



President's Letter

Although Chemtrade faced some operational challenges in the second quarter, overall results for the period met our expectations.

As noted in our first quarter report, planned maintenance shutdowns at our SHS plant in Leeds, South Carolina and at the Sudbury Inco smelter took place in the second quarter and, as expected, had some impact on Chemtrade's business by reducing supply from these facilities. Further, the Inco Sudbury smelter remained shut down after May 31 as the result of a strike, creating additional challenges in sulphuric acid supply. Results were also affected by the stronger Canadian dollar.

The Fund's results for the second quarter and six months include the SHS acquisition that was completed on December 30, 2002. Hence, they are not directly comparable with the same periods last year.

Revenue for the second quarter was \$68 million, and net earnings were \$3.3 million. Cash available for distribution of \$6.5 million, or \$0.40 per unit, was generated from earnings before interest, income taxes, depreciation and amortization (EBITDA) of \$9.2 million. For the second quarter of 2002, revenue was \$51.4 million, and net earnings \$1.6 million. Distributable cash was \$5.4 million (\$0.41 per unit), which was generated from EBITDA of \$6.5 million.

For the six months ended June 30, 2003 cash available for distribution was \$14.1 million (2002: \$11.7 million), or \$0.87 per unit (2002: \$0.90). EBITDA was \$18.9 million (2002: \$13.7 million), revenue was \$135.4 million (2002: \$101.4 million) and net income was \$8.1 million (2002: \$5.7 million).

Note: Per unit figures are based on 16,167,106 units outstanding at June 30, 2003 and 13,016,900 outstanding at June 30, 2002.

Distributions

Distributions attributable to the second quarter totaled \$0.44 per unit, including the supplemental distribution for the quarter of \$0.11 per unit. Distributions attributable to the first six months of 2003 total \$0.88 per unit.

Operations

Notwithstanding the Inco labour disruption, North American operations were close to expectations for the second quarter. We were able to supply the majority of our sulphuric acid customers from inventory and alternative sources of supply. Sales of SHS were below expectations due to lower demand for powder SHS as a result of Canadian pulp and paper mills processing high quality chips that require less bleaching.

BCT Chemtrade's results were ahead of expectations. Sales volumes were higher than in the first quarter of the year, and the continuing tight conditions in the sulphuric acid market provided opportunities for profitable spot sales.

Outlook

Effective July 1, Inco is obligated to mitigate the financial impact of Chemtrade purchasing sulphuric acid from alternative sources in order to supply our customer base. With this in place, and the seasonally stronger second half for SHS, we believe the business will continue to support our current rate of distributions.

Mark Davis
President and Chief Executive Officer

July 21, 2003

CHEMTRADE LOGISTICS INCOME FUND

Consolidated Balance Sheet

(in thousands of dollars)

	June 30, 2003 (unaudited)	December 31, 2002
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,155	\$ 21,338
Accounts receivable	36,722	28,515
Inventories	10,855	9,890
Prepaid expenses and other assets	1,027	690
	54,759	60,433
Property, plant and equipment	115,131	139,789
Deferred charges	1,646	2,303
Future tax asset	1,396	980
Goodwill	50,996	52,909
Other intangibles	37,357	36,765
	\$ 261,285	\$ 293,179
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Operating line of credit	\$ 2,423	\$ -
Accounts payable	25,419	22,567
Accrued liabilities	8,908	12,801
Distributions payable	1,778	1,606
Income taxes payable	1,107	1,456
Current portion of long-term debt	900	900
	40,535	39,330
Long-term debt	53,447	63,375
Minority interest	186	429
Unitholders' equity		
Units (note 4)	159,919	158,321
Convertible debentures (note 5)	39,402	41,000
Foreign currency translation adjustment	(13,515)	1,301
Deficit	(18,689)	(10,577)
	167,117	190,045
	\$ 261,285	\$ 293,179

CHEMTRADE LOGISTICS INCOME FUND

Consolidated Statement of Operations and Deficit

(in thousands of dollars)

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Revenue	\$ 68,026	\$ 51,410	\$ 135,395	\$ 101,411
Cost of sales and services	53,807	41,159	105,917	80,233
Gross profit	14,219	10,251	29,478	21,178
Selling, general, administrative and other costs	4,973	3,782	10,563	7,507
Earnings before the under-noted	9,246	6,469	18,915	13,671
Depreciation and amortization	4,497	2,576	9,398	5,172
Net interest expense	577	349	1,131	661
Earnings before income taxes and minority interest	4,172	3,544	8,386	7,838
Income taxes				
Current	336	247	557	631
Future	462	1,485	(267)	1,271
	798	1,732	290	1,902
Earnings before minority interest	3,374	1,812	8,096	5,936
Minority interest	45	185	33	241
Net earnings	3,329	1,627	8,063	5,695
Deficit, beginning of period	(13,899)	(2,383)	(10,577)	(1,505)
Distributions				
Convertible debentures	(1,009)	-	(2,125)	-
Units	(7,110)	(5,337)	(14,050)	(10,283)
Deficit, end of period	\$(18,689)	\$ (6,093)	\$(18,689)	\$ (6,093)
Earnings per unit (note 4)				
Basic	\$0.14	\$0.13	\$0.37	\$0.44
Diluted	\$0.14	\$0.13	\$0.37	\$0.44

CHEMTRADE LOGISTICS INCOME FUND

Consolidated Statement of Cash Flows

(in thousands of dollars)

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Cash provided by (used in):				
Operating activities:				
Net earnings	\$ 3,329	\$ 1,627	\$ 8,063	\$ 5,695
Items not affecting cash:				
Depreciation and amortization	4,497	2,576	9,398	5,172
Future income taxes	462	1,485	(267)	1,271
Minority interest	45	185	33	241
Unrealized foreign exchange (gain) loss	101	(10)	(15)	(1)
	8,434	5,863	17,212	12,378
Increase in working capital	(1,842)	(364)	(13,032)	(5,507)
	6,592	5,499	4,180	6,871
Financing activities:				
Distributions to unitholders	(7,114)	(5,207)	(13,878)	(10,153)
Distributions to convertible debenture holders	(1,009)	-	(2,125)	-
Payment of dividends by subsidiary to minority shareholders	-	(380)	(239)	(380)
Payment of long-term debt	(900)	(1,300)	(900)	(1,300)
Deferred financing charges	-	(384)	-	(384)
	(9,023)	(7,271)	(17,142)	(12,217)
Investing activities:				
Additions to property, plant and equipment	(740)	(319)	(976)	(440)
Goodwill addition	-	(241)	-	(241)
Purchase of customer contracts	(1,260)	-	(1,260)	-
	(2,000)	(560)	(2,236)	(681)
Effect of exchange rates on cash held in foreign currencies	(101)	10	15	1
Decrease in cash and cash equivalents	(4,532)	(2,322)	(15,183)	(6,026)
Cash and cash equivalents – beginning of period	10,687	14,043	21,338	17,747
Cash and cash equivalents – end of period	\$ 6,155	\$ 11,721	\$ 6,155	\$ 11,721
Supplemental information:				
Cash taxes paid	\$ 492	\$ 160	\$ 906	\$ 400
Cash interest paid	\$ 2,657	\$ 807	\$ 3,208	\$ 992
Cash interest received	\$ 26	\$ 64	\$ 99	\$ 113

CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

(Dollar amounts in thousands)

(Unaudited)

June 30, 2003

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 consolidated financial statements of the Fund for the year ended December 31, 2002. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Fund's annual report for the year ended December 31, 2002.

2. ACQUISITIONS:

The Fund acquired certain assets of the SHS business on December 30, 2002 and these assets were included in the consolidated balance sheet at December 31, 2002. These interim financial statements include the results of this acquisition since that date. Currently no amount of the purchase price has been allocated to other intangibles or goodwill. The Fund is evaluating the value of intangibles including the value of customer contracts and relationships. The results of this review will be completed by December 31, 2003 and may result in a reallocation from property, plant and equipment to other intangibles.

3. PURCHASE OF CUSTOMER CONTRACTS:

On May 22, 2003 the Fund purchased certain customer contracts and assets relating to the SHS product from Benco International LLC ("Benco"), a non-related party, for total cash consideration of \$1,260 (US\$911).

The purchase price is subject to contingent consideration up to a maximum amount of US\$370. As at June 30, 2003 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)

June 30, 2003

4. UNITS:

(a) Outstanding:

	Number of Units	Amount
Units		
Balance - beginning	16,056,900	\$ 158,321
Issued (note 5)	110,206	1,598
Balance - ending	16,167,106	\$ 159,919

(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 and the six months ended June 30, 2003 which amounted to 16,167,106 units and 16,138,642 units respectively (2002 – 13,016,900 and 13,016,900 respectively). 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.

5. CONVERTIBLE DEBENTURES:

Convertible debentures totalling \$1,598 were converted into 110,206 units during the three months ended March 31, 2003.

CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

(Dollar amounts in thousands)

(Unaudited)

June 30, 2003

6. BUSINESS SEGMENTS:

The Fund operates in two business segments: North America and International.

North American operations remove, produce and market three major products – sulphuric acid (“acid”), liquid sulphur dioxide (“SO₂”) and sodium hydrosulphite (“SHS”). These products are marketed primarily to North American customers.

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

Three Months Ended June 30, 2003

	North America	International	Total
Revenue from external customers	\$ 50,033	\$ 17,993	\$ 68,026
Inter-segment revenues	-	2,331	2,331
Earnings before interest, income taxes, depreciation and amortization	7,698	1,548	9,246
Depreciation and amortization	4,428	69	4,497
Interest expense (net)	589	(12)	577
Income tax expense	636	162	798
Minority interest	-	45	45
Net earnings	2,045	1,284	3,329
Total assets	220,152	41,133	261,285
Goodwill	27,246	23,750	50,996
Capital expenditures	735	5	740

CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

(Dollar amounts in thousands)

(Unaudited)

June 30, 2003

6. BUSINESS SEGMENTS (continued):

Three Months Ended June 30, 2002

	North America	International	Total
Revenue from external customers	\$ 30,587	\$ 20,823	\$ 51,410
Inter-segment revenues	-	1,436	1,436
Earnings before interest, income taxes, depreciation and amortization	4,554	1,915	6,469
Depreciation and amortization	2,475	101	2,576
Interest expense (net)	376	(27)	349
Income tax expense	1,468	264	1,732
Minority interest	-	185	185
Net earnings	235	1,392	1,627
Total assets	139,614	45,429	185,043
Goodwill (restated)	28,747	23,833	52,580
Capital expenditures	147	172	319

CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

(Dollar amounts in thousands)

(Unaudited)

June 30, 2003

6. BUSINESS SEGMENTS (continued):

Six Months Ended June 30, 2003

	North America	International	Total
Revenue from external customers	\$ 102,114	\$ 33,281	\$135,395
Inter-segment revenues	-	3,209	3,209
Earnings before interest, income taxes, depreciation and amortization	16,084	2,831	18,915
Depreciation and amortization	9,249	149	9,398
Interest expense (net)	1,152	(21)	1,131
Income tax expense	31	259	290
Minority interest	-	33	33
Net earnings	5,652	2,411	8,063
Total assets	220,152	41,133	261,285
Goodwill	27,246	23,750	50,996
Capital expenditures	971	5	976

CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

(Dollar amounts in thousands)

(Unaudited)

June 30, 2003

6. BUSINESS SEGMENTS (continued):

Six Months Ended June 30, 2002

	North America	International	Total
Revenue from external customers	\$ 62,046	\$ 39,365	\$ 101,411
Inter-segment revenues	135	2,213	2,348
Earnings before interest, income taxes, depreciation and amortization	10,405	3,266	13,671
Depreciation and amortization	4,973	199	5,172
Interest expense (net)	712	(51)	661
Income tax expense	1,479	423	1,902
Minority interest	-	241	241
Net earnings	3,241	2,454	5,695
Total assets	139,614	45,429	185,043
Goodwill (restated)	28,747	23,833	52,580
Capital expenditures	263	177	440

CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

(Dollar amounts in thousands)

(Unaudited)

June 30, 2003

6. 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

	Three Months Ended		Six Months Ended June 30	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
North America	\$ 50,033	\$ 30,587	\$ 102,114	\$ 62,046
Europe	17,993	20,823	33,281	39,365
	\$ 68,026	\$ 51,410	\$ 135,395	\$ 101,411

Property, Plant and Equipment, Goodwill and Other Intangibles

	June 30, 2003	June 30, 2002
North America	\$ 176,989	\$ 113,457
Europe	26,495	26,922
	\$ 203,484	\$ 140,379

For the six months ended June 30, 2003, the Fund obtained product from a producer that accounted for 18.5% of the Fund's total revenue.

CHEMTRADE LOGISTICS INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2003

Chemtrade Logistics Income Fund ("Chemtrade" or the "Fund") is one of the world's largest marketers of sulphur-based chemicals. Chemtrade's major products are sulphuric acid ("acid") liquid sulphur dioxide ("SO₂") and sodium hydrosulphite ("SHS"). Chemtrade also markets elemental sulphur.

The information in this MD&A is supplemental to, and should be read in conjunction with the Fund's unaudited consolidated financial statements for the six-month period ended June 30, 2003 as well as the audited consolidated financial statements and the related Management's Discussion and Analysis contained in the 2002 Annual Report. 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.

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. Neither EBITDA nor Distributable Cash is a recognized measure under accounting principles generally accepted in Canada ("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 reconciliation of EBITDA to Net Earnings is found on Page 2 and a definition and calculation of Distributable Cash is on Page 7.

HIGHLIGHTS

(\$'000 except per unit amounts)

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
EBITDA	\$ 9,246	\$ 6,469	\$18,915	\$13,671
Less:				
Non-cash charges	4,497	2,576	9,398	5,172
Net interest expense	577	349	1,131	661
Taxes	798	1,732	290	1,902
Minority interest	45	185	33	241
Net Earnings	<u>\$ 3,329</u>	<u>\$ 1,627</u>	<u>\$ 8,063</u>	<u>\$ 5,695</u>
Net Earnings per unit - Basic	\$ 0.14	\$ 0.13	\$ 0.37	\$ 0.44
- Diluted	\$ 0.14	\$ 0.13	\$ 0.37	\$ 0.44
EBITDA per unit ⁽¹⁾	\$ 0.57	\$ 0.50	\$ 1.17	\$ 1.05
Distributable Cash	\$ 6,539	\$ 5,369	\$14,093	\$11,698
Distributable Cash per unit ⁽¹⁾	\$ 0.40	\$ 0.41	\$ 0.87	\$ 0.90
Distributions declared	\$ 7,110	\$ 5,337	\$14,050	\$10,283
Distributions declared per unit ⁽¹⁾	\$ 0.44	\$ 0.41	\$ 0.87	\$ 0.79
Distributions paid	\$ 7,114	\$ 5,207	\$13,878	\$10,153
Distributions paid per unit ⁽¹⁾	\$ 0.44	\$ 0.40	\$ 0.86	\$ 0.78

⁽¹⁾ Based on number of units outstanding at period end as follows:
June 30, 2003 – 16,167,106; June 30, 2002 – 13,016,900

CONSOLIDATED OPERATING RESULTS

In total, consolidated financial results for the second quarter of 2003 met expectations. Results for second quarter of 2003 were affected by planned maintenance shutdowns at Chemtrade's SHS plant in South Carolina, and at the Inco smelter in Sudbury, Ontario, which reduced available product at both of these facilities. Financial results were also affected by a stronger Canadian dollar. An unplanned ongoing labour disruption at the Inco operations in Sudbury, a major supplier of sulphur-based products, affected operations but not financial results in the second quarter of 2003. Results for the first six months of 2003 compared to 2002 were increased as a result of the purchase of the SHS assets, which was completed on December 30, 2002.

Revenue for the second quarter of 2003 was \$68.0 million compared to \$51.4 million for the second quarter of 2002. Revenues for the first six months of 2003 and 2002 were \$135.4 million and \$101.4 million respectively. The acquisition of the SHS assets was the major reason for the increased revenues.

Net earnings for the second quarter and the first six months of 2003 were \$3.3 million and \$8.1 million respectively. Earnings per unit for the applicable periods were \$0.14 and \$0.37 respectively, both basic and diluted. For the comparable periods of 2002, net earnings were \$1.6 million and \$5.7 million (\$0.13 and \$0.44 per unit).

EBITDA for the second quarter of 2003 was \$9.2 million and \$18.9 million for the six months ended June 30. This compares with \$6.5 million and \$13.7 million for the comparable periods of 2002. EBITDA in both the second quarter and for the six-month period increased in 2003 compared to 2002 primarily due to the additional EBITDA generated by the newly acquired SHS assets.

North America –

North America business generated \$7.7 million of EBITDA in the second quarter of 2003 which was close to expectations. For the first six months of 2003, EBITDA of the North America business was \$16.1 million. For 2002, EBITDA for the North America business was \$4.6 million and \$10.4 million for the second quarter and first six months respectively.

Sulphur Products contribution in the second quarter of 2003 was close to expectations, notwithstanding the Inco labour disruption. Chemtrade was able to supply the majority of its customer base from inventory and alternative sources during June. As the market for spot purchases of acid is very tight, both in North America and internationally, spot purchases were made at an increased cost, the majority of which has been recovered from customers. Commencing in July 2003, Inco is contractually required to mitigate the financial impact resulting from Chemtrade purchasing sulphuric acid from alternative sources in order to supply its customer base.

Results for SO₂ were less than expected during both the second quarter and the first six months of 2003. Sales volumes were affected by the maintenance shutdown of the SHS plant, which is a significant customer for SO₂. Although Chemtrade's supply of SO₂ from Inco has been affected by the Inco labour disruption, there is SO₂ available in the spot market and Chemtrade has been able to supply its customers satisfactorily.

SHS products, which was purchased in December 2002, generated less than expected earnings in the second quarter of 2003. Sales volumes for powder SHS were less than expected primarily due to high quality chips at Canadian mills. In addition, the planned two-week maintenance shutdown at the Leeds, South Carolina plant reduced production resulting in higher fixed costs per unit in the quarter. Since earnings are generated in U.S. dollars, foreign exchange had an adverse effect on results as outlined below. Other SHS products were near expected contribution level for the second quarter and for the six months ended June 30, 2003.

International –

International sales of sulphuric acid and elemental sulphur are the responsibility of BCT Chemtrade (“BCT”). In the second quarter and for the first six months of 2003, BCT generated EBITDA of \$1.5 million and \$2.8 million respectively, and both results exceeded expectations. Comparable numbers for 2002 are \$1.9 million and \$3.3 million. Year-to-date EBITDA in 2003 was less as a result of reduced acid volume.

Sales volumes of sulphuric acid exceeded expectations for the second quarter of 2003 although year-to-date volumes were slightly less than expectations. However, as a result of improved margins, EBITDA generated by BCT exceeded expectations in both the second quarter and for the first six months of 2003. The tight market for sulphuric acid in the international market place allowed BCT to record spot sales in the second quarter.

Foreign Exchange –

The reporting currency for the Fund’s U.S. operating subsidiaries and 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 2003 expected exchange rate (\$0.65) approximately 60% of both EBITDA and distributable cash are generated in U.S. dollars. A \$0.01 increase or decrease in the exchange rate of the Canadian/U.S. dollar from the 2003 expected rate would affect distributable cash by approximately \$0.2 million annually, although this exposure is mitigated by the risk sharing nature of certain contracts.

The increase in the value of the Canadian dollar has resulted in a compression of U.S. generated earnings when translated into Canadian dollars, and significant changes in the carrying value of certain assets and liabilities as the rate of exchange used to translate U.S. denominated balances has moved from \$0.634 at December 31, 2002 to \$0.743 at June 30, 2003. The significant change in the exchange rate between the Canadian and U.S. dollar is the main factor in the change in the foreign currency translation adjustment account since December 31, 2002.

Chemtrade has reviewed expected cash flows for the balance of 2003. Chemtrade’s U.S. dollar denominated debt continues to hedge a portion of the U.S. dollar cash flow. At this point, Chemtrade has not hedged the exposure resulting from the planned transfer of U.S. dollars to Canada, since the main effect is a reduction in the Canadian dollar equivalent of earnings realized in U.S. dollars. We will continue to monitor the expected cash flows, and would enter into hedge instruments at the appropriate time.

See Risks and Uncertainties for additional comments on Foreign Exchange.

SELLING, GENERAL AND ADMINISTRATION

Selling, general and administration expenses totaled \$5.0 million (7.3% of revenue) for the second quarter of 2003 and \$10.6 million (7.8% of revenue) for the first six months of 2003. Comparable numbers for 2002 are \$3.8 million and \$7.5 million respectively, both 7.4% of revenue.

Additional administrative costs resulting from the acquisition of the SHS assets in December 2002 amounted to \$1 million in each of the first two quarters of 2003.

INTEREST EXPENSE

Interest expense, net of interest income, was \$0.6 million in the second quarter of 2003 (\$1.1 million for the first six months of 2003) compared with \$0.3 million and \$0.7 million respectively for 2002. The interest rate on the original term debt of US\$24 million, drawn at the time of the Fund's purchase of the Chemtrade business, which was fixed until June 2003 at 4.19%, will now vary, based on three month Libor, between 6.55% and 7.65% until maturity on May 31, 2005.

The interest rate on the US\$15 million term debt drawn at the time of the acquisition of the SHS assets has been fixed until December 2003 at 3.44%.

As the 10% convertible debentures issued in December 2002 in connection with the purchase of the SHS assets are grouped with equity on the balance sheet of the Fund, the related interest is shown as a distribution to unitholders and included in Deficit. The amount of interest payable on these debentures is classified as a deduction from EBITDA in arriving at the amount of distributable cash generated in the quarter.

The balance of interest expense arises on debt due to Marsulex Inc. and stand-by fees paid on the unused portion of the available operating line of credit.

INCOME TAXES

The increase in current income taxes in the second quarter of 2003 compared to 2002 reflects the additional tax cost from expanded North American operations. On a year-to-date basis, 2003 current taxes are less than 2002 due to reduced earnings from an international subsidiary, as well as a reduction in applicable withholding taxes.

The decrease in future taxes for the second quarter and the six months ended June 30, 2003 compared to the same periods of 2002 is the net result of recognizing tax loss carry forwards and excess tax depreciation over book depreciation.

CASH FLOW AND LIQUIDITY

At June 30, 2003 Chemtrade's balance of cash and cash equivalents was \$6.2 million compared with \$21.3 million at December 31, 2002. The decline in cash balances reflects the build-up of working capital (accounts receivable and inventories) resulting from the sales/production of SHS, and the payment of costs associated with the acquisition during the first quarter of 2003. Cash flow from operations was \$6.6 million in the second quarter of 2003, compared with cash applied to operations of \$2.4 million in the first quarter of 2003.

Cash from Operations -

During the second quarter of 2003, Chemtrade's cash flow from operations was \$6.6 million (\$4.2 million for the first six months). Comparable numbers for 2002 are \$5.5 million and \$6.9 million respectively. Cash flow from operations increased in the second quarter of 2003 as working capital requirements for the SHS product line did not increase in the quarter. In addition, an increased emphasis on working capital management in the second quarter enabled cash flow from operations to return to its expected level.

Investing Activities -

During the second quarter of 2003 Chemtrade purchased customer contracts and certain related assets for \$1.3 million. The cost of the acquired customer contracts has been allocated to intangible assets.

Fixed asset additions in the second quarter, all of which were normal, ongoing additions, totaled \$0.7 million.

Financing Activities -

During the second quarter of 2003, a payment of \$0.9 million was made to Marsulex Inc. on the outstanding advance relating to the acquisition of certain assets at the time of the inception of Chemtrade. The remaining balance of \$1.8 million will be repaid in equal installments in the second quarter of each of 2004 and 2005.

During the quarter, no additional debentures were converted to units. Since January 2003, \$1.6 million of debentures have been converted into 110,206 units of the Fund.

Chemtrade has a \$10 million and a US\$6.5 million revolving line of credit available. Borrowings under these lines are limited to the available amount of security determined by current asset balances. At June 30, 2003, Chemtrade had utilized \$2.4 million of this credit (US\$1.8 million). Chemtrade had not drawn under this line in the six months ended June 30, 2002.

Chemtrade's long-term bank debt is denominated in U.S. currency and matures on May 31, 2005. The decrease in Chemtrade's long term debt since December 31, 2002 reflects the change in the foreign exchange rate of the U.S./Canadian dollar as the term loan is denominated in U.S. dollars.

DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

Distributable cash represents EBITDA, less expenditures on operating capital items, interest expense (net of interest income), current income taxes 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, and is a significant component of the total value received by unitholders in the period.

In the second quarter of 2003 Chemtrade's distributable cash amounted to \$6.5 million, and was \$14.1 million for the six months ended June 30. The comparable numbers for 2002 are \$5.4 million and \$11.7 million respectively. An analysis follows (tabular amounts in thousands):

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
EBITDA	\$ 9,246	\$ 6,469	\$18,915	\$13,671
Less:				
Capital expenditures	740	319	976	440
Interest ⁽¹⁾	1,586	349	3,256	661
Income taxes	336	247	557	631
Minority interest	<u>45</u>	<u>185</u>	<u>33</u>	<u>241</u>
Distributable cash	<u>\$ 6,539</u>	<u>\$ 5,369</u>	<u>\$14,093</u>	<u>\$11,698</u>
Distributable cash per unit	\$ 0.40	\$ 0.41	\$ 0.87	\$ 0.90
Based on units outstanding at period end of:	16,167,106	13,016,900	16,167,106	13,016,900

⁽¹⁾ Includes, in 2003, interest on 10% convertible debentures of \$1,009,000 in the second quarter and \$2,125,000 for the first six months.

Distributions –

During the second quarter and first six months of 2003 Chemtrade declared the following cash distributions (with comparable numbers for 2002):

Three and Six Months Ended June 30, 2003

Record Date	Payment Date	Distribution Per Unit	Total (\$ millions)
Three months ended June 30:			
April 28, 2003	April 30, 2003	\$ 0.11	\$ 1.8 ⁽¹⁾
April 30, 2003	May 30, 2003	0.11	1.7
May 30, 2003	June 30, 2003	0.11	1.8
June 30, 2003	July 31, 2003	<u>0.11</u>	<u>1.8</u>
Sub-Total		\$ 0.44	\$ 7.1
Three months ended March 31		<u>\$ 0.43</u>	<u>\$ 6.9</u>
Total for six months ended June 30		\$ 0.87	\$ 14.0

⁽¹⁾ Represents payment of supplemental distribution for first quarter of 2003

Three and Six Months Ended June 30, 2002

Record Date	Payment Date	Distribution Per Unit	Total (\$ millions)
Three months ended June 30:			
April 26, 2002	April 30, 2002	\$ 0.11	\$ 1.4 ⁽¹⁾
April 30, 2002	May 31, 2002	0.10	1.3
May 31, 2002	June 28, 2002	0.10	1.3
June 28, 2002	July 31, 2002	<u>0.10</u>	<u>1.3</u>
Sub-Total		\$ 0.41	\$ 5.3
Three months ended March 31		<u>\$ 0.38</u>	<u>\$ 4.9</u>
Total for six months ended June 30		\$ 0.79	\$ 10.2

⁽¹⁾ Represents payment of supplemental distribution for first quarter of 2002

For the second quarter of 2003, Chemtrade distributed \$0.44 per unit to unitholders, for total distributions of \$7.1 million. These distributions include both the distribution of \$0.11 per unit paid on April 30, 2003 to unitholders of record on March 31, 2003 and the supplemental distribution for the first quarter of 2003 of \$0.11 per unit paid on April 30, 2003, but do not include the June 2003 distribution of \$0.11 per unit to be paid July 31, 2003.

Distributions paid to unitholders in the first six months of 2003 total \$0.86 per unit (\$13.9 million in total). Distributions paid in the second quarter and first six months of 2002 were \$0.40 and \$0.78 per unit respectively. Total distributions in the applicable periods were \$5.2 million and \$10.2 million.

On July 18, 2003, Chemtrade declared a supplemental distribution for the second quarter of 2003 of \$0.11 per unit, payable on July 31, 2003 to unitholders of record on July 29, 2003.

RISKS AND UNCERTAINTIES

Chemtrade is one of the world's largest marketers of sulphur-based chemicals. Chemtrade manufactures certain products and obtains others through long term removal and service agreements with by-product producers. 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, the Fund is exposed to foreign exchange risks related to the payment of dividends and other transactions by its foreign subsidiaries. Currently the Fund has not hedged this risk, but could do so at any time by purchasing forward contracts in the amount of the expected cash inflows. Chemtrade will continue to review this foreign exchange exposure and review its current hedging plans.

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. The change in this account in the second quarter of 2003 reflects the strengthening of the Canadian dollar compared to the U.S. dollar in that period.

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 has programs in place to continually monitor the business risks that the Fund faces. During the second quarter of 2003, Chemtrade continued the work of profiling significant business risks facing the Fund, and will continue the assessment process. The assessment process involves the identification of the risks and measures their significance and likelihood of occurrence. For risks deemed to be significant, appropriate mitigation steps are implemented.

As noted in the Fund's IPO Prospectus dated July 12, 2001, the Fund is aware of proceedings having been undertaken by the Department of Justice in the United States relating to the sulphuric acid market. The Fund has received assurances from the Department of Justice that an arrangement, currently in place with Marsulex, will be extended to the Fund, and will ensure that the Fund has no criminal liability in this matter as long as the Fund complies with the requirements of the Department of Justice. The Fund intends to cooperate with the Department of Justice and comply with these requirements.

Marsulex has agreed to indemnify the Fund in respect of (1) any criminal liability relating to the proceedings, and (2) any civil claims of industry participants claiming damages as a result of conduct being investigated in these proceedings, and (3) any costs relating to defending against such liability or claims, provided that the Fund and Chemtrade comply with the requirements of the arrangement with the Department of Justice. For further information on this matter, see Page 56 of the Fund's IPO Prospectus.

OUTLOOK

The outlook for the sulphuric acid markets both internationally and in North America continues to be tight. The disruption of supply from Inco as a result of a labour dispute, will continue to create operational challenges for Chemtrade as we strive to meet the needs of our customers. Although Inco is contractually committed to mitigate the financial impact resulting from Chemtrade purchasing product in the market to meet our customers needs, there can be no assurance that the necessary supply of product will be available. Traditionally, the second half of the year has been stronger than the first for the SHS products, as SHS usage requirements increase in the latter part of the year.

CHEMTRADE LOGISTICS INCOME FUND

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