

Management's Responsibility for Financial Reporting

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

Management maintains a system of internal control designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, and that financial information is timely and reliable. In addition, management has reviewed the Fund's disclosure controls and procedures, which are designed to ensure the quality and timeliness of disclosure, and a summary of the results of that review is included in Management's Discussion and Analysis.

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

The Trustees of the Fund appoint the Audit Committee and all of the members of the Audit Committee are independent trustees. The Audit Committee meets periodically with management and the Unitholders' auditors to review internal controls, audit results and accounting principles. Acting on the recommendation of the Audit Committee, the consolidated financial statements are forwarded to the Trustees of the Fund for their approval. KPMG LLP, an independent firm of auditors, has been appointed by the Unitholders to express an independent professional opinion on the fairness of the consolidated financial statements. KPMG LLP has full and free access to the Audit Committee.



Mark Davis
Chief Executive Officer



Victor Wells
Vice-President, Finance and CFO

Toronto, Canada
February 15, 2006

Auditors' Report

To the Unitholders of Chemtrade Logistics Income Fund

We have audited the consolidated balance sheets of Chemtrade Logistics Income Fund as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The logo for KPMG LLP, featuring the letters 'KPMG' in a large, bold, sans-serif font, followed by 'LLP' in a smaller, similar font. A horizontal line is drawn below the text.

Chartered Accountants

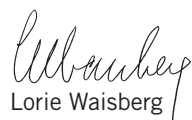
Toronto, Canada
February 15, 2006

Consolidated Balance Sheets

<i>(in thousands of dollars)</i>	December 31, 2005	December 31, 2004
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,395	\$ 10,554
Accounts receivable	64,540	44,731
Inventories (note 6)	18,902	14,049
Prepaid expenses and other assets	3,790	1,385
	97,627	70,719
Property, plant and equipment (notes 5 and 7)	198,752	125,607
Deferred charges	2,522	3,453
Future tax asset (note 14)	6,246	3,018
Other assets (note 8)	1,185	-
Intangibles (note 9)	185,630	104,354
Goodwill	103,493	49,708
	\$ 595,455	\$ 356,859
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Operating line of credit	\$ 4,070	\$ 4,164
Accounts payable	43,997	32,850
Accrued liabilities	21,910	13,368
Distributions payable	3,805	2,582
Income taxes payable	2,049	2,247
Current portion of long-term debt (note 10)	-	900
	75,831	56,111
Long-term debt (note 10)	190,019	110,731
Post-employment benefits (note 15)	3,987	412
Future tax liability (note 14)	32,531	17
Minority interest	24	18
Unitholders' equity		
Units (note 11)	412,944	263,107
Equity component of convertible debentures (note 3)	160	180
Foreign currency translation adjustment (note 12)	(29,775)	(19,963)
Deficit	(90,266)	(53,754)
	293,063	189,570
Commitments and contingencies (note 16)		
	\$ 595,455	\$ 356,859

See accompanying notes to consolidated financial statements

On behalf of the Board of Trustees


Lorie Waisberg


James Leech

Consolidated Statements of Operations and Deficit

<i>(in thousands of dollars, except per unit amounts)</i>	Year Ended December 31, 2005	Year Ended December 31, 2004
Revenue	\$ 425,416	\$ 346,354
Cost of sales and services	340,564	267,635
Gross profit	84,852	78,719
Selling, general, administrative and other costs (note 13)	25,943	24,453
Earnings before the under-noted	58,909	54,266
Depreciation and amortization	35,855	29,207
Early settlement of debt (note 10)	2,878	-
Write-down and loss on disposal of property, plant and equipment (note 5)	586	1,703
Net interest and debt accretion expense (note 3)	8,942	7,138
Earnings before income taxes and minority interest	10,648	16,218
Income taxes (note 14)		
Current	832	1,434
Future	(3,407)	(1,612)
	(2,575)	(178)
Earnings before minority interest	13,223	16,396
Minority interest	6	4
Net earnings	13,217	16,392
Deficit, beginning of year	(53,754)	(28,393)
Distributions	(49,729)	(41,753)
Deficit, end of year	\$ (90,266)	\$ (53,754)
Net earnings per unit (note 11)		
Basic	\$ 0.48	\$ 0.71
Diluted	\$ 0.48	\$ 0.71

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

<i>(in thousands of dollars)</i>	Year Ended December 31, 2005	Year Ended December 31, 2004
Cash provided by (used in):		
Operating activities:		
Net earnings	\$ 13,217	\$ 16,392
Items not affecting cash:		
Depreciation and amortization	35,855	29,207
Early settlement of debt (note 10)	2,878	-
Write-down and loss on disposal of property, plant and equipment (note 5)	586	1,703
Future income taxes	(3,407)	(1,612)
Minority interest	6	4
Debt accretion expense (note 3)	32	47
Unrealized foreign exchange gain	(1,426)	(15)
	47,741	45,726
(Increase) decrease in working capital	(101)	2,431
	47,640	48,157
Financing activities:		
Distributions to unitholders	(48,506)	(41,618)
Issue of units (note 11)	146,337	-
Increase in long-term debt	344,973	6,000
Payment of dividends by subsidiary to minority shareholders	-	(34)
Payment of long-term debt	(259,279)	(900)
Deferred financing charges	(3,790)	(1,796)
	179,735	(38,348)
Investing activities:		
Acquisitions (note 4)	(221,325)	(4,690)
Additions to property, plant and equipment	(6,097)	(3,432)
	(227,422)	(8,122)
Effect of exchange rates on cash held in foreign currencies	(112)	15
(Decrease) increase in cash and cash equivalents	(159)	1,702
Cash and cash equivalents – beginning of year	10,554	8,852
Cash and cash equivalents – end of year	\$ 10,395	\$ 10,554
Supplemental information:		
Cash taxes paid	\$ 1,049	\$ 646
Cash interest paid	\$ 7,778	\$ 7,115
Cash interest received	\$ 368	\$ 101

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

(in thousands of dollars)

December 31, 2005

1. ORGANIZATION AND DESCRIPTION OF THE BUSINESS:

Chemtrade Logistics Income Fund ("the Fund") commenced operations on July 18, 2001 when it completed an Initial Public Offering and purchased various assets and related businesses from Marsulex Inc. The Fund operates in four business segments: Sulphur Products & Performance Chemicals ("SPPC"), Pulp Chemicals, International and Corporate. For additional information regarding the Fund's business segments see note 17.

2. SIGNIFICANT ACCOUNTING POLICIES:

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

(a) Basis of consolidation:

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

(b) Cash and cash equivalents:

Cash equivalents are comprised of highly liquid investments having original terms to maturity of 90 days or less when acquired. They are valued at cost plus accrued interest, which approximates market value.

(c) Inventories:

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

(d) Property, plant and equipment:

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

(e) Goodwill:

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

(f) Intangibles:

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

(g) Impairment of long-lived assets:

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

(h) Deferred charges:

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

(i) Income taxes:

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

(j) Post-employment benefits:

The Fund provides certain health care and other benefits for certain retired employees. The Fund accrues these employee future benefits over the periods from the date of hire to the full eligibility date. The cost of employee future benefits is actuarially determined using the accumulated benefit method prorated based on service. These actuarial valuations are prepared at least every three years, with the most recent one valuing the obligation as at December 31, 2004.

(k) Foreign currency translation:

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

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

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

(l) Revenue recognition:

Revenue is earned from the sale of five major products: sulphuric acid, liquid sulphur dioxide, elemental sulphur, sodium hydrosulphite and sodium chlorate. Revenue from the sale of these products and other chemicals is recognized at the time of shipment.

(m) Asset retirement obligations:

The fair value of estimated asset retirement obligations is recognized when identified and a reasonable estimate of fair value can be made. The asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. The asset retirement costs are depreciated over the asset's estimated useful life and included in depreciation and amortization expense.

Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion of asset retirement obligation. Actual expenditures incurred are charged against the accumulated obligation.

(n) Hedging relationships:

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

All derivative instruments that qualify for hedge accounting are recorded off balance sheet. Gains and losses from these activities are reported as adjustments to the related expense account as they are settled. All derivative instruments that do not qualify for hedge accounting, or are not designated as a hedge, are recorded as either an asset or liability with changes in fair value recognized in earnings. Consequently, as at December 31, 2005 the Fund recorded an increase in prepaid expenses and other assets and a decrease in selling, general, administrative and other costs of \$1,537 (2004 – nil).

The Fund has designated hedge accounting for interest swap arrangements.

(o) Use of estimates:

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

3. CHANGE IN ACCOUNTING POLICY AND RECENT ACCOUNTING PRONOUNCEMENTS:

(a) 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. The annual consolidated financial statements of the Fund for the year ended December 31, 2004 were restated to reflect this change and filed with the applicable authorities on July 22, 2005.

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 Unitholders' 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 Statements of Operations and Deficit. Conversions of debentures decreases the liability and the equity components of convertible debentures and increases the Fund's units.

For the year ended December 31, 2005, 2,082 debentures (2004 - 17,739) were converted into units which resulted in an increase in units of \$2,090 (2004 - \$17,784) and a decrease in the debt and equity components of convertible debentures of \$2,070 (2004 - \$17,611) and \$20 (2004 - \$173), respectively.

The interest expense related to convertible debentures, previously included as a distribution for the year ended December 31, 2004, has been reclassified as interest expense on the Consolidated Statements of Operations and Deficit. For the year ended December 31, 2005 the interest expense including debt accretion expense of \$32 (2004 - \$47) amounted to \$1,661 (2004 - \$2,402).

(b) Recent accounting pronouncements:

(i) Consolidation of variable interest entities:

In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG-15"). AcG-15 addresses the application of consolidation principles to certain entities that are subject to control on a basis of control other than ownership of voting interests. AcG-15 addresses when an enterprise should include the assets, liabilities and results of activities of such an entity in its consolidated financial statements. The adoption of AcG-15 had no material impact on the Fund.

(ii) Financial instruments:

In January 2005, the CICA issued Handbook Section 3855, "Financial Instruments – Recognition and Measurement," Handbook Section 1530, "Comprehensive Income," and Handbook Section 3865, "Hedges." The new standards will be effective for interim and annual financial statements commencing in 2007. Earlier adoption is permitted. The new standards will require presentation of a separate statement of comprehensive income. Foreign exchange gains and losses on the translation of the financial statements of self-sustaining subsidiaries previously recorded in a separate section of shareholders' equity will be presented in comprehensive income. Derivative financial instruments will be recorded in the balance sheet at fair value and the changes in fair value of derivatives designated as cash flow hedges will be reported in comprehensive income. The existing hedging principles of AcG-13 will be substantially unchanged. The Fund is assessing the impact of the new standards.

4. ACQUISITIONS:

(a) Kemmax:

On May 1, 2005 the Fund completed the purchase of the outstanding shares of Kemmax GmbH (formerly Ruhr Schwefelsäure GmbH) and its subsidiary, Ruhr Transport GmbH (collectively, "Kemmax"), for \$14,051 (€8,662). The Fund incurred transaction related costs of \$647. The purchase was financed by an increase in the Fund's term banking facility of \$14,972.

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)	\$	(2,305)
Property, plant and equipment		2,122
Intangible assets		9,987
Goodwill		8,129
Post-employment benefits		(3,888)
Future tax liabilities		(3,021)
Consideration paid in cash	\$	11,024

Intangible assets include the value associated with vendor relationships and are being amortized over their estimated useful lives of ten years.

As this acquisition was completed on May 1, 2005 these consolidated financial statements include earnings of that business since that date.

(b) Peak Sulfur, Inc. and Peak Chemical, LLC:

On August 2, 2005 the Fund completed the purchase of the outstanding shares of Peak Sulfur, Inc. and the outstanding equity interests of Peak Chemical, LLC (collectively, "Peak"), for \$204,419 (US\$166,750). Subsequent to the acquisition date, the Fund renamed Peak Sulfur, Inc. to Chemtrade Refinery Services Inc. and renamed Peak Chemical, LLC to Chemtrade Phosphorous Specialties LLC. The Fund incurred transaction related costs of \$3,959. The purchases were financed by the utilization of the Fund's term banking facility of \$66,944 (US\$54,608) and by issuing units for gross proceeds of \$155,002. Issuance costs related to the units of \$8,665 (before future income tax effect of \$1,410) have been deducted from the proceeds thereof.

The purchase price of \$204,419 included \$19,124 (US\$15,600) for the non-voting common stock of Peak Sulfur, Inc. The Fund acquired the non-voting common stock in December 2005 pursuant to the terms of a Call Agreement.

The acquisitions have 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 (including bank overdraft acquired of \$1,923)	\$	9,666
Property, plant and equipment		93,168
Other assets		1,248
Intangible assets		90,256
Goodwill		48,659
Future tax liabilities		(32,696)
Consideration paid in cash	\$	210,301

Other assets represent accelerated ground lease payments made pursuant to a long-term ground lease.

Intangible assets include the value associated with customer relationships and are being amortized over their estimated useful lives of ten years. The allocation of the purchase price was based on information available at December 31, 2005. The allocation of the purchase price has not been finalized and is subject to adjustment.

As the Peak acquisition was completed on August 2, 2005 these consolidated financial statements include earnings of Peak since that date.

(c) 2004 Acquisitions:

On March 19, 2004, the Fund purchased certain customer contracts and assets relating to the SPPC Business from Rhodia Inc. ("Rhodia"), a non-related party, for total consideration of \$2,716 (US\$2,019).

The Fund purchased the Pulp Chemicals Business on August 29, 2003, but did not finalize the allocation of the purchase price until March 31, 2004. Upon finalization the Fund recognized a purchase price adjustment of \$1,637.

In addition, the Fund made payments with respect to other customer contracts in 2004 totalling \$337.

5. WRITE-DOWN AND LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT:

On September 22, 2005 the Fund shut down operations at its chemical plant in Beaumont, Texas in preparation of the anticipated impact of Hurricane Rita. Repairs to the ancillary damage caused by Hurricane Rita commenced on October 5, 2005. The Fund's management estimates that the reduction in the value of the Beaumont plant will be approximately \$586 (US\$500) and accordingly has recorded a write-down of the related property, plant and equipment.

On October 8, 2004, the Fund extended its liquid sulphur dioxide ("SO₂") marketing agreement with Falconbridge Limited ("Falconbridge"). Under the previous agreement, the Fund was obligated to transfer ownership of the Kidd Creek SO₂ assets to Falconbridge in December 2005 for a nominal amount. The renewal agreement, effective July 1, 2004, extended the term of the previous agreement from December 2005 to December 2010. Under the renewal agreement, the Fund transferred ownership of its Kidd Creek assets to Falconbridge resulting in a loss of \$1,703. The related future tax benefit of \$478 has been reflected in future income tax recovery.

6. INVENTORIES:

	2005	2004
Raw materials and work in process	\$ 3,989	\$ 2,974
Finished goods	11,525	9,231
Operating supplies	3,388	1,844
	\$ 18,902	\$ 14,049

7. PROPERTY, PLANT AND EQUIPMENT:

	2005	2004
Land	\$ 5,415	\$ 5,583
Property, plant and equipment	255,373	159,723
Facilities and equipment under construction	1,362	618
	262,150	165,924
Accumulated depreciation	(63,398)	(40,317)
Property, plant and equipment	\$ 198,752	\$ 125,607
Depreciation expense	\$ 21,108	\$ 18,160

8. OTHER ASSETS:

The Fund is obligated under a 99-year operating ground lease with Astaris through April 2099. The terms of the lease include an annual rent of one dollar and an annual easement facilities charge of US\$215 for the first 10 years and US\$15 for the remaining 89 years. The total amount of payments due over the lease term is being charged to rent expense on a straight-line basis over the term of the lease. Rent expense for the period from August 2, 2005 to December 31, 2005 was \$18. The difference between rent expense recorded and the amount paid is charged to other assets.

	Payments Required	Expense
2006	\$ 250	\$ 41
2007	250	41
2008	250	41
2009	250	41
2010	95	41
2011 and thereafter	1,541	3,616
	\$ 2,636	\$ 3,821

9. INTANGIBLES:

	2005	2004
Intangibles subject to amortization:		
Customer relationships	\$ 173,685	\$ 88,330
Vendor relationships	8,846	-
Other	698	721
	183,229	89,051
Accumulated amortization	(26,756)	(13,854)
	156,473	75,197
Intangibles not subject to amortization:		
Customer relationships	29,157	29,157
Intangibles	\$ 185,630	\$ 104,354
Amortization expense	\$ 13,181	\$ 9,242

10. LONG-TERM DEBT:

	2005	2004
Term bank debt		
US\$100,285 (2004 – US\$43,565)	\$ 116,632	\$ 52,365
Canadian dollar denominated	57,060	40,000
Amount due to Marsulex Inc.	–	900
	173,692	93,265
Liability component of convertible debentures (note 3)	16,327	18,366
	190,019	111,631
Less: Current portion	–	900
Long-term debt	\$ 190,019	\$ 110,731

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

On April 29, 2005, as part of the Kemmax 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 a Kemmax supplier which expires on May 1, 2006. The new term debt interest rate varied with the rate for Banker's Acceptances. Financing costs related to the banking facility of \$477 had been deferred and were being amortized over the term of the debt, until August 2, 2005 when they were written down.

On August 2, 2005, the Fund entered into a new credit agreement, effectively refinancing all of its existing U.S. and Canadian dollar debt and providing for \$360,000 of senior credit facilities, borrowings under which may be made in Canadian or U.S. dollars. The credit facilities are allocated as follows: \$180,000 term loan, \$150,000 bridge loan and \$30,000 in revolving credit facilities. The four-year term loan of \$180,000 was used to repay existing term debt and operating credit facilities of \$108,379 and \$4,677 respectively, and \$66,944 (US\$54,608) of which was used to fund the purchase price of Peak. The term bank debt is not due or payable until August 2009. Interest is payable on outstanding loans at rates that vary with Banker's Acceptances or Libor. The related financing costs of \$3,101 have been deferred and are being amortized over the term of the debt. The \$150,000 (US\$122,359) bridge loan was used to fund the balance of the purchase price of Peak, and was repaid upon closing of the equity offering. Financing costs related to the bridge loan of \$630 were charged to earnings in the year.

As a result of the early settlement of the prior credit agreement, the Fund has recorded a write-down of \$2,878 of deferred charges related to the renewal and financing fees of the Fund's outstanding debt under its previous credit agreement.

Under the new credit agreement, the Fund has operating lines of credit of \$18,000 and US\$7,342 (\$8,539) as well as bank overdraft facilities of \$2,000 and US\$816 (\$949). Borrowings under these lines are limited to the available amount of security and interest is payable on outstanding loans at rates that vary with Banker's Acceptances or Libor. At December 31, 2005, \$7,400 (€4,950) and US\$700 of the total facility has been utilized in the form of guarantees of Letters of Credit and another \$4,070 (US\$3,500) has been utilized under the operating lines of credit (December 31, 2004 - \$2,000 and US\$1,800).

The Fund had swap arrangements with its principal bankers which fixed interest rates on all of its prior U.S. dollar term debt and \$40,000 of its Canadian dollar denominated debt until March 2008. Effective August 12, 2005, the Fund extended the then existing swap arrangements and entered into new swap arrangements which fix interest rates on all of its U.S. dollar term debt and Canadian dollar denominated debt until August 2009. Under the swap arrangements, which are treated as hedges, the effective interest rate on the outstanding U.S. dollar debt is 5.35%. The effective interest rate on the Canadian dollar debt is 4.72%.

The convertible debentures bear interest at a rate of 10% which is payable semi-annually in arrears on June 30 and December 31. The convertible debentures are convertible into Fund units at an exercise price of \$14.50 and mature on December 31, 2007.

The term bank debt facility and the operating lines are secured by a fixed and floating charge on the assets of the Fund and certain of its subsidiaries. The bank agreement contains various financial covenants that if not complied with, could result in a restriction on funds available for distribution.

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

11. UNITS:

(a) Authorized:

Unlimited number of units.

(b) Outstanding:

	Number of Units	2005 Amount	Number of Units	2004 Amount
Units				
Balance – beginning of year	23,470,459	\$ 263,107	22,247,099	\$ 245,323
Issued for cash (note 4 (b))	9,968,000	155,002	–	–
Issued on conversion of debentures	143,581	2,090	1,223,360	17,784
Issuance costs (net of taxes of \$1,410)	–	(7,255)	–	–
Balance – end of year	33,582,040	\$ 412,944	23,470,459	\$ 263,107

(c) Net earnings per unit:

Basic net earnings per unit has been calculated on the basis of the weighted average number of units outstanding for the year which amounted to 27,340,711 units (2004 – 23,125,322). Diluted net earnings per unit is calculated using the “if-converted” method. In 2005 and 2004, the effect of conversion of the convertible debentures into trust units was not included in the computation of diluted net earnings per unit as the effect of conversion was anti-dilutive.

(d) Equity component of convertible debentures:

Units are redeemable at any time at the request of the holder for a price per unit equal to the lesser of 90% of the market price (as defined) and 100% of the closing market price on the redemption date.

For the year ended December 31, 2005, 2,082 (2004 – 17,739) convertible debentures were converted into 143,581 (2004 – 1,223,360) units.

12. FOREIGN CURRENCY TRANSLATION ADJUSTMENT (“FCTA”):

The FCTA represents the net unrealized foreign currency translation adjustment on the Fund's net investment in self-sustaining foreign operations primarily located in the United States and Switzerland.

	2005	2004
FCTA, beginning of year	\$ (19,963)	\$ (15,976)
Unrealized adjustment for the year on translation of net assets denominated in foreign currencies	(9,812)	(3,987)
FCTA, end of year	\$ (29,775)	\$ (19,963)

13. SELLING, GENERAL, ADMINISTRATIVE AND OTHER COSTS:

Selling, general, administrative and other costs include a net foreign exchange gain of \$2,988 (2004 - \$695).

14. INCOME TAXES:

The provision for income taxes in the consolidated statements of operations and deficit represents an effective rate different than the Canadian statutory rate of 34.0% (2004 – 34.0%). The differences are as follows:

	2005	2004
Earnings before income taxes and minority interest	\$ 10,648	\$ 16,218
Computed income tax expense at Canadian statutory rate	3,620	5,514
Increase (decrease) resulting from:		
Income of trust taxed directly to unitholders	(10,478)	(8,794)
Non-deductible goodwill and other intangibles	284	284
Difference in substantially enacted tax rate	21	8
International income tax rate differences	(1,277)	(1,151)
Tax deductions not utilized	5,048	4,823
Other	207	(1,037)
Large corporation tax	–	175
Income tax recovery	\$ (2,575)	\$ (178)

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

	2005	2004
Non-current future tax assets:		
Inventories	\$ 752	\$ 595
Deferred charges	1,508	–
Loss carry forwards	36,466	16,849
Issuance costs	1,357	1,404
Long-term incentive plan	1,414	929
Interest	1,126	–
Other	324	341
	42,947	20,118
Valuation allowance	(8,458)	(8,323)
Total future tax assets	34,489	11,795
Non-current future tax liabilities:		
Property, plant and equipment	27,821	6,962
Intangible assets	32,953	1,501
Deferred charges	–	331
Total future tax liabilities	60,774	8,794
Net future tax (liability) asset	\$ (26,285)	\$ 3,001
Classified in the financial statements as:		
Future non-current tax asset	\$ 6,246	\$ 3,018
Future non-current tax liability	(32,531)	(17)
Net future tax (liability) asset	\$ (26,285)	\$ 3,001

15. POST-EMPLOYMENT BENEFITS:

The Fund provides certain health care and other retirement benefits for certain employees of Pulp Chemicals and Kemmax. A summary of principal expense information is as follows:

Components of net periodic benefit cost	2005	2004
Current service cost	\$ 60	\$ 45
Interest cost	133	24
Actuarial loss	123	28
Costs arising in the period	316	97
Differences between costs arising in the period and costs recognized in the period in respect of actuarial gain	(123)	(5)
Net periodic benefit cost recognized	\$ 193	\$ 92

Weighted-average assumptions	2005	2004
Discount rate	4.00 - 5.25%	6.00%
Ultimate other medical trend rate	5.00%	5.00%

Change in accrued benefit obligation	2005	2004
Accrued benefit obligation at beginning of year	\$ 440	\$ 343
Current service cost	60	45
Interest cost	133	24
Acquisitions	3,888	-
Foreign exchange	(506)	-
Actuarial loss	123	28
Increase in accrued benefit obligation due to acquisition	-	-
Accrued benefit obligation at end of year	\$ 4,138	\$ 440

Reconciliation of funded status	2005	2004
Deficit at end of year	\$ (4,138)	\$ (440)
Unamortized net actuarial loss	151	28
Accrued benefit liability	\$ (3,987)	\$ (412)

Sensitivity to change in health care cost trend rates

	Accrued Benefit Obligation as of December 31, 2005	Service Cost for 2005	Interest Cost for 2005	Aggregate of Service Cost and Interest Cost for 2005
1. Valuation trend	\$ 643	\$ 51	\$ 29	\$ 80
2. Valuation trend + 1%	\$ 865	\$ 71	\$ 39	\$ 110
3. Difference (2 - 1)	\$ 222	\$ 20	\$ 10	\$ 30
4. Valuation trend - 1%	\$ 487	\$ 37	\$ 22	\$ 59
5. Difference (4 - 1)	\$ (156)	\$ (14)	\$ (7)	\$ (21)

The non-pension post-employment benefits are funded on a pay-as-you go basis. No benefits were paid in 2005 or 2004.

The Fund has not made any contributions during 2005 or 2004. No assets have been segregated or restricted to provide for non-pension post-employment benefits.

During 2005, the Fund neither amended the plan nor did it incur curtailment gains or losses.

Pulp Chemicals hourly employees participate in the Pulp and Paper Industry Pension Trust Fund, a multi-employer, defined contribution pension plan. The plan is funded by employer and employee contributions. The employer related expense under this plan in 2005 was \$189 (2004 - \$219).

16. COMMITMENTS AND CONTINGENCIES:

(a) Operating leases:

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

2006	\$	17,134
2007		14,128
2008		9,993
2009		5,797
2010		2,913
2011 and thereafter		1,731
	\$	51,696

(b) Environmental clean-up costs:

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

The Fund has purchased a number of sites as a result of the acquisitions of certain businesses. Subject to certain limitations, the Fund has been indemnified by the vendors for any remediation costs or environmental actions that may arise as a result of conditions existing at the time of acquisition. Environmental assessments were conducted prior to the purchase of the sites as a basis to, among other things, evaluate indemnity protections and, where applicable, to verify the appropriateness of existing accruals and estimates for remediation costs.

(c) Contingent liability:

The Fund has received and responded to a claim from Marsulex against the Fund alleging that the acquisition of Peak is a breach of a non-competition agreement in favour of Marsulex. Marsulex is seeking damages in the amount of \$72,800, as well as other relief. The Fund has received advice from its legal advisors that the non-competition covenants contained in such agreement are likely unenforceable. The Fund has filed a statement of defence and counter-claim in the amount of \$87,750 in respect of this action, and intends to vigorously defend the claim brought against it by Marsulex and pursue its counter-claim.

(d) Other claims:

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

17. BUSINESS SEGMENTS:

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

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

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

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

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

	2005				
	SPPC	Pulp Chemicals	International	Corporate	Total
Revenue from external customers	\$ 226,569	\$ 51,475	\$ 147,372	\$ –	\$ 425,416
Inter-segment revenues	–	–	612	–	612
Earnings before the under-noted	38,398	21,528	7,962	(8,979)	58,909
Depreciation and amortization	25,069	9,464	1,322	–	35,855
Early settlement of debt	1,959	919	–	–	2,878
Write-down of property, plant and equipment	586	–	–	–	586
Net interest and debt accretion expense	5,416	1,935	(86)	1,677	8,942
Income tax (recovery) expense	(3,555)	–	980	–	(2,575)
Minority interest	–	–	6	–	6
Net earnings	8,923	9,210	5,740	(10,656)	13,217
Total assets	395,853	115,942	81,840	1,820	595,455
Goodwill	72,008	–	31,485	–	103,493
Intangible assets	121,562	55,812	8,256	–	185,630
Capital expenditures	3,737	1,239	1,053	68	6,097

	2004				
	SPPC	Pulp		Corporate	Total
		Chemicals	International		
Revenue from external customers	\$ 206,249	\$ 49,314	\$ 90,791	\$ –	\$ 346,354
Inter-segment revenues	–	–	2,437	–	2,437
Earnings before the under-noted	40,329	20,062	5,670	(11,795)	54,266
Depreciation and amortization	19,382	9,558	267	–	29,207
Loss on disposal of property, plant and equipment	1,703	–	–	–	1,703
Net interest and debt accretion expense	2,794	1,978	(10)	2,376	7,138
Income tax (recovery) expense	(907)	–	729	–	(178)
Minority interest	–	–	4	–	4
Net earnings	17,357	8,526	4,680	(14,171)	16,392
Total assets	188,962	120,976	45,927	994	356,859
Goodwill	26,190	–	23,518	–	49,708
Intangible assets	43,138	61,216	–	–	104,354
Capital expenditures	2,029	1,387	16	–	3,432

Geographic segments:

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

	Revenue Year ended December 31, 2005	Property, Plant and Equipment, Goodwill and Other Intangibles December 31, 2005	Revenue Year ended December 31, 2004	Property, Plant and Equipment, Goodwill and Other Intangibles December 31, 2004
North America	\$ 278,044	\$ 443,830	\$ 255,563	\$ 253,971
Europe	147,372	44,045	90,791	25,698
	\$ 425,416	\$ 487,875	\$ 346,354	\$ 279,669

In 2005, the Fund obtained product from a producer that accounted for 13.5% (2004 - 19.0%) and sold product to a customer that accounted for 8.1% (2004 – 10.1%) of the Fund's total revenue.

18. FAIR VALUES OF FINANCIAL INSTRUMENTS:

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

The carrying amount of long-term debt approximates fair value.

In 2005, the Fund entered into swap arrangements with its principal bankers which fix interest rates on all of its outstanding term debt. Under the swap arrangements the effective interest rate on the outstanding U.S. dollar debt is 5.35% and on the outstanding Canadian dollar debt is 4.72%. The fair values of the swap arrangements at December 31, 2005 are US\$1,091 and \$1,509 respectively (2004 – US\$846 and \$30).

The Fund has entered into foreign exchange contracts to manage its exposure to the U.S. dollar as significant cash flows are generated in the U.S. The Fund sells specific amounts of currencies at predetermined dates and exchange rates which are matched with the anticipated operational cash flows. Contracts in place at December 31, 2005 include future contracts of US\$47,360 until 2008 at a weighted average exchange rate of \$1.204. There is a net unrealized gain of \$1,537 (2004 - \$540) from these hedge contracts at December 31, 2005.

The Fund's International business segment has entered into foreign exchange contracts to manage its foreign exchange exposure resulting from product purchases and sales that are not U.S. dollar based, the functional currency of International. International buys and sells specific amounts of currencies at predetermined dates and U.S. dollar exchange rates which are matched with the anticipated timing and currency of product purchases and product sales. Contracts in place at December 31, 2005 include future contracts of CHF 3,170 and €727 at weighted average exchange rates of US\$0.78 and US\$1.19, respectively and expire in 2006. At December 31, 2005, there are net unrealized gains (losses) with respect to these contracts of (\$81) and \$13, respectively (2004 - \$60 and \$65 respectively).

19. COMPARATIVE FIGURES:

Certain comparative figures have been reclassified to comply with current year's presentation.