dollar amounts in thousands)

(unaudited)

March 31, 2004

### 8. BUSINESS SEGMENTS (continued):

#### Three Months Ended March 31, 2003

	SPPC	Pulp	Intl	Corp	Total
Revenue from external customers	\$ 52,080	\$ -	\$ 15,289	\$ -	\$ 67,369
Inter-segment revenues	-	-	878	-	878
Earnings before interest, income taxes, depreciation and amortization	10,760	-	1,283	(2,374)	9,669
Depreciation and amortization	4,821	-	80	-	4,901
Interest expense (net)	599	-	(9)	(36)	554
Income tax expense	(605)	-	97	-	(508)
Minority interest	-	-	(12)	-	(12)
Net earnings	5,945	-	1,127	(2,338)	4,734
Total assets	235,150	-	43,774	1,366	280,290
Goodwill	28,135	-	23,945	-	52,080
Other intangible assets	36,301	-	-	-	36,301
Capital expenditures	236	-	-	-	236

## CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

(dollar amounts in thousands)

(unaudited)

March 31, 2004

---

### 8. BUSINESS SEGMENTS (continued):

#### Geographic segments:

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

#### Revenue

	March 31, 2004	March 31, 2003
North America	\$ 64,000	\$ 52,080
Europe	16,864	15,289
	\$ 80,864	\$ 67,369

#### Property, Plant and Equipment, Goodwill and Other Intangibles

	March 31, 2004	December 31, 2003
North America	\$ 279,735	\$ 281,331
Europe	26,242	26,264
	\$ 305,977	\$ 307,595

For the three months ended March 31, 2004, the Fund obtained product from a producer and sold product to a customer that accounted for 20.2% (2003 – 25.3%) and 11.6 % (2003 – nil) of the Fund's total revenue respectively.

**CHEMTRADE LOGISTICS INCOME FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2004**

*The information in this MD&A is supplemental to, and should be read in conjunction with the unaudited consolidated financial statements of Chemtrade Logistics Income Fund ("the Fund") for the three-month period ended March 31, 2004. The Fund's financial statements are prepared in accordance with accounting principles generally accepted in Canada. The Fund's reporting currency is the Canadian dollar. Per unit amounts are calculated using the weighted average number of units outstanding for the applicable period.*

*The terms EBITDA and Distributable Cash are used throughout this MD&A. EBITDA is defined as earnings before interest, taxes, depreciation and amortization and minority interest. EBITDA is a metric used by many investors to compare companies on the basis of ability to generate cash from operations. It is not intended to be representative of cash flow from operations or results of operations determined in accordance with generally accepted accounting principles or cash available for distribution.*

*Distributable cash represents cash from operations adjusted for changes in working capital and unrealized foreign exchange gains or losses, less expenditures on sustaining capital items, interest paid to convertible debenture holders and the minority shareholders' share of income of an operating subsidiary. Distributable cash is an important metric, as it summarizes the funds available for distributions to unitholders.*

*Neither EBITDA nor Distributable Cash is a recognized measure under Canadian GAAP. Chemtrade's method of calculating EBITDA and Distributable Cash may differ from methods used by other companies, and accordingly may not be comparable to similar measures presented by other companies. A calculation of Distributable Cash is found on Page 8.*

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements contained in this MD&A constitute forward-looking statements. 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. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking

statements. The Fund believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A. In particular, this MD&A contains forward-looking statements pertaining to distributable cash and distributions per unit. The actual results could differ materially from those anticipated in these forward-looking statements. The Fund does not undertake any obligation to publicly update or revise any forward-looking statements.

## **BUSINESS MODEL**

Chemtrade is one of the world's largest suppliers of sulphuric acid ("acid"), liquid sulphur dioxide ("SO<sub>2</sub>") and sodium hydrosulphite ("SHS") and a leading regional supplier of sulphur and sodium chlorate. Chemtrade obtains these products through long-term marketing service agreements and its own production facilities and distributes them to customers around the world.

The Fund is a limited purpose trust established under the laws of Ontario. The Fund's income is derived from its wholly-owned subsidiaries, Chemtrade Logistics Inc. ("Logistics"), Chemtrade Performance Chemicals Canada Inc. ("Performance") and Chemtrade Pulp Chemicals Limited Partnership ("Pulp"). Logistics, Performance and Pulp are together called "Chemtrade". Logistics and Performance together form the Sulphur Products and Performance Chemicals ("SPPC") reporting segment. The Fund's wholly-owned subsidiary BCT Chemtrade Corporation ("BCT") operates in Europe and South America.

Distributions to unitholders of the Fund are made monthly and are supplemented by four quarterly payments. These distributions are entirely dependent on the cash flow of the Fund's operating subsidiaries, which in turn is used to pay interest on unsecured, subordinated promissory notes, and dividends to the Fund.

A key objective of the Fund is to deliver reliable and sustainable distributions to unitholders. In addition, management has indicated its intention to seek opportunities to increase distributions to unitholders. Management considers opportunities for growth that leverage the core competencies currently in place, and are accretive to existing unitholders.

The business model that the Fund has developed is intended to mitigate the effect that changes in commodity prices and volumes could have on its earnings and distributable cash. Chemtrade attempts to mitigate commodity risks by obtaining strategic contractual provisions, establishing a

strong competitive position, or by striving to differentiate its products or services in the marketplace.

## HIGHLIGHTS

(\$000 except per unit amounts)

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Revenue	\$ 80,864	\$ 67,369
Gross Profit	\$ 21,069	\$ 15,259
Net Earnings	\$ 6,965	\$ 4,734
Net Earnings per unit - Basic	\$ 0.27	\$ 0.22
- Diluted	\$ 0.27	\$ 0.22
EBITDA	\$ 15,079 <sup>(1)</sup>	\$ 9,669
EBITDA per unit <sup>(2)</sup>	\$ 0.67	\$ 0.60
Distributable Cash	\$ 12,293	\$ 7,554
Distributable Cash per unit <sup>(2)</sup>	\$ 0.54	\$ 0.47
Distributions declared	\$ 10,253	\$ 6,936
Distributions declared per unit <sup>(3)</sup>	\$ 0.45	\$ 0.43
Distributions paid	\$ 10,180	\$ 6,764
Distributions paid per unit <sup>(3)</sup>	\$ 0.45	\$ 0.42
<sup>(1)</sup> EBITDA is calculated by adding to Net Earnings of \$6,965, depreciation and amortization of \$7,334, net interest expense of \$1,169, net taxes of \$(391) and minority interest of \$2.		
<sup>(2)</sup> Based on weighted average number of units outstanding for the period.	22,619,543	16,109,861
<sup>(3)</sup> Based on actual number of units outstanding on record date.		

## CONSOLIDATED OPERATING RESULTS

Consolidated results for the first quarter of 2004 include Pulp Chemicals. As the assets and operations of Pulp Chemicals were purchased on August 29, 2003, consolidated results for the first quarter of 2004 are not comparable to 2003.

Consolidated revenue for the first quarter of 2004 was \$80.9 million, an increase of \$13.5 million from consolidated revenues of \$67.4 million recorded in the first quarter of 2003. Revenues of

Pulp Chemicals of \$12.0 million were the principal reason for this increase. SPPC generated revenue of \$52.0 million in 2004 (\$52.1 million in 2003) and International revenue was \$16.9 million for the first quarter of 2004 (\$15.3 million in 2003). Net earnings of SPPC for the first quarter of 2004 were \$6.8 million (\$5.9 million in 2003). Net earnings of Pulp Chemicals were \$2.0 million for the first quarter of 2004. International net earnings were \$1.1 million for the first quarter of 2004 and 2003.

Chemtrade has commenced to report the financial results of a corporate segment separately in 2004. This segment includes the costs of corporate activities which are not directly allocable to an operating segment, such as information technology, finance and human resources. For the first quarter of 2004, corporate costs were \$3.0 million, which compares with \$2.3 million for 2003 reflecting the increased scope of business.

Net earnings for the first quarter of 2004 were \$7.0 million compared with \$4.7 million for 2003. As mentioned above, net earnings in 2004 include the results of Pulp Chemicals. Gross profit for the first quarter of 2004 was \$21.1 million (26.1% of revenue), an increase of \$5.8 million from gross profit of \$15.3 million (22.7% of revenue) for the first quarter of 2003. Chemtrade's gross profit for the first quarter reflects an improvement in both absolute amounts and as a percentage of revenue as a result of the addition of Pulp Chemicals.

## **RESULTS OF OPERATIONS**

### *SPPC -*

SPPC generated \$11.6 million of EBITDA in the first quarter of 2004, which compares to EBITDA of \$10.8 million for the first quarter of 2003. Both volumes and realized sales prices for sulphur products increased in 2004 in comparison to 2003. Although sales revenue of SHS is down slightly when compared to 2003, margin exceeded the applicable 2003 amount due to reduced product cost. Certain SHS capital expenditures planned for the first quarter will be incurred in the second quarter.

The Leeds plant commenced a planned, three-week maintenance shutdown on March 27, 2004.

During the first quarter of 2004, SPPC completed a reorganization of its operations, which will allow for a broader customer programme for Chemtrade's sales force and increased integration of production and marketing activities.

*Pulp Chemicals -*

Pulp Chemicals is Chemtrade's newest segment and was purchased from Canadian Forest Products Ltd. ("Canfor") on August 29, 2003. Accordingly, comparable first quarter 2003 information is not available.

First quarter EBITDA was \$5.1 million which was slightly below expectations. Sales volumes of sodium chlorate were below expectations in January, and were essentially as expected for the balance of the quarter.

The cost of electricity, which constitutes the majority of the chlorate variable production costs, will increase in April 2004. The impact on Pulp Chemicals will be mitigated to a large extent due to the contractual adjustments to the sales price contained in the Canfor contract.

Pulp Chemicals completed the hiring and training of new employees to replace personnel who elected to stay with Canfor.

*International -*

International sales of sulphuric acid and sulphur are the responsibility of BCT. In the first quarter of 2004, EBITDA of the international business was \$1.4 million, which was consistent with EBITDA of \$1.3 million recorded in 2003. Sales volumes of sulphuric acid in the international markets in the first quarter of 2004 were less than volumes in the first quarter of 2003. However, the global sulphuric acid market remains very tight, resulting in prices which enabled BCT to achieve comparable margins.

In the fourth quarter of 2003, Chemtrade abandoned a terminal operating facility which had been leased in Tampa, Florida, as requirements for the facility had declined. The costs of operating this facility in the first quarter of 2003 amounted to US\$0.2 million. In view of the exit cost recorded in 2003, there is no comparable cost in the first quarter of 2004.

*Foreign Exchange -*

The Fund has operating subsidiaries that are U.S. based and the reporting currency of BCT Chemtrade, the Fund's international subsidiary, is the U.S. dollar. As the Fund reports in Canadian dollars, it is exposed to fluctuations in the Canadian/U.S. dollar exchange rate. At the Fund's 2004 expected exchange rate of \$0.75, approximately 46% of both EBITDA and distributable cash are generated in U.S. dollars.

Current calculations continue to support Chemtrade's estimate that, on an unhedged basis, a \$0.01 increase or (decrease) in the Canadian/U.S. dollar exchange rate increases (decreases) distributable cash by approximately \$0.2 million, although this exposure is mitigated by the risk-sharing nature of certain contracts and certain U.S. dollar costs (for example, transportation contracts) which are incurred by the Canadian companies. Chemtrade has reviewed planned cash flows for 2004 and in particular the transfer of U.S. dollars from U.S. operations to their Canadian parent. In order to ensure that the planned rate of exchange is realized on these transfers, Chemtrade has entered into a series of foreign exchange contracts with its principal bankers. After giving effect to the hedge positions in place as of March 31, 2004, if the Canadian dollar foreign exchange rate increased from \$0.75 to \$0.77 (a \$0.02 change) the effect would be to decrease cash from operations by approximately \$0.3 million.

The rate of exchange used to translate U.S. denominated balances has moved from \$0.773 at December 31, 2003 to \$0.765 at March 31, 2004.

Chemtrade'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 deferred in the balance sheet. The change between December 31, 2003 and March 31, 2004 in the exchange rate between the Canadian and U.S. dollar has resulted in a slight change in the foreign currency translation adjustment account since December 31, 2003.

See **RISKS AND UNCERTAINTIES** for additional comments on foreign exchange.

#### **SELLING, GENERAL AND ADMINISTRATION**

Selling, general and administration expenses totaled \$6.0 million (7.4% of revenue) for the first quarter of 2004 compared to \$5.6 million (8.3% of revenue) for the first quarter of 2003. The increase in S,G&A is primarily attributable to the increased scope of business following the Pulp Chemicals acquisition offset by reduced expenditures in other operating areas.

#### **INTEREST EXPENSE**

Interest expense, net of interest income, was \$1.2 million in the first quarter of 2004 compared with \$0.6 million for 2003. The increase in interest expense in the first quarter of 2004 compared to 2003 was due to the interest paid on the new \$40.0 million debt drawn to partially finance the acquisition of Pulp Chemicals and the increased interest paid on the original term debt of US\$24.0 million.

On March 11, 2004, the Fund renewed its bank debt with its principal bankers. Further details concerning this renewal are included in **LIQUIDITY – Bank Debt**.

Interest on the \$40.0 million loan amounted to \$0.4 million in the quarter. This loan is Canadian dollar denominated, and interest varies with the rate for Bankers' Acceptances. At March 31, 2004 the interest rate was 2.35% plus a stamping fee of 1.6%.

The interest on the term debt of US\$43.6 million was \$0.8 million for the quarter compared to \$0.6 million in the prior year. The interest rate now varies based on three month Libor plus a stamping fee of 1.60%. At March 31, 2004 the interest rate was 2.70% (all-in basis).

At December 31, 2003 Chemtrade had a \$10.0 million and a US\$6.5 million operating lines of credit. As part of its debt renewal, Chemtrade reduced its lines of credit to \$5.0 million and US\$5.0 million and obtained a bank overdraft facility of \$1.0 million (2003 – nil). Borrowings under these lines are limited to the available amount of security determined by certain current asset balances, and interest is payable on the loan at rates that vary with Libor. At March 31, 2004, Chemtrade had utilized \$2.0 million (December 31, 2003 – nil) and US\$1.8 million (December 31, 2003 – US\$1.8 million) of this credit.

As the 10% convertible debentures are grouped with equity on the balance sheet of the Fund, the related interest is shown as a distribution and included in Deficit. The amount of interest payable on these debentures is classified as a deduction from EBITDA in determining distributable cash.

## **INCOME TAXES**

The increase in current tax expense in the first quarter of 2004 compared to 2003 reflects the increased earnings from an international subsidiary subject to significant withholding taxes and the Fund's increased North American business operations.

The increase in future tax asset at March 2004 compared to December 2003 is the net result of the recognition by certain operating subsidiaries of tax loss carry forwards and other tax benefits. The increase in future tax liabilities at March 2004 compared to December 2003 is the net result of other subsidiaries reducing previously recognized tax loss carry forward benefits.

**DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS**

Distributable cash for the three months ended March 31, 2004 with comparative numbers for 2003, is as follows:

*(\$000 except per unit amounts)*

	<b>Three Months Ended March 31, 2004</b>	<b>Three Months Ended March 31, 2003</b>
Cash from (used in) operations	\$ 14,605	\$ (2,412)
Less:		
Decrease (increase) in working capital	1,119	(11,190)
Capital expenditures <sup>(1)</sup>	413	236
Interest on convertible debentures	773	1,116
Unrealized foreign exchange gain (loss)	5	(116)
Minority interest	<u>2</u>	<u>(12)</u>
Distributable cash	<u>\$ 12,293</u>	<u>\$ 7,554</u>
Distributable cash per unit	\$ 0.54	\$ 0.47
Based on weighted average number of units outstanding at period end of:	22,619,543	16,109,861

<sup>(1)</sup> Excludes non-maintenance/sustenance capital of \$270 for the three months ended March 31, 2004

*Distributions -*

Each month, the Fund pays a regular distribution currently of \$0.11 per unit. Each quarter the Fund pays a supplemental distribution, currently of \$0.12 per unit, in the month following the quarter end, except at the year-end, when the supplemental distribution is paid the following February.

Distributions to unitholders for the three months ended March 31, 2004 were declared as follows:

<b>Record Date</b>	<b>Payment Date</b>	<b>Distribution Per Unit</b>	<b>Total (\$ thousands)</b>
Three months ended March 31, 2004:			
January 30, 2004	February 27, 2004	\$0.11	\$ 2,469
February 25, 2004	February 27, 2004	0.12	2,746 <sup>(1)</sup>
February 27, 2004	March 31, 2004	0.11	2,518
March 31, 2004	April 30, 2004	<u>0.11</u>	<u>2,520</u>
<b>Total</b>		<b>\$0.45</b>	<b>\$10,253</b>

<sup>(1)</sup> Represents payment of supplemental distribution for fourth quarter of 2003

Distributions declared in the three months ended March 31, 2003 were as follows:

<b>Record Date</b>	<b>Payment Date</b>	<b>Distribution Per Unit</b>	<b>Total (\$ thousands)</b>
Three months ended March 31, 2003:			
January 31, 2003	February 28, 2003	\$0.11	\$1,766
February 26, 2003	February 28, 2003	0.10	1,614 <sup>(1)</sup>
February 28, 2003	March 31, 2003	0.11	1,778
March 31, 2003	April 30, 2003	<u>0.11</u>	<u>1,778</u>
<b>Total</b>		<b>\$0.43</b>	<b>\$6,936</b>

<sup>(1)</sup> Represents payment of supplemental distribution for fourth quarter of 2002

**SUMMARY OF QUARTERLY RESULTS**

(\$000)

	Three Months Ended June 30, 2003	Three Months Ended September 30, 2003	Three Months Ended December 31, 2003	Three Months Ended March 31, 2004	12 Months Ended March 31, 2004
Revenue	\$ 68,026	\$ 74,503 <sup>(1)</sup>	\$ 80,712 <sup>(2)</sup>	\$ 80,864 <sup>(2)</sup>	\$304,105
Cost of sales and services	<u>53,807</u>	<u>55,279</u>	<u>60,935</u>	<u>59,795</u>	<u>229,816</u>
Gross profit	14,219	19,224	19,777	21,069	74,289
Selling, general, administrative and other costs	4,973	5,922	6,194	5,990	23,079
Terminal exit cost	<u>-</u>	<u>-</u>	<u>1,311</u>	<u>-</u>	<u>1,311</u>
Earnings before the under-noted	9,246	13,302	12,272	15,079	49,899
Depreciation and amortization	4,497	6,121	6,793	7,334	24,745
Net interest expense	577	913	1,168	1,169	3,827
Income taxes (net)	798	(216)	113	(391)	304
Minority interest	<u>45</u>	<u>(1)</u>	<u>2</u>	<u>2</u>	<u>48</u>
Net Earnings	<u>\$ 3,329</u>	<u>\$ 6,485</u>	<u>\$ 4,196</u>	<u>\$ 6,965</u>	<u>\$ 20,975</u>

(1) Includes the results of Pulp Chemicals for the period from August 29 to September 30, 2003.

(2) Includes the results of Pulp Chemicals.

(\$000)

	Three Months Ended June 30, 2002	Three Months Ended September 30, 2002	Three Months Ended December 31, 2002	Three Months Ended March 31, 2003	12 Months Ended March 31, 2003
Revenue	\$ 51,410	\$ 52,211	\$ 53,422	\$ 67,369	\$224,412
Cost of sales and services	<u>41,159</u>	<u>42,211</u>	<u>43,777</u>	<u>52,110</u>	<u>179,257</u>
Gross profit	10,251	10,000	9,645	15,259	45,155
Selling, general, administrative and other costs	3,782	4,196	3,926	5,590	17,494
Gain on cancellation of contract	<u>-</u>	<u>(1,106)</u>	<u>-</u>	<u>-</u>	<u>(1,106)</u>
Earnings before the under-noted	6469	6,910	5,719	9,669	28,767
Depreciation and amortization	2,576	2,646	3,454	4,901	13,577
Net interest expense	349	333	346	554	1,582
Income taxes (net)	1,732	1,130	(2,034)	(508)	320
Minority interest	<u>185</u>	<u>468</u>	<u>51</u>	<u>(12)</u>	<u>692</u>
Net Earnings	<u>\$ 1,627</u>	<u>\$ 2,333</u>	<u>\$ 3,902</u>	<u>\$ 4,734</u>	<u>\$ 12,596</u>

## **LIQUIDITY**

Cash flow generated by Chemtrade is required to fund distributions to unitholders, capital expenditures and any third party interests.

### *Cash from Operations -*

Cash flow from operations for the three months ended March 31, 2004 was \$14.6 million, compared to a use of cash of \$2.4 million for the three months ended March 31, 2003. The principal reason for the increase in cash from operations, in addition to increased earnings, relates to the cash that was required in the first quarter of 2003 to fund the build-up of working capital (accounts receivable and inventories) resulting from the acquisition of the SHS assets in December 2002. An increase in short-term debt, which is expected to be reduced in the second quarter, also contributed to the increase in the Fund's cash from operations during the quarter.

Cash balances at March 31, 2004 were \$12.6 million, an increase of \$3.7 million from the December 31, 2003 cash balances of \$8.9 million.

### *Financing Activities -*

Cash distributions paid to unitholders amounted to \$10.2 million in the first quarter of 2004, which represents a distribution rate of \$0.45 per unit. In the first quarter of 2003, distributions paid were \$6.8 million (\$0.42 per unit) as the average number of outstanding units increased from 16,109,861 in the first quarter of 2003 to 22,619,543 in 2004.

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

Distributions paid to debenture holders in the first quarter 2004 totaled \$0.8 million compared to \$1.1 million in the first quarter 2003. During the quarter \$9.6 million of convertible debentures were converted into 664,130 units. As interest on the convertible debentures and principal due on maturity are payable in units of the Fund at the option of the Fund, the debentures are grouped with unitholders' equity for accounting purposes.

*Bank Debt -*

On March 11, 2004, the Fund amended its bank debt with its principal bankers. Under the amended agreement the term has been extended to March 2008 (formerly May 2005). In addition, the Fund increased its U.S. term debt to US\$43.6 million (2003 – US\$39.0 million).

*Hedging Agreements -*

Chemtrade has entered into swap arrangements with its principal bankers which fixes interest rates on all of its current outstanding term debt. Under the swap arrangements, which will be treated as a hedge for accounting purposes, the interest rate on the outstanding U.S. debt is 2.99%, plus the current spread of 1.60%. The interest rate on the outstanding Canadian dollar debt is 3.42% plus a stamping fee currently set at 1.60%.

*Investing Activities -*

On March 19, 2004 the Fund purchased certain customer contracts and assets relating to the SPPC Business from Rhodia Inc., a non-related party, for total cash consideration of \$1.6 million (US\$1.2 million). During the first quarter the Fund also paid contingent consideration of \$0.2 million (US\$0.1 million) to Benco International LLC (“Benco”) in connection with the Fund’s May 2003 purchase of Benco customer contracts. The payments made in connection with customer contracts have been included in the cost of other intangible assets.

Total capital requirements were \$0.7 million in the first quarter of 2004 (\$0.2 million in 2003) \$0.4 million of which were for planned maintenance capital requirements and \$0.3 million of expenditures related to the anode replacement program at Pulp Chemicals. This program is expected to provide improved operating efficiency and production for 10 years, and accordingly is considered as part of growth capital expenditures for purposes of calculating distributable cash of the Fund. The \$0.4 million sustaining capital expenditures was incurred for SPPC.

*Cash Balances -*

At March 31, 2004, the Fund had cash balances of \$12.6 million and working capital of \$18.9 million.

## CONTRACTUAL OBLIGATIONS

Information concerning contractual obligations is shown below:

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less Than 1 Year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>	<b>After 5 Years</b>
Long Term Debt	98,730	900	900	96,930	-
Operating Leases	42,559	13,497	17,867	8,608	2,587
Total Contractual Obligations	141,289	14,397	18,767	105,538	2,587

## RISKS AND UNCERTAINTIES

Chemtrade is one of the world's largest marketers of sulphur-based chemicals. As such Chemtrade 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, 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. In addition, Chemtrade 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 Chemtrade'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. See Hedging Agreements for additional information on the management of this risk.

Under current accounting rules, the Fund's foreign subsidiaries are considered self-sustaining, and the result of a change in the Canadian/U.S. dollar exchange rate is recorded in the foreign currency translation adjustment account, which is a part of unitholders' equity on the balance sheet.

Chemtrade manages the risks associated with its customer base and sales price by structuring its sulphur based by-product supply contracts so that related risks are minimized. Generally, Chemtrade strives to reduce the risk associated with its producers by entering into contracts that are either risk shared, fee based or that match purchases with pre-arranged sales, thereby ensuring a margin on the transaction. Chemtrade also seeks to differentiate its products with

customers and use its scale to obtain sale and raw materials contracts that mitigate price fluctuations.

Chemtrade manages the risks associated with its business by utilizing the following risk management program:

- Identify and quantify the effects of risks;
- Assign identified/quantified risks to a specific, accountable manager, who is responsible for managing/mitigating the risk;
- Identify a mechanism to either transfer the identified risks or otherwise to mitigate its effect; and
- Make further recommendations and review conclusions with the Board as appropriate.

#### **CHANGES IN ACCOUNTING POLICIES**

##### *Hedging Relationships -*

Accounting Guideline 13 ("AcG 13"), issued by the Canadian Institute of Chartered Accountants, is effective for Chemtrade's 2004 fiscal year. AcG 13 specifies the circumstances in which hedge accounting is appropriate, including the identification, documentation, designation and effectiveness of hedges, and the discontinuance of hedge accounting.

Chemtrade has entered into a series of foreign exchange forward contracts, which are classified as hedging relationships, in order to mitigate its foreign exchange risk related to the U.S./Canadian dollar exchange rate on dividends and interest paid to Canadian operating companies by U.S. subsidiaries.

As noted above, Chemtrade has entered into a swap agreement with its principal bankers which fixes the interest rate on all of its current outstanding term debt.

Chemtrade considers that both of these hedge instruments are effective hedges. Chemtrade reviews the effectiveness of hedge instruments on a quarterly basis. If management concluded that these hedge instruments were no longer effective, they would be marked-to-market and the effect would be recorded in income.

##### *Asset Retirement Obligations -*

Section 3110 of the CICA Handbook, Asset Retirement Obligations, is applicable for Chemtrade's 2004 fiscal year. Under this standard, 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 useful life and included in depreciation and amortization expense on the Consolidated Statement of Earnings. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion of asset retirement obligation in the Consolidated Statement of Earnings. Actual expenditures incurred are charged against the accumulated obligation.

During the first quarter of 2004, Chemtrade completed an analysis of existing properties. This analysis reviewed existing contracts (leases, etc.) and current statutory requirements, and management has determined that a provision for retirement obligations is not currently required.

## **OUTLOOK**

The outlook for most of our products remains favourable. The acid market both internationally and in North America remains tight and the SO<sub>2</sub> market appears to have stabilized. Sodium hydrosulphite and sodium chlorate should benefit from the stronger markets our customers expect in 2004. A strengthening of the Canadian dollar vs. the U.S. dollar will adversely affect Chemtrade but the addition of the Pulp Chemicals Business for all of 2004 and Chemtrade's hedging initiatives will help mitigate this factor. Finally, we expect that 2004 will see less seasonal differences between the first and last half of the year than we experienced in 2003. However, similar to 2003 we expect that the second quarter of 2004 should represent our lowest distributable cash earnings as we incur planned maintenance shutdowns in most areas of our business and therefore a disproportionate share of our annual capital expenditures during this quarter.

Chemtrade believes that cash generated from operating activities will be sufficient to meet all of its ongoing cash requirements including its indicated distribution target of \$1.80 for the 2004 year.

## **OTHER**

Additional information concerning Chemtrade, including the Annual Information Form, is filed on SEDAR, and can be accessed at [www.sedar.com](http://www.sedar.com).

# CHEMTRADE LOGISTICS INCOME FUND

## Unitholder Information

### Chemtrade Logistics Inc.

#### **Officers**

**Mark Davis**  
President & CEO

**Victor Wells**  
Vice-President, Finance & CFO

**Claudio D'Ambrosio**  
Chief Operating Officer

**Doug Cadwell**  
Vice-President,  
Sulphur Products & Performance Chemicals

**Ernst Kohler**  
President  
BCT Chemtrade Corporation

**Mary Abbott**  
Corporate Secretary

#### **Head Office**

111 Gordon Baker Road  
Suite 301  
Toronto, Ontario  
M2H 3R1

Tel: (416) 496-5856  
Fax: (416) 496-9942

Website: [www.chemtradelogistics.com](http://www.chemtradelogistics.com)

#### **Stock Exchange Listing**

The Toronto Stock Exchange  
Stock symbol: CHE.UN

#### **Transfer Agent and Registrar**

CIBC Mellon Trust Company  
P. O. Box 7010  
Adelaide Street Postal Station  
Toronto, Ontario  
M5C 2W9

Answerline: Toronto (416) 643-5500  
Toll Free 1-800-387-0825  
Email: [inquiries@cibcmellon.com](mailto:inquiries@cibcmellon.com)

Website: [www.cibcmellon.com](http://www.cibcmellon.com)

#### **Investor Information**

Unitholders or other interested parties seeking financial information about the Fund are invited to call:

Victor Wells  
Vice-President, Finance & CFO  
(416) 496-5856