

## NEWS RELEASE

### CHEMTRADE LOGISTICS INCOME FUND ANNOUNCES SECOND QUARTER RESULTS

**TORONTO**, July 21, 2005 – Chemtrade Logistics Income Fund (TSE: CHE.UN) today announced results for the three months ended June 30, 2005. Revenue for the period was \$104.7 million, and net earnings were \$2.7 million. Cash available for distribution of \$8.7 million, or \$0.37 per unit, was generated from earnings before interest, income taxes, depreciation and amortization (EBITDA) of \$12.1 million.

For the second quarter of 2004, revenue was \$90.0 million, and net earnings were \$3.5 million. Distributable cash was \$9.6 million (\$0.41 per unit), which was generated from EBITDA of \$12.7 million.

For the six months ended June 30, 2005 cash available for distribution was \$20.0 million (2004: \$21.9 million), or \$0.85 per unit (2004: \$0.96). EBITDA was \$25.5 million (2004: \$27.7 million), revenue was \$185.6 million (2004: \$170.8 million) and net earnings were \$6.9 million (2004: \$9.7 million).

*Note: The weighted average number of units outstanding for the second quarter of 2005 was 23,609,209 and 23,108,354 for the three months ended June 30, 2004. For the six-month periods ended June 30, 2005 and 2004, the weighted average number of units outstanding was 23,584,311 and 22,863,949 respectively. These numbers have been used to calculate per unit amounts for the respective quarterly and six-month results.*

#### **Distributions**

Distributions attributable to the second quarter total \$0.45 per unit, including the supplemental distribution for the quarter of \$0.12 per unit that was declared on July 18, 2005 and will be paid on July 29, 2005 to unitholders of record on July 27, 2005.

#### **Operations**

Mark Davis, President and Chief Executive Officer of Chemtrade, said, “Because of annual shutdowns of our Leeds SHS plant and our sodium chlorate plant in Prince George, distributable cash generated in the second quarter is traditionally the lowest of the year. This year, in addition to these shutdowns, distributable cash was also impacted by a maintenance shutdown at Inco, which is our largest supplier of sulphuric acid, and by a capital project that we brought forward from later in the year. Without the impact of these two items, distributable cash would have been essentially the same as last year, despite the continued increase in caustic soda prices that squeezed margins at Sulphur Products and Performance Chemicals (“SPPC”).”

SPPC reported EBITDA of \$8.2 million for the period compared with \$9.8 million in the same period in 2004. Results were affected by lower sulphuric acid sales volume as a result of the Inco maintenance shutdown, which lasted longer than planned, and by increasing costs for caustic soda, a major input in the production of SHS. Mr. Davis said even though inventory was built up in the first quarter in advance of the three-week shutdown, the extended duration of the shutdown resulted in lower volumes being available for sale compared with last year. Volume sales of SHS were in line with expectations, but significantly higher costs for caustic soda resulted in reduced margins.

Mr. Davis said Chemtrade has agreed to enter into a long term agreement with its major supplier of caustic soda, which will provide protection from price increases over the next year, and moving forward should reduce the cyclical impact of this raw material input.

Pulp Chemicals reported EBITDA of \$4.7 million for the second quarter compared with \$4.4 million in the second quarter of 2004, reflecting higher operating rates at Canfor, as well as additional volume from a new third party customer.

BCT Chemtrade, Chemtrade's international segment, reported EBITDA of \$1.9 million for the quarter. The results are not comparable with the same period last year because of the acquisition on May 1, 2005 of the sulphur removal business in Germany.

Mr. Davis said, "Improved results from Pulp Chemicals and International helped to offset some of the effects of the maintenance shutdowns and escalating caustic prices that affected our sulphur products and performance chemicals business in the second quarter. Looking ahead, we should benefit from the continuing strong demand for our products, as well as from the agreement on caustic soda costs and the full contribution of our newly acquired operations in Germany."

Chemtrade Logistics operates diversified businesses that provide industrial chemicals and services to customers in North America and around the world. Through marketing services agreements and its own production facilities, Chemtrade is one of the world's largest suppliers of sulphuric acid, liquid sulphur dioxide and sodium hydrosulphite. Chemtrade is also a leading regional supplier of sodium chlorate and elemental sulphur.

Certain statements contained in this news release 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 news release should not be unduly relied upon. These statements speak only as of the date of this news release. In particular, this news release 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. Further information can be found in the disclosure documents filed by Chemtrade Logistics Income Fund with the securities regulatory authorities, available at [www.sedar.com](http://www.sedar.com).

A conference call to review the annual results will be webcast live on [www.chemtradelogistics.com](http://www.chemtradelogistics.com) and [www.newswire.ca/webcast](http://www.newswire.ca/webcast) on Friday, July 22, 2005 at 10:00 a.m.

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# CHEMTRADE LOGISTICS INCOME FUND

## Consolidated Balance Sheet

(in thousands of dollars)

(unaudited)

	June 30, 2005	December 31, 2004 (Restated – note 2)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 6,967	\$ 10,554
Accounts receivable	51,622	44,731
Inventories	14,313	14,049
Prepaid expenses and other assets	2,431	1,385
	<b>75,333</b>	<b>70,719</b>
Property, plant and equipment	122,489	125,607
Deferred charges	2,911	3,453
Future tax asset	2,807	3,018
Other intangibles	113,604	104,354
Goodwill	49,916	49,708
	<b>\$ 367,060</b>	<b>\$ 356,859</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Operating line of credit	\$ 4,206	\$ 4,164
Accounts payable	32,293	32,850
Accrued liabilities	19,775	13,368
Distributions payable	2,598	2,582
Income taxes payable	2,518	2,247
Current portion of long-term debt (note 4)	-	900
	<b>61,390</b>	<b>56,111</b>
Long-term debt (note 4)	124,668	110,731
Post-employment benefits	2,957	412
Future tax liability	19	17
Minority interest	25	18
<b>Unitholders' equity</b>		
Units (note 5)	265,197	263,107
Equity component of convertible debentures (note 2)	160	180
Foreign currency translation adjustment	(19,300)	(19,963)
Deficit	(68,056)	(53,754)
	<b>178,001</b>	<b>189,570</b>
	<b>\$ 367,060</b>	<b>\$ 356,859</b>

See accompanying notes to consolidated financial statements

## CHEMTRADE LOGISTICS INCOME FUND

### Consolidated Statement of Operations and Deficit

(in thousands of dollars)

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2005	June 30, 2004 (Restated – note 2)	June 30, 2005	June 30, 2004 (Restated – note 2)
Revenue	\$ 104,666	\$ 89,975	\$ 185,569	\$ 170,839
Cost of sales and services	86,062	71,007	148,208	130,802
Gross profit	18,604	18,968	37,361	40,037
Selling, general, administrative and other costs	6,514	6,313	11,843	12,303
Earnings before the under-noted	12,090	12,655	25,518	27,734
Depreciation and amortization	7,063	7,713	14,250	15,047
Net interest and debt accretion expense (note 2)	1,902	1,811	3,493	3,768
Earnings before income taxes and minority interest	3,125	3,131	7,775	8,919
Income taxes				
Current	238	407	617	836
Future	137	(762)	212	(1,582)
	375	(355)	829	(746)
Earnings before minority interest	2,750	3,486	6,946	9,665
Minority interest	1	-	5	2
Net earnings	2,749	3,486	6,941	9,663
Deficit, beginning of period				
As previously stated	-	(32,376)	(53,629)	(28,315)
Change in accounting policy (note 2)	-	(93)	(125)	(78)
Deficit, beginning of period as restated	(60,181)	(32,469)	(53,754)	(28,393)
Distributions	(10,624)	(10,426)	(21,243)	(20,679)
Deficit, end of period	\$ (68,056)	\$ (39,409)	\$ (68,056)	\$ (39,409)
Earnings per unit (note 5)				
Basic	\$ 0.12	\$ 0.15	\$ 0.29	\$ 0.42
Diluted	\$ 0.12	\$ 0.15	\$ 0.29	\$ 0.42

See accompanying notes to consolidated financial statements

## CHEMTRADE LOGISTICS INCOME FUND

### Consolidated Statement of Cash Flows

(in thousands of dollars)

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2005	June 30, 2004 (Restated – note 2)	June 30, 2005	June 30, 2004 (Restated – note 2)
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Net earnings	\$ 2,749	\$ 3,486	\$ 6,941	\$ 9,663
Items not affecting cash:				
Depreciation and amortization	7,063	7,713	14,250	15,047
Future income taxes	137	(762)	212	(1,582)
Minority interest	1	-	5	2
Debt accretion expense (note 2)	8	10	16	26
Unrealized foreign exchange gain (loss)	36	(5)	73	-
	<b>9,994</b>	10,442	<b>21,497</b>	23,156
(Increase) decrease in working capital	<b>(907)</b>	1,287	<b>(3,625)</b>	2,405
	<b>9,087</b>	11,729	<b>17,872</b>	25,561
<b>Financing activities:</b>				
Increase in long-term debt	14,972	-	14,972	6,000
Distributions to unitholders	(10,624)	(10,395)	(21,228)	(20,575)
Payment of dividends by subsidiary to minority shareholders	-	-	-	(34)
Payment of long-term debt	(900)	(900)	(900)	(900)
Deferred financing charges	(311)	(6)	(523)	(1,680)
	<b>3,137</b>	(11,301)	<b>(7,679)</b>	(17,189)
<b>Investing activities:</b>				
Additions to property, plant and equipment	(1,554)	(1,031)	(1,927)	(1,714)
Acquisitions (note 3)	(11,780)	-	(11,780)	-
Additions to other intangibles	-	20	-	(3,472)
	<b>(13,334)</b>	(1,011)	<b>(13,707)</b>	(5,186)
Effect of exchange rates on cash held in foreign currencies	(36)	5	(73)	-
(Decrease) increase in cash and cash equivalents	<b>(1,146)</b>	(578)	<b>(3,587)</b>	3,186
Cash and cash equivalents – beginning of period	<b>8,113</b>	12,616	<b>10,554</b>	8,852
Cash and cash equivalents – end of period	<b>\$ 6,967</b>	\$ 12,038	<b>\$ 6,967</b>	\$ 12,038
<b>Supplemental information:</b>				
Cash taxes paid	\$ 56	\$ 284	\$ 345	\$ 540
Cash interest paid	2,230	2,427	3,429	3,702
Cash interest received	32	23	57	46

See accompanying notes to consolidated financial statements

# CHEMTRADE LOGISTICS INCOME FUND

## Notes to Consolidated Financial Statements

(Dollar amounts in thousands)

(Unaudited)

June 30, 2005

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### 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 interim consolidated financial 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, 2004 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 annual consolidated financial statements and the notes thereto.

### 2. CHANGE IN ACCOUNTING POLICY:

The Fund has retroactively adopted the requirements of the amended standard 3860, *Financial Instruments – Disclosure and Presentation*, approved by the Canadian Institute of Chartered Accountants in November 2004.

Previously, the principal balance of the Fund's outstanding 10% convertible debentures was included as a component of Unitholders' Equity. Under the amended standard, the convertible debentures are presented partially as debt and partially as equity. The principal is presented as long-term debt. The equity component, representing the holder's option to convert into units, is presented as part of Unitholder's equity. These components have been measured at their respective fair values of \$40,600 and \$400 at December 20, 2002, the date the convertible debentures were originally issued.

The liability component of convertible debentures increases to its face value over the term of the debenture. The offsetting charge to earnings is classified as debt accretion expense on the Consolidated Statement of Operations and Deficit. Conversions of debentures decreases the liability and the equity components of convertible debentures and increases the Fund's outstanding units.

These changes have no effect on the Fund's debt covenants as the debentures are subordinated to existing bank loans.

## 2. CHANGE IN ACCOUNTING POLICY (continued):

The beginning of period deficit for 2005 has been adjusted by \$125 (2004 - \$78) representing the cumulative effect of prior periods' debt accretion expense. The liability component at December 31, 2004 includes \$73 of accretion expense of prior periods and the units value was adjusted by \$52, representing debt accretion related to conversions of prior periods.

The interest expense related to convertible debentures, previously included as a distribution and a component of Deficit, has been reclassified as interest expense on the Consolidated Statements of Operations and Deficit. For the three months ended June 30, 2005 the interest expense amounted to \$422 (2004 - \$604) including debt accretion expense of \$8 (2004 - \$10). For the six months ended June 30, 2005 the interest expense amounted to \$858 (2004 - \$1,392) including debt accretion expense of \$16 (2004 - \$26).

## 3. SULPHUR REMOVAL BUSINESS ACQUISITION:

On May 1, 2005 the Fund completed the purchase of the outstanding shares of Ruhr Schwefelsäure GmbH and its subsidiary, Ruhr Transport GmbH (collectively, "RS"), for \$14,501 (€8,939). The Fund incurred transaction related costs of \$953. The purchase was financed by an increase in the Fund's term banking facility of \$14,972. Financing costs related to the banking facility of \$311 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 (net of cash acquired of \$3,674)	\$	(2,263)
Property, plant and equipment		2,122
Intangible assets		14,662
Post-employment benefits		(2,741)
Consideration paid in cash (net of cash acquired)	\$	11,780

Intangible assets include the value associated with vendor relationships. The allocation of the purchase price was based on information available at June 30, 2005. The final allocation of the acquisition has not been determined and is subject to finalization.

As the Sulphur Removal Business acquisition was completed on May 1, 2005 these financial statements include earnings of that business since that date.

#### 4. LONG-TERM DEBT:

	June 30, 2005	December 31, 2004
		(Restated – note 2)
Term bank debt		
US\$43,565 (2004 - US\$43,565)	\$ 53,385	\$ 52,365
Canadian dollars	54,972	40,000
Amount due to Marsulex Inc.	-	900
	<b>108,357</b>	93,265
Liability component of convertible debentures (note 2)	16,311	18,366
	<b>124,668</b>	111,631
Less: Current portion	-	900
<b>Long-term debt</b>	<b>\$124,668</b>	<b>\$ 110,731</b>

On March 11, 2005, the term bank debt was renewed and is now not due or payable until March 2009. The renewal fees of \$212 have been deferred and are being amortized over the term of the debt.

As part of the Sulphur Removal Business acquisition, the Fund increased its Canadian denominated dollar term debt by \$14,972. In addition the Fund entered into a Standby Letter of Credit for €4,950 in favour of an RS supplier which expires on May 1, 2006. The new term debt interest rate varies with the rate for Banker's Acceptances.

The outstanding amount due to Marsulex Inc. of \$900 was paid on May 1, 2005.

The Fund has swap arrangements with its principal bankers which fix interest rates on all of its U.S. dollar term debt and \$40,000 of its Canadian dollar denominated debt until March 2008. Under the swap arrangements, which are treated as hedges, the effective interest rate on the outstanding U.S. dollar debt is 4.72%. The effective interest rate on the \$40,000 Canadian dollar debt is 5.15%.

#### 5. UNITHOLDERS' EQUITY:

##### (a) Units Outstanding:

	Number of Units	Amount
Units		
Balance - January 1, 2005, as previously stated	23,470,459	\$263,055
Change in accounting policy (note 2)		52
Balance – January 1, 2005, as restated	23,470,459	263,107
Issued on conversion of debentures	143,581	2,090
Balance - June 30, 2005	23,614,040	\$265,197

## **5. UNITHOLDERS' EQUITY (continued):**

### **(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, 2005 which amounted to 23,609,209 units and 23,584,311 units respectively (2004 - 23,108,354 units and 22,863,949 units respectively). 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.

### **(c) Equity component of convertible debentures:**

For the three months ended June 30, 2005, 85 debentures were converted into units which resulted in an increase in units of \$85 and a decrease in the debt and equity components of convertible debentures of \$84 and \$1 respectively. For the six months ended June 30, 2005, 2,082 debentures were converted into units which resulted in an increase in units of \$2,090 and a decrease in the debt and equity components of convertible debentures of \$2,070 and \$20 respectively.

## **6. BUSINESS SEGMENTS:**

The Fund operates in four business segments: Sulphur Products and 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.

## 6. BUSINESS SEGMENTS (continued):

### Three Months Ended June 30, 2005

	SPPC	Pulp	Intl	Corp	Total
Revenue from external customers	\$ 46,360	\$ 12,624	\$ 45,682	\$ -	\$104,666
Inter-segment revenues	-	-	-	-	-
Earnings before interest, income taxes, depreciation and amortization and minority interest	8,163	4,739	1,900	(2,712)	12,090
Depreciation and amortization	4,524	2,372	167	-	7,063
Net interest and debt accretion expense	913	554	17	418	1,902
Income tax expense	90	-	285	-	375
Minority interest	-	-	1	-	1
Net earnings	2,636	1,813	1,430	(3,130)	2,749
Total assets	170,596	118,940	76,519	1,005	367,060
Goodwill	26,360	-	23,556	-	49,916
Other intangible assets	41,489	58,514	13,601	-	113,604
Capital expenditures	458	572	524	-	1,554

### Three Months Ended June 30, 2004

(Restated – note 2)

	SPPC	Pulp	Intl	Corp	Total
Revenue from external customers	\$50,765	\$11,997	\$ 27,213	\$ -	\$ 89,975
Inter-segment revenues	-	-	1,260	-	1,260
Earnings before interest, income taxes, depreciation and amortization, and minority interest	9,801	4,416	1,481	(3,043)	12,655
Depreciation and amortization	5,338	2,306	69	-	7,713
Net interest and debt accretion expense	679	525	8	599	1,811
Income tax expense	(512)	-	157	-	(355)
Minority interest	-	-	-	-	-
Net earnings	4,296	1,585	1,247	(3,642)	3,486
Total assets	215,967	122,545	45,181	2,146	385,839
Goodwill	27,232	-	23,747	-	50,979
Other intangible assets	46,072	63,919	-	-	109,991
Capital expenditures	680	347	4	-	1,031

## 6. BUSINESS SEGMENTS (continued):

### Six Months Ended June 30, 2005

	SPPC	Pulp	Intl	Corp	Total
Revenue from external customers	\$ 93,413	\$ 24,040	\$ 68,116	\$ -	\$185,569
Inter-segment revenues	-	-	624	-	624
Earnings before interest, income taxes, depreciation and amortization, and minority interest	17,691	9,890	3,263	(5,326)	25,518
Depreciation and amortization	9,202	4,818	230	-	14,250
Net interest and debt accretion expense	1,581	1,050	13	849	3,493
Income tax expense	327	-	502	-	829
Minority interest	-	-	5	-	5
Net earnings	6,581	4,022	2,513	(6,175)	6,941
Total assets	170,596	118,940	76,519	1,005	367,060
Goodwill	26,360	-	23,556	-	49,916
Other intangible assets	41,489	58,514	13,601	-	113,604
Capital expenditures	499	895	533	-	1,927

### Six Months Ended June 30, 2004 (Restated – note 2)

	SPPC	Pulp	Intl	Corp	Total
Revenue from external customers	\$102,792	\$23,970	\$ 44,077	\$ -	\$170,839
Inter-segment revenues	-	-	1,260	-	1,260
Earnings before interest, income taxes, depreciation and amortization, and minority interest	21,419	9,520	2,845	(6,050)	27,734
Depreciation and amortization	9,986	4,925	136	-	15,047
Net interest and debt accretion expense	1,414	969	8	1,377	3,768
Income tax expense	(1,087)	-	341	-	(746)
Minority interest	-	-	2	-	2
Net earnings	11,106	3,626	2,358	(7,427)	9,663
Total assets	215,967	122,545	45,181	2,146	385,839
Goodwill	27,232	-	23,747	-	50,979
Other intangible assets	46,072	63,919	-	-	109,991
Capital expenditures	1,071	639	4	-	1,714

**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.

	<b>June 30, 2005</b>	<b>June 30, 2004</b>	<b>June 30, 2005</b>	<b>June 30, 2004</b>
North America	\$ 58,984	\$ 62,762	\$ 117,453	\$ 126,762
Europe	45,682	27,213	68,116	44,077
	<u>\$ 104,666</u>	<u>\$ 89,975</u>	<u>\$ 185,569</u>	<u>\$ 170,839</u>

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

	<b>June 30, 2005</b>	<b>December 31, 2004</b>
North America	\$ 244,289	\$ 253,971
Europe	41,720	25,698
	<u>\$ 286,009</u>	<u>\$ 279,669</u>

For the six months ended June 30, 2005, the Fund obtained product from a producer and sold product to a customer that accounted for 14.3% (2004 - 19.8%) and 8.8% (2004 - 10.3%) of the Fund's total revenue respectively.

## **CHEMTRADE LOGISTICS INCOME FUND**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2005**

The information in this Management's Discussion and Analysis ("MD&A") is intended to assist in the understanding and assessment of the trends and significant changes in the results of operations and financial condition of Chemtrade Logistics Income Fund ("Chemtrade" or the "Fund") and its consolidated subsidiaries. This MD&A should be read in conjunction with the unaudited consolidated financial statements of the Fund for the three and six-month periods ended June 30, 2005, and provides an update to the MD&A in the Fund's Annual Report for the year ended December 31, 2004.

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

#### **FUND OVERVIEW**

The Fund commenced operations on July 18, 2001, when it completed its Initial Public Offering (its "IPO") and the acquisition of certain sulphur related assets and operations. Subsequent acquisitions of sodium hydrosulphite assets in 2002 (the "SHS assets") and sodium chlorate assets in 2003 and the Sulphur Removal Business in 2005 were financed by the issue of additional units and debt, and have resulted in the growth of Chemtrade's revenues and asset base.

#### **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. ("Chemtrade Inc."), Chemtrade Performance Chemicals Canada Inc. ("Performance") and Chemtrade Pulp Chemicals Limited Partnership ("Pulp Chemicals"). Chemtrade 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 and forms the International reporting segment. The results of the newly acquired Sulphur Removal Business will be included in the International reporting segment.

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.

The key objective of the Fund is to deliver reliable and sustainable distributions to Unitholders. In addition, management will seek opportunities to increase distributions to Unitholders that leverage the core competencies currently in place, and are accretive to Unitholders.

The business model that Chemtrade has developed is intended to mitigate the effect that changes in commodity prices and volumes could have on the Fund's 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.

## FINANCIAL HIGHLIGHTS

<i>(\$000 except per unit amounts)</i>	<b>Three Months Ended June 30, 2005</b>	<b>Three Months Ended June 30, 2004</b>	<b>Six Months Ended June 30, 2005</b>	<b>Six Months Ended June 30, 2004</b>
Revenue	\$ 104,666	\$ 89,975	\$ 185,569	\$ 170,839
Gross profit	\$ 18,604	\$ 18,968	\$ 37,361	\$ 40,037
Net earnings	\$ 2,749	\$ 3,486	\$ 6,941	\$ 9,663
Net earnings per unit - Basic	\$ 0.12	\$ 0.15	\$ 0.29	\$ 0.42
- Diluted	\$ 0.12	\$ 0.15	\$ 0.29	\$ 0.42
EBITDA <sup>(3)</sup>	\$ 12,090	\$ 12,655	\$ 25,518	\$ 27,734
EBITDA per unit <sup>(1)</sup>	\$ 0.51	\$ 0.55	\$ 1.08	\$ 1.21
Distributable cash <sup>(3)</sup>	\$ 8,677	\$ 9,563	\$ 19,975	\$ 21,857
Distributable cash per unit <sup>(1)</sup>	\$ 0.37	\$ 0.41	\$ 0.85	\$ 0.96
Distributions declared	\$ 10,624	\$ 10,426	\$ 21,243	\$ 20,679
Distributions declared per unit <sup>(2)</sup>	\$ 0.45	\$ 0.45	\$ 0.90	\$ 0.90
Distributions paid	\$ 10,624	\$ 10,395	\$ 21,228	\$ 20,575
Distributions paid per unit <sup>(2)</sup>	\$ 0.45	\$ 0.45	\$ 0.90	\$ 0.90
Calculation of EBITDA:				
Net earnings	\$ 2,749	\$ 3,486	\$ 6,941	\$ 9,663
Add:				
Depreciation and amortization	\$ 7,063	\$ 7,713	\$ 14,250	\$ 15,047
Net interest and debt accretion expense	\$ 1,902	\$ 1,811	\$ 3,493	\$ 3,768
Net taxes	\$ 375	\$ (355)	\$ 829	\$ (746)
Minority interest	\$ 1	\$ -	\$ 5	\$ 2
<b>EBITDA</b>	<b>\$ 12,090</b>	<b>\$ 12,655</b>	<b>\$ 25,518</b>	<b>\$ 27,734</b>

<sup>(1)</sup> Based on weighted average number of units outstanding for the period of:

	23,609,209	23,108,354	23,584,311	22,863,949
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<sup>(2)</sup> Based on actual number of units outstanding on record date.

<sup>(3)</sup> See comments concerning EBITDA and Distributable Cash on Page 4.

## **NON-GAAP MEASURES**

### *EBITDA -*

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

EBITDA is not a recognized measure under Canadian GAAP. Chemtrade's method of calculating EBITDA 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 3 of this report.

### *Distributable Cash -*

At Chemtrade, distributable cash represents cash from operating activities adjusted for changes in working capital and unrealized foreign exchange gains or losses, less expenditures on maintenance capital items and the minority shareholders' share of income of an operating subsidiary. Maintenance capital expenditures are those cash outlays required to maintain Chemtrade's plants and other equipment at normal operating and efficiency levels. Distributable cash is not a recognized measure under Canadian GAAP, and therefore Chemtrade's method of calculating distributable cash may differ from methods used by other companies. Management believes that distributable cash is an important metric, as it summarizes cash available for distribution to Unitholders.

## CONSOLIDATED OPERATING RESULTS

Consolidated revenue for the second quarter of 2005 was \$104.7 million, an increase of \$14.7 million from consolidated revenue of \$90.0 million recorded in the second quarter of 2004. Revenues for the first six months of 2005 and 2004 were \$185.6 million and \$170.8 million respectively. The acquisition of the Sulphur Removal Business on May 1, 2005 was the principal reason for the increase in International revenue of \$18.5 million for the second quarter and \$24.0 million for the first six months of 2005, which resulted in an increase in 2005 consolidated revenue. See **SULPHUR REMOVAL BUSINESS ACQUISITION**.

Net earnings and EBITDA for the second quarter of 2005 were \$2.7 million and \$12.1 million respectively compared to \$3.5 million and \$12.7 million respectively for the second quarter of 2004. Net earnings and EBITDA for the first six months of 2005 were \$6.9 million and \$25.5 million respectively. Comparable net earnings and EBITDA for the first six months of 2004 were \$9.7 million and \$27.7 million respectively. The decrease in consolidated 2005 net earnings and EBITDA is mainly attributed to SPPC's results which were impacted by reduced acid volumes and increased raw material costs.

## RESULTS OF OPERATIONS BY BUSINESS SEGMENT

### *Sulphur Products & Performance Chemicals -*

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Revenue from external customers	\$ 46,360	\$ 50,765	\$ 93,413	\$ 102,792
Earnings before interest, income taxes, depreciation and amortization	8,163	9,801	17,691	21,419
Depreciation and amortization	4,524	5,338	9,202	9,986
Net interest expense	913	679	1,581	1,414
Income tax expense	90	(512)	327	(1,087)
Net earnings	2,636	4,296	6,581	11,106

For the second quarter of 2005, SPPC generated revenue of \$46.4 million which compares to \$50.8 million for the second quarter of 2004. The decrease in revenue is the result of reduced acid volume due to the extended plant shutdown at the Fund's major Sulphur Products supplier and the change in the U.S. dollar to Canadian dollar foreign exchange rate. SPPC generated \$8.2 million of EBITDA in the second quarter of 2005, which compares to EBITDA of \$9.8 million for the second quarter of 2004. SPPC generated net earnings of \$2.6 million in the second quarter of 2005, which compares to net earnings of \$4.3 million for the second quarter of 2004. The decrease in EBITDA and net earnings is the result of reduced acid volume and increased product and raw material costs, particularly caustic soda.

For the first six months of 2005, SPPC generated revenue of \$93.4 million which compares to \$102.8 million for the first six months of 2004. The decrease in revenue is the result of reduced acid volume due to the extended plant shutdown at the Fund's major Sulphur Products supplier and the change in the U.S. dollar to Canadian dollar foreign exchange rate. SPPC generated \$17.7 million of EBITDA in the first six months of 2005, which compares to EBITDA of \$21.4 million for the first six months of 2004. SPPC generated net earnings of \$6.6 million in the first six months of 2005, which compares to net earnings of \$11.1 million for the first six months of 2004. The decrease in EBITDA and net earnings is the result of reduced acid volume and increased product and raw material costs, particularly caustic soda. Interest expense was higher in the second quarter and the first six months of 2005 due to the interest related to the additional \$15.0 million of debt that funded the Sulphur Removal Business acquisition. See **SULPHUR REMOVAL BUSINESS ACQUISITION**.

***Pulp Chemicals -***

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Revenue from external customers	\$ 12,624	\$ 11,997	\$ 24,040	\$ 23,970
Earnings before interest, income taxes, depreciation and amortization	4,739	4,416	9,890	9,520
Depreciation and amortization	2,372	2,306	4,818	4,925
Net interest expense	554	525	1,050	969
Net earnings	1,813	1,585	4,022	3,626

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

For the second quarter of 2005, Pulp Chemicals revenue was \$12.6 million compared to \$12.0 million for the second quarter of 2004. For the second quarter of 2005, Pulp Chemicals EBITDA and net earnings were \$4.7 million and \$1.8 million respectively. Comparable EBITDA and net earnings for the second quarter of 2004 were \$4.4 million and \$1.6 million respectively. Pulp Chemicals improved second quarter 2005 results reflect additional volume resulting from a new sodium chlorate customer and higher existing customer operating rates.

For the first six months of 2005 and 2004, Pulp Chemicals revenue was \$24.0 million. Pulp Chemicals generated EBITDA and net earnings of \$9.9 million and \$4.0 million respectively for the first six months of 2005. Comparable EBITDA and net earnings for the first six months of 2004 were \$9.5 million and \$3.6 million respectively. Pulp Chemicals increased 2005 results include additional volume resulting from existing and new sodium chlorate customers.

***International -***

	<b>Three Months Ended June 30, 2005</b>	<b>Three Months Ended June 30, 2004</b>	<b>Six Months Ended June 30, 2005</b>	<b>Six Months Ended June 30, 2004</b>
Revenue from external customers	\$ 45,682	\$ 27,213	\$ 68,116	\$ 44,077
Earnings before interest, income taxes, depreciation and amortization and minority interest	1,900	1,481	3,263	2,845
Depreciation and amortization	167	69	230	136
Interest expense (net)	17	8	13	8
Income tax expense	285	157	502	341
Minority interest	1	-	5	2
<b>Net earnings</b>	<b>1,430</b>	<b>1,247</b>	<b>2,513</b>	<b>2,358</b>

As the shares of the Sulphur Removal Business were purchased on May 1, 2005, International results for the second quarter of 2005 are not comparable to the second quarter of 2004. See **SULPHUR REMOVAL BUSINESS ACQUISITION**.

Although the business model that BCT follows is consistent with Chemtrade, BCT's results reflect some differences. A significant portion of BCT's sales of sulphuric acid is derived from fee-based contracts. As a result, an increase in sales from one period to the next is not necessarily accompanied by a similar growth in EBITDA.

In the second quarter of 2005, revenue of the International business was \$45.7 million which compares to \$27.2 million for the second quarter of 2004. The increase in International revenue is primarily due to the Sulphur Removal Business revenues of \$13.7 million. EBITDA and net earnings of the International business for the second quarter were \$1.9 million and \$1.4 million respectively. Comparable EBITDA and net earnings were \$1.5 million and \$1.2 million for the second quarter of 2004. The increase in International EBITDA and net earnings is primarily due to the Sulphur Removal Business.

For the first six months of 2005, revenue of the International business was \$68.1 million, which compares to \$44.1 million for the first six months of 2004. EBITDA and net earnings of the International business for the first six months of 2005 were \$3.3 million and \$2.5 million respectively. Comparable EBITDA and net earnings were \$2.8 million and \$2.4 million for the six months of 2004. Sales volumes of sulphuric acid in the international markets in the second quarter and first half of 2005 were less than volumes in the comparable periods of 2004. However, the global sulphuric acid market remains very tight, resulting in prices that enabled BCT to achieve comparable margins.

**Corporate -**

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Cost of services	\$ 2,712	\$ 3,043	\$ 5,326	\$ 6,050
Earnings before interest, income taxes, depreciation and amortization	(2,712)	(3,043)	(5,326)	(6,050)
Net Interest and debt accretion expense	418	599	849	1,377
<b>Net earnings</b>	<b>(3,130)</b>	<b>(3,642)</b>	<b>(6,175)</b>	<b>(7,427)</b>

The Corporate 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 second quarter and first six months of 2005 corporate costs were \$2.7 million and \$5.3 million respectively compared with corporate costs of \$3.0 million and \$6.1 million for the same periods of 2004. The reduced cost of corporate services for 2005 is due to cost restraint programs.

Net interest and debt accretion expense in the second quarter and six months of 2005 totaled \$0.4 million and \$0.8 million compared to \$0.6 million and \$1.4 million for the same periods of 2004. The decrease relates to a reduction of interest due to the conversion of convertible debentures. During the second quarter of 2005, 85 debentures were converted into 5,862 units.

*Foreign Exchange -*

The Fund has operating subsidiaries that are U.S. based. 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 2005 expected exchange rate of \$0.78, approximately 40% of both EBITDA and distributable cash are generated in U.S. dollars.

To manage the predictability of its cash flows, Chemtrade has entered into a series of foreign exchange contracts with its principal bankers. These exchange contracts hedge that portion of Chemtrade's U.S. dollar based revenue that is expected to be converted into Canadian dollars. As of June 30, 2005, approximately 90% of planned transfers for the remainder of 2005 and 30% of 2006 planned transfers have been effectively hedged at \$0.801 and \$0.810 respectively.

The rate of exchange used to translate U.S. denominated balances has moved from \$0.832 at December 31, 2004 to \$0.816 at June 30, 2005.

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, 2004 and June 30, 2005 in the exchange rate between the Canadian and U.S. dollar has resulted in the change in the foreign currency translation adjustment account since December 31, 2004.

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

**NET INTEREST AND DEBT ACCRETION EXPENSE**

Net interest and debt accretion expense was \$1.9 million in the second quarter of 2005 compared to \$1.8 million in the second quarter of 2004. Net interest and debt accretion expense was \$3.5 million for the first six months of 2005 compared to \$3.8 million for the first six months of 2004.

Interest on the \$15.0 million loan drawn on May 1, 2005 to finance the Sulphur Removal Business acquisition amounted to \$0.2 million in the quarter. This loan is Canadian dollar denominated, and at June 30, 2005 the effective interest rate was 4.35%.

Interest on the \$40.0 million loan amounted to \$0.6 million in the quarter (\$1.0 million for the first six months). Interest for the comparable periods of 2004 were \$0.5 million and \$1.0 million respectively. This loan is Canadian dollar denominated, and at June 30, 2005 the effective interest rate was 5.15%.

The interest on the term debt of US\$43.6 million was \$0.7 million for the second quarter of both 2005 and 2004. Interest for the first six months of 2005 and 2004 was \$1.4 million. The effective interest rate at June 30, 2005 was 4.72%. See **LIQUIDITY AND CAPITAL RESOURCES – Financial Instruments** for information concerning swap arrangements.

Interest on the outstanding 10% convertible debentures was \$0.4 million for the second quarter of 2005 compared to \$0.6 million for the second quarter of 2004. Interest for the first six months of 2005 was \$0.9 million compared to \$1.4 million for the same period of 2004. The decrease in debenture interest is attributable to the conversion of outstanding debentures. At June 30, 2005 16,391 debentures were outstanding compared to 22,578 debentures outstanding at June 30, 2004. See **CHANGE IN ACCOUNTING POLICY** for commentary on accounting for these debentures in 2005.

## **INCOME TAXES**

The decrease in current tax expense in the second quarter and first six months of 2005 compared to the same periods of 2004 reflects the decreased SPPC earnings.

The decrease in future tax asset at June 2005 compared to December 2004 is the net result of the reduction by certain operating subsidiaries of tax loss carry forwards and other tax benefits.

## **SULPHUR REMOVAL BUSINESS ACQUISITION**

On May 1, 2005 the Fund completed the purchase of the outstanding shares of Ruhr Schwefelsäure GmbH and its subsidiary, Ruhr Transport GmbH (collectively, the “Sulphur Removal Business”), for \$14.5 million (€8.9 million). The Fund incurred transaction related costs of \$1.0 million. The purchase was financed by an increase in the Fund’s term banking facility of \$15.0 million. Financing costs related to the banking facility of \$0.3 million have been included in deferred charges.

## DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

A reconciliation of distributable cash to cash from operations for the three months and the six months ended June 30, 2005 with comparative numbers for 2004, is as follows:

<i>(\$000 except per unit amounts)</i>	<b>Three Months Ended June 30, 2005</b>	<b>Three Months Ended June 30, 2004</b>	<b>Six Months Ended June 30, 2005</b>	<b>Six Months Ended June 30, 2004</b>
Cash from operating activities	\$ 9,087	\$ 11,729	\$ 17,872	\$ 25,561
Less:				
(Increase) decrease in working capital	(907)	1,287	(3,625)	2,405
Capital expenditures <sup>(1)</sup>	1,280	884	1,444	1,297
Unrealized foreign exchange gain (loss)	36	(5)	73	-
Minority interest	1	-	5	2
<b>Distributable cash</b>	<b>\$ 8,677</b>	<b>\$ 9,563</b>	<b>\$ 19,975</b>	<b>\$ 21,857</b>
Distributable cash per unit	\$ 0.37	\$ 0.41	\$ 0.85	\$ 0.96
Based on weighted average number of units outstanding at period end of:	23,609,209	23,108,354	23,584,311	22,863,949

<sup>(1)</sup> Excludes non-maintenance capital of \$274 and \$483 for the three and six months ended June 30, 2005 respectively (2004 - \$147 and \$417 respectively)

### *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 in excess of distributable cash earned in the second quarter were funded from the Fund's cash resources on hand. Since inception, Chemtrade has generated distributable cash of \$127.7 million and distributed \$121.1 million.

For the six-month period ended June 30, 2005, distributable cash was \$0.85 per unit and distributions declared were \$0.90 per unit. Comparable numbers for 2004 were \$0.96 per unit and \$0.90 per unit respectively.

Distributions to Unitholders for the three months and the six months ended June 30, 2005 were declared as follows:

<b>Record Date</b>	<b>Payment Date</b>	<b>Distribution Per Unit</b>	<b>Total (\$ thousands)</b>
Three months ended June 30:			
April 27, 2005	April 29, 2005	\$0.12	\$2,833 <sup>(1)</sup>
April 29, 2005	May 31, 2005	0.11	2,597
May 31, 2005	June 30, 2005	0.11	2,597
June 30, 2005	July 29, 2005	0.11	2,597
Sub-Total		\$0.45	\$10,624
Three months ended March 31		\$0.45	\$10,619
<b>Total for six months ended June 30</b>		<b>\$0.90</b>	<b>\$21,243</b>

<sup>(1)</sup> Represents payment of supplemental distribution for first quarter of 2005

Distributions declared in the three months and the six months ended June 30, 2004 were as follows:

<b>Record Date</b>	<b>Payment Date</b>	<b>Distribution Per Unit</b>	<b>Total (\$ thousands)</b>
Three months ended June 30:			
April 28, 2004	April 30, 2004	\$0.12	\$2,778 <sup>(1)</sup>
April 30, 2004	May 31, 2004	0.11	2,546
May 31, 2004	June 30, 2004	0.11	2,550
June 30, 2004	July 30, 2004	0.11	2,551
Sub-Total		\$0.45	\$10,425
Three months ended March 31		\$0.45	\$10,254
<b>Total for six months ended June 30</b>		<b>\$0.90</b>	<b>\$20,679</b>

<sup>(1)</sup> Represents payment of supplemental distribution for first quarter of 2004

Treatment of the Fund's distributions for Canadian Income Tax purposes for 2004 and 2005 is as follows:

	<b>Other Income</b>	<b>Dividends</b>	<b>Return of Capital</b>	<b>Total</b>
2004	65.311%	22.756%	11.933%	100.000%
2005 <sup>(1)</sup>	66.645%	26.754%	6.601%	100.000%

<sup>(1)</sup> Represents planned distribution treatment. The final treatment of 2005 distributions will be determined in February 2006.

## **LIQUIDITY AND CAPITAL RESOURCES**

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

### *Cash from Operating Activities –*

Cash flow from operating activities was \$17.9 million for the six months ended June 30, 2005, compared with \$25.6 million for the comparable period of 2004. The decrease in the 2005 cash flow from operating activities relates to decreased net earnings of \$2.7 million primarily due to the decrease in SPPC's results. In addition, for the first six months of 2005, working capital requirements increased \$6.0 million compared to the same period of 2004.

### *Financing Activities –*

Cash distributions paid to Unitholders amounted to \$10.6 million for the second quarter (\$21.2 million for the first half of 2005), which represents a distribution rate of \$0.45 per unit (\$0.90 per unit for the first half). In the second quarter of 2004, distributions paid were \$10.4 million (\$20.6 million for the first half), a distribution rate of \$0.45 per unit (\$0.90 per unit for the first half). The amount of distributions has increased as the average number of outstanding units increased from 22,863,949 in the first half of 2004 to 23,584,311 in 2005. Distributions per unit were the same in the second quarter of 2005 and 2004.

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

### *Bank Debt and Credit Agreement –*

On March 11, 2004, the Fund amended its credit agreement with its principal bankers. Under the amended agreement, the term of the agreement was extended to March 2008. On March 11, 2005, the term bank debt was renewed and is now not due or payable until March 2009. The related renewal and amendment fees have been deferred and are being amortized over the term of the debt.

On May 1, 2005 the Fund increased its term banking facility by \$15.0 million in order to finance the purchase of the Sulphur Removal Business. The related amendment fees have been deferred and are being amortized over the term of the debt. See **SULPHUR REMOVAL BUSINESS ACQUISITION** for additional comments regarding the acquisition and see **NET INTEREST AND DEBT ACCRETION EXPENSE** for comments concerning interest related to the additional debt.

Chemtrade has operating lines of credit of \$5.5 million and US\$5.0 million and a bank overdraft facility of \$1.0 million. Borrowings under these lines are limited to the available amount of security determined by certain current asset balances, and interest is payable on outstanding loans at rates that vary with Libor. At June 30, 2005, Chemtrade had utilized \$2.0 million (December 31, 2004 - \$2.0 million) and US\$1.8 million (December 31, 2004 - US\$1.8 million) of this credit.

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 and reporting covenants, all of which have been met at June 30, 2005.

#### *Financial Instruments -*

Chemtrade has entered into swap agreements with its principal bankers in order to fix the interest rates on its bank debt. Under the swap agreements, which are treated as a hedge for accounting purposes, the interest rate on the outstanding U.S. debt is 4.72% and on \$40.0 million of the Canadian dollar debt is 5.15%. The additional Canadian dollar debt of \$15.0 million is not covered by the existing swap agreements. See **RESULTS OF OPERATIONS BY BUSINESS SEGMENT – Foreign Exchange** for additional comments on hedging.

#### *Investing Activities –*

Investment in capital expenditures was \$1.6 million in the second quarter of 2005, compared to \$1.0 million in the second quarter of 2004. This amount includes \$1.3 million in the second quarter of 2005 and \$0.9 million in the second quarter of 2004 for maintenance capital requirements. In addition, the anode replacement program at Pulp Chemicals required \$0.3 million in the second quarter of 2005 and \$0.1 million in the second quarter of 2004.

For the first six months, capital expenditures were \$1.9 million in 2005, compared to \$1.7 million for the first six months of 2004. This amount includes \$1.4 million in 2005 and \$1.3 million in 2004 for maintenance capital requirements. The anode replacement program at Pulp Chemicals required \$0.5 million and \$0.4 million in the first six months 2005 and 2004 respectively.

As the anode replacement program is expected to provide improved operating efficiency and production for 10 years, it is considered a part of growth capital expenditures for purposes of calculating distributable cash of the Fund.

Total maintenance capital expenditures for the next two quarters of 2005 are estimated at \$2.1 million. Of this total, \$1.3 million is planned for SPPC, \$0.4 million for International and \$0.4 million for Pulp Chemicals. The current anode replacement program will be completed in 2005 and the estimated remaining capital requirements are \$0.1 million.

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 consideration of \$2.7 million (US\$2.0 million).

On May 1, 2005 the Fund completed the purchase of the Sulphur Removal Business for \$15.5 million including transaction related costs of \$1.0 million. See **SULPHUR REMOVAL BUSINESS ACQUISITION** for additional comments regarding the acquisition.

*Cash Balances –*

At June 30, 2005 the Fund had cash balances of \$7.0 million and working capital of \$13.9 million. Comparable numbers for December 31, 2004 were \$10.6 million and \$14.6 million respectively. Cash generated by the Fund will be used to fund cash distributions to Unitholders at the current rate of \$1.80 per unit per year and fund capital requirements for 2005.

**SUMMARY OF QUARTERLY RESULTS**

(\$000)	Three Months Ended September 30, 2004 <sup>(1)</sup>	Three Months Ended December 31, 2004 <sup>(1)</sup>	Three Months Ended March 31, 2005 <sup>(1)</sup>	Three Months Ended June 30, 2005 <sup>(2)</sup>	Twelve Months Ended June 30, 2005
Revenue	\$ 89,955	\$ 85,560	\$ 80,903	\$ 104,666	\$ 361,084
Cost of sales and services	69,480	67,353	62,146	86,062	285,041
Gross profit	20,475	18,207	18,757	18,604	76,043
Selling, general, administrative and other costs	6,016	6,134	5,329	6,514	23,993
Loss on disposal of assets	1,703	-	-	-	1,703
Earnings before the under- noted	12,756	12,073	13,428	12,090	50,347
Depreciation and amortization	7,234	6,926	7,187	7,063	28,410
Net interest and debt accretion expense <sup>(3)</sup>	1,739	1,629	1,591	1,902	6,861
Income taxes (net)	116	452	454	375	1,397
Minority interest	1	1	4	1	7
Net earnings	\$ 3,666	\$ 3,065	\$ 4,192	\$ 2,749	\$ 13,672

(1) Includes the results of Pulp Chemicals.

(2) Includes the results of the Sulphur Removal Business for the period from May 1, to June 30, 2005.

(3) Includes convertible debentures interest and debt accretion expense.

(\$000)	Three Months Ended September 30, 2003 <sup>(1)</sup>	Three Months Ended December 31, 2003 <sup>(2)</sup>	Three Months Ended March 31, 2004 <sup>(2)</sup>	Three Months Ended June 30, 2004 <sup>(2)</sup>	Twelve Months Ended June 30, 2004
Revenue	\$ 74,503	\$ 80,712	\$ 80,864	\$ 89,975	\$ 326,054
Cost of sales and services	55,279	60,935	59,795	71,007	247,016
Gross profit	19,224	19,777	21,069	18,968	79,038
Selling, general, administrative and other costs	5,922	6,194	5,990	6,313	24,419
Terminal exit costs	-	1,311	-	-	1,311
Earnings before the under- noted	13,302	12,272	15,079	12,655	53,308
Depreciation and amortization	6,121	6,793	7,334	7,713	27,961
Net interest and debt accretion expense <sup>(3)</sup>	1,917	2,132	1,957	1,811	7,817
Income taxes (net)	(216)	113	(391)	(355)	(849)
Minority interest	(1)	2	2	-	3
Net earnings	\$ 5,481	\$ 3,232	\$ 6,177	\$ 3,486	\$ 18,376

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

(2) Includes the results of Pulp Chemicals.

(3) Includes convertible debentures interest and debt accretion expense.

## 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	124,668	-	16,311	108,357	-
Operating Leases	47,682	14,369	22,730	8,614	1,969
<b>Total Contractual Obligations</b>	<b>172,350</b>	<b>14,369</b>	<b>39,041</b>	<b>116,971</b>	<b>1,969</b>

## RISKS AND UNCERTAINTIES

Chemtrade is one of the world's largest suppliers of acid, SO<sub>2</sub> and SHS and a leading regional supplier of sulphur and sodium chlorate. 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 or raw materials, price fluctuations in the products sold and/or raw materials purchased, industry over-capacity, acquisition integration and operational and product hazard risks associated with the nature of its business. 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.

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

Chemtrade manages the operational risks associated with its business by ensuring that it employs competent, well-trained staff. In addition, Chemtrade maintains an extensive insurance program, which includes liability and environmental coverage.

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 Inc. 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 comply with this requirement.

Marsulex Inc. has agreed to indemnify the Fund in respect of (i) any criminal liability relating to the proceedings, and (ii) any civil claims of industry participants claiming damages as a result of conduct being investigated in these proceedings, and (iii) 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.

#### **CHANGE IN ACCOUNTING POLICY**

The Fund has retroactively adopted the requirements of the amended standard 3860, *Financial Instruments – Disclosure and Presentation*, approved by the Canadian Institute of Chartered Accountants in November 2004.

Previously, the principal balance of the Fund's outstanding 10% convertible debentures was included as a component of Unitholders' Equity. Under the amended standard, the convertible debentures are presented partially as debt and partially as equity. The principal is presented in long-term debt. The equity component, representing the holder's option to convert into units, is presented as part of Unitholder's equity.

The liability component of convertible debentures increases to its face value over the term of the debenture. The offsetting charge to earnings is classified as debt accretion expense on the Consolidated Statement of Operations and Deficit. Conversions of debentures decreases the liability and the equity components of convertible debentures and increases the Fund's units.

The interest expense related to convertible debentures, previously included as a distribution and a component of Deficit, has been reclassified as interest expense on the Consolidated Statements of Operations and Deficit.

The change has no effect on the Fund's debt covenants as the Debentures are subordinated to existing bank loans.

## **OUTLOOK**

The demand for our products remains strong.

For the balance of the year, we expect strong results from Pulp, additional contribution from our enhanced International Business and improved results from SPPC following the annual shutdowns and due to the usual seasonal increase in the third quarter. Chemtrade has made arrangements to enter into a long term agreement with its major supplier of caustic soda, which will provide protection from price increases over the next year, and moving forward should reduce the cyclical impact of this raw material input. Accordingly, we expect that the second quarter should represent the peak of our caustic soda pricing.

Chemtrade continues to expect that distributable cash per unit for 2005 will be less than that generated in 2004 but we believe that our current annual distribution rate of \$1.80 per unit is sustainable.

## **SPECIAL NOTE REGARDING FORWARD LOOKING FINANCIAL 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.

## **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).

July 21, 2005