

Q3 2002



CHEMTRADE
LOGISTICS
INCOME FUND

President's Letter

Chemtrade Logistics Income Fund posted another strong performance for the third quarter of 2002. Both our North American operations and BCT Chemtrade exceeded expectations, reflecting the solid sales volumes of sulphuric acid, Chemtrade's major product.

For the three months ended September 30, 2002, cash available for distribution of \$5.5 million, or \$0.42 per unit, was generated from earnings before interest, taxes, minority interest, depreciation and amortization of \$6.9 million. Revenue for the period was \$52.2 million, and net earnings were \$2.3 million. The results include those of Chemtrade Logistics Inc., the Fund's wholly-owned subsidiary.

For the nine months ended September 30, 2002 cash available for distribution was \$17.2 million, or \$1.32 per unit. Earnings before interest, taxes, minority interest, depreciation and amortization were \$20.6 million, revenue was \$153.6 million and net earnings were \$8.0 million.

As the Fund commenced operations in July 2001, comparative numbers are for the period from July 18, 2001 to September 30, 2001.

Distributions

Distributions to unitholders for the third quarter totaled \$0.40 per unit, including the supplemental distribution for the quarter of \$0.10 per unit. Distributions attributable to 2002 earnings from January 1, 2002 to September 30, 2002 total \$1.18.

Operations

North American operations were ahead of expectations for the quarter. Gross profit of \$7.4 million, which was an improvement over the second quarter of this year, reflected lower product cost and stable conditions in our end-use customer markets.

BCT generated gross profit of \$2.6 million and reported a one-time gain of \$1.1 million resulting from the negotiated settlement of a contract in South America. Market conditions remained tight for BCT with little additional supply of sulphuric acid or sulphur available to enable them to take advantage of spot sales as they did in the latter part of 2001 and the first half of this year.

Outlook

We expect conditions in the sulphur and sulphuric acid markets both in North America and internationally to remain tight. While this may adversely impact our fourth quarter, we are confident that we will sustain the level of monthly distributions we have established. We also continue to review suitable opportunities to grow the business.

Mark Davis
President and Chief Executive Officer

October 25, 2002

Chemtrade Logistics Income Fund
Consolidated Balance Sheets
(in thousands of dollars)

	September 30, 2002	December 31, 2001
	(unaudited)	(audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 15,240	\$ 17,747
Accounts receivable	27,109	27,072
Inventories	2,906	4,011
Prepaid expenses and other assets	470	696
	45,725	49,526
Property, plant and equipment	51,026	58,203
Deferred charges	1,612	1,522
Goodwill	89,441	89,245
	\$ 187,804	\$ 198,496
Liabilities and Unitholders' Equity		
Current liabilities		
Accounts payable	\$ 18,580	\$ 20,652
Accrued liabilities	9,811	14,761
Income taxes payable	1,647	1,587
Current portion of long-term debt	900	-
	30,938	37,000
Long-term debt (Note 2)	39,941	38,271
Future tax liability	3,351	1,274
Minority interest	380	759
Unitholders' equity		
Units	121,229	121,229
Foreign currency translation adjustment	933	1,468
Deficit	(8,968)	(1,505)
	113,194	121,192
	\$ 187,804	\$ 198,496

Chemtrade Logistics Income Fund
Consolidated Statements of Operations and Deficit
(in thousands of dollars)

(unaudited)

	Period Ended		Year-To-Date	
	September 30, 2002	September 30, 2001 (Note 1)	September 30, 2002	September 30, 2001 (Note 1)
Revenue	\$ 52,211	\$ 43,841	\$ 153,621	\$ 43,841
Cost of sales and services	42,211	35,210	122,444	35,210
Gross profit	10,000	8,631	31,177	8,631
Selling, general, administrative and other costs	4,196	3,066	11,703	3,066
Gain on cancellation of contract (Note 3)	1,106	-	1,106	-
Earnings before depreciation, amortization, interest and income taxes	6,910	5,565	20,580	5,565
Depreciation and amortization	2,646	4,016	7,818	4,016
Net interest expense	333	301	994	301
Earnings before income taxes and minority interest	3,931	1,248	11,768	1,248
Income taxes				
Current	552	425	1,184	425
Future	578	(47)	1,848	(47)
Earnings before minority interest	2,801	870	8,736	870
Minority interest	468	118	709	118
Net earnings	2,333	752	8,027	752
Deficit, beginning of period	(6,094)	-	(1,505)	-
Distributions	(5,207)	(1,770)	(15,490)	(1,770)
Deficit, end of period	\$ (8,968)	\$ (1,018)	\$ (8,968)	\$ (1,018)
Weighted average number of units outstanding	13,016,900	13,016,900	13,016,900	13,016,900
Earnings per unit	\$ 0.18	\$ 0.06	\$ 0.62	\$ 0.06

Chemtrade Logistics Income Fund

Consolidated Statements of Cash Flows

(in thousands of dollars)

(unaudited)

	Period Ended		Year-To-Date	
	September 30, 2002	September 30, 2001 (Note 1)	September 30, 2002	September 30, 2001 (Note 1)
Cash provided by (used in):				
Operating activities:				
Net earnings for the period	\$ 2,333	\$ 752	\$ 8,027	\$ 752
Items not affecting cash:				
Depreciation and amortization	2,646	4,016	7,818	4,016
Future income taxes	578	(47)	1,848	(47)
Minority interest	468	118	709	118
Unrealized foreign exchange gain	(156)	-	(157)	-
	<u>5,869</u>	<u>4,839</u>	<u>18,245</u>	<u>4,839</u>
Decrease (Increase) in working capital	3,533	7,567	(1,974)	7,567
Cash generated from operations	<u>9,402</u>	<u>12,406</u>	<u>16,271</u>	<u>12,406</u>
Financing activities:				
Payment of dividends by subsidiary to minority shareholders	(704)	-	(1,084)	-
Payment of long-term debt	-	-	(1,300)	-
Deferred financing charges	(29)	-	(411)	-
Cash distributions paid to unitholders	(5,207)	(1,770)	(15,360)	(1,770)
Issue of units	-	130,169	-	130,169
Issuance costs	-	(8,940)	-	(8,940)
	<u>(5,940)</u>	<u>119,459</u>	<u>(18,155)</u>	<u>119,459</u>
Investment activities:				
Additions to property, plant and equipment	(99)	(273)	(539)	(273)
Goodwill adjustment	-	-	(241)	-
Acquisition of Chemtrade, excluding cash	-	(111,914)	-	(111,914)
	<u>(99)</u>	<u>(112,187)</u>	<u>(780)</u>	<u>(112,187)</u>
Effect of exchange rates on cash held in foreign currencies	156	-	157	-
Increase (Decrease) in cash and cash equivalents	<u>3,519</u>	<u>19,678</u>	<u>(2,507)</u>	<u>19,678</u>
Cash and cash equivalents – beginning of period	11,721	-	17,747	-
Cash and cash equivalents – end of period	<u>\$ 15,240</u>	<u>\$ 19,678</u>	<u>\$ 15,240</u>	<u>\$ 19,678</u>
Supplemental information:				
Cash taxes paid	\$ 459	\$ 266	\$ 859	\$ 266
Cash interest paid	\$ 408	\$ 62	\$ 1,400	\$ 62
Cash interest received	\$ 44	\$ 113	\$ 157	\$ 113

Chemtrade Logistics Income Fund

Notes to Consolidated Financial Statements
(Tabular amounts in thousands of dollars)

September 30, 2002
(unaudited)

1. Basis of presentation:

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. As the Fund has only operated since that date, the comparative figures presented are for the period from July 18, 2001 to September 30, 2001.

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, 2001 except as noted in Notes 2, 3 and 4. 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, 2001.

2. Long-term debt:

On May 31, 2002, the Fund's subsidiary, Chemtrade Logistics (U.S.) Inc. ("Chemtrade US"), finalized an amendment to its credit agreement. Previously, the term bank debt (the "facility") bore interest at rates that varied with Libor, had a term of five years and principal payments commenced in the fourth quarter of 2003.

Under the amendment, the facility is now non-amortizing until May 31, 2005, at which date it will be due and payable. The facility will bear interest at 3.81% until June 30, 2003.

Also during the second quarter of 2002, Chemtrade US entered into a one-year delay zero-cost interest rate collar agreement with its principal bankers. Under this agreement, effective June 30, 2003, Chemtrade will pay interest at a rate that is no less than 6.2% and no more than 7.3% until May 31, 2005.

The payment terms of the amount due to Marsulex Inc. were agreed to and accordingly a portion has been classified in long-term debt. Chemtrade will repay Marsulex Inc. \$900,000 in each of 2003, 2004 and 2005.

Chemtrade Logistics Income Fund

Notes to Consolidated Financial Statements
(Tabular amounts in thousands of dollars)

September 30, 2002
(unaudited)

3. Gain on cancellation of contract:

During the quarter the Fund's Chilean subsidiary negotiated, at the request of the customer, the termination of a long-term supply contract. The subsidiary received \$1,106,000 (US \$704,000) from the customer in exchange for cancelling the contract.

4. Comparative figures:

Certain comparative figures have been reclassified to conform with current year's financial statement presentation.

CHEMTRADE LOGISTICS INCOME FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE-MONTH PERIOD ENDED SEPTEMBER 30, 2002

Chemtrade Logistics Income Fund ("Chemtrade" or "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. Accordingly, as the Fund has only operated since that date, the comparative figures of the Fund for 2001 are for the period from July 18, 2001 to September 30, 2001.

HIGHLIGHTS

	Three Months Ended September 30, 2002	Period Ended September 30, 2001	Nine Months Ended September 30, 2002
EBITDA per unit ⁽¹⁾	\$0.53	\$0.43	\$1.58
Distributable cash per unit	\$0.42	\$0.34	\$1.32
Distributions declared per unit	\$0.40	\$0.23	\$1.19
Distributions paid per unit	\$0.40	\$0.14	\$1.18

⁽¹⁾ EBITDA is defined as earnings before interest, taxes, depreciation and amortization

RESULTS OF OPERATIONS

For the three-month period ended September 30, 2002, Chemtrade's revenues were \$52.2 million. \$29.7 million of revenue was generated from sales in North America, and \$22.5 million from international sales, principally in Europe and South America. For the nine months ended September 30, 2002, revenues were \$153.6 million; \$91.7 million in North America and \$61.9 million internationally. In both the third quarter and for the first nine months of 2002 total revenue exceeded expectations, as sales volumes of sulphuric acid, Chemtrade's major product, were strong. Gross profit of \$10.0 million for the third quarter was 19.2% of revenue. Comparable numbers for the nine-month period were \$31.2 million and 20.3%.

For the period ended September 30, 2001, Chemtrade's first period of operations, revenue was \$43.8 million of which \$21.5 million was from North American sales and \$22.3 million from international sales. Gross profit for the partial quarter was \$8.6 million, or 19.7% of revenue.

North America –

North America business generated \$7.4 million of gross profit in the third quarter of 2002, and \$22.8 million in the nine months ended September 30, 2002. Results for the third quarter of 2002 for North America exceeded expectations primarily as a result of lower cost product. The sulphuric acid market remains stable.

In the period ended September 30, 2001, North American operations generated gross profit of \$5.9 million, which was close to expectations, despite an unscheduled shutdown of operations at the Falconbridge Kidd Creek smelter during the month of August 2001.

Outside North America –

BCT Chemtrade generated gross profit of \$2.6 million which met expectations for the third quarter of 2002. A one-time gain of \$1.1 million resulting from the cancellation of a contract in South America contributed to the third quarter results. This amount is subject to the interest of the Chilean minority shareholders and applicable income taxes. If this one-time gain is excluded, BCT's results still exceeded expectations for the first nine months of 2002.

Both acid and sulphur continue to be in short supply in the current quarter, which makes it difficult to take advantage of increased prices in the spot market.

In the period ended September 30, 2001, gross profit for international business was \$2.7 million which exceeded expectations, principally as a result of increased spot sales primarily to South America.

SELLING GENERAL AND ADMINISTRATION

Selling, general and administration expenses were \$4.2 million for the third quarter of 2002, or 8.0% of revenue. For the nine months ended September 30, 2002, these expenses were \$11.7 million, or 7.6% of revenue. In the third quarter of 2001 selling and administrative expenses were \$3.1 million, or 7.0% of revenue. Total selling and administrative expenses incurred in the third quarter of 2002 were close to expectations. Savings realized in the quarter on data processing and other areas were offset by increased personnel costs. For the nine months ended September 30, 2002, these costs were in line with expectations, and savings in data processing and travel offset increased use of consultants and other professional advisors. Chemtrade remains focussed on a disciplined approach to the management of these costs.

DEPRECIATION AND AMORTIZATION

Chemtrade adopted the recommendations of the CICA Handbook concerning goodwill and other intangibles effective October 1, 2001. Accordingly, Chemtrade has not amortized goodwill since that date, and has completed the required impairment test of this asset during the third quarter of 2002.

INTEREST EXPENSE

Interest expense, net of interest income, was \$0.3 million in the third quarter of 2002, and \$1.0 million for the first nine months of 2002. Interest continues to be less than the Fund had expected, as Libor interest rates on its outstanding bank debt remains at low levels.

Chemtrade has negotiated an amendment to its existing credit agreement and also fixed the applicable interest rates for the year from July 1, 2002 to June 30, 2003 at 3.81% (all in basis).

In addition, Chemtrade has finalized a one-year delayed, zero-cost collar interest agreement with its principal bankers. The effect of this agreement is that interest on Chemtrade's outstanding loan for the period from June 2003 to May 2005 will be no less

than 6.15% (all in) and no more than 7.28% (all in) for the period. If the three-month Libor rate is between the underlying rates during the period, Chemtrade will pay the three-month rate, plus the Company's normal spread (currently 1.625%).

INCOME TAXES

The principal reason for the increase in the future tax liability in both the three month and the nine month periods ended September 30, 2002 is the difference between depreciation rates for tax and accounting purposes used in Chemtrade's wholly-owned U.S. subsidiary company. Other minor changes were the result of a reclassification of income tax liabilities.

Current income taxes reflect the increased earnings in Chemtrade's Chilean subsidiary.

CASH FLOW AND LIQUIDITY

In the third quarter of 2002, Chemtrade's cash flow from operations was \$9.4 million.

At September 30, 2002 cash and cash equivalents totaled \$15.2 million, compared to \$17.7 million at December 31, 2001. The decrease in cash reflects the cash distributions paid to unitholders and repayment of a portion of the amount due to Marsulex Inc.

Chemtrade has stated that its intention is to distribute approximately 75% of available cash generated each month, and to pay a supplemental distribution in the month following the quarter end. For the third quarter of 2002, Chemtrade declared a supplemental distribution of \$0.10 per unit on October 18, 2002, payable on October 31, 2002 to unitholders of record on October 29, 2002.

Chemtrade's non-current bank debt at September 30, 2002 was \$38.1 million, which compares to \$38.2 million at December 31, 2001. The loan is denominated in U.S dollars, and accordingly, the outstanding balance reflects the change in the U.S./Canadian dollar exchange rate since the year-end.

During the second quarter of 2002, Chemtrade reached agreement with its two principal bankers to amend its credit agreement. Chemtrade's term bank loan is now non-amortizing until May 31, 2005, when it is due and payable.

Fixed asset additions in the third quarter were \$0.1 million which was the expected level of capital expenditure. Chemtrade expects that capital additions will approximate \$1.0 million for the year, which is the planned level of maintenance capital expenditure.

DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

In the third quarter of 2002, Chemtrade earned \$5.5 million of distributable cash. An analysis follows (tabular amounts in millions):

	Three Months Ended September 30, 2002	Period Ended September 30, 2001	Nine Months Ended September 30, 2002
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	\$6.9	\$5.5	\$20.6
Less:			
Capital expenditures	\$0.1	\$0.3	\$0.5
Interest	\$0.3	\$0.3	\$1.0
Income taxes	\$0.5	\$0.4	\$1.2
Minority interest	<u>\$0.5</u>	<u>\$0.1</u>	<u>\$0.7</u>
Sub-Total	\$1.4	\$1.1	\$3.4
Distributable cash	\$5.5	\$4.4	\$17.2

For the three and nine month periods ended September 30, 2002, distributable cash per unit, based on 13,016,900 units outstanding, was \$0.42 and \$1.32 respectively. Distributable cash for the period from July 18, 2001 to September 30, 2001 was \$0.34 per unit.

Distributions –

During the third quarter of 2002, Chemtrade declared the following cash distributions:

Record Date	Payment Date	Distribution Per Unit	Total (\$ millions)
July 29, 2002	July 31, 2002	\$0.10	\$1.3 ⁽¹⁾
July 31, 2002	Aug. 30, 2002	0.10	1.3
Aug. 30, 2002	Sept. 30, 2002	0.10	1.3
Sept. 30, 2002	Oct. 31, 2002	<u>0.10</u>	<u>1.3</u>
		\$0.40	\$5.2

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

For the first nine months of 2002, Chemtrade has distributed \$1.09 per unit to unitholders, for total distributions of \$14.2 million. These distributions include the 2001 supplemental distribution of \$0.11 per unit paid in February 2002, but do not include the September 2002 distribution of \$0.10 per unit to be paid October 31, 2002.

For the period from July 18, 2001 to September 30, 2001 Chemtrade paid distributions of \$0.136 per unit for a total amount of \$1.8 million.

RISKS AND UNCERTAINTIES

The risks and uncertainties that Chemtrade faces have not materially changed from those outlined in the MD&A included in the 2001 Annual Report.

OUTLOOK

The outlook for the sulphur and sulphuric acid markets both internationally and in North America continues to be tight. The tightening supply situation may adversely affect fourth quarter results, but Chemtrade remains optimistic that it can maintain the current rate of cash distributions for the balance of 2002.

CHEMTRADE LOGISTICS INCOME FUND

Unitholder Information

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Investor Information

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