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**Chemtrade Logistics** Income Fund

**2016**

First Quarter Report





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### Recent Developments

Acquisition of Hydor-Tech Ltd. -

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Three months ended

(\$'000)	March 31, 2016	March 31, 2015
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Three months ended

(\$'000)	March 31, 2016	March 31, 2015
Operating cash flows	42,320	45,415
Adjusted cash flows from operating activities	42,320	45,415
Distributable cash after maintenance capital expenditures	37,467	41,705
Distributable cash after all capital expenditures	\$ 34,988	\$ 38,767

Operating cash flows are derived from the consolidated statement of cash flows. Adjusted cash flows from operating activities are derived from the consolidated statement of cash flows, excluding the impact of non-recurring items. Distributable cash after maintenance capital expenditures is derived from the consolidated statement of cash flows, excluding the impact of non-recurring items and capital expenditures for maintenance. Distributable cash after all capital expenditures is derived from the consolidated statement of cash flows, excluding the impact of non-recurring items and all capital expenditures.

Consolidated Operating Results

Operating results for the three months ended March 31, 2016, compared to the three months ended March 31, 2015, are summarized in the following table. Operating results for the three months ended March 31, 2016, were lower than for the three months ended March 31, 2015, primarily due to a decrease in sales volume and an increase in operating expenses. The decrease in sales volume was primarily due to a decrease in the number of units sold. The increase in operating expenses was primarily due to an increase in depreciation and amortization expense.

Operating results for the three months ended March 31, 2016, compared to the three months ended March 31, 2015, are summarized in the following table. Operating results for the three months ended March 31, 2016, were lower than for the three months ended March 31, 2015, primarily due to a decrease in sales volume and an increase in operating expenses. The decrease in sales volume was primarily due to a decrease in the number of units sold. The increase in operating expenses was primarily due to an increase in depreciation and amortization expense.

Operating results for the three months ended March 31, 2016, compared to the three months ended March 31, 2015, are summarized in the following table. Operating results for the three months ended March 31, 2016, were lower than for the three months ended March 31, 2015, primarily due to a decrease in sales volume and an increase in operating expenses. The decrease in sales volume was primarily due to a decrease in the number of units sold. The increase in operating expenses was primarily due to an increase in depreciation and amortization expense.

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**Results of Operations by Business Segment**

**SPPC -**

(\$'000)	Three months ended		
	March 31, 2016	March 31, 2015	
Operating income	\$ 10.1	\$ 10.1	\$ 10.1
Operating expenses	\$ 10.1	\$ 10.1	\$ 10.1
Operating loss	\$ 0.0	\$ 0.0	\$ 0.0
Other income (expense)	\$ 0.0	\$ 0.0	\$ 0.0
Income tax expense	\$ 0.0	\$ 0.0	\$ 0.0
Net income	\$ 0.0	\$ 0.0	\$ 0.0

The following table provides a reconciliation of the operating loss to net income for the three months ended March 31, 2016. Operating loss is calculated as operating income less operating expenses. Operating income is calculated as revenue less cost of sales and operating expenses. Operating expenses include depreciation and amortization, research and development, sales and marketing, general and administrative, and other operating expenses. Other income (expense) includes interest income, interest expense, and other non-operating income (expense). Income tax expense is calculated as operating loss multiplied by the applicable tax rate.

Operating income is calculated as revenue less cost of sales and operating expenses. Operating expenses include depreciation and amortization, research and development, sales and marketing, general and administrative, and other operating expenses. Other income (expense) includes interest income, interest expense, and other non-operating income (expense). Income tax expense is calculated as operating loss multiplied by the applicable tax rate. The following table provides a reconciliation of the operating loss to net income for the three months ended March 31, 2016. Operating loss is calculated as operating income less operating expenses. Operating income is calculated as revenue less cost of sales and operating expenses. Operating expenses include depreciation and amortization, research and development, sales and marketing, general and administrative, and other operating expenses. Other income (expense) includes interest income, interest expense, and other non-operating income (expense). Income tax expense is calculated as operating loss multiplied by the applicable tax rate.



**WSSC -**

<b>(\$'000)</b>	<b>Three months ended</b>	
	<b>March 31, 2016</b>	<b>March 31, 2015</b>
Revenue	\$ 120,806	\$ 108,278
EBITDA	30,729	29,182
Depreciation and amortization	(18,625)	(15,603)
Net finance costs	(3,091)	(2,428)
Income tax recovery (expense)	3,972	(2,529)
Net earnings	\$ 12,985	\$ 8,622

WSSC manufactures and markets a variety of inorganic coagulants used in water treatment, including aluminum sulphate, aluminum chlorohydrate, polyaluminum chloride, and ferric sulphate; and a number of specialty chemicals, including sodium chlorate, sodium nitrite, potassium chloride, phosphorus pentasulphide, vaccine adjuvants, and sulphides. These products are marketed primarily to North American customers.

Revenue during the first quarter of 2016 was higher than the same period of 2015 by \$12.5 million. The increase in revenue was primarily due to higher volumes of water products and the positive impact of the stronger U.S. dollar in 2016 relative to 2015. EBITDA during the first quarter of 2016 was higher than the first quarter of 2015 by \$1.5 million. EBITDA benefited by approximately \$2.3 million due to the stronger U.S. dollar in the first quarter of 2016, partially offset by lower margins of certain products within the segment in the first quarter of 2016 compared with the same period of 2015. Net earnings for the first quarter of 2016 were \$4.4 million higher than the comparative period of 2015. The higher level of depreciation and amortization and higher net finance costs in 2016 were more than offset by an income tax recovery in the first quarter of 2016 compared with income tax expense in 2015. Depreciation and amortization was higher in the first quarter of 2016 compared with the same period of 2015 primarily due to accelerated depreciation of property, plant and equipment for certain production facilities that manufacture water treatment chemicals. The income tax recovery for the first quarter of 2016 was primarily due to the reversal of certain deferred tax liabilities as a result of changes in the value of the U.S. dollar relative to the Canadian dollar during the period. This was partially offset by income earned during the first quarter of 2016.

**International -**

(\$'000)	<u>Three months ended</u>	
	March 31, 2016	March 31, 2015
Revenue	\$ 55,762	\$ 56,981
EBITDA	2,635	4,752
Depreciation and amortization	(259)	(507)
Net finance costs	(32)	(3)
Income tax expense	(1,065)	(739)
<b>Net earnings</b>	<b>\$ 1,279</b>	<b>\$ 3,503</b>

International operations provide removal and marketing services for elemental sulphur and sulphuric acid. These products are marketed to customers globally.

During the first quarter of 2016, International's revenues were \$1.2 million lower than the levels achieved for the comparable period of 2015 primarily due to lower volumes of sulphur. EBITDA during the first quarter of 2016 was lower than the same period of 2015 by \$2.1 million mainly due to lower margins for sulphuric acid in international markets in the first quarter of 2016 compared with the first quarter of 2015.

**Corporate -**

(\$'000)	<u>Three months ended</u>	
	March 31, 2016	March 31, 2015
Cost of services	\$ 15,081	\$ 16,263
Adjusted EBITDA	(15,081)	(16,263)
Unrealized foreign exchange gain (loss)	13,399	(11,049)
EBITDA	(1,682)	(27,312)
Net finance costs	(890)	(11,736)
Income tax expense	—	(211)
<b>Net loss</b>	<b>\$ (2,572)</b>	<b>\$ (39,259)</b>

The Corporate segment includes the administrative costs of corporate activities such as treasury, finance, information technology, human resources, legal and risk management, and environmental, health and safety support, which are not directly allocable to an operating segment.

For the first quarter of 2016, corporate costs, excluding unrealized foreign exchange gains and losses, net finance costs and income taxes were \$1.2 million lower than the first quarter of 2015. This is primarily due to the fair value adjustment on the LTIP, which was \$2.4 million lower in the first quarter of 2016 than the first quarter of 2015. This

was partially offset by the negative impact of foreign exchange of approximately \$0.8 million in the first quarter of 2016 compared with the same period of 2015.

The comments on LTIP expenses relate to the 2014-2016, 2015-2017, and 2016-2018 LTIPs. The 2014-2016, 2015-2017, and 2016-2018 LTIP payouts are payable at the beginning of 2017, 2018 and 2019, respectively. The LTIP awards have a performance based component and a restricted share unit component. The performance based component for the 2014-2016 and 2015-2017 LTIP awards is based on total Unitholder return achieved over the three year performance period of the plan, Adjusted EBITDA growth, and total return to Chemtrade's Unitholders relative to the total return on the S&P/TSX Capped Industrial Index. The 2016-2018 LTIP award's performance based component is similar to the 2014-2016 and 2015-2017 LTIP awards except the total return to Chemtrade's Unitholders is measured relative to the total return on the S&P/TSX Dividend Index rather than the S&P/TSX Capped Industrial Index. The restricted share unit component of the LTIP awards is a phantom plan which is payable in cash at the end of the performance period. The nature of these calculations makes it difficult to forecast the amount of LTIP expenses that will be recorded in any period, as it is based upon a valuation model which considers several variables.

Chemtrade has hedged its investment in foreign operations that use the U.S. dollar as their functional currency with its U.S. dollar-denominated long-term debt. As a result, any gains and losses arising from the U.S. dollar-denominated debt will be offset by the foreign currency gain or loss arising from the investment in the foreign operations. The gains and losses on the translation of the designated amount of U.S. dollar-denominated debt and investment in foreign operations are now being recognized on a net basis in other comprehensive income. For the three months ended March 31, 2016, a foreign exchange gain of \$13.9 million on the revaluation of the U.S. dollar-denominated debt was recognized in other comprehensive income compared with a foreign exchange loss of \$17.6 million in the first quarter of 2015.

Net finance costs during the first quarter of 2016 were lower than the first quarter of 2015 by \$10.8 million, primarily due to fair value adjustments on the Debentures. For the first quarter of 2016, a gain of \$2.3 million was recorded compared with a loss of \$8.4 million in the first quarter of 2015.

### **Foreign Exchange**

Chemtrade has certain operating subsidiaries that use the U.S. dollar as their functional currency. As Chemtrade reports in Canadian dollars, its reported net earnings are exposed to fluctuations in the Canadian/U.S. dollar exchange rate. Chemtrade currently estimates that if the U.S. dollar strengthens by one-cent, on an unhedged basis, this would have a positive impact on annual Adjusted EBITDA and Distributable cash after maintenance capital expenditures of approximately \$1.6 million and \$0.8 million, respectively, and vice-versa.

Chemtrade has entered into a series of foreign exchange contracts with its principal bankers to manage the volatility of foreign exchange rates. All foreign exchange contracts are under International Swap and Derivatives Association (“ISDA”) agreements. Contracts in place at March 31, 2016 include future contracts to sell the following amounts for periods through to July 2016:

<u>Amount ('000s)</u>	<u>Weighted average exchange rate</u>
US\$2,632	€0.90
€5,332	US\$1.11

The purpose of these contracts is to manage foreign exchange risk on specific transactions in a foreign currency. The amount of the related derivative is recorded at fair value at the period end and is included with prepaid expenses and other assets or trade and other payables on the consolidated statements of financial position. The resultant non-cash charge or gain is included in selling and administrative expenses. The impact of this non-cash charge or gain is excluded from the computation of Adjusted EBITDA and Distributable cash after maintenance capital expenditures. See **Non-IFRS Measures - Cash Flow**.

Certain of Chemtrade's International and U.S. based operations use the U.S. dollar as their functional currency. The investment in these U.S. dollar-denominated foreign operations has been hedged by Chemtrade's U.S. dollar-denominated credit facilities. Any gains and losses from the translation of U.S. dollar-denominated borrowings on the credit facilities will be offset by the foreign currency gain or loss arising from the investment in the U.S. foreign operations. The gains and losses on the translation of the designated amount of long-term debt and investment in foreign operations are recorded in other comprehensive income.

The changes recorded in the accumulated other comprehensive income account since December 31, 2015 were a result of changes in the Canadian/U.S. dollar exchange rate between December 31, 2015 and March 31, 2016.

The rate of exchange used to translate U.S. dollar-denominated balances has decreased from a rate of US\$1.00 = \$1.38 at December 31, 2015 to US\$1.00 = \$1.30 at March 31, 2016. See **Risks and Uncertainties** for additional comments on foreign exchange.

### **Finance Income and Costs**

During the first quarter of 2016, net finance costs were \$8.8 million, compared with \$19.7 million during the first quarter of 2015. Net finance costs were lower in the first quarter of 2016 compared with the same period in 2015 primarily due to the fair value adjustments on the Debentures.

The weighted average effective annual interest rate on senior debt at March 31, 2016 was 3.44% (December 31, 2015 - 3.40%). See **Liquidity and Capital Resources - Financing Activities - Financial Instruments** for information concerning swap arrangements.

Net finance costs include the change in the fair value of Chemtrade's Debentures. The revaluation of the Debentures resulted in a gain of \$2.3 million for the first quarter of 2016 compared with a loss of \$8.4 million for the first quarter of 2015.

During the three months ended March 31, 2016 and 2015, Chemtrade recorded accretion expense of \$0.3 million and \$0.4 million, respectively, due to the amortization of transaction costs related to Chemtrade's borrowings. See **Liquidity and Capital Resources - *Financing Activities***.

## **Income Taxes**

The Fund is a mutual fund trust and a specified investment flow-through trust ("SIFT") for income tax purposes. The Fund is subject to current income taxes at the top marginal tax rate applicable to individuals of approximately 53.5% on all taxable income not distributed to Unitholders. The Fund is also subject to current income taxes on all taxable income, other than dividends, earned from Canadian corporate and flow-through subsidiaries (other than Canadian subsidiaries that earn certain investment income) at a tax rate similar to the corporate tax rate. The Fund is not subject to tax on income received from non-Canadian subsidiaries, provided that the income is distributed to Unitholders during the year. Based on the current organization of the Fund and its subsidiaries, Chemtrade expects that its income distributed to Unitholders will not be subject to SIFT tax.

Taxable income distributed by the Fund to its Unitholders is considered taxable income of those Unitholders.

For the first three months of 2016, current income tax expense was \$1.3 million, compared with a current income tax expense of \$2.4 million for the same period of 2015. The decrease in current income tax expense is primarily due to a decrease in taxable income in certain subsidiaries. During the first three months of 2016, there was deferred income tax recovery of \$10.5 million compared with a deferred income tax recovery of \$2.0 million for the same period of 2015. The increase in deferred tax recovery in the first quarter of 2016 compared with the first quarter of 2015 is primarily due to the recognition of deductible temporary differences and the reversal of certain deferred tax liabilities due to changes in the value of the U.S. dollar relative to the Canadian dollar.

The effective tax rate for the first three months of 2016 differs from the statutory tax rate primarily due to the deduction of taxable income distributed to Unitholders and due to income earned in jurisdictions with different effective income tax rates.

The net decrease in deferred tax assets of \$2.0 million at March 31, 2016 relative to December 31, 2015 is primarily due to the utilization of non-capital losses in certain jurisdictions.

The net decrease in deferred tax liabilities of \$31.6 million at March 31, 2016 relative to December 31, 2015 is primarily due to the impact of foreign exchange as the U.S. dollar weakened relative to the Canadian dollar during the first quarter of 2016. Additionally, there was a decrease in deferred tax liabilities from December 31, 2015 due to the reversal of certain deferred tax liabilities during the first quarter of 2016 due the change in value of the U.S. dollar relative to the Canadian dollar.

The Fund does not record deferred taxes related to its deductible temporary differences or those of its flow-through subsidiaries as these differences primarily relate to investments in corporate subsidiaries and are expected to reverse without tax consequences to the Fund.

## Excess Cash Flows and Net Earnings Over Distributions Paid

The following table presents excess cash flows from operating activities and net earnings over distributions paid for the three months ended March 31, 2016 and for the years ended December 31, 2015 and December 31, 2014.

(\$'000)	<u>Three months ended</u>		<u>Year ended</u>	
		<u>March 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Cash flows from operating activities	\$	12,368	\$ 161,974	\$ 104,296
Net earnings (loss)		28,786	(47,590)	21,030
Distributions paid during period		20,721	82,640	71,394
(Shortfall) excess of cash flows from operating activities over cash distributions paid		(8,353)	79,334	32,902
Excess (shortfall) of net earnings over cash distributions paid		8,065	(130,230)	(50,364)

Chemtrade considers the amount of cash generated by the business in determining the amount of distributions available for payment to its Unitholders. In general, Chemtrade does not take into account quarterly working capital fluctuations as these tend to be temporary in nature. Chemtrade does not generally consider net earnings in setting the level of distributions as this is a non-cash metric and is not reflective of the level of cash flow that Chemtrade can generate. This divergence is particularly relevant for Chemtrade as it has a relatively high level of depreciation and amortization expenses, foreign exchange gains and losses, and deferred tax expenses and recoveries.

For the three months ended March 31, 2016, distributions to Unitholders exceeded cash flows from operating activities mainly due to an increase in working capital during the quarter. Chemtrade maintains a revolving credit facility to manage the effects of temporary fluctuations in working capital.

### *Distributions -*

Distributions to Unitholders for the three months ended March 31, 2016 were declared as follows:

<u>Record Date</u>	<u>Payment Date</u>	<u>Distribution Per Unit</u>	<u>Total (\$'000)</u>
Three months ended March 31:			
January 29, 2016	February 29, 2016	\$ 0.10	\$ 6,907
February 29, 2016	March 31, 2016	0.10	6,907
March 31, 2016	April 29, 2016	0.10	6,907
Total for the three months ended March 31, 2016		\$ 0.30	\$ 20,721

Distributions to Unitholders for the three months ended March 31, 2015 were declared as follows:

<b>Record Date</b>	<b>Payment Date</b>	<b>Distribution Per Unit</b>	<b>Total (\$'000)</b>
Three months ended March 31:			
January 30, 2015	February 27, 2015	\$ 0.10	\$ 6,847
February 27, 2015	March 31, 2015	0.10	6,859
March 31, 2015	April 30, 2015	0.10	6,860
Total for the three months ended March 31, 2015		\$ 0.30	\$ 20,566

Treatment of Chemtrade's distributions for Canadian Income Tax purposes for 2015 and 2016 is as follows:

	<b>Other Income</b>	<b>Dividends <sup>(1)</sup></b>	<b>Foreign Non-Business Income</b>	<b>Total</b>
2015	18.3%	17.3%	64.4%	100%
2016 <sup>(2)</sup>	18.5%	16.2%	65.3%	100%

(1) These dividends are not considered to be eligible dividends for Canadian resident Unitholders and therefore not eligible for the enhanced tax credit.

(2) Represents anticipated tax characterization of planned distributions. The actual tax treatment of 2016 distributions will be determined by February 28, 2017.

## **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, the credit facilities, and Debentures. The cash flow of Chemtrade is required to fund cash distributions to Unitholders, capital requirements, interest, general corporate purposes and other legal obligations.

### Cash Flow from Operating Activities

Cash flow from operating activities for the first quarter of 2016 was an inflow of \$12.4 million, an increase of \$32.7 million from the first quarter of 2015. The increase in cash flow from operating activities in the first quarter of 2016 compared with the first quarter of 2015 is primarily due to lower income taxes paid and fluctuations in working capital.

### Investing Activities

On January 16, 2015, Chemtrade completed the purchase of the operating assets of HTL. Refer to the consolidated financial statements of Chemtrade for the year ended December 31, 2015 for details.

Capital expenditures were \$7.3 million in the first quarter of 2016, compared with \$6.6 million in the first quarter of 2015. These amounts include \$4.9 million in the first quarter of 2016 and \$3.7 million in the first quarter of 2015 for maintenance capital requirements. Chemtrade expects to incur approximately \$50.0 million of maintenance capital expenditures in 2016.

Non-maintenance capital expenditures were \$2.5 million during the first quarter of 2016 compared with \$2.9 million during the first quarter of 2015. Non-maintenance capital expenditures are: (i) pre-funded, usually as part of a significant

acquisition and related financing; (ii) considered to expand or improve the capacity of Chemtrade's operations; (iii) significant environmental capital expenditures that are considered to be non-recurring; or (iv) capital expenditures to be reimbursed by a third party.

### Financing Activities

At March 31, 2016, Chemtrade's credit facilities are comprised of a \$561.0 million (US\$432.0 million) five year term loan and a \$649.4 million (US\$500.0 million) revolving credit facility.

In the first quarter of 2015, Chemtrade modified the terms of its credit facilities to extend the maturity date. Chemtrade incurred \$1.0 million of costs related to this amendment. These costs have been deferred and are being amortized to finance costs in comprehensive income using the effective interest method.

There was a net increase in the revolving portion of the credit facilities of \$16.8 million and \$86.3 million, in the first quarter of 2016 and 2015, respectively.

Distributions to Unitholders during the three months ended March 31, 2016 were higher than the same period of 2015 due to units issued on the conversion of Debentures during the subsequent quarters of 2015, while the distribution per unit remained the same. For additional information on cash distributions, see **Non-IFRS Measures - Cash Flow and Excess Cash Flows and Net Earnings Over Distributions Paid**.

### *Financial Instruments -*

In March 2014, Chemtrade entered into swap arrangements with its principal bankers, which fix the LIBOR components of its interest rates on US\$325.0 million of its outstanding long-term debt until January 2019. These swaps have been formally designated as hedges at the date of inception. All changes in the fair value of the swap arrangements have been recorded in other comprehensive income in the consolidated statements of comprehensive income.

During the first quarter of 2015, Chemtrade hedged its investment in foreign operations that use the U.S. dollar as their functional currency with its U.S. dollar-denominated long-term debt. Any gains and losses arising from the U.S. dollar-denominated debt will be offset by the foreign currency gain or loss arising from the investment in the foreign operations. The gains and losses on the translation of the designated amount of U.S. dollar-denominated debt and investment in foreign operations are being recognized in other comprehensive income.

### *Cash Balances -*

At March 31, 2016, Chemtrade had net cash balances of \$5.0 million and working capital of \$44.5 million. Comparable figures for December 31, 2015 were \$8.0 million and working capital of \$15.5 million, respectively. Chemtrade defines working capital to exclude cash, distributions payable and current portion of long-term debt and Debentures. Cash generated by Chemtrade will be used to fund cash distributions to Unitholders, capital requirements, interest, general corporate purposes and other legal obligations.



### *Future Liquidity -*

The future liquidity of Chemtrade is primarily dependent on cash flows of its operating subsidiaries. These cash flows will be used to finance ongoing expenditures, including maintenance capital, distributions to Unitholders and normal course financial commitments. Cash flows are sensitive to changes in volume, sales prices and input costs and any changes in these may impact future liquidity. Management believes that cash flows from operating activities will be sufficient for Chemtrade to meet future obligations and commitments that arise in the normal course of business activities. In addition, Chemtrade has revolving credit facilities which can be used for general corporate purposes, including to fund capital expenditures. See *Capital Resources* below for more details.

### *Capital Resources -*

At March 31, 2016, Chemtrade had credit facilities of approximately \$1.2 billion (US\$932.0 million), consisting of a term loan of \$561.0 million (US\$432.0 million) and a revolving credit facility of \$649.4 million (US\$500.0 million). These credit facilities are due in October 2020. At March 31, 2016, Chemtrade had \$561.0 million (US\$432.0 million) of its term loan outstanding, had drawn \$34.1 million on the revolving credit facility, and committed a total of \$23.0 million of its revolving credit facility towards standby letters of credit.

At March 31, 2016, Chemtrade had a long-term loan of \$14.4 million related to its facilities located at Syncrude's Mildred Lake oil sands facility in Alberta. The loan is secured by the assets at this facility. The loan bears interest at a fixed rate of 7.3% per annum with monthly principal repayments due until December 2019.

At March 31, 2016, Chemtrade had three series of Debentures outstanding with an aggregate par value of \$235.2 million (market value of \$238.4 million) and maturity dates ranging from March 31, 2017 to June 30, 2021.

### *Debt Covenants -*

As at March 31, 2016, Chemtrade was compliant with all debt covenants contained in its credit agreements.

## Summary of Quarterly Results

(\$ millions)	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Revenue from continuing operations	\$ 336.1	\$ 335.7	\$ 364.4	\$ 338.8	\$ 326.0	\$ 313.3	\$ 314.0	\$ 310.1
Cost of sales and services	(296.0)	(393.1)	(316.4)	(293.7)	(278.3)	(300.5)	(268.2)	(267.9)
Gross profit	40.1	(57.4)	48.0	45.0	47.8	12.7	45.8	42.2
Selling and administrative expenses:								
Unrealized foreign exchange gain (loss)	13.4	(3.2)	(13.3)	1.4	(11.0)	(11.9)	(19.6)	14.2
LTIP (expense) recovery	(0.2)	(2.4)	0.8	(2.2)	(2.6)	(3.1)	(2.6)	(2.3)
Other	(24.8)	(21.3)	(17.6)	(20.9)	(23.1)	(10.7)	(19.4)	(18.4)
Total selling and administrative expenses	(11.6)	(26.9)	(30.1)	(21.7)	(36.7)	(25.7)	(41.6)	(6.4)
Operating income (loss)	28.5	(84.3)	17.9	23.4	11.1	(13.0)	4.2	35.8
Net finance costs:								
Mark-to-market on Debentures	2.3	0.6	13.6	5.3	(8.4)	4.5	(1.2)	(0.8)
Debt extinguishment costs	—	—	—	—	—	(0.4)	(1.2)	(1.4)
Other	(11.1)	(11.4)	(11.4)	(10.8)	(11.3)	(13.9)	(12.3)	(20.1)
Total net finance (costs) income	(8.8)	(10.8)	2.2	(5.5)	(19.7)	(9.8)	(14.7)	(22.2)
Income tax recovery (expense)	9.2	15.0	(1.7)	5.1	(0.4)	12.7	4.6	4.6
Net earnings (loss) from continuing operations	\$ 28.8	\$ (80.1)	\$ 18.5	\$ 23.0	\$ (9.0)	\$ (10.1)	\$ (5.9)	\$ 18.2
Net earnings from discontinued operations	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 17.7	\$ 22.7
Net earnings (loss)	\$ 28.8	\$ (80.1)	\$ 18.5	\$ 23.0	\$ (9.0)	\$ (10.1)	\$ 11.8	\$ 40.9

In general, seasonality has had a limited impact on financial results. Below are some of the key items that had a significant impact on financial results over the last eight quarters.

### Revenue and Gross Profit

The four quarters of 2015 and the first quarter of 2016 include the positive impact of the strengthening U.S. dollar relative to the Canadian dollar. Gross profit was lower in the fourth quarter of 2014 due to the amortization of certain intangible assets acquired as part of the General Chemical Acquisition that had a useful life of approximately one year. Gross profit was also lower in the fourth quarter of 2015 due to an \$88.7 million impairment loss on goodwill and \$7.4 million write-down of certain assets.

### Selling and Administrative Expenses

In 2014, selling and administrative expenses include unrealized foreign exchange gains and losses resulting from the translation of the U.S. dollar-denominated borrowings on a portion of the credit facilities. The amount recognized in a quarter depends upon changes in the U.S. dollar exchange rate in that quarter. Chemtrade also has non-Canadian operating subsidiaries that use the U.S. dollar as their functional currency. Any gains or losses arising from the

translation of the assets and liabilities of these foreign subsidiaries are recorded in other comprehensive income. Beginning in the first quarter of 2015, Chemtrade hedged its investment in U.S. foreign subsidiaries with its U.S. dollar-denominated borrowings. As a result, the translation of the U.S. dollar-denominated borrowings are being recognized in other comprehensive income.

The change in fair value of Chemtrade's LTIP obligation is also included in selling and administrative expenses. The amount of the expense recorded in any quarter depends on changes in the various factors used in arriving at the fair value of the obligation.

Other selling and administrative expenses during the fourth quarter of 2014 were low as they included settlement gains of \$10.2 million associated with changes made to certain of Chemtrade's post-employment benefit plans. Expenses during the third quarter of 2015 were low as they included a \$4.1 million gain on settlement of litigation related to the acquisition of Marsulex in 2011.

#### Net Finance Costs

Net finance costs include changes in the fair value of Chemtrade's Debentures. The amount recorded in any quarter related to the fair value adjustments on the Debentures fluctuates depending upon the market value of the Debentures at the end of the period.

2014 includes debt extinguishment costs resulting from the repayment of the former credit facilities. In the second quarter of 2014, finance costs include \$5.4 million of transaction costs related to the issuance of Debentures, as well as a \$1.4 million loss related to the ineffectiveness of Chemtrade's cash flow hedges as a result of the repayment of long-term debt under the credit facilities.

#### Income Taxes

Income tax recoveries were high in the fourth quarters of 2014 and 2015 primarily due to higher net losses incurred during these quarters. The income tax recovery in the first quarter of 2016 was high primarily due to the reversal of certain deferred tax liabilities.

#### Discontinued Operations

Discontinued operations represents the Montreal East business which was sold in the third quarter of 2014. The higher net earnings in the second quarter of 2014 was primarily due to a high tax recovery resulting from a change in management's estimate of when certain deferred tax liabilities would reverse due to such assets being held for sale. The higher net earnings in the third quarter of 2014 was primarily due to the recognition of \$9.4 million of accounts receivable into revenues upon sale of the Montreal East business pursuant to an agreement with a previous customer of this business. Additionally, an after tax gain of \$7.7 million was realized upon sale of the business.

## Outstanding Securities of the Fund

As at May 10, 2016 and March 31, 2016, the following common units and securities convertible into units were issued and outstanding:

	May 10, 2016		March 31, 2016	
	Convertible Securities	Units	Convertible Securities	Units
<b>Common units outstanding</b>		<b>69,071,288</b>		<b>69,069,226</b>
<b>6.0% Debentures <sup>(1)</sup></b>	<b>28,981</b>	<b>1,811,313</b>	<b>29,006</b>	<b>1,812,875</b>
<b>5.75% Debentures <sup>(2)</sup></b>	<b>79,637</b>	<b>3,981,850</b>	<b>79,647</b>	<b>3,982,350</b>
<b>5.25% Debentures <sup>(3)</sup></b>	<b>126,500</b>	<b>4,517,857</b>	<b>126,500</b>	<b>4,517,857</b>
<b>Units outstanding and issuable upon conversion of Debentures</b>		<b>79,382,308</b>		<b>79,382,308</b>

<sup>(1)</sup> Convertible at \$16.00 per unit

<sup>(2)</sup> Convertible at \$20.00 per unit

<sup>(3)</sup> Convertible at \$28.00 per unit

## Contractual Obligations

Information concerning contractual obligations at March 31, 2016 is shown below:

Contractual Obligations (\$'000)	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	\$ 609,559	\$ 3,460	\$ 7,723	\$ 598,376	—
Debentures	235,153	29,006	79,647	—	126,500
Operating leases	104,733	32,830	45,001	16,937	9,965
Interest on long-term debt	91,885	20,857	40,911	30,117	—
Interest on Debentures	49,200	12,961	21,297	13,282	1,660
<b>Total contractual obligations</b>	<b>\$ 1,090,530</b>	<b>\$ 99,114</b>	<b>\$ 194,579</b>	<b>\$ 658,712</b>	<b>\$ 138,125</b>

## Risks and Uncertainties

Chemtrade operates a diversified business providing industrial chemicals and services to customers in North America and around the world. Chemtrade is one of North America's largest suppliers of sulphuric acid, inorganic coagulants for water treatment, liquid sulphur dioxide, sodium nitrite, sodium hydrosulphite and phosphorus pentasulphide. Chemtrade is a leading processor of spent acid as well as a leading regional supplier of sulphur, sodium chlorate, potassium chloride and zinc oxide. Additionally, Chemtrade provides industrial services such as processing hydrogen sulphide and other by-products and waste streams. Chemtrade faces various risks associated with its business. These risks include, amongst others, a general reduction in demand for its products, the loss of a portion of its customer base, the interruption of the supply of products or raw materials, price fluctuations in the products sold and/or raw materials purchased, industry capacity, acquisition integration and operational, transportation and product hazard risks associated with the nature of its business. Chemtrade imports key raw materials and products from overseas and as such has

additional risks associated with the sourcing activity. Chemtrade makes extensive use of the railway system to transport material within North America. Certain locations are serviced by a sole carrier and thus a disruption in service or changes to the regulatory environment relating to transportation could have a significant negative impact on results. 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. For a more detailed discussion of Chemtrade's risks, please refer to the "RISK FACTORS" section of the most recently filed Annual Information Form.

Chemtrade manages the risks associated with its customer base and sales prices 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's Board of Trustees periodically reviews a framework identifying the principal risks of Chemtrade's business, and ensures the implementation of appropriate systems to manage these risks. The Audit Committee reviews major operations and financial risks, the systems implemented to monitor those risks and the strategies in place to manage those risks. In addition, Chemtrade maintains an extensive insurance program which includes general liability and environmental coverage.

There are a number of risks that warrant additional disclosure which are discussed in detail in the MD&A for the year ended December 31, 2015. There have been no material changes to the business of Chemtrade that require an update to the discussion of these risks.

### **Critical Judgements and Sources of Estimation Uncertainty**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

#### *Key Sources of Estimation Uncertainty -*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are discussed in detail in the MD&A for the year ended December 31, 2015. There have been no material changes to the business of Chemtrade that require an update to the discussion of these sources of estimation uncertainty.

### **IFRS Standards and Interpretations Not Yet Adopted**

For information regarding IFRS standards and interpretations not yet adopted, refer to note 3(p) of the audited consolidated financial statements of Chemtrade for the year ended December 31, 2015.

## **Disclosure Controls and Procedures and Internal Controls Over Financial Reporting**

Chemtrade maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that the Fund publicly files is recorded, processed, summarized and reported within a timely manner and that such information is accumulated and communicated to Chemtrade's Management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure. The Chief Executive Officer and the Chief Financial Officer have evaluated Chemtrade's disclosure controls procedures as of March 31, 2016 through inquiry and review.

Chemtrade also maintains a system of internal controls over financial reporting designed under the supervision of Chemtrade's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Chemtrade's Management, including the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting and evaluating its effectiveness. Management has used The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework (2013) to evaluate the effectiveness of Chemtrade's internal control over financial reporting as of March 31, 2016. There have been no changes to the design of internal controls over financial reporting that occurred during the quarter ended March 31, 2016 that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

### **Outlook**

We remain confident that our portfolio of businesses, business model and our strong balance sheet will allow us to comfortably sustain our distributions and increase our financial flexibility by reducing leverage levels.

### **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).

May 11, 2016

# CHEMTRADE LOGISTICS INCOME FUND

Condensed Consolidated Interim Statements of Financial Position

(In thousands of Canadian dollars)

(Unaudited)

	Notes	March 31, 2016	December 31, 2015
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 5,014	\$ 7,992
Trade and other receivables		161,991	176,818
Inventories		65,210	64,288
Prepaid expenses and other assets	12	15,670	18,692
<b>Total current assets</b>		<b>247,885</b>	<b>267,790</b>
<b>Non-current assets</b>			
Property, plant and equipment		859,716	925,357
Other assets		8,092	8,303
Intangible assets		1,118,419	1,191,568
Deferred tax assets	11	18,265	20,227
<b>Total non-current assets</b>		<b>2,004,492</b>	<b>2,145,455</b>
<b>Total assets</b>		<b>\$ 2,252,377</b>	<b>\$ 2,413,245</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	4, 12	\$ 177,265	\$ 222,477
Distributions payable		6,907	6,907
Provisions		6,104	7,088
Income taxes payable		15,027	14,736
Current portion of long-term debt	5	3,460	3,397
Convertible unsecured subordinated debentures	6	31,907	—
<b>Total current liabilities</b>		<b>240,670</b>	<b>254,605</b>
<b>Non-current liabilities</b>			
Long-term debt	5	599,087	618,254
Convertible unsecured subordinated debentures	6	206,491	240,726
Other long-term liabilities	4, 12	22,044	21,392
Employee benefits		88,333	92,771
Provisions		56,839	59,903
Deferred tax liabilities	11	213,187	244,826
<b>Total non-current liabilities</b>		<b>1,185,981</b>	<b>1,277,872</b>
<b>Total liabilities</b>		<b>1,426,651</b>	<b>1,532,477</b>
<b>Unitholders' equity</b>			
Units	7	1,046,922	1,046,922
Contributed surplus		9,720	9,720
Deficit		(425,071)	(433,136)
Accumulated other comprehensive income		194,155	257,262
<b>Total unitholders' equity</b>		<b>825,726</b>	<b>880,768</b>
<b>Total liabilities and unitholders' equity</b>		<b>\$ 2,252,377</b>	<b>\$ 2,413,245</b>

The accompanying notes on pages G5 to H9 are an integral part of these consolidated financial statements.

# CHEMTRADE LOGISTICS INCOME FUND

Condensed Consolidated Interim Statements of Comprehensive Income

(In thousands of Canadian dollars, except per unit amounts)

(Unaudited)

	Notes	Three months ended March 31,	
		2016	2015
Revenue		\$ 336,114	\$ 326,030
Cost of sales and services	10	(296,030)	(278,277)
Gross profit		40,084	47,753
Selling and administrative expenses	8, 10	(11,616)	(36,663)
Operating income		28,468	11,090
Finance income	9	2,343	4
Finance costs	9	(11,176)	(19,662)
Income (loss) before income tax		19,635	(8,568)
Income tax (expense) recovery	11		
Current		(1,347)	(2,373)
Deferred		10,498	1,986
		9,151	(387)
Net earnings (loss)		\$ 28,786	\$ (8,955)
Other comprehensive income (loss)			
Items that may subsequently be reclassified to earnings:			
Gain (loss) on net investment hedge of foreign operations	12	13,895	(17,601)
Foreign currency translation differences for foreign operations, net of tax recovery of \$3,238 (2015 - net of tax expense of \$5,680)		(73,690)	96,450
Effective portion of change in the fair value of cash flow hedges, net of tax recovery of \$1,185 (2015 - \$1,015)	12	(3,312)	(2,870)
Other comprehensive (loss) income		(63,107)	75,979
Total comprehensive (loss) income		\$ (34,321)	\$ 67,024
Net earnings (loss) per unit	7		
Basic net earnings (loss) per unit		\$ 0.42	\$ (0.13)
Diluted net earnings (loss) per unit		\$ 0.37	\$ (0.13)

The accompanying notes on pages G5 to H9 are an integral part of these consolidated financial statements.



# CHEMTRADE LOGISTICS INCOME FUND

Condensed Consolidated Interim Statements of Changes in Unitholders' Equity  
(In thousands of Canadian dollars)  
(Unaudited)

	Units	Contributed surplus	Deficit	Cumulative translation account*	Unrealized gains/ losses on cash flow and net investment hedges*	Total unitholders' equity
<b>Balance at January 1, 2016</b>	<b>\$ 1,046,922</b>	<b>\$ 9,720</b>	<b>\$ (433,136)</b>	<b>\$ 296,601</b>	<b>\$ (39,339)</b>	<b>880,768</b>
Net earnings	—	—	28,786	—	—	28,786
Other comprehensive (loss) income	—	—	—	(73,690)	10,583	(63,107)
Distributions (note 7)	—	—	(20,721)	—	—	(20,721)
<b>Balance at March 31, 2016</b>	<b>\$ 1,046,922</b>	<b>\$ 9,720</b>	<b>\$ (425,071)</b>	<b>\$ 222,911</b>	<b>\$ (28,756)</b>	<b>825,726</b>

	Units	Contributed surplus	Deficit	Cumulative translation account*	Unrealized losses on cash flow and net investment hedges*	Total unitholders' equity
<b>Balance at January 1, 2015</b>	<b>\$ 1,034,308</b>	<b>\$ 9,720</b>	<b>\$ (302,905)</b>	<b>\$ 91,418</b>	<b>\$ (2,308)</b>	<b>830,233</b>
Net loss	—	—	(8,955)	—	—	(8,955)
Other comprehensive income (loss)	—	—	—	96,450	(20,471)	75,979
Distributions (note 7)	—	—	(20,566)	—	—	(20,566)
Issuance of units (note 7)	2,652	—	—	—	—	2,652
<b>Balance at March 31, 2015</b>	<b>\$ 1,036,960</b>	<b>\$ 9,720</b>	<b>\$ (332,426)</b>	<b>\$ 187,868</b>	<b>\$ (22,779)</b>	<b>879,343</b>

\*Accumulated other comprehensive income.

The accompanying notes on pages G5 to H9 are an integral part of these unaudited condensed consolidated interim financial statements.

# CHEMTRADE LOGISTICS INCOME FUND

Condensed Consolidated Interim Statements of Cash Flows

(In thousands of Canadian dollars)

(Unaudited)

		<b>Three months ended March 31,</b>	
	Notes	2016	2015
<b>Cash flows from operating activities:</b>			
Net earnings (loss)		\$ 28,786	\$ (8,955)
Adjustments for:			
Depreciation and amortization	10	38,836	36,317
Loss (gain) on disposal and write-down of assets		86	(373)
Income tax (recovery) expense		(9,151)	387
Net interest costs		9,399	9,518
Accretion expense		838	954
Net pension interest		924	777
Change in fair value of convertible unsecured subordinated debentures	6	(2,328)	8,409
Unrealized foreign exchange (gain) loss		(13,399)	11,049
		<b>53,991</b>	<b>58,083</b>
Increase in working capital		(33,534)	(44,714)
Interest paid		(7,048)	(7,474)
Interest received		15	4
Income taxes paid		(1,056)	(26,225)
<b>Net cash flows from (used in) operating activities</b>		<b>12,368</b>	<b>(20,326)</b>
<b>Cash flows from investing activities:</b>			
Decrease (increase) in restricted cash		54	(67)
Additions to property, plant and equipment		(7,332)	(6,648)
Decrease (increase) in other assets		461	(463)
Acquisition (net of cash acquired)	3	—	(27,645)
<b>Net cash flows used in investing activities</b>		<b>(6,817)</b>	<b>(34,823)</b>
<b>Cash flows from financing activities:</b>			
Distributions to unitholders	7	(20,721)	(20,554)
Repayment of term debt		(826)	(768)
Net change in revolving credit facility		16,803	86,257
Decrease in other long-term liabilities		(3,750)	(3,239)
Financing transaction costs	5	—	(955)
<b>Net cash flows (used in) from financing activities</b>		<b>(8,494)</b>	<b>60,741</b>
(Decrease) increase in cash and cash equivalents		(2,943)	5,592
Cash and cash equivalents, beginning of the period		7,992	11,165
Effect of exchange rates on cash held in foreign currencies		(35)	334
<b>Cash and cash equivalents, end of the period</b>		<b>\$ 5,014</b>	<b>\$ 17,091</b>

The accompanying notes on pages G5 to H9 are an integral part of these consolidated financial statements.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Condensed Consolidated Interim Financial Statements  
(In thousands of Canadian dollars, except per unit amounts)  
(Unaudited)

Three months ended March 31, 2016 and 2015

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## 1. CORPORATE INFORMATION:

Chemtrade Logistics Income Fund ("Chemtrade") is a publicly listed Income Trust formed in Ontario, Canada and its units are listed on the Toronto Stock Exchange ("TSX"). Chemtrade commenced operations on July 18, 2001 when it completed an initial public offering. Chemtrade operates in four business segments: Sulphur Products & Performance Chemicals ("SPPC"), Water Solutions & Specialty Chemicals ("WSSC"), International ("Intl") and Corporate ("Corp"). For additional information regarding Chemtrade's business segments, see note 13.

Chemtrade is an entity domiciled in Canada. The head office, principal address, and registered and records office of Chemtrade are located at 155 Gordon Baker Road, Suite 300, Toronto, Ontario, M2H 3N5.

Chemtrade's condensed consolidated interim financial statements include all of its controlled subsidiaries and have been prepared on a going concern basis, which contemplates the realization of assets and settlements of liabilities in the normal course of business.

## 2. BASIS OF PREPARATION:

### (a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, using the same accounting policies and standards as were used for Chemtrade's 2015 annual consolidated financial statements.

These condensed consolidated interim financial statements should be read in conjunction with Chemtrade's 2015 annual consolidated financial statements.

The condensed consolidated interim financial statements were authorized for issue by the Board of Trustees on May 11, 2016.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Condensed Consolidated Interim Financial Statements  
(In thousands of Canadian dollars, except per unit amounts)  
(Unaudited)

Three months ended March 31, 2016 and 2015

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## 2. BASIS OF PREPARATION (continued):

### (b) Basis of measurement:

The condensed consolidated interim financial statements have been prepared on the historical cost basis, except for the following material items in the condensed consolidated interim statements of financial position:

- Derivative financial instruments are measured at fair value;
- Financial instruments at fair value through profit or loss are measured at fair value;
- Liabilities for cash settled share-based payment arrangements are measured at fair value;
- The defined benefit liability is recognized as the fair value of the plan assets and the present value of the defined benefit obligation; and
- Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to temporary differences when they reverse.

### (c) Presentation currency:

These condensed consolidated interim financial statements are presented in thousands of Canadian dollars, except for net earnings per unit information which is presented in Canadian dollars.

## 3. ACQUISITIONS:

### (a) Hydor-Tech

On January 16, 2015, Chemtrade completed the purchase of the operating assets of Hydor-Tech Ltd. ("HTL"), an Edmonton-based manufacturer of inorganic coagulants. HTL was a leading western Canadian manufacturer of polyaluminum chloride that is widely used in municipal and industrial water treatment plants. The business combination was structured as an asset acquisition for \$27,645. For details of the purchase price allocation, refer to Chemtrade's 2015 annual consolidated financial statements.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Condensed Consolidated Interim Financial Statements  
(In thousands of Canadian dollars, except per unit amounts)  
(Unaudited)

Three months ended March 31, 2016 and 2015

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## 4. SHARE-BASED PAYMENTS:

Chemtrade operates a Long-Term Incentive Plan ("LTIP"), which grants cash awards based on certain criteria. The 2014-2016, 2015-2017, and 2016-2018 LTIP awards have a performance based component and a restricted share unit component. For the 2014-2016 and 2015-2017 LTIP awards, the performance based component is based on total Unitholder return over a performance period, EBITDA growth and total return to Chemtrade's Unitholders relative to the total return on the S&P/TSX Capped Industrial Index. The 2016-2018 LTIP award's performance based component is similar to the 2014-2016 and 2015-2017 LTIP awards except the total return to Chemtrade's Unitholders is measured relative to the total return on the S&P/TSX Dividend Index rather than the S&P/TSX Capped Industrial Index. Total Unitholder return consists of changes in unit price and distributions paid to Unitholders. The restricted share unit component of the LTIP awards is a phantom plan which is payable in cash at the end of the performance period.

As at March 31, 2016, a liability of \$8,678 (December 31, 2015 - \$15,156) has been recorded, of which \$5,005 (December 31, 2015 - \$8,103) is included in trade and other payables and \$3,673 (December 31, 2015 - \$7,053) is included in other long-term liabilities. For the three months ended March 31, 2016, Chemtrade recorded an expense of \$162 (2015 - \$2,590) in selling and administrative expenses related to the LTIP.

### *Inputs for measurement of fair values*

The fair value of the share-based component of LTIP is measured based on the Monte Carlo sampling method. Base price is the average unit price for the first 20 business days at the beginning of each LTIP performance period. Expected volatility is estimated by considering historic average unit price volatility. The risk-free interest rate is based on Canadian government bonds and Canadian government treasury bills.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Condensed Consolidated Interim Financial Statements  
(In thousands of Canadian dollars, except per unit amounts)  
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Three months ended March 31, 2016 and 2015

## 4. SHARE-BASED PAYMENTS (continued):

The inputs used in the measurement of the fair value of the share-based component of LTIP are as follows:

	March 31, 2016	December 31, 2015
Chemtrade units:		
Average base price	\$18.92	\$19.22
Period-end unit price	\$17.77	\$17.86
Average expected volatility	21.78%	20.53%
Index units:		
Average base price	\$186.92	\$201.85
Period-end unit price	\$191.83	\$215.82
Average expected volatility	16.62%	14.78%
Average risk free interest rate	0.53%	0.46%
Average expected remaining term	1.75 years	1.50 years

## 5. LONG-TERM DEBT:

	March 31, 2016	December 31, 2015
Term bank debt		
US\$432,000 (December 31, 2015 - US\$432,000)	\$ 561,038	\$ 597,888
Revolving credit facility		
US\$7,418 (December 31, 2015 - US\$2,755)	9,635	3,813
Canadian dollar-denominated	24,505	12,000
Less: Transaction costs	(6,677)	(6,909)
Long-term debt (note (a))	\$ 588,501	\$ 606,792
Long-term loan - Fort McMurray facility (note (b))	14,046	14,859
	\$ 602,547	\$ 621,651
Less: Current portion	(3,460)	(3,397)
Long-term debt	\$ 599,087	\$ 618,254

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Condensed Consolidated Interim Financial Statements  
(In thousands of Canadian dollars, except per unit amounts)  
(Unaudited)

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## 5. LONG-TERM DEBT (continued):

### (a) Long-term debt

At March 31, 2016, Chemtrade had senior credit facilities of approximately \$1,210,388 (US\$932,000), consisting of a term loan of \$561,038 (US\$432,000), and a revolving credit facility of \$649,350 (US\$500,000). At March 31, 2016, Chemtrade had drawn \$34,140 (December 31, 2015 - \$15,813) on the revolving credit facility and had committed a total of \$23,006 (December 31, 2015 - \$24,925) of this facility towards standby letters of credit. The credit facilities are secured by all the property, plant and equipment of Chemtrade, excluding the Fort McMurray facility. At March 31, 2016, the weighted average effective interest rate of the facilities is 3.3% (December 31, 2015 - 3.3%).

On March 16, 2015, Chemtrade modified the terms of its credit facilities to extend the maturity by one year. Chemtrade incurred \$955 of costs related to the amendment. These costs have been deferred and are being amortized to finance costs in comprehensive income using the effective interest method.

Chemtrade is subject to certain covenants on its credit facilities, which include a Net Debt to EBITDA ratio (as both terms are defined in the credit agreement) and an interest coverage ratio. Chemtrade monitors these ratios and reports them to its lenders on a quarterly basis. As at March 31, 2016, Chemtrade was in compliance with the covenants.

### (b) Long-term loan - Fort McMurray facility

The Fort McMurray facility operates processing facilities at Syncrude's Mildred Lake oil sands facility in Alberta. In order to finance a portion of the construction of such facilities, a separate loan secured by the assets was entered into and remains outstanding. This loan bears interest at a fixed rate of 7.3% per annum with monthly principal repayments due until December 2019.

## 6. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES:

Chemtrade has designated its convertible unsecured subordinated debentures as financial liabilities at fair value through profit or loss. At March 31, 2016, the fair value of all of its convertible unsecured subordinated debentures was \$238,398 (December 31, 2015 - \$240,726). For the three months ended March 31, 2016, net finance costs related to these convertible unsecured subordinated debentures was \$895 (2015 - \$11,734) which included a gain of \$2,328 (2015 - loss of \$8,409) due to the change in fair value of the convertible unsecured subordinated debentures and interest expense of \$3,223 (2015 - \$3,325).

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Condensed Consolidated Interim Financial Statements  
(In thousands of Canadian dollars, except per unit amounts)  
(Unaudited)

Three months ended March 31, 2016 and 2015

## 6. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES (continued):

The convertible unsecured subordinated debentures that bear interest at a rate of 6.0% per annum with a maturity date of March 31, 2017, have been reclassified to current liabilities as of March 31, 2016.

## 7. UNITS AND OTHER COMPONENTS OF EQUITY:

### (a) Units:

Chemtrade has authorized an unlimited number of units. Chemtrade's units have no par value. The following table presents the number of units outstanding:

	2016		2015	
	Number of Units	Amount	Number of Units	Amount
Units				
Balance – January 1	69,069,226	\$ 1,046,922	68,470,630	\$ 1,034,308
Conversion of unsecured subordinated convertible debentures	—	—	124,936	2,652
Balance – March 31	69,069,226	\$ 1,046,922	68,595,566	\$ 1,036,960

### (b) Distributions:

Distributions paid for the three months ended March 31, 2016 were \$20,721 (2015 - \$20,554) or \$0.30 per unit (2015 - \$0.30 per unit). All of Chemtrade's distributions are discretionary and subject to approval by the Board of Trustees.



# CHEMTRADE LOGISTICS INCOME FUND

Notes to Condensed Consolidated Interim Financial Statements  
(In thousands of Canadian dollars, except per unit amounts)  
(Unaudited)

Three months ended March 31, 2016 and 2015

## 7. UNITS AND OTHER COMPONENTS OF EQUITY (continued):

### (c) Net earnings per unit:

Net earnings per unit has been calculated on the basis of the weighted average number of units outstanding. The following tables provide a breakdown of the numerator and denominator used in the calculation of net earnings per unit, and diluted net earnings per unit:

	<u>Three months ended March 31,</u>	
	2016	2015
<b>Numerator</b>		
Net earnings (loss)	\$ 28,786	\$ (8,955)
Net finance costs on convertible unsecured subordinated debentures <sup>(1)</sup>	672	—
<b>Diluted net earnings (loss)</b>	<b>\$ 29,458</b>	<b>\$ (8,955)</b>

<sup>(1)</sup> For the three months ended March 31, 2015, the potential conversion of the convertible unsecured subordinated debentures has not been included as the effect on net earnings per unit would be anti-dilutive.

	<u>Three months ended March 31,</u>	
	2016	2015
<b>Denominator</b>		
Weighted average number of units	69,069,226	68,519,636
Weighted average convertible unsecured subordinated debenture dilutive units <sup>(1)</sup>	10,313,082	—
<b>Weighted average number of diluted units</b>	<b>79,382,308</b>	<b>68,519,636</b>

<sup>(1)</sup> For the three months ended March 31, 2015, the potential conversion of the convertible unsecured subordinated debentures has not been included as the effect on net earnings per unit would be anti-dilutive.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Condensed Consolidated Interim Financial Statements  
(In thousands of Canadian dollars, except per unit amounts)  
(Unaudited)

Three months ended March 31, 2016 and 2015

## 8. SELLING AND ADMINISTRATIVE EXPENSES:

The components of selling and administrative expenses are as follows:

	<u>Three months ended March 31,</u>	
	<u>2016</u>	<u>2015</u>
Wages, salaries and benefits, including bonuses and other	\$ 24,853	\$ 23,024
Share-based payments (note 4)	162	2,590
Unrealized foreign exchange (gain) loss	(13,399)	11,049
<b>Selling and administrative expenses</b>	<b>\$ 11,616</b>	<b>\$ 36,663</b>

## 9. FINANCE INCOME AND COSTS:

The components of finance income and costs are as follows:

	<u>Three months ended March 31,</u>	
	<u>2016</u>	<u>2015</u>
Interest income	\$ 15	\$ 4
Change in the fair value of convertible debentures (note 6)	2,328	—
<b>Finance income</b>	<b>\$ 2,343</b>	<b>\$ 4</b>
Interest expense	\$ 10,338	\$ 10,299
Accretion expense	838	954
Change in the fair value of convertible debentures (note 6)	—	8,409
<b>Finance costs</b>	<b>\$ 11,176</b>	<b>\$ 19,662</b>

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Condensed Consolidated Interim Financial Statements  
(In thousands of Canadian dollars, except per unit amounts)  
(Unaudited)

Three months ended March 31, 2016 and 2015

## 10. DEPRECIATION AND AMORTIZATION:

The components of depreciation expense of property, plant and equipment and amortization expense of intangible assets are as follows:

	<u>Three months ended March 31,</u>	
	<u>2016</u>	<u>2015</u>
<b>Cost of sales and services:</b>		
Depreciation expense	\$ 25,873	\$ 21,316
Amortization expense	12,764	14,811
<b>Selling and administrative expenses:</b>		
Depreciation expense	199	190
<b>Total depreciation and amortization expense</b>	<b>\$ 38,836</b>	<b>\$ 36,317</b>

## 11. INCOME TAXES:

Chemtrade is a mutual fund trust and a specified investment flow-through trust (“SIFT”) for income tax purposes. Chemtrade is subject to current income taxes at the top marginal tax rate applicable to individuals of approximately 53.5% on all taxable income not distributed to Unitholders. Chemtrade is also subject to current income taxes on all taxable income, other than dividends, earned from Canadian corporate and flow-through subsidiaries (other than Canadian subsidiaries that earn certain investment income) at a tax rate similar to the corporate tax rate. Chemtrade will not be subject to tax on income received from non-Canadian subsidiaries, provided that the income is distributed to Unitholders during the year. Based on the current organization of Chemtrade and its subsidiaries, Chemtrade expects that its income distributed to Unitholders will not be subject to SIFT tax.

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. Chemtrade calculates the consolidated estimated effective annual tax rate by determining the amount of current and deferred income taxes as a percentage of income before tax. Chemtrade's consolidated estimated effective tax rate in respect of continuing operations for the three months ended March 31, 2016 was negative 46.6% (2015 - negative 4.5%), compared to a statutory rate of 26.4% (2015 - 26.1%).

The effective tax rate for the first three months of 2016 differs from the statutory tax rate primarily due to the deduction of taxable income distributed to Unitholders and due to income earned in jurisdictions with different effective income tax rates.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Condensed Consolidated Interim Financial Statements  
(In thousands of Canadian dollars, except per unit amounts)  
(Unaudited)

Three months ended March 31, 2016 and 2015

## 12. FINANCIAL INSTRUMENTS:

### (a) Derivatives and hedging

	March 31, 2016			December 31, 2015		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Asset	Liability		Asset	Liability
<b>Derivatives designated in a formal hedging relationship</b>						
Interest rate swaps	US\$ 325,000	\$ —	\$ 9,509	US\$ 325,000	\$ —	\$ 5,012
<b>Derivatives not designated in a formal hedging relationship</b>						
Foreign exchange contracts <sup>(1)</sup>	\$ —	\$ 28	\$ 52	\$ —	\$ 8	\$ 246
Commodity forward contracts <sup>(2)</sup>	N/A	—	—	N/A	162	162
<b>Total</b>		\$ 28	\$ 9,561		\$ 170	\$ 5,420

<sup>(1)</sup> See below for notional amounts.

<sup>(2)</sup> Includes commitments to buy and sell commodities and commodity forward contracts related to those commitments.

On March 31, 2016, Chemtrade had swap arrangements with its principal bankers which fixed the LIBOR components of its interest rates on US\$325,000 of its outstanding long-term debt until January 2019. These swaps are formally designated as cash flow hedges at the date of inception and any changes in the fair value of the effective portion of the swaps are recognized in other comprehensive income.

On January 1, 2015, Chemtrade hedged its investment in foreign operations that use the U.S. dollar as their functional currency by Chemtrade's U.S. dollar-denominated long-term debt. Any foreign currency gains and losses arising from the U.S. dollar-denominated debt will be offset by the foreign currency gain or loss arising from the investment in the foreign operations. The gains and losses on the foreign currency translation of the designated amount of U.S. dollar-denominated debt and investment in foreign operations are being recognized in other comprehensive income. For the three months ended March 31, 2016, a foreign exchange gain of \$13,895 (2015 - loss of \$17,601) on the revaluation of the U.S. dollar-denominated debt was recognized in other comprehensive income.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Condensed Consolidated Interim Financial Statements  
(In thousands of Canadian dollars, except per unit amounts)  
(Unaudited)

Three months ended March 31, 2016 and 2015

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## 12. FINANCIAL INSTRUMENTS (continued):

Chemtrade has entered into foreign exchange contracts to manage certain of its exposure to foreign currencies. Chemtrade buys and sells specific amounts of currencies at pre-determined dates and exchange rates, which are matched with the anticipated operational cash flows. Contracts in place at March 31, 2016 include future contracts to sell the following amounts for periods through to July 2016:

Amount	Weighted average exchange rate
US\$2,632	€0.90
€5,332	US\$1.11

Chemtrade's Intl business segment has commitments to buy and sell commodities and has entered into commodity forward contracts to manage its exposure to commodity price changes.

The commitments to buy and sell commodities are treated as derivatives and are measured at fair value. The commodity forward contracts are derivatives and are measured at fair value.

### (b) Fair values of financial instruments

Fair value is the value that would be agreed upon in an arm's length transaction between willing and knowledgeable counter-parties. The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables and distributions payable approximate their fair values because of the short-term maturity of these financial instruments. The carrying amount of restricted cash, long-term receivables, and the note receivable approximates their fair value. The carrying amount of long-term debt, excluding transaction costs, approximates fair value as the debt accrues interest at prevailing market rates.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Condensed Consolidated Interim Financial Statements  
(In thousands of Canadian dollars, except per unit amounts)  
(Unaudited)

Three months ended March 31, 2016 and 2015

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## 12. FINANCIAL INSTRUMENTS (continued):

For fair value estimates relating to the convertible unsecured subordinated debentures and derivatives, Chemtrade classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

*Level 1* - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

*Level 2* - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

*Level 3* - Significant unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The convertible unsecured subordinated debentures are classified within Level 1 because the convertible unsecured subordinated debentures actively trade on the TSX and the fair value is based on the quoted prices on the TSX. Any changes in the fair value of the convertible unsecured subordinated debentures are recognized in net earnings.

All of Chemtrade's derivative financial instruments are classified within Level 2 because they are based on rates quoted by banks and other public data sources. These derivatives are recorded in prepaid expenses, and trade and other payables on the statements of financial position.

The fair value of the foreign exchange contracts is the difference between the forward exchange rate and the contract rate. Any changes in the fair value of these contracts are recognized in net earnings.

The fair value of the interest rate swap arrangements is the difference between the forward interest rates and the contract rates discounted. The liability is recorded in other long-term liabilities in the statements of financial position. Any changes in the fair value of these arrangements are recognized in other comprehensive income.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Condensed Consolidated Interim Financial Statements  
(In thousands of Canadian dollars, except per unit amounts)  
(Unaudited)

Three months ended March 31, 2016 and 2015

## 13. BUSINESS SEGMENTS:

Chemtrade operates in four reportable segments: SPPC, WSSC, Intl and Corp. The reportable segments of Chemtrade are strategic business groups that offer products and services to target markets, as described below. The accounting policies applied by the segments are the same as those applied by Chemtrade.

SPPC markets, removes and/or produces merchant, regenerated and ultra pure sulphuric acid, liquid sulphur dioxide, sodium hydrosulphite, elemental sulphur, hydrogen sulphide, and sodium bisulphite, and provides other processing services. These products are marketed primarily to North American customers.

WSSC manufactures and markets a variety of inorganic coagulants used in water treatment, including aluminum sulphate, aluminum chlorohydrate, polyaluminum chloride, and ferric sulphate; and a number of specialty chemicals, including sodium chlorate, sodium nitrite, potassium chloride, phosphorus pentasulphide, vaccine adjuvants, and sulphides. These products are marketed primarily to North American customers.

Intl provides removal and marketing services for elemental sulphur and sulphuric acid. These products are marketed to customers in Europe, the Mediterranean, North Africa, Central and South America, North America, as well as in the Pacific region.

Corp is a non-operating segment that provides centralized services, such as treasury, finance, information technology, human resources, legal and risk management, and environmental, health and safety support.

### Three months ended March 31, 2016

	SPPC	WSSC	Intl	Corp	Total
Revenue	\$ 159,546	\$ 120,806	\$ 55,762	\$ —	\$ 336,114
Inter-segment revenues	7,739	—	—	—	7,739
Operating income (loss)	15,670	12,104	2,376	(1,682)	28,468
Net finance costs	(4,820)	(3,091)	(32)	(890)	(8,833)
Income tax recovery (expense)	6,244	3,972	(1,065)	—	9,151
Net earnings (loss)	17,094	12,985	1,279	(2,572)	28,786
Capital expenditures	3,246	3,595	10	481	7,332
Depreciation and amortization	19,952	18,625	259	—	38,836
Loss on disposal and write-down of assets	86	—	—	—	86

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Condensed Consolidated Interim Financial Statements  
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(Unaudited)

Three months ended March 31, 2016 and 2015

## 13. BUSINESS SEGMENTS (continued):

### Three months ended March 31, 2015

	SPPC	WSSC	Intl	Corp	Total
Revenue	\$ 160,771	\$ 108,278	\$ 56,981	\$ —	<b>326,030</b>
Inter-segment revenues	5,725	41	—	—	<b>5,766</b>
Operating income (loss)	20,578	13,579	4,245	(27,312)	<b>11,090</b>
Net finance costs	(5,491)	(2,428)	(3)	(11,736)	<b>(19,658)</b>
Income tax recovery (expense)	3,092	(2,529)	(739)	(211)	<b>(387)</b>
Net earnings (loss)	18,179	8,622	3,503	(39,259)	<b>(8,955)</b>
Capital expenditures	2,269	3,916	85	378	<b>6,648</b>
Depreciation and amortization	20,207	15,603	507	—	<b>36,317</b>
Gain on disposal and write-down of assets	(373)	—	—	—	<b>(373)</b>

### March 31, 2016

	SPPC	WSSC	Intl	Corp	Total
Total assets	\$ 1,107,339	\$ 1,075,797	\$ 66,240	\$ 3,001	<b>2,252,377</b>
Total liabilities	414,413	731,016	29,426	251,796	<b>1,426,651</b>
Intangible assets	481,934	608,154	28,331	—	<b>1,118,419</b>

### December 31, 2015

	SPPC	WSSC	Intl	Corp	Total
Total assets	\$ 1,185,190	\$ 1,148,259	\$ 76,905	\$ 2,891	<b>2,413,245</b>
Total liabilities	462,395	784,343	34,076	251,663	<b>1,532,477</b>
Intangible assets	512,785	648,766	30,017	—	<b>1,191,568</b>



# CHEMTRADE LOGISTICS INCOME FUND

Notes to Condensed Consolidated Interim Financial Statements  
(In thousands of Canadian dollars, except per unit amounts)  
(Unaudited)

Three months ended March 31, 2016 and 2015

## 13. BUSINESS SEGMENTS (continued):

### Geographic segments:

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

### Revenue

	Three months ended March 31,	
	2016	2015
Canada	\$ 61,784	\$ 61,471
United States	218,568	207,578
Europe	55,762	56,981
	\$ 336,114	\$ 326,030

### Property, plant and equipment, and intangible assets

	March 31, 2016	December 31, 2015
Canada	\$ 431,284	\$ 444,718
United States	1,512,470	1,635,534
Europe	34,381	36,673
	\$ 1,978,135	\$ 2,116,925



## UNITHOLDER INFORMATION

### **Senior Management**

**Mark Davis**  
President and CEO

**Rohit Bhardwaj**  
Vice-President, Finance and CFO

**Leon Aarts**  
Group Vice-President

**Dan Dietz**  
Vice-President

**Tab McCullough**  
Group Vice-President

**Michael St. Pierre**  
Group Vice-President

**Susan Paré**  
General Counsel

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### **Stock Exchange Listing**

The Toronto Stock Exchange  
Stock symbol: CHE.UN

### **Transfer Agent and Registrar**

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### **Investor Information**

Unitholders or other interested parties seeking financial information about Chemtrade are invited to call:

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Vice-President, Finance and CFO  
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