

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



Rohit Bhardwaj
Vice-President, Finance and CFO

Toronto, Canada
February 15, 2007

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, 2006 and 2005 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

The image shows the handwritten signature of KPMG LLP in black ink. The letters are bold and slanted, with a horizontal line underneath the signature.

Chartered Accountants

Toronto, Canada
February 14, 2007

Consolidated Balance Sheets

(in thousands of dollars)

December 31, 2006

December 31, 2005

ASSETS

Current assets

Cash and cash equivalents	\$ 6,147	\$ 10,395
Accounts receivable	71,909	64,540
Inventories (note 6)	26,900	18,902
Prepaid expenses and other assets	6,380	3,790
	111,336	97,627
Property, plant and equipment (notes 5 and 7)	180,909	198,752
Deferred charges and other assets	3,370	3,707
Future tax asset (note 13)	8,829	6,246
Intangibles (note 8)	167,412	185,630
Goodwill (note 8)	96,255	103,493
	\$ 568,111	\$ 595,455

LIABILITIES AND UNITHOLDERS' EQUITY

Current liabilities

Operating line of credit (note 9)	\$ 13,191	\$ 4,070
Accounts payable	49,074	43,997
Accrued liabilities (note 5)	24,013	21,910
Distributions payable	4,030	3,805
Income taxes payable	1,447	2,049
Current portion of long-term debt (note 9)	16,359	-
	108,114	75,831

Long-term debt (note 9)	173,932	190,019
Other long-term liabilities (notes 4 and 5)	1,874	-
Post-employment benefits (note 14)	4,143	3,987
Future tax liability (note 13)	32,924	32,531
Minority interest	25	24

Unitholders' equity

Units (note 10)	412,944	412,944
Equity component of convertible debentures (note 10)	160	160
Foreign currency translation adjustment (note 11)	(31,426)	(29,775)
Deficit	(134,579)	(90,266)
	247,099	293,063

Subsequent event (note 18)


Commitments and contingencies (note 15)

\$ 568,111

\$ 595,455

See accompanying notes to consolidated financial statements.

On behalf of the Board of Trustees


Lorie Waisberg


Louis Hollander

Consolidated Statements of Operations and Deficit

(in thousands of dollars, except per unit amounts)

	December 31, 2006	December 31, 2005
Revenue	\$ 552,128	\$ 425,416
Cost of sales and services	455,860	340,564
Gross profit	96,268	84,852
Selling, general, administrative and other costs (note 12)	28,205	25,943
Restructuring costs (note 5)	2,706	–
Earnings before the under-noted	65,357	58,909
Depreciation and amortization	44,367	35,855
Impairment and write-down of property, plant and equipment (note 5)	12,276	586
Early settlement of debt (note 9)	–	2,878
Net interest and accretion expense	11,438	8,942
(Loss) earnings before income taxes and minority interest	(2,724)	10,648
Income taxes (note 13)		
Current	1,372	832
Future	(7,916)	(3,407)
	(6,544)	(2,575)
Earnings before minority interest	3,820	13,223
Minority interest	–	6
Net earnings	3,820	13,217
Deficit, beginning of year	(90,266)	(53,754)
Distributions	(48,133)	(49,729)
Deficit, end of year	\$ (134,579)	\$ (90,266)
Net earnings per unit (note 10)		
Basic	\$ 0.11	\$ 0.48
Diluted	\$ 0.11	\$ 0.48

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands of dollars)

	December 31, 2006	December 31, 2005
Cash provided by (used in):		
Operating activities:		
Net earnings	\$ 3,820	\$ 13,217
Items not affecting cash:		
Depreciation and amortization	44,367	35,855
Early settlement of debt (note 9)	–	2,878
Impairment and write-down of property, plant and equipment (note 5)	12,276	586
Future income taxes	(7,916)	(3,407)
Minority interest	–	6
Accretion expense	78	32
Unrealized foreign exchange loss (gain)	230	(1,426)
	52,855	47,741
(Increase) in working capital	(1,784)	(101)
	51,071	47,640
Financing activities:		
Distributions to unitholders	(47,908)	(48,506)
Issue of units (note 10)	–	146,337
Increase in long-term debt	–	344,973
Payment of long-term debt	–	(259,279)
Deferred financing charges	–	(3,790)
	(47,908)	179,735
Investing activities:		
Acquisitions (note 4)	–	(221,325)
Additions to property, plant and equipment	(7,547)	(6,097)
	(7,547)	(227,422)
Effect of exchange rates on cash held in foreign currencies	136	(112)
(Decrease) in cash and cash equivalents	(4,248)	(159)
Cash and cash equivalents – beginning of year	10,395	10,554
Cash and cash equivalents – end of year	\$ 6,147	\$ 10,395
Supplemental information:		
Cash taxes paid	\$ 1,974	\$ 1,049
Cash interest paid	\$ 11,645	\$ 7,778

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(in thousands of dollars)

December 31, 2006

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 16.

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 employees upon retirement. 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, whose functional currency is U.S. dollars, 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 recognized and customers are invoiced at the time of shipment of product. Normal credit criteria are established and verified before shipment is made. Product is not returned and quality adjustments are recognized in the invoiced price.

(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.

Chemtrade completed an analysis of existing properties. This analysis reviewed existing contracts and current statutory requirements, and management has determined that other than a provision relating to the Peak Acquisition, a provision for retirement obligations is not currently required except as identified in connection with the Peak Acquisition. At December 31, 2006 \$559 (2005 – nil) has been included in other long-term liabilities.

(n) Convertible debentures:

The convertible debentures are presented partially as debt and partially as equity. The equity component, representing the holder's option to convert into units, is presented as part of Unitholders' 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 Statements of Operations and Deficit. Conversions of debentures decreases the liability and the equity components of convertible debentures and increases the Fund's units.

(o) 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.

The Fund has designated hedge accounting for interest swap arrangements. The Fund's foreign exchange contracts have not been designated for hedge accounting.

(p) 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. RECENT ACCOUNTING PRONOUNCEMENTS:

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. 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 Fund is completing its assessment of the impact of the new standards.

4. ACQUISITIONS:

(a) 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)	\$	9,689
Property, plant and equipment		107,608
Other assets		1,248
Intangible assets		90,256
Goodwill		40,859
Future tax liabilities		(38,820)
Asset retirement obligations		(539)
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 Fund has finalized the allocation of the purchase price which resulted in an increase to property, plant and equipment of \$14,440, offset by a reduction in goodwill of \$7,800, recognition of asset retirement obligations of \$539, an increase to working capital of \$23 and an adjustment to future tax liabilities of \$6,124. The total estimated undiscounted asset retirement obligations of \$5,130 has been discounted using a credit-adjusted risk-free rate of 6.3%.

As the Peak acquisition was completed on August 2, 2005 these consolidated financial statements include earnings of Peak since that date and therefore the consolidated statements of operations for the year ended December 31, 2006 is not comparable to the year ended December 31, 2005.

(b) 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.

5. IMPAIRMENT, WRITE-DOWN OF PROPERTY, PLANT AND EQUIPMENT AND RESTRUCTURING COSTS:

In the third quarter of 2006, the Fund recorded a charge of \$15,596 with respect to the impairment of certain property, plant and equipment. These assets are within the SPPC business segment and were used to manufacture powder SHS. Due to rising input costs and declining demand, the cash flows associated with these assets had been declining and could no longer support their carrying value. The fair value of the impaired assets was determined by using a discounted net present value of future cash flow method. The Fund finalized its impairment analysis in the fourth quarter of 2006 and revised the impairment charge to \$12,276.

In the fourth quarter of 2006, the Fund decided to discontinue production of powder SHS and recorded costs of \$2,706 with respect to this decision. These costs consist of severances and other costs required to effect the discontinuation of production. The following table provides a summary of the costs recognized and cash payments made in respect of these restructuring initiatives in 2006, as well as the corresponding liability as at December 31, 2006.

Restructuring and other costs	Employee Severance	Site Closing and Other Costs	Total
Balance – beginning of year	\$ –	\$ –	\$ –
Charges during 2006	890	1,816	2,706
Cash draw downs	–	501	501
Balance – end of year	\$ 890	\$ 1,315	\$ 2,205

At December 31, 2006, the outstanding amount of site closing and other costs has been shown as Other long-term liabilities on the Balance Sheet, as it is unlikely to be paid out within the next twelve months. The Fund also expects to record approximately \$1,500 of additional costs in future periods related to this decision.

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 in 2005 and were completed in 2006. The related reduction in the value of the Beaumont plant of approximately \$586 (US\$500) was recorded as a write-down of property, plant and equipment.

6. INVENTORIES:

	2006	2005
Raw materials and work in process	\$ 5,900	\$ 3,989
Finished goods	17,868	11,525
Operating supplies	3,132	3,388
	\$ 26,900	\$ 18,902

7. PROPERTY, PLANT AND EQUIPMENT:

	2006	2005
Land	\$ 6,443	\$ 5,415
Plant and equipment	253,712	255,373
Facilities and equipment under construction	2,458	1,362
	\$ 262,613	\$ 262,150
Accumulated depreciation	(81,704)	(63,398)
Property, plant and equipment	\$ 180,909	\$ 198,752
Depreciation expense	\$ 25,798	\$ 21,108

8. INTANGIBLES AND GOODWILL:

Intangibles	2006	2005
Intangibles subject to amortization:		
Customer relationships	\$ 173,696	\$ 173,685
Vendor relationships	8,864	8,846
Other	699	698
	\$ 183,259	\$ 183,229
Accumulated amortization	(45,004)	(26,756)
	\$ 138,255	\$ 156,473
Intangibles not subject to amortization:		
Customer relationships	29,157	29,157
Intangibles	\$ 167,412	\$ 185,630
Amortization expense	\$ 17,849	\$ 13,181

The decrease in goodwill of \$7,238 is principally due to the finalization of the Peak Acquisition purchase price allocation.

9. LONG-TERM DEBT:

	2006	2005
Term bank debt		
US\$100,285 (2005 - US\$100,285)	\$ 116,872	\$ 116,632
Canadian dollar denominated	57,060	57,060
	\$ 173,932	\$ 173,692
Liability component of convertible debentures	16,359	16,327
	\$ 190,291	\$ 190,019
Less: Current portion	(16,359)	-
Long-term debt	\$ 173,932	\$ 190,019

At December 31, 2006, the Fund had senior credit facilities of \$210,000. Borrowings under this facility may be made in Canadian or U.S. dollars. The credit facilities are allocated as follows: \$180,000 term loan and \$30,000 in revolving credit facilities. 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. Under the credit agreement, the Fund has operating lines of credit of \$18,000 and US\$7,342 (\$8,556) as well as bank overdraft facilities of \$2,000 and US\$816 (\$951). Borrowings under these lines are subject to interest at rates that vary with Banker's Acceptances or Libor. At December 31, 2006, \$7,608 (€4,950) and US\$2,700 (\$3,147) of the total facility has been utilized in the form of standby Letters of Credit and another \$2,700 and US\$9,002 (\$10,491) has been utilized under the operating lines of credit (December 31, 2005 - US\$3,500). 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 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 5.60%. The effective interest rate on the Canadian dollar debt is 4.97%.

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.

Subsequent to year-end the Fund amended its credit agreement and redeemed all outstanding convertible debentures. Readers are referred to note 18 for additional details.

During 2005, the Fund entered into a new credit agreement prior to the expiration of the previous credit agreement. As a result of this early settlement of the prior credit agreement, the Fund 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.

10. UNITS:

(a) Authorized:

Unlimited number of units.

(b) Outstanding:

	Number of Units	2006 Amount	Number of Units	2005 Amount
Units				
Balance – beginning of year	33,582,040	\$ 412,944	23,470,459	\$ 263,107
Issued for cash (note 4 (a))	–	–	9,968,000	155,002
Issued on conversion of debentures	–	–	143,581	2,090
Issuance costs (net of taxes of \$1,410)	–	–	–	(7,255)
Balance – end of year	33,582,040	\$ 412,944	33,582,040	\$ 412,944

(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 33,582,040 units (2005 – 27,340,711). Diluted net earnings per unit is calculated using the “if-converted” method. In 2006 and 2005, 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, 2006, nil (2005 – 2,082) convertible debentures were converted into nil (2005 – 143,581) units which resulted in an increase in units of \$nil (2005 - \$2,090) and a decrease in the debt and equity components of convertible debentures of \$nil (2005 - \$2,070) and \$nil (2005 - \$20), respectively.

11. 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.

	2006	2005
FCTA, beginning of year	\$ (29,775)	\$ (19,963)
Unrealized adjustment for the year on translation of net assets denominated in foreign currencies	(1,651)	(9,812)
FCTA, end of year	\$ (31,426)	\$ (29,775)

12. SELLING, GENERAL, ADMINISTRATIVE AND OTHER COSTS:

Selling, general, administrative and other costs include a net foreign exchange gain of \$1,667 (2005 - \$2,988).

13. 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 34.5% (2005 – 34.0%). The differences are as follows:

	2006	2005
(Loss) earnings before income taxes and minority interest	\$ (2,724)	\$ 10,648
Computed income tax expense at Canadian statutory rate	(940)	3,620
Increase (decrease) resulting from:		
Income of trust taxed directly to unitholders	(12,870)	(10,478)
Non-deductible goodwill and other intangibles	297	284
Difference in substantially enacted tax rate	228	21
International income tax rate differences	(3,092)	(1,277)
Change in valuation allowance	10,013	5,048
Other	(180)	207
Income tax recovery	\$ (6,544)	\$ (2,575)

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:

	2006	2005
Non-current future tax assets:		
Inventories	\$ 1,588	\$ 752
Deferred charges	466	1,508
Loss carry forwards	45,011	36,466
Issuance costs	1,216	1,357
Long-term incentive plan	1,168	1,414
Interest	4,661	1,126
Asset retirement obligations	808	–
Other	56	324
	\$ 54,974	\$ 42,947
Valuation allowance	(18,471)	(8,458)
Total future tax assets	\$ 36,503	\$ 34,489
Non-current future tax liabilities:		
Property, plant and equipment	30,682	27,821
Intangible assets	28,889	32,953
Ground lease	559	–
Prepaid expenses	468	–
Total future tax liabilities	\$ 60,598	\$ 60,774
Net future tax (liability) asset	\$ (24,095)	\$ (26,285)
Classified in the financial statements as:		
Future non-current tax asset	\$ 8,829	\$ 6,246
Future non-current tax liability	(32,924)	(32,531)
Net future tax (liability) asset	\$ (24,095)	\$ (26,285)

On December 21, 2006 the Minister of Finance (Canada) released draft legislation (the "Proposals") relating to the federal income taxation of publicly-traded trusts and partnerships. The Proposals are contemplated to apply to a publicly-traded trust that is a specified investment flow-through entity (a "SIFT") which existed before November 1, 2006 ("Existing Trust") commencing with taxation years ending in or after 2011.

Certain distributions attributable to a SIFT will not be deductible in computing the SIFT's taxable income, and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. Distributions paid by a SIFT as returns of capital will not be subject to this tax. There will be circumstances where an Existing Trust may lose its transitional relief where its equity capital grows beyond certain dollar limits measured by reference to the Existing Trust's market capitalization at the close of trading on October 31, 2006.

The Fund is a SIFT as defined in the Proposals. If enacted, the Fund would be subject to taxes on certain income earned from investments in its subsidiaries. The Fund would also be required to recognize future income tax assets and liabilities with respect to the temporary differences of its assets and liabilities and those of its flow-through subsidiaries that are expected to reverse in or after 2011.

The aggregate carrying values of the Fund's assets and liabilities and the assets and liabilities of its flow-through subsidiaries, for which no future income tax liability has been recorded, exceeds the aggregate tax bases by \$5,462 (2005 - \$703).

14. POST-EMPLOYMENT BENEFITS:

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

Components of net periodic benefit cost	2006	2005
Current service cost	\$ 92	\$ 60
Interest cost	175	133
Actuarial (gain) loss	(139)	123
Costs arising in the period	\$ 128	\$ 316
Differences between costs arising in the period and costs recognized in the period in respect of actuarial gain	20	(123)
Net periodic benefit cost recognized	\$ 148	\$ 193
Weighted-average assumptions	2006	2005
Discount rate	4.25 - 5.40%	4.00 - 5.25%
Ultimate other medical trend rate	5.00%	5.00%
Change in accrued benefit obligation	2006	2005
Accrued benefit obligation at beginning of year	\$ 4,138	\$ 440
Current service cost	92	60
Interest cost	175	133
Plan amendments	(123)	-
Benefits paid	(172)	-
Acquisitions	-	3,888
Foreign exchange	285	(506)
Actuarial (gain) loss	(139)	123
Accrued benefit obligation at end of year	\$ 4,256	\$ 4,138
Reconciliation of funded status	2006	2005
Deficit at end of year	\$ (4,256)	\$ (4,138)
Unamortized net actuarial loss	113	151
Accrued benefit liability	\$ (4,143)	\$ (3,987)

Both the pension and health care benefits are funded on a pay-as-you go basis. As both the pension and health care benefits are not funded, the Fund's accrued benefit liability was \$4,143 (2005 - \$3,987). Benefits paid in 2006 were \$172 (2005 - nil). The Fund has not made any contributions during 2006 or 2005 for either plan. No assets have been segregated or restricted to provide for either plan.

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 2006 was \$198 (2005 - \$189).

BCT employees participate in a Swiss multi-employer defined benefit pension plan. The employer related expense under this Plan in 2006 was \$95 (2005 - \$93).

The Fund has recorded a pension prepayment and other income of \$717 (CHF750), gross of future tax liability of \$73, in connection with the liquidation of a parental welfare fund.

15. COMMITMENTS AND CONTINGENCIES:

(a) Operating leases:

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

2006	\$	18,223
2007		14,176
2008		9,144
2009		5,532
2010		2,635
2011 and thereafter		2,911
	\$	52,621

The Fund has recorded deferred rent expense of \$1,454 (2005 - \$1,185) in other assets.

(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 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.

16. 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.

	2006				
	SPPC	Pulp Chemicals	International	Corporate	Total
Revenue from external customers	\$ 284,966	\$ 52,595	\$ 214,567	\$ –	\$ 552,128
Inter-segment revenues	–	–	430	–	430
Earnings before the under-noted	47,449	20,853	9,120	(12,065)	65,357
Depreciation and amortization	33,366	9,299	1,702	–	44,367
Impairment of property, plant and equipment	12,276	–	–	–	12,276
Net interest and debt accretion expense	8,009	1,961	(187)	1,655	11,438
Income tax (recovery) expense	(7,601)	–	1,057	–	(6,544)
Net earnings	1,399	9,593	6,548	(13,720)	3,820
Total assets	361,822	119,548	85,542	1,199	568,111
Goodwill	64,744	–	31,511	–	96,255
Intangible assets	109,618	50,407	7,387	–	167,412
Capital expenditures	5,425	940	977	205	7,547

	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

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, 2006	Property, Plant and Equipment, Goodwill and Other Intangibles Year ended December 31, 2006	Revenue Year ended December 31, 2005	Property, Plant and Equipment, Goodwill and Other Intangibles Year ended December 31, 2005
North America	\$ 337,561	\$ 401,246	\$ 278,044	\$ 443,830
Europe	214,567	43,330	147,372	44,045
	\$ 552,128	\$ 444,576	\$ 425,416	\$ 487,875

In 2006, the Fund obtained product from a producer that accounted for 10.5% (2005 - 13.5%) and sold product to a customer that accounted for 6.4% (2005 - 8.1%) of the Fund's total revenue.

17. 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 5.60% and on the outstanding Canadian dollar debt is 4.97%. The fair values of the swap arrangements at December 31, 2006 are US\$1,765 and \$644 respectively (2005 – US\$1,091 and \$1,509).

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, 2006 include future contracts of US\$25,522 until 2008 at a weighted average exchange rate of \$1.205. There is a net unrealized gain of \$1,171 (2005 - \$1,537) from these hedge contracts at December 31, 2006. This amount has been included in prepaid and other expenses.

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, 2006 include future contracts of €2,415 at a weighted average exchange rate of US\$1.31 and expire in 2007. At December 31, 2006, there are net unrealized (losses) with respect to these contracts of (\$9) (2005 – (\$81) and \$13 respectively).

18. SUBSEQUENT EVENT:

On January 4, 2007, the Fund announced that it had increased the aggregate amount that can be borrowed under the Fund's senior credit facilities with its principal bankers by \$50,000. In February 2007, the Fund used part of this increased credit facility to redeem the 16,391 convertible debentures outstanding for the principal amount plus accrued and unpaid interest.