

Q3 2018

Chemtrade Logistics Income Fund

2018 | Third Quarter Report

CHEMTRADE LOGISTICS INCOME FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 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 nine months ended September 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 ability to obtain court approval and the timing of payout of the settled antitrust lawsuit and the outcome and timing of the remaining antitrust civil lawsuits; 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 nine months of 2017 includes less than seven months of results from the acquired businesses.

Additionally, during the three and nine months ended September 30, 2017, \$0.1 million and \$3.4 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 nine months ended September 30, 2017, revenues from the International segment were nil and \$41.9 million, respectively. EBITDA for the three and nine months ended September 30, 2017 were nil and \$3.0 million, respectively. Results from operating activities for the three and nine months ended September 30, 2017 were nil 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		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenue from continuing operations	\$ 418,194	\$ 400,504	\$ 1,204,947	\$ 1,082,469
Net earnings (loss) ⁽¹⁾⁽²⁾	\$ 9,194	\$ 22,413	\$ (34,332)	\$ 100,920
Net earnings (loss) from continuing operations ⁽¹⁾⁽²⁾	\$ 9,194	\$ 22,413	\$ (34,332)	\$ 33,365
Net earnings (loss) per unit ⁽¹⁾⁽²⁾	\$ 0.10	\$ 0.24	\$ (0.37)	\$ 1.16
Net earnings (loss) per unit from continuing operations ⁽¹⁾⁽²⁾	\$ 0.10	\$ 0.24	\$ (0.37)	\$ 0.39
Diluted net earnings (loss) per unit ⁽¹⁾⁽²⁾	\$ 0.10	\$ 0.24	\$ (0.37)	\$ 1.10
Diluted earnings (loss) per unit from continuing operations ⁽¹⁾⁽²⁾	\$ 0.10	\$ 0.24	\$ (0.37)	\$ 0.39
Total assets	\$ 2,881,167	\$ 2,961,552	\$ 2,881,167	\$ 2,961,552
Current portion of long-term debt	\$ —	\$ 3,859	\$ —	\$ 3,859
Long-term debt	\$ 642,794	\$ 636,084	\$ 642,794	\$ 636,084
Convertible unsecured subordinated debentures	\$ 627,078	\$ 639,033	\$ 627,078	\$ 639,033
Adjusted EBITDA from continuing operations ⁽¹⁾⁽²⁾⁽⁴⁾	\$ 53,778	\$ 81,862	\$ 131,226	\$ 221,721
Adjusted EBITDA per unit from continuing operations ⁽¹⁾⁽²⁾⁽⁴⁾⁽⁵⁾	\$ 0.58	\$ 0.88	\$ 1.42	\$ 2.56
Cash flows from operating activities	\$ 102,567	\$ 70,452	\$ 164,611	\$ 89,130
Cash flows from operating activities per unit ⁽⁵⁾	\$ 1.11	\$ 0.76	\$ 1.78	\$ 1.03
Adjusted cash flows from operating activities from continuing operations ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	\$ 36,196	\$ 61,333	\$ 70,580	\$ 146,114
Adjusted cash flows from operating activities per unit from continuing operations ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	\$ 0.39	\$ 0.66	\$ 0.76	\$ 1.69
Distributable cash after maintenance capital expenditures from continuing operations ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	\$ 18,986	\$ 46,783	\$ 24,364	\$ 114,137
Distributable cash after maintenance capital expenditures per unit from continuing operations ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	\$ 0.21	\$ 0.51	\$ 0.26	\$ 1.32
Distributions declared	\$ 27,779	\$ 27,779	\$ 83,337	\$ 78,655
Distributions declared per unit ⁽⁶⁾	\$ 0.30	\$ 0.30	\$ 0.90	\$ 0.90
Distributions paid	\$ 27,779	\$ 27,778	\$ 83,337	\$ 76,312
Distributions paid per unit ⁽⁶⁾	\$ 0.30	\$ 0.30	\$ 0.90	\$ 0.90

⁽¹⁾ Results for the three and nine months ended September 30, 2018 include a \$35,000, or \$0.38 per unit, and a \$100,000, or \$1.08 per unit, expense related to a legal provision, respectively. Results for the nine months ended September 30, 2018 include a premium related to the repayment of certain outstanding debt of \$7,417, or \$0.08 per unit.

Results for the three and nine months ended September 30, 2018 include realized foreign exchange losses of \$1,303 and \$3,475, respectively. **See Reserve for Legal Proceedings and Net Finance Costs.**

⁽²⁾ Results for the nine months ended September 30, 2017 include costs related to the acquisition of \$3,447 or \$0.04 per unit. See **Recent Acquisitions and Divestitures.**

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

⁽⁴⁾ See **Non-IFRS Measures.**

⁽⁵⁾ Based on weighted average number of units outstanding for the period of:

92,596,006 92,596,006 92,596,006 86,660,662

⁽⁶⁾ 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>Nine months ended</u>	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net earnings (loss) from continuing operations	\$ 9,194	\$ 22,413	\$ (34,332)	\$ 33,365
Add:				
Depreciation and amortization	53,596	52,411	160,667	148,567
Net finance costs	13,092	19,154	48,863	66,352
Income tax recovery	(10,627)	(12,754)	(38,032)	(31,228)
EBITDA from continuing operations	65,255	81,224	137,166	217,056
Add:				
(Gain) loss on disposal and write-down of assets	(8,413)	282	(5,070)	4,346
Unrealized foreign exchange (gain) loss	(3,064)	356	(870)	319
Adjusted EBITDA from continuing operations	\$ 53,778	\$ 81,862	\$ 131,226	\$ 221,721

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>Nine months ended</u>	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Cash flow from operating activities	\$ 102,567	\$ 70,452	\$ 164,611	\$ 89,130
Less:				
Cash flow used in operating activities of discontinued operations	—	—	—	(3,809)
Cash flow from operating activities of continuing operations	102,567	70,452	164,611	92,939
Add:				
Changes in non-cash working capital and other items	(66,371)	(9,119)	(94,031)	53,175
Adjusted cash flows from operating activities of continuing operations	36,196	61,333	70,580	146,114
Less:				
Maintenance capital expenditure	17,210	14,550	46,216	31,977
Distributable cash after maintenance capital expenditure from continuing operations	18,986	46,783	24,364	114,137
Less:				
Non-maintenance capital expenditure ⁽¹⁾	4,472	1,461	9,026	5,817
Distributable cash after all capital expenditure from continuing operations	\$ 14,514	\$ 45,322	\$ 15,338	\$ 108,320

⁽¹⁾ 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 third quarter of 2018 was \$418.2 million, which was \$17.7 million higher than revenue for the third quarter of 2017. The primary reason for the increase in revenue was higher sales volume and higher selling prices for water solutions products. On a year-to-date basis, revenue was \$122.5 million higher than the revenue for the same period of 2017, mainly due to revenue from CEI and its subsidiaries. 2018 includes a full nine months of results from CEI and its subsidiaries, whereas 2017 includes less than seven months of results.

Chemtrade's Adjusted EBITDA for the third quarter and for the first nine months of 2018 was \$28.1 million lower and \$90.5 million lower, respectively, than the Adjusted EBITDA for the same periods of 2017. The decrease in Adjusted EBITDA for the third quarter and first nine months of 2018 was primarily due to the legal proceedings reserve related to anti-competitive conduct for which Chemtrade recorded a \$35.0 million expense during the third quarter of 2018 and a \$65.0 million expense during the second quarter of 2018 (see **Reserve for Legal Proceedings**). For the first nine months of 2018, lower Adjusted EBITDA for the Sulphur Products and Performance Chemicals ("SPPC") and the Water Solutions and Specialty Chemicals ("WSSC") segments was partially offset by higher Adjusted EBITDA from the acquired businesses in the Electrochemicals ("EC") segment compared to the same period of 2017.

Net earnings from continuing operations for the third quarter and for the first nine months of 2018 were \$13.2 million lower and \$67.7 million lower than the same periods of 2017, respectively.

Net finance costs for the third quarter and for the first nine months of 2018 were lower than the same periods of 2017 by \$6.1 million and \$17.5 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>Nine months ended</u>	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenue	\$ 129,572	\$ 125,639	\$ 380,683	\$ 380,361
Gross profit	15,006	10,176	27,018	40,913
Adjusted EBITDA	22,237	25,215	69,164	88,567
Gain (loss) on disposal and write down of assets	8,413	(282)	5,070	(418)
EBITDA	30,650	24,933	74,234	88,149
Depreciation and amortization	(18,011)	(17,524)	(54,506)	(55,634)
Net finance costs	(3,659)	(4,275)	(10,139)	(15,512)
Income tax recovery	2,176	6,887	11,161	16,688
Net earnings	\$ 11,156	\$ 10,021	\$ 20,750	\$ 33,691

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 internal management structure. Comparatives have been re-stated to conform with the current period presentation.

Revenue for the third quarter was \$3.9 million higher than the same period of 2017, primarily due to higher revenue for sulphuric acid. Higher prices for sulphuric acid more than offset a 17% decline in sales volume of merchant sulphuric acid. Revenue for the first nine months of 2018 was similar to the same period of 2017. The 16% decline in sales volume of merchant sulphuric acid for the first nine months of 2018 compared to the same period of 2017 was offset by higher prices for sulphuric acid.

Gross profit for the third quarter was \$4.8 million higher than the same period of 2017 due to a higher gain on disposal of assets, partially offset by lower earnings from sodium bisulphite and sulphur. Gross profit for the first nine months of 2018 was \$13.9 million lower than the same period of 2017 due to additional plant maintenance turnarounds during 2018 relative to 2017. Gross profit during the first nine months of 2018 was also negatively affected by lower earnings

from sodium bisulphite and sulphuric acid. This was partially offset by a higher gain on disposal of assets during the first nine months of 2018.

Adjusted EBITDA for the third quarter and first nine months of 2018 were lower than the same periods of 2017 by \$3.0 million and \$19.4 million, respectively. The factors described above that adversely affected gross profit also affected Adjusted EBITDA.

Net earnings for the third quarter of 2018 were \$1.1 million higher than the same period of 2017. The increase in EBITDA was offset by lower income tax recovery compared to the third quarter of 2017. Net earnings for the first nine months of 2018 was \$12.9 million lower than the net earnings for the same period of 2017. This was due to lower Adjusted EBITDA and lower income tax recovery, partially offset by lower net finance costs compared to the first nine months of 2017.

WSSC -

(\$'000)	<u>Three months ended</u>		<u>Nine months ended</u>	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenue	\$ 116,601	\$ 103,055	\$ 327,869	\$ 316,761
Gross profit	11,402	11,908	33,082	44,927
Adjusted EBITDA	24,114	21,089	65,371	73,868
Loss on disposal and write-down of assets	—	—	—	(25)
EBITDA	24,114	21,089	65,371	73,843
Depreciation and amortization	(13,168)	(12,698)	(38,606)	(39,559)
Net finance costs	(4,642)	(5,103)	(12,776)	(15,075)
Income tax recovery	6,568	8,966	18,079	23,337
Net earnings	\$ 12,872	\$ 12,254	\$ 32,068	\$ 42,546

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 internal management structure. Comparatives have been re-stated to conform with the current period presentation.

Revenue for the third quarter and first nine months of 2018 was \$13.5 million and \$11.1 million higher than the same periods of 2017. This was primarily due to an increase in sales volume and selling prices for water solutions products.

Gross profit for the third quarter of 2018 was similar to the same period of 2017. This was primarily due to higher raw material and freight costs from water solutions products offsetting the benefits of higher revenues for these products. Gross profit for the nine months of 2018 was \$11.8 million lower than the first nine months of 2017. This was primarily due to higher raw material, freight and maintenance costs for the first nine months of 2018 compared to the same period of 2017.

Adjusted EBITDA for the third quarter and first nine months of 2018 was \$3.0 million higher and \$8.5 million lower than the same periods of 2017, respectively. During the third quarter of 2018, Adjusted EBITDA benefited from an insurance recovery of \$2.2 million. Lower gross profit generated for the first nine months of 2018 relative to the same period of 2017 resulted in lower Adjusted EBITDA.

Net earnings for the third quarter of 2018 were similar compared to the same period in 2017. This was due to higher Adjusted EBITDA, which was offset by lower income tax recovery. Net earnings for the first nine months of 2018 were \$10.5 million lower than the comparative period of 2017, primarily due to lower Adjusted EBITDA and lower income tax recovery. This was partially offset by lower net finance costs and lower depreciation and amortization expense.

EC -

(\$'000)	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30, 2018</u>	<u>September 30, 2017</u>	<u>September 30, 2018</u>	<u>September 30, 2017</u>
North American sales volumes:				
Sodium chlorate sales volume (000's MT)	103	110	305	255
Chlor-alkali sales volume (000's MECU)	51	54	132	116
Revenue	\$ 172,021	\$ 171,810	\$ 496,395	\$ 385,347
Gross Profit	37,361	36,941	88,051	65,328
Adjusted EBITDA	57,121	55,430	147,246	109,957
Loss on write-down of assets	—	—	—	(3,903)
EBITDA	57,121	55,430	147,246	106,054
Depreciation and amortization	(22,417)	(22,189)	(67,555)	(53,374)
Net finance costs	(3,659)	(2,145)	(17,394)	(12,407)
Income tax expense	(3,556)	(3,552)	(11,442)	(8,271)
Net earnings	\$ 27,489	\$ 27,544	\$ 50,855	\$ 32,002

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 acquired businesses (see **Recent Acquisitions and Divestitures**) since March 10, 2017, the date of acquisition.

Revenue and Adjusted EBITDA for the third quarter of 2018 were similar to the same period of 2017. Revenue, gross profit and Adjusted EBITDA for the first nine months of 2018 were higher than the same period of 2017 by \$111.0 million, \$22.7 million and \$37.3 million, respectively. These increases were primarily as a result of the acquired business, as 2017 includes results for the acquired business only since the date of the Acquisition (see **Recent Acquisitions and Divestitures**).

Gross profit for the third quarter of 2018 was similar to the third quarter of 2017. North American chlor-alkali gross profit during the third quarter of 2018 was higher than the third quarter of 2017 due to higher selling prices for caustic soda (14% higher) and for HCl (69% higher). This was partially offset by lower production rates and higher input costs.

North American chlorate gross profit during the third quarter of 2018 was lower than the third quarter of 2017 due to lower sales volume and higher input costs. This was partially offset by higher selling prices.

Net earnings for the third quarter of 2018 were similar to the same period of 2017. Net income for the first nine months of 2018 was \$18.9 million higher than the same period of 2017. The first nine months of 2018 benefited from higher Adjusted EBITDA due to the acquired businesses and lower write-down of assets as the comparative period in 2017 included a write-down of \$3.9 million related to the shut-down of a small sodium chlorate plant in Nanaimo, BC. The higher Adjusted EBITDA for the first nine months of 2018 was partially offset by higher depreciation and amortization expense, higher net finance costs and higher income tax expense compared with the first nine months of 2017 due to the impact of the acquired businesses.

Corporate -

(\$'000)	<u>Three months ended</u>		<u>Nine months ended</u>	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Cost of services	\$ 49,694	\$ 19,872	\$ 150,555	\$ 50,671
Adjusted EBITDA	(49,694)	(19,872)	(150,555)	(50,671)
Unrealized foreign exchange gain (loss)	3,064	(356)	870	(319)
EBITDA	(46,630)	(20,228)	(149,685)	(50,990)
Net finance costs	(1,132)	(7,631)	(8,554)	(23,358)
Income tax expense (recovery)	5,439	453	20,234	(526)
Net loss	\$ (42,323)	\$ (27,406)	\$ (138,005)	\$ (74,874)

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 third quarter of 2018 corporate costs excluding unrealized foreign exchange gains and losses, net finance costs and income taxes were \$29.8 million higher than the comparative period of 2017. The increase in corporate costs for the third quarter of 2018 was primarily due to the legal proceedings reserve of \$35.0 million recorded during the period (see **Reserve for Legal Proceedings**). This was partially offset by lower incentive compensation of \$7.1 million for the third quarter of 2018 compared to the same period of 2017. Corporate costs for the third quarter of 2018 also include realized foreign exchange losses of \$1.3 million.

For the first nine months of 2018 corporate costs excluding unrealized foreign exchange gains and losses, net finance costs and income taxes were \$99.9 million higher than the comparative period of 2017. This was primarily due to the legal proceedings reserve of \$100.0 million recorded during the period. On a year-to-date basis the comparison of corporate costs is affected by a few items that essentially offset each other. The first nine months of 2017 include a business interruption recovery of \$8.2 million and severances (\$1.6 million) and transaction costs (\$3.4 million) related to the Acquisition. The first nine months of 2018 includes a realized foreign exchange loss of \$3.5 million.

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 nine months ended September 30, 2018, a foreign exchange gain of \$4.2 million and a foreign exchange loss of \$6.0 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 foreign exchange gains of \$6.7 million and \$14.5 million, respectively, during the three and nine months ended September 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. In October 2018, Chemtrade reached a settlement with the plaintiffs of the main class action civil lawsuit pursuant to which it will pay US\$51.0 million and assign the proceeds, net of defence costs, of the outcome of the indemnity dispute. The settlement remains subject to interim and final court approval.

Corporate costs for the third quarter and first nine months of 2018 include an expense of \$35.0 million and \$100.0 million, respectively, which represents a reserve for the costs of litigating and resolving all of the civil actions commenced against General Chemical (which was acquired by Chemtrade) and various other defendants for anti-competitive actions in the water business, including the settled lawsuit referred to above. The timing of the payout of the settled lawsuit and the outcome and timing of the remaining civil actions 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 September 30, 2018 include future contracts to sell the following amounts for periods through to March 2020:

Amount	Weighted average exchange rate
US\$99,729	\$1.28

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 September 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 = \$1.29 at September 30, 2018. See **Risks and Uncertainties** for additional comments on foreign exchange.

Net Finance Costs

Net finance costs were \$13.1 million during the third quarter of 2018 and \$48.9 million during the nine months ended compared with \$19.2 million and \$66.4 million during the same periods of 2017.

Net finance costs during the third quarter of 2018 were \$6.1 million lower than the same period of 2017. This was due to a higher gain (\$3.5 million) related to a change in the fair value of convertible debentures and lower interest expense (\$2.2 million) as a result of lower debt compared with 2017.

On a year-to-date basis in 2018 net finance costs were \$17.5 million lower than the same period of 2017. This was primarily due to \$9.2 million of lower transaction costs related to the issuance of convertible debentures in 2017, a \$6.0 million higher gain from the change in fair value of convertible debentures compared to 2017, a \$1.8 million decrease in interest expense as result of lower debt than 2017 and \$1.1 million of lower debt extinguishment costs incurred in 2018.

During the third quarter and first nine months of 2018, Chemtrade recorded accretion expense of \$1.0 million and \$3.4 million, respectively. During the third quarter and first nine months of 2017, Chemtrade recorded accretion expense of \$1.0 million and \$3.0 million, respectively. See **Liquidity and Capital Resources - *Financing Activities***.

The weighted average effective annual interest rate on senior debt at September 30, 2018 was 4.09% (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 third quarter and first nine months of 2018 was \$1.5 million and \$5.4 million, respectively, compared with \$2.4 million and \$4.8 million for the same periods of 2017. The increase in current income tax expense in the first nine months of 2018 compared with the first nine months of 2017 is primarily due to certain changes in the new U.S. Tax Act. Deferred income tax recovery for the third quarter and first nine months of 2018 was \$12.2 million and \$43.4 million, respectively, compared with \$15.2 million and \$36.1 million for the same periods in 2017. The decrease in deferred income tax recovery for the third quarter of 2018 compared with the third quarter of 2017 is primarily due to recognition of deferred tax liabilities associated with the fair value adjustments on the convertible debentures in 2018. The increase in deferred income tax recovery for the first nine months of 2018 compared with the first nine months of 2017 is primarily due to the recognition of certain tax reserves in the U.S. offset by utilization of loss carryforward balance in Canada in 2018.

The effective tax rate for the third 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 \$12.2 million at September 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 and reduced deferred tax asset related to utilization of loss carryforward balance in Canada.

The net decrease in deferred tax liabilities of \$48.4 million at September 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. and lower deferred tax liability recognized related to fixed assets 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 nine months ended September 30, 2018, and for the years ended December 31, 2017 and December 31, 2016.

(\$'000)	<u>Three months ended</u>		<u>Nine months ended</u>	
	September 30, 2018	September 30, 2018	December 31, 2017	December 31, 2016
Cash flows from operating activities	\$ 102,567	\$ 164,611	\$ 151,298	\$ 153,009
Net earnings (loss)	9,194	(34,332)	147,359	4,744
Distributions paid during period	27,779	83,337	104,091	82,912
Excess of cash flows from operating activities over cash distributions paid	74,788	81,274	47,207	70,097
(Shortfall) excess of net earnings over cash distributions paid	(18,585)	(117,669)	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 nine months ended September 30, 2018 were declared as follows:

Record Date	Payment Date	Distribution Per Unit	Total (\$'000)
Three months ended September 30:			
July 31, 2018	August 31, 2018	\$ 0.10	\$ 9,260
August 31, 2018	September 28, 2018	0.10	9,260
September 28, 2018	October 31, 2018	0.10	9,259
Sub-total		\$ 0.30	\$ 27,779
Three months ended June 30, 2018		\$ 0.30	\$ 27,779
Three months ended March 31, 2018		\$ 0.30	\$ 27,779
Total for the nine months ended September 30, 2018		\$ 0.90	\$ 83,337

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

Record Date	Payment Date	Distribution Per Unit	Total (\$'000)
Three months ended September 30,			
July 31, 2017	August 31, 2017	\$ 0.10	\$ 9,259
August 31, 2017	September 29, 2017	0.10	9,260
September 29, 2017	October 30, 2017	0.10	9,260
Sub-total		\$ 0.30	\$ 27,779
Three months ended June 30, 2017		\$ 0.30	\$ 27,778
Three months ended March 31, 2017		\$ 0.30	\$ 23,098
Total for the nine months ended September 30, 2017		\$ 0.90	\$ 78,655

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

	Other Income	Dividends ⁽¹⁾	Foreign Non-Business Income	Total
2017	14.0%	37.4%	48.6%	100%
2018 ⁽²⁾	13.0%	41.0%	46.0%	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 third quarter of 2018 was an inflow of \$102.6 million compared with an inflow of \$70.5 million for the third quarter of 2017. The increase was primarily due to a large reduction in working capital, which more than offset the lower level of Adjusted EBITDA generated in 2018 relative to 2017.

The same factors resulted in cash flows from operating activities in the first nine months of 2018 being \$75.5 million higher than the first nine 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 \$21.7 million in the third quarter of 2018, compared with \$16.0 million in the third quarter of 2017. These amounts include \$17.2 million in the third quarter of 2018 and \$14.6 million in the third quarter of 2017.

for maintenance capital requirements for continuing operations. Investment in capital expenditures was \$55.2 million for the first nine months of 2018, compared with \$38.0 million for the first nine months of 2017. These amounts include \$46.2 million in the first nine months of 2018 and \$32.2 million in first nine months of 2017 for maintenance capital requirements. Chemtrade expects to incur between \$80.0 million and \$90.0 million of maintenance capital expenditures during 2018.

Non-maintenance capital expenditures were \$4.5 million during the third quarter of 2018, compared with \$1.5 million during the third quarter of 2017. Investment in non-maintenance capital expenditures was \$9.0 million during the first nine months of 2018, compared with \$5.8 million during the first nine 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 September 30, 2018, Chemtrade's Credit Facilities were comprised of a \$419.5 million (US\$325.0 million) five year term loan and a \$677.7 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\$200.0 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 decrease in borrowings on the revolving portion of the Credit Facilities of \$52.1 million and a net increase in borrowings on the revolving portion of the Credit Facilities of \$61.6 million during the third quarter and first nine months of 2018, respectively, compared to a decrease of \$32.5 million and an increase of \$157.4 million during the third quarter and first nine months of 2017, respectively. During the first nine 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 first nine months 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 nine months ended September 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 September 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 September 30, 2018, Chemtrade had net cash balances of \$8.8 million and working capital of \$19.2 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 September 30, 2018, Chemtrade had Credit Facilities of approximately \$1.1 billion (US\$850.0 million), consisting of a \$419.5 million (US\$325.0 million) five year term loan and a \$677.7 million (US\$525.0 million) revolving credit facility. These credit facilities are due March 2023. At September 30, 2018, the entire term loan was outstanding and \$227.6 million was drawn on the revolving credit facility. Additionally, Chemtrade had committed a total of \$20.7 million of its revolving credit facility towards standby letters of credit.

At September 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 \$627.1 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 September 30, 2018, Chemtrade was compliant with all debt covenants contained in its credit agreements.

Summary of Quarterly Results

(\$ millions)	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Revenue from continuing operations	\$ 418.2	\$ 405.3	\$ 381.5	\$ 386.7	\$ 400.5	\$ 407.4	\$ 274.6	\$ 251.7
Cost of sales and services	(354.4)	(366.4)	(336.0)	(346.8)	(341.5)	(347.9)	(241.9)	(228.5)
Gross profit	63.8	38.9	45.5	39.9	59.0	59.5	32.6	23.3
Selling and administrative expenses:								
Unrealized foreign exchange gain (loss)	3.1	(2.1)	(0.1)	(1.7)	(0.4)	(1.8)	1.8	(3.9)
LTIP	(2.7)	(2.0)	0.8	(1.6)	(3.4)	(2.1)	(1.8)	(1.4)
Other	(52.5)	(89.6)	(26.5)	(32.8)	(26.4)	(23.5)	(25.1)	(24.6)
Total selling and administrative expenses	(52.1)	(93.7)	(25.8)	(36.2)	(30.2)	(27.4)	(25.1)	(29.9)
Operating income (loss)	11.7	(54.8)	19.6	3.7	28.8	32.1	7.5	(6.7)
Net finance costs:								
Mark-to-market on debentures	4.0	5.0	0.8	(1.7)	0.5	4.1	(0.8)	(1.1)
Debt issuance and extinguishment costs	—	(7.4)	—	(1.1)	(0.5)	(11.7)	(5.5)	—
Other	(17.1)	(17.7)	(16.4)	(16.9)	(19.2)	(19.6)	(13.7)	(11.8)
Total net finance costs	(13.1)	(20.1)	(15.7)	(19.7)	(19.2)	(27.2)	(20.0)	(12.9)
Income tax recovery	10.6	24.5	2.9	61.5	12.8	5.3	13.2	26.0
Net earnings (loss) from continuing operations	9.2	(50.4)	6.9	45.5	22.4	10.3	0.7	6.4
Net earnings (loss) from discontinued operations	—	—	—	1.0	—	67.0	0.6	(15.3)
Net earnings (loss)	\$ 9.2	\$ (50.4)	\$ 6.9	\$ 46.4	\$ 22.4	\$ 77.3	\$ 1.3	\$ (8.9)

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

Revenue and Gross Profit

Beginning March 10, 2017, results include the impact of the businesses acquired in 2017, resulting in an increase in revenue and gross profit, partially offset by weaker results in the SPPC and WSSC segment. Gross profit during the fourth quarter of 2017 was negatively affected by the recurrence of an operating issue at the North Vancouver chlor-alkali plant that resulted in an unplanned interruption of production for approximately two weeks in the EC segment. Gross profit was also negatively affected during the second quarter of 2018 when this facility took an extended maintenance turnaround to permanently repair the affected equipment. 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 acquired businesses. Other selling and administrative expense were high during the third and second quarters of 2018 due to the \$35.0 million and \$65.0 million of legal proceedings reserve expensed in the respective periods (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 Canexus. 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 includes debt extinguishment costs resulting from the repayment of the credit facilities of \$5.5 million. 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 recovery was high in the third and second quarter of 2018 primarily as a result of the reserve for legal proceedings. Income tax recovery was 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 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 November 5, 2018 and September 30, 2018, the following common units and securities convertible into units of the Fund were issued and outstanding:

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

⁽¹⁾ Convertible at \$28.00 per unit

⁽²⁾ Convertible at \$24.85 per unit

⁽³⁾ Convertible at \$26.70 per unit

Contractual Obligations

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

Contractual Obligations (\$'000)	Total	Less Than			
		1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	\$ 647,099	\$ —	\$ —	\$ 647,099	\$ —
Debentures	630,095	—	210,511	218,334	201,250
Purchase commitments	141,985	43,921	37,041	28,899	32,124
Interest on debentures	134,870	33,277	61,113	34,107	6,373
Operating leases	172,205	50,625	68,910	35,085	17,585
Interest on long-term debt	117,522	26,446	52,892	38,184	—
Total contractual obligations	\$ 1,843,776	\$ 154,269	\$ 430,467	\$ 1,001,708	\$ 257,332

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. Chemtrade settled the main class action civil lawsuit in October 2018, although the settlement remains subject to interim and final court approval. During the third and second quarters of 2018, Chemtrade recorded a

provision of \$35.0 million and \$65.0 million, respectively, with respect to the civil actions. It is possible that actual damages and costs of resolving the civil lawsuits 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 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 September 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 September 30, 2018. There have been no changes to the design of internal controls over financial reporting that occurred during the three and nine months ended September 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.

November 8, 2018

CHEMTRADE LOGISTICS INCOME FUND

Condensed Consolidated Interim Statements of Financial Position

(In thousands of Canadian dollars)

(Unaudited)

	Notes	September 30, 2018	December 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents		\$ 8,829	\$ 10,372
Trade and other receivables		194,797	215,149
Inventories		129,870	121,630
Income taxes receivable		4,750	1,609
Prepaid expenses and other assets	14	7,506	3,402
Total current assets		345,752	352,162
Non-current assets			
Property, plant and equipment		1,216,007	1,261,921
Other assets		12,227	14,625
Intangible assets		1,233,345	1,268,606
Deferred tax assets		73,836	86,014
Total non-current assets		2,535,415	2,631,166
Total assets		2,881,167	2,983,328
LIABILITIES AND UNITHOLDERS' EQUITY			
Current liabilities			
Trade and other payables	14	\$ 200,018	\$ 230,357
Distributions payable		9,257	9,257
Provisions	10	117,721	12,742
Current portion of long-term debt	6	—	3,930
Total current liabilities		326,996	256,286
Non-current liabilities			
Long-term debt	6	642,794	642,144
Convertible unsecured subordinated debentures	7	627,078	640,689
Other long-term liabilities		18,957	20,828
Employee benefits		53,241	62,518
Provisions		113,669	120,790
Deferred tax liabilities		42,991	91,420
Total non-current liabilities		1,498,730	1,578,389
Total liabilities		1,825,726	1,834,675
Unitholders' equity			
Units	8	1,461,995	1,461,995
Contributed surplus		9,720	9,720
Deficit		(535,653)	(453,425)
Accumulated other comprehensive income		119,379	130,363
Total unitholders' equity		1,055,441	1,148,653
Total liabilities and unitholders' equity		\$ 2,881,167	\$ 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)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2018	2017	2018	2017
Revenue		\$ 418,194	\$ 400,504	\$ 1,204,947	\$ 1,082,469
Cost of sales and services	12	(354,425)	(341,479)	(1,056,796)	(931,301)
Gross profit		63,769	59,025	148,151	151,168
Selling and administrative expenses	10,12	(52,110)	(30,212)	(171,652)	(82,679)
Operating income (loss)		11,659	28,813	(23,501)	68,489
Net finance costs	11	(13,092)	(19,154)	(48,863)	(66,352)
(Loss) earnings before income tax		(1,433)	9,659	(72,364)	2,137
Income tax (expense) recovery	13				
Current		(1,525)	(2,416)	(5,388)	(4,845)
Deferred		12,152	15,170	43,420	36,073
		10,627	12,754	38,032	31,228
Net earnings (loss) from continuing operations		9,194	22,413	(34,332)	33,365
Net earnings from discontinued operations	5	—	—	—	67,555
Net earnings (loss)		\$ 9,194	\$ 22,413	\$ (34,332)	\$ 100,920
Other comprehensive (loss) income					
Items that may subsequently be reclassified to earnings:					
Gain (loss) on net investment hedge of foreign operations net of tax expense of nil and \$3,561 (2017 - nil and recovery of \$2,429)	14	4,174	6,715	(6,010)	14,535
Foreign currency translation differences for foreign operations, net of tax recovery of \$854 and net of tax expense of \$1,279 (2017 - recovery of \$1,902 and \$3,610)		(15,673)	(28,048)	22,942	(101,002)
Effective portion of change in the fair value of cash flow hedges, net of tax recovery of \$149 and expense of \$71 (2017 - expense of \$127 and \$648)	14	(406)	(1,289)	193	(2,841)
Items that will not be reclassified to earnings:					
Defined benefit plan adjustments net of tax expense of \$444 and \$1,765 (2017 - nil and nil)		1,203	—	4,778	—
Change in fair value of convertible debentures due to credit risk, net of tax recovery of \$3,975 and net of tax expense of \$1,288 (2017 - nil and nil)	3	(1,098)	—	2,554	—
Other comprehensive (loss) income		(11,800)	(22,622)	24,457	(89,308)
Total comprehensive (loss) income		\$ (2,606)	\$ (209)	\$ (9,875)	\$ 11,612
Net earnings (loss) per unit	8				
Basic net earnings (loss) per unit		\$ 0.10	\$ 0.24	\$ (0.37)	\$ 1.16
Diluted net earnings (loss) per unit		\$ 0.10	\$ 0.24	\$ (0.37)	\$ 1.10
Net earnings (loss) per unit from continuing operations					
Basic net earnings (loss) per unit		\$ 0.10	\$ 0.24	\$ (0.37)	\$ 0.39
Diluted net earnings (loss) per unit		\$ 0.10	\$ 0.24	\$ (0.37)	\$ 0.39

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
Balance at January 1, 2018		\$ 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		—	—	(34,332)	—	—	—	(34,332)
Other comprehensive income		—	—	4,778	22,942	(5,817)	2,554	24,457
Distributions	8	—	—	(83,337)	—	—	—	(83,337)
Balance at September 30, 2018		\$ 1,461,995	\$ 9,720	\$ (535,653)	\$ 161,053	\$ (13,565)	\$ (28,109)	\$ 1,055,441

	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
Balance at January 1, 2017		\$ 1,048,738	\$ 9,720	\$ (507,453)	\$ 224,693	\$ (6,643)	\$ —	\$ 769,055
Net earnings		—	—	100,920	—	—	—	100,920
Other comprehensive loss		—	—	—	(101,002)	11,694	—	(89,308)
Distributions	8	—	—	(78,655)	—	—	—	(78,655)
Issuance of units	8	413,257	—	—	—	—	—	413,257
Balance at September 30, 2017		\$ 1,461,995	\$ 9,720	\$ (485,188)	\$ 123,691	\$ 5,051	\$ —	\$ 1,115,269

*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)

		<u>Three months ended</u>		<u>Nine months ended</u>	
		<u>September 30,</u>		<u>September 30,</u>	
	Note	2018	2017	2018	2017
Cash flows from operating activities:					
Net earnings (loss)		\$ 9,194	\$ 22,413	\$ (34,332)	\$ 100,920
Adjustments for:					
Depreciation and amortization	12	53,596	52,411	160,667	148,983
(Gain) loss on disposal and write-down of assets		(8,413)	282	(5,070)	(12,792)
Cumulative foreign exchange gain on sale of discontinued operations	5	—	—	—	(48,950)
Income tax recovery		(10,627)	(12,754)	(38,032)	(30,160)
Net interest costs		15,560	17,889	46,378	56,437
Accretion expense		1,011	1,044	3,373	3,015
Net pension interest		497	734	1,465	2,191
Debt extinguishment costs including realized foreign exchange loss		—	—	7,417	8,540
Change in fair value of convertible unsecured subordinated debentures	7	(3,976)	(513)	(9,770)	(3,810)
Unrealized foreign exchange (gain) loss		(3,064)	358	(870)	(33,219)
		53,778	81,864	131,226	191,155
Decrease (increase) in working capital		65,372	2,543	95,403	(38,967)
Interest paid		(14,029)	(13,293)	(53,782)	(50,250)
Interest received		85	180	293	488
Income taxes paid		(2,639)	(842)	(8,529)	(13,296)
Net cash flows from operating activities		102,567	70,452	164,611	89,130
Cash flows from investing activities:					
Additions to property, plant and equipment		(21,682)	(16,011)	(55,242)	(37,962)
Decrease in other assets		1,702	311	2,398	2,340
Proceeds from disposal of discontinued operations (net of cash disposed)	5	—	—	—	55,543
Acquisition (net of cash acquired)	4	—	—	—	(281,205)
Net cash flows used in investing activities		(19,980)	(15,700)	(52,844)	(261,284)
Cash flows from financing activities:					
Distributions to unitholders	8	(27,779)	(27,778)	(83,337)	(76,312)
Issuance of convertible debentures	7	—	—	—	201,250
Transaction costs related to the issuance of convertible debentures	7	—	(505)	—	(9,166)
Issuance of units	8	—	—	—	395,831
Share issuance costs		—	—	—	(17,167)
Repayment of term debt	6	—	(922)	(7,830)	(438,833)
Increase in term debt		—	—	—	436,118
Repayment of Canexus credit facilities		—	—	—	(262,421)
Repayment of convertible debentures	7	—	—	—	(175,468)
Net change in revolving credit facility	6	(52,105)	(32,464)	61,622	157,358
Financing transaction costs		—	(98)	(793)	(6,598)
Increase (decrease) in other long-term liabilities		1,430	4,800	(11,457)	1,731
Principal redemption of high-yield senior notes	6	—	—	(71,500)	(38,500)
Net cash flows (used in) from financing activities		(78,454)	(56,967)	(113,295)	167,823

CHEMTRADE LOGISTICS INCOME FUND

Condensed Consolidated Interim Statements of Cash Flows

(In thousands of Canadian dollars)

(Unaudited)

Increase (decrease) in cash and cash equivalents	4,133	(2,215)	(1,528)	(4,331)
Cash and cash equivalents, beginning of the period	4,697	12,665	10,372	14,742
Effect of exchange rates on cash held in foreign currencies	(1)	(204)	(15)	(165)
Cash and cash equivalents, end of the period	\$ 8,829	\$ 10,246	\$ 8,829	\$ 10,246

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 Nine months ended September 30, 2018 and 2017

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 November 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 Nine months ended September 30, 2018 and 2017

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 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 Nine months ended September 30, 2018 and 2017

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 Nine months ended September 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:

	September 30, 2018	December 31, 2017
Term bank debt		
US\$325,000 (December 31, 2017 - US\$325,000)	\$ 419,509	\$ 408,558
Revolving credit facility		
US\$169,345 (December 31, 2017 - US\$103,513)	218,589	130,124
Canadian dollar-denominated	9,000	32,553
Less: Transaction costs	(4,304)	(4,597)
Long-term debt (note (a))	\$ 642,794	\$ 566,638
Senior unsecured notes (note (b))	—	71,500
Long-term loan - Fort McMurray facility (note (c))	—	7,936
	\$ 642,794	\$ 646,074
Less: Current portion	—	(3,930)
Long-term debt	\$ 642,794	\$ 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 Nine months ended September 30, 2018 and 2017

6. LONG-TERM DEBT (continued):

(a) Long-term debt:

At September 30, 2018 Chemtrade had senior Credit Facilities of approximately \$1,097,180 (US \$850,000), consisting of a term loan of \$419,510 (US\$325,000), and a revolving credit facility of \$677,670 (US\$525,000). At September 30, 2018, Chemtrade had drawn \$227,589 (December 31, 2017 - \$162,677) on the revolving portion of the Credit Facilities and had committed a total of \$20,676 (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 September 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 Credit Facilities were used to repay its then 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 September 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 Nine months ended September 30, 2018 and 2017

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.

CHEMTRADE LOGISTICS INCOME FUND

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

Three and Nine months ended September 30, 2018 and 2017

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 the Fund's 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 September 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

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7. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES (continued):

incurred transaction costs of approximately \$505. These are included in finance costs in comprehensive income.

Chemtrade has designated its Debentures as financial liabilities at fair value through profit or loss. At September 30, 2018, the fair value of the Debentures was \$627,078 (December 31, 2017 - \$640,689).

For the three and nine months ended September 30, 2018, there were net finance costs of \$4,478 and \$15,200, respectively (2017 - \$8,380 and \$28,666, respectively) related to the Debentures, which included a gain of \$3,976 and \$9,770, respectively (2017 - gain of \$513 and \$3,810, respectively) related to the change in fair value of the Debentures and interest expense of \$8,454 and \$24,970, respectively (2017 - \$8,388 and \$23,310, respectively). For the three and nine months ended September 30, 2017, net finance costs include transaction costs of \$505 and \$9,166, respectively, related to the issuance of the Fund 2017 4.75% Debentures.

For the three and nine months ended September 30, 2018, Chemtrade also recorded a loss of \$5,073 and a gain of \$3,842, 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 September 30, 2018 and December 31, 2017:

	Fund 2014 5.25% Debentures	Fund 2016 5.00% Debentures	Fund 2017 4.75% Debentures	CEI Series V Debentures	CEI Series VI Debentures
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 – September 30	92,596,006	\$ 1,461,995	92,596,006	\$ 1,461,995

(b) Distributions:

Distributions paid for the three and nine months ended September 30, 2018 were \$27,779 and \$83,337, respectively (2017 - \$27,778 and \$76,312, respectively) or \$0.30 and \$0.90 per unit, respectively (2017 - \$0.30 and \$0.90 per unit, respectively). All of Chemtrade's distributions are discretionary and subject to approval by the Board of Trustees.

(c) Net earnings (loss) per unit:

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

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

(i) Earnings (Loss) per unit:

	<u>Three months ended</u> <u>September 30,</u>		<u>Nine months ended</u> <u>September 30,</u>	
	2018	2017	2018	2017
Numerator				
Net earnings (loss)	\$ 9,194	\$ 22,413	\$ (34,332)	\$ 100,920
Net finance costs on convertible unsecured subordinated debentures ⁽¹⁾	—	—	—	13,302
Diluted net earnings (loss)	\$ 9,194	\$ 22,413	\$ (34,332)	\$ 114,222

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

	<u>Three months ended</u> <u>September 30,</u>		<u>Nine months ended</u> <u>September 30,</u>	
	2018	2017	2018	2017
Denominator				
Weighted average number of units	92,596,006	92,596,006	92,596,006	86,660,662
Weighted average convertible unsecured subordinated debenture dilutive units ⁽¹⁾	—	—	—	16,928,545
Weighted average number of diluted units	92,596,006	92,596,006	92,596,006	103,589,207

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

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

	<u>Three months ended</u> <u>September 30,</u>		<u>Nine months ended</u> <u>September 30,</u>	
	2018	2017	2018	2017
Numerator				
Net earnings (loss) from continuing operations	\$ 9,194	\$ 22,413	\$ (34,332)	\$ 33,365
Net interest and fair value adjustment on convertible unsecured subordinated debentures ⁽¹⁾	—	—	—	—
Diluted net earnings (loss) from continued operations	\$ 9,194	\$ 22,413	\$ (34,332)	\$ 33,365

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

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

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	2018	2017	2018	2017
Denominator				
Weighted average number of units	92,596,006	92,596,006	92,596,006	86,660,662
Weighted average convertible unsecured subordinated debenture dilutive units ⁽¹⁾	—	—	—	—
Weighted average number of diluted units	92,596,006	92,596,006	92,596,006	86,660,662

⁽¹⁾ For the three and nine months ended September 30, 2018 and 2017, the potential conversion of the convertible unsecured subordinated debentures has not been included as the effect on net earnings (loss) 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 September 30, 2018, a liability of \$13,970 (December 31, 2017 - \$16,025) has been recorded, of which \$6,200 (December 31, 2017 - \$6,260) is included in trade and other payables and \$7,770 (December 31, 2017 - \$9,765) is included in other long-term liabilities. For the three and nine months ended September 30, 2018, Chemtrade recorded expense of \$2,658 and \$3,861 (2017 - expense of \$3,425 and \$7,250, 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:

	September 30, 2018	December 31, 2017
Chemtrade units:		
Average base price	\$17.20	\$18.19
Period-end unit price	\$15.47	\$19.40
Average expected volatility	20.36%	16.27%
Index units:		
Average base price	\$133.35	\$168.70
Period-end unit price	\$164.83	\$217.08
Average expected volatility	7.19%	7.96%
Average risk free interest rate	1.96%	1.38%
Average expected remaining term	1.25 years	1.50 years

10. SELLING AND ADMINISTRATIVE EXPENSES:

The components of selling and administrative expenses are as follows:

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	2018	2017	2018	2017
Wages, salaries and benefits, including bonuses and other ⁽¹⁾	\$ 50,666	\$ 25,418	\$ 163,825	\$ 70,435
Share-based payments (note 9)	2,658	3,425	3,861	7,250
Realized foreign exchange loss	1,303	627	3,475	3,578
Unrealized foreign exchange (gain) loss	(3,064)	356	(870)	319
Depreciation	547	386	1,361	1,097
Selling and administrative expenses	\$ 52,110	\$ 30,212	\$ 171,652	\$ 82,679

⁽¹⁾ Results for the three and nine months ended September 30, 2018 include a \$35,000, or \$0.38 per unit, and a \$100,000, or \$1.08 per unit, expense related to a legal provision, discussed below.

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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. In October 2018, Chemtrade reached a settlement with the plaintiffs of the main class action civil lawsuit pursuant to which it will pay US\$51,000 (CAD\$65,831) and assign the proceeds, net of defence costs, of the outcome of the indemnity dispute. The settlement remains subject to interim and final court approval.

Selling and administrative expenses for the three and nine months ended September 30, 2018 include an expense of \$35,000 and \$100,000, respectively, which represents a reserve for the costs of litigating and resolving all of the civil actions commenced against General Chemical (which was acquired by Chemtrade) and various other defendants for anti-competitive actions in the water business, including the settled lawsuit referred to above. 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>Nine months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	2018	2017	2018	2017
Interest expense	\$ 16,141	\$ 18,298	\$ 48,135	\$ 49,907
Accretion expense	1,011	1,044	3,373	3,015
Debt extinguishment costs (note 6)	—	—	7,417	8,540
Transaction costs on issuance of convertible debentures (note 7)	—	505	—	9,166
Change in the fair value of convertible debentures (note 7)	(3,976)	(513)	(9,770)	(3,810)
Interest income	(84)	(180)	(292)	(466)
Net finance costs	\$ 13,092	\$ 19,154	\$ 48,863	\$ 66,352

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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>Nine months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	2018	2017	2018	2017
Cost of sales and services:				
Depreciation expense	\$ 34,459	\$ 30,875	\$ 103,582	\$ 94,641
Amortization expense	18,590	21,150	55,724	53,214
Selling and administrative expenses:				
Depreciation expense	547	386	1,361	1,128
Total depreciation and amortization expense	\$ 53,596	\$ 52,411	\$ 160,667	\$ 148,983

For the three and nine months ended September 30, 2017, Chemtrade recorded total depreciation and amortization expenses of nil 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 nine months ended September 30, 2018 were 741.5% and 52.6%, respectively. (2017 - negative 132.0% and 1,461.3%, respectively), compared to a statutory rate of 26.9% (2017 - 26.6%).

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13. INCOME TAXES (continued):

The effective tax rates for the third quarter and the first nine 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.

14. FINANCIAL INSTRUMENTS:

(a) Derivatives and hedging:

	September 30, 2018			December 31, 2017		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Asset	Liability		Asset	Liability
Derivatives designated in a formal hedging relationship						
Interest rate swaps	US\$ 325,000	\$ 1,036	\$ —	US\$ 325,000	\$ 772	—
Derivatives not designated in a formal hedging relationship						
Foreign exchange contracts ⁽¹⁾	—	—	829	—	898	—
Total		\$ 1,036	\$ 829		\$ 1,670	\$ —

⁽¹⁾ See below for notional amounts.

On September 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 nine months ended September 30, 2018, a foreign exchange gain of \$4,174 and a foreign exchange loss of \$2,449, respectively (2017 - gain of \$6,715 and \$12,106, 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

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14. FINANCIAL INSTRUMENTS (continued):

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.

Contracts in place at September 30, 2018 include future contracts to sell the following amounts for periods through to March 31, 2020:

Amount	Weighted average exchange rate
US\$99,729	\$1.28

(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.

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14. FINANCIAL INSTRUMENTS (continued):

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

The 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.

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15. BUSINESS SEGMENTS (continued):

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.

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 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 September 30, 2018

	SPPC	WSSC	EC	Corp	Total
Revenue	\$ 129,572	\$ 116,601	\$ 172,021	\$ —	\$ 418,194
Inter-segment revenues	5,647	—	564	—	6,211
Operating income (loss)	12,639	10,946	34,704	(46,630)	11,659
Net finance costs	(3,659)	(4,642)	(3,659)	(1,132)	(13,092)
Income tax recovery (expense)	2,176	6,568	(3,556)	5,439	10,627
Net earnings (loss)	11,156	12,872	27,489	(42,323)	9,194
Capital expenditures	6,476	6,927	8,049	230	21,682
Depreciation and amortization	18,011	13,168	22,417	—	53,596
Gain on disposal and write-down of assets	(8,413)	—	—	—	(8,413)

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15. BUSINESS SEGMENTS (continued):

Three months ended September 30, 2017

	SPPC	WSSC	EC	Corp	Total
Revenue	\$ 125,639	\$ 103,055	\$ 171,810	\$ —	\$ 400,504
Inter-segment revenues	5,029	—	—	—	5,029
Operating income (loss)	7,409	8,391	33,241	(20,228)	28,813
Net finance costs	(4,275)	(5,103)	(2,145)	(7,631)	(19,154)
Income tax recovery (expense)	6,887	8,966	(3,552)	453	12,754
Net earnings (loss)	10,021	12,254	27,544	(27,406)	22,413
Capital expenditures	5,444	4,601	5,806	160	16,011
Depreciation and amortization	17,524	12,698	22,189	—	52,411
Loss on disposal and write-down of assets	282	—	—	—	282

Nine Months Ended September 30, 2018

	SPPC	WSSC	EC	Corp	Total
Revenue	\$ 380,683	\$ 327,869	\$ 496,395	\$ —	\$ 1,204,947
Inter-segment revenues	13,315	—	2,187	—	15,502
Operating income (loss)	19,728	26,765	79,691	(149,685)	(23,501)
Net finance costs	(10,139)	(12,776)	(17,394)	(8,554)	(48,863)
Income tax recovery (expense)	11,161	18,079	(11,442)	20,234	38,032
Net earnings (loss)	20,750	32,068	50,855	(138,005)	(34,332)
Capital expenditures	15,634	15,408	23,227	973	55,242
Depreciation and amortization	54,506	38,606	67,555	—	160,667
Gain on disposal and write-down of assets	(5,070)	—	—	—	(5,070)

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15. BUSINESS SEGMENTS (continued):

Nine months ended September 30, 2017

	SPPC	WSSC	EC	Intl	Corp	Total
Revenue	\$ 380,361	\$ 316,761	\$ 385,347	\$ —	\$ —	\$ 1,082,469
Inter-segment revenues	15,431	—	—	—	—	15,431
Operating income (loss)	32,515	34,284	52,680	—	(50,990)	68,489
Net finance costs	(15,512)	(15,075)	(12,407)	—	(23,358)	(66,352)
Income tax recovery (expense)	16,688	23,337	(8,271)	—	(526)	31,228
Net earnings from discontinued operations	—	—	—	67,555	—	67,555
Net earnings (loss)	33,691	42,546	32,002	67,555	(74,874)	100,920
Capital expenditures	11,146	12,806	12,743	169	1,098	37,962
Depreciation and amortization	55,634	39,559	53,374	416	—	148,983
Loss (gain) on disposal and write-down of assets	418	25	3,903	(17,138)	—	(12,792)

September 30, 2018

	SPPC	WSSC	EC	Corp	Total
Total assets	\$ 995,225	\$ 896,219	\$ 969,132	\$ 20,591	\$ 2,881,167
Total liabilities	439,878	540,896	286,878	558,074	1,825,726
Intangible assets	420,849	532,697	279,799	—	1,233,345

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 Nine months ended September 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

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	2018	2017	2018	2017
Canada	\$ 132,116	\$ 125,830	\$ 381,193	\$ 316,565
United States	265,045	249,899	758,050	708,527
South America	21,033	24,775	65,704	57,377
	\$ 418,194	\$ 400,504	\$ 1,204,947	\$ 1,082,469

Property, plant and equipment, and intangible assets

	September 30, 2018	December 31, 2017
Canada	\$ 998,744	\$ 1,051,768
United States	1,303,243	1,325,394
South America	147,365	153,365
	\$ 2,449,352	\$ 2,530,527

16. SUBSEQUENT EVENT

In October 2018, Chemtrade reached a settlement with the plaintiffs of the main class action civil lawsuit pursuant to which it will pay US\$51,000 (CAD\$65,831) and assign the proceeds, net of defence costs, of the outcome of the indemnity dispute. The settlement remains subject to interim and final court approval. (see *Note 10 - Selling and Administrative Expenses*).

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

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