

2020 | Third Quarter Report

Q3 2020

Chemtrade Logistics Income Fund



**CHEMTRADE LOGISTICS INCOME FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020**

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 unaudited condensed consolidated interim financial statements of Chemtrade for the three and nine months ended September 30, 2020, the audited consolidated financial statements of Chemtrade for the year ended December 31, 2019 and the annual MD&A 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. This MD&A is current as at November 12, 2020 and was approved by the Board of Trustees (the "Board") on that date.

**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 redemption of the remaining Fund 2014 5.25% Debentures, source of funding and timing thereof; use of proceeds of the A/R Facility; statements relating to the impact of the COVID-19 pandemic on Chemtrade; the outcome and timing of the remaining antitrust civil lawsuits and sufficiency of the reserve in respect thereof; the amount of any long-term incentive compensation; the effect of changes in the interest rate, the exchange rate and the Fund's ability to offset US dollar denominated debt; the ability of Chemtrade to access tax losses and tax attributes; the ability to carry back losses pursuant to the CARES Act; the tax characterization of planned distributions; capital expenditures; sources, use, sufficiency and availability of cash flows; the outcome of the tax audit related to tax attributes acquired as part of the Canexus acquisition; the intention to adopt IBOR reform and its impact; the timing of plant turnarounds; the expected fourth quarter demand levels of HCl, Regen acid, sodium chlorate and water products; the expected fourth quarter pricing for most products and specifically caustic soda; the expected 2021 plant operating rates, product demand levels (including for Water Solutions products, Regen, ultra pure and merchant acid, HCl and sodium chlorate), sales volumes and pricing (including for caustic soda for 2021 and beyond and for sodium chlorate for 2021); and the Fund's expected 2021 range of maintenance capital expenditures, lease payments, 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 key elements as set out 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 the Fund 2020 8.50% Debentures*

During the third quarter of 2020, Chemtrade completed a public offering of \$86.3 million principal amount of convertible unsecured subordinated debentures, at a price of \$1,000 per debenture, with an interest rate of 8.50% per annum (the "Fund 2020 8.50% Debentures"). The Fund 2020 8.50% Debentures will mature on September 30, 2025. The Fund 2020 8.50% Debentures are convertible, at the option of the holder, into trust units of the Fund at a conversion price of \$7.35 per unit. Chemtrade incurred transaction costs of \$4.0 million which included underwriters' fees and other expenses relating to the offering.

### *Redemption of the Fund 2014 5.25% Debentures*

During the third quarter of 2020, Chemtrade redeemed \$100.0 million principal amount of the outstanding 5.25% convertible unsecured subordinated debentures (the "Fund 2014 5.25% Debentures") at a total aggregate redemption price of \$101.3 million, being equal to the principal amount of debentures redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. Chemtrade used a portion of the net proceeds from the Fund 2020 8.5% Debentures offering and its Credit Facilities to fund the redemption.

During the third quarter of 2020, Chemtrade announced the redemption of an additional \$12.5 million principal amount of the outstanding Fund 2014 5.25% Debentures, with an effective redemption date of October 5, 2020. On

October 5, 2020, these Debentures were redeemed for an aggregate price of \$12.7 million, being equal to the principal amount of debentures outstanding, plus accrued and unpaid interest to, but excluding, the redemption date. Chemtrade used a portion of the net proceeds from the 2020 8.50% Debentures to fund the redemption.

On October 14, 2020, Chemtrade announced the redemption of the remaining \$14.0 million principal amount of the Fund 2014 5.25% Debentures. These Debentures will be redeemed on November 13, 2020 for an aggregate price of \$14.3 million, being equal to the principal amount of debentures outstanding, plus accrued and unpaid interest to, but excluding, the redemption date. This will represent a redemption in full of the Fund 2014 5.25% Debentures. Chemtrade intends to fund the redemption from proceeds received from its new receivables purchase facility as described below.

#### *Receivables Purchase Facility*

Subsequent to September 30, 2020, the Fund, through Chemtrade Logistics Inc. and Chemtrade Holdco US Inc. (the "Sellers") entered into a factoring facility (the "A/R Facility") with HSBC Bank Canada (the "Purchaser"). The A/R Facility is an uncommitted receivables purchase facility for the purchase of eligible receivables owed to the Sellers from trade debtors on an undisclosed basis with a limited right of recourse. Chemtrade intends to use the proceeds received from the initial sale of account receivables under the A/R Facility to pay down its revolving credit facility and to redeem the remaining outstanding amount of the Fund 2014 5.25% Debentures, as described above.

#### *COVID-19 Pandemic*

Chemtrade has established a Pandemic Steering Team to assess, monitor and deal with the impact of the COVID-19 virus on its business and share information across the organization. As needed to protect the health of its employees, suppliers and visitors, operations have been adjusted and actions taken.

The Pandemic Steering Team developed policies, procedures, protocols, assessment tools and guidance to assist all manufacturing facilities and offices, as well as employees working from home. The Pandemic Steering Team has disseminated health screening tools and isolation guides for employees, instituted contact tracing for any known cases of the virus within Chemtrade's employee population, instituted decontamination procedures when required, acquired and installed or disseminated personal protective equipment for employees, and implemented a business travel policy. Chemtrade's health and safety personnel have worked in cooperation with public health authorities and Chemtrade's suppliers and customers to share information and best practices, and promote employee safety and confidence to work. Working protocols and communication tools are now well established. These address office opening protocols, social distancing and personal protective equipment requirements, facility assessments, cleaning and disinfection protocols, and employee training and communications.

From the onset of the COVID-19 pandemic and related restrictions, Chemtrade's business was deemed an essential service pursuant to the various provincial and state orders and therefore its facilities have continued to operate. For the most part, Chemtrade's customers, suppliers and service providers, including transportation, have also continued to operate.

Demand for certain of Chemtrade's products such as water treatment chemicals has not been affected by the pandemic, whereas demand for most other products has been modestly lower. Initially, the biggest impact of the pandemic on Chemtrade's business was caused by government orders restricting non-essential travel and by people working from home. Both of these drastically reduced demand for gasoline which has resulted in lower demand for Chemtrade's regenerated ("Regen") acid services, as oil refineries are operating at significantly reduced rates. The largest impact was early in the second quarter of 2020 after which operating rates started to improve, however rates still remain below normal levels. Also, with large numbers of people working from home and not attending school, demand for printing paper has declined. Printing paper is a significant end-market for pulp in North America. Chemtrade's sodium chlorate is used to bleach pulp and the reduced demand for pulp has resulted in reduced demand for sodium chlorate. The extent of the reduction in demand for gasoline and printing paper will depend on the speed at which people resume working in the office and the re-opening of the economy in Canada and the U.S. Finally, the generally lower levels of economic activity have resulted in reduced demand for merchant sulphuric acid, which is one of the most widely used chemicals in the world.

Given the high degree of economic uncertainty caused by the COVID-19 pandemic, in April 2020, Chemtrade suspended its earnings guidance (see **Financial Outlook**). Chemtrade also reduced its monthly distribution rate by fifty percent effective with the March 2020 distribution which was paid at the end of April 2020. In May 2020, Chemtrade negotiated an amendment to its credit agreement which provides additional covenant room for the next two years. Chemtrade maintains a large undrawn revolving credit facility. Chemtrade continues to closely monitor its accounts receivable and they are consistent with historic levels. See Risks and Uncertainties - *Risk of Pandemic* for more details.

## Financial Highlights

These financial highlights have been presented in accordance with IFRS.

(\$'000 except per unit amounts)	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30,</u> <u>2020</u>	September 30, 2019	<u>September 30,</u> <u>2020</u>	September 30, 2019
Revenue	\$ 345,850	\$ 395,653	\$ 1,060,285	\$ 1,177,640
Net loss <sup>(1)(2)</sup>	\$ (48,318)	\$ (163)	\$ (141,694)	\$ (87,057)
Net loss per unit <sup>(1)(2)(3)</sup>	\$ (0.52)	\$ —	\$ (1.53)	\$ (0.94)
Diluted net loss per unit <sup>(1)(2)(3)</sup>	\$ (0.52)	\$ —	\$ (1.53)	\$ (0.94)
Total assets	\$ 2,609,175	\$ 2,829,980	\$ 2,609,175	\$ 2,829,980
Long-term debt	\$ 812,180	\$ 842,190	\$ 812,180	\$ 842,190
Convertible unsecured subordinated debentures	\$ 432,619	\$ 522,987	\$ 432,619	\$ 522,987
Adjusted EBITDA <sup>(2)(4)</sup>	\$ 64,650	\$ 90,030	\$ 221,058	\$ 225,270
Adjusted EBITDA per unit <sup>(2)(3)(4)</sup>	\$ 0.70	\$ 0.97	\$ 2.39	\$ 2.43
Cash flows from operating activities	\$ 90,866	\$ 80,462	\$ 188,763	\$ 78,818
Cash flows from operating activities per unit <sup>(3)(4)</sup>	\$ 0.98	\$ 0.87	\$ 2.04	\$ 0.85
Adjusted cash flows from operating activities <sup>(2)(4)</sup>	\$ 29,442	\$ 56,807	\$ 122,435	\$ 126,493
Adjusted cash flows from operating activities per unit <sup>(2)(3)(4)</sup>	\$ 0.32	\$ 0.61	\$ 1.32	\$ 1.37
Distributable cash after maintenance capital expenditures <sup>(2)(4)</sup>	\$ 12,096	\$ 37,139	\$ 81,991	\$ 80,621
Distributable cash after maintenance capital expenditures per unit <sup>(2)(3)(4)</sup>	\$ 0.13	\$ 0.40	\$ 0.89	\$ 0.87
Distributions declared	\$ 13,941	\$ 27,779	\$ 50,981	\$ 83,337
Distributions declared per unit <sup>(5)</sup>	\$ 0.15	\$ 0.30	\$ 0.55	\$ 0.90
Distributions paid, net of distributions reinvested	\$ 13,064	\$ 27,779	\$ 54,734	\$ 83,337
Distributions paid, net of distributions reinvested per unit <sup>(6)</sup>	\$ 0.15	\$ 0.30	\$ 0.60	\$ 0.90

<sup>(1)</sup> Results for the three and nine months ended September 30, 2020 include a write-down of assets of \$17,596, or \$0.19 per unit. See **Results of Operations by Business Segment - SPPC**. Results for the nine months ended September 30, 2020 include a goodwill impairment charge of \$56,000, or \$0.60 per unit. Results for the nine months ended September 30, 2019 include a goodwill impairment charge of \$65,600, or \$0.71 per unit. See **Goodwill Impairment**.

<sup>(2)</sup> Results for the nine months ended September 30, 2019 include a \$40,000, or \$0.43 per unit, expense related to a legal provision. See **Reserve for legal proceedings**.

<sup>(3)</sup> Based on weighted average number of units outstanding for the period of:

92,629,003	92,596,006	92,610,444	92,596,006
------------	------------	------------	------------

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

<sup>(5)</sup> Based on actual number of units outstanding on record date.

<sup>(6)</sup> Based on actual number of units eligible for cash distributions on record date.

## Non-IFRS Measures

### EBITDA and Adjusted EBITDA -

Management defines EBITDA as net earnings before any deduction for net finance costs, income taxes, depreciation and amortization. Adjusted EBITDA also excludes other non-cash charges such as impairment, change in environmental liability, net gains and losses on the disposal and write-down of property, plant and equipment ("PPE"), 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 follows:

(\$'000)	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Net loss	\$ (48,318)	\$ (163)	\$ (141,694)	\$ (87,057)
Add:				
Depreciation and amortization	64,640	65,380	197,566	197,036
Net finance costs	46,121	22,675	116,279	75,997
Income tax recovery	(17,627)	(8,825)	(32,626)	(28,701)
EBITDA	44,816	79,067	139,525	157,275
Add:				
Impairment of goodwill	—	—	56,000	65,600
Change in environmental liability	—	—	3,743	—
Net loss on disposal and write-down of PPE	19,829	9,917	19,360	10,522
Unrealized foreign exchange loss (gain)	5	1,046	2,430	(8,127)
Adjusted EBITDA	\$ 64,650	\$ 90,030	\$ 221,058	\$ 225,270

### Cash Flow -

The following table is derived from, and should be read in conjunction with the condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim statements of cash flows. Further, Chemtrade's method of calculating each measure may not be comparable to calculations used by other income trusts or companies bearing the same description.

(\$'000)	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30, 2020</u>	<u>September 30, 2019</u>	<u>September 30, 2020</u>	<u>September 30, 2019</u>
Cash flows from operating activities	90,866	80,462	188,763	78,818
Add (Less):				
Lease payments net of sub-lease receipts	(14,256)	(14,131)	(42,418)	(42,616)
Changes in non-cash working capital and other items	(47,168)	(9,524)	(23,910)	90,291
<b>Adjusted cash flows from operating activities</b>	<b>29,442</b>	<b>56,807</b>	<b>122,435</b>	<b>126,493</b>
Less:				
Maintenance capital expenditures	17,346	19,668	40,444	45,872
<b>Distributable cash after maintenance capital expenditures</b>	<b>12,096</b>	<b>37,139</b>	<b>81,991</b>	<b>80,621</b>
Less:				
Non-maintenance capital expenditures <sup>(1)</sup>	743	4,631	2,283	9,833
<b>Distributable cash after all capital expenditures</b>	<b>\$ 11,353</b>	<b>\$ 32,508</b>	<b>79,708</b>	<b>\$ 70,788</b>

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

## Consolidated Operating Results

Revenue for the third quarter of 2020 was \$345.9 million, which was \$49.8 million lower than revenue for the third quarter of 2019. The decrease in revenue for the third quarter is primarily due to lower sales volumes and lower selling prices for caustic soda and hydrochloric acid ("HCl") in the Electrochemicals ("EC") segment, lower sales volume of merchant sulphuric acid, Regen acid and other products in the Sulphur Products and Performance Chemicals ("SPPC") segment.

Revenue on a year-to-date basis was \$1,060.3 million, which was \$117.4 million lower than revenue for the same period of 2019. The decrease in revenue for the nine months ended September 30, 2020 is primarily due to lower sales volume of merchant sulphuric acid, Regen acid and other SPPC segment products, lower sales volumes of HCl and lower selling prices for caustic soda and HCl in the EC segment. This was partially offset by higher selling prices for water solutions products in the Water Solutions and Specialty Chemicals ("WSSC") segment.

Chemtrade's Adjusted EBITDA for the three and nine months ended September 30, 2020 of \$64.7 million and \$221.1 million, respectively, was \$25.4 million and \$4.2 million lower, respectively, than Adjusted EBITDA for the same periods of 2019. The decrease in Adjusted EBITDA for the third quarter and first nine months of 2020 is due to lower Adjusted EBITDA for the EC and SPPC segments, partially offset by higher Adjusted EBITDA for the WSSC

segment and lower corporate costs. Adjusted EBITDA for the first nine months of 2019 included a \$40.0 million expense with respect to a legal proceedings reserve related to anti-competitive conduct (see **Reserve for legal proceedings**).

Net loss for the three and nine months ended September 30, 2020 were \$48.2 million and \$54.6 million higher, respectively, than the same periods of 2019. The increase is primarily due to lower Adjusted EBITDA (as described above), higher net finance costs due to a higher loss from the change in the fair value of convertible unsecured subordinated debentures ("Debentures") and transaction costs related to the issuance of Debentures in the third quarter of 2020 (see **Net Finance Costs**). This was partially offset by higher income tax recovery compared with the same periods of 2019. (see **Income Taxes**).

## Results of Operations by Business Segment

### SPPC -

(\$'000)	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Revenue	\$ 105,351	\$ 127,798	\$ 322,333	\$ 385,318
Gross (loss) profit	(8,298)	11,086	15,657	45,894
Adjusted EBITDA <sup>(1)</sup>	31,041	43,689	97,287	126,502
Net loss on disposal and write down of PPE	(18,949)	(9,221)	(18,932)	(9,973)
EBITDA <sup>(1)</sup>	12,092	34,468	78,355	116,529

<sup>(1)</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, Regen and ultra pure sulphuric acid, sodium hydrosulphite ("SHS"), 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 and nine months ended September 30, 2020 was \$22.4 million and \$63.0 million lower, respectively, than the same periods of 2019. The decrease in revenue was primarily due to lower sales volumes for merchant acid, Regen acid, SHS products and sulphur products. The COVID-19 pandemic resulted in reduced demand and lower sales volumes for products in the SPPC segment.

Gross profit during the three and nine months ended September 30, 2020 was \$19.4 million and \$30.2 million lower than the same periods of 2019. The lower gross profit was primarily due to a write-down of assets as a result of the decision to rationalize sulphuric acid capacity. Also, the COVID-19 pandemic resulted in reduced demand and lower sales volumes, particularly for Regen acid, merchant sulphuric acid, SHS products and sulphur products.

Adjusted EBITDA for the three and nine months ended September 30, 2020 was \$12.6 million and \$29.2 million lower, respectively, than the same periods of 2019 due to reduced demand and lower sales volumes for products in the SPPC segment. Adjusted EBITDA for the nine months ended September 30, 2019 also benefited from a \$2.6 million recovery resulting from the settlement of a claim related to the failure of capital equipment at one of the acid manufacturing facilities.

#### WSSC -

(\$'000)	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30, 2020</u>	<u>September 30, 2019</u>	<u>September 30, 2020</u>	<u>September 30, 2019</u>
Revenue	\$ 119,789	\$ 122,432	\$ 346,583	\$ 343,330
Gross profit (loss)	19,195	12,836	(6,220)	(34,457)
Adjusted EBITDA <sup>(1)</sup>	29,199	24,335	82,145	63,261
Impairment of goodwill	—	—	(56,000)	(65,600)
Change in environmental liability	—	—	(3,743)	—
Net loss on disposal and write-down of PPE	(894)	(1,661)	(437)	(1,657)
<b>EBITDA <sup>(1)</sup></b>	<b>28,305</b>	<b>22,674</b>	<b>21,965</b>	<b>(3,996)</b>

<sup>(1)</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, phosphorus pentasulphide, and vaccine adjuvants. These products are marketed primarily to North American customers.

Revenue for the three and nine months ended September 30, 2020 was \$2.6 million lower and \$3.3 million higher, respectively, than the same periods of 2019. Revenue for the third quarter of 2020 was lower due to lower sales volumes of water solutions products and lower sales volumes of specialty chemical products, partially offset by higher selling prices of water solutions products. Revenue for the first nine months of 2020 was higher due to higher selling prices for water solutions products, partially offset by lower sales volumes of specialty chemical products.

Gross profit for the three months ended September 30, 2020 was \$6.4 million higher than the same period of 2019. The higher gross profit was primarily due to higher selling prices and lower raw material costs for water solutions products, partially offset by lower sales volumes for both water solutions products and specialty chemical products. Gross profit for the nine months ended September 30, 2020 was \$28.2 million higher than the same period of 2019. This increase was primarily due to higher revenue as described above and lower impairment of goodwill recorded in 2020 compared to 2019. In 2020, a \$56.0 million impairment of goodwill for water solutions products was recorded during the first quarter compared to a \$65.6 million impairment of goodwill for specialty chemical products recorded in the second quarter of 2019 (see **Goodwill Impairment**).

Adjusted EBITDA for the three and nine months ended September 30, 2020 was \$4.9 million and \$18.9 million higher, respectively, than the same periods of 2019 due to higher selling prices and lower raw material costs for water solutions products.

EC -

(\$'000)	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
North American sales volumes:				
Sodium chlorate sales volume (000's MT)	87	98	283	294
Chlor-alkali sales volume (000's MECU)	42	49	111	140
Revenue	\$ 120,710	\$ 145,423	\$ 391,369	\$ 448,992
Gross (loss) profit	(3,508)	17,495	9,518	62,133
Adjusted EBITDA <sup>(1)</sup>	24,594	42,804	93,561	137,298
Net gain (loss) on disposal and write-down of PPE	14	(178)	9	873
EBITDA <sup>(1)</sup>	24,608	42,626	93,570	138,171

<sup>(1)</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 and nine months ended September 30, 2020 was \$24.7 million and \$57.6 million lower, respectively, than the same periods of 2019. The lower revenue in the third quarter of 2020 was primarily due to a 14% decrease in chlor-alkali sales volumes, a decrease of 11% in selling prices for caustic soda and a decrease of 30% in selling prices for HCl. This was partially offset by a 4% increase in selling prices for chlorine. During the third quarter of 2020, the North Vancouver chlor-alkali plant operated at lower rates due to reduced demand for HCl.

In addition to reduced production levels at the North Vancouver facility, the lower revenue in the first nine months of 2020 was due to a 21% decrease in chlor-alkali sales volumes, a decrease of 13% in selling prices for caustic soda, lower sales volumes of sodium chlorate and a decrease of 36% in selling prices for HCl. This was partially offset by a 7% increase in selling prices for chlorine.

Gross profit for the three and nine months ended September 30, 2020 was \$21.0 million and \$52.6 million lower, respectively, than the same periods of 2019. Gross profit during the third quarter and first nine months of 2020 was negatively affected by significantly, lower chlor-alkali production and lower selling prices for caustic soda and HCl relative to 2019.

Additionally, for the three and nine months ended September 30, 2020, there was a 43% and 47% decrease, respectively, in netbacks (selling price less freight) for HCl compared with the same period of 2019.

The factors that affected gross profit also resulted in Adjusted EBITDA for the three and nine months ended September 30, 2020 being \$18.2 million and \$43.7 million lower, respectively, than the same periods of 2019.

**Corporate -**

(\$'000)	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Cost of services	\$ 20,184	\$ 20,798	\$ 51,935	\$ 101,791
Adjusted EBITDA <sup>(1)</sup>	(20,184)	(20,798)	(51,935)	(101,791)
Unrealized foreign exchange (loss) gain	(5)	(1,046)	(2,430)	8,127
Net gain on disposal and write down of PPE	—	1,143	—	235
<b>EBITDA <sup>(1)</sup></b>	<b>(20,189)</b>	<b>(20,701)</b>	<b>(54,365)</b>	<b>(93,429)</b>

<sup>(1)</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 and nine months ended September 30, 2020, corporate costs, excluding unrealized foreign exchange gains and losses were \$0.6 million and \$49.9 million lower, respectively, than the same periods of 2019. The decrease in corporate costs for the nine months ended September 30, 2020 was primarily due to the legal proceedings reserve of \$40.0 million recorded in 2019 and \$13.6 million of lower Long Term Incentive Plan ("LTIP") costs in 2020, partially offset by \$5.7 million of higher incentive compensation costs in 2020. The LTIP costs were lower in 2020 due to a decline in Chemtrade's unit price.

Corporate costs include LTIP expenses, which relate to the 2018-2020, 2019-2021, and 2020-2022 LTIPs which Chemtrade operates and pursuant to which it grants cash awards based on certain criteria. The 2018-2020, 2019-2021, and 2020-2022 LTIP payouts are payable at the beginning of 2021, 2022 and 2023, respectively. The LTIP awards have a performance based component and a restricted share unit component. The performance based component of the 2018 - 2020 and 2019 - 2021 LTIP awards 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 Composite Index or the companies comprising such index. The performance based component of the 2020 - 2022 LTIP awards is based on Return on Investment Capital ("ROIC") Improvement and total return to Chemtrade's Unitholders relative to the total return of companies comprising the S&P/TSX Dividend Composite 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.

Unrealized foreign exchange loss for the three months ended September 30, 2020 was \$1.0 million lower than the same period of 2019. There was an unrealized foreign exchange loss of \$2.4 million for the nine months ended September 30, 2020 compared with unrealized foreign exchange gain of \$8.1 million for the same period of 2019. These were a result of fluctuations in the exchange rates between the Canadian dollar, U.S. dollar and the Brazilian Real.

Chemtrade has hedged its investment in foreign operations that use the U.S. dollar as their functional currency with its U.S. dollar-denominated long-term debt. As a result, any gains and losses arising from the U.S. dollar-denominated debt will be offset by the foreign currency gain or loss arising from the investment in the foreign operations. The gains and losses on the translation of the designated amount of U.S. dollar-denominated debt and investment in foreign operations are recognized on a net basis in other comprehensive income. For the three and nine months ended September 30, 2020, a foreign exchange gain of \$15.1 million and a loss of \$13.0 million, respectively, on the revaluation of the U.S. dollar-denominated debt and investment in foreign operations was recognized in other comprehensive income, compared with a foreign exchange loss of \$3.0 million and foreign exchange gain of \$7.7 million, respectively, during the three and nine months ended September 30, 2019.

### **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 were also defendants in class action lawsuits and a few civil proceedings relating to the same conduct. Corporate costs for the nine months ended September 30, 2019 included an expense of \$40.0 million which increased the 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\$56.0 million and was paid out during 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. The reserve for legal proceedings is included as part of provisions and presented as current liabilities in the Condensed Consolidated Interim Statements of Financial Position.

### **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, \$209.9 million (December 31, 2019 - \$202.8 million) of assets, along with \$18.1 million (December 31, 2019 - \$18.7 million) of liabilities directly associated with these assets have been presented as held for sale as at September 30, 2020.

### **Goodwill Impairment**

During the second quarter of 2019, Chemtrade performed a test for goodwill impairment for the 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. The recoverable amount was based on the value in use approach.

During the first quarter of 2020, as a result of changes in macro-economic conditions which resulted in a significant increase in discount rates, combined with consideration of historic and forecast performance of each CGU, Chemtrade performed a test for goodwill impairment for the water solutions CGU in WSSC. Although the water solutions CGU's operating performance had been improving, as a result of applying the higher discount rate, this CGU's carrying value exceeded its recoverable amount by \$56.0 million and therefore an impairment loss of \$56.0 million was fully allocated to goodwill and recognized in cost of sales and services. Following the impairment recognized in the water solutions CGU, its recoverable amount equalled its carrying value.

During the third quarter of 2020, there were no indicators of impairment identified; therefore, Chemtrade did not test for goodwill impairment.

### 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 \$1.33 to \$1.34), on an unhedged basis, this would have a positive impact on annual net earnings of approximately \$0.5 million, and vice-versa. The impact on annual Adjusted EBITDA and Distributable cash after maintenance capital expenditures would be approximately \$1.7 million and \$0.8 million, respectively, and vice-versa.

Chemtrade has entered into a series of foreign exchange contracts with its principal bankers to manage the volatility of foreign exchange rates. All foreign exchange contracts are under International Swap and Derivatives Association ("ISDA") agreements. Contracts in place at September 30, 2020 include future contracts to sell the following amounts for periods through to October 2020:

<u>Amount (\$'000)</u>	<u>Weighted average exchange rate</u>
US\$8,200	\$1.32

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 condensed consolidated interim 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, 2019 were a result of changes in the Canadian/U.S. dollar exchange rate between December 31, 2019 and September 30, 2020.

The rate of exchange used to translate U.S. dollar-denominated balances has increased from a rate of US\$1.00 = \$1.30 at December 31, 2019 to US\$1.00 = \$1.33 at September 30, 2020. See **Risks and Uncertainties** for additional comments on foreign exchange.

### **Net Finance Costs**

During the three and nine months ended September 30, 2020, net finance costs were \$46.1 million and \$116.3 million, respectively, compared with net finance costs of \$22.7 million and \$76.0 million, respectively, during the same periods of 2019.

Net finance costs were \$23.4 million higher during the third quarter of 2020 relative to 2019. The increase is primarily due to a \$20.3 million increase in losses related to a change in the fair value of Debentures. In addition, during the third quarter of 2020, Chemtrade incurred \$4.0 million relating to transaction costs on the issuance of Debentures. This was partially offset by lower interest expense.

Net finance costs were \$40.3 million higher during the nine months ended September 30, 2020 relative to 2019, primarily due to a \$38.6 million increase in losses related to a change in the fair value of Debentures. In addition, during the first nine months of 2020, Chemtrade incurred \$4.0 million relating to transaction costs on the issuance of Debentures. This was partially offset by lower interest expense.

The Debentures are recognized at fair value with changes in fair value due to changes in the risk free interest rate presented in net finance costs and changes in Chemtrade's own credit risk presented in other comprehensive income rather than net earnings. During the three and nine months ended September 30, 2020, the fair value of the Fund's Debentures decreased by \$3.6 million and \$88.0 million, respectively. As a result, for the three months ended September 30, 2020, Chemtrade recorded a pre-tax loss of \$21.8 million in net finance costs due to a decrease in the risk free interest rate, and a gain of \$18.6 million, net of tax expense of \$6.8 million, in other comprehensive income due to an increase in Chemtrade's own credit risk. During the comparable period of 2019, Chemtrade recorded a pre-tax loss of \$1.5 million in net finance costs due to a decrease in the risk free interest rate, and a loss of \$14.8 million, net of tax recovery of \$5.6 million, in other comprehensive income due to a decrease in Chemtrade's own credit risk.

For the nine months ended September 30, 2020, Chemtrade recorded a pre-tax loss of \$52.2 million in net finance costs due to a decrease in the risk free interest rate, and a gain of \$102.2 million, net of tax expense of \$38.0 million, in other comprehensive income due to an increase in Chemtrade's own credit risk. During the comparable period of 2019, Chemtrade recorded a pre-tax loss of \$13.6 million in net finance costs due to a decrease in the risk free interest rate, and a loss of \$10.1 million, net of tax recovery of \$4.1 million, in other comprehensive income due to a decrease in Chemtrade's own credit risk.



The weighted average effective annual interest rate of the Credit Facilities at September 30, 2020 was 4.0% (December 31, 2019 - 4.2%). 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 third quarter and first nine months of 2020 increased by \$2.2 million and \$1.1 million, respectively, compared with the same periods of 2019. The increase in current income tax expense is primarily due to the enactment of final regulations providing guidance about the limitation on the deduction for business interest expense, which thereby increased the U.S. Base Erosion and Anti-Abuse Tax ("BEAT tax") recorded in the quarter. The 2020 current tax expense is partially offset by the current tax recovery expected as a result of the carryback of the 2018 U.S. non-operating losses to 2014 pursuant to the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act").

Deferred income tax recovery for the third quarter and first nine months of 2020 was \$21.2 million and \$37.9 million, respectively, compared with \$10.1 million and \$32.9 million, respectively, for the same periods of 2019. The increase in deferred income tax recovery for the third quarter and first nine months of 2020 compared with the same period of 2019 was due to non-capital losses recognized in Canada, non-deductible fixed asset impairments recognized in the U.S., and additional interest deduction carryforwards in the U.S. for the first nine months of 2020, partially offset by the utilization of non-capital loss carryforwards in the U.S. in 2020, and by a lower level of U.S. legal proceeding reserve that occurred in 2019 (see **Reserve for legal proceedings**).

The effective tax rate for the third quarter of 2020 differs from the statutory tax rate primarily due to the deduction of taxable income distributed to Unitholders, differences in domestic corporate and trust tax rates, and certain permanent differences. The difference in the effective tax rate for the first nine months of 2020 is due to the factors noted for the third quarter as well as due to the impairment of non-deductible goodwill, and the decrease in interest expense carryforwards as a result of the enactment of the anti-hybrid entity and instrument rules in the U.S.

The net increase in deferred tax assets of \$1.9 million at September 30, 2020 relative to December 31, 2019 is primarily due to non-capital losses recognized in Canada, additional interest deduction carryforwards in the U.S., and non-deductible fixed asset impairments recognized in the U.S., partially offset by the unrealized capital gain associated with the change in fair value of the Debentures. The net decrease in deferred tax liabilities of \$5.2 million

at September 30, 2020 relative to December 31, 2019 is primarily due to the depreciation of non-deductible fixed assets in Brazil.

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

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

The following table presents excess cash flows from operating activities and net earnings over distributions paid for the three and nine months ended September 30, 2020, and for the years ended December 31, 2019 and December 31, 2018.

(\$'000)	<u>Three months ended</u>		<u>Nine months ended</u>		<u>Year ended</u>	
	September 30, 2020	September 30, 2020	September 30, 2020	September 30, 2020	December 31, 2019	December 31, 2018
Cash flows from operating activities	\$ 90,866	\$ 188,763	\$ 139,477	\$ 244,464		
Net loss	\$ (48,318)	\$ (141,694)	\$ (99,654)	\$ (131,517)		
Cash distributions paid during period	\$ 13,064	\$ 54,734	\$ 111,116	\$ 111,116		
Excess of cash flows from operating activities over cash distributions paid	\$ 77,802	\$ 134,029	\$ 28,361	\$ 133,348		
Shortfall of net loss over cash distributions paid	\$ (61,382)	\$ (196,428)	\$ (210,770)	\$ (242,633)		

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 -*

On March 11, 2020, Chemtrade announced a reduction of its monthly distributions to \$0.05 per unit.

On July 13, 2020, Chemtrade announced the commencement of a Distribution Reinvestment Plan ("DRIP"). Under the terms of the DRIP, eligible Unitholders may elect to reinvest all or a portion of their regular monthly distributions in additional units of Chemtrade, without paying any commissions, service charges or brokerage fees under the DRIP. Units purchased for participants under the DRIP will be newly issued by Chemtrade from treasury or will be existing units purchased on the open market through the facilities of a stock exchange. Under the DRIP, the Board determines which of these two sources will be used and currently the units are issued from treasury. Currently, the participants receive bonus distributions of Units equal to 3% of the amount of the cash distribution reinvested.

Distributions to Unitholders for the three and nine months ended September 30, 2020 were declared as follows:

<b>Record Date</b>	<b>Payment Date</b>	<b>Distribution Per Unit</b>	<b>Total <sup>(1)</sup> (\$'000)</b>
Three months ended September 30:			
July 31, 2020	August 31, 2020	\$ 0.05 \$	4,641
August 31, 2020	September 25, 2020	0.05	4,647
September 30, 2020	October 27, 2020	0.05	4,653
Sub-total		0.15	13,941
Three months ended June 30, 2020		\$ 0.15 \$	13,890
Three months ended March 31, 2020		\$ 0.25 \$	23,150
<b>Total for the nine months ended September 30, 2020</b>		<b>\$ 0.55 \$</b>	<b>50,981</b>

<sup>(1)</sup> Pursuant to the commencement of the DRIP, distributions declared for the three and nine months ended September 30, 2020 includes bonus distributions.

Distributions to Unitholders for the three and nine months ended September 30, 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 September 30:			
July 31, 2019	August 30, 2019	\$ 0.10 \$	9,260
August 30, 2019	September 30, 2019	0.10	9,260
September 30, 2019	October 31, 2019	0.10	9,259
Sub-total		0.30	27,779
Three months ended June 30, 2019		\$ 0.30 \$	27,779
Three months ended March 31, 2019		\$ 0.30 \$	27,779
<b>Total for the nine months ended September 30, 2019</b>		<b>\$ 0.90 \$</b>	<b>83,337</b>

Treatment of Chemtrade's distributions for Canadian Income Tax purposes for 2019 and 2020 is as follows:

	<b>Other Income</b>	<b>Dividends <sup>(1)</sup></b>	<b>Foreign Non-Business Income</b>	<b>Total</b>
2019	13.2%	41.5%	45.3%	100%
2020 <sup>(2)</sup>	4.0%	11.0%	85.0%	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. On July 13, 2020, Chemtrade commenced a DRIP and currently, participants receive bonus distributions of Units equal to 3% of the amount of the cash distribution reinvested. Bonus distributions will be treated as a return of capital for Canadian Income Tax purposes which will affect the treatment of Chemtrade's distributions for 2020. The actual tax treatment of 2020 distributions will be determined by March 1, 2021.

## 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 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 flow from operating activities for the third quarter of 2020 was an inflow of \$90.9 million, compared with an inflow of \$80.5 million for the same period of 2019. The increase in cash flow from operating activities of \$10.4 million in the third quarter of 2020 compared with the third quarter of 2019 was primarily due to changes in working capital and lower interest paid, partially offset by lower Adjusted EBITDA and higher income taxes paid in the third quarter of 2020, when compared with income taxes refunded in the third quarter of 2019.

Cash flow from operating activities in the first nine months of 2020 was an inflow of \$188.8 million compared with an inflow of \$78.8 million during the first nine months of 2019. The increase in cash flow from operating activities of \$110.0 million was primarily due to changes in working capital, partially offset by lower Adjusted EBITDA and higher income taxes paid. There was a large increase in working capital during the first nine months of 2019 when an amount that had been accrued with respect to the settlement of the main class action lawsuit was paid (see **Reserve for legal proceedings**).

### Investing Activities

Capital expenditures were \$18.1 million in the third quarter of 2020, compared with \$24.3 million in the third quarter of 2019. These amounts include \$17.3 million in the third quarter of 2020 and \$19.7 million in the third quarter of 2019 for maintenance capital expenditures. Investment in capital expenditures was \$42.7 million for the first nine months of 2020, compared with \$55.7 million for the first nine months of 2019. These amounts include \$40.4 million in the first nine months of 2020 and \$45.9 million in the first nine months of 2019 for maintenance capital expenditures. The lower capital expenditures in 2020 compared with the same periods of 2019 is due to the COVID-19 pandemic-related restrictions. Chemtrade expects to incur approximately \$75.0 to \$80.0 million of maintenance capital expenditures during 2020.

Non-maintenance capital expenditures were \$0.7 million during the third quarter of 2020, compared with \$4.6 million during the third quarter of 2019. Investment in non-maintenance capital expenditures was \$2.3 million during the first nine months of 2020, compared with \$9.8 million during the first nine months of 2019. Non-maintenance capital expenditures are: (i) pre-identified or pre-funded, usually as part of a significant acquisition and related financing; (ii) considered to expand or improve the capacity of Chemtrade's operations; (iii) significant environmental capital expenditures that are considered to be non-recurring; or (iv) capital expenditures to be reimbursed by a third party.

### Financing Activities

At September 30, 2020, Chemtrade's credit facilities were comprised of a \$432.9 million (US\$325.0 million) five year term loan and a \$699.2 million (US\$525.0 million) revolving credit facility (the "Credit Facilities").

During the fourth quarter of 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. These costs have been deferred and are being amortized to finance costs in comprehensive income using the effective interest method.

During the second quarter of 2020, Chemtrade modified certain terms of its Credit Facilities including negotiating an amended covenant package on its Credit Facilities to provide Chemtrade with additional covenant room until 2022 in light of the uncertain economic climate arising from the COVID-19 pandemic. Chemtrade incurred \$1.3 million 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.

There was a net decrease in borrowings on the revolving portion of the Credit Facilities of \$22.0 million and a net increase of \$49.6 million during the three and nine months ended September 30, 2020, respectively, compared with a net decrease of \$14.9 million and a net increase of \$172.9 million, respectively, during the same period of 2019. During the first nine months of 2020, the additional borrowings on the Credit Facilities were primarily used to redeem the remaining portion of the outstanding CEI Series VI Debentures at a total aggregate redemption price of \$74.6 million and to partially finance the redemption of \$100.0 million principal amount of the outstanding Fund 5.25% Debentures (see **Recent Developments**). During the first nine months of 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 (see **Reserve for legal proceedings**).

During the third quarter of 2020, Chemtrade completed a public offering of \$86.3 million principal amount of convertible unsecured subordinated debentures, at a price of \$1,000 per debenture, with an interest rate of 8.50% per annum. Chemtrade incurred transaction costs of \$4.0 million which included underwriters' fees and other expenses relating to the offering (see **Recent Developments**).

Distributions paid to Unitholders, net of of distributions reinvested during the three and nine months ended September 30, 2020 were \$13.1 million and \$54.7 million, respectively, compared to \$27.8 million and \$83.3 million for the same periods of 2019. The decrease is primarily due to the reduction in monthly distributions from \$0.10 per unit to \$0.05 per unit as announced on March 11, 2020. 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 term bank 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 term bank debt until December 2023. On April 24, 2020, Chemtrade entered into a new swap arrangement which fixed the LIBOR components of its interest rates on up to US\$250.0 million of its outstanding revolving credit under its long term debt until April 24, 2021. 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 condensed consolidated interim 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 recognized in other comprehensive income.

#### *Cash Balances -*

At September 30, 2020, Chemtrade had net cash balances of \$18.6 million and a working capital deficit of \$19.5 million. Comparable figures for December 31, 2019 were \$13.5 million and working capital of \$16.3 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. However, there is inherently more uncertainty associated with the Fund's future operating assumptions given the changing circumstances surrounding the COVID-19 pandemic. See **Risks and Uncertainties - Risk of Pandemic** for more details. In addition, Chemtrade has revolving credit facilities which can be used for general corporate purposes, including to fund capital expenditures. See *Capital Resources* below for more details.

#### *Capital Resources -*

At September 30, 2020, Chemtrade had Credit Facilities of approximately \$1.1 billion (US\$850.0 million), consisting of a \$432.9 million (US\$325.0 million) five year term loan and a \$699.2 million (US\$525.0 million) revolving credit facility. At September 30, 2020, Chemtrade had the entire term loan outstanding, and had drawn \$383.9 million on its revolving credit facility. Additionally, it had committed a total of \$11.9 million of its revolving credit facility towards

standby letters of credit. During the fourth quarter of 2019, Chemtrade modified certain terms of its Credit Facilities including extending the maturity date to October 24, 2024.

During the second quarter of 2020, Chemtrade modified certain terms of its Credit Facilities including negotiating an amended covenant package on its Credit Facilities to provide Chemtrade with additional covenant room until 2022 in light of the uncertain economic climate arising from the COVID-19 pandemic.

At September 30, 2020, Chemtrade had five series of Debentures outstanding with an aggregate par value of \$557.6 million (market value of \$432.6 million) and maturity dates ranging from June 30, 2021 to October 31, 2026.

During the fourth quarter of 2019, Chemtrade completed a public offering of \$100.0 million principal amount of 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.

During the first quarter of 2020, Chemtrade redeemed all of the outstanding CEI Series VI Debentures at a total aggregate redemption price of \$74.6 million 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 VI Debentures. Chemtrade used its Credit Facilities to fund the redemption.

During the third quarter of 2020, Chemtrade completed a public offering of \$86.3 million principal amount of convertible unsecured subordinated debentures, at a price of \$1,000 per debenture, with an interest rate of 8.50% per annum. Chemtrade incurred transaction costs of \$4.0 million which included underwriters' fees and other expenses relating to the offering (see **Recent Developments**).

During the third quarter of 2020, Chemtrade redeemed \$100.0 million principal amount of the outstanding Fund 2014 5.25% Debentures at a total aggregate redemption price of \$101.3 million, being equal to the principal amount of debentures redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. Chemtrade used a portion of the net proceeds from the Fund 2020 8.5% Debentures offering and its Credit Facilities to fund the redemption (see **Recent Developments**).

During the third quarter of 2020, Chemtrade announced the redemption of an additional \$12.5 million principal amount of the outstanding Fund 2014 5.25% Debentures, with an effective redemption date of October 5, 2020. On October 5, 2020, these Debentures were redeemed for an aggregate price of \$12.7 million, being equal to the principal amount of debentures outstanding, plus accrued and unpaid interest to, but excluding, the redemption date. Chemtrade used a portion of the net proceeds from the 2020 8.50% Debentures to fund the redemption (see **Recent Developments**).

On October 14, 2020, Chemtrade announced the redemption of the remaining \$14.0 million principal amount of the Fund 2014 5.25% Debentures. Such redemption will take place on November 13, 2020. The Fund 2014 5.25% Debentures balance at September 30, 2020 has been presented as current liabilities in the Condensed Consolidated Interim Statements of Financial Position (see **Recent Developments**).

## Debt Covenants -

As at September 30, 2020, Chemtrade was compliant with all debt covenants contained in its credit agreement.

### Summary of Quarterly Results

<i>(\$ millions)</i>	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Revenue	\$ 345.9	\$ 347.5	\$ 366.9	\$ 355.2	\$ 395.6	\$ 396.7	\$ 385.3	\$ 390.8
Cost of sales and services	(338.5)	(314.9)	(388.0)	(331.5)	(354.2)	(409.0)	(340.8)	(452.2)
Gross profit (loss)	7.4	32.6	(21.1)	23.7	41.4	(12.3)	44.5	(61.4)
Selling and administrative expenses:								
Unrealized foreign exchange gain (loss)	—	7.2	(9.6)	2.7	(1.0)	5.1	4.1	(2.7)
LTIP	(2.8)	(0.5)	5.6	(0.4)	(6.0)	(2.3)	(2.9)	2.5
Other	(24.4)	(26.0)	(26.5)	(21.7)	(20.7)	(24.2)	(65.4)	(21.0)
Total selling and administrative expenses	(27.2)	(19.3)	(30.5)	(19.4)	(27.7)	(21.4)	(64.2)	(21.2)
Operating (loss) income	(19.8)	13.3	(51.5)	4.3	13.7	(33.7)	(19.7)	(82.6)
Net finance costs:								
Mark-to-market on Debentures	(21.8)	17.0	(47.4)	13.0	(1.5)	(5.0)	(7.2)	(8.1)
Debt issuance and extinguishment costs	(4.0)	—	—	(4.5)	—	—	—	—
Other	(20.3)	(19.7)	(20.1)	(21.0)	(21.2)	(21.2)	(19.9)	(17.2)
Total net finance costs	(46.1)	(2.7)	(67.5)	(12.5)	(22.7)	(26.2)	(27.1)	(25.3)
Income tax recovery (expense)	17.6	(6.1)	21.1	(4.4)	8.8	2.3	17.5	10.7
Net (loss) earnings	\$ (48.3)	\$ 4.5	\$ (97.9)	\$ (12.6)	\$ (0.2)	\$ (57.6)	\$ (29.3)	\$ (97.2)

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 third quarter of 2020 was lower due to a \$19.8 million write-down of assets primarily as a result of the decision to rationalize sulphuric acid capacity. During the first quarter of 2020, goodwill impairment of \$56.0 million related to certain water solutions products was recorded. 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 solutions products was recorded.



### 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**).

### 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 approximately \$2.2 million per quarter of interest expense related to lease liabilities recorded in each quarter resulting from the adoption of IFRS 16. Net finance costs for the third quarter of 2020 includes \$4.0 million of transaction costs on the issuance of Debentures. The fourth quarter of 2019 included \$4.5 million of transaction costs on the issuance of Debentures.

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

As at November 11, 2020 and September 30, 2020, the following common units and securities convertible into units of the Fund were issued and outstanding:

	November 11, 2020		September 30, 2020	
	Convertible Securities	Units	Convertible Securities	Units
<b>Common units outstanding</b>		92,868,697		92,761,118
<b>5.25% Debentures</b> <sup>(1)(8)</sup>	\$ 14,000	500,000	\$ 26,500	946,429
<b>5.00% Debentures</b> <sup>(2)</sup>	143,750	5,784,708	143,750	5,784,708
<b>4.75% Debentures</b> <sup>(3)</sup>	201,115	7,532,397	201,115	7,532,397
<b>6.50% Debentures</b> <sup>(4)</sup>	100,000	6,329,114	100,000	6,329,114
<b>8.50% Debentures</b> <sup>(5)</sup>	86,250	11,734,694	86,250	11,734,694
<b>Units outstanding and issuable upon conversion of Debentures</b>		124,749,610		125,088,460
<b>Deferred units plan</b> <sup>(6)(7)</sup>	\$ 2,548	504,481	\$ 2,286	499,157
<b>Units outstanding and issuable upon conversion of Debentures and Deferred units</b>		125,254,091		125,587,617

<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

<sup>(5)</sup> Convertible at \$7.35 per unit

<sup>(6)</sup> Based on \$5.05 and \$4.58, the closing price of a unit on the TSX on November 11, 2020 and September 30, 2020 respectively

<sup>(7)</sup> 495,519 and 500,843 deferred units were available for future grants as at November 11, 2020 and September 30, 2020 respectively

<sup>(8)</sup> On October 14, 2020, Chemtrade announced the redemption of the remaining \$14.0 million principal amount of the Fund 2014 5.25% Debentures, with an effective redemption date of November 13, 2020. See **Recent Developments**

## Contractual Obligations

Information concerning contractual obligations at September 30, 2020 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	\$ 816,804	\$ —	\$ —	\$ 816,804	\$ —
Debentures	557,615	26,500	143,750	287,365	100,000
Purchase commitments	84,163	19,652	30,358	30,358	3,795
Interest on Debentures	132,626	31,019	60,533	34,022	7,052
Interest on long-term debt	133,587	32,834	65,669	35,084	—
Lease payments	195,431	55,152	80,494	33,755	26,030
<b>Total contractual obligations</b>	<b>\$ 1,920,226</b>	<b>\$ 165,157</b>	<b>\$ 380,804</b>	<b>\$ 1,237,388</b>	<b>\$ 136,877</b>

## Risks and Uncertainties

Chemtrade operates a diversified business providing industrial chemicals and services to customers in North America and around the world. Chemtrade is one of North America's largest suppliers of sulphuric acid, spent acid processing services, inorganic coagulants for water treatment, sodium chlorate, sodium nitrite, sodium hydrosulphite and phosphorus pentasulphide. Chemtrade is a leading regional supplier of sulphur, chlor-alkali products, liquid sulphur dioxide, potassium chloride, and zinc oxide. Additionally, Chemtrade provides industrial services such as processing by-products and waste streams. Chemtrade faces various risks associated with its business. These risks include, amongst others, a general reduction in demand for its products, the loss of a portion of its customer base, the interruption of the supply of products or raw materials, price fluctuations in the products sold and/or raw materials purchased, industry capacity, acquisition integration and operational, transportation and product hazard risks associated with the nature of its business. Chemtrade imports key raw materials and products from overseas and as such has additional risks associated with the sourcing activity. Chemtrade makes extensive use of the railway system to transport material within North America. Certain locations are serviced by a sole carrier and thus a disruption in service or changes to the regulatory environment relating to transportation could have a significant negative impact on results. In addition, Chemtrade sells a significant portion of its major products to large customers. While many of these customers are under contract, there can be no assurance that these contracts will be renewed. As Chemtrade's business is international in nature, it is exposed to foreign exchange risks related to the payment of dividends and other transactions by its foreign subsidiaries. For a more detailed discussion of Chemtrade's risks, please refer to the "RISK FACTORS" section of the most recently filed Annual Information Form.

Chemtrade manages the risks associated with its customer base and sales prices by seeking to obtain contractual protection to mitigate these risks. Chemtrade also seeks to differentiate its products and services with customers to mitigate price fluctuations and uses its scale to obtain beneficial raw material contracts.

Chemtrade's Board 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.

There are a number of risks that warrant additional disclosure which are discussed in detail in the MD&A for the year ended December 31, 2019. There have been no material changes to the business of Chemtrade that require an update to the discussion of these risks except as noted below.

#### *Uncertainty regarding tax treatment*

Chemtrade is subject to tax audits from various tax authorities on an ongoing basis. As a result, from time to time, tax authorities may disagree with the positions and conclusions taken by Chemtrade in its tax filings or legislation could be amended or interpretations of current legislation could change, any of which events could lead to reassessments.

#### *Risk of Pandemic*

The COVID-19 pandemic continues to evolve rapidly and, as a result, it is difficult to accurately assess its continued magnitude, outcome and duration. A local, regional, national or international outbreak of a contagious disease, including COVID-19 or any other similar illness, could:

- worsen economic conditions, resulting in generally lower levels of industrial activity which could result in reduced demand for some or all of Chemtrade's products such as sulphuric acid, which is a very widely used chemical;
- lead to prolonged restrictions on non-essential travel and people working from home, which would negatively effect demand for Chemtrade's Regen services and for sodium chlorate;
- impact Chemtrade's customers' production volume levels, including as a result of prolonged unscheduled facility shutdowns;
- impact Chemtrade's ability to perform maintenance turnarounds at its manufacturing sites resulting in unscheduled downtime;
- impact its production levels, including as a result of full or partial shutdowns of its manufacturing facilities;
- cause potential shortages of employees to staff its facilities, or the facilities of its customers or suppliers;
- result in governmental regulation adversely impacting Chemtrade's business or the businesses of its customers or suppliers;
- impact Chemtrade's ability to raise capital; or
- impact its ability to deliver its products and receive raw materials as a result of a supply chain disruption or orders restricting movement across borders (between or within countries),

all of which could have a material adverse effect on Chemtrade's business, financial condition and results of operations, which could be rapid and unexpected. To the extent the COVID-19 pandemic adversely affects Chemtrade's business and financial results, it may also have the effect of heightening many of the other risks described in this MD&A. The extent to which COVID-19 may impact Chemtrade's business will depend on future developments, which are highly uncertain and cannot be predicted with confidence, such as the ultimate geographic spread and concentration of the pandemic, the duration of the pandemic, travel restrictions and social distancing in

Canada, the United States and other countries, business closures or business disruptions and the effectiveness of actions taken in Canada, the United States and other countries to contain and treat the pandemic.

### *Risks associated with financial instruments*

#### *Credit risk*

Credit risk arises from the non-performance by counter-parties of their contractual financial obligations. Chemtrade manages credit risk for trade and other receivables through established credit monitoring activities. Chemtrade does not have a significant concentration of credit risk with any single counter-party. The primary counter-parties related to the foreign exchange forward contracts and interest rate swaps carry investment grade ratings. Chemtrade believes its credit risk of counter-party non-performance continues to be relatively low, notwithstanding the impact of the COVID-19 pandemic. Chemtrade is in regular contact with its customers, suppliers and logistics providers, and to date has not experienced significant counter-party non-performance. However, if a key supplier or customer experiences financial difficulties or fails to comply with their contractual obligations, which may occur as the pandemic continues, this could result in a significant financial loss to Chemtrade. Chemtrade's maximum exposure to credit risk at the reporting date is the carrying value of its receivables and derivative assets.

#### *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 believes that cash flows from operating activities, together with cash on hand, cash from receivables and borrowings available under the revolving credit facility are sufficient to fund its currently anticipated financial obligations, and will remain available in the current environment, notwithstanding the impact of the COVID-19 pandemic.

#### *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. Chemtrade cannot predict changes in currency exchange rates, the impact of exchange rate changes on Chemtrade's operating results, nor the degree to which Chemtrade will be able to manage the impact of currency exchange rate changes. Such changes, including negative impacts on currency exchange rates related to the COVID-19 pandemic, could have an impact on Chemtrade's business, results of operations and financial condition.

#### *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 September 30, 2020, on an unhedged basis, a change in interest rates of 1% per annum would have an impact of approximately \$8.2 million on Chemtrade's net earnings per annum. As at September 30, 2020,

Chemtrade had fixed interest rates on 93.8% of its senior debt until April 2021 and 53.0% thereafter until December 2023.

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

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

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

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are discussed in detail in the MD&A for the year ended December 31, 2019. There have been no material changes to the business of Chemtrade that require an update to the discussion of these sources of estimation uncertainty.

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

On August 27, 2020, the International Accounting Standards Board ("IASB") issued Interest Rate Benchmark Reform ("IBOR reform") - Phase 2 - Amendments to IFRS 9, Financial Instruments ("IFRS 9"), IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"), IFRS 7, Financial Instruments: Disclosures ("IFRS 7"), IFRS 4, Insurance Contracts ("IFRS 4") and IFRS 16, Leases ("IFRS 16"). The mandatory effective date of IBOR reform is for annual periods beginning on or after January 1, 2021 and an entity is not required to restate prior periods. The amendments provide a number of reliefs which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. Chemtrade intends to adopt IBOR reform in its financial statements for the annual period beginning on January 1, 2021. The extent of the impact of adoption of the amendments has not yet been determined.

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

Chemtrade maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that the Fund publicly files is recorded, processed, summarized and reported within a timely manner and that such information is accumulated and communicated to Chemtrade's Management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure. The Chief Executive Officer and the Chief Financial Officer have evaluated Chemtrade's disclosure controls procedures as of September 30, 2020 through inquiry and review. The Chief Executive Officer and the Chief Financial Officer have concluded that, as at September 30, 2020, Chemtrade's design and implementation of the controls 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 September 30, 2020. There have been no changes to the design of internal controls over financial reporting that occurred during the three and nine months ended September 30, 2020 that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

## **Financial Outlook**

In April 2020, Chemtrade suspended the Guidance issued earlier in the year. The economic uncertainty caused by COVID-19 prevents us from knowledgeably predicting the key elements necessary to make Guidance meaningful. While we can no longer provide a definitive Guidance range we can comment on certain key items that are expected to affect our earnings, while cautioning that this is a very fluid situation and that some of our comments below are based on our current understanding of our customers and markets which can, and likely will, change over time. Accordingly, the following comments should be read with extreme care and we will not update these comments until our next MD&A.

Comments on certain key elements contributing to Chemtrade's 2020 fourth quarter earnings are as follows:

### *Key Facilities*

As previously advised, we have a significant maintenance turnaround at one of our Regen acid plants. The plant is tied to a once every five-year major maintenance turnaround at this plant's refinery customer.

Our North Vancouver chlor-alkali facility will also have its biennial turnaround in the fourth quarter instead of the third as planned due to the availability of contractors.

### *Demand*

Demand for many of our products continues to be weaker due to COVID-19's effect on the economy. In particular,

- Fracking activity and thus demand for HCl has shown some improvement during the year, but remains well below 2019 levels.
- Demand for Regen services which is dependent upon gasoline demand has been improving but is still approximately 10% below normal levels.

- Demand for printing paper remains low as large numbers of people are still working from home. This has led to reduced demand for sodium chlorate.
- Demand for water products is stable, however the fourth quarter is a seasonally low demand quarter with generally reduced water consumption in the winter months.

### *Pricing*

- Despite lower demand, pricing for most of our products is expected to remain stable in the fourth quarter.
- The main exception is pricing for caustic soda. The Northeast Asia spot index for caustic soda, which is very influential on our caustic soda selling price, settled at a very low level towards the end of the third quarter. It was approximately US\$50 per tonne below the level relative to the same period in 2019.

Comments on certain key elements contributing to Chemtrade's 2021 earnings are as follows:

### *Key Facilities*

We expect all of our plants to operate well during the year. We expect normal turnaround activity, with no atypical turnarounds planned.

### *Demand*

As a general statement, while COVID-19 is expected to continue affecting demand for certain of our products in 2021, we expect our sales volumes for 2021 to be higher than 2020. The depth and duration of this effect largely depends on COVID-19's effect on industrial activity and North American driving miles.

Certain more specific demand comments are as follows.

#### *WSSC -*

- Demand for our Water Solutions business should be similar to 2020 and largely unaffected by COVID-19.

#### *SPPC -*

- Regen and ultra pure acid volumes are expected to be higher than 2020, but still below pre-pandemic levels; and
- Merchant acid volume should be similar to 2020 levels.

#### *EC -*

- The North Vancouver chlor-alkali plant is expected to operate at a higher level than 2020, when we had the biennial maintenance turnaround. The plant's operating rates will be constrained by HCl demand. HCl's demand increase is largely dependent on increased activity in the fracking industry.
- Finally, sodium chlorate demand should be higher than 2020, but could be lower than historic levels. Demand will be affected by the extent work from home during the pandemic reduces paper demand and thus bleached pulp production.

## *Pricing*

Most of our products do not experience cyclical pricing. However, caustic soda pricing can move significantly.

In 2021, we expect that the Northeast Asia spot index for caustic soda should move higher during the year. The long-term supply demand characteristics still support upward price movements for many years. During 2021, pricing is expected to start increasing, and to continue increasing for at least several years. Recall that we generally incur a quarterly lag between our caustic soda price and movements in the index. Due to this lag, unless the index prices move up soon, the annual index level for 2021 is expected to be lower than 2020.

Finally, given the reduced demand for sodium chlorate, there could be some pressure on selling prices during 2021.

In 2021, Chemtrade also expects:

- Maintenance Capital Expenditures to range between \$80.0 million and \$85.0 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).

November 12, 2020



Condensed Consolidated Interim Financial Statements of

# **CHEMTRADE LOGISTICS INCOME FUND**

Three and nine months ended  
September 30, 2020 and 2019  
(Unaudited)

# CHEMTRADE LOGISTICS INCOME FUND

Condensed Consolidated Interim Statements of Financial Position

(In thousands of Canadian dollars)

(Unaudited)

	Notes	September 30, 2020	December 31, 2019
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 18,581	\$ 13,466
Trade and other receivables		131,095	155,348
Inventories		113,275	122,273
Income taxes receivable		1,313	1,795
Prepaid expenses and other assets		7,860	4,720
Assets held for sale	4	209,888	202,772
<b>Total current assets</b>		<b>482,012</b>	<b>500,374</b>
<b>Non-current assets</b>			
Property, plant and equipment		1,073,917	1,126,962
Right-of-use assets		166,095	174,224
Other assets		7,580	9,316
Intangible assets	8	780,650	871,205
Deferred tax assets	13	98,921	96,992
<b>Total non-current assets</b>		<b>2,127,163</b>	<b>2,278,699</b>
<b>Total assets</b>		<b>\$ 2,609,175</b>	<b>\$ 2,779,073</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	14	\$ 204,946	\$ 199,694
Distributions payable		4,653	9,260
Provisions	10	18,955	19,783
Lease liabilities		49,173	48,392
Convertible unsecured subordinated debentures	6	26,460	74,584
Liabilities directly associated with assets held for sale	4	18,056	18,710
<b>Total current liabilities</b>		<b>322,243</b>	<b>370,423</b>
<b>Non-current liabilities</b>			
Long-term debt	5	812,180	744,274
Convertible unsecured subordinated debentures	6	406,159	534,345
Other long-term liabilities		36,948	26,849
Long-term lease liabilities		127,082	133,633
Employee benefits		54,758	53,294
Provisions		158,682	134,827
Deferred tax liabilities	13	16,639	21,852
<b>Total non-current liabilities</b>		<b>1,612,448</b>	<b>1,649,074</b>
<b>Total liabilities</b>		<b>1,934,691</b>	<b>2,019,497</b>
<b>Unitholders' equity</b>			
Units	7	1,462,971	1,462,116
Contributed surplus		9,720	9,720
Deficit		(1,062,502)	(870,874)
Accumulated other comprehensive income		264,295	158,614
<b>Total unitholders' equity</b>		<b>674,484</b>	<b>759,576</b>
<b>Total liabilities and unitholders' equity</b>		<b>\$ 2,609,175</b>	<b>\$ 2,779,073</b>

For subsequent events, see Note 16.

# CHEMTRADE LOGISTICS INCOME FUND

Condensed Consolidated Interim Statements of Comprehensive Income

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

(Unaudited)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
Revenue		\$ 345,850	\$ 395,653	\$ 1,060,285	\$ 1,177,640
Cost of sales and services	8,12	(338,461)	(354,236)	(1,041,330)	(1,104,070)
Gross profit		7,389	41,417	18,955	73,570
Selling and administrative expenses	10	(27,213)	(27,730)	(76,996)	(113,331)
Operating (loss) income		(19,824)	13,687	(58,041)	(39,761)
Net finance costs	11	(46,121)	(22,675)	(116,279)	(75,997)
Loss before income tax		(65,945)	(8,988)	(174,320)	(115,758)
Income tax (expense) recovery	13				
Current		(3,526)	(1,309)	(5,297)	(4,246)
Deferred		21,153	10,134	37,923	32,947
		17,627	8,825	32,626	28,701
Net loss		\$ (48,318)	\$ (163)	\$ (141,694)	\$ (87,057)
Other comprehensive income (loss)					
<b>Items that may subsequently be reclassified to earnings:</b>					
Gain (loss) on net investment hedge of foreign operations, net of tax recovery of nil and \$636 (2019 - recovery of \$400 and expense of \$352)	5,14	15,067	(2,598)	(12,314)	7,373
Foreign currency translation differences for foreign operations, net of tax expense of nil and nil (2019 - expense of nil and \$1,328)		(18,193)	7,965	28,627	(25,856)
Effective portion of change in the fair value of cash flow hedges, net of tax expense of \$621 and recovery of \$5,739 (2019 - recovery of \$321 and \$2,922)		1,728	(1,619)	(12,788)	(8,348)
<b>Items that will not be reclassified to earnings:</b>					
Defined benefit plan adjustments, net of tax expense of \$2,981 and \$460 (2019 - recovery of \$529 and \$2,660)		9,245	(1,611)	1,047	(7,532)
Change in fair value of convertible debentures due to credit risk, net of tax expense of \$6,801 and \$38,010 (2019 - recovery of \$5,557 and \$4,071)	6	18,609	(14,782)	102,156	(10,093)
Other comprehensive income (loss)		26,456	(12,645)	106,728	(44,456)
Total comprehensive loss		\$ (21,862)	\$ (12,808)	\$ (34,966)	\$ (131,513)
Net loss per unit	7				
Basic net loss per unit		\$ (0.52)	\$ —	\$ (1.53)	\$ (0.94)
Diluted net loss per unit		\$ (0.52)	\$ —	\$ (1.53)	\$ (0.94)

# CHEMTRADE LOGISTICS INCOME FUND

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

	Notes	Units	Contributed surplus	Deficit	Cumulative translation account*	Unrealized gains 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, 2020</b>		\$ 1,462,116	\$ 9,720	\$ (870,874)	\$ 171,893	\$ (17,381)	\$ 4,102	\$ 759,576
Issuance of units under the Distribution Reinvestment Plan ("DRIP")	7	855	—	—	—	—	—	855
Net loss		—	—	(141,694)	—	—	—	(141,694)
Other comprehensive income (loss)		—	—	1,047	28,627	(25,102)	102,156	106,728
Distributions	7	—	—	(50,981)	—	—	—	(50,981)
<b>Balance at September 30, 2020</b>		\$ 1,462,971	\$ 9,720	\$ (1,062,502)	\$ 200,520	\$ (42,483)	\$ 106,258	\$ 674,484

	Notes	Units	Contributed surplus	Deficit	Cumulative translation account*	Unrealized gains 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, 2019</b>		\$ 1,461,995	\$ 9,720	\$ (656,548)	\$ 216,070	\$ (27,664)	\$ 13,140	\$ 1,016,713
Net loss		—	—	(87,057)	—	—	—	(87,057)
Other comprehensive loss		—	—	(7,532)	(25,856)	(975)	(10,093)	(44,456)
Distributions	7	—	—	(83,337)	—	—	—	(83,337)
<b>Balance at September 30, 2019</b>		\$ 1,461,995	\$ 9,720	\$ (834,474)	\$ 190,214	\$ (28,639)	\$ 3,047	\$ 801,863

\* Accumulated other comprehensive income.

# CHEMTRADE LOGISTICS INCOME FUND

Condensed Consolidated Interim Statements of Cash Flows  
(In thousands of Canadian dollars)  
(Unaudited)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
<b>Cash flows from operating activities:</b>					
Net loss		\$ (48,318)	\$ (163)	\$ (141,694)	\$ (87,057)
Adjustments for:					
Depreciation and amortization	12	64,640	65,380	197,566	197,036
Net loss on disposal and write-down of property, plant and equipment		19,829	9,917	19,360	10,522
Impairment of goodwill	8	—	—	56,000	65,600
Change in environmental liability		—	—	3,743	—
Income tax recovery		(17,627)	(8,825)	(32,626)	(28,701)
Net interest costs	11	21,053	17,300	53,750	50,449
Interest costs - lease liabilities	11	2,006	2,207	6,350	6,619
Accretion expense	11	905	1,228	2,816	3,847
Net pension interest	11	388	485	1,172	1,467
Change in fair value of convertible unsecured subordinated debentures	6,11	21,769	1,455	52,191	13,615
Unrealized foreign exchange loss (gain)	10	5	1,046	2,430	(8,127)
		64,650	90,030	221,058	225,270
Decrease (increase) in working capital		42,357	3,714	18,932	(99,408)
Interest paid		(13,824)	(17,169)	(47,533)	(47,281)
Interest received		88	138	278	472
Income taxes (paid) refunded		(2,405)	3,749	(3,972)	(235)
<b>Net cash flows from operating activities</b>		<b>90,866</b>	<b>80,462</b>	<b>188,763</b>	<b>78,818</b>
<b>Cash flows from investing activities:</b>					
Additions to property, plant and equipment		(18,089)	(24,299)	(42,727)	(55,705)
Decrease in other assets		578	763	1,736	581
<b>Net cash flows used in investing activities</b>		<b>(17,511)</b>	<b>(23,536)</b>	<b>(40,991)</b>	<b>(55,124)</b>
<b>Cash flows from financing activities:</b>					
Distributions to unitholders, net of distributions reinvested	7	(13,064)	(27,779)	(54,734)	(83,337)
Issuance of convertible debentures	6	86,250	—	86,250	—
Transaction costs related to the issuance of convertible debentures	6,11	(4,013)	—	(4,013)	—
Repayment of lease liability net of sub-lease receipts		(14,256)	(14,131)	(42,418)	(42,616)
Repayment of convertible debentures	6	(100,000)	—	(174,584)	(84,011)
Net change in revolving credit facility	5	(22,035)	(14,893)	49,603	172,935
Financing transaction costs	5	—	—	(1,324)	—
Increase (decrease) in other long-term liabilities		284	1,881	(1,537)	11,850
<b>Net cash flows used in financing activities</b>		<b>(66,834)</b>	<b>(54,922)</b>	<b>(142,757)</b>	<b>(25,179)</b>

# CHEMTRADE LOGISTICS INCOME FUND

Condensed Consolidated Interim Statements of Cash Flows (continued)

(In thousands of Canadian dollars)

(Unaudited)

	Notes	<u>Three months ended</u>		<u>Nine months ended</u>	
		<u>September 30,</u>		<u>September 30,</u>	
		2020	2019	2020	2019
<b>Increase (decrease) in cash and cash equivalents</b>		<b>6,521</b>	2,004	<b>5,015</b>	(1,485)
Cash and cash equivalents, beginning of the period		<b>12,326</b>	9,556	<b>13,466</b>	13,413
Effect of exchange rates on cash held in foreign currencies		<b>(266)</b>	82	<b>100</b>	(286)
<b>Cash and cash equivalents, end of the period</b>		<b>\$ 18,581</b>	\$ 11,642	<b>\$ 18,581</b>	\$ 11,642

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and nine months ended September 30, 2020 and 2019

---

## 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 15.

Chemtrade is an entity domiciled in Canada. The head office, principal address, and registered and records office of the Fund 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 condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, using the same accounting policies and standards as were used for Chemtrade's 2019 annual consolidated financial statements. Certain amendments and interpretations apply for the first time in 2020, but do not have an impact on these condensed consolidated interim financial statements.

These condensed consolidated interim financial statements should be read in conjunction with Chemtrade's 2019 annual consolidated financial statements.

The condensed consolidated interim financial statements were authorized for issue by the Board of Trustees (the "Board") on November 12, 2020.

### (b) Basis of measurement:

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

- Derivative financial instruments are measured at fair value;

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and nine months ended September 30, 2020 and 2019

---

## 2. BASIS OF PREPARATION (continued):

- Financial instruments designated at fair value through profit or loss are measured at fair value;
- Liabilities for cash settled share-based payment arrangements are measured at fair value;
- The defined benefit liability is recognized as the 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 condensed consolidated interim financial statements are presented in thousands of Canadian dollars, except for net earnings per unit information which is presented in Canadian dollars.

## 3. SIGNIFICANT ACCOUNTING POLICIES:

### Standards and interpretations not yet adopted:

On August 27, 2020, the International Accounting Standards Board ("IASB") issued Interest Rate Benchmark Reform ("IBOR reform") - Phase 2 - Amendments to IFRS 9, *Financial Instruments* ("IFRS 9"), IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"), IFRS 7, *Financial Instruments: Disclosures* ("IFRS 7"), IFRS 4, *Insurance Contracts* ("IFRS 4") and IFRS 16, *Leases* ("IFRS 16"). The mandatory effective date of IBOR reform is for annual periods beginning on or after January 1, 2021 and an entity is not required to restate prior periods. The amendments provide a number of reliefs which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. Chemtrade intends to adopt IBOR reform in its financial statements for the annual period beginning on January 1, 2021. The extent of the impact of adoption of the amendments has not yet been determined.



# CHEMTRADE LOGISTICS INCOME FUND

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

Three and nine months ended September 30, 2020 and 2019

## 4. 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 associated liabilities as at September 30, 2020 and December 31, 2019:

<b>Assets held for sale</b>	<b>September 30, 2020</b>	<b>December 31, 2019</b>
Trade and other receivables	\$ 9,366	\$ 6,844
Inventories	6,599	7,751
Prepaid expenses and other assets	125	94
Property, plant and equipment	59,878	57,398
Right of-use ("ROU") assets	152	292
Intangible assets	133,768	130,393
<b>Total</b>	<b>\$ 209,888</b>	<b>\$ 202,772</b>

<b>Liabilities directly associated with assets held for sale</b>		
Trade and other payables	\$ 3,275	\$ 4,667
Lease liabilities	158	226
Deferred tax liabilities	14,623	13,817
<b>Total</b>	<b>\$ 18,056</b>	<b>\$ 18,710</b>

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and nine months ended September 30, 2020 and 2019

## 5. LONG-TERM DEBT:

Changes in long-term debt are as follows:

	Term bank debt	Revolving credit (US\$ denominated) <sup>(1)</sup>	Revolving credit (Cdn\$ denominated) <sup>(1)</sup>	Transaction costs	Total
Maturity	October 24, 2024	October 24, 2024	October 24, 2024		
Credit limit US\$ <sup>(2)</sup>	325,000	525,000			850,000
Drawn US\$	325,000	277,000			602,000
Balance at January 1, 2020	\$ 421,948	\$ 318,601	\$ 7,724	\$ (3,999)	\$744,274
Net change	—	42,327	7,276	—	49,603
Loss on net investment hedge of foreign operations	10,920	2,030	—	—	12,950
Foreign currency translation differences on debt in foreign operations	—	5,978	—	—	5,978
Financing transaction costs <sup>(3)</sup>	—	—	—	(1,324)	(1,324)
Accretion expense on financing transaction costs	—	—	—	699	699
Balance at September 30, 2020	\$ 432,868	\$ 368,936	\$ 15,000	\$ (4,624)	\$812,180

<sup>(1)</sup> At September 30, 2020, Chemtrade had committed a total of \$11,939 of the revolving credit facility towards standby letters of credit.

<sup>(2)</sup> At September 30, 2020, Cdn\$ limit of the senior credit facilities ("Credit Facilities") was \$1,132,116, consisting of a term bank debt of \$432,868 and a revolving credit facility of \$699,248.

<sup>(3)</sup> During the second quarter of 2020, Chemtrade modified certain terms of its Credit Facilities including negotiating an amended covenant package on its Credit Facilities to provide Chemtrade with additional covenant room until 2022 in light of the uncertain economic climate arising from the COVID-19 pandemic. The transaction costs related to the modification have been deferred and are being amortized to finance costs in comprehensive income using the effective interest method.

	Term bank debt	Revolving credit (US\$ denominated) <sup>(1)</sup>	Revolving credit (Cdn\$ denominated) <sup>(1)</sup>	Transaction costs	Total
Maturity <sup>(2)</sup>	December 14, 2023	December 14, 2023	December 14, 2023		
Credit limit US\$ <sup>(3)</sup>	325,000	525,000			850,000
Drawn US\$	325,000	273,244			598,244
Balance at January 1, 2019	\$ 443,203	\$ 250,313	\$ —	\$ (4,502)	\$689,014
Net change	—	119,198	53,737	—	172,935
Gain on net investment hedge of foreign operations	(1,980)	(5,745)	—	—	(7,725)
Foreign currency translation differences on debt in foreign operations	(10,890)	(1,964)	—	(4)	(12,858)
Accretion expense on financing transaction costs	—	—	—	824	824
Balance at September 30, 2019	\$ 430,333	\$ 361,802	\$ 53,737	\$ (3,682)	\$842,190

<sup>(1)</sup> At September 30, 2019, Chemtrade had committed a total of \$11,715 of the revolving credit facility towards standby letters of credit.

<sup>(2)</sup> During the fourth quarter of 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 been deferred and are being amortized to finance costs in comprehensive income using the effective interest method.

<sup>(3)</sup> At September 30, 2019, Cdn\$ limit of the Credit Facilities was \$1,125,485, consisting of a term bank debt of \$430,333 and a revolving credit facility of \$695,152.

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and nine months ended September 30, 2020 and 2019

---

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

The Credit Facilities are secured by certain property, plant and equipment ("PPE") of Chemtrade. At September 30, 2020, the weighted average effective interest rate of the facilities was 4.0% (December 31, 2019 - 4.2%). Interest rates on credit facilities are based on US LIBOR and Canadian Bankers' Acceptance rates, adjusted by Chemtrade's credit spread.

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 September 30, 2020, Chemtrade was in compliance with all covenants.

## 6. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES:

During 2019, the Fund redeemed the remaining portion of the outstanding Chemtrade Electrochem Inc. ("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 the fourth quarter of 2019, Chemtrade completed a public offering 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.

During the first quarter of 2020, Chemtrade redeemed all of the outstanding CEI Series VI Debentures at a total aggregate redemption price of \$74,624, 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 VI Debentures. Chemtrade used its Credit Facilities to fund the redemption.

During the third quarter of 2020, Chemtrade completed a public offering of \$86,250 principal amount of convertible unsecured subordinated debentures, at a price of \$1,000 per debenture, with an interest rate of 8.50% per annum (the "Fund 2020 8.50% Debentures"). The Fund 2020 8.50% Debentures will mature on September 30, 2025. The Fund 2020 8.50% Debentures are convertible, at the option of the holder, into trust units of the Fund at a conversion price of \$7.35 per unit. Chemtrade incurred transaction costs of \$4,013 which included underwriters' fees and other expenses relating to the offering.

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and nine months ended September 30, 2020 and 2019

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

During the third quarter of 2020, the Fund redeemed \$100,000 principal amount of its 5.25% convertible unsecured subordinated debentures (the "Fund 2014 5.25% Debentures") at a total aggregate redemption price of \$101,305, being equal to the principal amount of debentures redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. Chemtrade used a portion of the net proceeds from the Fund 2020 8.5% Debentures offering and its Credit Facilities to fund the redemption.

Chemtrade announced the redemption of all of the remaining Fund 2014 5.25% Debentures. For additional information, see note 16. The Fund 2014 5.25% Debentures have been presented as current liabilities in the Condensed Consolidated Interim Statements of Financial Position at September 30, 2020.

As shown in the first table below, at September 30, 2020, the Fund had \$26,500 principal amount of 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"), \$100,000 principal amount of the Fund 2019 6.50% Debentures and \$86,250 principal amount of the Fund 2020 8.50% Debentures. The Fund 2014 5.25% Debentures, the Fund 2016 5.00% Debentures, the Fund 2017 4.75% Debentures, the Fund 2019 6.50% Debentures and the Fund 2020 8.50% Debentures are collectively referred to as the "Debentures".

Chemtrade has designated its Debentures as financial liabilities at fair value through profit or loss. At September 30, 2020, the fair value of the Debentures was \$432,619 (December 31, 2019 - \$608,929).

For the three and nine months ended September 30, 2020, there were net finance costs of \$29,981 and \$75,314, respectively, (2019 - net finance costs of \$8,572 and \$34,807, respectively) related to the Debentures, which included a loss of \$21,769 and \$52,191, respectively, (2019 - loss of \$1,455 and \$13,615, respectively) due to the change in fair value of the Debentures related to changes in the risk free interest rate and an interest expense of \$8,212 and \$23,123, respectively, (2019 - \$7,117 and \$21,192, respectively). For the three and nine months ended September 30, 2020, the change in fair value of the Debentures due to Chemtrade's own credit risk was a gain of \$25,410 and \$140,166, respectively, (2019 - loss of \$20,339 and \$14,164, respectively), which has been presented in other comprehensive income, net of taxes, rather than net earnings.

The table below summarizes the key terms of each convertible debenture series outstanding at September 30, 2020 and December 31, 2019:

<b>September 30, 2020</b>					
	<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>Fund 2020 8.50% Debentures</b>
Maturity date	June 30, 2021	August 31, 2023	May 31, 2024	October 31, 2026	September 30, 2025
Interest rate	5.25%	5.00%	4.75%	6.50%	8.50%
Principal outstanding	\$26,500	\$143,750	\$201,115	\$100,000	\$86,250

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and nine months ended September 30, 2020 and 2019

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

December 31, 2019

	Fund 2014 5.25% Debentures	Fund 2016 5.00% Debentures	Fund 2017 4.75% Debentures	Fund 2019 6.50% Debentures	CEI Series VI Debentures
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

## 7. UNITS AND OTHER COMPONENTS OF EQUITY:

### (a) Units:

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

	2020		2019	
	Number of Units	Amount	Number of Units	Amount
Balance – January 1	92,601,062	\$ 1,462,116	92,596,006	\$ 1,461,995
Issuance of units under the DRIP	160,056	855	—	—
Balance – September 30	<b>92,761,118</b>	<b>\$ 1,462,971</b>	92,596,006	\$ 1,461,995

### (b) Distributions:

On March 11, 2020, Chemtrade announced a reduction of its monthly distributions to \$0.05 per unit.

On July 13, 2020, Chemtrade announced the commencement of the DRIP. Under the terms of the DRIP, eligible Unitholders may elect to reinvest all or a portion of their regular monthly distributions in additional units of Chemtrade, without paying any commissions, service charges or brokerage fees under the DRIP. Units purchased for participants under the DRIP will be newly issued by Chemtrade from treasury or will be existing units purchased on the open market through the facilities of a stock exchange. Under the DRIP, the Board determines which of these two sources will be used and currently the units are issued from treasury. Currently, the participants receive bonus distributions of Units equal to 3% of the amount of the cash distribution reinvested.

Distributions paid for the three and nine months ended September 30, 2020 were \$13,919 and \$55,589, respectively, (2019 - \$27,779 and \$83,337, respectively) or \$0.15 and \$0.60 per unit, respectively (2019 - \$0.30 and \$0.90 per unit, respectively). Of the distributions paid for the three and nine months ended September 30, 2020, \$13,064 and \$54,734, respectively, (2019 - \$27,779 and \$83,337, respectively) were in cash and \$855 and \$855, respectively, (2019 - nil

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and nine months ended September 30, 2020 and 2019

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

and nil, respectively) were reinvested in additional units pursuant to the DRIP. All of Chemtrade's distributions are discretionary and subject to Board approval.

Distributions declared, including the bonus distributions for the three and nine months ended September 30, 2020 were \$13,941 and \$50,981, respectively, (2019 - \$27,779 and \$83,337, respectively) or \$0.15 and \$0.55 per unit, respectively, (2019 - \$0.30 and \$0.90, respectively).

### (c) 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:

	<u>Three months ended</u> <u>September 30,</u>		<u>Nine months ended</u> <u>September 30,</u>	
	2020	2019	2020	2019
<b>Numerator</b>				
Net loss	\$ (48,318)	\$ (163)	\$ (141,694)	\$ (87,057)
Net interest and fair value adjustment on convertible unsecured subordinated debentures <sup>(1)</sup>	—	—	—	—
Net fair value adjustment on deferred unit plan <sup>(2)</sup>	—	—	—	—
<b>Diluted net loss</b>	<b>\$ (48,318)</b>	<b>\$ (163)</b>	<b>\$ (141,694)</b>	<b>\$ (87,057)</b>

<sup>(1)</sup> For the three and nine months ended September 30, 2020 and 2019, the potential conversion of the convertible unsecured subordinated debentures have not been included as the effect on net loss per unit would be anti-dilutive.

<sup>(2)</sup> For the three and nine months ended September 30, 2020, the potential conversion of the deferred units have not been included as the effect on net loss per unit would be anti-dilutive. For the three and nine months ended September 30, 2019, the deferred units would have been settled on the secondary market and therefore, had no potential dilutive effect on net loss. See Note 9.

	<u>Three months ended</u> <u>September 30,</u>		<u>Nine months ended</u> <u>September 30,</u>	
	2020	2019	2020	2019
<b>Denominator</b>				
Weighted average number of units	92,629,003	92,596,006	92,610,444	92,596,006
Weighted average convertible unsecured subordinated debenture dilutive units <sup>(1)</sup>	—	—	—	—
Weighted average deferred unit plan dilutive units <sup>(2)</sup>	—	—	—	—
<b>Weighted average number of diluted units</b>	<b>92,629,003</b>	<b>92,596,006</b>	<b>92,610,444</b>	<b>92,596,006</b>

<sup>(1)</sup> For the three and nine months ended September 30, 2020 and 2019, the potential conversion of the convertible unsecured subordinated debentures have not been included as the effect on net loss per unit would be anti-dilutive.

<sup>(2)</sup> For the three and nine months ended September 30, 2020, the potential conversion of the deferred units have not been included as the effect on net loss per unit would be anti-dilutive. For the three and nine months ended September 30, 2019, the deferred units would have been settled on the secondary market and therefore, had no potential dilutive effect on net loss. See Note 9.

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and nine months ended September 30, 2020 and 2019

## 8. GOODWILL IMPAIRMENT:

During the second quarter of 2019, Chemtrade performed a test for goodwill impairment for the 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 was based on the value in use approach.

During the first quarter of 2020, as a result of changes in macro-economic conditions which resulted in a significant increase in discount rates, combined with consideration of historic and forecast performance of each CGU, Chemtrade performed a test for goodwill impairment for the water solutions CGU in WSSC. Although the water solutions CGU's operating performance had been improving, as a result of applying the higher discount rate, this CGU's carrying value exceeded its recoverable amount by \$56,000 and therefore an impairment loss of \$56,000 was fully allocated to goodwill and recognized in cost of sales and services. Following the impairment recognized in the water solutions CGU, its recoverable amount equalled its carrying value.

During the third quarter of 2020, there were no indicators of impairment identified; therefore, Chemtrade did not test for goodwill impairment.

The key assumptions used in performing the impairment test for the water solutions CGU during the first quarter of 2020 were as follows:

	<b>2020</b>
Discount rate (pre-tax)	12.8%
Growth rate for forecast period	2.5%
Perpetual growth rate	2.50%
Time period	5 years

## 9. SHARE-BASED PAYMENTS:

Chemtrade operates a Long Term Incentive Plan ("LTIP"), which grants cash awards based on certain criteria. The 2018-2020, 2019-2021 and 2020-2022 LTIP awards have a performance based component and a restricted share unit component. The performance based component of the 2018 - 2020 and 2019 - 2021 LTIP awards 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 Composite Index or the companies comprising such index. The performance based component of the 2020 - 2022 LTIP awards is based on Return on Investment Capital ("ROIC") Improvement and total return to Chemtrade's Unitholders relative to the total return of companies comprising the S&P/TSX Dividend Composite Index.

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and nine months ended September 30, 2020 and 2019

---

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

Total Unitholder return consists of changes in unit price and distributions paid to Unitholders. The restricted share unit component of the LTIP awards is a phantom plan which is payable in cash at the end of the performance period.

As at September 30, 2020, a liability of \$10,145 (December 31, 2019 - \$17,881) has been recorded, of which \$3,592 (December 31, 2019 - \$5,594) is included in trade and other payables and \$6,553 (December 31, 2019 - \$12,287) is included in other long-term liabilities. For the three and nine months ended September 30, 2020, Chemtrade recorded an expense of \$2,770 and a recovery of \$2,411, respectively, (2019 - expense of \$5,957 and \$11,176, respectively) in selling and administrative expenses related to the fair value adjustments on the LTIP.

Chemtrade has in place a deferred unit plan ("DUP") for non-employee trustees and directors ("Participants"), pursuant to which the Participants 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. On May 14, 2020, the DUP was amended. Prior to the amendment, deferred units could be redeemed for cash or units of the Fund purchased on the secondary market. Following the amendment, deferred units are settled in units of the Fund issued from treasury or in cash at the Participant's request. Currently, the Participants are required to take 100% of their compensation in the form of deferred units of Chemtrade. As at September 30, 2020, 499,157 deferred units at a value of \$2,311 were outstanding (December 31, 2019 - 282,218 deferred units at a value of \$3,387).

### ***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:



# CHEMTRADE LOGISTICS INCOME FUND

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

Three and nine months ended September 30, 2020 and 2019

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

	September 30, 2020	December 31, 2019
Chemtrade units:		
Average base price	\$14.01	\$15.41
Period-end unit price	\$4.58	\$11.03
Average expected volatility	50.82%	27.60%
Index units <sup>(1)</sup> :		
Average base price	—	\$151.71
Period-end unit price	—	\$182.02
Average expected volatility	—	5.42%
Average risk free interest rate	0.17%	1.69%
Average expected remaining term	1.25 years	1.50 years

<sup>(1)</sup> Relate to 2017 - 2019 LTIP which vested on December 31, 2019. A different measure has been determined for the performance based component of the subsequent LTIP awards.

## 10. SELLING AND ADMINISTRATIVE EXPENSES:

The components of selling and administrative expenses are as follows:

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	2020	2019	2020	2019
Wages, salaries and benefits, including bonuses and other	\$ 25,351	\$ 25,104	\$ 65,783	\$ 74,115
Realized foreign exchange loss	998	639	6,141	4,597
Unrealized foreign exchange loss (gain)	5	1,046	2,430	(8,127)
Depreciation (note 12)	859	941	2,642	2,746
Reserve for legal proceedings	—	—	—	40,000
<b>Selling and administrative expenses</b>	<b>\$ 27,213</b>	<b>\$ 27,730</b>	<b>\$ 76,996</b>	<b>\$ 113,331</b>

### 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 were also defendants in class action lawsuits and a few civil proceedings relating to the same conduct. Corporate costs for the nine months ended September 30, 2019 included an expense of \$40,000 which increased the 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\$56,000 and was paid out during 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

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and nine months ended September 30, 2020 and 2019

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

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. The reserve for legal proceedings is included as part of provisions and presented as current liabilities in the Condensed Consolidated Interim Statements of Financial Position.

## 11. NET FINANCE COSTS:

The components of net finance costs are as follows:

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	2020	2019	2020	2019
Interest expense on long-term debt	\$ 8,916	\$ 10,321	\$ 26,892	\$ 29,729
Interest expense on convertible debentures (note 6)	8,212	7,117	23,123	21,192
Transaction costs on issuance of convertible debentures (note 6)	4,013	—	4,013	—
Change in the fair value of convertible debentures (note 6)	21,769	1,455	52,191	13,615
Interest expense on lease liabilities	2,006	2,207	6,350	6,619
Accretion expense on financing transaction costs (note 5)	281	243	699	824
Accretion of provisions	624	985	2,117	3,023
Pension interest	388	485	1,172	1,467
Interest income	(88)	(138)	(278)	(472)
<b>Net finance costs</b>	<b>\$ 46,121</b>	<b>\$ 22,675</b>	<b>\$ 116,279</b>	<b>\$ 75,997</b>

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and nine months ended September 30, 2020 and 2019

## 12. DEPRECIATION AND AMORTIZATION:

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

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	2020	2019	2020	2019
<b>Cost of sales and services:</b>				
Depreciation expense on PPE	\$ 34,947	\$ 35,549	\$ 108,638	\$ 103,721
Depreciation expense on ROU assets	12,438	12,631	37,156	38,314
Amortization expense	16,396	16,259	49,130	52,255
<b>Selling and administrative expenses (note 10):</b>				
Depreciation expense on PPE	399	475	1,237	1,351
Depreciation expense on ROU assets	460	466	1,405	1,395
<b>Total depreciation and amortization expense</b>	<b>\$ 64,640</b>	<b>\$ 65,380</b>	<b>\$ 197,566</b>	<b>\$ 197,036</b>

## 13. INCOME TAXES:

Chemtrade is a mutual fund trust and a specified investment flow-through trust ("SIFT") for income tax purposes. Chemtrade is subject to current income taxes at the top marginal tax rate applicable to individuals of approximately 53.5% on all taxable income not distributed to Unitholders.

Chemtrade is also subject to current income taxes on all taxable income, other than dividends, earned from Canadian corporate and flow-through subsidiaries (other than Canadian subsidiaries that earn certain investment income) at a tax rate similar to the corporate tax rate. Chemtrade will not be subject to tax on income received from non-Canadian subsidiaries, provided that the income is distributed to Unitholders during the year. Based on the current organization of Chemtrade and its subsidiaries, Chemtrade expects that its income distributed to Unitholders will not be subject to SIFT tax.

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. Chemtrade calculates the consolidated estimated effective annual tax rate by determining the amount of current and deferred income taxes as a percentage of income before tax. Chemtrade's consolidated estimated effective tax rate in respect of continuing operations for the three and nine months ended September 30, 2020 was 26.7% and 18.7%, respectively, (2019 - 98.2% and 24.8%, respectively), compared to a statutory rate of 26.3% (2019 - 26.8%).

The effective tax rate for the third quarter of 2020 differs from the statutory tax rate primarily due to the deduction of taxable income distributed to Unitholders, differences in domestic

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and nine months ended September 30, 2020 and 2019

## 13. INCOME TAXES (continued):

corporate and trust tax rates, and certain permanent differences. The difference in the effective tax rate for the first nine months of 2020 is due to the factors noted for the third quarter as well as due to the impairment of non-deductible goodwill, and the decrease in interest expense carryforwards as a result of the enactment of the anti-hybrid entity and instrument rules in the U.S.

## 14. FINANCIAL INSTRUMENTS:

### (a) Derivatives and hedging:

	September 30, 2020			December 31, 2019		
	Notional Amount	Fair Value		Notional Amount	Fair Value	
		Asset	Liability		Asset	Liability
<b>Derivatives designated in a formal hedging relationship</b>						
Interest rate swaps	US\$ 575,000	\$ —	\$ 25,670	US\$ 325,000	\$ —	\$ 7,143
<b>Derivatives not designated in a formal hedging relationship</b>						
Foreign exchange contracts <sup>(1)</sup>	—	—	121	—	1,019	—
<b>Total</b>		<b>\$ —</b>	<b>\$ 25,791</b>		<b>\$ 1,019</b>	<b>\$ 7,143</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 term bank 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 term bank debt until December 2023. Chemtrade entered into additional swap arrangements which were effective August 24, 2019 and which fixed the LIBOR components of its interest rates on US\$150,000 of its outstanding term bank debt until December 2023. On April 24, 2020, Chemtrade entered into a new swap arrangement which fixed the LIBOR components of its interest rates on up to US\$250,000 of its outstanding revolving credit under its long-term debt until April 24, 2021. 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 recognized in other comprehensive income.

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and nine months ended September 30, 2020 and 2019

---

## 14. FINANCIAL INSTRUMENTS (continued):

For the three and nine months ended September 30, 2020, a foreign exchange gain of \$15,067 and loss of \$12,950, respectively, (2019 - loss of \$2,998 and gain of \$7,725, respectively) 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.

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

Amount	Weighted average exchange rate
US\$8,200	\$1.32

### (b) Fair values of financial instruments:

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

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and nine months ended September 30, 2020 and 2019

---

## 14. FINANCIAL INSTRUMENTS (continued):

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

The 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. 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.

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.

### (c) Risks associated with financial instruments

#### (i) Credit risk

Credit risk arises from the non-performance by counter-parties of their contractual financial obligations. Chemtrade manages credit risk for trade and other receivables through established credit monitoring activities. Chemtrade does not have a significant concentration of credit risk with any single counter-party. The primary counter-parties related to the foreign exchange forward contracts and interest rate swaps carry investment grade ratings. Chemtrade believes its credit risk of counterparty non-performance continues to be relatively low, notwithstanding the impact of the COVID-19 pandemic. Chemtrade is in regular contact with its customers, suppliers and logistics providers, and to date has not experienced significant counter-party non-performance. However, if a key supplier or customer experiences financial difficulties or fails to comply with their contractual obligations, which may occur as the pandemic continues, this could result in a significant financial loss to Chemtrade. Chemtrade's maximum exposure to credit risk at the reporting date is the carrying value of its receivables and derivative assets.

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and nine months ended September 30, 2020 and 2019

---

## 14. FINANCIAL INSTRUMENTS (continued):

### (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 believes that cash flows from operating activities, together with cash on hand, cash from receivables and borrowings available under the revolving credit facility are sufficient to fund its currently anticipated financial obligations, and will remain available in the current environment, notwithstanding the impact of the COVID-19 pandemic.

### (iii) *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. Chemtrade cannot predict changes in currency exchange rates, the impact of exchange rate changes on Chemtrade's operating results, nor the degree to which Chemtrade will be able to manage the impact of currency exchange rate changes. Such changes, including negative impacts on currency exchange rates related to the COVID-19 pandemic, could have an impact on Chemtrade's business, results of operations and financial condition.

### (iv) *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 September 30, 2020, on an unhedged basis, a change in interest rates of 1% per annum would have an impact of approximately \$8,200 on Chemtrade's net earnings per annum. As at September 30, 2020, Chemtrade had fixed interest rates on 93.8% of its senior debt until April 2021 and 53.0% thereafter until December 2023.

## 15. 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.

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and nine months ended September 30, 2020 and 2019

## 15. BUSINESS SEGMENTS (continued):

WSSC manufactures and markets a variety of inorganic coagulants used in water treatment, including aluminum sulphate, aluminum chlorohydrate, polyaluminum chloride, and ferric sulphate; and a number of specialty chemicals, including sodium nitrite, potassium chloride (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.

### Three months ended September 30, 2020

	SPPC	WSSC	EC	Corp	Total
Revenue	\$ 105,351	\$ 119,789	\$ 120,710	\$ —	\$ 345,850
Inter-segment revenues	4,998	—	919	—	5,917
Operating (loss) income	(10,860)	16,828	(5,603)	(20,189)	(19,824)
Net finance costs					(46,121)
Income tax recovery					17,627
Net loss					(48,318)
Depreciation and amortization	22,952	11,477	30,211	—	64,640
Net loss (gain) on disposal and write-down of PPE <sup>(1)</sup>	18,949	894	(14)	—	19,829
Capital expenditures	6,945	3,195	7,697	252	18,089

<sup>(1)</sup> Net loss (gain) on disposal and write-down of PPE includes a write-down of \$17,596 in the SPPC segment as a result of the decision to rationalize sulphuric acid capacity and has been recorded in cost of sales and services.



# CHEMTRADE LOGISTICS INCOME FUND

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

Three and nine months ended September 30, 2020 and 2019

## 15. BUSINESS SEGMENTS (continued):

### Three months ended September 30, 2019

	SPPC	WSSC	EC	Corp	Total
Revenue	\$ 127,798	\$ 122,432	\$ 145,423	\$ —	\$ 395,653
Inter-segment revenues	6,586	—	1,064	—	7,650
Operating income (loss)	9,650	10,075	14,663	(20,701)	13,687
Net finance costs					(22,675)
Income tax recovery					8,825
Net loss					(163)
Depreciation and amortization	24,818	12,599	27,963	—	65,380
Net loss (gain) on disposal and write-down of PPE	9,221	1,661	178	(1,143)	9,917
Capital expenditures	6,894	7,270	9,978	157	24,299

### Nine months ended September 30, 2020

	SPPC	WSSC	EC	Corp	Total
Revenue	\$ 322,333	\$ 346,583	\$ 391,369	\$ —	\$ 1,060,285
Inter-segment revenues	13,045	—	3,292	—	16,337
Operating income (loss)	7,538	(13,971)	2,757	(54,365)	(58,041)
Net finance costs					(116,279)
Income tax recovery					32,626
Net loss					(141,694)
Depreciation and amortization	70,817	35,936	90,813	—	197,566
Net loss (gain) on disposal and write-down of PPE <sup>(1)</sup>	18,932	437	(9)	—	19,360
Capital expenditures	13,345	7,146	21,648	588	42,727
Change in environmental liability	—	3,743	—	—	3,743
Impairment of goodwill	—	56,000	—	—	56,000

<sup>(1)</sup> Net loss (gain) on disposal and write-down of PPE includes a write-down of \$17,596 in the SPPC segment as a result of the decision to rationalize sulphuric acid capacity and has been recorded in cost of sales and services.

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and nine months ended September 30, 2020 and 2019

## 15. BUSINESS SEGMENTS (continued):

<b>Nine months ended September 30, 2019</b>					
	<b>SPPC</b>	<b>WSSC</b>	<b>EC</b>	<b>Corp</b>	<b>Total</b>
Revenue	\$ 385,318	\$ 343,330	\$ 448,992	\$ —	\$1,177,640
Inter-segment revenues	18,679	—	3,462	—	22,141
Operating income (loss)	41,550	(42,816)	54,934	(93,429)	(39,761)
Net finance costs					(75,997)
Income tax recovery					28,701
Net loss					(87,057)
Depreciation and amortization	74,979	38,820	83,237	—	197,036
Impairment of goodwill	—	65,600	—	—	65,600
Net loss (gain) on disposal and write-down of PPE	9,973	1,657	(873)	(235)	10,522
Capital expenditures	16,722	19,498	19,024	461	55,705

### September 30, 2020

	<b>SPPC</b>	<b>WSSC</b>	<b>EC</b>	<b>Corp</b>	<b>Other</b>	<b>Total</b>
Total assets	\$ 924,574	\$ 645,980	\$ 932,659	\$ 7,041	\$ 98,921	\$ 2,609,175
Total liabilities	223,666	179,571	220,055	49,961	1,261,438	1,934,691
Intangible assets	379,454	177,811	223,385	—	—	780,650

### December 31, 2019

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

### 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>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Canada	\$ 110,844	\$ 126,311	\$ 342,835	\$ 374,207
United States	219,525	251,606	669,239	747,766
South America	15,481	17,736	48,211	55,667
	\$ 345,850	\$ 395,653	\$ 1,060,285	\$ 1,177,640

# CHEMTRADE LOGISTICS INCOME FUND

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

Three and nine months ended September 30, 2020 and 2019

## 15. BUSINESS SEGMENTS (continued):

<b>PPE, ROU assets and intangible assets</b>	<b>September 30, 2020</b>		<b>December 31, 2019</b>	
Canada	\$	1,020,460	\$	1,072,296
United States		878,770		968,837
South America		121,432		131,258
	\$	2,020,662	\$	2,172,391

## 16. SUBSEQUENT EVENTS:

### ***Redemption of the Fund 2014 5.25% Debentures***

During the third quarter of 2020, Chemtrade announced the redemption of an additional \$12,500 principal amount of the outstanding Fund 2014 5.25% Debentures, with an effective redemption date of October 5, 2020. On October 5, 2020, these Debentures were redeemed for an aggregate price of \$12,674, being equal to the principal amount of debentures outstanding, plus accrued and unpaid interest to, but excluding, the redemption date. Chemtrade used a portion of the net proceeds from the 2020 8.50% Debentures to fund the redemption.

On October 14, 2020, Chemtrade announced the redemption of the remaining \$14,000 principal amount of the Fund 2014 5.25% Debentures. These Debentures will be redeemed on November 13, 2020 for an aggregate price of \$14,273, being equal to the principal amount of debentures outstanding, plus accrued and unpaid interest to, but excluding, the redemption date. This will represent a redemption in full of the Fund 2014 5.25% Debentures. Chemtrade intends to fund the redemption from proceeds received from its new receivables purchase facility as described below. These Debentures have been presented as current liabilities in the Condensed Consolidated Interim Statements of Financial Position at September 30, 2020.

### ***Receivables Purchase Facility***

Subsequent to September 30, 2020, the Fund, through Chemtrade Logistics Inc. and Chemtrade Holdco US Inc. (the "Sellers") entered into a factoring facility (the "A/R Facility") with HSBC Bank Canada (the "Purchaser"). The A/R Facility is an uncommitted receivables purchase facility for the purchase of eligible receivables owed to the Sellers from trade debtors on an undisclosed basis with a limited right of recourse. Chemtrade intends to use the proceeds received from the initial sale of account receivables under the A/R Facility to pay down its revolving credit facility and to redeem the remaining outstanding amount of the Fund 2014 5.25% Debentures, as described above.



## Information for unitholders

### Trustees

Lorie Waisberg (Chair)  
Toronto, Ontario

Mark Davis  
Toronto, Ontario

Lucio Di Clemente  
Toronto, Ontario

Daniella Dimitrov  
Toronto, Ontario

Emily Moore  
Toronto, Ontario

Douglas Muzyka  
Philadelphia, Pennsylvania

Katherine Rethy  
Huntsville, Ontario

### Management

Mark Davis  
President & CEO

Scott Rook  
Chief Operating Officer

Rohit Bhardwaj  
Vice-President, Finance & CFO

Timothy Montgomery  
Group Vice-President  
Manufacturing and Engineering

Leon Aarts  
Group Vice-President,  
Corporate Development and Strategy

Emily Powers  
Group Vice-President  
Human Resources and Responsible Care

Tejinder Kaushik  
Vice-President  
Information Technology

Susan Paré  
Corporate Secretary  
General Counsel

### 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

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



Chemtrade Logistics Income Fund  
155 Gordon Baker Road  
Suite 300  
Toronto, Ontario M2H 3N5

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

