

2018 | Annual Report

2018 AR

Chemtrade Logistics Income Fund

## Corporate Profile

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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 and phosphorus pentasulphide. Chemtrade is a leading regional supplier of sulphur, chlor-alkali products, liquid sulphur dioxide, potassium chloride, sodium hydrosulphite and zinc oxide. Additionally, Chemtrade provides industrial services such as processing by-products and waste streams.

[Visit our website](#)

Chemtrade's Website – **chemtradelogistics.com** – is our primary medium for communicating with our unitholders. The site is regularly updated with news releases concerning distributions, financial results and other important developments and presentations such as our annual meeting presentation. An electronic copy of this report is available on the website.



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**CHEMTRADE LOGISTICS INCOME FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 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 refers to Chemtrade. This MD&A should be read in conjunction with the audited consolidated financial statements of Chemtrade for the year ended December 31, 2018.

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 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 amount of any long-term incentive compensation; 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 effect of changes in the price and volume of certain products (sodium chlorate, chlor-alkali and sulphuric acid) and in the price of certain key inputs (electricity, salt and sulphur); the adoption and timing of certain accounting rules and their anticipated effect, including the amount of lease liabilities; the effectiveness of internal controls; 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"). Results for the year ended December 31, 2017 include less than ten months of results from the acquired businesses. Additionally, during the year ended December 31, 2017, \$3.4 million 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 had 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 year ended December 31, 2017, revenues from the International segment were \$41.9 million, EBITDA was \$3.0 million and earnings from operating activities were \$3.3 million.

## Financial Highlights

These financial highlights have been presented in accordance with IFRS.

(\$'000 except per unit amounts)	<u>Three months ended</u>			<u>Year ended</u>		
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2016	(As recast)
Revenue from continuing operations	\$ 390,800	\$ 386,669	\$ 1,595,747	\$ 1,469,138	\$ 1,067,256	
Net (loss) earnings <sup>(1)(2)</sup>	\$ (97,185)	\$ 46,439	\$ (131,517)	\$ 147,359	\$ 4,744	
Net (loss) earnings from continuing operations <sup>(1)(2)</sup>	\$ (97,185)	\$ 45,457	\$ (131,517)	\$ 78,822	\$ 16,209	
Net (loss) earnings per unit <sup>(1)(2)</sup>	\$ (1.05)	\$ 0.50	\$ (1.42)	\$ 1.67	\$ 0.07	
Net (loss) earnings per unit from continuing operations <sup>(1)(2)</sup>	\$ (1.05)	\$ 0.49	\$ (1.42)	\$ 0.89	\$ 0.23	
Diluted net (loss) earnings per unit <sup>(1)(2)</sup>	\$ (1.05)	\$ 0.45	\$ (1.42)	\$ 1.53	\$ 0.07	
Diluted net (loss) earnings per unit from continuing operations <sup>(1)(2)</sup>	\$ (1.05)	\$ 0.49	\$ (1.42)	\$ 0.89	\$ 0.23	
Total assets	\$ 2,877,088	\$ 2,983,328	\$ 2,877,088	\$ 2,983,328	\$ 2,162,072	
Current portion of long-term debt	\$ —	\$ 3,930	\$ —	\$ 3,930	\$ 3,654	
Long-term debt	\$ 689,014	\$ 642,144	\$ 689,014	\$ 642,144	\$ 451,526	
Convertible unsecured subordinated debentures	\$ 579,219	\$ 640,689	\$ 579,219	\$ 640,689	\$ 392,389	
Adjusted EBITDA from continuing operations <sup>(1)(4)</sup>	\$ 64,997	\$ 61,454	\$ 196,223	\$ 283,175	\$ 200,506	
Adjusted EBITDA per unit from continuing operations <sup>(1)(4)(5)</sup>	\$ 0.70	\$ 0.66	\$ 2.12	\$ 3.21	\$ 2.90	
Cash flows from operating activities	\$ 79,853	\$ 62,168	\$ 244,464	\$ 151,298	\$ 153,009	
Cash flows from operating activities per unit <sup>(5)</sup>	\$ 0.86	\$ 0.67	\$ 2.64	\$ 1.72	\$ 2.21	
Adjusted cash flows from operating activities from continuing operations <sup>(1)(2)(3)(4)</sup>	\$ 48,748	\$ 41,429	\$ 119,328	\$ 187,543	\$ 144,485	
Adjusted cash flows from operating activities per unit from continuing operations <sup>(1)(2)(3)(4)(5)</sup>	\$ 0.53	\$ 0.45	\$ 1.29	\$ 2.13	\$ 2.09	
Distributable cash after maintenance capital expenditures from continuing operations <sup>(1)(2)(3)(4)</sup>	\$ 17,274	\$ 6,691	\$ 41,638	\$ 120,828	\$ 99,742	
Distributable cash after maintenance capital expenditures per unit from continuing operations <sup>(1)(2)(3)(4)(5)</sup>	\$ 0.19	\$ 0.07	\$ 0.45	\$ 1.37	\$ 1.44	
Distributions declared	\$ 27,779	\$ 27,779	\$ 111,116	\$ 106,434	\$ 82,921	
Distributions declared per unit <sup>(6)</sup>	\$ 0.30	\$ 0.30	\$ 1.20	\$ 1.20	\$ 1.20	
Distributions paid	\$ 27,779	\$ 27,779	\$ 111,116	\$ 104,091	\$ 82,912	
Distributions paid per unit <sup>(6)</sup>	\$ 0.30	\$ 0.30	\$ 1.20	\$ 1.20	\$ 1.20	

<sup>(1)</sup> Results for the fourth quarter and year ended December 31, 2018 include a goodwill impairment charge of \$90,000, or \$0.97 per unit. See **Goodwill Impairment**. Results for the year ended December 31, 2018 includes a \$100,000, or \$1.08 per unit, expense related to a legal provision. See **Reserve for Legal Proceedings**. Results for the year ended December 31, 2017 include severances, accrual for an onerous lease, and transaction costs related to the Acquisition of \$18.557 or \$0.21 per unit. See **Recent Acquisitions and Divestitures**.

<sup>(2)</sup> Results for the year ended December 31, 2018 include a premium related to the repayment of certain outstanding debt of \$7,417, or \$0.08 per unit. See **Net Finance Costs**.

<sup>(3)</sup> Results for the year ended December 31, 2017 include \$18,292 or \$0.25 per unit of foreign exchange loss realized on the repayment of long-term debt.

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

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

92,596,006      92,596,006      92,596,006      88,156,694      69,096,753

<sup>(6)</sup> Based on actual number of units outstanding on record date.

## Non-IFRS Measures

### EBITDA and Adjusted EBITDA -

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

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

(\$'000)	<u>Three months ended</u>		<u>Year ended</u>		
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2016
	(As recast)				
Net (loss) earnings from continuing operations	\$ (97,185)	\$ 45,457	\$ (131,517)	\$ 78,822	\$ 16,209
Add:					
Depreciation and amortization	53,840	55,880	214,507	204,447	146,228
Net finance costs	25,263	19,721	74,126	86,073	62,751
Income tax recovery	(10,648)	(61,464)	(48,680)	(92,692)	(75,002)
EBITDA from continuing operations	(28,730)	59,594	108,436	276,650	150,186
Add:					
Impairment of goodwill	90,000	—	90,000	—	3,143
Loss (gain) on disposal and write-down of assets	1,031	152	(4,039)	4,498	55,824
Unrealized foreign exchange loss (gain)	2,696	1,708	1,826	2,027	(8,647)
Adjusted EBITDA from continuing operations	\$ 64,997	\$ 61,454	\$ 196,223	\$ 283,175	\$ 200,506

### 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>Year ended</u>		
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2016
Cash flow from operating activities	79,853	\$ 62,168	244,464	\$ 151,298	\$ 153,009
Less:					
Cash flow (used in) from operating activities of discontinued operations	—	—	—	(3,809)	4,756
Cash flow from operating activities of continuing operations	79,853	62,168	244,464	155,107	148,253
Add:					
Changes in non-cash working capital and other items	(31,105)	(20,739)	(125,136)	32,436	(3,768)
<b>Adjusted cash flows from operating activities of continuing operations</b>	<b>48,748</b>	<b>41,429</b>	<b>119,328</b>	<b>187,543</b>	<b>144,485</b>
Less:					
Maintenance capital expenditure	31,474	34,738	77,690	66,715	44,743
<b>Distributable cash after maintenance capital expenditure from continuing operations</b>	<b>17,274</b>	<b>6,691</b>	<b>41,638</b>	<b>120,828</b>	<b>99,742</b>
Less:					
Non-maintenance capital expenditure <sup>(1)</sup>	5,650	2,243	14,676	8,060	11,554
<b>Distributable cash after all capital expenditure from continuing operations</b>	<b>11,624</b>	<b>\$ 4,448</b>	<b>26,962</b>	<b>\$ 112,768</b>	<b>\$ 88,188</b>

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

## Consolidated Operating Results

### 2018 vs 2017

Consolidated revenue from continuing operations for the fourth quarter of 2018 was \$390.8 million, which was \$4.1 million higher than revenue for the fourth quarter of 2017. The primary reason for the increase in revenue was higher sales volumes and higher selling prices for water solutions products. On a year-to-date basis, revenue was \$1,595.7 million, which was \$126.6 million higher than revenue for the same period of 2017, mainly due to revenue from CEI and its subsidiaries. 2018 includes a full twelve months of results from the acquired businesses in the Electrochemicals ("EC") segment, whereas 2017 includes less than ten months of results.

Chemtrade's Adjusted EBITDA for the fourth quarter and year ended December 31, 2018 was \$3.5 million higher and \$87.0 million lower, respectively, than the Adjusted EBITDA for the same periods of 2017. The increase in Adjusted EBITDA for the fourth quarter was primarily due to lower corporate costs, partially offset by lower Adjusted EBITDA for the Sulphur Products and Performance Chemicals ("SPPC") and the Water Solutions and Specialty Chemicals ("WSSC") segments. The decrease in Adjusted EBITDA for the year ended December 31, 2018 was primarily due to the legal proceedings reserve related to anti-competitive conduct for which Chemtrade recorded a \$100.0 million

expense during 2018 (See **Reserve for Legal Proceedings**) and lower Adjusted EBITDA for the SPPC and WSSC segments. This was partially offset by higher Adjusted EBITDA from the acquired businesses in the EC segment.

Net earnings from continuing operations for the fourth quarter and year ended December 31, 2018 were lower than net earnings from continuing operations of the comparative periods of 2017 by \$142.6 million and \$210.3 million, respectively. The fourth quarter and year ended December 31, 2018 net earnings include a \$90.0 million impairment of goodwill for water treatment products (see **Goodwill Impairment**).

Net finance costs for the fourth quarter of 2018 were higher than the same period of 2017 by \$5.5 million. For the year ended December 31, 2018 net finance costs were lower than the same period of 2017 by \$11.9 million. Net finance costs in 2017 and 2018 were affected by several financing activities. During 2017, one 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**).

Unrealized foreign exchange losses were \$2.7 million in the fourth quarter of 2018 compared with \$1.7 million in the fourth quarter of 2017. For the year ended December 31, 2018, unrealized foreign exchange losses were \$1.8 million compared with \$2.0 million in 2017. This was a result of fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar.

Income tax recoveries for the fourth quarter and year ended December 31, 2018 were \$50.8 million and \$44.0 million lower, respectively, in 2018 relative to 2017, primarily due to a reduction in the U.S. federal corporate income tax rate ("Federal Tax Rate") as a result of the 2017 tax reform in the U.S. (see **Income Taxes**).

#### 2017 vs 2016

Consolidated revenue from continuing operations for the fourth quarter of 2017 was \$386.7 million, which was \$134.9 million higher than revenue for the fourth quarter of 2016. On a year-to-date basis, revenue was \$1,469.1 million, which was \$401.9 million higher than revenue for the same period of 2016. The increase in revenue for three months and year ended December 31, 2017 was primarily due to revenues generated by the acquired businesses in the EC segment of \$150.3 million and \$500.7 million, respectively. This was partially offset by lower revenues in the SPPC segment.

Chemtrade's Adjusted EBITDA for the fourth quarter and year ended December 31, 2017 was \$29.8 million higher and \$82.7 million higher than the Adjusted EBITDA for the same periods of 2016. This was primarily due to the Adjusted EBITDA of the acquired businesses in the EC segment for the fourth quarter and for the year ended December 31, 2017 of \$40.5 million and \$141.1 million, respectively, (see **Recent Acquisitions and Divestitures**) partially offset by lower Adjusted EBITDA for the SPPC and WSSC segments, and higher corporate costs.

Net earnings from continuing operations for the fourth quarter and year ended December 31, 2017 were higher than net earnings from continuing operations of the comparative periods of 2016 by \$39.0 million and \$62.6 million, respectively. The increase in net earnings was primarily due to the additional net earnings of the newly acquired businesses partially offset by higher depreciation and amortization.



Net finance costs for the fourth quarter of 2017 were \$6.8 million higher than the fourth quarter of 2016 primarily due to additional interest expense of \$5.2 million due to increased amounts of long-term debt and debentures outstanding compared with the 2016 period, primarily due to the Acquisition. For the year ended December 31, 2017, net finance costs were \$23.3 million higher than the same period of 2016 mainly due to additional interest expense of \$23.6 million due to increased amounts of long-term debt and debentures outstanding as a result of the Acquisition, \$6.6 million of debt extinguishment costs resulting from the repayment of credit facilities, and \$2.8 million of higher transaction costs, partially offset by an \$11.9 million decrease in finance costs due to the fair value adjustments on debentures.

Net earnings for 2016 also included a loss on write-down of assets of \$55.7 million and an impairment of intangible assets of \$3.1 million, partially offset by an income tax recovery related to these write downs.

Unrealized foreign exchange losses were \$2.2 million lower in the fourth quarter of 2017 relative to the fourth quarter of 2016. For the year ended December 31, 2017, there was an unrealized foreign exchange loss of \$2.0 million compared with an unrealized foreign exchange gain of \$8.6 million in 2016. This was driven by the fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar.

Income tax recoveries for the fourth quarter and year ended December 31, 2017 were \$35.4 million and \$17.7 million higher, respectively, in 2017 relative to 2016 primarily due to a reduction in the U.S. federal corporate income tax rate ("Federal Tax Rate") which resulted in a lower deferred tax liability.

## Results of Continuing Operations by Business Segment

### SPPC -

(\$'000)	<u>Three months ended</u>		<u>Year ended</u>	
	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Revenue	\$ 129,082	\$ 129,012	\$ 509,765	\$ 509,373
Gross profit	1,023	10,622	28,041	51,535
Adjusted EBITDA	17,254	24,325	86,418	112,892
(Loss) gain on disposal and write down of assets	(1,031)	380	4,039	(38)
EBITDA	16,223	24,705	90,457	112,854
Depreciation and amortization	(17,904)	(16,979)	(72,410)	(72,613)
Net finance costs	(3,589)	(3,164)	(13,728)	(18,676)
Income tax recovery	3,289	23,894	14,450	40,582
Net (loss) earnings	\$ (1,981)	\$ 28,456	\$ 18,769	\$ 62,147

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 fourth quarter and year ended December 31, 2018 were similar to the same periods of 2017 as higher prices for sulphuric acid offset lower sales volumes of sulphuric acid.

Gross profit for the fourth quarter of 2018 was lower than the fourth quarter of 2017 primarily due to additional plant maintenance turnarounds during 2018 relative to 2017 and a higher loss on disposal of assets. Gross profit for the year ended December 31, 2018 was lower than the comparative period of 2017 due to additional plant maintenance turnarounds and lower earnings from sodium bisulphite and sulphuric acid. This was partially offset by a higher gain on disposal of assets during the year ended December 31, 2018.

Adjusted EBITDA for the fourth quarter and year ended December 31, 2018 was \$7.1 million lower and \$26.5 million lower, respectively, than Adjusted EBITDA for the same periods of 2017. The factors described above that adversely affected gross profit also affected Adjusted EBITDA for the 2018 periods.

Net earnings for the fourth quarter and the year ended December 31, 2018 were \$30.4 million and \$43.4 million lower than net earnings for the fourth quarter and year ended December 31, 2017, respectively. This was primarily due to lower income tax recoveries and lower EBITDA in the fourth quarter and year ended December 31, 2018 compared to the same periods of 2017. For the year ended December 31, 2018, lower net earnings were partially offset by lower net finance costs compared to 2017.

#### WSSC -

(\$'000)	<u>Three months ended</u>		<u>Year ended</u>	
	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Revenue	\$ 102,442	\$ 95,174	\$ 430,311	\$ 411,935
Gross profit	(88,188)	5,634	(55,106)	50,560
Adjusted EBITDA	11,929	14,968	77,300	88,836
Impairment of goodwill	(90,000)	—	(90,000)	—
Loss on disposal and write-down of assets	—	—	—	(25)
EBITDA	(78,071)	14,968	(12,700)	88,811
Depreciation and amortization	(13,178)	(13,019)	(51,784)	(52,578)
Net finance costs	(5,100)	(4,266)	(17,876)	(19,341)
Income tax recovery	8,292	38,100	26,371	61,437
Net earnings	\$ (88,057)	\$ 35,783	\$ (55,989)	\$ 78,329

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 SPCC 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 fourth quarter and year ended December 31, 2018 were \$7.3 million and \$18.4 million higher than the same periods of 2017, respectively. The increases in revenue were primarily due to an increase in sales volumes and selling prices for water solutions products.

Gross profit for the fourth quarter and year ended December 31, 2018 was lower than the same periods of 2017. This was primarily due to impairment of goodwill recorded in the fourth quarter of 2018 for water treatment products (see **Goodwill Impairment**), and due to higher raw material and freight costs for water solutions products offsetting the benefits of higher revenues for these products.

Adjusted EBITDA for the fourth quarter and year ended December 31, 2018 was \$3.0 million and \$11.5 million lower than the same periods of 2017, respectively, due to lower gross profit as discussed above, excluding the impact of impairment of goodwill. 2018 Adjusted EBITDA included an insurance recovery of \$2.2 million.

Net earnings for the fourth quarter and year ended December 31, 2018 were \$123.8 million and \$134.3 million lower than the same periods of 2017, respectively. In addition to lower levels of Adjusted EBITDA generated in 2018 relative to 2017, net earnings were lower due to the goodwill impairment recognized during the fourth quarter of 2018. Finally, income tax recoveries in 2018 were lower than 2017.

#### EC -

(\$'000)	<u>Three months ended</u>		<u>Year ended</u>	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
North American sales volumes:				
Sodium chlorate sales volume (000's MT)	101	98	406	353
Chlor-alkali sales volume (000's MECU)	46	42	178	158
Revenue	\$ 159,276	\$ 162,483	\$ 655,671	\$ 547,830
Gross profit	25,797	23,611	113,848	88,939
Adjusted EBITDA	46,196	46,763	193,442	156,720
Loss on write-down of assets	—	(532)	—	(4,435)
EBITDA	46,196	46,231	193,442	152,285
Depreciation and amortization	(22,758)	(25,882)	(90,313)	(79,256)
Net finance costs	(1,348)	(7,111)	(18,742)	(19,518)
Income tax (expense) recovery	(4,439)	340	(15,881)	(7,931)
Net earnings	\$ 17,651	\$ 13,578	\$ 68,506	\$ 45,580

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 for the fourth quarter of 2018 was \$3.2 million lower than the same period of 2017. Revenue for the year ended December 31, 2018 was \$107.8 million higher than the same period of 2017, primarily due to results from the acquired businesses.

Gross profit for the fourth quarter was \$2.2 million higher than the same period of 2017 primarily due to higher selling prices. This was partially offset by higher input costs. Gross profit for the year ended December 31, 2018 was \$24.9 million higher, than the same period of 2017 primarily due to the inclusion of results from the acquired businesses for the whole year in 2018, whereas 2017 included less than ten months of results.

Adjusted EBITDA for the fourth quarter and year ended December 31, 2018 were similar and \$36.7 million higher, respectively, than the same periods of 2017. The increase for the year ended December 31, 2018 was primarily due to the inclusion of results of the acquired businesses for a full year. Adjusted EBITDA for the year ended December 31, 2017 also included \$4.9 million of severance expense.

Net earnings for the fourth quarter were \$4.1 million higher than the same period of 2018. This was primarily due to lower net finance costs and lower depreciation and amortization expense, which was partially offset by higher income tax expenses. For the year ended December 31, 2018 net earnings were \$23.0 million higher than the same period of 2017, as 2018 results include a full year of earnings from the acquired businesses, whereas 2017 includes less than ten months of results. Additionally, 2017 included a write-down of \$3.9 million related to the shut-down of a small sodium chlorate plant in Nanaimo, BC. This increase was partially offset by higher depreciation and amortization expense and higher income tax expenses.

#### **Corporate -**

(\$'000)	<u>Three months ended</u>		<u>Year ended</u>	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Cost of services	\$ 10,382	\$ 24,602	\$ 160,937	\$ 75,273
Adjusted EBITDA	(10,382)	(24,602)	(160,937)	(75,273)
Unrealized foreign exchange loss	(2,696)	(1,708)	(1,826)	(2,027)
EBITDA	(13,078)	(26,310)	(162,763)	(77,300)
Net finance costs	(15,226)	(5,180)	(23,780)	(28,538)
Income tax recovery (expense)	3,506	(870)	23,740	(1,396)
Net loss	\$ (24,798)	\$ (32,360)	\$ (162,803)	\$ (107,234)

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 fourth quarter and year ended December 31, 2018, corporate costs, excluding unrealized foreign exchange gains and losses, net finance costs and income taxes were \$14.2 million lower and \$85.7 million higher, respectively, than the comparative periods of 2017. Corporate costs in the fourth quarter of 2018 were lower than the same period of 2017 as 2017 included an onerous lease provision of \$8.6 million related to the former corporate office of CEI in Calgary. Also, compared to the fourth quarter of 2017, the fourth quarter of 2018 had lower Long-Term Incentive Plan ("LTIP") costs of \$4.1 million and lower incentive compensation of \$2.3 million. Corporate costs for the fourth quarter of 2018 include realized foreign exchange losses of \$1.2 million.

Corporate costs for the year ended December 31, 2018 were higher than the comparative period of 2017 primarily due to the legal proceedings reserve of \$100.0 million recorded during the period (see **Reserve for Legal Proceedings**). LTIP and incentive compensation costs in 2018 were \$17.4 million lower than 2017.

The comments on LTIP expenses relate to the 2016-2018, 2017-2019, and 2018-2020 LTIPs which Chemtrade operates and grants cash awards based on certain criteria. The 2016-2018, 2017-2019, and 2018-2020 LTIP payouts are payable at the beginning of 2019, 2020 and 2021, respectively. The LTIP awards have a performance based component and a restricted share unit component. The performance based component is based on total Unitholder return over a performance period, EBITDA growth and total return to Chemtrade's Unitholders relative to the total return on the S&P/TSX Dividend Index or the companies comprising such index. Total Unitholder return consists of changes in unit price and distributions paid to Unitholders. The restricted share unit component of the LTIP awards is a phantom plan which is payable in cash at the end of the performance period. The nature of these calculations makes it difficult to forecast the amount of LTIP expenses that will be recorded in any period, as it is based upon a valuation model which considers several variables.

Chemtrade has hedged its investment in foreign operations that use the U.S. dollar as their functional currency with its U.S. dollar-denominated long-term debt. As a result, any gains and losses arising from the U.S. dollar-denominated debt will be offset by the foreign currency gain or loss arising from the investment in the foreign operations. The gains and losses on the translation of the designated amount of U.S. dollar-denominated debt and investment in foreign operations are recognized on a net basis in other comprehensive income. For the three months and year ended December 31, 2018, a foreign exchange loss of \$10.0 million and \$16.0 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 a foreign exchange loss of \$1.9 million and a foreign exchange gain of \$11.1 million, respectively, during the three months and year ended December 31, 2017.

Net finance costs during the fourth quarter and the year ended December 31, 2018 were \$10.0 million higher and \$4.8 million lower, respectively, than the same periods of 2017. Net finance costs for the fourth quarter of 2018 were higher than the same period of 2017 primarily due to a higher loss relating to the fair value of the debentures. Net finance costs for the year ended December 31, 2018 were lower than the same period of 2017 primarily due to lower transaction costs, partially offset by higher interest on the debentures and a higher loss relating to the fair value of the debentures.

### **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 November 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 final court approval.

Corporate costs for the year ended December 31, 2018 include an expense of \$100.0 million, 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.

### Goodwill Impairment

During the fourth quarter of 2018, Chemtrade recorded an impairment of \$90.0 million related to goodwill in the WSSC segment. Lower levels of gross profit for water treatment products were the cause of the impairment. The impairment is included in cost of sales and services.

### 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 \$1.6 million and \$1.4 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 December 31, 2018 include future contracts to sell the following amounts for periods through to June 2020:

Amount	Weighted average exchange rate
US\$85,052	\$1.29

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 December 31, 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 = \$1.36 at December 31, 2018. See **Risks and Uncertainties** for additional comments on foreign exchange.

### **Net Finance Costs**

During the fourth quarter and year ended December 31, 2018, net finance costs were \$25.3 million and \$74.1 million, respectively, compared with net finance costs of \$19.7 million and \$86.1 million, respectively, during the same periods of 2017. In the fourth quarter of 2018 net finance costs were higher by \$5.6 million primarily due to a \$6.4 million higher loss related to a change in the fair value of convertible debentures, partially offset by lower debt extinguishment costs compared to the fourth quarter of 2017. Net finance costs were \$12.0 million lower during the year ended December 31, 2018 compared with the same period in 2017, primarily due to lower transaction and debt extinguishment costs of \$9.2 million and \$2.2 million, respectively.

During the fourth quarter and year ended December 31, 2018, Chemtrade recorded accretion expense of \$0.3 million and \$1.6 million, respectively. In the fourth quarter and year ended December 31, 2017, Chemtrade recorded accretion expenses of \$0.2 million and \$1.3 million, respectively. See **Liquidity and Capital Resources - Financing Activities**.

The weighted average effective annual interest rate on senior debt at December 31, 2018 was 3.95% (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, Public Law No. 115-97, originally known as the Tax Cuts and Jobs Act, (the "Tax Act") was enacted. Among other significant changes to the U.S. Internal Revenue Code, the Tax Act lowered the U.S. federal corporate income tax rate ("U.S. Federal Tax Rate") from 35.0% to 21.0%, effective January 1, 2018. The impact of the lower federal income tax rate has been reflected in the financial statements. The finalization of regulations for various Tax Act provisions may also impact the financial statements in the future.

Current income tax expense for the fourth quarter and year ended December 31, 2018 was \$0.5 million and \$5.8 million, respectively, compared with an income tax expense of \$4.0 million and \$8.8 million for the same periods of 2017. The decrease in current income tax expense in 2018 compared with 2017 is primarily due to loss carryback utilized in Canada. Deferred income tax recovery for the fourth quarter and year ended December 31, 2018 was \$11.1 million and \$54.5 million, respectively, compared with \$65.4 million and \$101.5 million for the same periods in 2017. The decrease in income tax recovery for the fourth quarter of 2018 compared with the fourth quarter of 2017 is primarily due to a lower U.S. Federal Tax Rate as a result of the 2017 tax reform in the U.S. The decrease in deferred income tax recovery for the year ended December 31, 2018 compared with the year ended December 31, 2017 is primarily due to utilization of deductible timing differences related to fixed assets.

The effective tax rate for the fourth 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 \$16.7 million at December 31, 2018 relative to December 31, 2017 is primarily due to the recognition of deferred tax liabilities associated with the fair value adjustments on the convertible debentures.

The net decrease in deferred tax liabilities of \$49.2 million at December 31, 2018 relative to December 31, 2017 is primarily due to additional deferred tax assets recognized related to restricted interest deduction carryforward due to proposed legislative changes in the U.S. and due to the legal proceedings reserve in the U.S. (see **Reserve for Legal Proceedings**).

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 months and year ended December 31, 2018, and for the years ended December 31, 2017 and December 31, 2016.

(\$'000)	<u>Three months ended</u>		<u>Year ended</u>	
	December 31, 2018	December 31, 2018	December 31, 2017	December 31, 2016
Cash flows from operating activities	\$ 79,853	\$ 244,464	\$ 151,298	\$ 153,009
Net (loss) earnings	\$ (97,185)	\$ (131,517)	147,359	4,744
Distributions paid during period	\$ 27,779	\$ 111,116	104,091	82,912
Excess of cash flows from operating activities over cash distributions paid	\$ 52,074	\$ 133,348	47,207	70,097
(Shortfall) excess of net earnings over cash distributions paid	\$ (124,964)	\$ (242,633)	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 months and year ended December 31, 2018 were declared as follows:

Record Date	Payment Date	Distribution Per Unit	Total (\$'000)
Three months ended December 31:			
October 31, 2018	November 30, 2018	\$ 0.10	\$ 9,260
November 30, 2018	December 31, 2018	0.10	9,260
December 31, 2018	January 31, 2019	0.10	9,259
Sub-Total		\$ 0.30	\$ 27,779
Three months ended September 30, 2018		\$ 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 year ended December 31, 2018		\$ 1.20	\$ 111,116

Distributions to Unitholders for the three months and year ended December 31, 2017 were declared as follows:

Record Date	Payment Date	Distribution Per Unit	Total (\$'000)
Three months ended December 31:			
October 31, 2017	November 30, 2017	\$ 0.10	\$ 9,259
November 30, 2017	December 29, 2017	0.10	9,260
December 29, 2017	January 31, 2018	0.10	9,260
Sub-Total		\$ 0.30	\$ 27,779
Three months ended September 30, 2017		\$ 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 year ended December 31, 2017		\$ 1.20	\$ 106,434

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

	Other Income	Dividends <sup>(1)</sup>	Foreign Non-Business Income	Total
2017	14.0%	37.4%	48.6%	100%
2018 <sup>(2)</sup>	13.3%	40.6%	46.1%	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 (see [Financing Activities](#) below), and the convertible unsecured subordinated debentures ("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 fourth quarter of 2018 was an inflow of \$79.9 million, an increase of \$17.7 million from the fourth quarter of 2017. The increase in cash flow from operating activities in the fourth quarter of 2018, compared with the fourth quarter of 2017 was primarily due to a reduction in working capital and higher Adjusted EBITDA. Cash flow from operating activities for the year ended December 31, 2018 was an inflow of \$244.5 million compared to an inflow of \$151.3 million during the same period of 2017. The increase in cash flow from operating activities for the year ended December 31, 2018 was primarily due to a large reduction in working capital, partially offset by lower Adjusted EBITDA.

### 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 \$37.1 million in the fourth quarter of 2018, compared with \$37.0 million in the fourth quarter of 2017. These amounts include \$31.5 million in the fourth quarter of 2018 and \$34.7 million in the fourth quarter of 2017 for maintenance capital requirements for continuing operations. Investment in capital expenditures was \$92.4 million for the year ended December 31, 2018, compared with \$74.9 million for the year ended December 31, 2017. These amounts include \$77.7 million for the year ended December 31, 2018 and \$66.7 million for the year ended December 31, 2017 for maintenance capital requirements, including expenditures for the acquired businesses. Chemtrade expects to incur roughly \$80.0 to \$90.0 million of maintenance capital expenditures during 2019.

Non-maintenance capital expenditures were \$5.6 million during the fourth quarter of 2018, compared with \$2.2 million during the fourth quarter of 2017. Investment in non-maintenance capital expenditures was \$14.7 million and \$8.1 million, respectively, during the years ended December 31, 2018 and 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 December 31, 2018, Chemtrade's credit facilities were comprised of a \$443.2 million (US\$325 million) five year term loan and a \$715.9 million (US\$525 million) revolving credit facility (the "Credit Facilities"). 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 fourth quarter of 2018 Chemtrade further modified the terms of the Credit Facilities to extend the maturity date to December 2023. Chemtrade incurred \$0.5 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.

On May 2, 2017, the Fund completed an agreement with a syndicate of underwriters to issue \$175.0 million principal amount of convertible unsecured subordinated debentures. As allowed under provisions of the agreement to issue the debentures, the underwriters purchased an additional \$26.3 million principal amount of the debentures, increasing the aggregate gross proceeds of the public offering to \$201.3 million. Chemtrade incurred transaction costs of approximately \$8.7 million, which included the underwriters' fee and other expenses of the offering. The net proceeds

of the issuance were used to fund the mandatory change of control offers in respect of CEI's debentures, the redemption of \$79.6 million aggregate principal amount of the Fund 2011 5.75% Debentures and the redemption of the remaining CEI Series IV Debentures.

There was a net decrease in borrowings on the revolving portion of the Credit Facilities of \$10.3 million and a net increase in borrowings on the revolving portion of the Credit Facilities of \$51.4 million during the fourth quarter and twelve months of 2018, respectively, compared to an increase of \$2.0 million and an increase of \$159.4 million during the fourth quarter and twelve months of 2017, respectively. During 2017, the additional borrowings on the Credit Facilities were used to repay Canexus' former credit facilities (see **Recent Acquisitions and Divestitures**). During the year ended December 31, 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 year ended December 31, 2018 were higher than the same period of 2017 due to additional units issued to fund the Acquisition, and additional units issued on the conversion of the Fund Debentures since the comparative period of 2017. 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 December 31, 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 December 31, 2018, Chemtrade had net cash balances of \$13.4 million and a working capital deficit of \$3.1 million. Comparable figures for December 31, 2017 were \$10.4 million and \$100.4 million, respectively. Chemtrade defines working capital to exclude cash, assets held for sale, distributions payable, current portion of long-term debt and debentures, and liabilities directly associated with assets held for sale. 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 December 31, 2018, Chemtrade had Credit Facilities of approximately \$1.2 billion (US\$850.0 million), consisting of a \$443.2 million (US\$325.0 million) five year term loan and a \$715.9 million (US\$525.0 million) revolving credit facility. These Credit Facilities are due December 2023. At December 31, 2018, Chemtrade had the entire term loan outstanding, and had drawn \$250.3 million on its revolving credit facility. Additionally, it had committed a total of \$18.4 million of its revolving credit facility towards standby letters of credit.

During the second quarter of 2018, Chemtrade redeemed the outstanding \$71.5 million aggregate principal amount of its CEI Senior Notes and repaid the outstanding \$6.2 million balance related to its Fort McMurray facilities located at Syncrude's Mildred Lake oil sands facility in Alberta.

At December 31, 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 \$579.2 million) and maturity dates ranging from December 31, 2020 to May 31, 2024.

### *Debt Covenants -*

As at December 31, 2018, Chemtrade was compliant with all debt covenants contained in its credit agreements.

## Summary of Quarterly Results

(\$ millions)	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenue from continuing operations	390.8 \$	418.2 \$	405.3 \$	381.5 \$	386.7 \$	400.5 \$	407.4 \$	274.6
Cost of sales and services	(452.2)	(354.4)	(366.4)	(336.0)	(346.8)	(341.5)	(347.9)	(241.9)
Gross profit	(61.4)	63.8	38.9	45.5	39.9	59.0	59.5	32.6
Selling and administrative expenses:								
Unrealized foreign exchange (loss) gain	(2.7)	3.1	(2.1)	(0.1)	(1.7)	(0.4)	(1.8)	1.8
LTIP	2.5	(2.7)	(2.0)	0.8	(1.6)	(3.4)	(2.1)	(1.8)
Other	(21.0)	(52.5)	(89.6)	(26.5)	(32.9)	(26.4)	(23.5)	(25.1)
Total selling and administrative expenses	(21.2)	(52.1)	(93.7)	(25.8)	(36.2)	(30.2)	(27.4)	(25.1)
Operating income (loss)	(82.6)	11.7	(54.8)	19.6	3.7	28.8	32.1	7.5
Net finance costs:								
Mark-to-market on debentures	(8.1)	4.0	5.0	0.8	(1.7)	0.5	4.1	(0.8)
Debt issuance and extinguishment costs	—	—	(7.4)	—	(1.1)	(0.5)	(11.7)	(5.5)
Other	(17.2)	(17.1)	(17.7)	(16.4)	(16.9)	(19.2)	(19.6)	(13.7)
Total net finance costs	(25.3)	(13.1)	(20.1)	(15.7)	(19.7)	(19.2)	(27.2)	(20.0)
Income tax recovery	10.7	10.6	24.5	2.9	61.5	12.8	5.3	13.2
Net (loss) earnings from continuing operations	(97.2)	9.2	(50.4)	6.9	45.5	22.4	10.3	0.7
Net earnings from discontinued operations	—	—	—	—	1.0	—	67.0	0.6
Net (loss) earnings	(97.2) \$	9.2 \$	(50.4) \$	6.9 \$	46.4 \$	22.4 \$	77.3 \$	1.3

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

During the fourth quarter of 2018, a goodwill impairment for water treatment products (see **Goodwill Impairment**) was recorded, resulting in lower 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. During the fourth quarter of 2017, a recurrence of an operating issue at the North Vancouver chlor-alkali plant resulted in an unplanned interruption of production for approximately two weeks in the EC segment. Gross profit was also negatively affected during the second quarter of 2018 when this facility took an extended maintenance turnaround to permanently repair the affected equipment.

### 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 second and third quarters of 2018 due to the \$65.0 million and \$35.0 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 due to inclusion of acquisition costs of \$2.9 million 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 includes \$8.7 million 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 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.

#### 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 February 12, 2019 and December 31, 2018, the following common units and securities convertible into units of the Fund were issued and outstanding:

	February 12, 2019		December 31, 2018	
	Convertible Securities	Units	Convertible Securities	Units
<b>Common units outstanding</b>		<b>92,596,006</b>		<b>92,596,006</b>
<b>5.25% Debentures <sup>(1)</sup></b>	<b>126,500</b>	<b>4,517,857</b>	<b>126,500</b>	<b>4,517,857</b>
<b>5.00% Debentures <sup>(2)</sup></b>	<b>143,750</b>	<b>5,784,708</b>	<b>143,750</b>	<b>5,784,708</b>
<b>4.75% Debentures <sup>(3)</sup></b>	<b>201,250</b>	<b>7,537,453</b>	<b>201,250</b>	<b>7,537,453</b>
<b>Units outstanding and issuable upon conversion of Debentures</b>		<b>110,436,024</b>		<b>110,436,024</b>

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

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

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

## Contractual Obligations

Information concerning contractual obligations at December 31, 2018 is shown below:

Contractual Obligations (\$'000)	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	\$ 693,516	\$ —	\$ —	\$ 693,516	\$ —
Debentures	630,095	84,011	201,084	143,750	201,250
Purchase commitments	139,792	47,994	30,848	30,691	30,259
Interest on debentures	116,496	28,264	53,151	31,098	3,983
Operating leases	195,837	56,832	76,829	42,124	20,052
Interest on long-term debt	137,170	27,434	54,868	54,868	—
<b>Total contractual obligations</b>	<b>\$ 1,912,906</b>	<b>\$ 244,535</b>	<b>\$ 416,780</b>	<b>\$ 996,047</b>	<b>\$ 255,544</b>

## Related Parties

### Key Management Personnel Compensation

Key management personnel is comprised of trustees and the senior leadership team of Chemtrade. Trustees receive compensation in the form of an annual retainer. In addition to their salaries, Chemtrade also provides non-cash benefits to the senior leadership team. One such benefit is the contribution to a post-employment defined contribution plan on their behalf. These plans for the senior leadership team are identical to the plans offered to all employees in the same jurisdiction.

The Annual Incentive Compensation ("Annual IC") plan entitles the senior leadership team to annual cash awards based on (i) Chemtrade's success in achieving financial objectives (financial achievement is weighted at 65% of the total Annual IC award) and (ii) their individual success in accomplishing personal objectives (weighted at 35% of the total Annual IC award) as set out in their objectives for the fiscal year.



The LTIP as described in Chemtrade's annual consolidated financial statements is designed to align the interests of the participants with the interests of Unitholders. It is a cash plan where payment is triggered upon the successful achievement of pre-defined performance criteria. Each year the Compensation and Corporate Governance Committee determines the performance period over which performance will be measured, and the annual LTIP awards granted since 2006 have been based on a three-year performance period. All the LTIP awards granted vest at the end of the three-year period. The value of this compensation is re-measured at each reporting period based upon changes in the fair value of the awards.

Certain members of the senior leadership team are subject to a mutual term of notice upon termination of employment without cause; they are entitled to termination benefits of 9 to 24 months gross salary, depending on the number of years completed as an executive officer.

Chemtrade has in place a deferred unit compensation plan for its trustees, pursuant to which the trustees can elect to take all or a portion of their compensation in the form of deferred units of Chemtrade, with the remainder as a cash payment. Currently, the trustees must take at least 30% of their compensation in the form of deferred units of Chemtrade. As at December 31, 2018, the market value of these deferred units, which is included in trade and other payables was \$2.5 million (2017 - \$3.5 million).

The key management personnel compensation expense, which is recorded in comprehensive income, is as follows:

		2018	2017
Short-term compensation	\$	5,256	\$ 7,956
LTIP	\$	1,120	6,573
	\$	6,376	\$ 14,529

## 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 financial risks, the systems implemented to monitor those risks and the strategies in place to manage those risks. Chemtrade's Responsible Care Committee reviews major operational 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.

#### *Commodity Price, Raw Materials & Other Input Cost Exposure -*

Industrial chemicals sold by Chemtrade and those purchased by Chemtrade as raw materials are subject to market price fluctuations. Although Chemtrade generally seeks to enter into contracts with its industrial producers to share or eliminate the risk of changes in selling prices of products obtained as by-products from industrial producers, no assurance can be given as to Chemtrade's continued ability to enter into such contracts nor do such contracts apply to all of the products Chemtrade sells. In addition, whether or not Chemtrade has entered into such contracts, market price fluctuations could have a negative impact on Chemtrade's financial condition and results of operations. Chemtrade also utilizes a number of raw materials which are subject to price fluctuations beyond its control. Market price fluctuations of these raw materials could have a material adverse effect on Chemtrade's business, financial condition and/or results of operations. There can be no assurance that the price of Chemtrade's raw materials will not increase in the future nor that Chemtrade will be able to pass on such increases to its customers. There has generally been a lag time before such increases and decreases could be passed on to Chemtrade's customers. A significant increase in the price of raw materials that cannot be passed on to customers could have a material adverse effect on Chemtrade's business, financial condition and/or results of operations. Chemtrade has a number of key raw materials. There may be a risk associated with limited availability of such raw materials in the event one of its suppliers fails to perform or ceases production of such raw material. Either event could have a material adverse effect on Chemtrade's business, financial condition and/or results of operations.

Chemtrade is also a large consumer of electricity. Electricity constitutes approximately 75% of Chemtrade's variable production costs for sodium chlorate and approximately 50% of Chemtrade's variable production costs for chlor-alkali products. Accordingly, any increase in the cost of electricity leads to a direct increase in Chemtrade's production costs. While Chemtrade has attempted to mitigate the effect and unpredictability of power costs by locating facilities in regions that have relatively low-cost, regulated, hydroelectric power markets, Chemtrade is susceptible to changes in power prices in any of the markets in which it operates. While this risk is greater in deregulated electricity markets such as Brazil, there is always a risk of regulatory or governmental changes in currently regulated jurisdictions. The prices for

electricity is generally influenced by regional or domestic factors. As a result, Chemtrade may pay higher prices for electricity than its competitors in other regions of North America or other parts of the world, which may negatively affect the competitiveness and financial performance of Chemtrade.

Below are sensitivities to sales price and where applicable sales volume for some of Chemtrade's significant finished products:

#### *Sales price and volume for sodium chlorate and chlor-alkali*

Every \$50 change in the price per MT of North American produced sodium chlorate would have an impact on income before income taxes of approximately \$20.3 million per annum. Every \$100 change in the price per MECU of chlor-alkali products produced in North America would have an impact on income before income taxes of approximately \$17.8 million per annum. These sensitivities to changes in prices are based on approximately 406,000 MT of North American sodium chlorate sales and 178,000 MECU of North American chlor-alkali sales for the year ended December 31, 2018.

A change in sales volumes for North American sodium chlorate of 10,000 MT would have an impact on income before income taxes of approximately \$3.4 million per annum. A change in sales volumes for North American chlor-alkali products of 5,000 MECU would have an impact on income before income taxes of approximately \$5.3 million per annum.

#### *Sulphuric Acid Pricing*

A change in sulphuric acid pricing, net of freight, of \$10 per tonne would have an impact on annual revenues in North America of approximately \$12.0 million. In any specific period, the exact impact would depend upon the volume that is subject to sales contracts where pricing has been fixed for a period of time. The magnitude of realized price changes also depends upon regional market dynamics. It is difficult to reliably estimate the impact of price changes on earnings as this depends upon the volume subject to risk-sharing supply contracts and changes in sulphur costs for manufactured sulphuric acid. These factors lessen the impact of price changes on earnings relative to revenue.

Below are sensitivities to changes in key raw material and input costs:

#### *Electricity Price*

Every four percent change in the price of electricity in North America would have an impact on income before income taxes of approximately \$4.7 million per annum. This sensitivity to changes in electricity prices is based on North American electricity consumption of approximately 2,530,000 Megawatt hours for the year ended December 31, 2018. A four percent change in the price of electricity in North America is considered reasonable given historical price changes and market expectations for future movement.

### Salt Costs

Chemtrade uses salt in the manufacturing of its sodium chlorate and chlor-alkali products. At current operating levels, an increase of \$2 per tonne of salt prices in North America would have an impact of approximately \$1.0 million per annum on cost of sales.

### Sulphur Costs

Chemtrade uses sulphur in the manufacturing of several of its products, including sulphuric acid. At current operating levels, an increase of \$10 per tonne would have an impact of approximately \$2.5 million per annum on cost of sales. It is important to note that a change in the cost of sulphur is likely to lead to a change in the price for sulphuric acid as this is a key input cost in the manufacturing of sulphuric acid. Thus, the net impact on earnings of changes in sulphur costs would depend upon changes in sulphuric acid pricing.

### *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 November 2018, although the settlement remains subject to final court approval. During 2018, Chemtrade recorded a provision of \$100.0 million with respect to the civil actions. It is possible that the actual damages and costs of resolving the civil lawsuits could exceed the amount of the reserve. (see **Reserve for Legal Proceedings**).

### *Reliance on Key Facilities -*

A significant amount (approximately 70%) of Chemtrade's North American sodium chlorate capacity (including the lowest cost source of production) is located at the Brandon, Manitoba production facility. All of Chemtrade's North American chlor-alkali production is produced at its North Vancouver, British Columbia facility. The entire sodium chlorate and chlor-alkali product produced by Chemtrade in South America is produced at two plants located at one site in Brazil. Accordingly, significant unscheduled downtime at any of these facilities could have a material adverse effect on Chemtrade's business, financial condition and/or results of operations. Unanticipated downtime can occur for a variety of reasons, including equipment breakdowns, interruptions in the supply of raw materials or energy, power failures, sabotage, natural forces (including seismic activity) or other normal hazards associated with the production of chemicals. Chemtrade cannot provide any assurances as to whether any significant interruption in the operation of any of its key production facilities would be covered by insurance or would not otherwise have a material adverse effect on Chemtrade's business, financial condition and/or results of operations.

A portion of the land on which the North Vancouver, BC facility is situated is leased from the Vancouver Fraser Port Authority (the "Port") pursuant to a lease which terminates on June 30, 2032. The lease provides that Chemtrade will be restricted from using the leased premises for purposes of receipt, manufacture, storage and distribution of liquid chlorine after June 30, 2030. Chemtrade is currently assessing alternative options to address the liquid chlorine restriction post-June 30, 2030, but Chemtrade's inability to implement a viable alternative solution could have a material

adverse effect on Chemtrade's business, financial condition and/or results of operation. In addition, the lease provides the Port with the right to exercise an option to purchase at the end of the term, and the Port has communicated its intention to exercise the option to purchase at that time. Chemtrade intends to enter into discussions with the Port as to alternative options which are beneficial to both parties. However, the inability of Chemtrade to come to a solution with the Port for the continued use of the North Vancouver, BC site beyond June 30, 2032 could have a material adverse effect on Chemtrade's business, financial condition and/or results of operation.

#### *Cyclicalities of the Electrochemicals Segment -*

The global market for chlor-alkali products is cyclical in nature and market conditions for chlor-alkali products have fluctuated over the years. Chlor-alkali producers are particularly sensitive to general economic trends and to trends in cyclical industries such as the construction, pulp and paper and oil and gas industries, which are significant markets for chlor-alkali products. A disruption or downturn in the general economy or in any of these particular industries or additions to chlor-alkali production capacity could have a material adverse effect on Chemtrade's business, financial condition and/or results of operations. Historically the price at which Chemtrade's chlor-alkali products are sold has been cyclical, depending on the price for imported caustic soda and the level of activity in the fracking industry. A downturn in chlor-alkali pricing could have a material adverse effect on Chemtrade's business, financial condition and/or results of operations.

#### *Exchange Rates -*

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 \$1.6 million and \$1.4 million, respectively, and vice-versa. If the U.S. dollar strengthens by one-cent, on an unhedged basis, this would also have a negative impact of approximately \$2.0 million on Chemtrade's net earnings because of its U.S. dollar-denominated term debt and vice-versa.

#### **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 included in the following notes to the audited consolidated financial statements of Chemtrade for the year ended December 31, 2018:

- (i) Intangible assets - When determining the value in use of goodwill and intangible assets during impairment testing, Chemtrade uses the following critical estimates: the timing of forecasted earnings; future selling prices and margins; future sales volumes; maintenance and other capital expenditures; and discount rates.
- (ii) Income taxes - Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that the deductions, tax credits and tax losses can be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

In the normal course of operations, judgment is required in assessing tax interpretations, regulations and legislation and in determining the provision for income taxes, deferred tax assets and liabilities, and the timing of reversals. To the extent that a recognition or de-recognition of a deferred tax asset is required, current period earnings or other comprehensive income will be affected.

- (iii) Reserve for legal proceedings - Provisions for legal claims are recognized when Chemtrade has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions for legal claims are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized in the statement of comprehensive income as selling and administrative expenses. Changes in the estimated timing or amount of the expenditure or discount rate are recognized in profit or loss when the changes arise.

## 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 \$30,663 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. Chemtrade has updated its accounting policy for financial instruments to reflect the adoption of IFRS 9. Please refer to note 25 of Chemtrade's consolidated financial statements for the year ended December 31, 2018 for changes to the classification of Chemtrade's financial instruments.

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. Chemtrade has updated its accounting policy for revenue recognition to reflect the adoption of IFRS 15.

### **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. Based on information currently available, Chemtrade expects to recognize lease liabilities of \$175.0 million to \$200.0 million on its consolidated statement of financial position as at January 1, 2019 as a result of adopting this standard.

In June 2017, the IFRS Interpretations Committee of the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23"). The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation is effective for the annual period beginning on January 1, 2019. Chemtrade does not expect IFRIC 23 to have a material impact on its consolidated financial statements.

For additional information regarding IFRS standards and interpretations not yet adopted, refer to note 3(q) of the audited consolidated financial statements of Chemtrade for the year ended December 31, 2018.



## **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 December 31, 2018 through inquiry and review. The Chief Executive Officer and the Chief Financial Officer have concluded that, as at December 31, 2018, Chemtrade's disclosure control procedures were effective.

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 December 31, 2018. Based on this evaluation, Management has concluded that as at December 31, 2018, Chemtrade's internal controls over financial reporting were effective. There have been no changes to the design of internal controls over financial reporting that occurred during the year ended December 31, 2018 that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

## **Outlook**

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

## **Other**

Additional information concerning Chemtrade, including the Annual Information Form, is filed on SEDAR and can be accessed at [www.sedar.com](http://www.sedar.com).

February 13, 2019



# Management's Responsibility for Financial Reporting

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

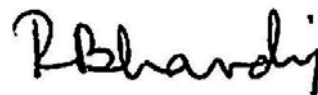
Management has developed and maintains a system of internal control over financial reporting. These controls are designed to provide reasonable assurance that assets are safeguarded, transactions are accurately recorded and financial information is timely and reliable.

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

The Audit Committee meets periodically with management and the external auditors to discuss internal controls over financial reporting, policies and procedures, and financial reporting issues. Acting on the recommendation of the Audit Committee, the Trustees approve the consolidated financial statements. KPMG LLP, an independent firm of Chartered Accountants, has been appointed by the Unitholders to express an independent professional opinion on the fairness of the consolidated financial statements. KPMG LLP has full and free access to the Audit Committee.



Mark Davis  
President & Chief Executive Officer



Rohit Bhardwaj  
Vice-President, Finance & CFO

Toronto, Canada  
March 13, 2019



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## INDEPENDENT AUDITORS' REPORT

To the unitholders' of Chemtrade Logistics Income Fund

### ***Opinion on the Consolidated Financial Statements***

We have audited the consolidated financial statements of Chemtrade Logistics Income Fund (the "Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in unitholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the "consolidated financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### ***Other Information***

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2018 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2018 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.



### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



*Independent Auditors' Report*

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

*KPMG LLP*

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditor's report is Tammy L. Brown.

Toronto, Canada

February 13, 2019

# CHEMTRADE LOGISTICS INCOME FUND


Consolidated Statements of Financial Position

(In thousands of Canadian dollars)

	Notes	December 31, 2018	December 31, 2017
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$	13,413	\$ 10,372
Trade and other receivables	6	199,871	215,149
Inventories	7	143,539	121,630
Income taxes receivable		5,629	1,609
Prepaid expenses and other assets		5,373	3,402
<b>Total current assets</b>		<b>367,825</b>	<b>352,162</b>
<b>Non-current assets</b>			
Property, plant and equipment	8	1,260,670	1,261,921
Other assets	9	11,643	14,625
Intangible assets	10	1,167,636	1,268,606
Deferred tax assets	24	69,314	86,014
<b>Total non-current assets</b>		<b>2,509,263</b>	<b>2,631,166</b>
<b>Total assets</b>		<b>2,877,088</b>	<b>2,983,328</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	11 \$	238,578	\$ 230,357
Distributions payable	17	9,257	9,257
Provisions	12	118,903	12,742
Current portion of long-term debt	13	—	3,930
Convertible unsecured subordinated debentures	14,29	84,011	—
<b>Total current liabilities</b>		<b>450,749</b>	<b>256,286</b>
<b>Non-current liabilities</b>			
Long-term debt	13	689,014	642,144
Convertible unsecured subordinated debentures	14	495,208	640,689
Other long-term liabilities	15	18,288	20,828
Employee benefits	16	50,113	62,518
Provisions	12	114,791	120,790
Deferred tax liabilities	24	42,212	91,420
<b>Total non-current liabilities</b>		<b>1,409,626</b>	<b>1,578,389</b>
<b>Total liabilities</b>		<b>1,860,375</b>	<b>1,834,675</b>
<b>Unitholders' equity</b>			
Units	17	1,461,995	1,461,995
Contributed surplus	17	9,720	9,720
Deficit		(656,548)	(453,425)
Accumulated other comprehensive income		201,546	130,363
<b>Total unitholders' equity</b>		<b>1,016,713</b>	<b>1,148,653</b>
<b>Total liabilities and unitholders' equity</b>	<b>\$</b>	<b>2,877,088</b>	<b>\$ 2,983,328</b>

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

On behalf of the Board of Trustees

  
Lorie Waisberg

  
Lucio Di Clemente

# CHEMTRADE LOGISTICS INCOME FUND

Consolidated Statements of Comprehensive Income  
(In thousands of Canadian dollars, except per unit amounts)

		<u>Year ended December 31,</u>	
	Notes	2018	2017
Revenue	20	\$ 1,595,747	\$ 1,469,138
Cost of sales and services	7, 10, 22	(1,508,965)	(1,278,104)
Gross profit		86,782	191,034
Selling and administrative expenses	21	(192,853)	(118,831)
Operating (loss) income		(106,071)	72,203
Net finance costs	23	(74,126)	(86,073)
Loss before income tax		(180,197)	(13,870)
Income tax (expense) recovery	24		
Current		(5,841)	(8,831)
Deferred		54,521	101,523
		48,680	92,692
Net (loss) earnings from continuing operations		(131,517)	78,822
Net earnings from discontinued operations	5	—	68,537
Net (loss) earnings		\$ (131,517)	\$ 147,359
Other comprehensive income			
Items that may subsequently be reclassified to earnings:			
(Loss) gain on net investment hedge of foreign operations net of tax expense of \$3,566 (2017 - recovery of \$2,429)	25	(19,594)	13,486
Foreign currency translation differences for foreign operations, net of tax recovery of \$2,840 (2017 - \$3,249)		77,959	(103,984)
Effective portion of change in the fair value of cash flow hedges, net of tax recovery of \$118 (2017 - expense of \$924)	25	(322)	2,811
Items that will not be reclassified to earnings:			
Defined benefit plan adjustments net of tax expense of \$3,031 (2017 - \$4,289)	16	8,847	13,103
Change in fair value of convertible debentures due to credit risk, net of tax expense of \$15,999 (2017 - nil)		43,803	—
Other comprehensive income (loss)		110,693	(74,584)
Total comprehensive (loss) income		\$ (20,824)	\$ 72,775
Net (loss) earnings per unit	17		
Basic net (loss) earnings per unit		\$ (1.42)	\$ 1.67
Diluted net (loss) earnings per unit		\$ (1.42)	\$ 1.53
Net (loss) earnings per unit from continuing operations			
Basic net (loss) earnings per unit		\$ (1.42)	\$ 0.89
Diluted net (loss) earnings per unit		\$ (1.42)	\$ 0.89

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

# CHEMTRADE LOGISTICS INCOME FUND

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

	Notes	Units	Contributed surplus	Deficit	Cumulative translation account*	Unrealized losses on cash flow and net investment hedges*	Change in fair value of convertible debentures due to credit risk*	Total unitholders' equity
<b>Balance at January 1, 2017</b>		\$ 1,048,738	\$ 9,720	\$ (507,453)	\$ 242,095	\$ (24,045)	\$ —	\$ 769,055
Net earnings		—	—	147,359	—	—	—	147,359
Other comprehensive income (loss)		—	—	13,103	(103,984)	16,297	—	(74,584)
Distributions	17	—	—	(106,434)	—	—	—	(106,434)
Issuance of units	17	413,257	—	—	—	—	—	413,257
<b>Balance at December 31, 2017</b>		\$ 1,461,995	\$ 9,720	\$ (453,425)	\$ 138,111	\$ (7,748)	\$ —	\$ 1,148,653
Adjustment from adoption of IFRS 9	3	—	—	30,663	—	—	(30,663)	—
Net earnings		—	—	(131,517)	—	—	—	(131,517)
Other comprehensive income		—	—	8,847	77,959	(19,916)	43,803	110,693
Distributions	17	—	—	(111,116)	—	—	—	(111,116)
<b>Balance at December 31, 2018</b>		\$ 1,461,995	\$ 9,720	\$ (656,548)	\$ 216,070	\$ (27,664)	\$ 13,140	\$ 1,016,713

\* Accumulated other comprehensive income.

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



# CHEMTRADE LOGISTICS INCOME FUND

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

		Year ended December 31,	
	Notes	2018	2017
<b>Cash flows from operating activities:</b>			
Net (loss) earnings	\$	(131,517)	\$ 147,359
Adjustments for:			
Depreciation and amortization	22	214,507	204,863
Gain on disposal and write-down of assets		(4,039)	(13,621)
Cumulative foreign exchange gain on sale of discontinued operations	5	—	(48,950)
Impairment of goodwill	10	90,000	—
Income tax recovery	24	(48,680)	(91,624)
Net interest costs	23	61,705	71,851
Accretion expense	23	4,740	3,929
Net pension interest		1,932	2,810
Debt extinguishment costs including realized foreign exchange loss	13	7,417	9,658
Change in fair value of convertible unsecured subordinated debentures	14	(1,668)	(2,154)
Unrealized foreign exchange gain		1,826	(31,511)
		196,223	252,610
Decrease (increase) in working capital		131,605	(19,435)
Interest paid		(73,889)	(66,733)
Interest received		386	629
Income taxes paid		(9,861)	(15,773)
<b>Net cash flows from operating activities</b>		<b>244,464</b>	<b>151,298</b>
<b>Cash flows from investing activities:</b>			
Additions to property, plant and equipment	8	(92,366)	(74,944)
Increase in other assets		2,983	1,537
Proceeds from disposal of discontinued operations (net of cash disposed)	5	—	49,078
Acquisition (net of cash acquired)	4	—	(281,205)
<b>Net cash flows used in investing activities</b>		<b>(89,383)</b>	<b>(305,534)</b>
<b>Cash flows from financing activities:</b>			
Distributions to unitholders	17	(111,116)	(104,091)
Issuance of convertible debentures	14	—	201,250
Transaction costs related to the issuance of convertible debentures	14	—	(9,159)
Issuance of units	4,17	—	395,831
Share issuance costs		—	(17,167)
Repayment of term debt	4,13	(7,830)	(439,771)
Increase in term debt	4,13	—	436,118
Repayment of Canexus credit facilities	4,13	—	(262,421)
Repayment of convertible debentures	14	—	(175,468)
Net change in revolving credit facility	13	51,352	159,383
Financing transaction costs	13	(1,305)	(6,601)
(Decrease) increase in other long-term liabilities		(12,126)	10,887
Principal redemption of high-yield senior notes	13	(71,500)	(38,500)
<b>Net cash flows from (used in) financing</b>		<b>(152,525)</b>	<b>150,291</b>
<b>Increase (decrease) in cash and cash equivalents</b>		<b>2,556</b>	<b>(3,945)</b>
Cash and cash equivalents, beginning of the period		10,372	14,742
Effect of exchange rates on cash held in foreign currencies		485	(425)
<b>Cash and cash equivalents, end of the period</b>	<b>\$</b>	<b>13,413</b>	<b>\$ 10,372</b>

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

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 1. CORPORATE INFORMATION:

Chemtrade Logistics Income Fund (the "Fund") is a publicly listed Income Trust formed in Ontario, Canada and its units are listed on the Toronto Stock Exchange ("TSX"). The term "Chemtrade" refers to the Fund and its consolidated subsidiaries. Chemtrade commenced operations on July 18, 2001 when it completed an initial public offering. Chemtrade operates in four business segments: Sulphur Products & Performance Chemicals ("SPPC"), Water Solutions & Specialty Chemicals ("WSSC"), Electrochemicals ("EC") and Corporate ("Corp"). On May 31, 2017, the sale of the International segment, which had been classified as a discontinued operation, see note 5, was completed. For additional information regarding Chemtrade's business segments, see note 27.

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 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements were authorized for issue by the Board of Trustees ("Board") on February 13, 2019.

### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the consolidated statement 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;

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 2. BASIS OF PREPARATION (continued):

- The defined benefit liability is recognized as the present value of the defined benefit obligation net of the fair value of the plan assets; 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 consolidated financial statements are presented in thousands of Canadian dollars, except for net earnings per unit information and per tonne information which is presented in Canadian dollars.

### (d) 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 included in the following notes:

- (i) Intangible assets (note 10):

When determining the value in use of goodwill and intangible assets during impairment testing, Chemtrade uses the following critical estimates: the timing of forecasted earnings; future selling prices and margins; future sales volumes; maintenance and other capital expenditures; and discount rates.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 2. BASIS OF PREPARATION (continued):

### (ii) Income taxes (note 24):

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that the deductions, tax credits and tax losses can be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on the tax rates and laws that have been enacted or substantively enacted at the date of the statement of financial position.

In the normal course of operations, judgment is required in assessing tax interpretations, regulations and legislation and in determining the provision for income taxes, deferred tax assets and liabilities, and the timing of reversals. To the extent that a recognition or de-recognition of a deferred tax asset is required, current period earnings or other comprehensive income will be affected.

### (iii) Reserve for Legal Proceedings (note 12):

Provisions for legal claims are recognized when Chemtrade has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions for legal claims are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized in the statement of comprehensive income as selling and administrative expenses. Changes in the estimated timing or amount of the expenditure or discount rate are recognized in profit or loss when the changes arise.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 3. SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies set out below have been applied consistently by Chemtrade's entities to all periods presented in these consolidated financial statements.

### (a) Basis of consolidation

The consolidated financial statements include the financial statements of Chemtrade and its controlled subsidiaries. Control is achieved when Chemtrade has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

#### (i) Business combinations:

Chemtrade measures goodwill as the fair value of the consideration transferred less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the difference is negative, a bargain purchase gain is recognized immediately in comprehensive income.

Transaction costs, other than those associated with the issue of debt or equity securities, that Chemtrade incurs in connection with a business combination are expensed as incurred.

#### (ii) Transactions eliminated on consolidation:

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

### (b) Foreign currency

#### (i) Foreign currency transactions:

Transactions in foreign currencies are translated to the respective functional currencies of Chemtrade and its subsidiaries at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on re-translation are recognized in earnings,

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued):

except for differences arising on the re-translation of qualifying cash flow hedges and net investment hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency gains and losses are reported on a net basis within selling and administrative expenses.

### (ii) Foreign operations:

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income and in accumulated other comprehensive income in unitholders' equity.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income and in the cumulative translation account in unitholders' equity.

### (iii) Hedge of a net investment in foreign operations:

Chemtrade applies hedge accounting to foreign currency differences arising between the functional currency of its foreign operations that use the U.S. dollar and Chemtrade's functional currency, Canadian dollars.

To the extent that the hedge is effective, foreign currency differences arising on the translation of Chemtrade's U.S. dollar-denominated long-term debt, which is designated as the hedge of the net investment in foreign operations that use the U.S. dollar, are recognized in other comprehensive income and in accumulated other comprehensive income in unitholders' equity.

### (c) Inventories

Finished goods inventory is valued at the lower of average cost and net realizable value. Average cost includes all costs of purchase, costs of conversion and other costs incurred to bring inventories to their present location and condition. Costs of conversion include a systematic allocation of fixed

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued):

and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on normal production capacity. Raw material inventory and operating supplies are recorded at the lower of cost determined on a first-in, first-out basis, and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

### (d) Property, plant and equipment

#### (i) Recognition and measurement:

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized within cost of sales and selling and administrative expenses in comprehensive income.

#### (ii) Subsequent costs:

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to Chemtrade, and its cost can be measured reliably. The carrying amount of the replaced part is de-recognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in comprehensive income as incurred.



# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued):

### (iii) Depreciation:

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its expected residual value.

Depreciation is recognized in comprehensive income on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods of plant and equipment are as follows:

- |                       |              |
|-----------------------|--------------|
| ▪ Building            | 5 - 40 years |
| ▪ Equipment           | 5 - 40 years |
| ▪ Furniture and other | 3 - 10 years |

Facilities and equipment under construction do not begin to be depreciated until substantially complete and ready for productive use.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

## (e) Intangible assets

### (i) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to Chemtrade's cash generating units ("CGUs") that are expected to benefit from the synergies of the business combination.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued):

### (ii) Other intangible assets:

Other intangible assets include the estimated fair value, based on discounted cash flows, at the date of acquisition of long-term customer and vendor relationships.

### (iii) Amortization of intangibles:

Amortization of intangible assets, excluding goodwill, is calculated over the estimated fair value upon recognition of the asset.

Amortization is recognized in comprehensive income on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. The estimated useful lives for the current and comparative periods are as follows:

- |                                     |               |
|-------------------------------------|---------------|
| ▪ Customer and vendor relationships | 10 - 16 years |
| ▪ Other                             | 5 - 10 years  |

## (f) Impairment

### (i) Trade and other receivables:

In relation to trade and other receivables, a provision for impairment is made and an impairment loss is recognized in comprehensive income when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that Chemtrade will not be able to collect all of the amounts due under the original terms of the invoice. This analysis is performed using a forward-looking “expected credit loss” model under IFRS 9. The carrying amount of the receivable is reduced through use of an allowance account for expected credit losses. Impaired debts are written off against the allowance account when they are assessed as uncollectible. Any subsequent reversal of an impairment loss is recognized in comprehensive income.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued):

### (ii) Goodwill:

At the end of each reporting period, Chemtrade reviews the carrying amounts of its CGUs to determine whether there is an indication that those assets are impaired. If such an indication exists, Chemtrade will perform an impairment test.

Goodwill is not amortized, however Chemtrade performs an annual test for goodwill impairment in the fourth quarter of each fiscal year.

### *Valuation techniques*

The recoverable value of each CGU is based on the higher of its value in use and its fair value less costs to sell. The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on both external sources and internal sources.

If the recoverable value of the CGU is estimated to be less than its carrying amount, the carrying amount of the CGU is reduced to its recoverable value. An impairment loss is recognized immediately in comprehensive income. Any impairment loss on goodwill that is recognized cannot be reversed.

### *Value in use approach*

The value in use approach is predicated upon the value of the future cash flows that a business will generate going forward. The discounted cash flow method is used which involves projecting cash flows and converting them into a present value equivalent through discounting. The discounting process uses a rate of return that is commensurate with the risks associated with the business or asset and the time value of money. This approach requires assumptions about revenue, operating margins, capital expenditures, tax rates, growth rates and discount rates.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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

The following is a description of significant assumptions in obtaining the value in use:

#### *Growth*

The assumptions are based on Chemtrade's internal budget which is approved by the Board. Chemtrade projects revenue, operating margins and cash flows for a period of five years, and applies a perpetual long-term growth rate thereafter. In arriving at its forecasts, Chemtrade considers past experience, economic trends such as GDP growth and inflation as well as industry and market trends. The projections also take into account the expected impact from new product initiatives, customer retention and integration programs, and the maturity of the markets in which each business operates.

#### *Discount rate*

Chemtrade assumes a pre-tax discount rate in order to calculate the present value of its projected cash flows. The discount rate represents a weighted average cost of capital ("WACC"). The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate.

Determination of the WACC requires separate analysis of the cost of equity and debt, and considers a risk premium based on an assessment of risks related to the projected cash flow of each CGU.

#### *Fair value less costs to sell approach*

Fair value less costs to sell is the amount obtainable from the sale of a CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. The appropriate market price is usually based on a multiplier based on earnings before interest, taxes, depreciation and amortization.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued):

### (iii) Other non-financial assets carried at amortized cost:

If there is objective evidence that an impairment loss on a non-financial asset carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and its recoverable value. The carrying amount of the non-financial asset is then reduced by the amount of the impairment and the loss is recognized in comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the non-financial asset does not exceed the amortized cost had the impairment not been recognized.

### (g) Employee benefits

#### (i) Defined contribution plans:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in comprehensive income in the periods during which services are rendered by employees.

#### (ii) Defined benefit plans:

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Chemtrade's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is then discounted to determine its present value and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on high quality bonds that have maturity dates approximating the terms of Chemtrade's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued):

Chemtrade recognizes all actuarial gains and losses and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability) arising from defined benefit plans immediately in other comprehensive income, and reports them in deficit. Depending on the plan, expenses such as plan amendments, current service costs, administration costs, and interest costs are recorded in either cost of sales or selling and administrative expenses within comprehensive income.

### (iii) Multi-employer plan:

Chemtrade participates in a multi-employer pension plan, which is accounted for as a defined contribution plan. Chemtrade does not administer this plan but rather the administration and the investment of these assets are controlled by a board of trustees consisting of union and employer representatives. Chemtrade's responsibility to make contributions to this plan is established pursuant to its collective agreements.

### (iv) Share-based compensation:

Chemtrade operates a Long-Term Incentive Plan ("LTIP") which grants cash awards based on certain criteria. These awards are accounted for as liabilities with the value of these liabilities being re-measured at each reporting period, based upon changes in the fair value of the awards. Any gains or losses on re-measurement are recorded in selling and administrative expenses, provided that the compensation cost accrued during the performance period is not adjusted below zero.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued):

### (h) Revenue recognition

#### (i) Sale of products:

Revenue from the sale of goods in the course of ordinary activities is measured and recorded at the most likely amount of consideration expected to be received, net of returns, trade discounts and volume rebates. Revenue is recognized at the point in time when control of the product transfers to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized. The timing of the transfers of control varies depending on the individual terms of the contract of sale.

Revenue from the sales of products are recognized when control is passed to the customer according to the terms of the contract, which could be upon shipment of goods or when the product reaches the customer site. In certain cases, customers will pick up the products at Chemtrade's plants and Chemtrade will recognize revenues when the product is picked up.

For products sold to pipeline customers, revenue is recognized when the product crosses the property line through the pipeline. This is the point typically where the product is considered delivered and control of the product transfers to the customer.

#### (ii) Processing services:

Revenue earned on processing services is recognized when the services have been rendered in accordance with contractual terms, recovery of the consideration is probable, the associated costs can be estimated reliably, and the amount of revenue can be measured reliably. Monies received in advance of services provided is recorded as deferred revenue in other long-term liabilities.

Chemtrade provides processing services to customers that are continuous and ongoing in nature. Generally, processing services are provided for a specified period of time and are not based on volumes or the completion of specific milestones. Therefore, revenue for processing services are recorded during the period in which the contracted services are provided.

#### (iii) Other:

Revenue on the sale of certain commodities within the International segment, sold in fiscal 2017, was recorded on a net basis. Revenue was recognized when selling prices were



# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued):

fixed or were determinable, significant risks and rewards of ownership were transferred to the buyer, and collection was reasonably assured.

### (i) Provisions

A provision is recognized if, as a result of a past event, Chemtrade has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

#### (i) Onerous contracts:

A provision for onerous contracts is recognized when the expected benefits to be derived by Chemtrade from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, Chemtrade considers whether an impairment loss on the assets associated with that contract needs to be recognized, and if appropriate recognizes such loss.

#### (ii) Site restoration:

Chemtrade recognizes provisions for statutory, contractual, constructive or legal obligations associated with site restoration in respect of Chemtrade's plants.

The fair value of estimated asset retirement obligations is recognized when identified and a reasonable estimate of fair value can be made. The asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. The asset retirement cost is depreciated over the asset's estimated useful life and included in cost of sales and services. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion of the asset retirement obligation.

#### (iii) Environmental liabilities:

A provision for environmental liabilities is recorded based on current interpretation of environmental laws and regulations when it is probable that a liability has been incurred and the amount of such a liability can be reliably estimated. Changes to this provision are recorded as an expense in the period they arise.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued):

### (iv) Reserve for Legal Proceedings:

Provisions for legal claims are recognized when Chemtrade has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions for legal claims are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized in the statement of comprehensive income as selling and administrative expenses. Changes in the estimated timing or amount of the expenditure or discount rate are recognized in profit or loss when the changes arise.

### (j) Financial instruments

#### (i) Non-derivative financial assets:

Chemtrade initially recognizes financial assets measured at amortized cost at fair value on the date that they are originated. All other financial assets (including assets measured at fair value through profit or loss) are recognized at fair value on the trade date at which Chemtrade becomes a party to the contractual provisions of the instrument.

Chemtrade de-recognizes a financial asset when the contractual rights to the cash flows from the asset expire. Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when Chemtrade has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Chemtrade's non-derivative financial assets comprise of trade and other receivables and cash and cash equivalents.

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial assets are measured at amortized cost using the effective interest method, less any net impairment losses.

Cash is composed of cash at banks and on hand. Cash equivalents are highly liquid investments having original terms to maturity of 90 days or less when acquired and are measured at amortized cost.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued):

### (ii) Non-derivative financial liabilities:

Chemtrade initially recognizes long-term debt and convertible unsecured subordinated debentures at fair value on the date that they are originated. All other financial liabilities are recognized initially at fair value on the trade date at which Chemtrade becomes a party to the contractual provisions of the instrument.

Chemtrade de-recognizes a financial liability when its contractual obligations are discharged, cancelled or expired. Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when Chemtrade has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Chemtrade's non-derivative financial liabilities include trade and other payables, distributions payable, long-term debt and convertible unsecured subordinated debentures. Such financial liabilities, other than convertible unsecured subordinated debentures, are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

The convertible unsecured subordinated debentures are recognized initially at fair value. Transaction costs related to the convertible unsecured subordinated debentures are expensed as incurred. Subsequent to initial recognition, the convertible unsecured subordinated debentures are measured at fair value at each period end date with the changes recorded in comprehensive income. Any changes in the fair value due to Chemtrade's own credit risk are presented in other comprehensive income rather than net earnings.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued):

### (iii) Units:

Units are classified as equity. Incremental costs directly attributable to the issue of units are recognized as a deduction from equity, net of any tax effects. Distributions thereon are recognized as distributions within equity.

When units recognized as equity are re-purchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity.

### (iv) Derivative financial instruments:

Chemtrade holds derivative financial instruments to mitigate its foreign currency, commodity, and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in comprehensive income as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized immediately in comprehensive income, except for derivatives designated as cash flow hedges as noted below.

### (v) Hedging:

On initial designation of the hedge, Chemtrade formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. Chemtrade makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be “highly effective” in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a forecast transaction to be considered a cash flow hedge, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported earnings.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued):

### *Cash flow hedges*

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect earnings, the effective portion of changes in the fair value of the derivative is recognized in accumulated other comprehensive income. The amount recognized in other comprehensive income is removed and included in earnings in the same period as the hedged cash flows affect earnings under the same line item in the consolidated statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in earnings.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income and presented in unrealized gains/losses on cash flow hedges in equity remains there until the forecast transaction affects earnings. When the hedged item is a non-financial asset, the amount recognized in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognized. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in earnings. In other cases the amount recognized in other comprehensive income is transferred to earnings in the same period that the hedged item affects earnings.

### *IFRS 9 accounting policy choice for hedge accounting*

IFRS 9 includes an accounting policy choice between deferring the adoption of the new hedge accounting standards under IFRS 9 and continuing with the IAS 39 hedge accounting standards. Chemtrade has decided to continue to apply IAS 39 hedge accounting standards.

## **(k) Lease payments**

Payments made under operating leases are recognized in comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued):

### (l) Finance income and finance costs

Finance income is comprised of interest income on funds invested, changes in the fair value of financial assets and liabilities at fair value through profit or loss, and gains on hedging instruments that are recognized in comprehensive income. Interest income is recognized as it accrues in comprehensive income, using the effective interest method.

Finance costs are comprised of interest expense on borrowings, transaction costs and related accretion, pension interest, accretion of provisions, changes in the fair value of financial liabilities at fair value through profit or loss and losses on the ineffective portion of hedging instruments that are recognized in comprehensive income. Borrowing costs that are not directly attributable to the construction or production of a qualifying asset are recognized in comprehensive income using the effective interest method.

### (m) Income tax

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in earnings except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates and laws enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future;
- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits; and
- taxable temporary differences arising on the initial recognition of goodwill.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

In determining the amount of current and deferred tax, Chemtrade takes into account the impact of uncertain tax provisions and whether additional taxes and interest may be due. Chemtrade believes that its accruals for tax liabilities are adequate for all tax years subject to audit based on its assessment of many factors, including interpretations of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes Chemtrade to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### (n) Earnings per unit

Chemtrade presents basic and diluted earnings per unit ("EPU") data for its units. Basic EPU is calculated by dividing the earnings attributable to Unitholders of Chemtrade ("Unitholders") by the weighted average number of units outstanding during the period. Diluted EPU is determined by adjusting the earnings attributable to Unitholders and the weighted average number of units outstanding for the effects of all dilutive potential units, which currently consist of convertible unsecured subordinated debentures.



# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued):

### (o) Segment reporting

An operating segment is a component of Chemtrade that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of Chemtrade's other components. All operating segments' operating results are reviewed regularly by Chemtrade's Chief Executive Officer ("CEO") to make decisions about resources to be allocated to each segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily Chemtrade's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditures are the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill, excluding acquisitions for the segment.

### (p) 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 \$30,663 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. Chemtrade has updated its accounting policy for financial instruments to reflect the adoption of IFRS 9. Please refer to note 25 for changes to the classification of Chemtrade's financial instruments.

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. Chemtrade has updated its accounting policy for revenue recognition to reflect the adoption of IFRS 15.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued):

### (q) 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. Based on information currently available, Chemtrade expects to recognize lease liabilities of \$175,000 to \$200,000 on its consolidated statement of financial position as at January 1, 2019 as a result of adopting this standard.

In June 2017, the IFRS Interpretations Committee of the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23"). The interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The interpretation is effective for the annual period beginning on January 1, 2019. Chemtrade does not expect IFRIC 23 to have a material impact on its consolidated financial statements.

## 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 the 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").

CEI is an Alberta corporation which produces sodium chlorate and chlor-alkali products largely for the pulp and paper, oil and gas and water treatment industries. Its main operations are in Canada, the United States of America and South America.

The Acquisition was accounted for under the acquisition method of accounting, and the results of operations since the date of acquisition were included in comprehensive income.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

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## 4. CANEXUS ACQUISITION (continued):

On January 27, 2017, the Fund completed an offering of subscription receipts at a price of \$18.35 per unit. The offering was undertaken on a bought deal basis by a syndicate of underwriters. The Fund issued 21,800,000 subscription receipts, resulting in aggregate gross proceeds of approximately \$400,000. The net proceeds of the offering were used to partially fund the Acquisition. Upon closing of the Acquisition, the subscription receipts issued in the offering were exchanged on a one-for-one basis for units of the Fund without payment of additional consideration or further action, and an aggregate of 21,800,000 units were issued.

The Acquisition was structured as a share acquisition for total consideration of \$935,860. The Acquisition was financed by a combination of: (i) \$1,408,996 (US\$1,050,000) syndicated senior secured credit facilities consisting of a \$436,118 (US\$325,000) term loan and a \$972,878 (US\$725,000) revolver with a \$268,380 (US\$200,000) optional accordion (the "Credit Facilities"); (ii) the net proceeds of the equity offering of 21,800,000 units noted above; (iii) the assumption of \$372,799 of CEI's (formerly, Canexus') long-term debt which consisted of \$110,000 of senior notes and \$262,799 of extendible revolving credit facilities; and (iv) the assumption of \$254,696 fair value of CEI's (formerly, Canexus') convertible debentures comprised of the 5.75% convertible unsecured subordinated Series IV debentures due December 31, 2018 (the "CEI Series IV Debentures"); the 6.00% convertible unsecured subordinated Series V debentures due December 31, 2020 (the "CEI Series V Debentures") and the 6.50% convertible unsecured subordinated Series VI debentures due December 31, 2021 (the "CEI Series VI Debentures"; the CEI Series IV Debentures, the CEI Series V Debentures and the CEI Series VI Debentures collectively, the "CEI Debentures"). In connection with the Acquisition, a portion of Chemtrade's new Credit Facilities were used to repay its existing credit facilities and CEI's (formerly, Canexus') extendible revolving credit facilities. The amount drawn on the Credit Facilities to finance the Acquisition and to repay both Chemtrade's and CEI's (formerly, Canexus') existing credit facilities was \$687,070. As a result of the repayment, Chemtrade expensed \$5,508 of previously deferred financing costs. Costs related to the new Credit Facilities of \$6,601 have been reflected in long-term debt for the year ended December 31, 2017. These costs have been deferred and amortized to finance costs in comprehensive income using the effective interest method.

The aggregate consideration for this acquisition was allocated as follows:

		March 10, 2017
Cash	\$	308,365
Long-term debt assumed at fair value		372,799
Convertible debentures assumed at fair value		254,696
<b>Total consideration</b>	<b>\$</b>	<b>935,860</b>

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

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## 4. CANEXUS ACQUISITION (continued):

The purchase price allocation for the Acquisition was as follows:

		As at December 31, 2017
Working capital (including cash acquired of \$27,160)	\$	93,339
Property, plant and equipment		582,960
Other assets		6,691
Intangible assets		281,000
Goodwill		42,822
Deferred tax assets		60,513
Other long-term liabilities		(16,284)
Employee benefits		(12,213)
Provisions		(61,522)
Deferred tax liabilities		(41,446)
<b>Consideration</b>	<b>\$</b>	<b>935,860</b>

Directly attributable Acquisition-related costs were \$11,939, of which \$8,472 were expensed in 2016, with the remainder expensed in 2017. These were included in selling and administrative expenses in comprehensive income.

As part of the integration of the acquired businesses, Chemtrade reconfigured its business segments and introduced a new segment called Electrochemicals ("EC"), which includes Chemtrade's sodium chlorate business and the acquired businesses. Segmented information in note 27 includes the EC segment for the years ended December 31, 2018 and 2017.

The amount of revenue and earnings attributable to CEI since Acquisition have been included in the consolidated statement of comprehensive income. For the year ended December 31, 2017, revenue had increased by \$500,723 and net earnings increased by \$32,426 as a result of the Acquisition.

### (a) Pro forma information:

The following pro forma revenue and earnings were prepared in accordance with IFRS as if the Acquisition had occurred on January 1, 2017. The pro forma consolidated revenue and earnings are not intended to be indicative of the results that would actually have occurred, or the results expected in future periods, had the events reflected herein occurred on the date indicated.

Any potential synergies that may have been realized and integration costs that may have been incurred were excluded from the pro forma revenue and earnings.

# CHEMTRADE LOGISTICS INCOME FUND

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

Year ended December 31, 2018 and 2017

## 4. CANEXUS ACQUISITION (continued):

### *Pro forma assumptions and adjustments*

Certain adjustments were reflected in the pro forma information below to illustrate the effects of purchase accounting where the impact could be reasonably estimated. The adjustments were:

- To increase depreciation expense to reflect depreciation of the fair value increment on property, plant and equipment, and amortization expense to reflect amortization of the intangibles acquired
- To include additional interest costs on the new Credit Facilities, including accretion of transaction costs
- To remove interest costs from old debt of Canexus that has been paid off as part of the Acquisition
- To remove Chemtrade and Canexus Acquisition costs
- To eliminate intercompany sales and purchases between Chemtrade and Canexus
- To consider the effect of taxes on all the above-listed adjustments

	Year ended December 31, 2017		
	Actual	Adjustment	Pro Forma
Revenue	\$ 1,469,138	\$ 114,608	\$ 1,583,746
Net earnings	\$ 147,359	\$ 7,726	\$ 155,085

## 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. Chemtrade realized a gain of \$16,294, after taxes upon the sale of the business for the year ended December 31, 2017. 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 the year ended December 31, 2017.

The comparative consolidated statement of comprehensive income and other relevant notes present the discontinued operation separately from continuing operations for the year ended December 31, 2017.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

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## 5. DISCONTINUED OPERATIONS (continued):

### (a) Results of discontinued operations:

		Year ended December 31, 2017
Revenue	\$	41,942
Cost of sales and services		(36,720)
Gross profit		5,222
Selling and administrative expenses		(2,666)
Operating income		2,556
Finance income		22
Finance costs		(43)
Income (loss) before tax		2,535
Income tax (expense) recovery		
Current		(9,861)
Deferred		10,619
		758
Results from operating activities, net of tax		3,293
Cumulative foreign exchange differences		48,950
Gain on sale of discontinued operation		18,120
Deferred income tax on gain on sale of discontinued operations		(1,826)
Net earnings (loss) from discontinued operations	\$	68,537
Net earnings (loss) per unit from discontinued operations		
Basic earnings (loss) per unit	\$	0.78
Diluted earnings (loss) per unit	\$	0.65

# CHEMTRADE LOGISTICS INCOME FUND

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

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## 5. DISCONTINUED OPERATIONS (continued):

### (b) Cash flows (used in) from discontinued operations:

	Year ended December 31,	
	2017	
Net cash flows (used in) from operating activities	\$	(3,809)
Net cash flows from (used in) investing activities		51,058
<b>Net cash inflows for the year</b>	<b>\$</b>	<b>47,249</b>

### (c) Effect of disposal on financial position:

	At May 31, 2017	
Inventories	\$	1,412
Trade and other receivables		11,469
Prepaid expenses and other assets		1,040
Property, plant and equipment		5,747
Intangible assets		28,907
Deferred income tax asset		819
Trade and other payables		(9,793)
Employee benefits		(8,589)
<b>Net assets disposed</b>	<b>\$</b>	<b>31,012</b>
Consideration received, in cash	\$	57,692
Cash and cash equivalents disposed		(6,465)
Disposal costs		(2,095)
<b>Net cash inflow</b>	<b>\$</b>	<b>49,132</b>

## 6. TRADE AND OTHER RECEIVABLES:

	2018		2017	
Trade and other receivables before expected credit losses	\$	202,437	\$	217,905
Less: expected credit losses		(2,566)		(2,756)
<b>Trade and other receivables</b>	<b>\$</b>	<b>199,871</b>	<b>\$</b>	<b>215,149</b>

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

## 6. TRADE AND OTHER RECEIVABLES (continued):

As disclosed in note 26, Chemtrade is exposed to normal credit and currency risks with respect to its accounts receivable. At December 31, 2018, 83.9% (2017 - 84.4%) of accounts receivable are less than 30 days past due, and less than 2% (2017 - less than 3%) of accounts receivable are greater than 120 days past due that are not provided for.

While Chemtrade evaluates a customer's credit worthiness before credit is extended, provisions for expected credit losses are also maintained. The change in allowance for expected credit losses were as follows:

	2018	2017
Balance at beginning of year	\$ 2,756	\$ 934
Adjustments made during the year	133	2,590
Write-offs	(323)	(768)
<b>Balance at end of year</b>	<b>\$ 2,566</b>	<b>\$ 2,756</b>

## 7. INVENTORIES:

Chemtrade's inventories are as follows:

	2018	2017
Raw materials	\$ 72,827	\$ 57,752
Finished goods	39,529	33,875
Operating supplies	31,183	30,003
	<b>\$ 143,539</b>	<b>\$ 121,630</b>

The amount of inventories recognized as an expense during the year ended December 31, 2018 was \$925,960 (2017 - \$718,892).



# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

## 8. PROPERTY, PLANT AND EQUIPMENT:

Chemtrade's property, plant and equipment are as follows:

		Land	Plant and equipment	Facilities and equipment under construction	Total
<b>Cost</b>					
Balance at January 1, 2017	\$	54,113	\$ 1,240,460	\$ 39,523	\$ 1,334,096
Additions		—	—	74,944	74,944
Site restoration provisions		—	1,894	—	1,894
Transfers		—	41,334	(41,334)	—
Asset retirements and write-downs		(155)	(43,640)	(379)	(44,174)
Acquisition (note 4)		45,108	528,380	9,472	582,960
Translation		(3,584)	(70,160)	(2,553)	(76,297)
Balance at December 31, 2017	\$	95,482	\$ 1,698,268	\$ 79,673	\$ 1,873,423
Additions		—	—	92,366	92,366
Site restoration provisions		—	82	—	82
Transfers		—	68,662	(68,662)	—
Asset retirements and write-downs		(6,074)	(14,586)	—	(20,660)
Translation		4,220	100,766	4,885	109,871
Balance at December 31, 2018	\$	93,628	\$ 1,853,192	\$ 108,262	\$ 2,055,082
<b>Accumulated depreciation</b>					
Balance at January 1, 2017	\$	—	\$ (543,229)	\$ —	\$ (543,229)
Depreciation		—	(132,445)	—	(132,445)
Asset retirements and write-downs		—	41,218	—	41,218
Translation		—	23,382	—	23,382
Depreciation allocated to inventory		—	(428)	—	(428)
Balance at December 31, 2017	\$	—	\$ (611,502)	\$ —	\$ (611,502)
Depreciation		—	(140,762)	—	(140,762)
Asset retirements and write-downs		—	9,230	—	9,230
Translation		—	(51,877)	—	(51,877)
Depreciation allocated to inventory		—	499	—	499
Balance at December 31, 2018	\$	—	\$ (794,412)	\$ —	\$ (794,412)
<b>Net carrying amount</b>					
December 31, 2017	\$	95,482	\$ 1,086,766	\$ 79,673	\$ 1,261,921
December 31, 2018	\$	93,628	\$ 1,058,780	\$ 108,262	\$ 1,260,670

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

## 9. OTHER ASSETS:

Chemtrade's other assets are as follows:

	2018	2017
Deferred rent expense	2,324	2,169
Deferred charges	5,421	6,857
Interest rate swap asset (note 25)	332	772
Long-term receivable	3,144	4,681
Other	422	146
	<b>\$ 11,643</b>	<b>\$ 14,625</b>

## 10. INTANGIBLE ASSETS:

Chemtrade's intangible assets and goodwill are as follows:

	Goodwill	Customer Relationships	Other	Total
<b>Cost</b>				
Balance at January 1, 2017	\$ 786,261	\$ 463,718	\$ 61,630	\$ 1,311,609
Acquisition (note 4)	42,822	—	281,000	323,822
Translation	(39,758)	(16,808)	(3,758)	(60,324)
Balance at December 31, 2017	\$ 789,325	\$ 446,910	\$ 338,872	\$ 1,575,107
Impairment	\$ (90,000)	\$ —	\$ —	\$ (90,000)
Translation	49,521	20,931	5,257	75,709
Balance at December 31, 2018	\$ 748,846	\$ 467,841	\$ 344,129	\$ 1,560,816
<b>Accumulated Amortization</b>				
Balance at January 1, 2017	\$ —	\$ (224,066)	\$ (17,974)	\$ (242,040)
Amortization	—	(43,383)	(29,035)	(72,418)
Translation	—	6,609	1,348	7,957
Balance at December 31, 2017	\$ —	\$ (260,840)	\$ (45,661)	\$ (306,501)
Amortization	—	(39,271)	(34,474)	(73,745)
Translation	—	(10,602)	(2,332)	(12,934)
Balance at December 31, 2018	\$ —	\$ (310,713)	\$ (82,467)	\$ (393,180)
<b>Net carrying amount</b>				
December 31, 2017	\$ 789,325	\$ 186,070	\$ 293,211	\$ 1,268,606
December 31, 2018	\$ 748,846	\$ 157,128	\$ 261,662	\$ 1,167,636

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

## 10. INTANGIBLE ASSETS (continued):

### Impairment testing for cash-generating units containing goodwill

Chemtrade performed its annual test for goodwill impairment in the fourth quarter of 2018 in accordance with its policy described in note 3. The recoverable amount is based on the value in use approach. The recoverable amount of all CGUs exceeded their carrying values, except for the water treatment CGU in WSSC, where the carrying value exceeded the recoverable amount by \$90,000 and an impairment loss of \$90,000 was fully allocated to goodwill and recognized in cost of sales and services. Lower levels of gross profit for water treatment products were the cause of the impairment in the WSSC CGU.

Following the impairment recognized in the water treatment CGU, the recoverable amount was equal to the carrying value. Any adverse movement in a key assumption would lead to further impairment.

The carrying value of goodwill for the SPPC segment is \$312,872 (2017 - \$288,599), for WSSC segment is \$393,152 (2017 - \$457,904) and for the EC segment is \$42,822 (2017 - \$42,822).

The key assumptions used in performing the impairment test for all CGU's were as follows:

	2018
Discount rate	11.2% - 12.7%
Growth rate for forecast period	2.5% - 4.0%
Perpetual growth rate	2.50%
Time period	5 years

## 11. TRADE AND OTHER PAYABLES:

Chemtrade's payables are as follows:

	2018	2017
Trade payables	\$ 175,948	\$ 161,330
Non-trade payables and accrued expenses	62,630	69,027
	<u>\$ 238,578</u>	<u>\$ 230,357</u>

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

## 12. PROVISIONS:

	Onerous Contracts	Site Restoration	Environmental Liability	Legal Provision	Total
Balance at January 1, 2017	\$ —	\$ 3,026	\$ 63,938	\$ —	\$ 66,964
Acquisition (note 4)	—	62,672	—	—	62,672
Additions	8,567	1,894	49	—	10,510
Accretion	—	1,071	1,599	—	2,670
Payments	(309)	(640)	(3,895)	—	(4,844)
Translation	—	(905)	(3,535)	—	(4,440)
	8,258	67,118	58,156	—	133,532
Less: Current portion	1,754	1,636	9,352	—	12,742
Balance at December 31, 2017	\$ 6,504	\$ 65,482	\$ 48,804	\$ —	\$ 120,790
Additions	133	2,362	—	100,000	102,495
Accretion	347	1,467	1,329	—	3,143
Payments	(1,512)	(534)	(4,106)	(13,002)	(19,154)
Translation	—	247	5,503	7,928	13,678
	7,226	70,660	60,882	94,926	233,694
Less: Current portion	1,640	10,796	11,541	94,926	118,903
Balance at December 31, 2018	\$ 5,586	\$ 59,864	\$ 49,341	\$ —	\$ 114,791

### (a) Onerous contracts

In 2017, Chemtrade recorded an onerous contract provision related to the lease for CEI's former corporate office in Calgary. Payments on this contract are expected to occur until 2023.

### (b) Site restoration

Chemtrade has estimated a retirement obligation for its plants and has accrued for this obligation. Site restoration is expected to occur on dates ranging from 2019 to 2050.

### (c) Environmental liability

Chemtrade has estimated a provision for its environmental liability in association with its plants. Expenditures are expected to occur on dates ranging from 2019 to 2048.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

## 12. PROVISIONS (continued):

### (d) 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 November 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 final court approval.

Selling and administrative expenses for the year ended December 31, 2018 include an expense of \$100,000 (see note 21), 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.

## 13. LONG-TERM DEBT:

	Year ended December 31,	
	2018	2017
Term bank debt		
US\$325,000 (December 31, 2017 - US\$325,000)	\$ 443,203	\$ 408,558
Revolving credit		
US\$183,554 (December 31, 2017 - US\$103,513)	250,313	130,124
Canadian dollar-denominated	—	32,553
Less: Transaction costs	(4,502)	(4,597)
Long-term debt (note (a))	\$ 689,014	\$ 566,638
Senior unsecured notes (note (b))	—	71,500
Long-term loan - Fort McMurray facility (note (c))	—	7,936
	\$ 689,014	\$ 646,074
Less: Current portion	—	(3,930)
Long-term debt	\$ 689,014	\$ 642,144

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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

### (a) Long-term debt

At December 31, 2018, Chemtrade had senior credit facilities of \$1,159,146 (US \$850,000), consisting of a term loan of \$443,203 (US\$325,000), and a revolving credit facility of \$715,943 (US\$525,000). At December 31, 2018, Chemtrade had drawn \$250,313 (December 31, 2017 - \$162,677) on the revolving credit facility and had committed a total of \$18,433 (December 31, 2017 - \$22,615) of this facility towards standby letters of credit.

The Credit Facilities are secured by certain property, plant and equipment of Chemtrade. At December 31, 2018, the weighted average effective interest rate of the facilities is 4.0% (December 31, 2017 - 3.4%).

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. Subsequently, during the fourth quarter of 2018 Chemtrade further modified the terms of the Credit Facilities to extend the maturity date to December 2023. Chemtrade incurred \$512 of transaction costs related to the modification. These costs have also been deferred and are being amortized to finance costs in comprehensive income using the effective interest method.

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 December 31, 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

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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

plus accrued and unpaid interest, if any, to the redemption date. Interest payments commenced on March 10, 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 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 for the year ended December 31, 2017.

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 for the year ended December 31, 2018.

### (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.

## 14. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES:

As part of the Acquisition on March 10, 2017, Chemtrade assumed all of the outstanding CEI Debentures issued by Canexus 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

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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

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.

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

At December 31, 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.



# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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

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

Chemtrade has designated its Debentures as financial liabilities at fair value through profit or loss. At December 31, 2018, the fair value of the Debentures was \$579,219 (December 31, 2017 - \$640,689).

For the year ended December 31, 2018, there were net finance costs of \$31,571 (2017 - \$40,055) related to the Debentures, which included a gain of \$1,668 (2017 - gain of \$2,154) due to the change in fair value of the Debentures, interest expense of \$33,239 (2017 - \$33,050) and transaction costs of \$nil (2017 - \$9,159). For the year ended December 31, 2018, the change in fair value of the Debentures due to Chemtrade's own credit risk was a gain of \$59,802, which has been presented in other comprehensive income rather than net earnings.

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

### Year ended December 31, 2018

	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

### Year ended 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

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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Year ended December 31, 2018 and 2017

## 15. OTHER LONG-TERM LIABILITIES:

Chemtrade's other long-term liabilities are as follows:

	2018	2017
Long-term portion of LTIP liability (note 18)	6,364	9,765
Reserve for self-insurance	4,091	3,771
Lease obligations	2,215	1,832
Long-term payable	2,100	2,398
Other	3,518	3,062
	\$ 18,288	\$ 20,828

## 16. EMPLOYEE BENEFITS:

Chemtrade provides certain health care and pension benefits for certain employees upon retirement. The benefits under the International plan were discontinued upon the sale of the International business segment on May 31, 2017. See note 5.

Generally, under the pension plans, Chemtrade provides retirement benefits based on an employee's years of service and average annual earnings over a period of time prior to retirement. Chemtrade is responsible for meeting its statutory obligations for funding of the pension plans.

Certain hourly employees participate in the Pulp and Paper Industry Pension Trust Fund, a multi-employer, defined contribution pension plan. The plan is funded by employer and employee contributions. The employer-related expense under this plan in 2018 was \$228 (2017 - \$224).

Chemtrade also provides other employee future benefits, including health and dental care benefits and life insurance, for retired employees.

Short-term employee benefits for current employees, such as salaries, paid absences, bonuses and other benefits, are accounted for on an accrual basis over the period in which the employees provide the related services. In 2018, \$166,552 (2017 - \$151,372) of short-term employee benefits were recognized in cost of sales and services, and \$46,517 (2017 - \$61,985) were recognized in selling and administrative expenses.

Chemtrade expects \$6,815 in contributions to be paid to its defined benefits plans in 2019.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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## 16. EMPLOYEE BENEFITS (continued):

	2018	2017
Present value of unfunded obligations	\$ 6,913	\$ 11,314
Present value of funded obligations	371,716	387,403
Total present value of obligations	378,629	398,717
Fair value of plan assets	(328,516)	(336,199)
Recognized liability for defined benefit obligations	\$ 50,113	\$ 62,518

	2018	2017
<b>Components of net periodic benefit cost</b>		
Current service cost	\$ 2,947	\$ 2,554
Net interest cost	1,932	2,810
Administration costs	2,404	2,174
(Gain) loss on curtailment	(907)	677
Net periodic benefit cost recognized	\$ 6,376	\$ 8,215

	2018	2017
<b>Net periodic benefit cost allocation</b>		
Cost of sales	\$ 1,912	\$ 1,969
Selling and administrative expenses	2,532	3,359
Net finance costs	1,932	2,768
Net earnings from discontinued operations	—	119
Net periodic benefit cost recognized	\$ 6,376	\$ 8,215

	2018	2017
<b>Other comprehensive income</b>		
Return on plan assets, excluding interest income	\$ 18,265	\$ (30,721)
Actuarial (gains) losses	(30,143)	13,329
Gain recognized in OCI during the year	\$ (11,878)	\$ (17,392)

# CHEMTRADE LOGISTICS INCOME FUND

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## 16. EMPLOYEE BENEFITS (continued):

	2018	2017
<b>Weighted average assumptions</b>		
Discount rate	4.17%	3.59%
Ultimate other medical trend rate	4.00%	4.50%
Salary escalation	3.00%	3.00%

	2018	2017
<b>Change in accrued benefit obligation</b>		
Accrued benefit obligation at beginning of year	\$ 398,717	\$ 279,497
Acquisition (note 4)	—	129,086
Current service cost	2,947	2,554
Interest cost	13,217	12,943
Contributions	392	340
Benefits paid	(24,814)	(23,208)
Gain on curtailment	(907)	677
Foreign exchange	19,220	(15,944)
Actuarial gain from changes in demographic assumptions	(3,842)	(5,615)
Actuarial (gain) loss from changes in financial assumptions	(25,784)	17,671
Actuarial (gain) loss from experience adjustments	(517)	1,273
Reclassified to liabilities directly associated with assets held for sale	—	(557)
Accrued benefit obligation at end of year	\$ 378,629	\$ 398,717

	2018	2017
<b>Change in plan assets</b>		
Plan assets at beginning of year	\$ 336,199	\$ 205,831
Acquisition (note 4)	—	116,873
Administration fee	(2,404)	(2,174)
Interest income	11,285	10,133
Contributions	11,193	10,270
Benefits paid	(24,814)	(23,208)
Foreign exchange	15,322	(12,189)
Return on plan assets, excluding interest income	(18,265)	30,721
Reclassified to liabilities directly associated with assets held for sale	—	(58)
Plan assets at end of year	\$ 328,516	\$ 336,199

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

## 16. EMPLOYEE BENEFITS (continued):

The asset mix in the plan is approximately 60.6% bonds (2017 - 50.8%), approximately 29.5% equity securities (2017 - 39.4%) and approximately 9.9% other investments (2017 - 9.8%).

Assumed discount rates and health care cost trend rates have an effect on the amounts recognized in comprehensive income. A one percentage point change in assumed rates, holding other assumptions constant, would affect the defined benefit obligation as follows:

	Defined benefit obligation	
	One percentage point increase	One percentage point decrease
Discount rate	\$ (37,175)	\$ 44,816

## 17. 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 (note 4)	—	—	21,800,000	395,831
Issuance costs (net of taxes) (note 4)	—	—	—	(12,598)
Conversion of unsecured subordinated convertible debentures	—	—	1,623,221	30,024
Balance – December 31	92,596,006	\$ 1,461,995	92,596,006	\$ 1,461,995

### (b) Contributed surplus

Chemtrade's contributed surplus relates to the re-purchase of units under a normal course issuer bid.

# CHEMTRADE LOGISTICS INCOME FUND

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

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

### (c) Accumulated other comprehensive income ("AOCI")

AOCI is comprised of the following separate components of equity:

#### ***Cumulative translation account***

The cumulative translation account comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

#### ***Unrealized gains/losses on cash flow and net investment hedges***

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. The reserve also comprises the cumulative foreign currency differences arising on the translation of Chemtrade's U.S. dollar-denominated long-term debt, which is designated as the hedge of the net investment in foreign operations that use the U.S. dollar.

#### ***Change in fair value of convertible debentures due to credit risk***

The convertible unsecured subordinated debentures are recognized initially at fair value. Subsequent to initial recognition, the convertible unsecured subordinated debentures are measured at fair value at each period end date with the changes recorded in comprehensive income. Any changes in the fair value due to Chemtrade's own credit risk are presented in other comprehensive income rather than net earnings.

### (d) Distributions

Distributions paid for the year ended December 31, 2018 were \$111,116 (2017 - \$104,091) or \$1.20 per unit (2017 - \$1.20 per unit). All of Chemtrade's distributions are discretionary and subject to Board approval.

Subsequent to year end, Chemtrade declared distributions of \$9,260, or \$0.10 per unit.

### (e) Net earnings per unit

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

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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

(i) Earnings per unit:

	2018	2017
<b>Numerator</b>		
Net (loss) earnings	\$ (131,517)	\$ 147,359
Net interest and fair value adjustment on convertible unsecured subordinated debentures <sup>(1)</sup>	—	13,488
Diluted net (loss) earnings	\$ (131,517)	\$ 160,847

<sup>(1)</sup> For the year ended December 31, 2018, the potential conversion of the convertible unsecured subordinated debentures has not been included as the effect on net earnings per unit would be anti-dilutive.

	2018	2017
<b>Denominator</b>		
Weighted average number of units	92,596,006	88,156,694
Weighted average convertible unsecured subordinated debenture dilutive units <sup>(1)</sup>	—	17,158,286
Weighted average number of diluted units	92,596,006	105,314,980

<sup>(1)</sup> For the year ended December 31, 2018, the potential conversion of the convertible unsecured subordinated debentures has not been included as the effect on net earnings per unit would be anti-dilutive.

(ii) Earnings per unit from continuing operations:

	2018	2017
<b>Numerator</b>		
Net (loss) earnings from continuing operations	\$ (131,517)	\$ 78,822
Net interest and fair value adjustment on convertible unsecured subordinated debentures <sup>(1)</sup>	\$ —	—
Diluted net earnings from continuing operations	\$ (131,517)	\$ 78,822

<sup>(1)</sup> For the years ended December 31, 2018 and 2017, the potential conversion of the convertible unsecured subordinated debentures has not been included as the effect on net earnings per unit would be anti-dilutive.

	2018	2017
<b>Denominator</b>		
Weighted average number of units	92,596,006	88,156,694
Weighted average convertible unsecured subordinated debenture dilutive units <sup>(1)</sup>	—	—
Weighted average number of diluted units	92,596,006	88,156,694

<sup>(1)</sup> For the years ended December 31, 2018 and 2017, the potential conversion of the convertible unsecured subordinated debentures has not been included as the effect on net earnings per unit would be anti-dilutive.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

## 18. SHARE-BASED PAYMENTS:

Chemtrade operates a 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 over a performance period, EBITDA growth and total return to Chemtrade's Unitholders relative to the total return on the S&P/TSX Dividend Index or the companies comprising such index. Total Unitholder return consists of changes in unit price and distributions paid to Unitholders. The restricted share unit component of the LTIP awards is a phantom plan which is payable in cash at the end of the performance period.

As at December 31, 2018, a liability of \$11,480 (December 31, 2017 - \$16,025) has been recorded, of which \$5,116 (December 31, 2017 - \$6,260) is included in trade and other payables and \$6,364 (December 31, 2017 - \$9,765) is included in other long-term liabilities. For the year ended December 31, 2018, Chemtrade recorded an expense \$1,370 (2017 - \$8,889) in selling and administrative expenses related to the LTIP.

### *Inputs for measurement of fair values*

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

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

	December 31, 2018	December 31, 2017
Chemtrade units:		
Average base price	\$17.20	\$18.19
Period-end unit price	\$10.48	\$19.40
Average expected volatility	27.41%	16.27%
Index units:		
Average base price	\$133.35	\$168.70
Period-end unit price	\$149.55	\$217.08
Average expected volatility	13.98%	7.96%
Average risk free interest rate	1.79%	1.38%
Average expected remaining term	1.50 years	1.50 years



# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

## 19. COMMITMENTS AND CONTINGENCIES:

### (a) Operating leases

Chemtrade enters into operating leases in the ordinary course of business, primarily for real property and equipment. Payments for these leases are contractual obligations as scheduled per each agreement. Operating lease payments in 2018 were \$75,031 (2017 - \$60,990). The future aggregate minimum lease payments for base rent amounts under non-cancellable operating leases are as follows:

2019	\$	56,832
2020		44,323
2021		32,506
2022		23,880
2023		18,244
2024 and thereafter		20,052
	\$	195,837

Chemtrade has recorded deferred rent expense of \$2,324 (2017 - \$2,169) in other assets.

### (b) Purchase commitments

As part of the Acquisition, Chemtrade assumed purchase commitments, which include contractual commitments for the purchase of electricity in Brazil, of which approximately 90 to 100 percent of the cost is passed onto one major customer, and minimum purchase commitments under some multi-year salt supply contracts. Chemtrade's outstanding purchase commitments as at December 31, 2018 are as follows:

2019	\$	47,994
2020		15,424
2021		15,424
2022		15,424
2023		15,267
2024 and thereafter		30,259
	\$	139,792

### (c) Environmental clean-up costs

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

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

## 19. COMMITMENTS AND CONTINGENCIES (continued):

### (d) Other claims

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

## 20. REVENUE:

The revenues for Chemtrade are as follows:

	2018	2017
Sales of products	\$ 1,420,539	\$ 1,297,755
Processing services	175,208	171,383
	<b>\$ 1,595,747</b>	<b>\$ 1,469,138</b>

## 21. SELLING AND ADMINISTRATIVE EXPENSES:

The components of selling and administrative expenses are as follows:

	2018	2017
Wages, salaries and benefits, including bonuses	\$ 46,516	\$ 61,985
Share-based payments (note 18)	1,370	8,889
Other selling, general and administrative expenses	36,493	36,588
Realized foreign exchange loss	4,634	4,347
Unrealized foreign exchange loss (gain)	1,826	2,027
Acquisition costs	—	3,467
Depreciation	2,014	1,528
Reserve for legal proceedings (note 12)	100,000	—
	<b>\$ 192,853</b>	<b>\$ 118,831</b>

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

## 22. DEPRECIATION AND AMORTIZATION:

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

		<u>Year ended December 31,</u>	
		2018	2017
<b>Cost of sales and services:</b>			
Depreciation expense	\$	138,748	\$ 130,917
Amortization expense		73,745	72,418
<b>Selling and administrative expenses:</b>			
Depreciation expense		2,014	1,528
<b>Total depreciation and amortization expense</b>	<b>\$</b>	<b>214,507</b>	<b>\$ 204,863</b>

In 2018 and 2017, Chemtrade recorded total depreciation and amortization expenses of nil and \$416, respectively, related to discontinued operations.

## 23. NET FINANCE COSTS:

The components of net finance costs are as follows:

	2018	2017
Interest expense on long-term debt	\$ 28,853	\$ 30,270
Debt extinguishment costs (note 13)	7,417	9,658
Interest expense on convertible debentures (note 14)	33,239	33,050
Transaction costs on issuance of convertible debentures (note 14)	—	9,159
Change in the fair value of convertible debentures (note 14)	(1,668)	(2,154)
Accretion expense on financing transaction costs	1,597	1,259
Accretion of provisions (note 12)	3,143	2,670
Interest revenue	(387)	(607)
Pension interest (note 16)	1,932	2,768
<b>Net finance costs</b>	<b>\$ 74,126</b>	<b>\$ 86,073</b>

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

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## 24. 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, it expects that its income distributed to Unitholders will not be subject to SIFT tax.

On December 22, 2017, Public Law No. 115-97, originally known as the Tax Cuts and Jobs Act, (the "Tax Act") was enacted. Among other significant changes to the U.S. Internal Revenue Code, the Tax Act lowered the U.S. federal corporate income tax rate ("U.S. Federal Tax Rate") from 35.0% to 21.0%, effective January 1, 2018. The impact of the lower federal income tax rate has been reflected in the financial statements. The finalization of regulations for various Tax Act provisions may also impact the financial statements in the future.

### (a) Current tax expense

	2018	2017
Taxes recognized in net earnings	(5,841) \$	(8,831)
Current tax (expense) recovery	(5,841) \$	(8,831)
Deferred tax recovery:		
Origination and reversal of temporary differences	54,521	101,523
Deferred tax recovery	54,521 \$	101,523
Total tax recovery from continuing operations	48,680 \$	92,692
Tax expense from discontinued operations	—	(1,068)
Total tax recovery	48,680 \$	91,624

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

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## 24. INCOME TAXES (continued):

### (b) Reconciliation of the effective tax rate

The provision for income taxes in comprehensive income represents an effective rate different than the Canadian corporate statutory rate of 26.89% (2017 - 26.64%). The differences are as follows:

	2018	2017
Net (loss) earnings before income tax	\$ (180,197)	\$ 55,735
Computed income tax (expense) recovery at Canadian statutory rate	48,460	(14,848)
Difference resulting from:		
Income of trust taxed directly to unitholders	34,819	34,861
Difference in substantially enacted tax rate	(17,662)	(18,713)
International income tax rate differences	(60)	21,815
Change in U.S. tax legislation	—	37,977
Recognition of previously unrecognized deferred tax asset (liability)	2,675	7,335
Difference between capital gain tax rate and full statutory rate	(2,514)	15,266
Foreign exchange	(1,237)	1,227
Tax adjustments related to prior years	(933)	5,093
Loss adjustment due to previous acquisition	1,701	6,418
Goodwill impairment	(19,195)	—
Other	2,626	(4,807)
Total income tax recovery	\$ 48,680	\$ 91,624

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

## 24. INCOME TAXES (continued):

### (c) Recognized deferred tax assets and liabilities

Recognized deferred tax assets and liabilities are attributed to the following:

	2018	2017
Deferred tax assets:		
Other assets	\$ 64,889	\$ 50,337
Losses available for carryforward	183,935	120,993
Long-term debt and deferred interest	57,085	39,541
Other long-term liabilities and employee benefits	34,841	35,396
	<b>340,750</b>	<b>246,267</b>
Reclassification to deferred tax liabilities	<b>(271,436)</b>	<b>(160,253)</b>
<b>Total deferred tax assets</b>	<b>\$ 69,314</b>	<b>\$ 86,014</b>
Deferred tax liabilities:		
Property, plant and equipment	215,817	157,550
Intangible assets	51,515	58,521
Other liabilities	46,316	35,602
	<b>313,648</b>	<b>251,673</b>
Reclassification from deferred tax assets	<b>(271,436)</b>	<b>(160,253)</b>
<b>Total deferred tax liabilities</b>	<b>\$ 42,212</b>	<b>\$ 91,420</b>

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

## 24. INCOME TAXES (continued):

### (d) Movement in deferred tax balances

Movement in deferred tax balances during the year are as follows:

	Balance, January 1, 2018	Recognized in net earnings	Foreign exchange impact	Recognized in other comprehens- ive income	Balance December 31, 2018
Property, plant and equipment	\$ (157,550)	\$ (50,469)	\$ (7,797)	\$ —	\$ (215,816)
Intangible assets	(58,521)	10,201	(3,195)	—	(51,515)
Net other assets and liabilities	14,735	2,790	(1,791)	2,840	18,574
Losses available for carryforward	120,993	59,491	3,452	—	183,936
Long-term debt and deferred interest	39,541	20,990	—	(3,448)	57,083
Other long-term liabilities and employee benefits	35,396	11,518	6,956	(19,030)	34,840
	<b>\$ (5,406)</b>	<b>\$ 54,521</b>	<b>\$ (2,375)</b>	<b>\$ (19,638)</b>	<b>\$ 27,102</b>

	Balance, January 1, 2017	Recognized in net earnings	Foreign exchange impact	Recognized in other comprehensive income	Recognized directly in equity	Acquired in business combination	Balance December 31, 2017
Property, plant and equipment	\$ (193,099)	\$ 49,579	\$ 16,284	\$ —	\$ —	\$ (30,314)	\$ (157,550)
Intangible assets	(101,241)	68,398	7,394	—	—	(33,072)	(58,521)
Net other assets and liabilities	(21,012)	24,909	944	3,249	4,569	2,076	14,735
Losses available for carryforward	91,415	(34,509)	(5,580)	—	—	69,667	120,993
Long-term debt and deferred interest	44,641	(18,746)	—	2,429	—	11,217	39,541
Other long-term liabilities and employee benefits	30,720	20,685	(10,290)	(5,213)	—	(506)	35,396
	<b>\$ (148,576)</b>	<b>\$ 110,316</b>	<b>\$ 8,752</b>	<b>\$ 465</b>	<b>\$ 4,569</b>	<b>\$ 19,068</b>	<b>\$ (5,406)</b>

### (e) Unrecognized deferred tax assets

During the year, Chemtrade did not recognize \$3,566 (2017 - \$1,510) of deferred tax assets as management did not believe that it is probable that the deductible temporary differences giving rise to the deferred tax asset will be utilized.

# CHEMTRADE LOGISTICS INCOME FUND

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Year ended December 31, 2018 and 2017

## 25. FINANCIAL INSTRUMENTS:

### (a) Categories of financial assets and liabilities

The carrying values of Chemtrade's financial instruments are as follows:

	IAS 39 Classification	IFRS 9 Classification	2018	2017
Foreign exchange contracts asset	Fair value - hedging instrument	Fair value - hedging instrument	\$ —	\$ 898
Foreign exchange contracts liability	Fair value - hedging instrument	Fair value - hedging instrument	5,737	—
Interest rate swap asset (note 9)	Fair value - hedging instrument	Fair value - hedging instrument	332	772
Convertible unsecured subordinated debentures (note 14) <sup>(1)</sup>	Fair value through profit and loss	Fair value through profit and loss	579,219	640,689
Cash and cash equivalents	Loans and receivables	Amortized cost	13,413	10,372
Trade and other receivables	Loans and receivables	Amortized cost	199,871	215,149
Long term receivable (note 9)	Loans and receivables	Amortized cost	3,144	4,681
Trade and other payables	Other financial liabilities	Other financial liabilities	238,578	224,097
Distributions payable	Other financial liabilities	Other financial liabilities	9,257	9,257
Current portion of long-term debt	Other financial liabilities	Other financial liabilities	—	3,930
Long-term debt	Other financial liabilities	Other financial liabilities	689,014	642,144

<sup>(1)</sup> Any changes in the fair value due to Chemtrade's own credit risk are presented in other comprehensive income rather than net earnings.



# CHEMTRADE LOGISTICS INCOME FUND

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## 25. FINANCIAL INSTRUMENTS (continued):

### (b) Derivatives and hedging

		December 31, 2018 Fair Value				December 31, 2017 Fair Value	
	Notional Amount	Asset	Liability		Notional Amount	Asset	Liability
Derivatives designated in a formal hedging relationship							
Interest rate swaps	US\$ 325,000	\$ 332	\$ —		US\$ 325,000	\$ 772	\$ —
Derivatives not designated in a formal hedging relationship							
Foreign exchange contracts <sup>(1)</sup>	—	—	5,737	\$	—	898	—
Total		\$ 332	\$ 5,737			\$ 1,670	\$ —

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

On December 31, 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.

As part of the Acquisition, Chemtrade assumed a cross currency swap associated with the payment of interest on the CEI Series IV Debentures in U.S. dollars. During the second quarter of 2017, Chemtrade purchased the entire principal CEI Series IV Debentures balance and terminated the related cross currency swap on the CEI Series IV Debentures, resulting in a loss of \$2,128, which is included in selling and administrative expenses for the year ended December 31, 2017.

On January 1, 2015, Chemtrade hedged its investment in foreign operations that use the U.S. dollar as their functional currency by Chemtrade's U.S. dollar-denominated long-term debt. Any foreign currency gains and losses arising from the U.S. dollar-denominated debt will be offset by the foreign currency gain or loss arising from the investment in the foreign operations. The gains and losses on the foreign currency translation of the designated amount of U.S. dollar-denominated debt and investment in foreign operations are being recognized in other comprehensive income. For the year ended December 31, 2018, a foreign exchange loss of \$16,028 (2017 - gain of \$11,057) on the revaluation of the U.S. dollar-denominated debt related to this hedging strategy was recognized in other comprehensive income.

Chemtrade has entered into foreign exchange contracts to manage some of its exposure to foreign currencies. Chemtrade buys and sells specific amounts of currencies at pre-determined dates and exchange rates, which are matched with the anticipated operational cash flows.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 25. FINANCIAL INSTRUMENTS (continued):

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

Amount	Weighted average exchange rate
US\$85,052	\$1.29

### (c) 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 debt, excluding transaction costs, approximates fair value as the debt accrues interest at prevailing market rates.

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

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

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

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

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

The following is a summary of the fair value hierarchy levels of Chemtrade's financial instruments:

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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Year ended December 31, 2018 and 2017

## 25. FINANCIAL INSTRUMENTS (continued):

2018	Level 1	Level 2	Level 3	Total
<b>Instruments at fair value through profit and loss</b>				
Foreign exchange contracts	\$ —	\$ (5,737)	\$ —	\$ (5,737)
Convertible unsecured subordinated debentures <sup>(1)</sup>	(420,512)	(158,707)	—	(579,219)
<b>Instruments at fair value through other comprehensive income</b>				
Interest rate swaps	—	332	—	332
<b>Total</b>	<b>\$ (420,512)</b>	<b>\$ (164,112)</b>	<b>\$ —</b>	<b>\$ (584,624)</b>

<sup>(1)</sup> Any changes in the fair value due to Chemtrade's own credit risk are presented in other comprehensive income rather than net earnings.

2017	Level 1	Level 2	Level 3	Total
<b>Instruments designated as fair value through profit and loss</b>				
Foreign exchange contracts	\$ —	\$ 898	\$ —	\$ 898
Convertible unsecured subordinated debentures	(479,786)	(160,903)	—	(640,689)
<b>Instruments designated as fair value through other comprehensive income</b>				
Interest rate swaps	—	772	—	772
<b>Total</b>	<b>\$ (479,786)</b>	<b>\$ (159,233)</b>	<b>\$ —</b>	<b>\$ (639,019)</b>

The Fund's 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.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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## 25. FINANCIAL INSTRUMENTS (continued):

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.

### (d) Risks associated with financial instruments

#### (i) Credit risk

Credit risk arises from the non-performance by counter-parties of their contractual financial obligations. Chemtrade manages credit risk for trade and other receivables through established credit monitoring activities. Chemtrade does not have a significant concentration of credit risk with any single counter-party. The primary counter-parties related to the foreign exchange forward contracts and interest rate swaps carry investment grade ratings. Chemtrade's maximum exposure to credit risk at the reporting date is the carrying value of its receivables and derivative assets.

#### (ii) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Chemtrade manages liquidity risk by maintaining adequate cash and cash equivalent balances, and by appropriately utilizing its lines of credit. Chemtrade continuously monitors and reviews both actual and forecasted cash flows, and also matches the maturity profile of financial assets and liabilities.

Chemtrade's financial liabilities recorded in trade and other payables, including derivatives, non-trade payables and accrued expenses, and distributions payable are generally due within one year. The undiscounted cash flow requirements for long-term financial liabilities as at December 31, 2018 are as follows:

	Carrying Value	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt (note 13)	\$ 689,014	\$ 693,516	\$ —	\$ —	\$ 693,516	\$ —
Interest on long-term debt	—	137,170	27,434	54,868	54,868	—
Convertible unsecured subordinated debentures (note 14)	579,219	630,095	84,011	201,084	143,750	201,250
Interest on convertible unsecured subordinated debentures	—	116,496	28,264	53,151	31,098	3,983
<b>Total</b>	<b>\$ 1,268,233</b>	<b>\$ 1,577,277</b>	<b>\$ 139,709</b>	<b>\$ 309,103</b>	<b>\$ 923,232</b>	<b>\$ 205,233</b>

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 25. FINANCIAL INSTRUMENTS (continued):

### (iii) *Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. Chemtrade's market risks are as follows:

#### (a) *Currency risk*

Chemtrade is exposed to fluctuations in the exchange rate of the US dollar relative to the Canadian dollar as a portion of Chemtrade's earnings are in US dollars, with earnings positively affected when the US dollar strengthens relative to the Canadian dollar. At December 31, 2018, on an unhedged basis, Chemtrade estimates that a one-cent change in the exchange rate would have an impact on the translation of net earnings of approximately \$1,400 per annum. At December 31, 2018, on an unhedged basis, a one-cent change in the exchange rate would also have an impact of approximately \$2,000 on Chemtrade's net earnings because of the translation of its US dollar-denominated long-term debt.

#### (b) *Interest rate risk*

Chemtrade has a credit facility with long-term debt and operating lines of credit which bear variable rates of interest. As at December 31, 2018, on an unhedged basis, a change in interest rates of 1% per annum would have an impact of approximately \$6,900 on Chemtrade's net earnings per annum. As at December 31, 2018, Chemtrade had fixed interest rates on 63.9% of its senior debt until January 2019.

#### (c) *Other price risks*

##### **Product Price and Sales Volume Risk -**

Every \$50 change in the price per metric tonne ("MT") of North American produced sodium chlorate would have an impact on income before income taxes of approximately \$20,300 per annum. Every \$100 change in the price per metric electrochemical unit ("MECU") of chlor-alkali products produced in North America would have an impact on income before income taxes of approximately \$17,800 per annum. These sensitivities to changes in prices are based on approximately 406,000 MT of North American sodium chlorate sales and 178,000 MECU of North American chlor-alkali sales for the year ended December 31, 2018, respectively.

A change in sales volumes for North American sodium chlorate of 10,000 MT would have an impact on income before income taxes of approximately \$3,400 per annum. A change in sales volumes for North American chlor-alkali products of 5,000 MECU would have an impact on income before income taxes of approximately \$5,300 per annum.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 25. FINANCIAL INSTRUMENTS (continued):

### ***Electricity Price Risk -***

Every four percent change in the price of electricity in North America would have an impact on income before income taxes of approximately \$4,700 per annum. This sensitivity to changes in electricity prices is based on North American electricity consumption of approximately 2,530,000 Megawatt hours for the year ended December 31, 2018. A four percent change in the price of electricity in North America is considered reasonable given historical price changes and market expectations for future movement.

### ***Sulphuric acid pricing -***

At December 31, 2018, a change in sulphuric acid pricing, net of freight, of \$10 per tonne, would have an impact on annual revenues in North America of approximately \$12,000. In any specific period, the exact impact would depend upon the volume that is subject to sales contracts where pricing has been fixed for a period of time. The magnitude of realized price changes also depends upon regional market dynamics. It is difficult to reliably estimate the impact of price changes on earnings as this depends upon the volume subject to risk-sharing supply contracts and changes in sulphur costs for manufactured sulphuric acid. These factors lessen the impact of price changes on earnings relative to revenue.

### ***Salt Costs -***

Chemtrade uses salt in the manufacturing of its sodium chlorate and chlor-alkali products. At current operating levels, an increase of \$2 per tonne of salt prices in North America would have an impact of approximately \$1,000 per annum on cost of sales.

### ***Sulphur costs -***

Chemtrade uses sulphur in the manufacturing of several of its products, including sulphuric acid. At operating levels as at December 31, 2018, an increase of \$10 per tonne would have an impact of approximately \$2,500 per annum on cost of sales. It is important to note that a change in the cost of sulphur is likely to lead to a change in the price for sulphuric acid as this is a key input cost in the manufacturing of sulphuric acid. Thus, the net impact on earnings of changes in sulphur costs would depend upon changes in sulphuric acid pricing.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 26. CAPITAL MANAGEMENT:

Chemtrade's objective when managing its capital is to safeguard Chemtrade's assets and its ability to continue as a going concern, to meet external capital requirements related to its credit facilities, and to maximize the growth of its business and the returns to its Unitholders. Chemtrade's capital structure is comprised of units, convertible unsecured subordinated debentures and long-term debt. The long-term bank debt does not require payment until December 2023. The convertible unsecured subordinated debentures mature on dates ranging from December 2020 to May 2024, with a planned redemption of the 6.00% Convertible Unsecured Subordinated Series V Debentures during the first quarter of 2019, discussed in note 29.

Chemtrade intends to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, Chemtrade may purchase units for cancellation, issue new units, raise debt (secured, unsecured, convertible and/or other types of available debt instruments) or refinance existing debt with different characteristics.

Chemtrade utilizes annual capital and operating expenditure budgets to facilitate the management of its capital requirement. These budgets are approved by the Board. Budgets are updated if there are significant changes in fundamental underlying assumptions during a period.

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 December 31, 2018 and December 31, 2017, Chemtrade was in compliance with the above covenants.

There were no changes in Chemtrade's approach to managing capital during the year.

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 27. BUSINESS SEGMENTS:

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

The reportable segments of Chemtrade are strategic business groups that offer products and services to target markets, as described below. The accounting policies applied by the segments are the same as those applied by Chemtrade.

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

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

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.



# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

## 27. BUSINESS SEGMENTS (continued):

### Year ended December 31, 2018

	SPPC	WSSC	EC	Corp	Total
Revenue	\$ 509,765	\$ 430,311	\$ 655,671	\$ —	\$ 1,595,747
Inter-segment revenues	18,053	—	2,824	—	20,877
Operating income (loss)	18,047	(64,484)	103,129	(162,763)	(106,071)
Net finance costs	(13,728)	(17,876)	(18,742)	(23,780)	(74,126)
Income tax recovery (expense)	14,450	26,371	(15,881)	23,740	48,680
Net earnings (loss)	18,769	(55,989)	68,506	(162,803)	(131,517)
Capital expenditures	31,472	31,131	28,510	1,253	92,366
Depreciation and amortization	72,410	51,784	90,313	—	214,507
Gain on disposal and write-down of assets	(4,039)	—	—	—	(4,039)
Impairment of goodwill	—	90,000	—	—	90,000

### Year ended December 31, 2017

	SPPC	WSSC	EC	Intl	Corp	Total
Revenue	\$ 509,373	\$ 411,935	\$ 547,830	\$ —	\$ —	\$ 1,469,138
Inter-segment revenues	19,754	—	—	—	—	19,754
Operating income (loss)	40,241	36,233	73,029	—	(77,300)	72,203
Net finance costs	(18,676)	(19,341)	(19,518)	—	(28,538)	(86,073)
Income tax recovery (expense)	40,582	61,437	(7,931)	—	(1,396)	92,692
Earnings from discontinued operations	—	—	—	68,537	—	68,537
Net earnings (loss)	62,147	78,329	45,580	68,537	(107,234)	147,359
Capital expenditures	24,593	23,769	24,659	169	1,754	74,944
Depreciation and amortization	72,613	52,578	79,256	416	—	204,863
Loss (gain) on disposal and write-down of assets	38	25	4,435	(18,119)	—	(13,621)

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

## 27. BUSINESS SEGMENTS (continued):

### December 31, 2018

	SPPC	WSSC	EC	Corp	Total
Total assets	\$ 1,037,264	\$ 866,519	\$ 962,830	\$ 10,475	\$ 2,877,088
Total liabilities	478,550	580,774	290,589	510,462	1,860,375
Intangible assets	429,506	465,486	272,644	—	1,167,636

### December 31, 2017

	SPPC	WSSC	EC	Corp	Total
Total assets	\$ 1,014,929	\$ 932,318	\$ 1,023,034	\$ 13,047	\$ 2,983,328
Total liabilities	383,334	569,114	383,975	498,252	1,834,675
Intangible assets	419,341	545,957	303,308	—	1,268,606

### Geographic segments:

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

### Revenue

	Year ended December 31,	
	2018	2017
Canada	\$ 499,932	\$ 439,618
United States	1,009,047	950,559
South America	86,768	78,961
	\$ 1,595,747	\$ 1,469,138

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

	December 31, 2018	December 31, 2017
Canada	\$ 988,202	\$ 1,051,768
United States	1,290,467	1,325,394
South America	149,637	153,365
	\$ 2,428,306	\$ 2,530,527

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

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## 28. RELATED PARTIES:

### *Key management personnel compensation*

Key management personnel is comprised of trustees and the senior leadership team of Chemtrade. Trustees receive compensation in the form of an annual retainer. In addition to their salaries, Chemtrade also provides non-cash benefits to the senior leadership team. One such benefit is the contribution to a post-employment defined contribution plan on their behalf. These plans for the senior leadership team are identical to the plans offered to all employees in the same jurisdiction.

The Annual Incentive Compensation ("Annual IC") plan entitles the senior leadership team to annual cash awards based on (i) Chemtrade's success in achieving financial objectives (financial achievement is weighted at 65% of the total Annual IC award); and (ii) their individual success in accomplishing personal objectives (weighted at 35% of the total Annual IC award) as set out in their objectives for the fiscal year.

The LTIP as described in note 18 is designed to align the interests of the participants with the interests of Unitholders. It is a cash plan where payment is triggered upon the successful achievement of pre-defined performance criteria. Each year the Compensation and Corporate Governance Committee of the Board determines the performance period over which performance will be measured, and the annual LTIP awards granted have been based on a three-year performance period. All the LTIP awards granted vest at the end of the three-year period. The value of this compensation is re-measured at each reporting period based upon changes in the fair value of the awards.

Certain members of the senior leadership team are subject to a mutual term of notice upon termination of employment without cause; they are entitled to termination benefits of 9 to 24 months gross salary, depending on the number of years completed as an executive officer.

Chemtrade has in place a deferred unit compensation plan for its trustees, pursuant to which the trustees can elect to take all or a portion of their compensation in the form of deferred units of Chemtrade, with the remainder as a cash payment. Currently, the trustees must take at least 30% of their compensation in the form of deferred units of Chemtrade. As at December 31, 2018, the market value of these deferred units, which is included in trade and other payables was \$2,538 (2017 - \$3,488).

# CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

Year ended December 31, 2018 and 2017

## 28. RELATED PARTIES (continued):

The key management personnel compensation expense, which is recorded in comprehensive income, is as follows:

		2018	2017
Short-term compensation	\$	5,256	\$ 7,956
LTIP		1,120	6,573
	\$	6,376	\$ 14,529

## 29. SUBSEQUENT EVENTS:

### *Repayment of the 6.00% Convertible Unsecured Subordinated Series V Debentures*

During the fourth quarter of 2018, Chemtrade announced the redemption of all of its outstanding 6.00% Convertible Unsecured Subordinated Series V Debentures, with an effective redemption date of January 3, 2019. On January 3, 2019, the debentures were redeemed at a total aggregate redemption price of \$84,052, being equal to 100% of the principal amount of debentures, plus accrued and unpaid interest to, but excluding, the redemption date. Chemtrade used its credit facilities to fund the redemption. These debentures have been presented as current liabilities in the statement of financial position at December 31, 2018.

### *Interest Rate Swap Agreement*

Subsequent to the end of the year, Chemtrade entered into new swap arrangements with its principal bankers which fix the LIBOR components of its interest rates on US\$175,000 of its outstanding long-term debt until December 2023. These swaps were 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 will be recognized in other comprehensive income.

# Unitholder Information

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## Trustees

**Lorie Waisberg (Chair)**

Toronto, Ontario

**Mark Davis**

Toronto, Ontario

**Lucio Di Clemente**

Toronto, Ontario

**David Gee**

Nobel, Ontario

**Susan McArthur**

Toronto, Ontario

**Katherine Rethy**

Huntsville, Ontario

## Director

**Douglas Muzyka**

Philadelphia, Pennsylvania

## Management

**Mark Davis**

President & CEO

**Rohit Bhardwaj**

Vice-President, Finance & CFO

**Leon Aarts**

Group Vice-President, Corporate Development and Strategy

**Daniel 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

**Susan Paré**

Corporate Secretary

**Emily Powers**

Vice-President, Human Resources

## Head Office

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M2H 3N5

## Stock Exchange Listing

The Toronto Stock Exchange

Stock symbol: CHE.UN

## Transfer Agent and Registrar

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Toronto, Ontario

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Telephone:

Toll Free 1-800-564-6253

Email:

service@computershare.com

Website:

computershare.com

## Investor Information

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

**Rohit Bhardwaj**

Vice-President, Finance & CFO

(416) 496-5856

## Annual Meeting

The Annual Meeting of Unitholders will be held on May 9, 2019 at 10:00 a.m. at the Vantage Venues, 27th floor Financial One Meeting Room 150 King Street West, Toronto

[chemtradelogistics.com](http://chemtradelogistics.com)

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**CHEMTRADE**