

Q2 2018

Chemtrade Logistics Income Fund

2018 | Second Quarter Report

**CHEMTRADE LOGISTICS INCOME FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018**

The information in this Management's Discussion and Analysis, or MD&A, is intended to assist the reader in the understanding and assessment of the trends and significant changes in the results of operations and financial condition of Chemtrade Logistics Income Fund (the "Fund"). Throughout this MD&A, the term "Chemtrade" refers to the Fund and its consolidated subsidiaries. The terms "we", "us" or "our" similarly refer to Chemtrade. This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements of Chemtrade for the three and six months ended June 30, 2018, the audited consolidated financial statements of Chemtrade for the year ended December 31, 2017 and the annual MD&A for the year ended December 31, 2017.

Chemtrade's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). Chemtrade's reporting currency is the Canadian dollar. In this MD&A, per unit amounts are calculated using the weighted average number of units of the Fund outstanding for the applicable period unless otherwise indicated.

**Caution Regarding Forward-Looking Statements**

Certain statements contained in this MD&A constitute forward-looking statements within the meaning of certain securities laws, including the Securities Act (Ontario). Forward-looking statements can be generally identified by the use of words such as "anticipate", "continue", "estimate", "expect", "expected", "intend", "may", "will", "project", "plan", "should", "believe" and similar expressions. Specifically, forward-looking statements in this MD&A include statements respecting certain future expectations about: capital expenditures; the ability of Chemtrade to access tax losses and tax attributes; the tax characterization of planned distributions; sources, use and sufficiency of cash flows; the timing of a resolution to the antitrust civil lawsuits and indemnity dispute; the effect of changes in the exchange rate and the Fund's ability to offset US dollar denominated debt; the adoption and timing of certain accounting rules and their anticipated effect; the effectiveness of our business model; the sustainability of the Fund's distribution rate; and our ability to reduce leverage levels. Forward-looking statements in this MD&A describe the expectations of Chemtrade as of the date hereof. These statements are based on assumptions and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements for a variety of reasons, including without limitation the risks and uncertainties detailed under the "RISK FACTORS" section of the Fund's latest Annual Information Form and the "RISKS AND UNCERTAINTIES" section below.

Although Chemtrade believes the expectations reflected in these forward-looking statements and the assumptions upon which they are based are reasonable, no assurance can be given that actual results will be consistent with such forward-looking statements, and they should not be unduly relied upon. With respect to the forward-looking statements contained in this MD&A, Chemtrade has made assumptions regarding: there being no significant disruptions affecting the operations of Chemtrade, whether due to labour disruptions, supply disruptions, power disruptions, transportation disruptions, damage to equipment or otherwise; the ability of Chemtrade to obtain products, raw materials, equipment, transportation, services and supplies in a timely manner to carry out its activities and at prices consistent with current

levels or in line with Chemtrade's expectations; the timely receipt of required regulatory approvals; the cost of regulatory and environmental compliance being consistent with current levels or in line with Chemtrade's expectations; the ability of Chemtrade to successfully access tax losses and tax attributes; the ability of Chemtrade to obtain financing on acceptable terms; currency, exchange and interest rates being consistent with current levels or in line with Chemtrade's expectations; and global economic performance.

Except as required by law, Chemtrade does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or for any other reason. The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement.

## **Recent Acquisitions and Divestitures**

### *Canexus Acquisition*

On March 10, 2017, Chemtrade completed the acquisition (the "Acquisition") of all the issued and outstanding common shares of Canexus Corporation ("Canexus") by way of a court-approved plan of arrangement. Following completion of the Acquisition, Canexus amalgamated with 1993754 Alberta Ltd. an indirect, wholly-owned subsidiary of the Fund and subsequently with another subsidiary of Canexus, and the resulting entity's name was changed to Chemtrade Electrochem Inc. ("CEI"). The first six months of 2017 includes less than four months of results from the newly acquired businesses.

Additionally, during the three and six months ended June 30, 2017, \$0.4 million and \$3.3 million, respectively, of acquisition related costs and associated foreign exchange losses were recorded in selling and administrative expenses.

### *Sale of International Segment*

On February 24, 2017, Chemtrade entered into a definitive agreement to sell its International business segment to Mitsui & CO., Ltd.. The transaction closed on May 31, 2017. The International business has been classified as a discontinued operation in Chemtrade's financial statements for 2017. Refer to note 5 of Chemtrade's consolidated financial statements for the year ended December 31, 2017 for further details.

For the three and six months ended June 30, 2017, revenues from the International segment were \$15.8 million and \$41.9 million, respectively. EBITDA for the three and six months ended June 30, 2017 were \$1.8 million and \$3.0 million, respectively. Results from operating activities for the three and six months ended June 30, 2017 were \$2.7 million and \$3.3 million, respectively.

## Financial Highlights

These financial highlights have been presented in accordance with IFRS.

(\$'000 except per unit amounts)	Three Months Ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenue from continuing operations	\$ 405,280	\$ 407,411	\$ 786,753	\$ 681,965
Net (loss) earnings <sup>(1)(2)</sup>	\$ (50,442)	\$ 77,257	\$ (43,526)	\$ 78,507
Net (loss) earnings from continuing operations <sup>(1)(2)</sup>	\$ (50,442)	\$ 10,280	\$ (43,526)	\$ 10,952
Net (loss) earnings per unit <sup>(1)(2)</sup>	\$ (0.54)	\$ 0.83	\$ (0.47)	\$ 0.94
Net (loss) earnings per unit from continuing operations <sup>(1)(2)</sup>	\$ (0.54)	\$ 0.11	\$ (0.47)	\$ 0.13
Diluted net (loss) earnings per unit <sup>(1)(2)</sup>	\$ (0.54)	\$ 0.73	\$ (0.47)	\$ 0.86
Diluted (loss) earnings per unit from continuing operations <sup>(1)(2)</sup>	\$ (0.54)	\$ 0.11	\$ (0.47)	\$ 0.13
Total assets	\$ 2,971,872	\$ 3,055,265	\$ 2,971,872	\$ 3,055,265
Current portion of long-term debt	\$ —	\$ 3,789	\$ —	\$ 3,789
Long-term debt	\$ 703,826	\$ 691,314	\$ 703,826	\$ 691,314
Convertible unsecured subordinated debentures	\$ 625,980	\$ 639,545	\$ 625,980	\$ 639,545
Adjusted EBITDA from continuing operations <sup>(1)(2)(4)</sup>	\$ 5,477	\$ 95,030	\$ 77,448	\$ 139,859
Adjusted EBITDA per unit from continuing operations <sup>(1)(2)(4)(5)</sup>	\$ 0.06	\$ 1.03	\$ 0.84	\$ 1.67
Cash flows from operating activities	\$ 27,007	\$ 33,768	\$ 62,044	\$ 18,678
Cash flows from operating activities per unit <sup>(5)</sup>	\$ 0.29	\$ 0.36	\$ 0.67	\$ 0.22
Adjusted cash flows from operating activities from continuing operations <sup>(1)(2)(3)(4)</sup>	\$ (19,707)	\$ 71,564	\$ 34,384	\$ 84,781
Adjusted cash flows from operating activities per unit from continuing operations <sup>(1)(2)(3)(4)(5)</sup>	\$ (0.21)	\$ 0.77	\$ 0.37	\$ 1.01
Distributable cash after maintenance capital expenditures from continuing operations <sup>(1)(2)(3)(4)</sup>	\$ (38,781)	\$ 58,702	\$ 5,378	\$ 67,354
Distributable cash after maintenance capital expenditures per unit from continuing operations <sup>(1)(2)(3)(4)(5)</sup>	\$ (0.42)	\$ 0.63	\$ 0.06	\$ 0.81
Distributions declared	\$ 27,779	\$ 27,778	\$ 55,558	\$ 50,876
Distributions declared per unit <sup>(6)</sup>	\$ 0.30	\$ 0.30	\$ 0.60	\$ 0.60
Distributions paid	\$ 27,779	\$ 27,779	\$ 55,558	\$ 48,534
Distributions paid per unit <sup>(6)</sup>	\$ 0.30	\$ 0.30	\$ 0.60	\$ 0.60

<sup>(1)</sup> Results for the three months ended June 30, 2018 includes a \$65,000, or \$0.70 per unit, expense related to a legal provision, and a \$7,418, or \$0.08 per unit, premium related to the repayment of certain outstanding debt. Results for the three and six months ended June 30, 2018 include realized foreign exchange losses of \$3,767 and \$2,172, respectively. See **Reserve for Legal Proceedings** and **Net Finance Costs**.

<sup>(2)</sup> Results for the three and six months ended June 30, 2017 include costs related to the acquisition of \$458 or \$0.01 per unit and \$3,318 or \$0.04 per unit, respectively. See **Recent Acquisitions and Divestitures**.

<sup>(3)</sup> Results for the six months ended June 30, 2017 include \$18,292 or \$0.25 per unit of foreign exchange loss realized on the repayment of long-term debt.

<sup>(4)</sup> See **Non-IFRS Measures**.

<sup>(5)</sup> Based on weighted average number of units outstanding for the period of:

	92,596,006	92,594,999	92,596,006	83,643,802
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<sup>(6)</sup> Based on actual number of units outstanding on record date.

## Non-IFRS Measures

### EBITDA and Adjusted EBITDA -

Management defines EBITDA as net earnings before any deduction for net finance costs, taxes, depreciation and amortization. Adjusted EBITDA also excludes other non-cash charges such as gains and losses on the disposal and write-down of assets, and unrealized foreign exchange gains and losses. EBITDA and Adjusted EBITDA are metrics used by many investors and analysts to compare organizations on the basis of ability to generate cash from operations. Management considers Adjusted EBITDA (as defined) to be an indirect measure of operating cash flow, which is a significant indicator of the success of any business. Adjusted EBITDA is not intended to be representative of cash flow from operations or results of operations determined in accordance with IFRS or cash available for distribution.

EBITDA and Adjusted EBITDA are not recognized measures under IFRS. Chemtrade's method of calculating EBITDA and Adjusted EBITDA may differ from methods used by other income trusts or companies, and accordingly may not be comparable to similar measures presented by other organizations. A reconciliation of EBITDA and Adjusted EBITDA to net earnings follows:

(\$'000)	<u>Three Months Ended</u>		<u>Six months ended</u>	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net (loss) earnings from continuing operations	\$ (50,442)	\$ 10,280	\$ (43,526)	\$ 10,952
Add:				
Depreciation and amortization	54,734	57,041	107,071	96,156
Net finance costs	20,099	27,173	35,771	47,198
Income tax recovery	(24,461)	(5,323)	(27,405)	(18,474)
EBITDA from continuing operations	(70)	89,171	71,911	135,832
Add:				
Loss on disposal and write-down of assets	3,458	4,064	3,343	4,064
Unrealized foreign exchange loss (gain)	2,089	1,795	2,194	(37)
Adjusted EBITDA from continuing operations	\$ 5,477	\$ 95,030	\$ 77,448	\$ 139,859

### Cash Flow -

The following table is derived from, and should be read in conjunction with, the consolidated statements of cash flows. Management believes this supplementary disclosure provides useful additional information related to the cash flows of Chemtrade including the amount of cash available for distribution to Unitholders, repayment of debt and other investing activities. Certain sub-totals presented within the cash flows table below, such as "Adjusted cash flows from operating activities", "Distributable cash after maintenance capital expenditures" and "Distributable cash after all capital expenditures", are not defined terms under IFRS. These sub-totals are used by Management as measures of internal performance and as a supplement to the consolidated statements of cash flows. Investors are cautioned that these measures should not be construed as an alternative to using net earnings as a measure of profitability or as an

alternative to the IFRS consolidated statements of cash flows. Further, Chemtrade's method of calculating each measure may not be comparable to calculations used by other income trusts or companies bearing the same description.

(\$'000)	<u>Three Months Ended</u>		<u>Six months ended</u>	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Cash flow from operating activities	\$ 27,007	\$ 33,768	\$ 62,044	\$ 18,678
Less:				
Cash flow used in operating activities of discontinued operations	—	(1,218)	—	(3,809)
Cash flow from operating activities of continuing operations	27,007	34,986	62,044	22,487
Add:				
Changes in non-cash working capital and other items	(46,714)	36,578	(27,660)	62,294
<b>Adjusted cash flows (used in) from operating activities of continuing operations</b>	<b>(19,707)</b>	<b>71,564</b>	<b>34,384</b>	<b>84,781</b>
Less:				
Maintenance capital expenditure	19,074	12,862	29,006	17,427
<b>Distributable cash after maintenance capital expenditure from continuing operations</b>	<b>(38,781)</b>	<b>58,702</b>	<b>5,378</b>	<b>67,354</b>
Less:				
Non-maintenance capital expenditure <sup>(1)</sup>	3,052	2,786	4,554	4,356
<b>Distributable cash after all capital expenditure from continuing operations</b>	<b>\$ (41,833)</b>	<b>\$ 55,916</b>	<b>\$ 824</b>	<b>\$ 62,998</b>

<sup>(1)</sup> Non-maintenance capital expenditures are: (a) pre-identified or pre-funded, usually as part of a significant acquisition and related financing; (b) considered to expand the capacity of Chemtrade's operations; (c) significant environmental capital expenditures that are considered to be non-recurring; or (d) capital expenditures to be reimbursed by a third party.

## Consolidated Operating Results

Consolidated revenue from continuing operations for the second quarter of 2018 was \$405.3 million, which was \$2.1 million lower than revenue for the second quarter of 2017. On a year-to-date basis, revenue was \$786.8 million, which was \$104.8 million higher than the revenue for the same periods of 2017. The increase in revenue for the first six months of 2018 compared with the same period of 2017 was primarily due to revenues from the newly acquired businesses as 2018 includes six months of results from CEI and its subsidiaries, whereas 2017 has less than four months of results from the newly acquired businesses.

Chemtrade's Adjusted EBITDA for the second quarter and for the first six months of 2018 was \$89.6 million lower and \$62.4 million lower, respectively, than the Adjusted EBITDA for the same periods of 2017. This was primarily due to the legal proceedings reserve of \$65.0 million related to the anti-competitive conduct matter expensed in the second quarter of 2018 (see **Reserve for Legal Proceedings**). The decrease in Adjusted EBITDA for the second quarter of 2018 is also due to lower Adjusted EBITDA for the SPPC and the Water Solutions and Specialty Chemicals ("WSSC") segments. For the first six months of 2018, lower Adjusted EBITDA for the SPPC and the WSSC segments was offset by Adjusted EBITDA from the newly acquired businesses in the Electrochemicals ("EC") segment. For the first six

months of 2018, Adjusted EBITDA was also negatively affected by \$1.5 million as the U.S. dollar was weaker in 2018 relative to 2017.

Net earnings from continuing operations for the second quarter and for the first six months of 2018 were lower than the same periods of 2017 by \$60.7 million and \$54.5 million, respectively. This was mainly due to the legal proceedings reserve of \$65.0 million expensed in the second quarter of 2018 (see **Reserve for Legal Proceedings**).

Net finance costs for the second quarter and for the first six months of 2018 were lower than the same periods of 2017 by \$7.1 million and \$11.4 million, respectively. Net finance costs in 2017 and 2018 were affected by several financing activities. During 2017, a series of convertible debentures was issued and there were repayments of debt, including a partial redemption of the CEI Senior Notes. During 2018, the remainder of the CEI Senior Notes were redeemed (see **Net Finance Costs**).

## Results of Continuing Operations by Business Segment

### SPPC -

(\$'000)	<u>Three Months Ended</u>		<u>Six months ended</u>	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenue	\$ 128,477	\$ 129,264	\$ 251,111	\$ 254,722
Gross profit	4,432	17,587	12,012	30,735
Adjusted EBITDA	25,661	33,900	46,927	63,352
Loss on disposal and write down of assets	(3,468)	(138)	(3,343)	(136)
EBITDA	22,193	33,762	43,584	63,216
Depreciation and amortization	(20,222)	(19,110)	(36,495)	(38,110)
Net finance costs	(3,585)	(5,178)	(6,480)	(11,237)
Income tax recovery	3,679	4,131	8,985	9,801
Net earnings	\$ 2,065	\$ 13,605	\$ 9,594	\$ 23,670

SPPC markets, removes and/or produces merchant, regenerated and ultra pure sulphuric acid, sodium hydrosulphite, elemental sulphur, liquid sulphur dioxide, hydrogen sulphide, sodium bisulphite, and sulphides, and provides other processing services. These products are marketed primarily to North American customers. In 2018, Chemtrade reconfigured certain products between its SPPC and WSSC segments to align with the current internal management structure. Comparatives have been re-stated to conform with the current period presentation.

Revenue for the second quarter and first six months of 2018 was similar to the same periods of 2017. This was despite an approximate 14% and 16% decline in sales volume of merchant sulphuric acid for the second quarter and first six months of 2018, respectively, compared to the same periods of 2017. In both cases, higher prices for sulphuric acid largely offset the decline in sales volume.

Gross profit for the second quarter and the first six months of 2018 was \$13.2 million and \$18.7 million lower than the same periods of 2017 due to a large number of maintenance turnarounds during 2018 relative to 2017, particularly for

the second quarter of 2018 compared to the same period of 2017. Gross profit during 2018 was also negatively affected by unfavourable supply mix and lower earnings from sodium bisulphite.

These factors also resulted in Adjusted EBITDA for the second quarter and the first six months of 2018 being \$8.2 million and \$16.4 million lower than Adjusted EBITDA for the same periods of 2017, respectively. During the first six months of 2018, Adjusted EBITDA was also negatively affected by \$1.2 million as the U.S. dollar was weaker in 2018 relative to 2017.

Net earnings for the second quarter and the first six months of 2018 were \$11.5 million and \$14.1 million lower than net earnings for the same periods of 2017, respectively. Lower Adjusted EBITDA for 2018 was partially offset by lower net finance costs.

#### WSSC -

(\$'000)	Three Months Ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenue	\$ 112,375	\$ 113,476	\$ 211,268	\$ 213,706
Gross profit	13,737	21,106	21,680	33,020
Adjusted EBITDA	22,412	31,266	41,257	52,779
Gain (loss) on disposal and write-down of assets	10	(23)	—	(25)
EBITDA	22,422	31,243	41,257	52,754
Depreciation and amortization	(11,545)	(13,579)	(25,438)	(26,861)
Net finance costs	(4,504)	(3,208)	(8,134)	(9,972)
Income tax recovery	7,673	6,526	11,511	14,371
Net earnings	\$ 14,046	\$ 20,982	\$ 19,196	\$ 30,292

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 nitrite, potassium chloride, phosphorus pentasulphide, and vaccine adjuvants. These products are marketed primarily to North American customers. In 2018, Chemtrade reconfigured certain products between its SPPC and WSSC segments to align with the current internal management structure. Comparatives have been re-stated to conform with the current period presentation.

Revenue for the second quarter and first six months of 2018 was similar to the same periods of 2017.

Gross profit for the second quarter and first six months of 2018 was \$7.4 million and \$11.3 million lower than the second quarter and first six months of 2017, primarily due to higher raw material and freight costs, and to a lesser extent, additional maintenance costs. Gross profit was also negatively affected by unfavourable customer mix.

Adjusted EBITDA for the second quarter and the first six months of 2018 was \$8.9 million and \$11.5 million lower than the same periods of 2017, respectively, due to lower gross profit as discussed above. During the first six months of 2018, Adjusted EBITDA was also negatively affected by \$1.4 million as the U.S. dollar was weaker in 2018 relative to 2017.



Net earnings for the second quarter and the first six months of 2018 were \$6.9 million and \$11.1 million lower than the comparative periods of 2017, respectively, primarily due to lower Adjusted EBITDA. The net earnings for the second quarter of 2018, compared to the same period of 2017, were also impacted by higher net finance costs, partially offset by lower depreciation and amortization expense and higher income tax recovery. The net earnings for the first six months of 2018, compared to the same period of 2017, were also impacted by lower income tax recovery, partially offset by lower net finance costs and depreciation and amortization.

**EC -**

(\$'000)	<u>Three Months Ended</u>		<u>Six months ended</u>	
	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
North American sales volumes:				
Sodium chlorate sales volume (000's MT)	104	105	202	145
Chlor-alkali sales volume (000's MECU)	37	51	81	62
Revenue	\$ 164,428	\$ 164,671	\$ 324,374	\$ 213,537
Gross Profit	20,757	20,817	50,690	28,387
Adjusted EBITDA	40,903	41,677	90,125	54,527
Loss on write-down of assets	—	(3,903)	—	(3,903)
EBITDA	40,903	37,774	90,125	50,624
Depreciation and amortization	(22,967)	(24,352)	(45,138)	(31,185)
Net finance costs	(8,101)	(7,452)	(13,735)	(10,262)
Income tax expense	(1,905)	(4,376)	(7,886)	(4,719)
Net earnings	\$ 7,930	\$ 1,594	\$ 23,366	\$ 4,458

EC manufactures and markets sodium chlorate and chlor-alkali products largely for the pulp and paper, oil and gas and water treatment industries. These products are marketed primarily to North American and South American customers. This segment includes results from Chemtrade's sodium chlorate business, as well as those from the newly acquired businesses (see **Recent Acquisitions and Divestitures**) since March 10, 2017, the date of acquisition.

Revenue and Adjusted EBITDA for the second quarter of 2018 were similar to the same period of 2017. Revenue for the first six months of 2018 was \$110.8 million higher than the same period of 2017. Adjusted EBITDA for the first six months of 2018 was \$35.6 million higher than the same period of 2017. Revenue and Adjusted EBITDA were both higher in the first six months of 2018 primarily from the newly acquired businesses, as 2017 includes results for the acquired business only since the date of the acquisition.

Gross profit for the second quarter of 2018 was similar to the second quarter of 2017, despite the extended maintenance turnaround at the North Vancouver chlor-alkali facility during the second quarter of 2018. The offset was driven by a 21% increase in caustic soda prices and a 109% increase in HCl prices. Gross profit for the first six months of 2018 was higher than the same period of 2017 due to the impact of newly acquired businesses.

Net earnings for the second quarter and first six months of 2018 were \$6.3 million and \$18.9 million higher, respectively, than the same periods of 2017. The increase in the second quarter of 2018 was due to a lower loss from write-down

of assets as the comparative period included a write-down of \$3.9 million related to the shut-down of a small sodium chlorate plant in Nanaimo, BC. The second quarter of 2018 also benefited from lower income tax and depreciation and amortization expenses compared to the same period of 2017. The first six months of 2018 benefited from higher Adjusted EBITDA due to newly acquired businesses and lower write-down of assets. This was partially offset by higher depreciation and amortization expense, net finance costs and income tax expense compared with the first six months of 2017, also due to the impact of newly acquired businesses.

**Corporate -**

(\$'000)	<u>Three Months Ended</u>		<u>Six months ended</u>	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Cost of services	\$ 83,499	\$ 11,813	\$ 100,861	\$ 30,799
Adjusted EBITDA	\$ (83,499)	\$ (11,813)	\$ (100,861)	\$ (30,799)
Unrealized foreign exchange (loss) gain	(2,089)	(1,795)	(2,194)	37
EBITDA	(85,588)	(13,608)	(103,055)	(30,762)
Net finance costs	(3,909)	(11,335)	(7,422)	(15,727)
Income tax recovery (expense)	15,014	(958)	14,795	(979)
Net loss	\$ (74,483)	\$ (25,901)	\$ (95,682)	\$ (47,468)

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 second quarter and first six months of 2018, corporate costs, excluding unrealized foreign exchange gains and losses, net finance costs and income taxes were \$71.7 million higher and \$70.1 million higher, respectively, than the comparative periods of 2017. Corporate costs were higher for the quarter and first six months of 2018 primarily due to the legal proceedings reserve of \$65.0 million expensed in the second quarter. Corporate costs were also higher in 2018 as the comparable periods of 2017 include a business interruption recovery related to the North Vancouver plant of \$8.2 million. Corporate costs for the second quarter and first six months of 2018 also include realized foreign exchange losses of \$3.8 million and \$2.2 million, respectively. Corporate costs for the first six months of 2017 also include \$1.4 million of severances and \$3.4 million of transaction costs related to the acquisition. Corporate costs for the second quarter were partially offset by lower incentive compensation compared to the same period of 2017.

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 recognized on a net basis in other comprehensive income. For the three and six months ended June 30, 2018, a foreign exchange loss of \$6.4 million and \$10.2 million, respectively, on the revaluation of the U.S. dollar-denominated debt and investment in foreign operations was recognized in other comprehensive income, compared with a foreign exchange gain of \$3.1 million and \$7.8 million, respectively, during the three and six months ended June 30, 2017.

## Reserve for Legal Proceedings

Chemtrade was a subject of an investigation by the U.S. Department of Justice concerning alleged anti-competitive conduct in the water treatment chemicals industry, for which Chemtrade has the benefit of conditional amnesty. It is also a defendant in civil lawsuits relating to the same conduct. The vendors of the General Chemical business agreed to indemnify Chemtrade for certain losses that could result from the conduct that is the subject of this investigation, as this conduct occurred prior to Chemtrade's acquisition of the business, however the parties are disputing the scope of the indemnity.

Corporate costs for the second quarter of 2018 include an expense of \$65.0 million, which represents a reserve for the potential costs of litigating and resolving the civil actions commenced against various defendants for anti-competitive actions in the water business, including by General Chemical prior to its acquisition by Chemtrade. Although this reserve was established during the second quarter, the outcome and timing of these civil actions and the indemnity dispute is uncertain.

## 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. If the Canadian dollar weakens by one-cent (for example, from \$1.25 to \$1.26), on an unhedged basis, this would have a positive impact on annual net earnings of approximately \$1.4 million, and vice-versa. The impact on annual Adjusted EBITDA and Distributable cash after maintenance capital expenditures would be approximately \$2.2 million and \$1.7 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 June 30, 2018 include future contracts to sell the following amounts for periods through to December 2019:

<u>Amount</u>	<u>Weighted average exchange rate</u>
US\$99,880	\$1.27

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 operating subsidiaries 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, 2017 were a result of changes in the Canadian/U.S. dollar exchange rate between December 31, 2017 and June 30, 2018.

The rate of exchange used to translate U.S. dollar-denominated balances has increased from a rate of US\$1.00 = \$1.26 at December 31, 2017 to US\$1.00 = \$1.31 at June 30, 2018. See **Risks and Uncertainties** for additional comments on foreign exchange.

### **Net Finance Costs**

Net finance costs were \$20.1 million during the second quarter of 2018 and \$35.8 million during the six months ended compared with \$27.2 million and \$47.2 million during the same periods of 2017.

Net finance costs were \$7.1 million lower during the second quarter of 2018, compared to the same period of 2017, as the second quarter of 2017 includes \$8.7 million of transaction costs in relation to the issuance of convertible debentures. Interest expense was also \$2.3 million lower and the gain from the change in fair value of convertible debentures was \$0.9 million higher in the second quarter of 2018 compared to the same period of 2017. These were partially offset by \$4.4 million of higher debt extinguishment costs during the second quarter of 2018, which includes premiums paid on the redemption of certain debt. The remaining offsets were due to higher accretion expense and lower interest income during the second quarter of 2018 compared with the same period of 2017.

Net finance costs were \$11.4 million lower during the six months ended June 30, 2018 compared with the same period of 2017, primarily due to the \$8.7 million of transaction costs related to the issuance of convertible debentures in 2017, a higher gain of \$2.5 million from the change in fair value of convertible debentures and \$1.1 million of lower debt extinguishment costs incurred in 2018. Interest and accretion expense were relatively flat.

During the second quarter and first six months of 2018, Chemtrade recorded accretion expense of \$0.7 million and \$1.0 million, respectively, due to the amortization of transaction costs related to Chemtrade's borrowings. During the second quarter and first six months of 2017, Chemtrade recorded accretion expense of \$0.3 million and \$0.7 million, respectively. See **Liquidity and Capital Resources - *Financing Activities***.

The weighted average effective annual interest rate on senior debt at June 30, 2018 was 4.14% (December 31, 2017 - 3.95%). See **Liquidity and Capital Resources - *Financing Activities* - *Financial Instruments*** for information concerning swap arrangements.

### **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.

On December 22, 2017 H.R. 1, originally known as the Tax Cuts and Jobs Act, (the “U.S. Tax Act”) was enacted. Among other significant changes to the U.S. Internal Revenue Code, the U.S. Tax Act lowers the U.S. federal corporate income tax rate (“U.S. Federal Tax Rate”) from 35.0% to 21.0%, effective January 1, 2018, implements a territorial tax system, imposes stricter limitations on interest expense deductibility, and levies a repatriation tax on the deemed repatriated earnings of certain non-U.S. controlled subsidiaries (“Deemed Repatriation Income”).

Current income tax expense for the second quarter and first six months of 2018 was \$1.4 million and \$3.9 million, respectively, compared with \$1.9 million and \$2.4 million for the same periods of 2017. The increase in current income tax expense in 2018 compared with 2017 is primarily due to certain changes in the new U.S. Tax Act. Deferred income tax recovery for the second quarter and first six months of 2018 was \$25.9 million and \$31.3 million, respectively, compared with \$7.3 million and \$20.9 million for the same periods in 2017. The increase in deferred income tax recovery for the second quarter and first six months of 2018 compared with the second quarter and first six months of 2017 is primarily due to additional losses realized in certain jurisdictions in 2018.

The effective tax rate for the second quarter of 2018 differs from the statutory tax rate primarily due to the deduction of taxable income distributed to Unitholders, and income earned in a jurisdiction with a lower tax rate.

The net decrease in deferred tax assets of \$3.4 million at June 30, 2018 relative to December 31, 2017 is primarily due to the recognition of deferred tax liabilities associated with the fair value adjustments on the convertible debentures.

The net decrease in deferred tax liabilities of \$20.6 million at June 30, 2018 relative to December 31, 2017 is primarily due to additional deferred tax assets recognized related to certain tax reserves in the U.S.

The Fund does not record deferred taxes related to its deductible temporary differences nor 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 and six months ended June 30, 2018, and for the years ended December 31, 2017 and December 31, 2016.

(\$'000)	<u>Three months ended</u>		<u>Six months ended</u>		<u>Year ended</u>	
	June 30, 2018	June 30, 2018	December 31, 2017	December 31, 2016		
Cash flows from operating activities	\$ 27,007	\$ 62,044	\$ 151,298	\$ 153,009		
Net (loss) earnings	(50,442)	(43,526)	147,359	4,744		
Distributions paid during period	27,779	55,558	104,091	82,912		
(Shortfall) excess of cash flows from operating activities over cash distributions paid	(772)	6,486	47,207	70,097		
(Shortfall) excess of net earnings over cash distributions paid	(78,221)	(99,084)	43,268	(78,168)		

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.

#### *Distributions -*

Distributions to Unitholders for the three and six months ended June 30, 2018 were declared as follows:

<u>Record Date</u>	<u>Payment Date</u>	<u>Distribution Per Unit</u>	<u>Total (\$'000)</u>
Three months ended June 30:			
April 30, 2018	May 31, 2018	\$ 0.10	\$ 9,260
May 31, 2018	June 29, 2018	0.10	9,260
June 29, 2018	July 31, 2018	0.10	9,259
Sub-total		\$ 0.30	\$ 27,779
Three months ended March 31, 2018		\$ 0.30	\$ 27,779
Total for the six months ended June 30, 2018		\$ 0.60	\$ 55,558

Distributions to Unitholders for the three and six months ended June 30, 2017 were declared as follows:

<u>Record Date</u>	<u>Payment Date</u>	<u>Distribution Per Unit</u>	<u>Total (\$'000)</u>
Three months ended June 30:			
April 28, 2017	May 31, 2017	\$ 0.10	\$ 9,259
May 31, 2017	June 30, 2017	0.10	9,259
June 30, 2017	July 31, 2017	0.10	9,260
Sub-total		\$ 0.30	\$ 27,778
Three months ended March 31, 2017		\$ 0.30	\$ 23,098
Total for the six months ended June 30, 2017		\$ 0.60	\$ 50,876

Treatment of Chemtrade's distributions for Canadian Income Tax purposes for 2017 and 2018 is as follows:

	Other Income	Dividends <sup>(1)</sup>	Foreign Non-Business Income	Total
2017	14.0%	37.4%	48.6%	100%
2018 <sup>(2)</sup>	13.0%	42.0%	45.0%	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 2018 distributions will be determined by February 28, 2019.

## Liquidity and Capital Resources

The Fund's distributions to Unitholders are sourced entirely from its investments in operating subsidiary entities. The Fund's investments are financed by trust units held by Unitholders, the Credit Facilities, and the 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 second quarter of 2018 was an inflow of \$27.0 million compared with an inflow of \$33.8 million for the second quarter of 2017. The decrease was primarily due to a lower Adjusted EBITDA, partially offset by a higher decrease in working capital and lower income taxes paid.

Cash flows from operating activities in the first six months of 2018 was an inflow of \$62.0 million compared to an inflow of \$18.7 million during the first six months of 2017. The increase was primarily due to a higher decrease in working capital and lower income taxes and interest paid. This was partially offset by a lower Adjusted EBITDA in the first six months of 2018 compared with the first six months of 2017.

### Investing Activities

On March 10, 2017, Chemtrade completed the Acquisition. This transaction was financed through a combination of an underwritten equity offering and syndicated senior secured Credit Facilities (see Financing Activities below).

Capital expenditures were \$22.1 million in the second quarter of 2018, compared with \$15.7 million in the second quarter of 2017. These amounts include \$19.1 million in the second quarter of 2018 and \$12.9 million in the second quarter of 2017 for maintenance capital requirements for continuing operations. Investment in capital expenditures was \$33.6 million for the first six months of 2018, compared with \$22.0 million for the first six months of 2017. These amounts include \$29.0 million in the first six months of 2018 and \$17.6 million in first six months of 2017 for maintenance capital requirements. Chemtrade expects to incur between \$80.0 million and \$100.0 million of maintenance capital expenditures during 2018.

Non-maintenance capital expenditures were \$3.1 million during the second quarter of 2018, compared with \$2.8 million during the second quarter of 2017. Investment in non-maintenance capital expenditures was \$4.6 million during the first six months of 2018, compared with \$4.4 million during the first six months of 2017. Non-maintenance capital

expenditures are: (i) pre-identified or 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 June 30, 2018, Chemtrade's Credit Facilities were comprised of a \$426.8 million (US\$325.0 million) five year term loan and a \$689.5 million (US\$525.0 million) revolving credit facility. Total amount drawn on March 10, 2017 from the Credit Facilities to finance the Acquisition and to repay Chemtrade's and Canexus' former credit facilities was \$687.1 million. Costs related to the new Credit Facilities amounted to \$6.6 million. These costs have been deferred and are being amortized to finance costs in comprehensive income using the effective interest method. In order to reduce stand-by fees, during the third quarter of 2017, Chemtrade reduced the size of its revolving credit facility by US\$200.0 million and increased the accordion feature of its credit facility by US\$200.00 million. During the first quarter of 2018, Chemtrade modified the terms of the Credit Facilities to extend the maturity date by one year to March 2023. Chemtrade incurred \$0.8 million of transaction costs related to the modification.

During the first quarter of 2017, the Fund issued 21,800,000 units for gross proceeds of approximately \$400.0 million. Net proceeds of the offering were used to finance the Acquisition. Issuance costs in relation to the equity offering amounted to \$17.2 million.

There was a net increase in borrowings on the revolving portion of the Credit Facilities of \$96.2 million and \$113.7 million during the second quarter and first six months of 2018, respectively, compared to a decrease of \$44.8 million and an increase of \$189.8 million during the second quarter and first six months of 2017, respectively. During the first six months of 2017, the additional borrowings on the Credit Facilities were used to repay Canexus' former credit facilities (see **Recent Acquisitions and Divestitures**). During the second quarter of 2018, the additional borrowings on the Credit Facilities were primarily used to redeem the remaining \$71.5 million aggregate principal amount of CEI's Senior Notes and to repay the outstanding balance under the loan related to the Fort McMurray facility of \$6.5 million.

Distributions to Unitholders during the six months ended June 30, 2018 were higher than the same period of 2017 due to additional units issued to fund the Acquisition. For additional information on cash distributions, see **Non-IFRS Measures - Cash Flow and Excess Cash Flows and Net Earnings Over Distributions Paid**.

### Financial Instruments -

On June 30, 2018, Chemtrade had 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.

Chemtrade hedges 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 June 30, 2018, Chemtrade had net cash balances of \$4.7 million and working capital of \$66.5 million. Comparable figures for December 31, 2017 were \$10.4 million and \$98.7 million, respectively. Chemtrade defines working capital to exclude cash, distributions payable, and the current portion of long-term debt. 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 June 30, 2018, Chemtrade had Credit Facilities of approximately \$1.1 billion (US\$850.0 million), consisting of a \$426.8 million (US\$325.0 million) five year term loan and a \$689.5 million (US\$525.0 million) revolving credit facility. These credit facilities are due March 2023. At June 30, 2018, the entire term loan was outstanding and \$281.6 million was drawn on the revolving credit facility. Additionally, Chemtrade had committed a total of \$20.9 million of its revolving credit facility towards standby letters of credit.

At June 30, 2018, Chemtrade had five series of debentures outstanding (three series issued under the Fund and two series under CEI) with an aggregate par value of \$630.1 million (market value of \$626.0 million) and maturity dates ranging from December 31, 2020 to May 31, 2024.

During the second quarter of 2018, Chemtrade redeemed the remaining \$71.5 million aggregate principal amount of its CEI Senior Notes and repaid the outstanding balance related to its facilities located at Syncrude's Mildred Lake oil sands facility in Alberta.

#### *Debt Covenants -*

As at June 30, 2018, Chemtrade was compliant with all debt covenants contained in its credit agreements.

## Summary of Quarterly Results

(\$ millions)	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Revenue from continuing operations	\$ 405.3	\$ 381.5	\$ 386.7	\$ 400.5	\$ 407.4	\$ 274.6	\$ 251.7	\$ 273.0
Cost of sales and services	(366.4)	(336.0)	(346.8)	(341.5)	(347.9)	(241.9)	(228.5)	(230.1)
Gross profit (loss)	38.9	45.5	39.9	59.0	59.5	32.6	23.3	42.9
Selling and administrative expenses:								
Unrealized foreign exchange (loss) gain	(2.1)	(0.1)	(1.7)	(0.4)	(1.8)	1.8	(3.9)	(2.5)
LTIP	(2.0)	0.8	(1.6)	(3.4)	(2.1)	(1.8)	(1.4)	(1.2)
Other	(89.6)	(26.5)	(32.9)	(26.4)	(23.5)	(25.1)	(24.6)	(17.4)
Total selling and administrative expenses	(93.7)	(25.8)	(36.2)	(30.2)	(27.4)	(25.1)	(29.9)	(21.1)
Operating income (loss)	(54.8)	19.6	3.7	28.8	32.1	7.5	(6.7)	21.8
Net finance costs:								
Mark-to-market on debentures	5.0	0.8	(1.7)	0.5	4.1	(0.8)	(1.1)	(7.7)
Debt issuance and extinguishment costs	(7.4)	—	(1.1)	(0.5)	(11.7)	(5.5)	—	(7.0)
Other	(17.7)	(16.5)	(16.9)	(19.2)	(19.6)	(13.7)	(11.8)	(12.1)
Total net finance costs	(20.1)	(15.7)	(19.7)	(19.2)	(27.2)	(20.0)	(12.9)	(26.8)
Income tax recovery	24.5	2.9	61.5	12.8	5.3	13.2	26.0	7.1
Net earnings (loss) from continuing operations	(50.4)	6.9	45.5	22.4	10.3	0.7	6.4	2.1
Net earnings (loss) from discontinued operations	—	—	1.0	—	67.0	0.6	(15.3)	0.3
Net earnings (loss)	\$ (50.4)	\$ 6.9	\$ 46.4	\$ 22.4	\$ 77.3	\$ 1.3	\$ (8.9)	\$ 2.4

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

Beginning March 10, 2017, results include the impact of the newly acquired businesses, resulting in an increase in revenue and gross profit, partially offset by weaker results in the SPPC and WSSC segment. During the fourth quarter of 2017, a recurrence of an operating issue at the North Vancouver chlor-alkali plant resulted in an unplanned interruption of production for approximately two weeks in the EC segment. Gross profit was lower in the fourth quarter of 2016 due to weaker results in the WSSC segment.

### Selling and Administrative Expenses

The change in fair value of Chemtrade's LTIP obligation is 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.

Beginning March 10, 2017, other selling and administrative expenses include costs associated with the newly acquired businesses. Other selling and administrative expense were high during the second quarter of 2018 due to the \$65.0 million legal proceedings reserve expensed in the period (see **Reserve for Legal Proceedings**). Other selling and administrative expenses were high during the fourth quarter of 2017 primarily due to an onerous lease provision of \$8.6 million recorded during the quarter related to the Calgary office, which was the former corporate office of CEI. Other selling and administrative expenses were high during the first quarter of 2017 and the fourth quarter of 2016 as they included acquisition costs of \$2.9 million and \$8.5 million, respectively, related to the Acquisition (see **Recent Acquisitions and Divestitures**).

#### Net Finance Costs

Net finance costs include changes in the fair value of the 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. The primary component of other net finance costs is interest from Chemtrade's credit facilities and Debentures.

The second quarters of 2018 and 2017 include debt extinguishment costs on the redemption of the CEI Senior Notes of \$7.2 million and \$3.0 million, respectively. The second quarter of 2017 and the third quarter of 2016 include \$8.7 million and \$6.4 million, respectively, of transaction costs related to the issuance of debentures. The first quarter of 2017 and the third quarter of 2016 include debt extinguishment costs resulting from the repayment of the credit facilities of \$5.5 million and \$0.7 million, respectively. Beginning March 10, 2017, net finance costs include interest expense on additional debt taken on as a result of the Acquisition.

#### Income Taxes

Income tax recoveries were high in the second quarter of 2018 primarily as a result of the reserve for legal proceedings. Income tax recoveries were high in the fourth quarter of 2017 primarily due to the reduction in the U.S. Federal Tax Rate. They were also high in the third and first quarters of 2017 and the third quarter of 2016, primarily due to higher net losses incurred during these quarters. Income tax recovery was high during the fourth quarter of 2016 primarily due to the release of a tax provision that was inherited as part of a previous acquisition for periods that are now statute-barred, as well as the reversal of certain deferred tax liabilities.

#### Discontinued Operations

Discontinued operations represents the International segment which was classified as a discontinued operation (see **Recent Acquisitions and Divestitures**). The transaction closed on May 31, 2017. Net earnings during the year ended December 31, 2017 include a \$18.1 million gain on sale of the discontinued operation and the reclassification of the cumulative amount of foreign exchange differences of \$49.0 million from equity to net earnings. This was previously recognized in other comprehensive income.

## Outstanding Securities of the Fund

As at August 8, 2018 and June 30, 2018, the following common units and securities convertible into units of the Fund were issued and outstanding:

	August 8, 2018		June 30, 2018	
	Convertible Securities	Units	Convertible Securities	Units
<b>Common units outstanding</b>		<b>92,596,006</b>		<b>92,596,006</b>
<b>5.25% Debentures <sup>(1)</sup></b>	<b>126,500</b>	<b>4,517,857</b>	<b>126,500</b>	<b>4,517,857</b>
<b>5.00% Debentures <sup>(2)</sup></b>	<b>143,750</b>	<b>5,784,708</b>	<b>143,750</b>	<b>5,784,708</b>
<b>4.75% Debentures <sup>(3)</sup></b>	<b>201,250</b>	<b>7,537,453</b>	<b>201,250</b>	<b>7,537,453</b>
<b>Units outstanding and issuable upon conversion of Debentures</b>		<b>110,436,024</b>		<b>110,436,024</b>

<sup>(1)</sup> Convertible at \$28.00 per unit

<sup>(2)</sup> Convertible at \$24.85 per unit

<sup>(3)</sup> Convertible at \$26.70 per unit

## Contractual Obligations

Information concerning contractual obligations at June 30, 2018 is shown below:

Contractual Obligations (\$'000)	Total	Less Than			After 5 Years
		1 Year	1-3 Years	4-5 Years	
Long-term debt	\$ 708,442	\$ —	\$ —	\$ 708,442	\$ —
Debentures	630,095	—	210,511	74,584	345,000
Purchase commitments	162,785	51,335	45,687	43,908	21,855
Interest on debentures	143,189	33,277	64,033	35,918	9,961
Operating leases	183,496	53,814	71,486	42,046	16,150
Interest on long-term debt	137,612	29,305	58,610	49,697	—
<b>Total contractual obligations</b>	<b>\$ 1,965,619</b>	<b>\$ 167,731</b>	<b>\$ 450,327</b>	<b>\$ 954,595</b>	<b>\$ 392,966</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, spent acid processing services, inorganic coagulants for water treatment, sodium chlorate, sodium nitrite, sodium hydrosulphite and phosphorus pentasulphide. Chemtrade is a leading regional supplier of sulphur, chlor-alkali products, liquid sulphur dioxide, potassium chloride and zinc oxide. Additionally, Chemtrade provides industrial services such as processing 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 operational 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, 2017. There have been no material changes to the business of Chemtrade that require an update to the discussion of these risks except as noted below.

### *Risk of Legal Proceedings*

As previously disclosed, Chemtrade was a subject of an investigation by the U.S. Department of Justice concerning alleged anti-competitive conduct in the water treatment chemicals industry, for which Chemtrade has the benefit of conditional amnesty. It is also a defendant in class action lawsuits and a number of civil proceedings relating to the same conduct. The vendors of the General Chemical business agreed to indemnify Chemtrade for certain losses that could result from the conduct that is the subject of this investigation, as this conduct occurred prior to Chemtrade's

acquisition of the business. The parties are disputing the scope of the indemnity and it is possible that Chemtrade could be unsuccessful in collecting on its indemnity. The amount, if any, that would not be indemnified is not determined at this time. During the second quarter of 2018, Chemtrade recorded a provision of \$65.0 million with respect to the civil actions. It is possible that actual damages and costs net of any recovery on the indemnity could exceed the amount of the reserve (see **Reserve for Legal Proceedings**).

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

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, 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, 2017. There have been no material changes to the business of Chemtrade that require an update to the discussion of these sources of estimation uncertainty, except as noted in **Reserve for Legal Proceedings**.

### **IFRS Standards and Interpretations Adopted During the Period**

Chemtrade retrospectively adopted IFRS 9, *Financial Instruments* ("IFRS 9") on January 1, 2018 without restating comparatives. IFRS 9 includes guidance on the classification and measurement of financial assets. The new standard introduces changes relating to the measurement of financial liabilities designated as fair value through profit and loss ("FVTPL"). The standard also amends the impairment model by introducing a new "expected credit loss" model for calculating impairment, and new general hedge accounting requirements. In adopting IFRS 9, Chemtrade is required to present any changes in the fair value of its financial liabilities at FVTPL due to its own credit risk, in other comprehensive income rather than net earnings. The impact of the adoption of IFRS 9 resulted in the re-classification of \$30.7 million to accumulated other comprehensive income from deficit. This was reflected as an opening retained earnings adjustment in the statement of changes in unitholders' equity as at January 1, 2018. There were no changes to the classification of Chemtrade's financial instruments on adoption of IFRS 9.

Chemtrade adopted IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") on January 1, 2018. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced which may affect the amount and/or timing of revenue recognized. There was no impact of the adoption of IFRS 15 on Chemtrade's consolidated financial statements.

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

On January 13, 2016 the International Accounting Standards Board issued IFRS 16, *Leases* ("IFRS 16"). The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *Leases* ("IAS 17"). This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. Chemtrade intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. Chemtrade has made significant progress toward completing its assessment of the extent of the impact of adoption of this standard on its consolidated financial statements and anticipates that the amendments will have a material impact on the consolidated financial statements.

For additional 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, 2017.

## **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 June 30, 2018 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 June 30, 2018. There have been no changes to the design of internal controls over financial reporting that occurred during the three and six months ended June 30, 2018 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).

August 8, 2018



# CHEMTRADE LOGISTICS INCOME FUND

Condensed Consolidated Interim Statements of Financial Position

(In thousands of Canadian dollars)

(Unaudited)

	Notes	June 30, 2018	December 31, 2017
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$	4,697	\$ 10,372
Trade and other receivables		208,714	215,149
Inventories		129,112	121,630
Income taxes receivable		3,636	1,609
Prepaid expenses and other assets	14	7,194	3,402
<b>Total current assets</b>		<b>353,353</b>	<b>352,162</b>
<b>Non-current assets</b>			
Property, plant and equipment		1,256,893	1,261,921
Other assets		13,929	14,625
Intangible assets		1,265,083	1,268,606
Deferred tax assets		82,614	86,014
<b>Total non-current assets</b>		<b>2,618,519</b>	<b>2,631,166</b>
<b>Total assets</b>		<b>2,971,872</b>	<b>2,983,328</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	14 \$	192,093	\$ 230,357
Distributions payable		9,257	9,257
Provisions	10	90,079	12,742
Current portion of long-term debt	6	—	3,930
<b>Total current liabilities</b>		<b>291,429</b>	<b>256,286</b>
<b>Non-current liabilities</b>			
Long-term debt	6	703,826	642,144
Convertible unsecured subordinated debentures	7	625,980	640,689
Other long-term liabilities		17,527	20,828
Employee benefits		58,652	62,518
Provisions		117,832	120,790
Deferred tax liabilities		70,800	91,420
<b>Total non-current liabilities</b>		<b>1,594,617</b>	<b>1,578,389</b>
<b>Total liabilities</b>		<b>1,886,046</b>	<b>1,834,675</b>
<b>Unitholders' equity</b>			
Units	8	1,461,995	1,461,995
Contributed surplus		9,720	9,720
Deficit		(518,271)	(453,425)
Accumulated other comprehensive income		132,382	130,363
<b>Total unitholders' equity</b>		<b>1,085,826</b>	<b>1,148,653</b>
<b>Total liabilities and unitholders' equity</b>	\$	<b>2,971,872</b>	\$ 2,983,328

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# CHEMTRADE LOGISTICS INCOME FUND

Condensed Consolidated Interim Statements of Comprehensive Income

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

(Unaudited)

	Note	Three months ended June 30,		Six months ended June 30,	
		2018	2017	2018	2017
Revenue		\$ 405,280	\$ 407,411	\$ 786,753	\$ 681,965
Cost of sales and services	12	(366,354)	(347,900)	(702,371)	(589,822)
Gross profit		38,926	59,511	84,382	92,143
Selling and administrative expenses	10,12	(93,730)	(27,381)	(119,542)	(52,467)
Operating (loss) income		(54,804)	32,130	(35,160)	39,676
Net finance costs	11	(20,099)	(27,173)	(35,771)	(47,198)
(Loss) earnings before income tax		(74,903)	4,957	(70,931)	(7,522)
Income tax (expense) recovery	13				
Current		(1,421)	(1,927)	(3,863)	(2,429)
Deferred		25,882	7,250	31,268	20,903
		24,461	5,323	27,405	18,474
Net (loss) earnings from continuing operations		(50,442)	10,280	(43,526)	10,952
Net earnings from discontinued operations	5	—	66,977	—	67,555
Net (loss) earnings		\$ (50,442)	\$ 77,257	\$ (43,526)	\$ 78,507
Other comprehensive income (loss)					
Items that may subsequently be reclassified to earnings:					
(Loss) gain on net investment hedge of foreign operations net of tax expense of \$3,561 and \$3,561 (2017 - nil and recovery of \$2,429)	14	(6,376)	3,148	(10,184)	7,820
Foreign currency translation differences for foreign operations, net of tax expense of \$884 and \$2,133 (2017 - recovery of \$1,222 and \$1,708)		17,706	(64,094)	38,615	(72,954)
Effective portion of change in the fair value of cash flow hedges, net of tax recovery of \$17 and expense of \$220 (2017 - expense of \$97 and \$521)	14	(47)	(3,126)	599	(1,553)
Items that will not be reclassified to earnings:					
Defined benefit plan adjustments net of tax expense of \$1,444 and \$1,320 (2017 - nil and nil)		3,912	—	3,575	—
Change in fair value of convertible debentures due to credit risk, net of tax expense of \$2,741 and \$5,263 (2017 - nil and nil)	3	(2,538)	—	3,652	—
Other comprehensive income (loss)		12,657	(64,072)	36,257	(66,687)
Total comprehensive (loss) income		\$ (37,785)	\$ 13,185	\$ (7,269)	\$ 11,820
Net (loss) earnings per unit	8				
Basic net (loss) earnings per unit		\$ (0.54)	\$ 0.83	\$ (0.47)	\$ 0.94
Diluted net (loss) earnings per unit		\$ (0.54)	\$ 0.73	\$ (0.47)	\$ 0.86
Net (loss) earnings per unit from continuing operations					
Basic net (loss) earnings per unit		\$ (0.54)	\$ 0.11	\$ (0.47)	\$ 0.13
Diluted net (loss) earnings per unit		\$ (0.54)	\$ 0.11	\$ (0.47)	\$ 0.13

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# CHEMTRADE LOGISTICS INCOME FUND

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

	Notes	Units	Contributed surplus	Deficit	Cumulative translation account*	Unrealized gains/losses on cash flow and net investment hedges*	Change in fair value of convertible debentures due to credit risk*	Total unitholders' equity
<b>Balance at January 1, 2018</b>		\$ 1,461,995	\$ 9,720	\$ (453,425)	\$ 138,111	\$ (7,748)	\$ —	\$ 1,148,653
Adjustment from adoption of IFRS 9	3	—	—	30,663	—	—	(30,663)	—
Net loss		—	—	(43,526)	—	—	—	(43,526)
Other comprehensive income (loss)		—	—	3,575	38,615	(9,585)	3,652	36,257
Distributions	8	—	—	(55,558)	—	—	—	(55,558)
<b>Balance at June 30, 2018</b>		\$ 1,461,995	\$ 9,720	\$ (518,271)	\$ 176,726	\$ (17,333)	\$ (27,011)	\$ 1,085,826

	Notes	Units	Contributed surplus	Deficit	Cumulative translation account*	Unrealized gains/losses on cash flow and net investment hedges*	Change in fair value of convertible debentures due to credit risk*	Total unitholders' equity
<b>Balance at January 1, 2017</b>		\$ 1,048,738	\$ 9,720	\$ (507,453)	\$ 224,693	\$ (6,643)	\$ —	\$ 769,055
Net earnings		—	—	78,507	—	—	—	78,507
Other comprehensive (loss) income		—	—	—	(72,954)	6,267	—	(66,687)
Distributions	8	—	—	(50,876)	—	—	—	(50,876)
Issuance of units	8	413,257	—	—	—	—	—	413,257
<b>Balance at June 30, 2017</b>		\$ 1,461,995	\$ 9,720	\$ (479,822)	\$ 151,739	\$ (376)	\$ —	\$ 1,143,256

\*Accumulated other comprehensive income.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# CHEMTRADE LOGISTICS INCOME FUND

Condensed Consolidated Interim Statements of Cash Flows

(In thousands of Canadian dollars)

(Unaudited)

	Note	Three months ended June 30,		Six months ended June 30,	
		2018	2017	2018	2017
<b>Cash flows from operating activities:</b>					
Net (loss) earnings		\$ (50,442)	\$ 77,257	\$ (43,526)	\$ 78,507
Adjustments for:					
Depreciation and amortization	12	54,734	57,209	107,071	96,572
Loss (gain) on disposal and write-down of assets		3,458	(13,074)	3,343	(13,074)
Cumulative foreign exchange gain on sale of discontinued operations	5	—	(48,950)	—	(48,950)
Income tax recovery		(24,461)	(4,594)	(27,405)	(17,406)
Net interest costs		15,859	26,393	30,818	38,548
Accretion expense		1,363	1,062	2,362	1,971
Net pension interest		489	792	968	1,457
Debt extinguishment costs including realized foreign exchange loss		7,417	3,032	7,417	8,540
Change in fair value of convertible unsecured subordinated debentures	7	(5,028)	(4,096)	(5,794)	(3,297)
Unrealized foreign exchange loss (gain)		2,089	(31,735)	2,194	(33,577)
		5,478	63,296	77,448	109,291
Decrease (increase) in working capital		49,728	5,260	30,031	(41,510)
Interest paid		(24,879)	(24,791)	(39,753)	(36,957)
Interest received		84	247	208	308
Income taxes paid		(3,404)	(10,244)	(5,890)	(12,454)
<b>Net cash flows from operating activities</b>		<b>27,007</b>	<b>33,768</b>	<b>62,044</b>	<b>18,678</b>
<b>Cash flows from investing activities:</b>					
Additions to property, plant and equipment		(22,126)	(15,712)	(33,560)	(21,951)
Decrease in other assets		1,342	663	696	2,029
Proceeds from disposal of discontinued operations (net of cash disposed)	5	—	55,543	—	55,543
Acquisition (net of cash acquired)	4	—	—	—	(281,205)
<b>Net cash flows (used in) from investing activities</b>		<b>(20,784)</b>	<b>40,494</b>	<b>(32,864)</b>	<b>(245,584)</b>
<b>Cash flows from financing activities:</b>					
Distributions to unitholders	8	(27,779)	(27,779)	(55,558)	(48,534)
Issuance of convertible debentures	7	—	201,250	—	201,250
Transaction costs related to the issuance of convertible debentures	7	—	(8,661)	—	(8,661)
Issuance of units	8	—	—	—	395,831
Share issuance costs		—	17	—	(17,167)
Repayment of term debt	6	(6,874)	(904)	(7,830)	(437,911)
Increase in term debt		—	—	—	436,118
Repayment of Canexus credit facilities		—	—	—	(262,421)
Repayment of convertible debentures	7	—	(174,045)	—	(175,468)
Net change in revolving credit facility	6	96,211	(44,822)	113,727	189,822
Financing transaction costs		—	(180)	(793)	(6,500)
(Decrease) increase in other long-term liabilities		(5,050)	4,450	(12,887)	(3,069)
Principal redemption of high-yield senior notes	6	(71,500)	(38,500)	(71,500)	(38,500)
<b>Net cash flows (used in) from financing activities</b>		<b>(14,992)</b>	<b>(89,174)</b>	<b>(34,841)</b>	<b>224,790</b>

# CHEMTRADE LOGISTICS INCOME FUND

Condensed Consolidated Interim Statements of Cash Flows

(In thousands of Canadian dollars)

(Unaudited)

Decrease in cash and cash equivalents	(8,769)	(14,912)	(5,661)	(2,116)
Cash and cash equivalents, beginning of the period	13,717	27,411	10,372	14,742
Effect of exchange rates on cash held in foreign currencies	(251)	166	(14)	39
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 4,697</b>	<b>\$ 12,665</b>	<b>\$ 4,697</b>	<b>\$ 12,665</b>

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and six months ended June 30, 2018 and 2017

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## 1. CORPORATE INFORMATION:

Chemtrade Logistics Income Fund (the "Fund") is a publicly listed Income Trust formed in Ontario, Canada and its units are listed on the Toronto Stock Exchange ("TSX"). The term "Chemtrade" refers to the Fund and its consolidated subsidiaries. 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"), Electrochemicals ("EC") and Corporate ("Corp"). On May 31, 2017, the sale of the International segment was completed and it was subsequently classified as a discontinued operation, see note 5. For additional information regarding Chemtrade's business segments, see note 15.

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 2017 annual consolidated financial statements, except for new standards adopted during the period as described in note 3 (a).

These condensed consolidated interim financial statements should be read in conjunction with Chemtrade's 2017 annual consolidated financial statements.

The condensed consolidated interim financial statements were authorized for issue by the Board of Trustees on August 8, 2018.

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and six months ended June 30, 2018 and 2017

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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 (loss) earnings per unit information which is presented in Canadian dollars.

## 3. SIGNIFICANT ACCOUNTING POLICIES:

### (a) Standards and interpretations adopted during the period:

Chemtrade retrospectively adopted IFRS 9, *Financial Instruments* ("IFRS 9") on January 1, 2018 without restating comparatives. IFRS 9 includes guidance on the classification and measurement of financial assets. The new standard introduces changes relating to the measurement of financial liabilities designated as fair value through profit and loss ("FVTPL"). The standard also amends the impairment model by introducing a new "expected credit loss" model for calculating impairment, and new general hedge accounting requirements. In adopting IFRS 9, Chemtrade is required to present any changes in the fair value of its financial liabilities at FVTPL due to its own credit risk, in other comprehensive income rather than net earnings. The impact of the adoption of IFRS 9

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and six months ended June 30, 2018 and 2017

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### 3. SIGNIFICANT ACCOUNTING POLICIES (continued):

resulted in the re-classification of \$30,663 to accumulated other comprehensive income from deficit. This was reflected as an opening retained earnings adjustment in the statement of changes in unitholders' equity as at January 1, 2018. There were no changes to the classification of Chemtrade's financial instruments on adoption of IFRS 9.

Chemtrade adopted IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") on January 1, 2018. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced which may affect the amount and/or timing of revenue recognized. There was no impact of the adoption of IFRS 15 on Chemtrade's consolidated financial statements.

#### b) Standards and interpretations not yet adopted:

On January 13, 2016 the International Accounting Standards Board issued IFRS 16, *Leases* ("IFRS 16"). The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *Leases* ("IAS 17"). This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. Chemtrade intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. Chemtrade has made significant progress toward completing its assessment of the extent of the impact of adoption of this standard on its consolidated financial statements and anticipates that the amendments will have a material impact on the 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 and six months ended June 30, 2018 and 2017

## 4. CANEXUS ACQUISITION:

On March 10, 2017, Chemtrade completed the acquisition (the "Acquisition") of all the issued and outstanding common shares of Canexus Corporation ("Canexus") by way of a court-approved plan of arrangement. Following completion of the Acquisition, Canexus amalgamated with 1993754 Alberta Ltd., an indirect, wholly-owned subsidiary of the Fund and subsequently with another subsidiary of Canexus, with the resulting entity's name being Chemtrade Electrochem Inc. ("CEI"). The purchase price allocation for this acquisition was finalized in 2017. For details of the purchase price allocation, refer to Chemtrade's 2017 annual consolidated financial statements.

## 5. DISCONTINUED OPERATIONS:

On February 24, 2017, Chemtrade entered into a definitive agreement to sell its International business segment to Mitsui & CO., Ltd. for \$57,692 (€38,244), including an adjustment for working capital. The transaction, which was subject to relevant regulatory approvals, closed on May 31, 2017. The business provided removal and marketing services for elemental sulphur and sulphuric acid to customers globally. During 2017, Chemtrade realized a gain of \$16,294, after taxes upon the sale of the business. The cumulative amount of foreign exchange differences related to the International business of \$48,950 previously recognized in accumulated other comprehensive income was reclassified from equity to net earnings from discontinued operations upon the sale. For further details, refer to Chemtrade's 2017 annual consolidated financial statements.

## 6. LONG-TERM DEBT:

	June 30, 2018	December 31, 2017
Term bank debt		
US\$325,000 (December 31, 2017 - US\$325,000)	\$ 426,823	\$ 408,558
Revolving credit facility		
US\$189,801 (December 31, 2017 - US\$103,513)	249,263	130,124
Canadian dollar-denominated	32,356	32,553
Less: Transaction costs	(4,616)	(4,597)
Long-term debt (note (a))	\$ 703,826	\$ 566,638
Senior unsecured notes (note (b))	—	71,500
Long-term loan - Fort McMurray facility (note (c))	—	7,936
	\$ 703,826	\$ 646,074
Less: Current portion	—	(3,930)
Long-term debt	\$ 703,826	\$ 642,144

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and six months ended June 30, 2018 and 2017

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

### (a) Long-term debt:

At June 30, 2018 Chemtrade had senior Credit Facilities of approximately \$1,116,306 (US\$850,000), consisting of a term loan of \$426,823 (US\$325,000), and a revolving credit facility of \$689,483 (US\$525,000). At June 30, 2018, Chemtrade had drawn \$281,619 (December 31, 2017 - \$162,677) on the revolving portion of the Credit Facilities and had committed a total of \$20,937 (December 31, 2017 - \$22,615) of this facility towards standby letters of credit. During the first quarter of 2018, Chemtrade modified the terms of the Credit Facilities to extend the maturity date by one year to March 2023. Chemtrade incurred \$793 of transaction costs related to the modification. These costs have been deferred and are being amortized to finance costs in comprehensive income using the effective interest method. The Credit Facilities are secured by certain property, plant and equipment of Chemtrade. At June 30, 2018, the weighted average effective interest rate of the facilities is 4.1% (December 31, 2017 - 3.4%).

In connection with the Acquisition in 2017, a portion of Chemtrade's new Credit Facilities were used to repay its existing credit facilities and CEI's (formerly, Canexus') extendible revolving credit facilities. The amount drawn on the Credit Facilities to finance the Acquisition and to repay both Chemtrade's and CEI's (formerly, Canexus') existing credit facilities was \$687,070. As a result of the repayment, Chemtrade expensed \$5,508 of previously deferred financing costs during the first quarter of 2017. Costs related to the new Credit Facilities of \$6,601 were reflected in long-term debt. These costs were 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 and an Interest Coverage ratio (as all terms are defined in the credit agreement). Chemtrade monitors these ratios and reports them to its lenders on a quarterly basis. As at June 30, 2018, Chemtrade was in compliance with all covenants.

### (b) Senior unsecured notes:

On March 10, 2017, Chemtrade assumed \$110,000 of senior unsecured notes of Canexus as part of the Acquisition. The senior notes were issued at par value, bearing interest at a rate of 7.875% per annum and mature on September 20, 2023 (the "CEI Senior Notes"). The CEI Senior Notes contained certain early redemption options under which CEI had the option to redeem all or a portion of the CEI Senior Notes at various redemption prices, which included the principal amount plus accrued and unpaid interest, if any, to the redemption date. Interest payments commenced on March 20, 2017 and were payable semi-annually on March 20 and September 20.

On June 26, 2017, CEI redeemed \$38,500 aggregate principal amount of its CEI Senior Notes, representing 35% of the \$110,000 aggregate principal amount outstanding. The notes were

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and six months ended June 30, 2018 and 2017

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

redeemed at a total aggregate redemption price of \$42,346, being equal to 107.875% of the principal amount, plus all accrued and unpaid interest. The redemption price paid in excess of the principal amount has been included as an expense within net finance costs in the consolidated statement of comprehensive income.

On June 25, 2018, CEI redeemed the remaining \$71,500 aggregate principal amount of its CEI Senior Notes. The notes were redeemed at a total aggregate redemption price of \$78,657, being equal to 110.01% of the principal amount, plus accrued interest. The redemption price paid in excess of the principal amount has been included as an expense within net finance costs in the consolidated statement of comprehensive income.

### (c) 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, bearing interest at a fixed rate of 7.3% per annum with monthly principal repayments due until December 2019. On June 29, 2018, Chemtrade repaid the outstanding balance under the loan for a total of \$6,489, including a prepayment premium of \$260 plus accrued interest.

## 7. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES:

As part of the Acquisition on March 10, 2017, Chemtrade assumed all of the outstanding CEI debentures issued by Canexus ("CEI Debentures") comprised of:

- CEI Series IV Debentures with a total par value of \$60,000, which bear interest at 5.75% per annum and mature on December 31, 2018;
- CEI Series V Debentures with a total par value of \$107,500, which bear interest at 6.00% per annum and mature on December 31, 2020;
- CEI Series VI Debentures with a total par value of \$85,550, which bear interest at 6.50% per annum and mature on December 31, 2021.

On May 2, 2017, the Fund completed an agreement with a syndicate of underwriters to issue \$175,000 principal amount of convertible unsecured subordinated debentures. As allowed under provisions of the agreement to issue the debentures, the underwriters purchased an additional \$26,250 principal amount of the debentures, increasing the aggregate gross proceeds of the public offering to \$201,250. Chemtrade incurred transaction costs of approximately \$8,661, which included the underwriters' fee and other expenses of the offering.

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

These convertible unsecured debentures bear interest at a rate of 4.75% per annum and are convertible, at the option of the holder, into units of the Fund at any time prior to the maturity date of May 31, 2024, at a unit price of \$26.70 per unit and are not redeemable before May 31, 2020 (the "Fund 2017 4.75% Debentures"). The net proceeds of the issuance were used to fund the mandatory change of control offers in respect of the CEI Debentures, the redemption of \$79,590 aggregate principal amount of its 5.75% convertible unsecured debentures due December 31, 2018 (the "Fund 2011 5.75% Debentures") and the redemption of the remaining CEI Series IV Debentures.

At June 30, 2018, the Fund also had \$126,500 principal amount of 5.25% of convertible unsecured subordinated debentures outstanding (the "Fund 2014 5.25% Debentures") and \$143,750 principal amount of 5.00% convertible unsecured subordinated debentures outstanding (the "Fund 2016 5.00% Debentures"). The Fund 2017 4.75% Debentures, the Fund 2014 5.25% Debentures and the Fund 2016 5.00% Debentures are collectively referred to as the "Fund Debentures". The Fund Debentures and the CEI Debentures are collectively referred to as the "Debentures".

Following the Acquisition, CEI commenced mandatory change of control offers to purchase all of the outstanding CEI Debentures. On May 10, 2017, CEI acquired the following debentures:

- \$45,888 principal amount of 5.75% debentures (representing 76.5% of the outstanding CEI Series IV Debentures);
- \$23,489 principal amount of 6.00% debentures (representing 21.9% of the outstanding CEI Series V Debentures);
- \$10,966 principal amount of 6.50% debentures (representing 12.8% of the outstanding CEI Series VI Debentures).

On May 11, 2017, the Fund completed the redemption of \$79,590 aggregate principal amount of the Fund 2011 5.75% Debentures representing a redemption in full of all of the Fund 2011 5.75% Debentures. The Fund 2011 5.75% Debentures were redeemed at par value plus accrued and unpaid interest for a total aggregate redemption price of \$81,233.

On May 15, 2017, CEI redeemed the remaining \$14,112 principal amount of the CEI Series IV Debentures, representing a redemption in full of the CEI Series IV Debentures.

On July 14, 2017, the Fund commenced offers (the "Offers") to purchase (i) all of the outstanding CEI Series V Debentures; and (ii) all of the outstanding CEI Series VI Debentures. On August 23, 2017, the Fund announced the expiration of the Offers. As the conditions to the Offers had not been satisfied, the Fund did not accept any tendered CEI Debentures for payment. The Fund incurred transaction costs of approximately \$505. These are included in finance costs in comprehensive income.

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

Chemtrade has designated its Debentures as financial liabilities at fair value through profit or loss. At June 30, 2018, the fair value of the Debentures was \$625,980 (December 31, 2017 - \$640,689).

For the three and six months ended June 30, 2018, there were net finance costs of \$3,257 and \$10,722, respectively (2017 - \$13,652 and \$20,286, respectively) related to the Debentures, which included a gain of \$5,028 and \$5,794, respectively (2017 - gain of \$4,096 and \$3,297, respectively) related to the change in fair value of the Debentures and interest expense of \$8,285 and \$16,516, respectively (2017 - \$9,087 and \$14,922, respectively). For the three and six months ended June 30, 2017, net finance costs include \$8,661 of transaction costs related to the issuance of the Fund 2017 4.75% Debentures.

For the three and six months ended June 30, 2018, Chemtrade also recorded a gain of \$204 and \$8,915, respectively (2017 - nil and nil) in other comprehensive income related to the changes in fair value of the Debentures due to its own credit risk.

The table below summarizes the key terms of each convertible debenture series outstanding at June 30, 2018 and December 31, 2017:

	<b>Fund 2014 5.25% Debentures</b>	<b>Fund 2016 5.00% Debentures</b>	<b>Fund 2017 4.75% Debentures</b>	<b>CEI Series V Debentures</b>	<b>CEI Series VI Debentures</b>
Maturity date	June 30, 2021	August 31, 2023	May 31, 2024	December 31, 2020	December 31, 2021
Interest rate	5.25%	5.00%	4.75%	6.00%	6.50%
Principal outstanding	\$126,500	\$143,750	\$201,250	\$84,011	\$74,584

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## 8. 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:

	2018		2017	
	Number of Units	Amount	Number of Units	Amount
Units				
Balance – January 1	92,596,006	\$ 1,461,995	69,172,785	\$ 1,048,738
Issued for cash	—	—	21,800,000	395,831
Issuance costs (net of tax)	—	—	—	(12,598)
Conversion of unsecured subordinated convertible debentures	—	—	1,623,221	30,024
Balance – June 30	92,596,006	\$ 1,461,995	92,596,006	\$ 1,461,995

### (b) Distributions:

Distributions paid for the three and six months ended June 30, 2018 were \$27,779 and \$55,558, respectively (2017 - \$27,779 and \$48,534, respectively) or \$0.30 and \$0.60 per unit, respectively (2017 - \$0.30 and \$0.60 per unit, respectively). All of Chemtrade's distributions are discretionary and subject to approval by the Board of Trustees.

### (c) Net (loss) earnings per unit:

Net (loss) 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 (loss) earnings per unit, and diluted net (loss) earnings per unit:

# CHEMTRADE LOGISTICS INCOME FUND

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

(i) (Loss) Earnings per unit:

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<b>2018</b>	2017	<b>2018</b>	2017
<b>Numerator</b>				
Net (loss) earnings	\$ (50,442)	\$ 77,257	\$ (43,526)	\$ 78,507
Net finance costs on convertible unsecured subordinated debentures <sup>(1)</sup>	—	2,574	—	7,657
<b>Diluted net (loss) earnings</b>	<b>\$ (50,442)</b>	<b>\$ 79,831</b>	<b>\$ (43,526)</b>	<b>\$ 86,164</b>

<sup>(1)</sup> For the three and six months ended June 30, 2018, the potential conversion of the convertible unsecured subordinated debentures has not been included as the effect on net (loss) earnings per unit would be anti-dilutive.

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<b>2018</b>	2017	<b>2018</b>	2017
<b>Denominator</b>				
Weighted average number of units	<b>92,596,006</b>	92,594,999	<b>92,596,006</b>	83,643,802
Weighted average convertible unsecured subordinated debenture dilutive units <sup>(1)</sup>	—	17,022,553	—	16,465,255
<b>Weighted average number of diluted units</b>	<b>92,596,006</b>	<b>109,617,552</b>	<b>92,596,006</b>	<b>100,109,057</b>

<sup>(1)</sup> For the three and six months ended June 30, 2018, the potential conversion of the convertible unsecured subordinated debentures has not been included as the effect on net (loss) earnings per unit would be anti-dilutive.

(ii) (Loss) Earnings per unit from continuing operations:

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<b>2018</b>	2017	<b>2018</b>	2017
<b>Numerator</b>				
Net (loss) earnings from continuing operations	\$ (50,442)	\$ 10,280	\$ (43,526)	\$ 10,952
Net interest and fair value adjustment on convertible unsecured subordinated debentures <sup>(1)</sup>	—	—	—	—
<b>Diluted (loss) net earnings from continued operations</b>	<b>\$ (50,442)</b>	<b>\$ 10,280</b>	<b>\$ (43,526)</b>	<b>\$ 10,952</b>

<sup>(1)</sup> For the three and six months ended June 30, 2018 and 2017, the potential conversion of the convertible unsecured subordinated debentures has not been included as the effect on net (loss) earnings per unit would be anti-dilutive.

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

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<b>2018</b>	2017	<b>2018</b>	2016
<b>Denominator</b>				
Weighted average number of units	<b>92,596,006</b>	92,594,999	<b>92,596,006</b>	83,643,802
Weighted average convertible unsecured subordinated debenture dilutive units <sup>(1)</sup>	—	—	—	—
Weighted average number of diluted units	<b>92,596,006</b>	92,594,999	<b>92,596,006</b>	83,643,802

<sup>(1)</sup> For the three and six months ended June 30, 2018 and 2017, the potential conversion of the convertible unsecured subordinated debentures has not been included as the effect on net (loss) earnings per unit would be anti-dilutive.

## 9. SHARE-BASED PAYMENTS:

Chemtrade operates a Long-Term Incentive Plan ("LTIP"), which grants cash awards based on certain criteria. The 2016-2018, 2017-2019 and 2018-2020 LTIP awards have a performance based component and a restricted share unit component. The performance based component is based on total Unitholder return, EBITDA growth and total return to Chemtrade's Unitholders relative to the S&P/TSX Dividend Index, each over the three year performance period of the plan. 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 June 30, 2018, a liability of \$11,312 (December 31, 2017 - \$16,025) has been recorded, of which \$5,370 (December 31, 2017 - \$6,260) is included in trade and other payables and \$5,942 (December 31, 2017 - \$9,765) is included in other long-term liabilities. For the three and six months ended June 30, 2018, Chemtrade recorded expense of \$2,008 and \$1,203 (2017 - expense of \$2,058 and \$3,825, respectively) in selling and administrative expenses related to the fair value adjustments on 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.



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

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

	June 30, 2018	December 31, 2017
Chemtrade units:		
Average base price	\$17.20	\$18.19
Period-end unit price	\$14.97	\$19.40
Average expected volatility	19.13%	16.27%
Index units:		
Average base price	\$133.35	\$168.70
Period-end unit price	\$165.78	\$217.08
Average expected volatility	8.50%	7.96%
Average risk free interest rate	1.74%	1.38%
Average expected remaining term	1.50 years	1.50 years

## 10. SELLING AND ADMINISTRATIVE EXPENSES:

The components of selling and administrative expenses are as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Wages, salaries and benefits, including bonuses and other	\$ 85,384	\$ 20,079	\$ 113,159	\$ 45,017
Share-based payments (note 9)	2,008	2,058	1,203	3,825
Realized foreign exchange loss	3,767	3,029	2,172	2,951
Unrealized foreign exchange loss (gain)	2,089	1,795	2,194	(37)
Depreciation	482	420	814	711
<b>Selling and administrative expenses</b>	<b>\$ 93,730</b>	<b>\$ 27,381</b>	<b>\$ 119,542</b>	<b>\$ 52,467</b>

# CHEMTRADE LOGISTICS INCOME FUND

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## 10. SELLING AND ADMINISTRATIVE EXPENSES (continued):

### Reserve for Legal Proceedings

Chemtrade was a subject of an investigation by the U.S. Department of Justice concerning alleged anti-competitive conduct in the water treatment chemicals industry, for which Chemtrade has the benefit of conditional amnesty. It is also a defendant in civil lawsuits relating to the same conduct. The vendors of the General Chemical business agreed to indemnify Chemtrade for certain losses that could result from the conduct that is the subject of this investigation, as this conduct occurred prior to Chemtrade's acquisition of the business, however the parties are disputing the scope of the indemnity.

Selling and administrative expenses for the three months ended June 30, 2018 include an expense of \$65,000, which represents a reserve for the potential costs of litigating and resolving the civil actions commenced against various defendants for anti-competitive actions in the water business, including by General Chemical prior to its acquisition by Chemtrade. This amount is included within provisions, as part of current liabilities, in the consolidated statement of financial position.

## 11. NET FINANCE COSTS:

The components of finance income and costs are as follows:

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Interest expense	\$ 16,431	\$ 18,752	\$ 31,994	\$ 31,609
Accretion expense	1,363	1,062	2,362	1,971
Debt extinguishment costs (note 6)	7,417	3,032	7,417	8,540
Transaction costs on issuance of convertible debentures (note 7)	—	8,661	—	8,661
Change in the fair value of convertible debentures (note 7)	(5,028)	(4,096)	(5,794)	(3,297)
Interest income	(84)	(238)	(208)	(286)
<b>Net finance costs</b>	<b>\$ 20,099</b>	<b>\$ 27,173</b>	<b>\$ 35,771</b>	<b>\$ 47,198</b>

# CHEMTRADE LOGISTICS INCOME FUND

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## 12. 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</u> <u>June 30,</u>		<u>Six months ended</u> <u>June 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<b>Cost of sales and services:</b>				
Depreciation expense	\$ 35,617	\$ 38,253	\$ 69,123	\$ 63,766
Amortization expense	18,635	18,524	37,134	32,064
<b>Selling and administrative expenses:</b>				
Depreciation expense	482	432	814	742
<b>Total depreciation and amortization expense</b>	<b>\$ 54,734</b>	<b>\$ 57,209</b>	<b>\$ 107,071</b>	<b>\$ 96,572</b>

For the three and six months ended June 30, 2017, Chemtrade recorded total depreciation and amortization expenses of \$168 and \$416, respectively, related to discontinued operations.

## 13. 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 and six months ended June 30, 2018 were 32.7% and 38.6%, respectively. (2017 - negative 107.4% and 245.6%, respectively), compared to a statutory rate of 26.9% (2017 - 26.6%).

The effective tax rates for the second quarter and the first six months of 2018 differ from the statutory tax rate primarily due to the deduction of taxable income distributed to Unitholders, and loss incurred in a jurisdiction with a lower tax rate.

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## 14. FINANCIAL INSTRUMENTS:

### (a) Derivatives and hedging:

	Notional Amount	June 30, 2018		December 31, 2017		
		Fair Value Asset	Fair Value Liability	Notional Amount	Fair Value Asset	Fair Value Liability
<b>Derivatives designated in a formal hedging relationship</b>						
Interest rate swaps	US\$ 325,000	\$ 1,591	\$ —	US\$ 325,000	\$ 772	\$ —
<b>Derivatives not designated in a formal hedging relationship</b>						
Foreign exchange contracts <sup>(1)</sup>	—	—	4,291	—	898	—
<b>Total</b>		<b>\$ 1,591</b>	<b>\$ 4,291</b>		<b>\$ 1,670</b>	<b>\$ —</b>

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

On June 30, 2018, 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.

Chemtrade hedges 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 and six months ended June 30, 2018, a foreign exchange loss of \$2,815 and \$6,623, respectively (2017 - gain of \$3,148 and \$5,391, respectively) on the revaluation of the U.S. dollar-denominated debt related to this hedging strategy was recognized in other comprehensive income.

As part of the Acquisition, Chemtrade assumed a cross currency swap associated with the payment of interest on the CEI Series IV Debentures in U.S. dollars. During the second quarter of 2017, Chemtrade purchased the entire principal CEI Series IV Debentures balance and terminated the related cross currency swap on the CEI Series IV Debentures, resulting in a loss of \$2,128, which was included in selling and administrative expenses.

Chemtrade has entered into foreign exchange contracts to manage certain of its exposures 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.

# CHEMTRADE LOGISTICS INCOME FUND

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## 14. FINANCIAL INSTRUMENTS (continued):

Contracts in place at June 30, 2018 include future contracts to sell the following amounts for periods through to December 31, 2019:

Amount	Weighted average exchange rate
US\$99,880	\$1.27

### (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 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.

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.

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## 14. FINANCIAL INSTRUMENTS (continued):

The Fund Debentures are classified within Level 1 because they are actively traded on the TSX and the fair value is based on the quoted prices on the TSX. The CEI debentures are classified as Level 2 as their fair value is determined using observable inputs. Any changes in the fair value of the 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 other assets, trade and other payables, and other long-term liabilities 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.

## 15. BUSINESS SEGMENTS:

Chemtrade operates in four reportable segments: SPPC, WSSC, EC, and Corp. On May 31, 2017, the sale of the International segment was completed and it was classified as a discontinued operation, see note 5. In 2018, Chemtrade reconfigured certain products between its SPPC and WSSC segments to align with the current internal management structure. Comparatives have been re-stated to conform with the current period presentation.

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, sodium hydrosulphite, elemental sulphur, liquid sulphur dioxide, hydrogen sulphide, sodium bisulphite, and sulphides, 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 nitrite, potassium chloride, phosphorus pentasulphide and vaccine adjuvants. These products are marketed primarily to North American customers.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Condensed Consolidated Interim Financial Statements

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## 15. BUSINESS SEGMENTS (continued):

EC manufactures and markets sodium chlorate and chlor-alkali products largely for the pulp and paper, oil and gas and water treatment industries. These products are marketed primarily to North American and South American customers. This segment includes results from Chemtrade's sodium chlorate business, as well as those from the newly acquired businesses (note 4).

The International business provided removal and marketing services for elemental sulphur and sulphuric acid. These products were marketed to customers globally. As the sale of the International Segment was completed on May 31, 2017 (note 5), this segment was classified as a discontinued operation.

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 June 30, 2018

	SPPC	WSSC	EC	Corp	Total
Revenue	\$ 128,477	\$ 112,375	\$ 164,428	\$ —	\$ 405,280
Inter-segment revenues	4,461	—	740	—	5,201
Operating income (loss)	1,971	10,877	17,936	(85,588)	(54,804)
Net finance costs	(3,585)	(4,504)	(8,101)	(3,909)	(20,099)
Income tax recovery (expense)	3,679	7,673	(1,905)	15,014	24,461
Net earnings (loss)	2,065	14,046	7,930	(74,483)	(50,442)
Capital expenditures	5,663	4,852	10,895	716	22,126
Depreciation and amortization	20,222	11,545	22,967	—	54,734
Loss (gain) on disposal and write-down of assets	3,468	(10)	—	—	3,458

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and six months ended June 30, 2018 and 2017

## 15. BUSINESS SEGMENTS (continued):

### Three months ended June 30, 2017

	SPPC	WSSC	EC	Intl	Corp	Total
Revenue	\$ 129,264	\$ 113,476	\$ 164,671	\$ —	\$ —	\$ 407,411
Inter-segment revenues	5,035	—	—	—	—	5,035
Operating income (loss)	14,652	17,664	13,422	—	(13,608)	32,130
Net finance costs	(5,178)	(3,208)	(7,452)	—	(11,335)	(27,173)
Income tax recovery (expense)	4,131	6,526	(4,376)	—	(958)	5,323
Net earnings from discontinued operations	—	—	—	66,977	—	66,977
Net earnings (loss)	13,605	20,982	1,594	66,977	(25,901)	77,257
Capital expenditures	3,792	5,470	5,645	65	740	15,712
Depreciation and amortization	19,110	13,579	24,352	168	—	57,209
Loss (gain) on disposal and write-down of assets	138	23	3,903	(17,138)	—	(13,074)

### Six months ended June 30, 2018

	SPPC	WSSC	EC	Corp	Total
Revenue	\$ 251,111	\$ 211,268	\$ 324,374	\$ —	\$ 786,753
Inter-segment revenues	7,668	—	1,623	—	9,291
Operating income (loss)	7,089	15,819	44,987	(103,055)	(35,160)
Net finance costs	(6,480)	(8,134)	(13,735)	(7,422)	(35,771)
Income tax recovery (expense)	8,985	11,511	(7,886)	14,795	27,405
Net earnings (loss)	9,594	19,196	23,366	(95,682)	(43,526)
Capital expenditures	9,158	8,481	15,178	743	33,560
Depreciation and amortization	36,495	25,438	45,138	—	107,071
Loss on disposal and write-down of assets	3,343	—	—	—	3,343



# CHEMTRADE LOGISTICS INCOME FUND

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

Three and six months ended June 30, 2018 and 2017

## 15. BUSINESS SEGMENTS (continued):

### Six months ended June 30, 2017

	SPPC	WSSC	EC	Intl	Corp	Total
Revenue	\$ 254,722	\$ 213,706	\$ 213,537	\$ —	\$ —	\$ 681,965
Inter-segment revenues	10,402	—	—	—	—	10,402
Operating income (loss)	25,106	25,893	19,439	—	(30,762)	39,676
Net finance costs	(11,237)	(9,972)	(10,262)	—	(15,727)	(47,198)
Income tax recovery (expense)	9,801	14,371	(4,719)	—	(979)	18,474
Net earnings from discontinued operations	—	—	—	67,555	—	67,555
Net earnings (loss)	23,670	30,292	4,458	67,555	(47,468)	78,507
Capital expenditures	5,702	8,205	6,937	169	938	21,951
Depreciation and amortization	38,110	26,861	31,185	416	—	96,572
Loss (gain) on disposal and write-down of assets	136	25	3,903	(17,138)	—	(13,074)

### June 30, 2018

	SPPC	WSSC	EC	Corp	Total
Total assets	\$ 1,034,923	\$ 923,383	\$ 997,609	\$ 15,957	\$ 2,971,872
Total liabilities	479,898	536,711	301,791	567,646	1,886,046
Intangible assets	432,997	544,501	287,585	—	1,265,083

### December 31, 2017

	SPPC	WSSC	EC	Corp	Total
Total assets	\$ 1,037,608	\$ 909,639	\$ 1,023,034	\$ 13,047	\$ 2,983,328
Total liabilities	387,837	564,611	383,975	498,252	1,834,675
Intangible assets	430,579	534,719	303,308	—	1,268,606

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and six months ended June 30, 2018 and 2017

## 15. BUSINESS SEGMENTS (continued):

### Geographic segments:

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

### Revenue

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Canada	\$ 125,109	\$ 121,918	\$ 249,077	\$ 190,735
United States	257,030	258,831	493,005	458,628
South America	23,141	26,662	44,671	32,602
	\$ 405,280	\$ 407,411	\$ 786,753	\$ 681,965

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

	June 30, 2018	December 31, 2017
Canada	\$ 1,018,452	\$ 1,051,768
United States	1,350,413	1,325,394
South America	153,111	153,365
	\$ 2,521,976	\$ 2,530,527

## UNITHOLDER INFORMATION

### **Senior Management**

**Mark Davis**

President and Chief Executive Officer

**Rohit Bhardwaj**

Chief Financial Officer

**Leon Aarts**

Group Vice-President, Corporate  
Development and Strategy

**Dan Dietz**

Group Vice-President, WSSC and EC

**Tab McCullough**

Group Vice-President, Manufacturing

**Michael St. Pierre**

Group Vice-President, SPPC

**Tejinder Kaushik**

Vice-President, Information Technology

**Emily Powers**

Vice-President, Human Resources

**Susan Paré**

General Counsel

### **Head Office**

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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:

Rohit Bhardwaj  
Chief Financial Officer  
(416) 496-5856