



# 2019

Chemtrade Logistics Income Fund  
2019 Annual Report

## Corporate profile

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](http://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 our website.

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**CHEMTRADE LOGISTICS INCOME FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

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, 2019.

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: the amount of any long-term incentive compensation; the effect of changes in the exchange rate and the Fund's ability to offset US dollar denominated debt; the outcome and timing of the remaining antitrust civil lawsuits; the ability of Chemtrade to access tax losses and tax attributes; the tax characterization of planned distributions; capital expenditures; sources, use and sufficiency of cash flows; 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 ability to resolve the North Vancouver lease issues; the adoption and timing of certain accounting rules and their anticipated effect; the effectiveness of internal controls; the Fund's expected adjusted EBITDA range for 2020; and the expected 2020 range of capital expenditures, cash interest and cash taxes. 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: certain items set out as key assumptions in the Financial Outlook section; 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 Developments**

### *Issuance of 6.50% Convertible Unsecured Subordinated Debentures*

In October 2019, Chemtrade completed a public offering, on a "bought deal" basis, of \$100.0 million principal amount of convertible unsecured subordinated debentures, at a price of \$1,000 per debenture, with an interest rate of 6.50% per annum (the "Fund 2019 6.50% Debentures"). The Fund 2019 6.50% Debentures will mature on October 31, 2026. The Fund 2019 6.50% Debentures are convertible, at the option of the holder, into trust units of the Fund at a conversion price of \$15.80 per unit. Chemtrade used the net proceeds of the offering to pay down senior debt under the Fund's existing credit agreement. Chemtrade incurred transaction cost of \$4.5 million which included underwriters' fees and other expenses relating to the offering.

### *Amendment of Credit Facilities terms*

On October 24, 2019, Chemtrade modified certain terms of its Credit Facilities including extending the maturity date to October 24, 2024. Chemtrade incurred \$0.6 million of transaction costs related to the modification. These costs have been deferred and are being amortized as finance costs in comprehensive income using the effective interest method.

### *Repayment of the CEI Series VI Debentures*

During the fourth quarter of 2019, Chemtrade announced the redemption of all of the outstanding Chemtrade Electrochem Inc. ("CEI") Series VI Debentures, with an effective redemption date of January 3, 2020. On January 3, 2020, the debentures were redeemed for \$74.6 million. The debentures were redeemed at their par value. Chemtrade used its credit facilities to fund the redemption. These debentures have been presented as current liabilities in the Consolidated Statements of Financial Position as at December 31, 2019.

## Financial Highlights

These financial highlights have been presented in accordance with IFRS.

(\$'000 except per unit amounts)	Three months ended		Year ended		
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2017
Revenue from continuing operations	\$ 355,215	\$ 390,800	\$ 1,532,855	\$ 1,595,747	\$ 1,469,138
Net (loss) earnings <sup>(1)(2)</sup>	\$ (12,597)	\$ (97,185)	\$ (99,654)	\$ (131,517)	\$ 147,359
Net (loss) earnings from continuing operations <sup>(1)(2)</sup>	\$ (12,597)	\$ (97,185)	\$ (99,654)	\$ (131,517)	\$ 78,822
Net (loss) earnings per unit <sup>(1)(2)(3)</sup>	\$ (0.14)	\$ (1.05)	\$ (1.08)	\$ (1.42)	\$ 1.67
Net (loss) earnings per unit from continuing operations <sup>(1)(2)(3)</sup>	\$ (0.14)	\$ (1.05)	\$ (1.08)	\$ (1.42)	\$ 0.89
Diluted net (loss) earnings per unit <sup>(1)(2)(3)</sup>	\$ (0.16)	\$ (1.05)	\$ (1.08)	\$ (1.42)	\$ 1.53
Diluted net (loss) earnings per unit from continuing operations <sup>(1)(2)(3)</sup>	\$ (0.16)	\$ (1.05)	\$ (1.08)	\$ (1.42)	\$ 0.89
Total assets	\$ 2,779,073	\$ 2,877,088	\$ 2,779,073	\$ 2,877,088	\$ 2,983,328
Current portion of long-term debt	\$ —	\$ —	\$ —	\$ —	\$ 3,930
Long-term debt	\$ 744,274	\$ 689,014	\$ 744,274	\$ 689,014	\$ 642,144
Convertible unsecured subordinated debentures	\$ 608,929	\$ 579,219	\$ 608,929	\$ 579,219	\$ 640,689
Adjusted EBITDA from continuing operations <sup>(1)(4)</sup>	\$ 70,333	\$ 64,997	\$ 295,603	\$ 196,223	\$ 283,175
Adjusted EBITDA per unit from continuing operations <sup>(1)(3)(4)</sup>	\$ 0.76	\$ 0.70	\$ 3.19	\$ 2.12	\$ 3.21
Cash flows from operating activities	\$ 60,659	\$ 79,853	\$ 139,477	\$ 244,464	\$ 151,298
Cash flows from operating activities per unit <sup>(3)</sup>	\$ 0.66	\$ 0.86	\$ 1.51	\$ 2.64	\$ 1.72
Adjusted cash flows from operating activities from continuing operations <sup>(1)(2)(4)</sup>	\$ 38,318	\$ 48,748	\$ 164,811	\$ 119,328	\$ 187,543
Adjusted cash flows from operating activities per unit from continuing operations <sup>(1)(2)(3)(4)</sup>	\$ 0.41	\$ 0.53	\$ 1.78	\$ 1.29	\$ 2.13
Distributable cash after maintenance capital expenditures from continuing operations <sup>(1)(2)(4)</sup>	\$ 1,447	\$ 17,274	\$ 82,068	\$ 41,638	\$ 120,828
Distributable cash after maintenance capital expenditures per unit from continuing operations <sup>(1)(2)(3)(4)</sup>	\$ 0.02	\$ 0.19	\$ 0.89	\$ 0.45	\$ 1.37
Distributions declared	\$ 27,779	\$ 27,779	\$ 111,116	\$ 111,116	\$ 106,434
Distributions declared per unit <sup>(5)</sup>	\$ 0.30	\$ 0.30	\$ 1.20	\$ 1.20	\$ 1.20
Distributions paid	\$ 27,779	\$ 27,779	\$ 111,116	\$ 111,116	\$ 104,091
Distributions paid per unit <sup>(5)</sup>	\$ 0.30	\$ 0.30	\$ 1.20	\$ 1.20	\$ 1.20

<sup>(1)</sup> Results for the year ended December 31, 2019 include a goodwill impairment charge of \$65,600, or \$0.71 per unit. See **Goodwill Impairment**. Results for the year ended December 31, 2019 include a \$40,000, or \$0.43 per unit, expense related to a legal provision. Results for the three months and year ended December 31, 2018 include a goodwill impairment charge of \$90,000, or \$0.97 per unit. Results for the year ended December 31, 2018 include a \$100,000, or \$1.08 per unit, expense related to a legal provision. See **Reserve for Legal Proceedings**.

<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> Based on weighted average number of units outstanding for the period of:

92,598,699      92,596,006      92,596,685      92,596,006      88,156,694

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

<sup>(5)</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 (loss) earnings follows:

(\$'000)	Three months ended			Year ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2017
Net (loss) earnings from continuing operations <sup>(1)</sup>	\$ (12,597)	\$ (97,185)	\$ (99,654)	\$ (131,517)	78,822
Add:					
Depreciation and amortization <sup>(1)</sup>	65,422	53,840	262,458	214,507	204,447
Net finance costs <sup>(1)</sup>	12,490	25,263	88,487	74,126	86,073
Income tax expense (recovery)	4,410	(10,648)	(24,291)	(48,680)	(92,692)
EBITDA from continuing operations	69,725	(28,730)	227,000	108,436	276,650
Add:					
Impairment of goodwill	—	90,000	65,600	90,000	—
Loss (gain) on disposal and write-down of assets	3,268	1,031	13,790	(4,039)	4,498
Unrealized foreign exchange (gain) loss	(2,660)	2,696	(10,787)	1,826	2,027
Adjusted EBITDA	\$ 70,333	\$ 64,997	\$ 295,603	\$ 196,223	\$ 283,175

<sup>(1)</sup> Chemtrade initially applied IFRS 16 at January 1, 2019. In applying IFRS 16, in relation to the leases that were previously classified as operating leases, Chemtrade recognizes depreciation and interest expense, instead of operating lease expense. During the three months and year ended December 31, 2019, Chemtrade recognized \$13.2 million and \$52.9 million, respectively, of depreciation expense related to the new right-of-use assets and \$2.2 million and \$8.8 million, respectively, of interest expense related to the new lease liabilities. Adjusted EBITDA and net earnings for the three months and year ended December 31, 2018 included lease expenses of \$14.4 million and \$56.2 million, respectively. Chemtrade applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated. (See *Standards and Interpretations Adopted During the Period*).

### 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, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2017
Cash flows from operating activities <sup>(1)</sup>	\$ 60,659	\$ 79,853	\$ 139,477	\$ 244,464	\$ 151,298
Less:					
Cash flow (used in) from operating activities of discontinued operations	—	—	—	—	(3,809)
Cash flow from operating activities of continuing operations	60,659	79,853	139,477	244,464	155,107
Add (Less):					
Lease Payments <sup>(1)</sup>	(14,199)	—	(56,815)	—	—
Changes in non-cash working capital and other items	(8,142)	(31,105)	82,149	(125,136)	32,436
<b>Adjusted cash flows from operating activities of continuing operations</b>	<b>38,318</b>	<b>48,748</b>	<b>164,811</b>	<b>119,328</b>	<b>187,543</b>
Less:					
Maintenance capital expenditure	36,871	31,474	82,743	77,690	66,715
<b>Distributable cash after maintenance capital expenditure</b>	<b>1,447</b>	<b>17,274</b>	<b>82,068</b>	<b>41,638</b>	<b>120,828</b>
Less:					
Non-maintenance capital expenditure <sup>(2)</sup>	3,723	5,650	13,556	14,676	8,060
<b>Distributable cash after all capital expenditure from continuing operations</b>	<b>\$ (2,276)</b>	<b>\$ 11,624</b>	<b>\$ 68,512</b>	<b>\$ 26,962</b>	<b>\$ 112,768</b>

<sup>(1)</sup> Chemtrade initially applied IFRS 16 at January 1, 2019. In applying IFRS 16, in relation to the leases that were previously classified as operating leases, Chemtrade recognizes depreciation and interest expense, instead of operating lease expense. Cash flow from operating activities for the three months and year ended December 31, 2018 included lease expenses of \$14.4 million and \$56.2 million, respectively. Chemtrade applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated. (See *Standards and Interpretations Adopted During the Period*).

<sup>(2)</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

### 2019 vs 2018

Consolidated revenue for the fourth quarter of 2019 was \$355.2 million, which was \$35.6 million lower than revenue for the fourth quarter of 2018. The decrease in revenue for the fourth quarter is primarily due to lower selling prices for caustic soda and hydrochloric acid (“HCl”) in the Electrochemicals (“EC”) segment, partially offset by higher selling prices for water products in the Water Solutions and Specialty Chemicals (“WSSC”) segment.

Consolidated revenue on a year-to-date basis was \$1,532.9 million, which was \$62.9 million lower than revenue for the same period of 2018. The decrease in revenue for the year ended December 31, 2019 is primarily due to lower

selling prices for caustic soda and hydrochloric acid ("HCl") in the EC segment, partially offset by higher selling prices and higher sales volumes for water products in the WSSC segment and higher selling prices for sulphuric acid in the Sulphur Products and Performance Chemicals ("SPPC") segment.

Chemtrade's Adjusted EBITDA for the three months and year ended December 31, 2019 was \$5.3 million higher and \$99.4 million higher, respectively, than the Adjusted EBITDA for the same periods of 2018. The increase in Adjusted EBITDA for the fourth quarter of 2019 relative to 2018 is primarily due to the adoption of IFRS 16, *Leases* ("IFRS 16"). Adjusted EBITDA for the year ended December 31, 2019 relative to 2018 was higher due to a \$60.0 million lower expense related to the legal proceedings reserve (see **Reserve for Legal Proceedings**) and due to the adoption of IFRS 16. The adoption of IFRS 16, at the beginning of 2019 resulted in the exclusion of lease expenses related to right-of-use assets during 2019, whereas Adjusted EBITDA for 2018 included these expenses (see **Standards and Interpretations Adopted During the Period**). Consequently, relative to the same periods of 2018, Adjusted EBITDA for the three months and year ended December 31, 2019 benefited by \$14.4 million and \$56.2 million respectively .

Net earnings for the fourth quarter of 2019 were higher than net earnings of the fourth quarter of 2018 by \$84.6 million. This was primarily due to a \$90.0 million impairment of goodwill for water treatment products (see **Goodwill Impairment**) recorded during the fourth quarter of 2018. Net earnings for the year ended December 31, 2019 were \$31.9 million higher than 2018. Net earnings for the year ended December 31, 2019 were higher than 2018 due to a lower impairment of goodwill recorded in 2019 compared to 2018. In 2019, a \$65.6 million impairment of goodwill for specialty chemical products was recorded during the second quarter whereas a \$90.0 million impairment of goodwill for water treatment products was recorded in the fourth quarter of 2018 (see **Goodwill Impairment**). Also, selling and administrative expenses during 2019 were lower than 2018 as expenses related to the legal proceedings reserve were lower (see **Reserve for Legal Proceedings**).

Net finance costs for the fourth quarter of 2019 were \$12.8 million lower than the same period of 2018. This is primarily due to a gain of \$13.0 million related to a change in the fair value of convertible debentures in the fourth quarter of 2019 compared to loss a of \$8.1 million in the fourth quarter of 2018. This was partially offset by higher debt levels in the fourth quarter of 2019 relative to 2018, which resulted in a higher interest expense of \$1.3 million and higher interest on convertible debentures of \$0.5 million. Interest expense for the fourth quarter of 2019 also includes \$4.5 million relating to transaction costs on the issuance of convertible debentures and \$2.2 million related to newly recognized lease liabilities due to the adoption of IFRS 16 (see **Standards and Interpretations Adopted During the Period**). For the year ended December 31, 2019 net finance costs were higher than 2018 by \$14.4 million, primarily due to higher debt levels during 2019 resulting in higher interest expenses of \$9.3 million. Interest expense for the year ended December 31, 2019 also includes \$4.5 million of transaction costs on the issuance of convertible debentures and \$8.8 million related to newly recognized lease liabilities, due to the adoption of IFRS 16 (see **Standards and Interpretations Adopted During the Period**). These increases were partially offset by higher debt extinguishment costs recorded in 2018 of \$7.4 million and due to lower interest on convertible debentures of \$3.3 million in 2019. (see **Net Finance Costs**).

Unrealized foreign exchange gains were \$2.7 million in the fourth quarter of 2019 compared with unrealized foreign exchange losses of \$2.7 million in the fourth quarter of 2018. For the year ended December 31, 2019, unrealized



foreign exchange gains were \$10.8 million compared with unrealized foreign exchange losses of \$1.8 million in 2018. These were a result of fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar.

Income tax recoveries for the three months and year ended December 31, 2019 were \$15.1 million and \$24.4 million lower, respectively, than in the comparable periods of 2018 due to the lower operating losses in 2019. (see **Income Taxes**).

### 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 three months 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 SPPC and the 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 three months 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 three months 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.

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 three months 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 as a result of the 2017 tax reform in the U.S. (see **Income Taxes**).

## Results of Operations by Business Segment

### SPPC -

(\$'000)	Three months ended		Year ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Revenue	\$ 117,286	\$ 129,082	\$ 502,604	\$ 509,765
Gross profit	14,313	1,023	60,207	28,041
Adjusted EBITDA <sup>(1)(2)</sup>	34,242	17,254	160,744	86,418
(Loss) gain on disposal and write down of assets	(966)	(1,031)	(10,939)	4,039
EBITDA <sup>(2)</sup>	33,276	16,223	149,805	90,457

<sup>(1)</sup> Chemtrade initially applied IFRS 16 at January 1, 2019. In applying IFRS 16, in relation to the leases that were previously classified as operating leases, Chemtrade recognizes depreciation and interest expense, instead of operating lease expense. For the three months and year ended December 31, 2018, Adjusted EBITDA included lease expense of \$5.8 million and \$22.2 million, respectively; whereas, lease expense related to the three months and year ended December 31, 2019 was excluded from the calculation of Adjusted EBITDA, as a result of recognizing depreciation expense related to right-of-use assets and interest expense related to lease liabilities. Chemtrade applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated. (See *Standards and Interpretations Adopted During the Period*).

<sup>(2)</sup> 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. See **Non-IFRS Measures** for further details and a reconciliation of EBITDA and Adjusted EBITDA.

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.

Revenue for the three months and year ended December 31, 2019 was \$11.8 million and \$7.2 million lower, respectively, than the same periods of 2018 as higher selling prices for sulphuric acid did not fully offset lower sales volumes of sulphuric acid and other SPPC products.

Gross profit for the fourth quarter of 2019 was \$13.3 million higher than the same period of 2018 primarily due to the higher sales volumes and selling prices for regenerated acid and lower maintenance turnaround activity. Gross profit for the year ended December 31, 2019 was \$32.2 million higher than 2018 primarily due to higher selling prices for acid products and fewer maintenance turnarounds. This was partially offset by a write-down of assets during 2019, whereas there was a gain on disposal of assets during 2018. The write-down of assets in 2019 was due to the decision to rationalize regenerated acid capacity.

Adjusted EBITDA for the three months and year ended December 31, 2019 was \$17.0 million and \$74.3 million higher, respectively, than the Adjusted EBITDA for the same periods of 2018. In addition to the change in gross profit described above, Adjusted EBITDA benefited from the adoption of IFRS 16 (see **Standards and Interpretations Adopted During the Period**), which resulted in the exclusion of lease expenses related to right-of-use assets in the three months and year ended December 31, 2019; whereas the three months and year ended December 31, 2018 included \$5.8 million and \$22.2 million of lease expenses, respectively.

WSSC -

(\$'000)	<u>Three months ended</u>		<u>Year ended</u>	
	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Revenue	\$ 101,845	\$ 102,442	\$ 445,175	\$ 430,311
Gross profit	3,601	(88,188)	(30,856)	(55,106)
Adjusted EBITDA <sup>(1)(2)</sup>	14,642	11,929	77,903	77,300
Impairment of goodwill	—	(90,000)	(65,600)	(90,000)
Loss on disposal and write-down of assets	(2,313)	—	(3,970)	—
EBITDA <sup>(2)</sup>	12,329	(78,071)	8,333	(12,700)

<sup>(1)</sup> Chemtrade initially applied IFRS 16 at January 1, 2019. In applying IFRS 16, in relation to the leases that were previously classified as operating leases, Chemtrade recognizes depreciation and interest expense, instead of operating lease expense. For the three months and year ended December 31, 2018, Adjusted EBITDA included lease expense of \$1.0 million and \$4.1 million, respectively; whereas, lease expense related to the three months and year ended December 31, 2019 was excluded from the calculation of Adjusted EBITDA, as a result of recognizing depreciation expense related to right-of-use assets and interest expense related to lease liabilities. Chemtrade applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated. (See *Standards and Interpretations Adopted During the Period*).

<sup>(2)</sup> 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. See **Non-IFRS Measures** for further details and a reconciliation of EBITDA and Adjusted EBITDA.

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 (KCl), phosphorus pentasulphide, and vaccine adjuvants. These products are marketed primarily to North American customers.

Revenue for the three months and year ended December 31, 2019 was \$0.6 million lower and \$14.9 million higher, respectively, than the same periods of 2018. Revenue for the fourth quarter of 2019 was lower than the same period of 2018 due to lower sales volumes for most products. The increase in revenue for the year ended December 31, 2019 compared to 2018, was primarily due to an increase in selling prices and sales volume for water solutions products, partially offset by lower sales volumes for specialty chemical products.

Gross profit for the fourth quarter of 2019 was \$91.8 million higher than the same period of 2018. This was primarily due to the impairment of goodwill recorded in the fourth quarter of 2018 (see **Goodwill Impairment**). Gross profit for the year ended December 31, 2019 was \$24.3 million higher than the same period of 2018. This increase is primarily due to a lower impairment of goodwill recorded in 2019 compared to 2018. In 2019, a \$65.6 million impairment of goodwill for specialty chemical products was recorded during the second quarter of 2019 compared to a \$90.0 million impairment of goodwill for water treatment products recorded in the fourth quarter of 2018 (see **Goodwill Impairment**). Gross profit for the year ended December 31, 2019 also benefited from higher revenue for water solutions products partially offset by lower revenue for specialty chemical products.

Adjusted EBITDA for the three months and year ended December 31, 2019 was \$2.7 million and \$0.6 million higher respectively than the Adjusted EBITDA for the same periods of 2018. In addition to the change in gross profit described above, the adoption of IFRS 16 had a positive impact on 2019 Adjusted EBITDA (see **Standards and Interpretations Adopted During the Period**), which resulted in the exclusion of lease expenses related to right-of-use assets during the three months and year ended December 31, 2019, whereas the same periods of 2018 included \$1.0 million and \$4.1 million, respectively, of lease expenses.

EC -

(\$'000)	Three months ended		Year ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
North American sales volumes:				
Sodium chlorate sales volume (000's MT)	98	101	392	406
Chlor-alkali sales volume (000's MECU)	38	43	178	172
Revenue	\$ 136,084	\$ 159,276	\$ 585,076	\$ 655,671
Gross profit	5,839	25,797	67,972	113,848
Adjusted EBITDA <sup>(1)(2)</sup>	34,101	46,196	171,399	193,442
(Loss) gain on disposal and write-down of assets	(167)	—	706	—
EBITDA <sup>(2)</sup>	33,934	46,196	172,105	193,442

<sup>(1)</sup> Chemtrade initially applied IFRS 16 at January 1, 2019. In applying IFRS 16, in relation to the leases that were previously classified as operating leases, Chemtrade recognizes depreciation and interest expense, instead of operating lease expense. For the three months and year ended December 31, 2018, Adjusted EBITDA included lease expense of \$7.2 million and \$28.5 million, respectively; whereas, lease expense related to the three months and year ended December 31, 2019 was excluded from the calculation of Adjusted EBITDA, as a result of recognizing depreciation expense related to right-of-use assets and interest expense related to lease liabilities. Chemtrade applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated. (See *Standards and Interpretations Adopted During the Period*).

<sup>(2)</sup> 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. See **Non-IFRS Measures** for further details and a reconciliation of EBITDA and Adjusted EBITDA.

EC manufactures and markets sodium chlorate and chlor-alkali products including caustic soda, chlorine and hydrochloric acid (HCl), 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.

Revenue for the three months and year ended December 31, 2019 was \$23.2 million and \$70.6 million lower, respectively, than the same periods of 2018. The lower revenue for the three months and year ended December 31, 2019 was primarily due to lower selling prices for caustic soda and HCl. This was partially offset by higher selling prices for chlorine. Caustic soda prices during the fourth quarter of 2019 were 15% lower than the fourth quarter of 2018.

Gross profit for the three months and year ended December 31, 2019 was \$20.0 million and \$45.9 million lower, respectively, than the same periods of 2018. Gross profit during 2019 has been negatively affected by significantly lower selling prices for caustic soda relative to 2018. Caustic soda prices during 2019 were 19% lower relative to 2018. This has offset the benefit of higher production in 2019 relative to 2018 when there was an extended planned maintenance turnaround. Gross profit for the fourth quarter of 2019 was also negatively affected by approximately \$3.0 million due to a strike by one of its main rail carriers.

Additionally, there was a 21% decrease in net selling prices and a 27% decrease in netbacks (selling price less freight) for HCl in 2019 compared with 2018. Due to the volatility of sales demand for HCl from the oil and gas industry, Chemtrade decided to diversify its customer base to include industrial end markets with more stable demand, albeit at lower selling prices. These end markets are generally further away from Chemtrade's facility and therefore also result in higher freight costs. Stable demand for HCl allows Chemtrade to maintain high operating rates at the North Vancouver chlor-alkali facility and hence higher sales volumes of caustic soda, which is the primary product produced at this facility.

Adjusted EBITDA for the three months and year ended December 31, 2019 was \$12.1 million and \$22.0 million lower, respectively, than the same periods of 2018. Adjusted EBITDA includes the impact of the adoption of IFRS 16 (see **Standards and Interpretations Adopted During the Period**), which resulted in the exclusion of lease expenses related to right-of-use assets during the three months and year ended December 31, 2019, whereas the same periods of 2018 included \$7.2 million and \$28.5 million, respectively, of lease expenses.

### Corporate -

(\$'000)	Three months ended		Year ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Cost of services	\$ 12,652	\$ 10,382	\$ 114,443	\$ 160,937
Adjusted EBITDA <sup>(1)(2)</sup>	(12,652)	(10,382)	(114,443)	(160,937)
Unrealized foreign exchange gain (loss)	2,660	(2,696)	10,787	(1,826)
Gain on lease liability	178	—	413	—
EBITDA <sup>(2)</sup>	(9,814)	(13,078)	(103,243)	(162,763)

<sup>(1)</sup> Chemtrade initially applied IFRS 16 at January 1, 2019. In applying IFRS 16, in relation to the leases that were previously classified as operating leases, Chemtrade recognizes depreciation and interest expense, instead of operating lease expense. For the three months and year ended December 31, 2018, Adjusted EBITDA included lease expense of \$0.4 million and \$1.4 million, respectively; whereas, lease expense related to the three months and year ended December 31, 2019 was excluded from the calculation of Adjusted EBITDA, as a result of recognizing depreciation expense related to right-of-use assets and interest expense related to lease liabilities. Chemtrade applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated. (See *Standards and Interpretations Adopted During the Period*).

<sup>(2)</sup> 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. See **Non-IFRS Measures** for further details and a reconciliation of EBITDA and Adjusted EBITDA.

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 three months and year ended December 31, 2019, corporate costs, excluding unrealized foreign exchange gains and losses were \$2.3 million higher and \$46.5 million lower, respectively, than the same periods of 2018. The increase in corporate costs for the fourth quarter of 2019 was primarily due to higher incentive compensation costs of \$3.0 million. Corporate costs for year ended December 31, 2019 were lower than the same period of 2018 as expenses related to the legal proceedings reserve were \$60.0 million lower than the same period of 2018. This was partially offset by higher incentive compensation costs of \$14.3 million as 2018 Long-Term Incentive Plan ("LTIP") costs were unusually low due to the decline in Chemtrade's unit price during 2018. Corporate costs for the year ended December 31, 2019 also included realized foreign exchange losses of \$4.6 million.

Corporate costs include LTIP expenses, which relate to the 2017-2019, 2018-2020, and 2019-2021 LTIPs which Chemtrade operates and pursuant to which it grants cash awards based on certain criteria. The 2017-2019, 2018-2020, and 2019-2021 LTIP payouts are payable at the beginning of 2020, 2021 and 2022, 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, 2019, foreign exchange gains of \$9.7 million and \$17.4 million, respectively, on the revaluation of the U.S. dollar-denominated debt and investment in foreign operations were recognized in other comprehensive income, compared with a foreign exchange loss of \$10.0 million and \$16.0 million, respectively, during the three months and year ended December 31, 2018.

### **Reserve for Legal Proceedings**

General Chemical (which was acquired by 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 General Chemical obtained the benefit of conditional amnesty from criminal charges. General Chemical and Chemtrade are also defendants in class action lawsuits and a few civil proceedings relating to the same conduct. Corporate costs for the year ended December 31, 2019 included an expense of \$40.0 million (2018 - \$100.0 million) which represents a reserve for the costs of litigating and resolving all of the civil actions commenced against General Chemical and Chemtrade and various other defendants for anti-competitive actions in the water business.

The main class action civil lawsuit was settled for US\$51.0 million which was paid during the first quarter of 2019. Some additional settlements were negotiated following the end of the first quarter of 2019, such that all of the lawsuits, including all class action lawsuits arising directly out of the anti-competitive actions in the water business have now been settled, with only a few ex-employee initiated derivative actions outstanding. While Chemtrade believes that the reserve is sufficient, the outcome and timing of the remaining actions are uncertain.

### **Assets Held For Sale**

During the second quarter of 2019, management decided to pursue the sale of two specialty chemicals related assets (potassium chloride and vaccine adjuvants) within the WSSC segment. Accordingly, \$202.8 million of assets, along with \$18.7 million of liabilities directly associated with these assets have been presented as held for sale as at December 31, 2019.

### **Goodwill Impairment**

During the second quarter of 2019, Chemtrade performed a test for goodwill impairment for the remaining specialty chemicals cash-generating unit ("CGU") in WSSC. This CGU excludes the assets held for sale. The impairment trigger included increased competitive pressure resulting in lower levels of gross profit for specialty chemical products. The carrying value of this CGU exceeded the recoverable amount by \$65.6 million and an impairment loss of \$65.6 million



was fully allocated to goodwill and recognized in cost of sales and services. 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 weakened by one-cent (for example, from \$1.30 to \$1.31), on an unhedged basis, this would have a positive impact on annual net earnings of approximately \$1.2 million, and vice-versa. The impact on annual Adjusted EBITDA and Distributable cash after maintenance capital expenditures would be approximately \$2.3 million and \$1.2 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, 2019 include future contracts to sell the following amounts for periods through to September 2020:

Amount (\$'000)	Weighted average exchange rate
US\$67,359	\$1.31

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, 2018 were a result of changes in the Canadian/U.S. dollar exchange rate between December 31, 2018 and December 31, 2019.

The rate of exchange used to translate U.S. dollar-denominated balances has decreased from a rate of US\$1.00 = \$1.36 at December 31, 2018 to US\$1.00 = \$1.30 at December 31, 2019. See **Risks and Uncertainties** for additional comments on foreign exchange.

## Net Finance Costs

During the three months and year ended December 31, 2019, net finance costs were \$12.5 million and \$88.5 million, respectively, compared with net finance costs of \$25.3 million and \$74.1 million during the same periods of 2018.

Net finance costs were \$12.8 million lower during the fourth quarter of 2019 relative to 2018. This is primarily due to a gain of \$13.0 million related to a change in the fair value of convertible debentures in the fourth quarter of 2019 compared to a loss of \$8.1 million in the fourth quarter of 2018. This was partially offset by higher debt levels in the fourth quarter of 2019 relative to 2018 which resulted in a higher interest expense of \$1.3 million and higher interest on convertible debentures of \$0.5 million. Interest expense for the fourth quarter of 2019 also includes \$4.5 million of transaction costs on the issuance of convertible debentures and \$2.2 million of interest expense related to newly recognized lease liabilities, due to the adoption of IFRS 16 (see **Standards and Interpretations Adopted During the Period**).

Net finance costs were \$14.4 million higher during the year ended December 31, 2019 relative to 2018, primarily due to higher debt levels during 2019 resulting in higher interest expenses of \$9.3 million. Interest expense in 2019 also includes \$4.5 million of transaction costs on the issuance of convertible debentures and \$8.8 million of interest expense related to newly recognized lease liabilities, due to the adoption of IFRS 16 (see **Standards and Interpretations Adopted During the Period**). Net finance costs for the year ended December 31, 2019 include a loss of \$0.6 million related to change in the fair value of convertible debentures in 2019 relative to a gain of \$1.7 million in 2018. These increases were partially offset by higher debt extinguishment costs recorded in 2018 of \$7.4 million and lower interest expenses on convertible debentures of \$3.3 million in 2019.

The weighted average effective annual interest rate of the Credit Facilities at December 31, 2019 was 4.2% (December 31, 2018 - 4.0%). 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.

Current income tax expense for the fourth quarter of 2019 was similar to the fourth quarter of 2018. For the year ended December 31, 2019, current income tax expense was \$1.3 million lower relative to 2018. The decrease in current income tax expense in 2019 is primarily due to Base Erosion and Anti-Abuse Tax ("BEAT tax") that was incurred during



2018 which was based on interest deductions claimed in the U.S., partially offset by a current income tax recovery in Canada in 2018.

There was a lower level of deferred income tax recovery during 2019 relative to 2018, as lower levels of tax losses were generated in 2019. There were higher tax losses generated in 2018 due to the higher level of legal proceedings reserve established in 2018 (see **Reserve for Legal Proceedings**). This was partially offset by lower levels of interest deduction carryforwards established in 2019 relative to 2018.

The effective tax rate for 2019 differs from the statutory tax rate primarily due to the deduction of taxable income distributed to Unitholders, non-deductible goodwill impairment in the U.S., and the difference in domestic corporate and trust tax rates.

During the year ended December 31, 2019, deferred tax assets increased by \$27.7 million primarily due to the recognition of additional non-capital losses and interest deduction carryforwards in the U.S. The net decrease in deferred tax liabilities of \$20.4 million at December 31, 2019 relative to December 31, 2018 is primarily due to re-classifying deferred tax liabilities associated with certain fixed assets classified as held for sale in the U.S.

The Fund does not record deferred taxes related to its deductible temporary differences nor those of its flow-through subsidiaries, as these differences primarily relate to investments in corporate subsidiaries and are expected to reverse without tax consequences to the Fund.

### Excess Cash Flows and Net Earnings Over Distributions Paid

The following table presents excess cash flows from operating activities and net earnings over distributions paid for the three months and year ended December 31, 2019, and for the years ended December 31, 2018 and December 31, 2017.

(\$'000)	<u>Three months ended</u>		<u>Year ended</u>	
	December 31, 2019	December 31, 2019	December 31, 2018	December 31, 2017
Cash flows from operating activities	\$ 60,659	\$ 139,477	\$ 244,464	\$ 151,298
Net (loss) earnings	\$ (12,597)	\$ (99,654)	\$ (131,517)	\$ 147,359
Distributions paid during period	\$ 27,779	\$ 111,116	\$ 111,116	\$ 104,091
Excess of cash flows from operating activities over cash distributions paid	\$ 32,880	\$ 28,361	\$ 133,348	\$ 47,207
(Shortfall) excess of net earnings over cash distributions paid	\$ (40,376)	\$ (210,770)	\$ (242,633)	\$ 43,268

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, 2019 were declared as follows:

<b>Record Date</b>	<b>Payment Date</b>	<b>Distribution Per Unit</b>	<b>Total (\$'000)</b>
Three months ended December 31:			
October 31, 2019	November 29, 2019	\$ 0.10 \$	9,260
November 29, 2019	December 31, 2019	0.10	9,260
December 31, 2019	January 31, 2020	0.10	9,259
Sub-total		0.30	27,779
Three months ended September 30, 2019		0.30	27,779
Three months ended June 30, 2019		0.30	27,779
Three months ended March 31, 2019		0.30	27,779
Total for the year ended December 31, 2019		<b>\$ 1.20 \$</b>	<b>111,116</b>

Distributions to Unitholders for the three months and year ended December 31, 2018 were declared as follows:

<b>Record Date</b>	<b>Payment Date</b>	<b>Distribution Per Unit</b>	<b>Total (\$'000)</b>
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		<b>\$ 1.20 \$</b>	<b>111,116</b>

Treatment of Chemtrade's distributions for Canadian Income Tax purposes for 2018 and 2019 is as follows:

	<b>Other Income</b>	<b>Dividends <sup>(1)</sup></b>	<b>Foreign Non-Business Income</b>	<b>Total</b>
2018	13.3%	40.6%	46.1%	100%
2019 <sup>(2)</sup>	13.2%	41.5%	45.3%	100%

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

<sup>(2)</sup> Represents anticipated tax characterization of planned distributions. The actual tax treatment of 2019 distributions will be determined by February 28, 2020.

## 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 Flows from (used in) Operating Activities

Cash flows from operating activities for the fourth quarter of 2019 were \$19.2 million lower than the fourth quarter of 2018, primarily due to a large reduction in working capital during the fourth quarter of 2018. This was partially offset by the effect of the adoption of IFRS 16 in 2019. Cash flows from operating activities no longer include lease expenses which were included in 2018. For the fourth quarter of 2018, cash flows from operating activities included lease expenses of \$14.4 million.

Cash flows from operating activities for the year ended December 31, 2019 were \$105.0 million lower than the same period of 2018 primarily due to changes in working capital and the adoption of IFRS 16 in 2019. During the year ended December 31, 2018, working capital decreased by \$131.6 million as the litigation reserve of \$100.0 million was established but not paid (see **Reserve for Legal Proceedings**). During the year ended December 31, 2019, working capital increased by \$88.9 million, mainly due to the payment of a large portion of the legal reserve. Finally, cash flows from operating activities during the year ended December 31, 2019 also benefited by the adoption of IFRS 16 as cash flows from operating activities no longer included lease expenses which were included in 2018. For the year ended December 31, 2018, cash flows from operating activities included lease expenses of \$56.2 million.

### Investing Activities

Capital expenditures were \$40.6 million in the fourth quarter of 2019, compared with \$37.1 million in the fourth quarter of 2018. These amounts include \$36.9 million in the fourth quarter of 2019 and \$31.5 million in the fourth quarter of 2018 for maintenance capital expenditures. Investment in capital expenditures was \$96.3 million for the year ended December 31, 2019, compared with \$92.4 million for the year ended December 31, 2018. These amounts include \$82.7 million for the year ended December 31, 2019 and \$77.7 million for the year ended December 31, 2018 for maintenance capital expenditures. Chemtrade expects to incur approximately \$80.0 to \$90.0 million of maintenance capital expenditures during 2020.

Non-maintenance capital expenditures were \$3.7 million during the fourth quarter of 2019, compared with \$5.6 million during the fourth quarter of 2018. Investment in non-maintenance capital expenditures was \$13.6 million during the year ended December 31, 2019, compared with \$14.7 million during the year ended December 31, 2018. 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, 2019, Chemtrade's credit facilities were comprised of a \$421.9 million (US\$325.0 million) five year term loan and a \$681.6 million (US\$525.0 million) revolving credit facility (the "Credit Facilities").

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. 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 \$0.5 million of transaction costs related to the modification. On October 24, 2019, Chemtrade modified certain terms of its Credit Facilities including extending the maturity date to October 24, 2024 and incurred \$0.6 million of transaction costs related to the modification.

There was a net decrease of \$83.0 million and a net increase of \$89.9 million in borrowings on the revolving portion of the Credit Facilities during the three months and year ended December 31, 2019, respectively, compared with a net decrease of \$10.3 million and a net increase of \$51.4 million during the three months and year ended December 31, 2018. During the year ended December 31, 2019, the additional borrowings on the Credit Facilities were primarily used to redeem the remaining portion of the outstanding CEI Series V Debentures at a total aggregate redemption price of \$84.0 million and to make payments related to the legal proceedings reserve. 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.

In October 2019, Chemtrade completed a public offering, on a "bought deal" basis, of \$100.0 million principal amount of convertible unsecured subordinated debentures, at a price of \$1,000 per debenture, with an interest rate of 6.50% per annum. Chemtrade incurred transaction costs of \$4.5 million which included underwriters' fees and other expenses relating to the offering (see **Recent Developments**).

Distributions to Unitholders during the three months and year ended December 31, 2019 were the same as the three months and year ended December 31, 2018. For additional information on cash distributions, see **Non-IFRS Measures - Cash Flow** and **Excess Cash Flows and Net Earnings Over Distributions Paid**.

## *Financial Instruments -*

During the first quarter of 2019, Chemtrade's previous swap arrangements with its principal bankers which fixed the LIBOR components of its interest rates on US\$325.0 million of its outstanding long-term debt expired. Subsequently, during the first and third quarters of 2019, Chemtrade entered into swap arrangements of US\$175.0 million and US \$150.0 million respectively with its principal bankers, which fixed the LIBOR components of its interest rates on 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 are recognized 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, 2019, Chemtrade had net cash balances of \$13.5 million and working capital of \$16.3 million. Comparable figures for December 31, 2018 were \$13.4 million and a working capital deficit of \$3.1 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, 2019, Chemtrade had Credit Facilities of approximately \$1.1 billion (US\$850.0 million), consisting of a \$421.9 million (US\$325.0 million) five year term loan and a \$681.6 million (US\$525.0 million) revolving credit facility. At December 31, 2019, Chemtrade had the entire term loan outstanding, and had drawn \$326.3 million on its revolving credit facility. Additionally, it had committed a total of \$10.7 million of its revolving credit facility towards standby letters of credit. On October 24, 2019, Chemtrade modified certain terms of its Credit Facilities including extending the maturity date to October 24, 2024.

At December 31, 2019, Chemtrade had five series of Debentures outstanding (four series issued under the Fund and one series under CEI) with an aggregate par value of \$645.9 million (market value of \$608.9 million) and maturity dates ranging from June 30, 2021 to October 31, 2026.

In October 2019, Chemtrade completed a public offering, on a "bought deal" basis, of \$100.0 million principal amount of convertible unsecured subordinated debentures, at a price of \$1,000 per debenture, with an interest rate of 6.50% per annum. Chemtrade incurred transaction costs of \$4.5 million which included underwriters' fees and other expenses relating to the offering (see **Recent Developments**).

During the fourth quarter of 2019, Chemtrade announced the redemption of all of the outstanding CEI Series VI Debentures, with an effective redemption date of January 3, 2020. On January 3, 2020, the debentures were redeemed

for \$74.6 million, The debentures were redeemed at their par value. Chemtrade used its credit facilities to fund the redemption. These debentures have been presented as current liabilities in the Consolidated Statements of Financial Position at December 31, 2019.

#### *Debt Covenants -*

As at December 31, 2019, Chemtrade was compliant with all debt covenants contained in its credit agreement.

### **Summary of Quarterly Results**

<i>(\$ millions)</i>	<b>Q4 2019</b>	<b>Q3 2019</b>	<b>Q2 2019</b>	<b>Q1 2019</b>	<b>Q4 2018</b>	<b>Q3 2018</b>	<b>Q2 2018</b>	<b>Q1 2018</b>
Revenue	\$ 355.2	\$ 395.6	\$ 396.7	\$ 385.3	\$ 390.8	\$ 418.2	\$ 405.3	\$ 381.5
Cost of sales and services	(331.5)	(354.2)	(409.0)	(340.8)	(452.2)	(354.4)	(366.4)	(336.0)
Gross profit	23.7	41.4	(12.3)	44.5	(61.4)	63.8	38.9	45.5
Selling and administrative expenses:								
Unrealized foreign exchange (loss) gain	2.7	(1.0)	5.1	4.1	(2.7)	3.1	(2.1)	(0.1)
LTIP	(0.4)	(6.0)	(2.3)	(2.9)	2.5	(2.7)	(2.0)	0.8
Other	(21.7)	(20.7)	(24.2)	(65.4)	(21.0)	(52.5)	(89.6)	(26.5)
Total selling and administrative expenses	(19.4)	(27.7)	(21.4)	(64.2)	(21.2)	(52.1)	(93.7)	(25.8)
Operating income (loss)	4.3	13.7	(33.7)	(19.7)	(82.6)	11.7	(54.8)	19.6
Net finance costs:								
Mark-to-market on debentures	13.0	(1.5)	(5.0)	(7.2)	(8.1)	4.0	5.0	0.8
Debt issuance and extinguishment costs	(4.5)	—	—	—	—	—	(7.4)	—
Other	(21.0)	(21.2)	(21.2)	(19.9)	(17.2)	(17.1)	(17.7)	(16.4)
Total net finance costs	(12.5)	(22.7)	(26.2)	(27.1)	(25.3)	(13.1)	(20.1)	(15.7)
Income tax (expense) recovery	(4.4)	8.8	2.3	17.5	10.7	10.6	24.5	2.9
Net (loss) earnings	\$ (12.6)	\$ (0.2)	\$ (57.6)	\$ (29.3)	\$ (97.2)	\$ 9.2	\$ (50.4)	\$ 6.9

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

#### Revenue and Gross Profit

Gross profit for the fourth quarter of 2019 was lower due to significantly lower selling prices for caustic soda. During the second quarter of 2019, gross profit was lower due to goodwill impairment of \$65.6 million related to certain specialty chemical products. During the fourth quarter of 2018, goodwill impairment of \$90.0 million for water treatment products was recorded. Gross profit was also negatively affected during the second quarter of 2018 when the North Vancouver 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.

During the first quarter of 2019, other selling and administrative expenses were high due to a \$40.0 million legal proceedings reserve expensed in the period (see **Reserve for Legal Proceedings**). During the second and third quarters of 2018, an expense of \$65.0 million and \$35.0 million, respectively, related to this legal proceedings reserve was also recorded in the respective periods.

### 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.

Starting in 2019, net finance costs include \$2.2 million per quarter of interest expense related to lease liabilities recorded in each quarter resulting from the adoption of IFRS 16 (see **Standards and Interpretations Adopted During the Period**). The fourth quarter of 2019 includes \$4.5 million of transaction costs on the issuance of convertible debentures. The second quarter of 2018 includes debt extinguishment costs on the redemption of the CEI Senior Notes of \$7.2 million.

### **Outstanding Securities of the Fund**

As at February 19, 2020 and December 31, 2019, the following common units and securities convertible into units of the Fund were issued and outstanding:

	February 19, 2020		December 31, 2019	
	Convertible Securities	Units	Convertible Securities	Units
<b>Common units outstanding</b>		<b>92,601,062</b>		<b>92,601,062</b>
<b>5.25% Debentures</b> <sup>(1)</sup>	<b>126,500</b>	<b>4,517,857</b>	<b>126,500</b>	<b>4,517,857</b>
<b>5.00% Debentures</b> <sup>(2)</sup>	<b>143,750</b>	<b>5,784,708</b>	<b>143,750</b>	<b>5,784,708</b>
<b>4.75% Debentures</b> <sup>(3)</sup>	<b>201,115</b>	<b>7,532,397</b>	<b>201,115</b>	<b>7,532,397</b>
<b>6.50% Debentures</b> <sup>(4)</sup>	<b>100,000</b>	<b>6,329,114</b>	<b>100,000</b>	<b>6,329,114</b>
<b>Units outstanding and issuable upon conversion of Debentures</b>		<b>116,765,138</b>		<b>116,765,138</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

<sup>(4)</sup> Convertible at \$15.80 per unit

## Contractual Obligations

Information concerning contractual obligations at December 31, 2019 is shown below:

<b>Contractual Obligations (\$'000)</b>	<b>Total</b>	<b>Less Than 1 Year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>	<b>After 5 Years</b>
Long-term debt	\$ 748,273	\$ —	\$ —	\$ 748,273	\$ —
Debentures	645,949	74,584	126,500	344,865	100,000
Purchase commitments	135,365	61,385	29,592	29,592	14,796
Interest on debentures	122,982	29,922	49,792	31,336	11,932
Interest on long-term debt	152,990	31,653	63,306	58,031	—
<b>Total contractual obligations</b>	<b>\$ 1,805,559</b>	<b>\$ 197,544</b>	<b>\$ 269,190</b>	<b>\$ 1,212,097</b>	<b>\$ 126,728</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 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 50% of their compensation in the form of deferred units of Chemtrade.



As at December 31, 2019, the market value of these deferred units, which is included in trade and other payables was \$3.4 million (2018 - \$2.5 million).

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

	2019	2018
Short-term compensation	\$ 8,306	\$ 5,256
LTIP	7,974	1,120
	\$ 16,280	\$ 6,376

## 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 \$19.6 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 392,000 MT of North American sodium chlorate sales and 178,000 MECU of North American chlor-alkali sales for the year ended December 31, 2019.

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 \$3.8 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 \$11.9 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 2,494,000 Megawatt hours for the year ended December 31, 2019. 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 \$1.8 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

General Chemical (which was acquired by 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 General Chemical obtained the benefit of conditional amnesty from criminal charges. General Chemical and Chemtrade are also defendants in class action lawsuits and a few civil proceedings relating to the same conduct. Chemtrade recorded

a provision of \$100.0 million during 2018 and of \$40.0 million during 2019 with respect to the civil actions. All of the lawsuits, including all class action lawsuits arising directly out of the anti-competitive actions in the water business have been settled. A few ex-employee initiated derivative actions remain outstanding. While Chemtrade believes that the reserve is sufficient, the outcome and timing of the remaining actions are uncertain. (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.

#### *Cyclical 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 \$1.30 to \$1.31), on an unhedged basis, this would have a positive impact on annual net earnings of approximately \$1.2 million, and vice-versa. The impact on annual Adjusted EBITDA and Distributable cash after maintenance capital expenditures would be approximately \$2.3 million and \$1.2 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 \$5.0 million on Chemtrade's net earnings because of its U.S. dollar-denominated term debt and vice-versa. 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. See **Liquidity and Capital Resources - Financing Activities - Financial Instruments** for information concerning hedges.

#### **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, 2019:

- (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.
- (iv) Provisions - Provisions have been recorded based on the present value of anticipated costs for future decommissioning and environmental liabilities. Decommissioning liabilities include future cost estimates of statutory, contractual, constructive or legal obligations associated with the decommissioning of Chemtrade's plants. Environmental liabilities are recorded based on the 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.

Cash outflows associated with these provisions are generally expected to occur at future dates and are long-term in nature. The calculation of these provisions require assumptions such as the discount rate and cost estimates. The provisions recognized are periodically reviewed and updated based on the facts and circumstances available at the time.

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

### **IFRS 16, Leases**

Chemtrade adopted IFRS 16, Leases ("IFRS 16") on January 1, 2019. The 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 (ROU) asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

Chemtrade applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Under this approach, Chemtrade has not restated comparative information presented for 2018. Comparative information for 2018 is presented as previously reported under IAS 17 and related interpretations. The impact of the adoption of IFRS 16 resulted in the recognition of an

additional \$191.7 million of ROU assets and lease liabilities. The amount attributed to ROU assets was then adjusted net of the present value of the sub-lease, lease incentives and the onerous provision.

Lease liabilities were also adjusted to include the impact of prepayments made by Chemtrade. Chemtrade has updated its accounting policy for leases to reflect the adoption of IFRS 16. Refer to note 3(f) of the audited consolidated financial statements of Chemtrade for the year ended December 31, 2019.

**(i) Transition of leases classified as operating leases under IAS 17**

On transition to IFRS 16, lease liabilities were measured at the present value of the remaining lease payments, discounted at Chemtrade's incremental borrowing rate as at January 1, 2019. ROU assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

Chemtrade used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the ROU assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemptions not to recognize ROU assets and liabilities for leases with less than 12 months of lease term and/or of low-dollar value.
- Excluded initial direct costs from measuring the ROU assets at the date of initial application.

**(ii) Leases previously classified as finance leases**

For leases that were classified as finance leases under IAS 17, the carrying amounts of the ROU assets and the lease liabilities at January 1, 2019 were determined at the carrying amounts of the lease assets and lease liabilities under IAS 17 immediately before that date.

**(iii) Impact on transition**

On transition to IFRS 16, Chemtrade recognized an additional \$191.7 million of ROU assets and lease liabilities. The amount attributed to ROU assets was then adjusted net of the present value of the sub-lease, lease incentives and the onerous provision. Lease liabilities were also adjusted to include the impact of prepayments made by Chemtrade. When measuring lease liabilities, Chemtrade discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied ranged from 4.00% to 5.25%.

	<b>January 1, 2019</b>	
ROU assets at January 1, 2019	\$	191.7
Adjustments <sup>(1)(2)</sup>		(15.0)
<b>ROU assets recognized at January 1, 2019</b>	<b>\$</b>	<b>176.7</b>

<sup>(1)</sup> Includes adjustments related to the present value of the sub-lease, lease incentives and the onerous provision.

<sup>(2)</sup> There was no impact to opening deficit as a result of the transition to IFRS 16.



	<b>January 1, 2019</b>	
Operating lease commitments at December 31, 2018	\$	195.8
Adjustments <sup>(1)</sup>		27.4
Impact of discounting using the incremental borrowing rate		(33.3)
<b>Lease liabilities recognized at January 1, 2019</b>	<b>\$</b>	<b>189.9</b>

<sup>(1)</sup> Includes the impact of recognition exemptions including those for short-term and low-dollar value leases; includes the impact of judgment applied with regard to lease terms in which Chemtrade is a lessee that include renewal options; includes prepayments made; and, includes the onerous provision liability that was included as part of other provisions on the balance sheet at December 31, 2018.

### **IFRIC 23, *Uncertainty over Income Tax Treatments***

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. The adoption of IFRIC 23 did not have a material impact on Chemtrade's consolidated financial statements. Chemtrade has updated its accounting policy for taxes to reflect the adoption of IFRIC 23.

### **Standards and interpretations not yet adopted**

The following amended standards and interpretations effective after January 1, 2020 are not expected to have a significant impact on Chemtrade's consolidated financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)

### **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, 2019 through inquiry and review. The Chief Executive Officer and the Chief Financial Officer have concluded that, as at December 31, 2019, 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, 2019. Based on this evaluation, Management has concluded that as at December 31, 2019, 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, 2019 that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

## Financial Outlook

In January 2020, Chemtrade disclosed that it expects its 2020 Adjusted EBITDA to range between \$300.0 million and \$350.0 million.

Chemtrade's guidance is based on numerous assumptions. Certain key assumptions for 2020 that underpin the guidance are as follows:

- None of the principal manufacturing facilities (as set out in Chemtrade's Annual Information Form) incurs significant unplanned downtime.
- Key assumptions in the EC Segment are as follows:
  - North American MECU production volume of approximately 190,000 tonnes;
  - a 2020 average caustic soda price based on the 2020 average IHS NE Asia Caustic price Index being US\$15 per tonne lower than the 2019 average IHS NE Asia caustic price Index; and
  - North American production volume of sodium chlorate of approximately 420,000 MT.
- A foreign exchange rate of US\$ 0.77 per C\$ 1.00. See **Foreign Exchange**.
- Chemtrade also expects:
  - Maintenance Capital Expenditures to range between \$80.0 million and 90.0 million.
  - Lease Payments to range between \$55.0 million and \$60.0 million.
  - Cash Interest (excluding the impact of IFRS 16) to range between \$70.0 million and \$75.0 million.
  - Cash Taxes to range between \$5.0 million and \$10.0 million.

## 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 20, 2020

## 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 5, 2020



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100 New Park Place, Suite 1400  
Vaughan, ON L4K 0J3  
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Fax 905-265 6390  
www.kpmg.ca

## 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, 2019 and 2018;
- 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 "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, 2019 and 2018, 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.



***Emphasis of Matter – Prospective Change in Accounting Policy***

We draw attention to Note 3 to the consolidated financial statements, which indicates that the Entity has changed its accounting policy for the impact of the adoption of IFRS 16 *Leases* and has applied that change using a modified retrospective approach.

Our opinion is not modified in respect of this matter.

***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 "2019 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, or otherwise 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 "2019 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 20, 2020

Consolidated Statements of Financial Position  
(In thousands of Canadian dollars)

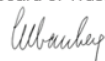
	Notes	December 31, 2019	December 31, 2018
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 13,466	\$ 13,413
Trade and other receivables	4	155,348	199,871
Inventories	5	122,273	143,539
Income taxes receivable		1,795	5,629
Prepaid expenses and other assets		4,720	5,373
Assets held for sale	6	202,772	—
<b>Total current assets</b>		<b>500,374</b>	<b>367,825</b>
<b>Non-current assets</b>			
Property, plant and equipment	7	1,126,962	1,260,670
Right-of-use assets	8	174,224	—
Other assets	9	9,316	11,643
Intangible assets	10	871,205	1,167,636
Deferred tax assets	24	96,992	69,314
<b>Total non-current assets</b>		<b>2,278,699</b>	<b>2,509,263</b>
<b>Total assets</b>		<b>\$ 2,779,073</b>	<b>\$ 2,877,088</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	11	\$ 199,694	\$ 238,578
Distributions payable	17	9,260	9,257
Provisions	12	19,783	118,903
Lease liabilities	8	48,392	—
Convertible unsecured subordinated debentures	14,29	74,584	84,011
Liabilities directly associated with assets held for sale	6	18,710	—
<b>Total current liabilities</b>		<b>370,423</b>	<b>450,749</b>
<b>Non-current liabilities</b>			
Long-term debt	13	744,274	689,014
Convertible unsecured subordinated debentures	14	534,345	495,208
Other long-term liabilities	15	26,849	18,288
Long-term lease liabilities	8	133,633	—
Employee benefits	16	53,294	50,113
Provisions	12	134,827	114,791
Deferred tax liabilities	24	21,852	42,212
<b>Total non-current liabilities</b>		<b>1,649,074</b>	<b>1,409,626</b>
<b>Total liabilities</b>		<b>2,019,497</b>	<b>1,860,375</b>
<b>Unitholders' equity</b>			
Units	17	1,462,116	1,461,995
Contributed surplus	17	9,720	9,720
Deficit		(870,874)	(656,548)
Accumulated other comprehensive income		158,614	201,546
<b>Total unitholders' equity</b>		<b>759,576</b>	<b>1,016,713</b>
<b>Total liabilities and unitholders' equity</b>		<b>\$ 2,779,073</b>	<b>\$ 2,877,088</b>

For subsequent events, see Note 29.

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

\* Chemtrade initially adopted IFRS 16, Leases on January 1, 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16, if any, is recognized in retained earnings at the date of initial application. See Note 3(q).

On behalf of the Board of Trustees

  
Lorie Waisberg

  
Lucio Di Clemente

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

	Notes	Year ended December 31,	
		2019	2018
Revenue	20	\$ 1,532,855	\$ 1,595,747
Cost of sales and services	5,10,22	(1,435,532)	(1,508,965)
Gross profit		97,323	86,782
Selling and administrative expenses	21	(132,781)	(192,853)
Operating loss		(35,458)	(106,071)
Net finance costs	23	(88,487)	(74,126)
Loss before income tax		(123,945)	(180,197)
Income tax (expense) recovery	24		
Current		(4,524)	(5,841)
Deferred		28,815	54,521
		24,291	48,680
Net loss		\$ (99,654)	\$ (131,517)
Other comprehensive income (loss)			
Items that may subsequently be reclassified to earnings:			
Gain (loss) on net investment hedge of foreign operations, net of tax expense of \$1,612 (2018 - \$3,566)	25	15,821	(19,594)
Foreign currency translation differences for foreign operations, net of tax expense of \$1,328 (2018 - recovery of \$2,840)		(44,177)	77,959
Effective portion of change in the fair value of cash flow hedges, net of tax recovery of \$1,937 (2018 - \$118)		(5,538)	(322)
Items that will not be reclassified to earnings:			
Defined benefit plan adjustments, net of tax recovery of \$1,360 (2018 - expense of \$3,031)	16	(3,556)	8,847
Change in fair value of convertible debentures due to credit risk, net of tax recovery of \$4,172 (2018 - expense of \$15,999)		(9,038)	43,803
Other comprehensive (loss) income		(46,488)	110,693
Total comprehensive loss		\$ (146,142)	\$ (20,824)
Net loss per unit	17		
Basic net loss per unit		\$ (1.08)	\$ (1.42)
Diluted net loss per unit		\$ (1.08)	\$ (1.42)

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

\* Chemtrade initially adopted IFRS 16, *Leases* on January 1, 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16, if any, is recognized in retained earnings at the date of initial application. See Note 3(q).



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, 2018</b>		\$ 1,461,995	\$ 9,720	\$ (453,425)	\$ 138,111	\$ (7,748)	\$ —	\$ 1,148,653
Adjustment from adoption of IFRS 9		—	—	30,663	—	—	(30,663)	—
Net loss		—	—	(131,517)	—	—	—	(131,517)
Other comprehensive income (loss)		—	—	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
Issuance of units	17	121	—	—	—	—	—	121
Net loss		—	—	(99,654)	—	—	—	(99,654)
Other comprehensive (loss) income		—	—	(3,556)	(44,177)	10,283	(9,038)	(46,488)
Distributions	17	—	—	(111,116)	—	—	—	(111,116)
<b>Balance at December 31, 2019</b>		\$ 1,462,116	\$ 9,720	\$ (870,874)	\$ 171,893	\$ (17,381)	\$ 4,102	\$ 759,576

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

\* Accumulated other comprehensive income.

\*\* Chemtrade initially adopted IFRS 16, Leases on January 1, 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16, if any, is recognized in retained earnings at the date of initial application. See Note 3(a).

Consolidated Statements of Cash Flows  
(In thousands of Canadian dollars)

	Notes	Year ended December 31,	
		2019	2018
<b>Cash flows from operating activities:</b>			
Net loss		\$ (99,654)	\$ (131,517)
Adjustments for:			
Depreciation and amortization	22	262,458	214,507
Loss (gain) on disposal and write-down of assets		13,790	(4,039)
Impairment of goodwill	10	65,600	90,000
Income tax recovery	24	(24,291)	(48,680)
Net interest costs	23	72,044	61,705
Interest costs - lease liabilities	8	8,812	—
Accretion expense	23	5,050	4,740
Net pension interest	23	1,949	1,932
Debt extinguishment costs including realized foreign exchange loss	13	—	7,417
Change in fair value of convertible unsecured subordinated debentures	14	632	(1,668)
Unrealized foreign exchange (gain) loss	21	(10,787)	1,826
		<b>295,603</b>	<b>196,223</b>
(Increase) decrease in working capital		(88,923)	131,605
Interest paid		(66,232)	(73,889)
Interest received		565	386
Income taxes paid		(1,536)	(9,861)
<b>Net cash flows from operating activities</b>		<b>139,477</b>	<b>244,464</b>
<b>Cash flows from investing activities:</b>			
Additions to property, plant and equipment	7	(96,299)	(92,366)
Decrease in other assets		2,328	2,983
<b>Net cash flows used in investing activities</b>		<b>(93,971)</b>	<b>(89,383)</b>
<b>Cash flows from financing activities:</b>			
Distributions to unitholders	17	(111,116)	(111,116)
Issuance of convertible debentures	14	100,000	—
Transaction costs related to the issuance of convertible debentures	14	(4,539)	—
Repayment of term debt	13	—	(7,830)
Repayment of lease liability net of sub-lease receipts	8	(56,815)	—
Repayment of convertible debentures	14	(84,011)	—
Net change in revolving credit facility	13	89,935	51,352
Financing transaction costs	13	(558)	(1,305)
Increase (decrease) in other long-term liabilities and foreign exchange on term debt		22,106	(12,126)
Principal redemption of high-yield senior notes	13	—	(71,500)
<b>Net cash flows used in financing activities</b>		<b>(44,998)</b>	<b>(152,525)</b>

Consolidated Statements of Cash Flows (continued)  
(In thousands of Canadian dollars)

	Notes	Year ended December 31,	
		2019	2018
<b>Increase in cash and cash equivalents</b>		<b>508</b>	2,556
Cash and cash equivalents, beginning of the period		<b>13,413</b>	10,372
Effect of exchange rates on cash held in foreign currencies		<b>(455)</b>	485
<b>Cash and cash equivalents, end of the period</b>	<b>\$</b>	<b>13,466</b>	<b>\$ 13,413</b>

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

\* Chemtrade initially adopted IFRS 16, *Leases* on January 1, 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16, if any, is recognized in retained earnings at the date of initial application. See *Note 3(q)*.

Year ended December 31, 2019 and 2018

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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"). 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 20, 2020.

**(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;

Year ended December 31, 2019 and 2018

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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 loss 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. If actual results differ or a change in expectation arise, an impairment charge may be required.

Year ended December 31, 2019 and 2018

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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.

(iv) Provisions (note 12):

Provisions have been recorded based on the present value of anticipated costs for future decommissioning and environmental liabilities. Decommissioning liabilities include future cost estimates of statutory, contractual, constructive or legal obligations associated with the decommissioning of Chemtrade's plants.

Year ended December 31, 2019 and 2018

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**2. BASIS OF PREPARATION (continued):**

Environmental liabilities are recorded based on the 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.

Cash outflows associated with these provisions are generally expected to occur at future dates and are long-term in nature. The calculation of these provisions require assumptions such as the discount rate and cost estimates. The provisions recognized are periodically reviewed and updated based on the facts and circumstances available at the time.

**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 issuance 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.



Year ended December 31, 2019 and 2018

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

**(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, 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. When a foreign operation is sold, the cumulative amount of such exchange difference is recognized in the income statement as part of the gain or loss on sale.

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.

Year ended December 31, 2019 and 2018

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

(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 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) Assets held for sale:**

A disposal group comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

To assess whether the disposal group meets the definition of an asset held for sale, Chemtrade assesses whether the following conditions have been met:

- management is committed to a plan to sell;
- the asset is available for immediate sale;
- an active program to locate a buyer is initiated;
- the sale is highly probable, within 12 months of classification as held for sale (subject to limited exceptions);

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

- the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value; and
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

Such a disposal group is generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on the asset held for sale group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, or employee benefits assets which continue to be measured in accordance with Chemtrade's accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in profit or loss.

Once classified as held-for-sale, intangible assets, property plant and equipment and right-of-use assets are no longer amortized or depreciated.

**(e) 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.

Year ended December 31, 2019 and 2018

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

(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.

(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. Land is not depreciated.

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.

**(f) Leases**

(i) Definition of a lease

Chemtrade assesses whether a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

Year ended December 31, 2019 and 2018

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

To assess whether a contract conveys the right to control the use of an identified asset, Chemtrade assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- it has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- it has the right to direct the use of the asset. Chemtrade has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, Chemtrade has the right to direct the use of the asset if either:
  - it has the right to operate the asset; or
  - it designed the asset in a way that predetermines how and for what purpose it will be used.

(ii) As a lessee

At inception or on reassessment of a contract that contains a lease component in which Chemtrade is a lessee, Chemtrade allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for certain leases where it is a lessee, in accordance with IFRS 16, Chemtrade has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

Chemtrade leases various assets that include properties, rail cars, vehicles, IT equipment and other heavy-duty machinery and equipment to conduct its daily operations.

Chemtrade recognizes right-of-use ("ROU") assets and lease liabilities for most leases - i.e. leases are on-balance sheet. Chemtrade applies recognition exemptions for short-term leases (i.e. leases with terms less than 12 months or entered into on a month-to-month basis) and leases of IT equipment that are considered to be low-dollar value leases. Short-term and low-dollar value leases are directly recorded in profit or loss.

Chemtrade recognizes an ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost. Subsequent to initial recognition, the ROU

Year ended December 31, 2019 and 2018

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

asset is measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. In comparison, the lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Chemtrade's incremental borrowing rate is used. Generally, Chemtrade uses its incremental borrowing rate as the discount rate. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Chemtrade has applied judgment to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether Chemtrade is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and ROU assets recognized.

(iii) As a lessor

Chemtrade assesses the classification of a sub-lease with reference to the ROU asset, not the underlying asset.

#### (g) 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.

(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.

Year ended December 31, 2019 and 2018

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

Amortization is recognized in comprehensive income on a straight-line basis over the estimated useful lives of intangible assets, 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

#### (h) 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.

##### (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.



Year ended December 31, 2019 and 2018

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

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.

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

#### ***Growth***

The assumptions are based on Chemtrade's internal annual 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 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.

Year ended December 31, 2019 and 2018

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

#### ***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.

(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.

#### **(i) 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.

Year ended December 31, 2019 and 2018

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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.

(j) **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

Year ended December 31, 2019 and 2018

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

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 over time.

**(k) 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) Decommissioning liabilities:

Chemtrade recognizes provisions for statutory, contractual, constructive or legal obligations associated with decommissioning of Chemtrade's plants.

Year ended December 31, 2019 and 2018

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

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

(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.

(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.

#### **(I) 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.

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

Chemtrade's non-derivative financial assets are comprised 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.

(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.

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

(iii) Units:

Units are classified as equity. Incremental costs directly attributable to the issuance 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 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.

*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

Year ended December 31, 2019 and 2018

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

changes in the fair value of the derivative that is designated and qualify as cash flow hedge 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.

**(m) 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.



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

**(n) 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.

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.

Year ended December 31, 2019 and 2018

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

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.

**(o) 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.

**(p) 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, finance costs 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.

**(q) Standards and interpretations adopted during the period:**

***IFRS 16, Leases***

Chemtrade adopted IFRS16, Leases ("IFRS 16") on January 1, 2019. The 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

Year ended December 31, 2019 and 2018

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

of low value. A lessee is required to recognize an ROU asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

On transition to IFRS 16, Chemtrade elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed to determine whether they met the IFRS 16 definition of a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

Chemtrade applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019.

Under this approach, Chemtrade has not restated comparative information presented for 2018. Comparative information for 2018 is presented as previously reported under IAS 17 and related interpretations. The impact of the adoption of IFRS 16 resulted in the recognition of an additional \$191,676 of ROU assets and lease liabilities. The amount attributed to ROU assets was then adjusted net of the present value of the sub-lease, lease incentives and the onerous provision.

Lease liabilities were also adjusted to include the impact of prepayments made by Chemtrade. Chemtrade has updated its accounting policy for leases to reflect the adoption of IFRS 16.

#### (i) Transition of leases classified as operating leases under IAS 17

Prior to January 1, 2019, Chemtrade classified leases as operating or finance leases. Chemtrade assessed whether a lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to Chemtrade, in which case it was classified as a finance lease and recognized on the balance sheet. Payments made under operating leases were recognized in comprehensive income on a straight-line basis over the term of the lease (i.e. they were off-balance sheet). For leases of other assets, which were classified as operating leases under IAS 17, Chemtrade recognized ROU assets and lease liabilities.

On transition to IFRS 16, lease liabilities were measured at the present value of the remaining lease payments, discounted at Chemtrade's incremental borrowing rate as at January 1, 2019. ROU assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

Chemtrade used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

Year ended December 31, 2019 and 2018

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

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the ROU assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemptions not to recognize ROU assets and liabilities for leases with less than 12 months of lease term and/or of low-dollar value.
- Excluded initial direct costs from measuring the ROU asset at the date of initial application.

(ii) Leases previously classified as finance leases

For leases that were classified as finance leases under IAS 17, the carrying amounts of the ROU assets and the lease liabilities at January 1, 2019 were determined at the carrying amounts of the lease assets and lease liabilities under IAS 17 immediately before that date.

(iii) Impact on transition

On transition to IFRS 16, Chemtrade recognized an additional \$191,676 of ROU assets and lease liabilities. The amount attributed to ROU assets was then adjusted net of the present value of the sub-lease, lease incentives and the onerous provision. Lease liabilities were also adjusted to include the impact of prepayments made by Chemtrade.

When measuring lease liabilities, Chemtrade discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied ranged from 4.00% to 5.25%.

	<b>January 1, 2019</b>
ROU assets at January 1, 2019	\$ 191,676
Adjustments <sup>(1)(2)</sup>	(14,961)
<b>ROU assets recognized at January 1, 2019</b>	<b>\$ 176,715</b>

<sup>(1)</sup> Includes adjustments related to the present value of the sub-lease, lease incentives and the onerous provision.

<sup>(2)</sup> There was no impact to opening deficit as a result of the transition to IFRS 16.

	<b>January 1, 2019</b>
Operating lease commitments at December 31, 2018	\$ 195,837
Adjustments <sup>(1)</sup>	27,408
Impact of discounting using the incremental borrowing rate	(33,308)
<b>Lease liabilities recognized at January 1, 2019</b>	<b>\$ 189,937</b>

<sup>(1)</sup> Includes the impact of recognition exemptions including those for short-term and low-dollar value leases; includes the impact of judgment applied with regard to lease terms in which Chemtrade is a lessee that include renewal options; includes prepayments made; and, includes the onerous provision liability that was included as part of other provisions on the balance sheet at December 31, 2018.

Year ended December 31, 2019 and 2018

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

(iv) As a lessor

As a lessor, Chemtrade is not required to make any adjustments on transition to IFRS 16 for its leases in which it acts as a lessor, except for a sub-lease. On transition from IAS 17 to IFRS 16, Chemtrade reassessed the classification of a sub-lease contract previously classified as an operating lease under IAS 17. Chemtrade concluded that the sub-lease is a finance lease under IFRS 16.

**IFRIC 23, *Uncertainty over Income Tax Treatments***

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. The adoption of IFRIC 23 did not have a material impact on Chemtrade's consolidated financial statements. Chemtrade has updated its accounting policy for taxes to reflect the adoption of IFRIC 23.

**(r) Standards and interpretations not yet adopted**

The following amended standards and interpretations effective after January 1, 2020 are not expected to have a significant impact on Chemtrade's consolidated financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)

**4. TRADE AND OTHER RECEIVABLES:**

	2019	2018
Trade and other receivables before expected credit losses	\$ 156,275	\$ 202,437
Less: expected credit losses	(927)	(2,566)
<b>Trade and other receivables</b>	<b>\$ 155,348</b>	<b>\$ 199,871</b>

As disclosed in note 25, Chemtrade is exposed to normal credit and currency risks with respect to its accounts receivable. At December 31, 2019, 94.3% (2018 - 83.9%) of accounts receivable are less than 30 days past due, and less than 3% (2018 - less than 2%) of accounts receivable are greater than 120 days past due that are not provided for.

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

Year ended December 31, 2019 and 2018

**4. TRADE AND OTHER RECEIVABLES (continued):**

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:

	<b>2019</b>	2018
Balance at beginning of year	\$ 2,566	\$ 2,756
Adjustments made during the year	(43)	133
Write-offs	(1,596)	(323)
<b>Balance at end of year</b>	<b>\$ 927</b>	<b>\$ 2,566</b>

**5. INVENTORIES:**

Chemtrade's inventories are as follows:

	<b>2019</b>	2018
Raw materials	\$ 68,420	\$ 72,827
Finished goods	22,036	39,529
Operating supplies	31,817	31,183
	<b>\$ 122,273</b>	<b>\$ 143,539</b>

The amount of inventories recognized as an expense during the year ended December 31, 2019 was \$858,640 (2018 - \$925,960).

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

Year ended December 31, 2019 and 2018

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**6. ASSETS HELD FOR SALE:**

During the second quarter of 2019, management decided to pursue the sale of two specialty chemicals related assets (potassium chloride and vaccine adjuvants) within the WSSC segment. Accordingly, these assets have been presented as assets held for sale.

Following are details regarding the assets held for sale and the liabilities associated with them as at December 31, 2019:

**Assets held for sale**

Trade and other receivables	\$	6,844
Inventories		7,751
Prepaid expenses and other assets		94
Property, plant and equipment		57,398
ROU assets		292
Intangible assets		130,393
<b>Total</b>	<b>\$</b>	<b>202,772</b>

**Liabilities directly associated with assets held for sale**

Trade and other payables	\$	4,667
Lease liabilities		226
Deferred tax liabilities		13,817
<b>Total</b>	<b>\$</b>	<b>18,710</b>

Notes to Consolidated Financial Statements  
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Year ended December 31, 2019 and 2018

**7. 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, 2018	\$ 95,482	\$ 1,698,268	\$ 79,673	\$ 1,873,423
Additions	—	—	92,366	92,366
Decommissioning 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
Additions	—	—	96,299	96,299
Decommissioning provisions	—	18,682	—	18,682
Transfers	—	101,697	(101,697)	—
Reclassification to assets held for sale	(1,889)	(50,435)	(19,114)	(71,438)
Asset retirements and write-downs	(1,060)	(52,522)	(260)	(53,842)
Translation	(2,428)	(60,471)	(3,305)	(66,204)
Balance at December 31, 2019	\$ 88,251	\$ 1,810,143	\$ 80,185	\$ 1,978,579
<b>Accumulated depreciation</b>				
Balance at January 1, 2018	\$ —	\$ (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)
Depreciation	—	(140,978)	—	(140,978)
Reclassification to assets held for sale	—	14,040	—	14,040
Asset retirements and write-downs	—	37,775	—	37,775
Translation	—	31,239	—	31,239
Depreciation allocated to inventory	—	719	—	719
Balance at December 31, 2019	\$ —	\$ (851,617)	\$ —	\$ (851,617)
<b>Net carrying amount</b>				
December 31, 2018	\$ 93,628	\$ 1,058,780	\$ 108,262	\$ 1,260,670
December 31, 2019	\$ 88,251	\$ 958,526	\$ 80,185	\$ 1,126,962



Notes to Consolidated Financial Statements  
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Year ended December 31, 2019 and 2018

**8. LEASES:**

**(i) ROU assets**

Chemtrade leases various assets that include properties, rail cars, vehicles and other heavy-duty machinery and equipment. Chemtrade's right-of-use assets are presented below:

	Railcar	Private Fleet	Real Estate	Vehicles	Other <sup>(1)</sup>	Total
<b>Cost</b>						
Balance at January 1, 2019	\$ 129,490	\$ 4,336	\$ 30,401	\$ 1,133	\$ 11,355	\$ 176,715
Additions to ROU assets	55,988	—	—	494	344	56,826
Derecognition of ROU assets	(3,111)	(93)	—	(110)	(1,697)	(5,011)
Reclassification to assets held for sale	—	—	—	—	(345)	(345)
Translation	(1,466)	(185)	(540)	(43)	(369)	(2,603)
Balance at December 31, 2019	\$ 180,901	\$ 4,058	\$ 29,861	\$ 1,474	\$ 9,288	\$ 225,582
<b>Accumulated depreciation</b>						
Balance at January 1, 2019	—	—	—	—	—	—
Depreciation charge of ROU assets	(44,538)	(1,411)	(3,319)	(610)	(3,025)	(52,903)
Derecognition of ROU assets	1,142	—	—	19	—	1,161
Reclassification to assets held for sale	—	—	—	—	53	53
Translation	215	27	33	9	47	331
Balance at December 31, 2019	\$ (43,181)	\$ (1,384)	\$ (3,286)	\$ (582)	\$ (2,925)	\$ (51,358)
<b>Net carrying amount</b>						
December 31, 2019	\$ 137,720	\$ 2,674	\$ 26,575	\$ 892	\$ 6,363	\$ 174,224

<sup>(1)</sup> Others include leased assets such as forklifts, trucks and storage tanks.

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

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**8. LEASES (continued):**

**(ii) Lease liabilities**

Chemtrade's lease liabilities schedule is presented below:

Balance at January 1, 2019	\$	189,937
Additions - Principal		56,826
Interest expense on lease liabilities		8,812
Principal repayment		(61,518)
Derecognition		(5,435)
Reclassification to assets held for sale		(226)
Translation		(6,371)
<b>Total</b>		<b>182,025</b>
Less: Current portion		48,392
<b>Balance at December 31, 2019</b>	<b>\$</b>	<b>133,633</b>

	<b>December 31, 2019</b>	
<b>Maturity analysis - contractual undiscounted cash flows</b>		
Less than one year	\$	54,799
One to five years		127,144
More than five years		22,367
<b>Total undiscounted lease liabilities at December 31, 2019</b>	<b>\$</b>	<b>204,310</b>

**(iii) Amounts recognized in profit or loss**

	<b>December 31, 2019</b>	
Depreciation charge of right-of-use assets	\$	52,903
Interest expense (included in finance cost)		8,812
Income from sub-leasing right-of-use assets		(249)
Expenses relating to short term leases		9,260
Expenses relating to leases of low-value assets, excluding short term leases of low value assets		387

Notes to Consolidated Financial Statements  
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Year ended December 31, 2019 and 2018

**9. OTHER ASSETS:**

Chemtrade's other assets are as follows:

	2019	2018
Deferred rent expense	\$ 2,185	\$ 2,324
Deferred charges	3,456	5,421
Interest rate swap asset (note 25)	—	332
Long-term receivable	2,639	3,144
Other	1,036	422
	<b>\$ 9,316</b>	<b>\$ 11,643</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, 2018	\$ 789,325	\$ 727,910	\$ 57,872	\$ 1,575,107
Impairment	(90,000)	—	—	(90,000)
Translation	49,521	20,931	5,257	75,709
Balance at December 31, 2018	\$ 748,846	\$ 748,841	\$ 63,129	\$ 1,560,816
Reclassification to assets held for sale	(99,093)	(9,997)	(58,294)	(167,384)
Impairment	(65,600)	—	—	(65,600)
Translation	(25,656)	(12,841)	(2,392)	(40,889)
Balance at December 31, 2019	\$ 558,497	\$ 726,003	\$ 2,443	\$ 1,286,943
<b>Accumulated Amortization</b>				
Balance at January 1, 2018	\$ —	\$ (283,705)	\$ (22,796)	\$ (306,501)
Amortization	—	(67,371)	(6,374)	(73,745)
Translation	—	(10,602)	(2,332)	(12,934)
Balance at December 31, 2018	\$ —	\$ (361,678)	\$ (31,502)	\$ (393,180)
Reclassification to assets held for sale	—	5,415	31,576	36,991
Amortization	—	(65,083)	(3,494)	(68,577)
Translation	—	7,500	1,528	9,028
Balance at December 31, 2019	\$ —	\$ (413,846)	\$ (1,892)	\$ (415,738)
<b>Net carrying amount</b>				
December 31, 2018	\$ 748,846	\$ 387,163	\$ 31,627	\$ 1,167,636
December 31, 2019	\$ 558,497	\$ 312,157	\$ 551	\$ 871,205

Year ended December 31, 2019 and 2018

**10. INTANGIBLE ASSETS (continued):**

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

During the second quarter of 2019, Chemtrade performed a test for goodwill impairment for the remaining specialty chemicals cash-generating unit ("CGU") in WSSC. This CGU excludes the assets held for sale. The impairment trigger included increased competitive pressure resulting in lower levels of gross profit for specialty chemical products. The carrying value of this CGU exceeded the recoverable amount by \$65,600 and an impairment loss of \$65,600 was fully allocated to goodwill and recognized in cost of sales and services. The recoverable amount is based on the value in use approach.

Following the impairment recognized in the specialty chemicals CGU in the second quarter of 2019, the recoverable amount was equal to the carrying value.

Chemtrade performed its annual test for goodwill impairment in the fourth quarter of 2019 in accordance with its policy described in note 3. The recoverable amount of all CGUs exceeded their carrying values and no impairment loss was recognized in the fourth quarter of 2019 (2018 - \$90,000).

The carrying value of goodwill for the SPPC segment is \$303,009 (2018 - \$312,872), for the WSSC segment is \$212,666 (2018 - \$393,152) and for the EC segment is \$42,822 (2018 - \$42,822). For 2018, WSSC goodwill includes \$99,093 related to assets held for sale.

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

	<b>2019</b>
Discount rate (pre-tax)	11.1% - 12.4%
Growth rate for forecast period	2.5%
Perpetual growth rate	2.50%
Time period	5 years

**11. TRADE AND OTHER PAYABLES:**

Chemtrade's payables are as follows:

	<b>2019</b>	2018
Trade payables	\$ 134,743	\$ 175,948
Non-trade payables and accrued expenses	64,951	62,630
	<b>\$ 199,694</b>	<b>\$ 238,578</b>

Notes to Consolidated Financial Statements  
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Year ended December 31, 2019 and 2018

**12. PROVISIONS:**

	Onerous Contracts	Decommissioning liability	Environmental Liability	Legal Provision	Total
Balance at January 1, 2018	\$ 8,258	\$ 67,118	\$ 58,156	\$ —	\$ 133,532
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
Adjustments <sup>(1)</sup>	(7,226)	1,953	5,789	—	516
Additions	—	10,893	—	40,662	51,555
Accretion	—	1,359	2,631	—	3,990
Payments	—	(1,205)	(5,131)	(122,186)	(128,522)
Translation	—	(250)	(2,849)	(3,524)	(6,623)
	—	83,410	61,322	9,878	154,610
Less: Current portion	—	990	8,915	9,878	19,783
Balance at December 31, 2019	\$ —	\$ 82,420	\$ 52,407	\$ —	\$ 134,827

<sup>(1)</sup> Includes adjustments due to change in discount rate and the implementation of IFRS 16 in 2019.

**(a) Onerous contracts**

In 2017, Chemtrade recorded an onerous contract provision related to the lease for Chemtrade Electrochem Inc. ("CEI") former corporate office in Calgary. Payments on this contract are expected to occur until 2023. On January 1, 2019, the onerous provision amount was offset against the right-of-use asset balance as an IFRS 16 adjustment.

**(b) Decommissioning liability**

Chemtrade has estimated a decommissioning liability for its plants and has accrued for this obligation. Decommissioning is expected to occur on dates ranging from 2020 to 2050.

**(c) Environmental liability**

Chemtrade has estimated a provision for its environmental liability in association with its sites. Expenditures are expected to occur on dates ranging from 2020 to 2049.

Year ended December 31, 2019 and 2018

**12. PROVISIONS (continued):**

**(d) Reserve for Legal Proceedings**

General Chemical (which was acquired by 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 General Chemical obtained the benefit of conditional amnesty from criminal charges. General Chemical and Chemtrade are also defendants in class action lawsuits and a few civil proceedings relating to the same conduct. Corporate costs for the year ended December 31, 2019 included an expense of \$40,000 (2018 - \$100,000) which represents a reserve for the costs of litigating and resolving all of the civil actions commenced against General Chemical and Chemtrade and various other defendants for anti-competitive actions in the water business. The main class action civil lawsuit was settled for US\$51.0 million which was paid during the first quarter of 2019. Some additional settlements were negotiated following the end of the first quarter of 2019, such that all of the lawsuits, including all class action lawsuits arising directly out of the anti-competitive actions in the water business have now been settled, with only a few ex-employee initiated derivative actions outstanding. While Chemtrade believes that the reserve is sufficient, the outcome and timing of the remaining actions are uncertain.

**13. LONG-TERM DEBT:**

	December 31, 2019	December 31, 2018
Term bank debt		
US\$325,000 (December 31, 2018 - US\$325,000)	\$ 421,948	\$ 443,203
Revolving credit		
US\$245,399 (December 31, 2018 - US\$183,554)	318,601	250,313
Canadian dollar-denominated	7,724	—
Less: Transaction costs	(3,999)	(4,502)
Long-term debt (note (a))	\$ 744,274	\$ 689,014

**(a) Long-term debt:**

At December 31, 2019, Chemtrade had senior credit facilities of \$1,103,555 (US \$850,000) ("Credit Facilities"), consisting of a term loan of \$421,948 (US\$325,000) and a revolving credit facility of \$681,607 (US\$525,000). At December 31, 2019, Chemtrade had drawn \$326,325 (December 31, 2018 - \$250,313) on the revolving credit facility and had committed a total of \$10,660 (December 31, 2018 - \$18,433) of this facility towards standby letters of credit.

The Credit Facilities are secured by certain property, plant and equipment ("PPE") of Chemtrade. At December 31, 2019, the weighted average effective interest rate of the facilities is 4.2% (December 31, 2018 - 4.0%).

Year ended December 31, 2019 and 2018

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

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. During 2019, Chemtrade modified certain terms of its Credit Facilities including extending the maturity date to October 24, 2024. Chemtrade incurred \$558 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.

Chemtrade is subject to certain covenants pursuant to its Credit Facilities, which include a Net Debt to EBITDA ratio and an Interest Coverage ratio (as such 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, 2019, 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 Corporation ("Canexus"), now CEI as part of its acquisition of Canexus. The senior notes were issued at par value, bearing interest at a rate of 7.875% per annum maturing on September 20, 2023 (the "CEI Senior Notes"), with interest payments 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.

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:**

Chemtrade's 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 Chemtrade's facility, 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.

Year ended December 31, 2019 and 2018

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#### **14. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES:**

During 2019, the Fund redeemed the remaining portion of the outstanding CEI Series V Debentures at a total aggregate redemption price of \$84,052, being equal to 100% of the principal amount of debentures outstanding, plus accrued and unpaid interest to, but excluding, the redemption date. This represented a redemption in full of the CEI Series V Debentures. Chemtrade used its Credit Facilities to fund the redemption.

During 2019, Chemtrade completed a public offering, on a "bought deal" basis, of \$100,000 principal amount of convertible unsecured subordinated debentures, at a price of \$1,000 per debenture, with an interest rate of 6.50% per annum (the "Fund 2019 6.50% Debentures"). The Fund 2019 6.50% Debentures will mature on October 31, 2026. The Fund 2019 6.50% Debentures are convertible, at the option of the holder, into trust units of the Fund at a conversion price of \$15.80 per unit. Chemtrade used the net proceeds of the offering to pay down senior debt under the Fund's existing credit agreement. Chemtrade incurred transaction costs of \$4,539 which included underwriters' fees and other expenses relating to the offering.

At December 31, 2019, the Fund had \$126,500 principal amount of 5.25% of convertible unsecured subordinated debentures outstanding (the "Fund 2014 5.25% Debentures"), \$143,750 principal amount of 5.00% convertible unsecured subordinated debentures outstanding (the "Fund 2016 5.00% Debentures"), \$201,115 principal amount of 4.75% convertible unsecured subordinated debentures outstanding (the "Fund 2017 4.75% Debentures") and \$100,000 principal amount of 6.50% convertible unsecured subordinated debentures outstanding (the "Fund 2019 6.50% Debentures"). The Fund 2014 5.25% Debentures, the Fund 2016 5.00% Debentures, the Fund 2017 4.75% Debentures and the Fund 2019 6.50% Debentures are collectively referred to as the "Fund Debentures". At December 31, 2019, \$74,584 principal amount of CEI Series VI Debentures were also outstanding. The Fund Debentures and the CEI Series VI Debentures are collectively referred to as the "Debentures".

During the fourth quarter of 2019, Chemtrade announced the redemption of all of the outstanding CEI Series VI Debentures. For additional information, see note 29.

Chemtrade has designated its Debentures as financial liabilities at fair value through profit or loss. At December 31, 2019, the fair value of the Debentures was \$608,929 (December 31, 2018 - \$579,219).

For the year ended December 31, 2019, there were net finance costs of \$35,098 (2018 - \$31,571) related to the Debentures, which included a loss of \$632 (2018 - gain of \$1,668) due to the change in fair value of the Debentures, interest expense of \$29,927 (2018 - \$33,239) and transaction costs of \$4,539 (2018 - nil). For the year ended December 31, 2019, the change in fair value of the Debentures due to Chemtrade's own credit risk was a loss of \$13,210 (2018 - gain of \$59,802), which has been presented in other comprehensive income rather than net earnings.



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

The table below summarizes the key terms of each convertible debenture series outstanding at December 31, 2019 and December 31, 2018:

**Year ended December 31, 2019**

	<b>Fund 2014 5.25% Debentures</b>	<b>Fund 2016 5.00% Debentures</b>	<b>Fund 2017 4.75% Debentures</b>	<b>Fund 2019 6.50% Debentures</b>	<b>CEI Series VI Debentures</b>
Maturity date	June 30, 2021	August 31, 2023	May 31, 2024	October 31, 2026	December 31, 2021
Interest rate	5.25%	5.00%	4.75%	6.50%	6.50%
Principal outstanding	\$126,500	\$143,750	\$201,115	\$100,000	\$74,584

**Year ended December 31, 2018**

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

**15. OTHER LONG-TERM LIABILITIES:**

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

	<b>2019</b>	<b>2018</b>
Long-term portion of LTIP liability (note 18)	<b>\$ 12,287</b>	\$ 6,364
Interest rate swap liability (note 25)	<b>7,143</b>	—
Reserve for self-insurance	<b>3,895</b>	4,091
Lease obligations	<b>—</b>	2,215
Long-term payable	<b>2,450</b>	2,100
Other	<b>1,074</b>	3,518
	<b>\$ 26,849</b>	\$ 18,288

Year ended December 31, 2019 and 2018

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**16. EMPLOYEE BENEFITS:**

Chemtrade provides certain health care and pension benefits for certain employees upon retirement.

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 2019 was \$300 (2018 - \$228).

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 2019, \$174,586 (2018 - \$166,552) of short-term employee benefits were recognized in cost of sales and services, and \$52,627 (2018 - \$46,517) were recognized in selling and administrative expenses.

Chemtrade expects \$9,403 in contributions to be paid to its defined benefits plans in 2020.

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**16. EMPLOYEE BENEFITS (continued):**

	2019	2018
Present value of unfunded obligations	\$ 7,219	\$ 6,913
Present value of funded obligations	389,894	371,716
Total present value of obligations	397,113	378,629
Fair value of plan assets	(343,819)	(328,516)
Recognized liability for defined benefit obligations	\$ 53,294	\$ 50,113

	2019	2018
<b>Components of net periodic benefit cost</b>		
Current service cost	\$ 2,326	\$ 2,947
Net interest cost	1,949	1,932
Administration costs	2,274	2,404
Loss (gain) on curtailment	105	(907)
Net periodic benefit cost recognized	\$ 6,654	\$ 6,376

	2019	2018
<b>Net periodic benefit cost allocation</b>		
Cost of sales	\$ 2,143	\$ 1,912
Selling and administrative expenses	2,562	2,532
Net finance costs	1,949	1,932
Net periodic benefit cost recognized	\$ 6,654	\$ 6,376

	2019	2018
<b>Other comprehensive income</b>		
Return on plan assets, excluding interest income	\$ (37,499)	\$ 18,265
Actuarial losses (gains)	42,416	(30,143)
Loss (gain) recognized in OCI during the year	\$ 4,917	\$ (11,878)

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**16. EMPLOYEE BENEFITS (continued):**

	2019	2018
<b>Weighted average assumptions</b>		
Discount rate	3.10%	4.17%
Ultimate other medical trend rate	4.50%	4.00%
Salary escalation	3.00%	3.00%
	2019	2018
<b>Change in accrued benefit obligation</b>		
Accrued benefit obligation at beginning of year	\$ 378,629	\$ 398,717
Current service cost	2,326	2,947
Interest cost	14,256	13,217
Contributions	401	392
Benefits paid	(24,184)	(24,814)
Loss (gain) on curtailment	105	(907)
Plan settlements	(5,299)	—
Foreign exchange	(11,537)	19,220
Actuarial gain from changes in demographic assumptions	(2,631)	(3,842)
Actuarial loss (gain) from changes in financial assumptions	43,179	(25,784)
Actuarial loss (gain) from experience adjustments	1,868	(517)
Accrued benefit obligation at end of year	\$ 397,113	\$ 378,629
	2019	2018
<b>Change in plan assets</b>		
Plan assets at beginning of year	\$ 328,516	\$ 336,199
Administration fee	(2,274)	(2,404)
Interest income	12,307	11,285
Contributions	6,713	11,193
Benefits paid	(24,184)	(24,814)
Foreign exchange	(9,459)	15,322
Plan settlements	(5,299)	—
Return on plan assets, excluding interest income	37,499	(18,265)
Plan assets at end of year	\$ 343,819	\$ 328,516

Year ended December 31, 2019 and 2018

**16. EMPLOYEE BENEFITS (continued):**

The asset mix in the plan is approximately 60.1% bonds (2018 - 60.6%), approximately 30.4% equity securities (2018 - 29.5%) and approximately 9.5% other investments (2018 - 9.9%).

Assumed discount 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	\$ (41,327)	\$ 50,332

**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:

	2019		2018	
	Number of Units	Amount	Number of Units	Amount
Units				
Balance - January 1	92,596,006	1,461,995	92,596,006	1,461,995
Conversion of unsecured subordinated convertible debentures	5,056	121	—	—
Balance – December 31	<b>92,601,062</b>	<b>\$ 1,462,116</b>	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.

Year ended December 31, 2019 and 2018

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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, 2019 were \$111,116 (2018 - \$111,116), or \$1.20 per unit (2018 - \$1.20 per unit). All of Chemtrade's distributions are discretionary and subject to Board approval.

At December 31, 2019, Chemtrade had a distribution payable of \$9,260 or \$0.10 per unit.

**(e) Net loss per unit:**

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

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

(i) Loss per unit:

	<b>2019</b>	2018
<b>Numerator</b>		
Net loss	\$ (99,654)	\$ (131,517)
Net interest and fair value adjustment on convertible unsecured subordinated debentures <sup>(1)</sup>	—	—
<b>Diluted net loss</b>	<b>\$ (99,654)</b>	<b>\$ (131,517)</b>

<sup>(1)</sup> For the years ended December 31, 2019 and 2018 the potential conversion of the convertible unsecured subordinated debentures has not been included as the effect on net loss per unit would be anti-dilutive.

	<b>2019</b>	2018
<b>Denominator</b>		
Weighted average number of units	<b>92,596,685</b>	92,596,006
Weighted average convertible unsecured subordinated debenture dilutive units <sup>(1)</sup>	—	—
<b>Weighted average number of diluted units</b>	<b>92,596,685</b>	<b>92,596,006</b>

<sup>(1)</sup> For the years ended December 31, 2019 and 2018 the potential conversion of the convertible unsecured subordinated debentures has not been included as the effect on net loss per unit would be anti-dilutive.

Year ended December 31, 2019 and 2018

## 18. SHARE-BASED PAYMENTS:

Chemtrade operates an LTIP, which grants cash awards based on certain criteria. The 2017-2019, 2018-2020 and 2019-2021 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, 2019, a liability of \$17,881 (December 31, 2018 - \$11,480) has been recorded, of which \$5,594 (December 31, 2018 - \$5,116) is included in trade and other payables and \$12,287 (December 31, 2018 - \$6,364) is included in other long-term liabilities. For the year ended December 31, 2019, Chemtrade recorded an expense of \$11,555 (2018 - \$1,370) in selling and administrative expenses related to the fair value adjustments on the LTIP.

### *Inputs for measurement of fair values*

The fair value of the share-based component of LTIP is measured based on the Monte Carlo simulation 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, 2019	December 31, 2018
Chemtrade units:		
Average base price	<b>\$15.41</b>	\$17.20
Period-end unit price	<b>\$11.03</b>	\$10.48
Average expected volatility	<b>27.60%</b>	27.41%
Index units:		
Average base price	<b>\$151.71</b>	\$133.35
Period-end unit price	<b>\$182.02</b>	\$149.55
Average expected volatility	<b>5.42%</b>	13.98%
Average risk free interest rate	<b>1.69%</b>	1.79%
Average expected remaining term	<b>1.50 years</b>	1.50 years



Year ended December 31, 2019 and 2018

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**19. COMMITMENTS AND CONTINGENCIES:**

**(a) Purchase commitments**

Chemtrade has 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, 2019 are as follows:

2020	\$	61,385
2021		14,796
2022		14,796
2023		14,796
2024		14,796
2025 and thereafter		14,796
	\$	135,365

**(b) 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.

**(c) 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.

Notes to Consolidated Financial Statements  
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**20. REVENUE:**

The revenues for Chemtrade are as follows:

	2019	2018
Sales of products	\$ 1,351,859	\$ 1,420,539
Processing services	180,996	175,208
	<b>\$ 1,532,855</b>	<b>\$ 1,595,747</b>

**21. SELLING AND ADMINISTRATIVE EXPENSES:**

The components of selling and administrative expenses are as follows:

	2019	2018
Wages, salaries and benefits, including bonuses	\$ 52,627	\$ 46,516
Share-based payments (note 18)	11,555	1,370
Other selling, general and administrative expenses	31,134	36,493
Realized foreign exchange loss	4,590	4,634
Unrealized foreign exchange (gain) loss	(10,787)	1,826
Depreciation (note 22)	3,662	2,014
Reserve for Legal Proceedings (note 12)	40,000	100,000
	<b>\$ 132,781</b>	<b>\$ 192,853</b>

**22. DEPRECIATION AND AMORTIZATION:**

The components of depreciation expense of PPE and ROU assets and amortization expense of intangible assets are as follows:

	<u>Year ended December 31,</u>	
	2019	2018
<b>Cost of sales and services:</b>		
Depreciation expense on PPE	\$ 139,173	\$ 138,748
Depreciation expense on ROU assets (note 8)	51,046	—
Amortization expense	68,577	73,745
<b>Selling and administrative expenses (note 21):</b>		
Depreciation expense on PPE	1,805	2,014
Depreciation expense on ROU assets (note 8)	1,857	—
<b>Total depreciation and amortization expense</b>	<b>\$ 262,458</b>	<b>\$ 214,507</b>

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**23. NET FINANCE COSTS:**

The components of net finance costs are as follows:

	<b>2019</b>	<b>2018</b>
Interest expense on long-term debt	<b>\$ 38,143</b>	\$ 28,853
Debt extinguishment costs	<b>—</b>	7,417
Interest expense on convertible debentures (note 14)	<b>29,927</b>	33,239
Transaction costs on issuance of convertible debentures (note 14)	<b>4,539</b>	—
Change in the fair value of convertible debentures (note 14)	<b>632</b>	(1,668)
Interest expense on lease liabilities (note 8)	<b>8,812</b>	—
Accretion expense on financing transaction costs	<b>1,060</b>	1,597
Accretion of provisions (note 12)	<b>3,990</b>	3,143
Pension interest (note 16)	<b>1,949</b>	1,932
Interest income	<b>(565)</b>	(387)
<b>Net finance costs</b>	<b>\$ 88,487</b>	\$ 74,126

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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.

**(a) Current tax expense**

	2019	2018
Taxes recognized in net earnings	<b>(4,524) \$</b>	(5,841)
Current tax expense	<b>(4,524) \$</b>	(5,841)
Deferred tax recovery:		
Origination and reversal of temporary differences	<b>28,815</b>	54,521
Deferred tax recovery	<b>28,815 \$</b>	54,521
Total tax recovery	<b>24,291 \$</b>	48,680

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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 26.68% (2018 - 26.89%). The differences are as follows:

	<b>2019</b>	<b>2018</b>
Net loss before income tax	<b>\$ (123,945)</b>	\$ (180,197)
Computed income tax recovery at Canadian statutory rate	<b>33,069</b>	48,460
Difference resulting from:		
Income of trust taxed directly to unitholders	<b>34,375</b>	34,819
Difference in substantially enacted tax rate	<b>(21,133)</b>	(17,662)
International income tax rate differences	<b>4,465</b>	(60)
Recognition of previously unrecognized deferred tax (liability) asset	<b>(1,009)</b>	2,675
Difference between capital gain tax rate and full statutory rate	<b>146</b>	(2,514)
Foreign exchange	<b>(543)</b>	(1,237)
Tax adjustments related to prior years	<b>(6,109)</b>	(933)
Loss adjustment due to previous acquisition	<b>—</b>	1,701
Goodwill impairment	<b>(16,140)</b>	(19,195)
Other	<b>(2,830)</b>	2,626
<b>Total income tax recovery</b>	<b>\$ 24,291</b>	\$ 48,680

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**24. INCOME TAXES (continued):**

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

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

	2019	2018
Deferred tax assets:		
Other assets	\$ 40,656	\$ 64,889
Losses available for carryforward	195,504	183,935
Long-term debt and deferred interest	69,124	57,085
Other long-term liabilities and employee benefits	37,474	34,841
	<b>342,758</b>	340,750
Reclassification to deferred tax liabilities	<b>(245,766)</b>	(271,436)
<b>Total deferred tax assets</b>	<b>\$ 96,992</b>	<b>\$ 69,314</b>
Deferred tax liabilities:		
Property, plant and equipment	195,967	215,817
Intangible assets	41,004	51,515
Other liabilities	30,647	46,316
	<b>267,618</b>	313,648
Reclassification from deferred tax assets	<b>(245,766)</b>	(271,436)
<b>Total deferred tax liabilities</b>	<b>\$ 21,852</b>	<b>\$ 42,212</b>

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**24. INCOME TAXES (continued):**

**(d) Movement in deferred tax balances**

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

	Balance January 1, 2019	Recognized in net earnings	Foreign exchange impact	Recognized in other comprehensive income	Assets held for sale	Balance December 31, 2019
Property, plant and equipment	\$ (215,816)	\$ 8,681	\$ (2,649)	\$ —	\$ 13,817	\$ (195,967)
Intangible assets	(51,515)	11,464	(953)	—	—	(41,004)
Net other assets and liabilities	18,574	(7,571)	334	(1,328)	—	10,009
Losses available for carryforward	183,936	9,747	1,821	—	—	195,504
Long-term debt and deferred interest	57,083	11,064	—	977	—	69,124
Other long-term liabilities and employee benefits	34,840	(4,570)	2,324	4,880	—	37,474
	<b>\$ 27,102</b>	<b>\$ 28,815</b>	<b>\$ 877</b>	<b>\$ 4,529</b>	<b>\$ 13,817</b>	<b>\$ 75,140</b>

	Balance January 1, 2018	Recognized in net earnings	Foreign exchange impact	Recognized in other comprehensive 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>

**(e) Unrecognized deferred tax assets**

For the year ended December 31, 2019, Chemtrade did not recognize \$13,634 (2018 - \$15,125) of deferred tax assets as management did not believe that it is probable that the deductible temporary differences giving rise to the deferred tax assets will be utilized.

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**25. FINANCIAL INSTRUMENTS:**

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

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

	<b>IFRS 9 Classification</b>	<b>2019</b>	<b>2018</b>
Foreign exchange contracts asset	Fair value - hedging instrument	<b>\$ 1,019</b>	\$ —
Foreign exchange contracts liability	Fair value - hedging instrument	—	5,737
Interest rate swap asset (note 9)	Fair value - hedging instrument	—	332
Interest rate swap liability (note 15)	Fair value - hedging instrument	<b>7,143</b>	—
Convertible unsecured subordinated debentures (note 14) <sup>(1)</sup>	Fair value through profit and loss	<b>608,929</b>	579,219
LTIP liability (note 15)	Fair value through profit and loss	<b>12,287</b>	6,364
Cash and cash equivalents	Amortized cost	<b>13,466</b>	13,413
Trade and other receivables	Amortized cost	<b>155,348</b>	199,871
Long term receivable (note 9)	Amortized cost	<b>2,639</b>	3,144
Trade and other payables	Other financial liabilities	<b>199,694</b>	238,578
Distributions payable	Other financial liabilities	<b>9,260</b>	9,257
Lease liabilities	Other financial liabilities	<b>182,025</b>	—
Long-term debt	Other financial liabilities	<b>744,274</b>	689,014

<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.



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**25. FINANCIAL INSTRUMENTS (continued):**

**(b) Derivatives and hedging**

	Notional Amount	December 31, 2019 Fair Value		Notional Amount	December 31, 2018 Fair Value		
		Asset	Liability		Asset	Liability	
<b>Derivatives designated in a formal hedging relationship</b>							
Interest rate swaps	\$ 325,000	\$ —	\$ 7,143	US\$ 325,000	\$ 332	\$ —	
<b>Derivatives not designated in a formal hedging relationship</b>							
Foreign exchange contracts <sup>(1)</sup>	—	1,019	—	\$ —	—	5,737	
<b>Total</b>		<b>\$ 1,019</b>	<b>\$ 7,143</b>		<b>\$ 332</b>	<b>\$ 5,737</b>	

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

Chemtrade had in place 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 which expired on January 23, 2019. On January 24, 2019, Chemtrade entered into new swap arrangements which fixed the LIBOR components of its interest rates on US\$175,000 of its outstanding long-term debt until December 2023. On August 14, 2019, Chemtrade entered into additional swap arrangements, effective August 24, 2019, which fixed the LIBOR components of its interest rates on US\$150,000 of its outstanding long-term debt until December 2023. These swaps are formally designated as cash flow hedges at the date of inception and any changes in the fair value of the effective portion of the swaps are recognized in other comprehensive income.

Chemtrade hedges its investment in foreign operations that use the U.S. dollar as their functional currency by Chemtrade's U.S. dollar-denominated long-term debt. Any foreign currency gains and losses arising from the U.S. dollar-denominated debt will be offset by the foreign currency gain or loss arising from the investment in the foreign operations. The gains and losses on the foreign currency translation of the designated amount of U.S. dollar-denominated debt and investment in foreign operations are being recognized in other comprehensive income. For the year ended December 31, 2019, a foreign exchange gain of \$17,433 (2018 - loss of \$16,028) 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.

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**25. FINANCIAL INSTRUMENTS (continued):**

Contracts in place at December 31, 2019 include future contracts to sell the following amounts for periods through to September 2020:

<u>Amount</u>	<u>Weighted average exchange rate</u>
US\$67,359	\$1.31

**(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:

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

Year ended December 31, 2019 and 2018

**25. FINANCIAL INSTRUMENTS (continued):**

<b>2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Instruments at fair value through profit and loss</b>				
Foreign exchange contracts	\$ —	\$ 1,019	\$ —	\$ 1,019
Convertible unsecured subordinated debentures	(534,345)	(74,584)	—	(608,929)
<b>Instruments at fair value through other comprehensive income</b>				
Interest rate swaps	—	(7,143)	—	(7,143)
<b>Total</b>	<b>\$ (534,345)</b>	<b>\$ (80,708)</b>	<b>\$ —</b>	<b>\$ (615,053)</b>

<b>2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Instruments designated as fair value through profit and loss</b>				
Foreign exchange contracts	\$ —	\$ (5,737)	\$ —	\$ (5,737)
Convertible unsecured subordinated debentures	(420,512)	(158,707)	—	(579,219)
<b>Instruments designated as 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>

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 except for changes due to own credit risk which are recorded in other comprehensive income.

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.

Year ended December 31, 2019 and 2018

## 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 does not currently expect any of its counter-parties to fail to meet their 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, current lease liabilities, and distributions payable are generally due within one year. The undiscounted cash flow requirements for long-term financial liabilities as at December 31, 2019 are as follows:

	Carrying Value	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt (note 13)	\$ 744,274	\$ 748,273	\$ —	\$ —	\$ 748,273	\$ —
Interest on long-term debt	—	152,990	31,653	63,306	58,031	—
Convertible unsecured subordinated debentures (note 14)	608,929	645,949	74,584	126,500	344,865	100,000
Interest on convertible unsecured subordinated debentures	—	122,982	29,922	49,792	31,336	11,932
<b>Total</b>	<b>\$ 1,353,203</b>	<b>\$ 1,670,194</b>	<b>\$ 136,159</b>	<b>\$ 239,598</b>	<b>\$ 1,182,505</b>	<b>\$ 111,932</b>

Year ended December 31, 2019 and 2018

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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, 2019, 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 \$1,200 per annum. At December 31, 2019, on an unhedged basis, a one-cent change in the exchange rate would also have an impact of approximately \$5,000 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, 2019, on an unhedged basis, a change in interest rates of 1% per annum would have an impact of approximately \$7,500 on Chemtrade's net earnings per annum. As at December 31, 2019, Chemtrade had fixed interest rates on 56.4% of its senior debt until December 2023.

#### (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 \$19,600 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 392,000 MT of North American sodium chlorate sales and 178,000 MECU of North American chlor-alkali sales for the year ended December 31, 2019, 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 \$3,800 per annum.

Year ended December 31, 2019 and 2018

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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 2,494,000 Megawatt hours for the year ended December 31, 2019. 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, 2019, 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 \$11,900. 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, 2019, an increase of \$10 per tonne would have an impact of approximately \$1,800 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.

Year ended December 31, 2019 and 2018

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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 October 2024.

The convertible unsecured subordinated debentures mature on dates ranging from June 2021 to October 2026, with the CEI Series VI Debentures having been redeemed during the first quarter of 2020, 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, 2019 and December 31, 2018, Chemtrade was in compliance with the above covenants.

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

Year ended December 31, 2019 and 2018

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**27. BUSINESS SEGMENTS:**

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

SPPC markets, removes and/or produces merchant, regenerated and ultra pure sulphuric acid, 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 (KCl), phosphorus pentasulphide and vaccine adjuvants. These products are marketed primarily to North American customers.

EC manufactures and markets sodium chlorate and chlor-alkali products including caustic soda, chlorine and hydro-chloric acid (HCl), 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.

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.



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

Year ended December 31, 2019 and 2018

**27. BUSINESS SEGMENTS (continued):**

<b>Year ended December 31, 2019</b>					
	<b>SPPC</b>	<b>WSSC</b>	<b>EC</b>	<b>Corp</b>	<b>Total</b>
Revenue	\$ 502,604	\$ 445,175	\$ 585,076	\$ —	<b>\$1,532,855</b>
Inter-segment revenues	23,786	—	4,598	—	<b>28,384</b>
Operating income (loss) <sup>(1)</sup>	52,217	(42,273)	57,841	(103,243)	<b>(35,458)</b>
Net finance costs <sup>(1)</sup>					<b>(88,487)</b>
Income tax recovery					<b>24,291</b>
Net loss					<b>(99,654)</b>
Depreciation and amortization <sup>(1)</sup>	97,588	50,606	114,264	—	<b>262,458</b>
Loss (gain) on disposal and write-down of assets	10,939	3,970	(706)	(413)	<b>13,790</b>
Capital expenditures	32,787	29,035	33,166	1,311	<b>96,299</b>
Impairment of goodwill	—	65,600	—	—	<b>65,600</b>

<sup>(1)</sup>Chemtrade has initially applied IFRS 16 at January 1, 2019. In applying IFRS 16, in relation to the leases that were previously classified as operating leases, Chemtrade recognizes depreciation and interest expense, instead of operating lease expense. During the year ended December 31, 2019, Chemtrade recognized \$52,903 of depreciation expense related to the new ROU assets and \$8,812 of interest expense related to the new lease liabilities. Chemtrade has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated. See Note 3(q).

<b>Year ended December 31, 2018</b>					
	<b>SPPC</b>	<b>WSSC</b>	<b>EC</b>	<b>Corp</b>	<b>Total</b>
Revenue	\$ 509,765	\$ 430,311	\$ 655,671	\$ —	<b>\$1,595,747</b>
Inter-segment revenues	18,053	—	2,824	—	<b>20,877</b>
Operating income (loss)	18,047	(64,484)	103,129	(162,763)	<b>(106,071)</b>
Net finance costs					<b>(74,126)</b>
Income tax recovery					<b>48,680</b>
Net loss					<b>(131,517)</b>
Depreciation and amortization	72,410	51,784	90,313	—	<b>214,507</b>
Gain on disposal and write-down of assets	(4,039)	—	—	—	<b>(4,039)</b>
Capital expenditures	31,472	31,131	28,510	1,253	<b>92,366</b>
Impairment of goodwill	—	90,000	—	—	<b>90,000</b>

Notes to Consolidated Financial Statements  
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Year ended December 31, 2019 and 2018

**27. BUSINESS SEGMENTS (continued):**

**December 31, 2019**

	<b>SPPC</b>	<b>WSSC</b>	<b>EC</b>	<b>Corp</b>	<b>Other<sup>(2)</sup></b>	<b>Total</b>
Total assets <sup>(1)</sup>	\$ 971,783	\$ 718,884	\$ 987,872	\$ 3,542	\$ 96,992	\$ <b>2,779,073</b>
Total liabilities <sup>(1)</sup>	197,614	172,988	222,323	51,517	1,375,055	<b>2,019,497</b>
Intangible assets	389,841	236,608	244,756	—	—	<b>871,205</b>

<sup>(1)</sup> Chemtrade has initially applied IFRS 16 at January 1, 2019, which requires the recognition of ROU assets and lease liabilities for lease contracts that were previously classified as operating leases. As a result, Chemtrade recognized \$176,715 of ROU assets and \$189,937 of lease liabilities from those lease contracts. Chemtrade has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated. See Note 3(q).

<sup>(2)</sup> In 2019, Chemtrade reconfigured certain items in total assets and total liabilities between its segments. The "Other" column includes deferred tax assets, deferred tax liabilities and all outstanding debt (including convertible unsecured subordinated debentures) shown as a consolidated balance.

**December 31, 2018**

	<b>SPPC</b>	<b>WSSC</b>	<b>EC</b>	<b>Corp</b>	<b>Other<sup>(1)</sup></b>	<b>Total</b>
Total assets	\$ 985,316	\$ 851,958	\$ 962,830	\$ 7,670	\$ 69,314	\$ 2,877,088
Total liabilities	125,168	179,657	131,885	113,220	1,310,445	1,860,375
Intangible assets	429,506	465,486	272,644	—	—	1,167,636

<sup>(1)</sup> In 2019, Chemtrade reconfigured certain items in total assets and total liabilities between its segments. The "Other" column includes deferred tax assets, deferred tax liabilities and all outstanding debt (including convertible unsecured subordinated debentures) shown as a consolidated balance. Comparatives have been restated to conform with current period presentation.

**Geographic segments:**

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

**Revenue**

	<b>Year ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Canada	\$ <b>495,777</b>	\$ 499,932
United States	<b>966,030</b>	1,009,047
South America	<b>71,048</b>	86,768
	\$ <b>1,532,855</b>	\$ 1,595,747

Year ended December 31, 2019 and 2018

**27. BUSINESS SEGMENTS (continued):**

**PPE, ROU assets and intangible assets**

	December 31, 2019 <sup>(1)</sup>	December 31, 2018
Canada	\$ 1,072,296	\$ 988,202
United States	968,837	1,290,467
South America	131,258	149,637
	<b>\$ 2,172,391</b>	<b>\$ 2,428,306</b>

<sup>(1)</sup>Chemtrade has initially applied IFRS 16 at January 1, 2019, which requires the recognition of ROU assets and lease liabilities for lease contracts that were previously classified as operating leases. As a result, Chemtrade recognized \$176,715 of ROU assets. Chemtrade has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated. See Note 3(q).

**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.

Year ended December 31, 2019 and 2018

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**28. RELATED PARTIES (continued):**

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 50% of their compensation in the form of deferred units of Chemtrade. As at December 31, 2019, the market value of these deferred units, which is included in trade and other payables was \$3,387 (2018 - \$2,538).

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

	2019	2018
Short-term compensation	\$ 8,306	\$ 5,256
LTIP	7,974	1,120
	\$ 16,280	\$ 6,376

**29. SUBSEQUENT EVENTS:**

***Repayment of the CEI Series VI Debentures***

During the fourth quarter of 2019, Chemtrade announced the redemption of all of the outstanding CEI Series VI Debentures, with an effective redemption date of January 3, 2020. On January 3, 2020, the debentures were redeemed for \$74,624. The debentures were redeemed at their par value. Chemtrade used its credit facilities to fund the redemption. These debentures have been presented as current liabilities in the Consolidated Statements of Financial Position at December 31, 2019.

## Information for unitholders

### Trustees

Lorie Waisberg (Chair)  
Toronto, Ontario

Mark Davis  
Toronto, Ontario

Lucio Di Clemente  
Toronto, Ontario

David Gee  
Nobel, Ontario

Emily Moore  
Toronto, Ontario

Katherine Rethy  
Huntsville, Ontario

### Director

Douglas Muzyka  
Philadelphia, Pennsylvania

### Management

Mark Davis  
President & CEO

Scott Rook  
Chief Operating Officer

Rohit Bhardwaj  
Vice-President, Finance & CFO

Leon Aarts  
Group Vice-President, Corporate  
Development and Strategy

Daniel Dietz  
Group Vice-President, WSSC and EC

Michael St. Pierre  
Group Vice-President,  
SPPC and Water Chemicals

Tejinder Kaushik  
Vice-President,  
Information Technology

Susan Paré  
Corporate Secretary  
General Counsel

Emily Powers  
Group Vice-President,  
Human Resources and Responsible Care

### Head office

155 Gordon Baker Road, Suite 300  
Toronto, Ontario, Canada  
M2H 3N5

### Stock exchange listing

Toronto Stock Exchange  
Stock symbol: CHE.UN

### Transfer agent and registrar

Computershare Trust Company of Canada  
100 University Avenue, 8th Floor  
Toronto, Ontario M5J 2Y1

### Telephone

Toll free 1-800-564-6253

### Email

[service@computershare.com](mailto:service@computershare.com)

### Website

[computershare.com](http://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 14, 2020 at 10:00 a.m. Gallery, TMX Broadcast Centre, The Exchange Tower  
130 King Street West, Toronto

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



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