



2020

Chemtrade Logistics Income Fund
2020 Annual Report

Corporate profile

Chemtrade operates a diversified business providing industrial chemicals and services to customers in North America and around the world. Chemtrade is one of North America's largest suppliers of sulphuric acid, regen 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.

Visit our website

Chemtrade's website – chemtradelogistics.com – is our primary medium for communicating with our unitholders. The site is regularly updated with news releases concerning distributions, financial results and other important developments and presentations.

An electronic copy of this report is available on our website.

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CHEMTRADE LOGISTICS INCOME FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 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 audited consolidated financial statements of Chemtrade for the year ended December 31, 2020.

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 February 23, 2021 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: statements relating to the impact of the COVID-19 pandemic on Chemtrade including the timing of re-opening of the economy and its effects on Chemtrade (employees, product demand, operations, ability to raise capital); the amount of any long-term incentive compensation; outcome and timing of the remaining antitrust civil lawsuits and sufficiency of the reserve in respect thereof; 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 effect of changes in the price and volume of certain products (sodium chlorate, chlor-alkali and sulphuric acid) and in the price of certain key inputs (electricity, salt and sulphur); the intention to adopt IBOR reform and its impacts; statements in the Financial Outlook section, including: our intention to reinstate guidance; the ability of our plants to operate well during 2021 and in particular, our North Vancouver chlor-alkali plant; the 2021 levels of demand and sales volumes of our products (water solutions products, ultrapure acid, caustic soda, HCl, sodium chlorate) and other commodities (gasoline); expectations for 2021 prices of certain products (caustic and sodium chlorate) and of water solutions raw materials; rates for refinery utilization and fracking activity; the success of our productivity initiatives; our ability to recover ultrapure volume; and expectations regarding the US-Canadian dollar exchange rate; and the expected 2021 range of 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, including the assumed 2021 North American MECU production volumes and sodium chlorate volumes; and the 2021 average North East Asia spot price for caustic soda; 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

Redemption of the Fund 2014 5.25% Debentures

During the fourth quarter of 2020, Chemtrade redeemed the remaining portion of the 5.25% convertible unsecured subordinated debentures (the "Fund 2014 5.25% Debentures") at a total aggregate redemption price of \$26.9 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 Fund 2014 5.25% Debentures. Chemtrade used a portion of the net proceeds from the 8.5% convertible unsecured subordinated debentures (the "Fund 2020 8.5% Debentures") offering and proceeds received from its new receivables purchase facility as described below to fund the redemption.

Receivables Purchase Facility

During the fourth quarter of 2020, Chemtrade entered into a factoring facility of up to \$100.0 million (the "A/R Facility") with HSBC Bank Canada. The A/R Facility is an uncommitted receivables purchase facility for the purchase of eligible receivables owed to Chemtrade from trade debtors on an undisclosed basis with no recourse. Chemtrade used the proceeds received from the initial sale of trade 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 manage the impact of the COVID-19 virus on its business and share information across the organization. Operations have been adjusted and actions taken as needed to protect the health of employees, suppliers and visitors.

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 and instituted contact tracing of our employees for any known cases of the virus within Chemtrade's employee population. The Team also 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 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. Refinery operating rates also vary regionally, as restrictions such as the California stay-at-home orders were imposed in early 2021. These were subsequently lifted, however it remains difficult to predict whether such restrictions will be imposed as new variants of COVID-19 are discovered. 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 until 2022. 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, except where noted.

| (\$'000 except per unit amounts) | <u>Three months ended</u> | | <u>Year ended</u> | | |
|---|---------------------------|-------------------|-------------------|-------------------|-------------------|
| | December 31, 2020 | December 31, 2019 | December 31, 2020 | December 31, 2019 | December 31, 2018 |
| Revenue | \$ 319,354 | \$ 355,215 | \$ 1,379,639 | \$ 1,532,855 | \$ 1,595,747 |
| Net loss ⁽¹⁾⁽²⁾ | \$ (25,784) | \$ (12,597) | \$ (167,478) | \$ (99,654) | \$ (131,517) |
| Net loss per unit ⁽¹⁾⁽²⁾⁽³⁾ | \$ (0.28) | \$ (0.14) | \$ (1.81) | \$ (1.08) | \$ (1.42) |
| Diluted net loss per unit ⁽¹⁾⁽²⁾⁽³⁾ | \$ (0.28) | \$ (0.16) | \$ (1.81) | \$ (1.08) | \$ (1.42) |
| Total assets | \$ 2,500,326 | \$ 2,779,073 | \$ 2,500,326 | \$ 2,779,073 | \$ 2,877,088 |
| Long-term debt | \$ 776,914 | \$ 744,274 | \$ 776,914 | \$ 744,274 | \$ 689,014 |
| Convertible unsecured subordinated debentures | \$ 445,895 | \$ 608,929 | \$ 445,895 | \$ 608,929 | \$ 579,219 |
| Adjusted EBITDA ⁽²⁾⁽⁴⁾ | \$ 44,210 | \$ 70,333 | \$ 265,268 | \$ 295,603 | \$ 196,223 |
| Adjusted EBITDA per unit ⁽²⁾⁽³⁾⁽⁴⁾ | \$ 0.48 | \$ 0.76 | \$ 2.86 | \$ 3.19 | \$ 2.12 |
| Cash flows from operating activities | \$ 73,191 | \$ 60,659 | \$ 261,954 | \$ 139,477 | \$ 244,464 |
| Cash flows from operating activities per unit ⁽³⁾⁽⁴⁾ | \$ 0.79 | \$ 0.66 | \$ 2.83 | \$ 1.51 | \$ 2.64 |
| Adjusted cash flows from operating activities ⁽²⁾⁽⁴⁾ | \$ 10,944 | \$ 38,318 | \$ 133,379 | \$ 164,811 | \$ 119,328 |
| Adjusted cash flows from operating activities per unit ⁽²⁾⁽³⁾⁽⁴⁾ | \$ 0.12 | \$ 0.41 | \$ 1.44 | \$ 1.78 | \$ 1.29 |
| Distributable cash after maintenance capital expenditures ⁽²⁾⁽⁴⁾ | \$ (23,023) | \$ 1,447 | \$ 58,968 | \$ 82,068 | \$ 41,638 |
| Distributable cash after maintenance capital expenditures per unit ⁽²⁾⁽³⁾⁽⁴⁾ | \$ (0.25) | \$ 0.02 | \$ 0.64 | \$ 0.89 | \$ 0.45 |
| Distributions declared | \$ 14,017 | \$ 27,779 | \$ 64,998 | \$ 111,116 | \$ 111,116 |
| Distributions declared per unit ⁽⁵⁾ | \$ 0.15 | \$ 0.30 | \$ 0.70 | \$ 1.20 | \$ 1.20 |
| Distributions paid, net of distributions reinvested | \$ 11,936 | \$ 27,779 | \$ 66,670 | \$ 111,116 | \$ 111,116 |
| Distributions paid, net of distributions reinvested per unit ⁽⁶⁾ | \$ 0.15 | \$ 0.30 | \$ 0.75 | \$ 1.20 | \$ 1.20 |

⁽¹⁾ Results for the three months and year ended December 31, 2020 include a write-down of assets of \$1,597 and \$19,193, or \$0.02 and \$0.21 per unit, respectively. See **Results of Operations by Reportable Segment - SPPC**. Results for the year ended December 31, 2020 include a goodwill impairment charge of \$56,000, or \$0.60 per unit. Results for the year ended December 31, 2019 include a goodwill impairment charge of \$65,600, or \$0.71 per unit. Results for the year ended December 31, 2018 include a goodwill impairment charge of \$90,000, or \$0.97 per unit. See **Goodwill Impairment**. Results for the year ended December 31, 2018 include a premium related to the repayment of certain outstanding debt of \$7,417, or \$0.08 per unit.

⁽²⁾ Results for the year ended December 31, 2019 include a \$40,000, or \$0.43 per unit, expense related to a legal provision. Results for the year ended December 31, 2018 include a \$100,000, or \$1.08 per unit, expense related to a legal provision. See **Reserve for legal proceedings**.

⁽³⁾ Based on weighted average number of units outstanding for the period of:

| | | | | | |
|--|------------|------------|------------|------------|------------|
| | 92,913,950 | 92,598,699 | 92,686,735 | 92,596,685 | 92,596,006 |
|--|------------|------------|------------|------------|------------|

⁽⁴⁾ See **Non-IFRS Measures**.

⁽⁵⁾ Based on actual number of units outstanding on record date.

⁽⁶⁾ 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) | <u>Three months ended</u> | | <u>Year ended</u> | | |
|---|---------------------------|----------------------|----------------------|----------------------|----------------------|
| | December 31, 2020 | December 31, 2019 | December 31, 2020 | December 31, 2019 | December 31, 2018 |
| Net loss | \$ (25,784) | \$ (12,597) | \$ (167,478) | \$ (99,654) | \$ (131,517) |
| Add: | | | | | |
| Depreciation and amortization | 56,346 | 65,422 | 253,912 | 262,458 | 214,507 |
| Net finance costs | 24,017 | 12,490 | 140,296 | 88,487 | 74,126 |
| Income tax (recovery) expense | (14,838) | 4,410 | (47,464) | (24,291) | (48,680) |
| EBITDA | 39,741 | 69,725 | 179,266 | 227,000 | 108,436 |
| Add: | | | | | |
| Impairment of goodwill | — | — | 56,000 | 65,600 | 90,000 |
| Change in environmental liability | 4,427 | — | 8,170 | — | — |
| Net loss (gain) on disposal and write-down of PPE | 1,639 | 3,268 | 20,999 | 13,790 | (4,039) |
| Unrealized foreign exchange (gain) loss | (1,597) | (2,660) | 833 | (10,787) | 1,826 |
| Adjusted EBITDA | \$ 44,210 | \$ 70,333 | \$ 265,268 | \$ 295,603 | \$ 196,223 |

Cash Flow -

The following table is derived from, and should be read in conjunction with the consolidated statements of cash flows. Management believes this supplementary disclosure provides useful additional information related to the cash flows of Chemtrade including the amount of cash available for distribution to Unitholders, repayment of debt and other investing activities. Certain sub-totals presented within the cash flows table below, such as "Adjusted cash flows from operating activities", "Distributable cash after maintenance capital expenditures" and "Distributable

cash after all capital expenditures”, are not defined terms under IFRS. These sub-totals are used by Management as measures of internal performance and as a supplement to the consolidated statements of cash flows. Investors are cautioned that these measures should not be construed as an alternative to using net earnings as a measure of profitability or as an alternative to the IFRS consolidated statements of cash flows. Further, Chemtrade's method of calculating each measure may not be comparable to calculations used by other income trusts or companies bearing the same description.

| (\$'000) | Three months ended | | December 31, 2020 | Year ended | |
|--|--------------------|-------------------|-------------------|-------------------|-------------------|
| | December 31, 2020 | December 31, 2019 | | December 31, 2019 | December 31, 2018 |
| Cash flows from operating activities | 73,191 | 60,659 | 261,954 | 139,477 | 244,464 |
| Add (Less): | | | | | |
| Lease payments net of sub-lease receipts ⁽¹⁾ | (13,592) | (14,199) | (56,010) | (56,815) | — |
| Changes in non-cash working capital and other items | (48,655) | (8,142) | (72,565) | 82,149 | (125,136) |
| Adjusted cash flows from operating activities | 10,944 | 38,318 | 133,379 | 164,811 | 119,328 |
| Less: | | | | | |
| Maintenance capital expenditures | 33,967 | 36,871 | 74,411 | 82,743 | 77,690 |
| Distributable cash after maintenance capital expenditures | (23,023) | 1,447 | 58,968 | 82,068 | 41,638 |
| Less: | | | | | |
| Non-maintenance capital expenditures ⁽²⁾ | 394 | 3,723 | 2,677 | 13,556 | 14,676 |
| Distributable cash after all capital expenditures | \$ (23,417) | \$ (2,276) | 56,291 | 68,512 | \$ 26,962 |

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

⁽²⁾ 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

2020 vs 2019

Revenue for the fourth quarter of 2020 was \$319.4 million, which was \$35.9 million lower than revenue for the fourth quarter of 2019. The decrease in revenue for the fourth quarter is primarily due to lower sales volumes and lower selling prices for caustic soda and hydrochloric acid ("HCl") and lower sales volumes of sodium chlorate in the Electrochemicals ("EC") segment and lower sales volume of Regen acid and merchant sulphuric acid in the Sulphur Products and Performance Chemicals ("SPPC") segment.

Revenue on a year-to-date basis was \$1,379.6 million, which was \$153.2 million lower than revenue for the same period of 2019. The decrease in revenue for the year ended December 31, 2020 is primarily due to lower sales volume of merchant sulphuric acid, Regen acid and other SPPC segment products, lower selling prices and sales

volumes of caustic soda and HCl and lower sales volumes of sodium chlorate 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 months and year ended ended December 31, 2020 of \$44.2 million and \$265.3 million, respectively, was \$26.1 million and \$30.3 million lower, respectively, than Adjusted EBITDA for the same periods of 2019. The decrease in Adjusted EBITDA for the fourth quarter and year ended December 31, 2020 is due to lower Adjusted EBITDA for the EC and SPPC segments, partially offset by higher Adjusted EBITDA for the WSSC segment. Adjusted EBITDA for 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 months and year ended December 31, 2020 was \$13.2 million and \$67.8 million higher, respectively, than the same periods of 2019. The increase is primarily due to lower Adjusted EBITDA (as described above) and higher net finance costs due to a higher loss from the change in the fair value of convertible unsecured subordinated debentures ("Debentures") (see **Net Finance Costs**). This was partially offset by higher income tax recovery compared with the same periods of 2019. (see **Income Taxes**).

Net finance costs for the fourth quarter of 2020 were \$11.5 million higher than the same period of 2019. The increase is primarily due to a loss of \$3.6 million during the fourth quarter of 2020 compared with a gain of \$13.0 million during the same period of 2019 related to a change in the fair value of Debentures. This was partially offset by \$4.5 million relating to transaction costs on the issuance of Debentures in 2019. For the year ended December 31, 2020, net finance costs were \$51.8 million higher relative to 2019, primarily due to a \$55.2 million increase in losses related to a change in the fair value of Debentures.

Unrealized foreign exchange gains for the fourth quarter of 2020 were \$1.1 million higher than the same period of 2019. For the year ended December 31, 2020, unrealized foreign exchange losses were \$0.8 million compared with unrealized foreign exchange gains of \$10.8 million in 2019. These were a result of fluctuations in the exchange rate between the Canadian dollar, U.S. dollar and the Brazilian Real.

Income tax recoveries for the three months and year ended December 31, 2020 were \$19.2 million and \$23.2 million higher, respectively, than in the comparable periods of 2019 due to the higher net losses in 2020. (see **Income Taxes**).

2019 vs 2018

Consolidated revenue for the fourth quarter of 2019 was \$355.2 million, which was \$35.6 million lower than revenue for the fourth quarter of 2018. The decrease in revenue for the fourth quarter was primarily due to lower selling prices for caustic soda and HCl in the EC segment, partially offset by higher selling prices for water products in the WSSC segment.

Consolidated revenue on a year-to-date basis was \$1,532.9 million, which was \$62.9 million lower than revenue for the same period of 2018. The decrease in revenue for the year ended December 31, 2019 was primarily due to lower selling prices for caustic soda and hydrochloric acid HCl in the EC segment, partially offset by higher selling

prices and higher sales volumes for water products in the WSSC segment and higher selling prices for sulphuric acid in the SPPC segment.

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

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

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

Unrealized foreign exchange gains were \$2.7 million in the fourth quarter of 2019 compared with unrealized foreign exchange losses of \$2.7 million in the fourth quarter of 2018. For the year ended December 31, 2019, unrealized foreign exchange gains were \$10.8 million compared with unrealized foreign exchange losses of \$1.8 million in 2018. These were a result of fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar.

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

Results of Operations by Reportable Segment

SPPC -

| (\$'000) | Three months ended | | Year ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | December 31, 2020 | December 31, 2019 | December 31, 2020 | December 31, 2019 |
| Revenue | \$ 100,694 | \$ 117,286 | \$ 423,027 | \$ 502,604 |
| Gross profit | 6,649 | 14,313 | 22,306 | 60,207 |
| Adjusted EBITDA ⁽¹⁾ | 27,626 | 34,242 | 124,913 | 160,744 |
| Net loss on disposal and write down of PPE | (1,592) | (966) | (20,524) | (10,939) |
| EBITDA ⁽¹⁾ | 26,034 | 33,276 | 104,389 | 149,805 |

⁽¹⁾ 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 months and year ended December 31, 2020 was \$16.6 million and \$79.6 million lower, respectively, than the same periods of 2019. Revenue for the three months ended December 31, 2020 was lower due to lower sales volumes for Regen acid and merchant acid. Revenue for the year ended December 31, 2020 decreased primarily due to lower sales volumes for merchant acid, Regen acid, sulphur products and SHS products. The COVID-19 pandemic resulted in lower levels of economic activity, which resulted in reduced demand for merchant sulphuric acid, which is one of the most widely used chemicals in the world and used in a variety of applications. The stay-at-home orders and various other measures announced to curb travel, resulted in fewer miles being driven in North America and this led to reduced demand for gasoline which in turn reduced demand for Regen acid as that is used in gasoline production.

Gross profit during the three months and year ended December 31, 2020 was \$7.7 million and \$37.9 million lower than the same periods of 2019. The lower gross profit during the three months and year ended December 31, 2020 was primarily due to reduced demand and lower sales volumes, particularly for Regen acid, merchant sulphuric acid, sulphur products and SHS products resulting from the COVID-19 pandemic. Also, in 2020, there was a write-down of assets as a result of the decision to rationalize sulphuric acid capacity.

Adjusted EBITDA for the three months and year ended December 31, 2020 was \$6.6 million and \$35.8 million lower, respectively, than the same periods of 2019. Adjusted EBITDA for the three months ended December 31, 2020 was lower due to lower sales volumes for Regen acid as one of our Regen acid plants took an extended turnaround. This plant had an extended turnaround coincident with its main customer's once every five year extended maintenance turnaround. Adjusted EBITDA for the year ended December 31, 2020 decreased primarily due to lower sales volumes for merchant acid, Regen acid, sulphur products and SHS products. Adjusted EBITDA for 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) | Three months ended | | Year ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | December 31, 2020 | December 31, 2019 | December 31, 2020 | December 31, 2019 |
| Revenue | \$ 99,314 | \$ 101,845 | \$ 445,897 | \$ 445,175 |
| Gross profit (loss) | 7,162 | 3,601 | 942 | (30,856) |
| Adjusted EBITDA ⁽¹⁾ | 20,313 | 14,642 | 102,458 | 77,903 |
| Impairment of goodwill | — | — | (56,000) | (65,600) |
| Change in environmental liability | (4,427) | — | (8,170) | — |
| Net gain (loss) on disposal and write-down of PPE | 4 | (2,313) | (433) | (3,970) |
| EBITDA ⁽¹⁾ | 15,890 | 12,329 | 37,855 | 8,333 |

⁽¹⁾ 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 months and year ended December 31, 2020 was \$2.5 million lower and \$0.7 million higher, respectively, than the same periods of 2019. Revenue for the fourth quarter of 2020 was lower due to lower sales volumes of water solutions products. The increase in revenue for the year ended December 31, 2020 compared to 2019, was primarily due to higher selling prices for water solutions products, partially offset by lower sales volumes of both specialty chemical products and water solutions products.

Gross profit for the three months ended December 31, 2020 was \$3.6 million higher than the same period of 2019. The higher gross profit was primarily due to lower raw material costs for water solutions products, partially offset by lower sales volumes for water solutions products. Gross profit for the year ended December 31, 2020 was \$31.8 million higher than the same period of 2019. This increase was primarily due to higher revenue as described above, lower raw material costs 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 months and year ended December 31, 2020 was \$5.7 million and \$24.6 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) | <u>Three months ended</u> | | <u>Year ended</u> | |
|---|---------------------------|--------------------------|--------------------------|--------------------------|
| | <u>December 31, 2020</u> | <u>December 31, 2019</u> | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
| North American sales volumes: | | | | |
| Sodium chlorate sales volume (000's MT) | 92 | 98 | 375 | 392 |
| Chlor-alkali sales volume (000's MECU) | 30 | 38 | 141 | 178 |
| Revenue | \$ 119,346 | \$ 136,084 | \$ 510,715 | \$ 585,076 |
| Gross (loss) profit | 964 | 5,839 | 10,482 | 67,972 |
| Adjusted EBITDA ⁽¹⁾ | 22,308 | 34,101 | 115,869 | 171,399 |
| Net gain (loss) on disposal and write-down of PPE | (51) | (167) | (42) | 706 |
| EBITDA ⁽¹⁾ | 22,257 | 33,934 | 115,827 | 172,105 |

⁽¹⁾ 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 HCl, largely for the pulp and paper, oil and gas and water treatment industries. These products are marketed primarily to North American and South American customers.

Revenue for the three months and year ended December 31, 2020 was \$16.7 million and \$74.4 million lower, respectively, than the same periods of 2019. The lower revenue in the fourth quarter of 2020 was primarily due to a 21% decrease in chlor-alkali sales volumes, a decrease of 12% in selling prices for caustic soda, a decrease of 12% in selling prices for HCl and lower sales volumes of sodium chlorate. During the fourth quarter of 2020, the North Vancouver chlor-alkali plant operated at lower rates, as it underwent a biennial maintenance turnaround. Operating rates in 2020 were constrained by lower demand for HCl, primarily from the oil and natural gas fracking sector.

Revenue for the year was lower in 2020 due to a 20% decrease in chlor-alkali sales volumes, a decrease of 13% in selling prices for caustic soda, a decrease of 30% in selling prices for HCl and lower sales volumes of sodium chlorate. This was partially offset by a 4% increase in selling prices for chlorine.

Gross profit for the three months and year ended December 31, 2020 was \$4.9 million and \$57.5 million lower, respectively, than the same periods of 2019. Gross profit during 2020 was negatively affected by significantly lower chlor-alkali volumes and lower selling prices for caustic soda and HCl relative to 2019.

Additionally, for the three months and year ended December 31, 2020, there was a 23% and 40% 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 months and year ended December 31, 2020 being \$11.8 million and \$55.5 million lower, respectively, than the same periods of 2019.

Corporate -

| (\$'000) | Three months ended | | Year ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | December 31, 2020 | December 31, 2019 | December 31, 2020 | December 31, 2019 |
| Cost of services | \$ 26,037 | \$ 12,652 | \$ 77,972 | \$ 114,443 |
| Adjusted EBITDA ⁽¹⁾ | (26,037) | (12,652) | (77,972) | (114,443) |
| Unrealized foreign exchange gain (loss) | 1,597 | 2,660 | (833) | 10,787 |
| Net gain on disposal and write down of PPE | — | 178 | — | 413 |
| EBITDA ⁽¹⁾ | (24,440) | (9,814) | (78,805) | (103,243) |

⁽¹⁾ EBITDA and Adjusted EBITDA are not recognized measures under IFRS. Chemtrade's method of calculating EBITDA and Adjusted EBITDA may differ from methods used by other income trusts or companies, and accordingly may not be comparable to similar measures presented by other organizations. See **Non-IFRS Measures** for further details and a reconciliation of EBITDA and Adjusted EBITDA.

The Corporate segment includes the administrative costs of corporate activities such as treasury, finance, information technology, human resources, legal and risk management, and environmental, health and safety support, which are not directly allocable to an operating segment.

For the three months ended December 31, 2020, corporate costs, excluding unrealized foreign exchange gains and losses were \$13.4 million higher than the same period of 2019. During the fourth quarter of 2020, Chemtrade's unit price appreciated, whereas during the fourth quarter of 2019, it declined. This resulted in Long Term Incentive Plan ("LTIP") costs being \$7.3 million higher during the fourth quarter of 2020 relative to 2019. Additionally incentive compensation expense in the fourth quarter of 2020 was \$2.6 million higher than the fourth quarter of 2019, when such expenses were unusually low. Finally, three unusual items affected costs during the fourth quarter of 2020. The first was \$3.0 million related to the retirement of the Chief Executive Officer ("CEO"). The second was \$1.0 million related to a long term lease obligation for office space in Calgary which was acquired as part of the Canexus acquisition. The increased expense is due to Chemtrade exiting part of the space prior to the expiration of the lease term and due to a weaker commercial real estate environment. These were partially offset by a \$2.6 million government grant receivable recognized in relation to the Canada Emergency Wage Subsidy ("CEWS") program.

For the year ended December 31, 2020, corporate costs, excluding unrealized foreign exchange gains and losses and the legal proceedings reserve of \$40.0 million recorded in 2019, were \$3.5 million higher than the same period of 2019. For the year ended December 31, 2020, the higher costs recorded in the fourth quarter of 2020 as described above, were partially offset by reduced discretionary spending. Also LTIP costs in 2020 were \$6.3 million lower than 2019. Although Chemtrade's unit price appreciated during the fourth quarter of 2020, it was lower than the beginning of 2020.

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, and 2019-2021 LTIP payouts are payable at the beginning of 2021 and 2022, respectively. The 2020-2022 LTIP payout is payable at the beginning of 2022 and 2023. 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 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 December 31, 2020 was \$1.1 million lower than the same period of 2019. There was an unrealized foreign exchange loss of \$0.8 million for the year ended December 31, 2020 compared with unrealized foreign exchange gain of \$10.8 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 months and year ended December 31, 2020, foreign exchange gains of \$31.1 million and \$18.2 million, respectively, on the revaluation of the U.S. dollar-denominated debt and investment in foreign operations was recognized in other comprehensive income, compared with foreign exchange gains of \$9.7 million and \$17.4 million, respectively, during the three months and year ended December 31, 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 year ended December 31, 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. By the third quarter of 2019, additional settlements were negotiated and paid, such that all of the lawsuits, including all class action lawsuits arising directly out of the anti-competitive actions in the water business were settled. Only a few ex-employee initiated derivative actions remain outstanding. While Chemtrade believes that the reserve is sufficient, the outcome and timing of the remaining actions are uncertain. The reserve for legal proceedings is included as part of provisions and presented as current liabilities in the Consolidated 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, \$199.7 million (December 31, 2019 - \$202.8 million) of assets, along with \$17.0 million (December 31, 2019 - \$18.7 million) of liabilities directly associated with these assets have been presented as held for sale as at December 31, 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 groups of CGUs ("CGU group") in WSSC. Although the water solutions CGU group's operating performance had been improving, as a result of applying the higher discount rate, this CGU group'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 group, its recoverable amount equalled its carrying value.

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 \$1.27 to \$1.28), on an unhedged basis, this would have a positive impact on annual net earnings of approximately \$0.9 million, and vice-versa. The impact on annual Adjusted EBITDA and Distributable cash after maintenance capital expenditures would be approximately \$1.8 million and \$0.7 million, respectively, and vice-versa.

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 December 31, 2020.

The rate of exchange used to translate U.S. dollar-denominated balances has decreased from a rate of US\$1.00 = \$1.30 at December 31, 2019 to US\$1.00 = \$1.27 at December 31, 2020. See **Risks and Uncertainties** for additional comments on foreign exchange.

Net Finance Costs

During the three months and year ended December 31, 2020, net finance costs were \$24.0 million and \$140.3 million, respectively, compared with net finance costs of \$12.5 million and \$88.5 million, respectively, during the same periods of 2019.

Net finance costs were \$11.5 million higher during the fourth quarter of 2020 relative to 2019. The increase is primarily due to a loss of \$3.6 million during the fourth quarter of 2020 compared with a gain of \$13.0 million during the same period of 2019 related to a change in the fair value of Debentures. This was partially offset by \$4.5 million relating to transaction costs on the issuance of Debentures in 2019 and lower interest expense.

Net finance costs were \$51.8 million higher during the year ended December 31, 2020 relative to 2019, primarily due to a \$55.2 million increase in losses related to a change in the fair value of Debentures. This was partially offset by lower interest expense and lower transaction costs relating to the issuance of Debentures during the year ended December 31, 2020 relative to 2019.

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 months and year ended December 31, 2020, the fair value of the Fund's Debentures increased by \$39.7 million and decreased by \$48.2 million, respectively. As a result, for the three months ended December 31, 2020, Chemtrade recorded a pre-tax loss of \$3.6 million in net finance costs due to a decrease in the risk free interest rate, and a loss of \$22.0 million, net of tax recovery of \$14.2 million, in other comprehensive income due to a decrease in Chemtrade's own credit risk. During the comparable period of 2019, Chemtrade recorded a pre-tax gain of \$13.0 million in net finance costs due to an increase in the risk free interest rate, and a gain of \$1.1 million, net of tax recovery of \$0.1 million, in other comprehensive income due to an increase in Chemtrade's own credit risk.

For the year ended December 31, 2020, Chemtrade recorded a pre-tax loss of \$55.8 million in net finance costs due to a decrease in the risk free interest rate, and a gain of \$80.2 million, net of tax expense of \$23.8 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 \$0.6 million in net finance costs due to a decrease in the risk free interest rate, and a loss of \$9.0 million, net of tax recovery of \$4.2 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 December 31, 2020 was 4.3% (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 fourth quarter and year ended December 31, 2020 increased by \$1.7 million and \$2.8 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"). 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 fourth quarter and year ended December 31, 2020 increased by \$21.0 million and \$26.0 million, respectively, compared with the same periods of 2019. The increase in deferred income tax recovery was due to non-capital losses recognized in Canada, non-deductible fixed asset impairments recognized in the U.S., and an increase in non-deductible unrealized foreign exchange losses in the U.S., 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 fourth 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 year ended December 31, 2020 is due to the factors noted for the fourth 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 \$23.0 million at December 31, 2020 relative to December 31, 2019 is primarily due to an increase in non-deductible unrealized foreign exchange losses and non-deductible fixed asset impairment recognized in the U.S., partially offset by the unrealized net capital gain associated with the change in fair value of the Debentures. The net decrease in deferred tax liabilities of \$8.4 million at December 31, 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 months and year ended December 31, 2020, and for the years ended December 31, 2019 and December 31, 2018.

| (\$'000) | <u>Three months ended</u> | | <u>Year ended</u> | |
|---|---------------------------|-------------------|-------------------|-------------------|
| | December 31, 2020 | December 31, 2020 | December 31, 2019 | December 31, 2018 |
| Cash flows from operating activities | \$ 73,191 | \$ 261,954 | \$ 139,477 | \$ 244,464 |
| Net loss | \$ (25,784) | \$ (167,478) | \$ (99,654) | \$ (131,517) |
| Cash distributions paid during period | \$ 11,936 | \$ 66,670 | \$ 111,116 | \$ 111,116 |
| Excess of cash flows from operating activities over cash distributions paid | \$ 61,255 | \$ 195,284 | \$ 28,361 | \$ 133,348 |
| Shortfall of net loss over cash distributions paid | \$ (37,720) | \$ (234,148) | \$ (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 may be newly issued by Chemtrade from treasury or may 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 may 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, as determined by the Board.

Distributions to Unitholders for the three months and year ended December 31, 2020 were declared as follows:

| Record Date | Payment Date | Distribution Per Unit ⁽¹⁾ | Total ⁽²⁾ (\$'000) |
|---|---------------------|---|--------------------------------------|
| Three months ended December 31: | | | |
| October 30, 2020 | November 25, 2020 | \$ 0.05 \$ | 4,666 |
| November 30, 2020 | December 23, 2020 | 0.05 | 4,674 |
| December 31, 2020 | January 26, 2021 | 0.05 | 4,677 |
| Sub-total | | 0.15 | 14,017 |
| Three months ended September 30, 2020 | | \$ 0.15 \$ | 13,941 |
| Three months ended June 30, 2020 | | \$ 0.15 \$ | 13,890 |
| Three months ended March 31, 2020 | | \$ 0.25 \$ | 23,150 |
| Total for the year ended December 31, 2020 | | \$ 0.70 \$ | 64,998 |

⁽¹⁾ Based on actual number of units outstanding on record date.

⁽²⁾ Pursuant to the commencement of the DRIP, distributions declared for the three months and year ended December 31, 2020 includes bonus distributions.

Distributions to Unitholders for the three months and year ended December 31, 2019 were declared as follows:

| Record Date | Payment Date | Distribution Per Unit ⁽¹⁾ | Total (\$'000) |
|---|---------------------|---|-----------------------|
| Three months ended December 31: | | | |
| October 31, 2019 | November 29, 2019 | \$ 0.10 \$ | 9,260 |
| November 29, 2019 | December 31, 2019 | 0.10 | 9,260 |
| December 31, 2019 | January 31, 2020 | 0.10 | 9,259 |
| Sub-total | | 0.30 | 27,779 |
| Three months ended September 30, 2019 | | \$ 0.30 \$ | 27,779 |
| Three months ended June 30, 2019 | | \$ 0.30 \$ | 27,779 |
| Three months ended March 31, 2019 | | \$ 0.30 \$ | 27,779 |
| Total for the year ended December 31, 2019 | | \$ 1.20 \$ | 111,116 |

⁽¹⁾ Based on actual number of units outstanding on record date.

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

| | Other Income | Dividends ⁽¹⁾ | Foreign Non-Business Income | Total |
|---------------------|---------------------|---------------------------------|------------------------------------|--------------|
| 2019 | 13.2% | 41.5% | 45.3% | 100% |
| 2020 ⁽²⁾ | 1.0% | 12.0% | 87.0% | 100% |

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

⁽²⁾ Represents anticipated tax characterization of planned distributions. 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 flows from operating activities for the fourth quarter of 2020 were \$12.5 million higher than the same period of 2019, primarily due to changes in working capital and lower interest paid, partially offset by lower Adjusted EBITDA and higher income taxes paid.

Cash flows from operating activities for the year ended December 31, 2020 were \$122.5 million higher than the same period of 2019, primarily due to changes in working capital, partially offset by lower Adjusted EBITDA and higher income taxes paid. The decrease in working capital during 2020 was partially due to proceeds received from the sale of trade receivables under the A/R Facility. There was a large increase in working capital during 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 \$34.4 million in the fourth quarter of 2020, compared with \$40.6 million in the fourth quarter of 2019. These amounts include \$34.0 million in the fourth quarter of 2020 and \$36.9 million in the fourth quarter of 2019 for maintenance capital expenditures. Investment in capital expenditures was \$77.1 million for the year ended December 31, 2020, compared with \$96.3 million for the year ended December 31, 2019. These amounts include \$74.4 million for the year ended December 31, 2020 and \$82.7 million for the year ended December 31, 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 \$80.0 to \$85.0 million of maintenance capital expenditures during 2021.

Non-maintenance capital expenditures were \$0.4 million during the fourth quarter of 2020, compared with \$3.7 million during the fourth quarter of 2019. Investment in non-maintenance capital expenditures was \$2.7 million for the year ended December 31, 2020, compared with \$13.6 million for the year ended December 31, 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 December 31, 2020, Chemtrade's credit facilities were comprised of a \$413.6 million (US\$325.0 million) five year term loan and a \$668.1 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 \$0.5 million and a net increase of \$49.1 million during the three months and year ended December 31, 2020, respectively, compared with a net decrease of \$83.0 million and a net increase of \$89.9 million, respectively, during the same periods of 2019. During the year ended December 31, 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 the Fund 2014 5.25% Debentures at a total aggregate price of \$128.3 million. During the year ended December 31, 2019, the additional borrowings on the Credit Facilities were primarily used to redeem the remaining portion of the outstanding CEI Series V Debentures at a total aggregate redemption price of \$84.0 million and to make payments related to the legal proceedings reserve (see **Reserve for legal proceedings**).

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 third quarter of 2020, Chemtrade completed a public offering of \$86.3 million principal amount of 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.

Distributions paid to Unitholders, net of distributions reinvested during the three months and year ended December 31, 2020 were \$11.9 million and \$66.7 million, respectively, compared to \$27.8 million and \$111.1 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 and commencement of the DRIP as announced on July 13, 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 London interbank offered rate ("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 consolidated statements of comprehensive income.

Chemtrade hedges its investment in foreign operations that use the U.S. dollar as their functional currency with its U.S. dollar-denominated long-term debt. Any gains and losses arising from the U.S. dollar-denominated debt will be offset by the foreign currency gain or loss arising from the investment in the foreign operations. The gains and losses on the translation of the designated amount of U.S. dollar-denominated debt and investment in foreign operations are recognized in other comprehensive income.

Cash Balances -

At December 31, 2020, Chemtrade had net cash balances of \$12.5 million and a working capital deficit of \$62.6 million. Comparable figures for December 31, 2019 were \$13.5 million and working capital of \$16.3 million, respectively. The working capital deficit in 2020 is due to the commencement of the A/R Facility (see **Recent Developments**). 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 December 31, 2020, Chemtrade had Credit Facilities of approximately \$1.1 billion (US\$850.0 million), consisting of a \$413.6 million (US\$325.0 million) five year term loan and a \$668.1 million (US\$525.0 million) revolving credit facility. At December 31, 2020, Chemtrade had the entire term loan outstanding, and had drawn \$367.7 million on its revolving credit facility. Additionally, it had committed a total of \$18.9 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 December 31, 2020, Chemtrade had four series of Debentures outstanding with an aggregate par value of \$531.1 million (market value of \$445.9 million) and maturity dates ranging from August 31, 2023 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.

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.

During the fourth quarter of 2020, Chemtrade redeemed the remaining \$26.5 million principal amount of the Fund 2014 5.25% Debentures at a total aggregate redemption price of \$26.9 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 Fund 2014 5.25% Debentures. Chemtrade used a portion of the net proceeds from the Fund 2020 8.5% Debentures offering, its Credit Facilities and a portion of the proceeds received from its A/R Facility to fund the redemption (see **Recent Developments**).

Debt Covenants -

As at December 31, 2020, Chemtrade was compliant with all debt covenants contained in its credit agreement.

Summary of Quarterly Results

| (\$ millions) | Q4 2020 | Q3 2020 | Q2 2020 | Q1 2020 | Q4 2019 | Q3 2019 | Q2 2019 | Q1 2019 |
|---|-----------|-----------|----------|-----------|-----------|----------|-----------|-----------|
| Revenue | \$ 319.4 | \$ 345.9 | \$ 347.5 | \$ 366.9 | \$ 355.2 | \$ 395.6 | \$ 396.7 | \$ 385.3 |
| Cost of sales and services | (304.6) | (338.5) | (314.9) | (388.0) | (331.5) | (354.2) | (409.0) | (340.8) |
| Gross profit (loss) | 14.8 | 7.4 | 32.6 | (21.1) | 23.7 | 41.4 | (12.3) | 44.5 |
| Selling and administrative expenses: | | | | | | | | |
| Unrealized foreign exchange gain (loss) | 1.6 | — | 7.2 | (9.6) | 2.7 | (1.0) | 5.1 | 4.1 |
| LTIP | (9.2) | (2.8) | (0.5) | 5.6 | (0.4) | (6.0) | (2.3) | (2.9) |
| Other | (23.8) | (24.4) | (26.0) | (26.5) | (21.7) | (20.7) | (24.2) | (65.4) |
| Total selling and administrative expenses | (31.4) | (27.2) | (19.3) | (30.5) | (19.4) | (27.7) | (21.4) | (64.2) |
| Operating (loss) income | (16.6) | (19.8) | 13.3 | (51.5) | 4.3 | 13.7 | (33.7) | (19.7) |
| Net finance costs: | | | | | | | | |
| Mark-to-market on Debentures | (3.6) | (21.8) | 17.0 | (47.4) | 13.0 | (1.5) | (5.0) | (7.2) |
| Debt issuance and extinguishment costs | — | (4.0) | — | — | (4.5) | — | — | — |
| Other | (20.4) | (20.3) | (19.7) | (20.1) | (21.0) | (21.2) | (21.2) | (19.9) |
| Total net finance costs | (24.0) | (46.1) | (2.7) | (67.5) | (12.5) | (22.7) | (26.2) | (27.1) |
| Income tax recovery (expense) | 14.8 | 17.6 | (6.1) | 21.1 | (4.4) | 8.8 | 2.3 | 17.5 |
| Net (loss) earnings | \$ (25.8) | \$ (48.3) | \$ 4.5 | \$ (97.9) | \$ (12.6) | \$ (0.2) | \$ (57.6) | \$ (29.3) |

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

Revenue and Gross Profit

Gross profit for the fourth quarter of 2020 was lower due to lower chlor-alkali sales volumes as a result of the North Vancouver chlor-alkali plant operating at lower rates, as it underwent a biennial maintenance turnaround. Also, there was reduced demand and lower sales volumes for products in the SPPC segment resulting from the COVID-19 pandemic. 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.

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.

Net finance costs for the third quarter of 2020 included \$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 February 22, 2021 and December 31, 2020, the following units and securities convertible into units of the Fund were issued and outstanding:

| | February 22, 2021 | | December 31, 2020 | |
|--|------------------------|--------------------|------------------------|--------------------|
| | Convertible Securities | Units | Convertible Securities | Units |
| Units outstanding | | 93,255,189 | | 93,169,158 |
| 5.00% Debentures ⁽¹⁾ | 143,750 | 5,784,708 | 143,750 | 5,784,708 |
| 4.75% Debentures ⁽²⁾ | 201,115 | 7,532,397 | 201,115 | 7,532,397 |
| 6.50% Debentures ⁽³⁾ | 100,000 | 6,329,114 | 100,000 | 6,329,114 |
| 8.50% Debentures ⁽⁴⁾ | 86,250 | 11,734,694 | 86,250 | 11,734,694 |
| Units outstanding and issuable upon conversion of Debentures | | 124,636,102 | | 124,550,071 |
| Deferred units plan ⁽⁵⁾⁽⁶⁾ | \$ 3,987 | 560,816 | \$ 3,247 | 556,948 |
| Units outstanding and issuable upon conversion of Debentures and Deferred units | | 125,196,918 | | 125,107,019 |

⁽¹⁾ Convertible at \$24.85 per unit

⁽²⁾ Convertible at \$26.70 per unit

⁽³⁾ Convertible at \$15.80 per unit

⁽⁴⁾ Convertible at \$7.35 per unit

⁽⁵⁾ Based on \$7.11 and \$5.83, the closing price of a unit on the TSX on February 22, 2021 and December 31, 2020 respectively

⁽⁶⁾ 439,184 and 443,052 deferred units were available for future grants as at February 22, 2021 and December 31, 2020 respectively

Contractual Obligations

Information concerning contractual obligations at December 31, 2020 is shown below:

| Contractual Obligations (\$'000) | Total | Less Than 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
|---|---------------------|-----------------------------|-------------------|---------------------|--------------------------|
| Long-term debt | \$ 781,255 | \$ — | \$ — | \$ 781,255 | \$ — |
| Debentures | 531,115 | — | 143,750 | 287,365 | 100,000 |
| Purchase commitments | 93,800 | 35,488 | 29,156 | 29,156 | — |
| Interest on Debentures | 124,557 | 30,572 | 58,741 | 29,812 | 5,432 |
| Interest on long-term debt | 126,958 | 33,266 | 66,532 | 27,160 | — |
| Lease payments | 180,785 | 52,217 | 74,378 | 30,405 | 23,785 |
| Total contractual obligations | \$ 1,838,470 | \$ 151,543 | \$ 372,557 | \$ 1,185,153 | \$ 129,217 |

Related Parties

Key Management Personnel Compensation

Key management personnel is comprised of trustees and the senior leadership team of Chemtrade. Trustees receive compensation in the form of an annual retainer. In addition to their salaries, Chemtrade also provides other benefits to the senior leadership team. One such benefit is the contribution to a post-employment defined contribution plan on their behalf. Chemtrade provides a basic contribution of 4% of base salary for plan participants. They can make additional voluntary contributions up to 2% of their base salary, and Chemtrade matches each dollar contributed up to 2% for a total of 6% of base salary. Contributions to the defined contribution plan vest immediately.

These plans for the senior leadership team are identical to the plans offered to all employees in the same jurisdiction.

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

The LTIP as described in Chemtrade's annual consolidated financial statements is designed to align the interests of the participants with the interests of Unitholders. It is a cash plan where payment is triggered upon the successful achievement of pre-defined performance criteria. Each year the Compensation and Corporate Governance Committee determines the performance period over which performance will be measured. The annual LTIP awards granted have been based on a three-year performance period and the awards vest at the end of the three-year period, other than the 2020-2022 LTIP which has various performance and vesting periods ranging between 15 and 27 months. The value of this compensation is re-measured at each reporting period based upon changes in the fair value of the awards.

Certain members of the senior leadership team are subject to a mutual term of notice upon termination of employment without cause; they are entitled to termination benefits of 12 to 24 months gross salary. In addition they

are entitled to either their target Annual IC or a value based on the most recently completed financial year.

Chemtrade has in place a deferred unit compensation plan for its trustees, pursuant to which the trustees can elect to take all or a portion of their compensation in the form of deferred units of Chemtrade, with the remainder as a cash payment. Currently, the trustees must take at least 50% of their compensation in the form of deferred units of Chemtrade. As at December 31, 2020, the market value of these deferred units, which is included in trade and other payables was \$3.3 million (2019 - \$3.4 million).

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

| | 2020 | 2019 |
|-------------------------|-----------|-----------|
| Short-term compensation | \$ 9,535 | \$ 8,306 |
| LTIP | 4,785 | 7,974 |
| | \$ 14,320 | \$ 16,280 |

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.

Commodity Price, Raw Materials & Other Input Cost Exposure -

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

Chemtrade is also a large consumer of electricity. Electricity constitutes approximately 70% of Chemtrade's variable production costs for sodium chlorate and approximately 50% of Chemtrade's variable production costs for chlor-alkali products. Accordingly, any increase in the cost of electricity leads to a direct increase in Chemtrade's production costs. While Chemtrade has attempted to mitigate the effect and unpredictability of power costs by locating facilities in regions that have relatively low-cost, regulated, hydroelectric power markets, Chemtrade is susceptible to changes in power prices in any of the markets in which it operates. While this risk is greater in deregulated electricity markets such as Brazil, there is always a risk of regulatory or governmental changes in currently regulated jurisdictions. The prices for electricity is generally influenced by regional or domestic factors. As a result, Chemtrade may pay higher prices for electricity than its competitors in other regions of North America or other parts of the world, which may negatively affect the competitiveness and financial performance of Chemtrade.

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

Sales price and volume for sodium chlorate and chlor-alkali

Every \$50 change in the price per metric tonne of North American produced sodium chlorate would have an impact on earnings before income taxes of approximately \$18.8 million per annum. Every \$100 change in the price per

MECU of chloralkali products produced in North America would have an impact on earnings before income taxes of approximately \$14.1 million per annum. These sensitivities to changes in prices are based on approximately 375,000 metric tonne of North American sodium chlorate sales and 141,000 MECU of North American chlor-alkali sales for the year ended December 31, 2020.

A change in sales volumes for North American sodium chlorate of 10,000 metric tonnes would have an impact on earnings before income taxes of approximately \$3.4 million per annum. A change in sales volumes for North American chlor-alkali products of 5,000 MECU would have an impact on earnings before income taxes of approximately \$3.0 million per annum.

Sulphuric Acid Pricing

A change in sulphuric acid pricing, net of freight, of \$10 per tonne would have an impact on annual revenues in North America of approximately \$10.3 million. In any specific period, the exact impact would depend upon the volume that is subject to sales contracts where pricing has been fixed for a period of time. The magnitude of realized price changes also depends upon regional market dynamics. It is difficult to reliably estimate the impact of price changes on earnings as this depends upon the volume subject to risk-sharing supply contracts and changes in sulphur costs for manufactured sulphuric acid. These factors lessen the impact of price changes on earnings relative to revenue.

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

Electricity Price

Every four percent change in the price of electricity in North America would have an impact on earnings before income taxes of approximately \$4.5 million per annum. This sensitivity to changes in electricity prices is based on North American electricity consumption of approximately 2,381,000 megawatt hours for the year ended December 31, 2020. A four percent change in the price of electricity in North America is considered reasonable given historical price changes and market expectations for future movement.

Salt Costs

Chemtrade uses salt in the manufacturing of its sodium chlorate and chlor-alkali products. At current operating levels, an increase of \$2 per tonne of salt prices in North America would have an impact of approximately \$0.9 million per annum on earnings before income taxes.

Sulphur Costs

Chemtrade uses sulphur in the manufacturing of several of its products, including sulphuric acid. At current operating levels, an increase of \$10 per tonne would have an impact of approximately \$1.7 million per annum on cost of sales and services. It is important to note that a change in the cost of sulphur is likely to lead to a change in the price for sulphuric acid as this is a key input cost in the manufacturing of sulphuric acid. Thus, the net impact on earnings of changes in sulphur costs would depend upon changes in sulphuric acid pricing.

Risk of legal proceedings

General Chemical (which was acquired by Chemtrade) was a subject of an investigation by the U.S. Department of Justice concerning alleged anti-competitive conduct in the water treatment chemicals industry, for which General Chemical obtained the benefit of conditional amnesty from criminal charges. General Chemical and Chemtrade were also defendants in class action lawsuits and a few civil proceedings relating to the same conduct. Chemtrade recorded a provision of \$100.0 million during 2018 and of \$40.0 million during 2019 with respect to the civil actions. All of the lawsuits, including all class action lawsuits arising directly out of the anti-competitive actions in the water business have been settled. A few ex-employee initiated derivative actions remain outstanding. While Chemtrade believes that the reserve is sufficient, the outcome and timing of the remaining actions are uncertain. (see **Reserve for legal proceedings**).

Reliance on Key Facilities -

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

A portion of the land on which the North Vancouver, BC facility is situated is leased from the Vancouver Fraser Port Authority (the "Port") pursuant to a lease which terminates on June 30, 2032. The lease provides that Chemtrade will be restricted from using the leased premises for purposes of receipt, manufacture, storage and distribution of liquid chlorine after June 30, 2030. Chemtrade is currently assessing alternative options to address the liquid chlorine restriction post-June 30, 2030, but Chemtrade's inability to implement a viable alternative solution could have a material adverse effect on Chemtrade's business, financial condition and/or results of operation. In addition, the lease provides the Port with the right to exercise an option to purchase at the end of the term, and the Port has communicated its intention to exercise the option to purchase at that time. Chemtrade intends to enter into discussions with the Port as to alternative options which are beneficial to both parties. However, the inability of Chemtrade to come to a solution with the Port for the continued use of the North Vancouver, BC site beyond June 30, 2032 could have a material adverse effect on Chemtrade's business, financial condition and/or results of operation.

Cyclicality of the Electrochemicals Segment -

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

Exchange Rates -

Chemtrade has certain operating subsidiaries that use the U.S. dollar as their functional currency. As Chemtrade reports in Canadian dollars, its reported net earnings are exposed to fluctuations in the Canadian/U.S. dollar exchange rate. If the Canadian dollar weakens by one-cent (for example, from \$1.27 to \$1.28), on an unhedged basis, this would have a positive impact on annual net earnings of approximately \$0.9 million, and vice-versa. The impact on annual Adjusted EBITDA and Distributable cash after maintenance capital expenditures would be approximately \$1.8 million and \$0.7 million, respectively, and vice-versa. If the U.S. dollar strengthens by one-cent, on an unhedged basis, this would have a negative impact of approximately \$5.2 million on Chemtrade's net earnings because of its U.S. dollar-denominated term debt and vice-versa. Chemtrade hedges its investment in foreign operations that use the U.S. dollar as their functional currency with its U.S. dollar-denominated long-term debt. See **Liquidity and Capital Resources - Financing Activities - *Financial Instruments*** for information concerning hedges.

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:

- impact the health and safety of our employees, causing potential shortages of employees to staff our facilities, or the facilities of our customers or suppliers;
- 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;
- 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 or any similar pandemic or contagious disease 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 or physical 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 the pandemic and treat the virus.

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 December 31, 2020, on an unhedged basis, a change in interest rates of 1% per annum would have an impact of approximately \$7.8 million on Chemtrade's net earnings per annum. As at December 31, 2020, Chemtrade had fixed interest rates on 93.7% of its senior debt until April 2021 and 52.9% thereafter until December 2023.

Managing interest rate benchmark reform and associated risks

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates. Chemtrade has exposures to IBORs on its financial instruments that will be replaced or reformed as part of these market-wide initiatives. There is uncertainty over the timing and the methods of transition in some jurisdictions that Chemtrade operates in. Chemtrade anticipates that IBOR reform will impact its risk management and hedge accounting. Chemtrade is currently evaluating the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties.

Derivatives

Chemtrade holds interest rate swaps for risk management purposes which are designated in cash flow hedging relationships. The interest rate swaps have floating legs that are indexed to 1-month LIBOR. Chemtrade's derivative instruments are governed by contracts based on the International Swaps and Derivatives Association (ISDA)'s master agreements.

ISDA is currently reviewing its standardized contracts in the IBOR reform and plans to amend certain floating-rate options in the 2006 ISDA definitions to include fallback clauses that would apply on the permanent discontinuation of certain key IBORs. ISDA is expected to publish an IBOR fallback supplement to amend the 2006 ISDA definitions and an IBOR fallback protocol to facilitate multilateral amendments to include the amended floating-rate options in derivative transactions that were entered into before the date of the supplement. Chemtrade currently plans to

adhere to the protocol if and when it is finalized and to monitor whether its counterparties will also adhere. If this plan changes or there are counterparties who will not adhere to the protocol, Chemtrade will negotiate with them bilaterally about including new fallback clauses.

Hedge accounting

Chemtrade is evaluating the extent to which its cash flow hedging relationships are subject to uncertainty driven by IBOR reform as at December 31, 2020. Chemtrade's hedged items and hedging instruments continue to be indexed to 1-month LIBOR. These benchmark rates are quoted each day and the IBOR cash flows are exchanged with counterparties as usual.

Chemtrade's exposure to 1-month LIBOR designated in hedging relationships is US\$575.0 million nominal amount at December 31, 2020, representing both the nominal amount of the hedging interest rate swap and the principal amount of the hedged USD denominated secured bank loan liability maturing in 2024.

Significant Judgments and Sources of Estimation Uncertainty

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments and estimates 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.

Significant judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements are:

- (i) Property, plant and equipment - Chemtrade makes significant judgments in choosing methods for depreciating its property, plant and equipment that it believes most accurately represent the consumption of benefits derived from those assets and are most representative of the economic substance of the intended use of the underlying assets.
- (ii) Intangible assets - Judgment is applied in determining CGUs and the allocation of goodwill to CGUs or CGU groups for the purpose of impairment testing.
- (iii) Provisions - Chemtrade recognizes provisions for the present value of anticipated costs. Chemtrade applies judgment in determining whether it has a present obligation (legal or constructive) as a result of a past event, whether it is probable ("more likely than not") that an outflow of economic benefit would be required to settle the obligation and whether the amount can be estimated reliably.

Chemtrade receives legal claims against it in the normal course of business. Chemtrade has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process in respective legal jurisdictions. Provisions recognized by Chemtrade are periodically reviewed based on facts and circumstances available at the time.

- (iv) Employee Benefits - The carrying value of pensions, other post-retirement and other post-employment benefit obligations is based on actuarial valuations that are sensitive to assumptions concerning discount rates, wage increase rates, and other actuarial assumptions used. Chemtrade applies judgment in assessing these assumptions and changes in these assumptions could result in a material impact to the consolidated financial statements.
- (v) Income taxes - In the normal course of operations, judgment is required in assessing tax interpretations, regulations and legislation and in determining the provision for income taxes, deferred tax assets and liabilities, and the timing of reversals. Chemtrade makes judgments to evaluate whether it can recover a deferred tax asset based on its assessment of many factors, including interpretations of tax laws, expectation about the future taxable profit level, and the timing and reversal of temporary differences. To the extent that a recognition or de-recognition of a deferred tax asset is required, current period earnings or other comprehensive income will be affected.
- (vi) Financial instruments - Chemtrade has in place swap arrangements with its principal bankers which fix the LIBOR components of its interest rates on its term bank debt and revolving credit facility. 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 determining whether financial instruments qualify for hedge accounting, Chemtrade makes judgments in assessing whether the forecasted transactions designated as hedged items in hedging relationships will materialize as forecast, whether the hedging relationships designated as effective hedges for accounting purposes continue to qualitatively be effective, and in determining the methodology to determine the fair values used in testing the effectiveness of hedging relationships.

Chemtrade de-recognizes a financial asset when it has no contractual rights to the cash flows. Chemtrade has applied judgment in assessing whether all the risks and rewards associated with trade receivables under its A/R Facility have been substantially transferred to a counter-party. Once it is determined that the risks and rewards have been substantially transferred, Chemtrade de-recognizes the trade receivables in the consolidated statement of financial position.

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:

- (i) Property, plant and equipment - Parts of an item of property, plant and equipment may have different useful lives. Chemtrade makes significant estimates when determining depreciation rates and asset useful lives, which require taking into account company-specific factors, such as its past experience and expected use, and industry trends, such as technological advancements. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.
- (ii) Leases - ROU assets are measured at the initial amount of the lease liabilities plus any initial direct costs, lease payments made at or before the commencement date net of lease incentives received, and decommissioning costs. Chemtrade estimates the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Chemtrade's incremental borrowing rate, to measure the lease liability. Chemtrade estimates the lease term by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise a termination option. Chemtrade makes certain qualitative and quantitative assumptions when deriving the value of the economic incentive.
- (iii) Intangible assets - When determining the value in use of goodwill and intangible assets during impairment testing, Chemtrade uses the following significant estimates: forecast operating margins, maintenance and other capital expenditures, terminal growth rates and discount rates. If actual results differ or a change in expectation arises, an impairment charge may be required.

Chemtrade makes significant estimates when determining the estimated useful lives of intangible assets, which require taking into account company-specific factors, such as its past experience and expected use, and industry trends, such as technological advancements. Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

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

Environmental liabilities are recorded based on the current interpretation of environmental laws and regulations when it is probable that a liability has been incurred and the amount of such a liability can be reliably estimated.

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

Provisions for legal claims are recognized when Chemtrade has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be

required to settle the obligation and the amount has been reliably estimated. Provisions for legal claims are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized in the statement of comprehensive income as selling and administrative expenses. Changes in the estimated timing or amount of the expenditure or discount rate are recognized in profit or loss when the changes arise.

- (v) Employee Benefits - Significant estimates are involved in determining pension related balances. The calculation of the assets or liabilities related to these pension plans is based upon statistical and actuarial assumptions. Certain pension plans are frozen for future benefit accruals and the pension benefits are not indexed to inflation. These pension plans are comprised primarily of inactive and retired participants and the actuarial estimates of pension benefits are affected by the amount of time retirees are expected to receive their pensions (mortality assumptions) and the interest rate used to discount the expected future benefit payments (discount rate assumption). The actuarial estimates of other pension plans are also based on projections of employees' compensation levels at their expected time of retirement. These retirement benefits are primarily based on final average earnings, subject to certain adjustments.

The actuarial assumptions used might differ materially from actual results due to changes in market and economic conditions, higher or lower employee turnover, longer or shorter life spans of participants, and other changes in the factors being assessed. These differences could impact the assets or liabilities recognized in the consolidated statement of financial position in future periods.

Chemtrade obtains actuarial valuations for its post employment benefits.

- (vi) Share-based payments - Chemtrade makes significant estimates to determine the fair value of cash settled share-based payments, LTIP and deferred unit plan. Determining the fair value of the cash settled share-based payments, including performance based options, requires significant estimates related to the choice of a pricing model, the estimation of unit price volatility and the expected market conditions. Any changes in the estimates or inputs utilized to determine fair value could materially impact Chemtrade's operating results and liabilities.
- (vii) Financial instruments - Fair value estimates related to Chemtrade's derivatives and Debentures are made at a specific point in time based on relevant market information and information about the underlying financial instruments. These estimates require assessment of the credit risk of the parties to the instruments and the instruments' discount rates. These fair values and underlying estimates are also used in the tests of effectiveness of the Fund's hedging relationships.

Standards and interpretations adopted during the period

Several amendments and interpretations apply for the first time in 2020, but do not have an impact on Chemtrade's consolidated financial statements.

Standards and interpretations not yet adopted

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

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 introduce a practical expedient to account for a change in the basis for determining the contractual cash flows of financial instruments that are affected by IBOR reform. Under the practical expedient, Chemtrade will not derecognize or adjust the carrying amount of financial instruments for modifications required by IBOR reform, but will instead update the effective interest rate to reflect the change in the interest rate benchmark. The practical expedient will be applied when the modification is required as a direct consequence of IBOR reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

The amendments also provide relief from specific hedge accounting requirements, such that existing hedge relationships directly affected by IBOR reform will not be subject to discontinuation, and new hedging relationships that do not qualify under the current standards will be permitted, if changes to the hedge relationships are within the scope of the amendments.

At December 31, 2020, Chemtrade has \$727.9 million (US\$572.0 million) US LIBOR relating to term bank debt and revolving credit and \$29.4 million (US\$23.1 million) US LIBOR relating to the A/R Facility that will be subject to IBOR reform. Chemtrade expects that the interest rate benchmark for these loans will be changed and is still evaluating whether any significant modification gain or loss will arise as a result of applying the amendments to these changes.

At December 31, 2020, Chemtrade has cash flow hedges of 1-month LIBOR risk. Chemtrade expects that indexation of the hedged items and hedging instruments to 1-month LIBOR will be replaced. Whenever the replacement occurs, Chemtrade expects to apply the amendments and related reliefs related to hedge accounting. However, there is uncertainty about when and how replacement may occur. When the change occurs to the hedged item or the hedging instrument, Chemtrade will remeasure the cumulative change in fair value of the hedged item or the fair value of the interest rate swap, respectively. Hedging relationships may experience hedge ineffectiveness if there is a timing or other mismatch between the transition of the hedged item and that of the hedging instrument.

Chemtrade does not expect that amounts accumulated in the cash flow hedge reserve will be immediately reclassified to profit or loss because of IBOR transition.

Disclosure

The amendments will require Chemtrade to disclose additional information about the Fund's exposure to risks arising from IBOR reform and related risk management activities.

Transition

Chemtrade plans to apply the amendments on January 1, 2021. Application will not impact amounts reported for 2020 or prior periods.

Other standards

The following new and amended standards are not expected to have a significant impact on Chemtrade's consolidated financial statements:

- COVID-19-Related Rent Concessions (Amendment to IFRS 16)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to Conceptual Framework (Amendments to IFRS 3)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

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 CEO and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding disclosure. The CEO and the CFO have evaluated Chemtrade's disclosure controls procedures as of December 31, 2020 through inquiry and review. The CEO and the CFO have concluded that, as at December 31, 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 CEO and CFO 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 CEO and theq CFO, is responsible for establishing and maintaining adequate internal control over financial reporting and evaluating its effectiveness. Management has used The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework (2013) to evaluate the effectiveness of Chemtrade's internal control over financial reporting as of December 31, 2020. Based on this evaluation, Management has concluded that as at December 31, 2020, Chemtrade's internal controls over financial reporting were effective. There have been no changes to the design of internal controls over financial reporting that occurred during the year ended December 31, 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 2020. The economic uncertainty caused by COVID-19 prevents us from knowledgeably predicting the key elements necessary to make Guidance meaningful. We are therefore unable to provide a definitive Guidance range for 2021, although 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 largely on input from our customer base which can, and likely will, change over time. Chemtrade intends reinstating guidance when the economic environment normalizes and Chemtrade's visibility into the future improves.

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 that are likely to contribute to Chemtrade's 2021 earnings are as follows:

Key Facilities

We expect all of our key facilities to operate well during the year. We expect normal turnaround activity, with no atypical turnarounds planned, whereas in 2020, we had 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. During 2020, our North Vancouver chlor-alkali facility also had its biennial turnaround.

Demand

As a general statement, while COVID-19 is expected to continue affecting demand for certain of our products in 2021, other products have not been affected. For the products affected, the depth and duration largely depends on COVID-19's effect on industrial activity, North American driving miles and the extent of people working from home. In aggregate, sales volumes in 2021 are expected to be higher than 2020.

Certain more specific comments are as follows.

WSSC -

- Demand for our Water Solutions business should be similar to 2020 and largely unaffected by COVID-19. The cost of key raw materials may be higher than 2020, but should be offset by higher selling prices and other productivity initiatives.

SPPC -

- We expect full year refinery utilization rates to be higher than 2020, but still be approximately 10% lower than pre-pandemic levels. Demand in the West Coast of the U.S. at the beginning of 2021 is being negatively affected by the California stay-at-home orders. We anticipate as the year progresses, and as the COVID-19 vaccines are widely distributed, demand for gasoline will increase as people are able to resume driving.
- During 2021, we anticipate reduced demand for ultrapure acid, which mainly services the semi-conductor industry. One of our large end-use customers has decided to obtain acid from an alternate source. We have gained product approval and new business at another of our large customers. This new business has significant potential, but will not be sufficient to offset the lost volume in the short-term. We believe demand for ultrapure acid will continue growing in the U.S. and the mid to long term outlook for ultrapure acid remains very positive for us. We are actively pursuing new business, including placing additional volume with existing customers. However, given the nature of this product and stringent quality specification it will take time to fully replace the lost volume.
- Merchant acid volume should be similar to 2020 levels.

EC -

- Our 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 continue to be constrained by HCl and chlorine demand. We expect fracking activity - particularly for gas in Western Canada - to be higher than 2020, which will require more HCl. However, the positive margin effect of the higher caustic and HCl volume is expected to be offset by our current expectation for caustic pricing. We expect that the North East Asia spot index for caustic will average US\$40 per metric tonne lower than 2020. The index is expected to appreciate during the year and end the year significantly higher than the start, however, given that our prices typically lag the index by a quarter the average price realized during 2021 is expected to be lower than 2020.
- Finally, aggregate sodium chlorate demand in North America should be slightly higher than 2020, but is expected to be lower than historic levels. Demand will be affected by the extent people working from home during the pandemic reduces paper demand and thus bleached pulp production. Given our current customer mix, we expect our sales volumes in 2021 to be similar to 2020. We expect realized selling prices in 2021 to be lower than 2020 due to the expectation of a stronger Canadian dollar relative to the US dollar.

Also, the reduced demand has caused some increased competitive activity which has put some pressure on pricing.

Based on the above, the key assumptions in the EC segment are as follows:

- We expect that North American MECU production volumes for 2021 will be approximately 175,000 MECU, limited primarily by demand for our chlorine and HCl products. If demand for these products increases, our production will increase and conversely if demand decreases.
- We expect that the 2021 average North East Asia spot price for caustic soda price will be US\$40 per metric tonne lower than 2020.
- North American production volume of sodium chlorate for 2021 will be approximately 375,000 metric tonnes.

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.

February 23, 2021

Management's Responsibility for Financial Reporting

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


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

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

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



Scott Rook
President & Chief Executive Officer



Rohit Bhardwaj
Chief Financial Officer

Toronto, Canada
March 31, 2021



INDEPENDENT AUDITORS' REPORT

To the Unitholders' of Chemtrade Logistics Income Fund

Opinion

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

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in unitholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of impairment of goodwill

Description of the matter

We draw attention to Notes 2(d)(i), 3(h)(ii) and 10 to the financial statements. The Entity has recorded a goodwill balance of \$500,783 thousand. The Entity performs a goodwill impairment test on an annual basis or more frequently when events or changes in circumstances indicate that the carrying amount of a cash generating unit (CGU) or CGU group likely exceeds its recoverable amount. The recoverable amount of each CGU or CGU group is based on the higher of its value in use and its fair value less costs to sell. The Entity has recorded an impairment loss of \$56,000 thousand during the year based on value in use. The Entity's significant estimates in determining its value in use include forecast operating margins, maintenance and other capital expenditures, terminal growth rates and discount rates.

Why the matter is a key audit matter

We identified the evaluation of impairment of goodwill as a key audit matter. This matter represented an area of significant risk of material misstatement due to the magnitude of the balance and the high degree of estimation uncertainty in determining its value in use. Significant auditor judgment and the involvement of those with specialized skills and knowledge were required in performing and evaluating the results of our procedures due to the sensitivity of the value in use to minor changes in certain significant estimates.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following on each CGU or CGU group:

- We assessed the Entity's ability to accurately forecast by comparing the Entity's forecast operating margins and maintenance and other capital expenditures used in the prior year impairment test to actual results
- We compared the Entity's forecast operating margins and maintenance and other capital expenditures to the actual operating margins and maintenance and other capital expenditures. We took into account changes in conditions and events affecting each cash generating unit group to assess the adjustments, or lack of adjustments, made in arriving at those forecast operating margins and maintenance and other capital expenditures.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Comparing the Entity's terminal growth rates against long-term estimates of inflation in Canada
- Comparing the Entity's discount rates against a discount rate that was independently developed using publicly available market data for comparable entities.



Other Information

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

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2020 Annual Report".

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

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

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

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2020 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

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

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

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



Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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



- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Yours very truly,

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditor's report is Laura Price.

Vaughan, Canada

February 23, 2021

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

| | Notes | December 31, 2020 | December 31, 2019 |
|---|-------|---------------------|---------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ 12,511 | \$ 13,466 |
| Trade and other receivables | 4 | 86,259 | 155,348 |
| Inventories | 5 | 111,536 | 122,273 |
| Income taxes receivable | | 5,372 | 1,795 |
| Prepaid expenses and other assets | | 7,605 | 4,720 |
| Assets held for sale | 6 | 199,739 | 202,772 |
| Total current assets | | 423,022 | 500,374 |
| Non-current assets | | | |
| Property, plant and equipment | 7 | 1,050,307 | 1,126,962 |
| Right-of-use assets | 8 | 151,923 | 174,224 |
| Other assets | 9 | 7,022 | 9,316 |
| Intangible assets | 10 | 748,070 | 871,205 |
| Deferred tax assets | 24 | 119,982 | 96,992 |
| Total non-current assets | | 2,077,304 | 2,278,699 |
| Total assets | | \$ 2,500,326 | \$ 2,779,073 |
| LIABILITIES AND UNITHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Trade and other payables | 11 | \$ 207,948 | \$ 199,694 |
| Distributions payable | 17 | 4,677 | 9,260 |
| Provisions | 12 | 17,880 | 19,783 |
| Lease liabilities | 8 | 47,501 | 48,392 |
| Convertible unsecured subordinated debentures | 14 | — | 74,584 |
| Liabilities directly associated with assets held for sale | 6 | 17,049 | 18,710 |
| Total current liabilities | | 295,055 | 370,423 |
| Non-current liabilities | | | |
| Long-term debt | 13 | 776,914 | 744,274 |
| Convertible unsecured subordinated debentures | 14 | 445,895 | 534,345 |
| Other long-term liabilities | 15 | 40,915 | 26,849 |
| Long-term lease liabilities | 8 | 113,982 | 133,633 |
| Employee benefits | 16 | 51,363 | 53,294 |
| Provisions | 12 | 156,958 | 134,827 |
| Deferred tax liabilities | 24 | 13,429 | 21,852 |
| Total non-current liabilities | | 1,599,456 | 1,649,074 |
| Total liabilities | | 1,894,511 | 2,019,497 |
| Unitholders' equity | | | |
| Units | 17 | 1,465,029 | 1,462,116 |
| Contributed surplus | 17 | 9,720 | 9,720 |
| Deficit | | (1,101,455) | (870,874) |
| Accumulated other comprehensive income | | 232,521 | 158,614 |
| Total unitholders' equity | | 605,815 | 759,576 |
| Total liabilities and unitholders' equity | | \$ 2,500,326 | \$ 2,779,073 |

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

| | Notes | Year ended December 31, | |
|--|---------|-------------------------|--------------|
| | | 2020 | 2019 |
| Revenue | 20 | \$ 1,379,639 | \$ 1,532,855 |
| Cost of sales and services | 5,10,22 | (1,345,909) | (1,435,532) |
| Gross profit | | 33,730 | 97,323 |
| Selling and administrative expenses | 21 | (108,376) | (132,781) |
| Operating loss | | (74,646) | (35,458) |
| Net finance costs | 23 | (140,296) | (88,487) |
| Loss before income tax | | (214,942) | (123,945) |
| Income tax (expense) recovery | 24 | | |
| Current | | (7,313) | (4,524) |
| Deferred | | 54,777 | 28,815 |
| | | 47,464 | 24,291 |
| Net loss | | \$ (167,478) | \$ (99,654) |
| Other comprehensive income (loss) | | | |
| Items that may subsequently be reclassified to earnings: | | | |
| Gain on net investment hedge of foreign operations, net of tax expense of \$2,347 (2019 - \$1,612) | 13,25 | 15,828 | 15,821 |
| Foreign currency translation differences for foreign operations, net of tax expense of nil (2019 - \$1,328) | | (10,940) | (44,177) |
| Effective portion of change in the fair value of cash flow hedges, net of tax recovery of \$3,875 (2019 - \$1,937) | | (11,147) | (5,538) |
| Items that will not be reclassified to earnings: | | | |
| Defined benefit plan adjustments, net of tax expense of \$630 (2019 - recovery of \$1,360) | 16 | 1,895 | (3,556) |
| Change in fair value of convertible debentures due to credit risk, net of tax expense of \$23,824 (2019 - recovery of \$4,172) | 14 | 80,166 | (9,038) |
| Other comprehensive income (loss) | | 75,802 | (46,488) |
| Total comprehensive loss | | \$ (91,676) | \$ (146,142) |
| Net loss per unit | 17 | | |
| Basic net loss per unit | | \$ (1.81) | \$ (1.08) |
| Diluted net loss per unit | | \$ (1.81) | \$ (1.08) |

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

| | 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 |
|--|-------|--------------|---------------------|----------------|---------------------------------|--|--|---------------------------|
| Balance at January 1, 2019 | | \$ 1,461,995 | \$ 9,720 | \$ (656,548) | \$ 216,070 | \$ (27,664) | \$ 13,140 | \$ 1,016,713 |
| Issuance of units upon conversion of unsecured subordinated convertible debentures | 14,17 | 121 | — | — | — | — | — | 121 |
| Net loss | | — | — | (99,654) | — | — | — | (99,654) |
| Other comprehensive (loss) income | | — | — | (3,556) | (44,177) | 10,283 | (9,038) | (46,488) |
| Distributions | 17 | — | — | (111,116) | — | — | — | (111,116) |
| Balance at December 31, 2019 | | \$ 1,462,116 | \$ 9,720 | \$ (870,874) | \$ 171,893 | \$ (17,381) | \$ 4,102 | \$ 759,576 |
| Issuance of units upon conversion of unsecured subordinated convertible debentures | 14,17 | 1 | — | — | — | — | — | 1 |
| Issuance of units under the Distribution Reinvestment Plan ("DRIP") | 17 | 2,912 | — | — | — | — | — | 2,912 |
| Net loss | | — | — | (167,478) | — | — | — | (167,478) |
| Other comprehensive income (loss) | | — | — | 1,895 | (10,940) | 4,681 | 80,166 | 75,802 |
| Distributions | 17 | — | — | (64,998) | — | — | — | (64,998) |
| Balance at December 31, 2020 | | \$ 1,465,029 | \$ 9,720 | \$ (1,101,455) | \$ 160,953 | \$ (12,700) | \$ 84,268 | \$ 605,815 |

* Accumulated other comprehensive income.

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

| | Notes | Year ended December 31, | |
|---|-------|-------------------------|-----------------|
| | | 2020 | 2019 |
| Cash flows from operating activities: | | | |
| Net loss | | \$ (167,478) | \$ (99,654) |
| Adjustments for: | | | |
| Depreciation and amortization | 22 | 253,912 | 262,458 |
| Net loss on disposal and write-down of property, plant and equipment | 7 | 20,999 | 13,790 |
| Impairment of goodwill | 10 | 56,000 | 65,600 |
| Change in environmental liability | 12 | 8,170 | — |
| Income tax recovery | 24 | (47,464) | (24,291) |
| Net interest costs | 23 | 71,028 | 72,044 |
| Interest costs - lease liabilities | 8 | 8,211 | 8,812 |
| Accretion expense | 23 | 3,716 | 5,050 |
| Net pension interest | 23 | 1,551 | 1,949 |
| Change in fair value of convertible unsecured subordinated debentures | 14,23 | 55,790 | 632 |
| Unrealized foreign exchange loss (gain) | 21 | 833 | (10,787) |
| | | 265,268 | 295,603 |
| Decrease (increase) in working capital | | 71,812 | (88,923) |
| Interest paid | | (65,472) | (66,232) |
| Interest received | | 322 | 565 |
| Income taxes paid | | (9,976) | (1,536) |
| Net cash flows from operating activities | | 261,954 | 139,477 |
| Cash flows from investing activities: | | | |
| Additions to property, plant and equipment | 7 | (77,088) | (96,299) |
| Decrease in other assets | | 2,294 | 2,328 |
| Net cash flows used in investing activities | | (74,794) | (93,971) |
| Cash flows from financing activities: | | | |
| Distributions to unitholders, net of distributions reinvested | 17 | (66,670) | (111,116) |
| Issuance of convertible debentures | 14 | 86,250 | 100,000 |
| Transaction costs related to the issuance of convertible debentures | 14,23 | (4,013) | (4,539) |
| Repayment of lease liability net of sub-lease receipts | 8 | (56,010) | (56,815) |
| Repayment of convertible debentures | 14 | (201,083) | (84,011) |
| Net change in revolving credit facility | 13 | 49,057 | 89,935 |
| Financing transaction costs | 13 | (1,324) | (558) |
| Increase in other long-term liabilities | | 5,935 | 22,106 |
| Net cash flows used in financing activities | | (187,858) | (44,998) |

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

| | Notes | Year ended December 31, | |
|---|-----------|-------------------------|------------------|
| | | 2020 | 2019 |
| (Decrease) increase in cash and cash equivalents | | (698) | 508 |
| Cash and cash equivalents, beginning of the period | | 13,466 | 13,413 |
| Effect of exchange rates on cash held in foreign currencies | | (257) | (455) |
| Cash and cash equivalents, end of the period | \$ | 12,511 | \$ 13,466 |

Year ended December 31, 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 reportable segments: Sulphur Products & Performance Chemicals ("SPPC"), Water Solutions & Specialty Chemicals ("WSSC"), Electrochemicals ("EC") and Corporate ("Corp"). For additional information regarding Chemtrade's reportable segments, see note 27.

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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements were authorized for issue by the Board of Trustees ("Board") on February 23, 2021.

(b) Basis of measurement

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

- Derivative financial instruments are measured at fair value;
- Financial instruments at fair value through profit or loss are measured at fair value;
- Liabilities for cash settled share-based payment arrangements are measured at fair value;

Year ended December 31, 2020 and 2019

2. BASIS OF PREPARATION (continued):

- The defined benefit liability is recognized as the present value of the defined benefit obligation net of the fair value of the plan assets; and
- Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to temporary differences when they reverse.

(c) Presentation currency

These consolidated financial statements are presented in thousands of Canadian dollars, except for net loss per unit information and per tonne information which is presented in Canadian dollars.

(d) Significant judgments and sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments and estimates 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.

(i) Significant judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

Property, plant and equipment (note 7):

Chemtrade makes significant judgments in choosing methods for depreciating its property, plant and equipment ("PPE") that it believes most accurately represent the consumption of benefits derived from those assets and are most representative of the economic substance of the intended use of the underlying assets.

Year ended December 31, 2020 and 2019

2. BASIS OF PREPARATION (continued):

Intangible assets (note 10):

Judgment is applied in determining cash-generating units ("CGUs") and the allocation of goodwill to CGUs or groups of CGUs ("CGU group") for the purpose of impairment testing.

Provisions (note 12):

Chemtrade recognizes provisions for the present value of anticipated costs. Chemtrade applies judgment in determining whether it has a present obligation (legal or constructive) as a result of a past event, whether it is probable ("more likely than not") that an outflow of economic benefit would be required to settle the obligation and whether the amount can be estimated reliably.

Chemtrade receives legal claims against it in the normal course of business. Chemtrade has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process in respective legal jurisdictions. Provisions recognized by Chemtrade are periodically reviewed based on facts and circumstances available at the time.

Employee Benefits (note 16):

The carrying value of pensions, other post-retirement and other post-employment benefit obligations is based on actuarial valuations that are sensitive to assumptions concerning discount rates, wage increase rates, and other actuarial assumptions used. Chemtrade applies judgment in assessing these assumptions and changes in these assumptions could result in a material impact to the consolidated financial statements.

Income taxes (note 24):

In the normal course of operations, judgment is required in assessing tax interpretations, regulations and legislation and in determining the provision for income taxes, deferred tax assets and liabilities, and the timing of reversals. Chemtrade makes judgments to evaluate whether it can recover a deferred tax asset based on its assessment of many factors, including interpretations of tax laws, expectation about the future taxable profit level, and the timing and reversal of temporary differences. To the extent that a recognition or de-recognition of a deferred tax asset is required, current period earnings or other comprehensive income will be affected.

Year ended December 31, 2020 and 2019

2. BASIS OF PREPARATION (continued):

Financial instruments (note 25):

Chemtrade has in place swap arrangements with its principal bankers which fix the London interbank offered rate ("LIBOR") components of its interest rates on its term bank debt and revolving credit facility. 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 determining whether financial instruments qualify for hedge accounting, Chemtrade makes judgments in assessing whether the forecasted transactions designated as hedged items in hedging relationships will materialize as forecast, whether the hedging relationships designated as effective hedges for accounting purposes continue to qualitatively be effective, and in determining the methodology to determine the fair values used in testing the effectiveness of hedging relationships.

Chemtrade de-recognizes a financial asset when it has no contractual rights to the cash flows. Chemtrade has applied judgment in assessing whether all the risks and rewards associated with trade receivables under its receivable purchase facility have been substantially transferred to a counter-party. Once it is determined that the risks and rewards have been substantially transferred, Chemtrade de-recognizes the trade receivables in the consolidated statement of financial position.

(ii) Key sources of estimation uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Property, plant and equipment (note 7):

Parts of an item of PPE may have different useful lives. Chemtrade makes significant estimates when determining depreciation rates and asset useful lives, which require taking into account company-specific factors, such as its past experience and expected use, and industry trends, such as technological advancements. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

Leases (note 8):

ROU assets are measured at the initial amount of the lease liabilities plus any initial direct costs, lease payments made at or before the commencement date net of lease incentives received, and decommissioning costs. Chemtrade estimates the present value of the lease payments that are not paid at the commencement date, discounted

Year ended December 31, 2020 and 2019

2. BASIS OF PREPARATION (continued):

using the interest rate implicit in the lease or, if that rate cannot be readily determined, Chemtrade's incremental borrowing rate, to measure the lease liability. Chemtrade estimates the lease term by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise a termination option. Chemtrade makes certain qualitative and quantitative assumptions when deriving the value of the economic incentive.

Intangible assets (note 10):

When determining the value in use of goodwill and intangible assets during impairment testing, Chemtrade uses the following significant estimates: forecast operating margins, maintenance and other capital expenditures, terminal growth rates and discount rates. If actual results differ or a change in expectation arises, an impairment charge may be required.

Chemtrade makes significant estimates when determining the estimated useful lives of intangible assets, which require taking into account company-specific factors, such as its past experience and expected use, and industry trends, such as technological advancements. Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

Provisions (note 12):

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

Environmental liabilities are recorded based on the current interpretation of environmental laws and regulations when it is probable that a liability has been incurred and the amount of such a liability can be reliably estimated.

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

Provisions for legal claims are recognized when Chemtrade has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been

Year ended December 31, 2020 and 2019

2. BASIS OF PREPARATION (continued):

reliably estimated. Provisions for legal claims are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized in the statement of comprehensive income as selling and administrative expenses. Changes in the estimated timing or amount of the expenditure or discount rate are recognized in profit or loss when the changes arise.

Employee Benefits (note 16):

Significant estimates are involved in determining pension related balances. The calculation of the assets or liabilities related to these pension plans is based upon statistical and actuarial assumptions. Certain pension plans are frozen for future benefit accruals and the pension benefits are not indexed to inflation. These pension plans are comprised primarily of inactive and retired participants and the actuarial estimates of pension benefits are affected by the amount of time retirees are expected to receive their pensions (mortality assumptions) and the interest rate used to discount the expected future benefit payments (discount rate assumption). The actuarial estimates of other pension plans are also based on projections of employees' compensation levels at their expected time of retirement. These retirement benefits are primarily based on final average earnings, subject to certain adjustments.

The actuarial assumptions used might differ materially from actual results due to changes in market and economic conditions, higher or lower employee turnover, longer or shorter life spans of participants, and other changes in the factors being assessed. These differences could impact the assets or liabilities recognized in the consolidated statement of financial position in future periods.

Chemtrade obtains actuarial valuations for its post employment benefits.

Share-based payments (note 18):

Chemtrade makes significant estimates to determine the fair value of cash settled share-based payments, Long-Term Incentive Plan ("LTIP") and deferred unit plan ("DUP"). Determining the fair value of the cash settled share-based payments, including performance based options, requires significant estimates related to the choice of a pricing model, the estimation of unit price volatility and the expected market conditions. Any changes in the estimates or inputs utilized to determine fair value could materially impact Chemtrade's operating results and liabilities.

Year ended December 31, 2020 and 2019

2. BASIS OF PREPARATION (continued):

Financial instruments (note 25):

Fair value estimates related to Chemtrade's derivatives and convertible unsecured subordinated debentures are made at a specific point in time based on relevant market information and information about the underlying financial instruments. These estimates require assessment of the credit risk of the parties to the instruments and the instruments' discount rates. These fair values and underlying estimates are also used in the tests of effectiveness of the Fund's hedging relationships.

3. SIGNIFICANT ACCOUNTING POLICIES:

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

(a) Basis of consolidation

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

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

(i) Business combinations:

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

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

(ii) Transactions eliminated on consolidation:

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

Year ended December 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(b) Foreign currency

(i) Foreign currency transactions:

Transactions in foreign currencies are translated to the respective functional currencies of Chemtrade and its subsidiaries at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on re-translation are recognized in earnings, except for differences arising on the re-translation of qualifying cash flow hedges and net investment hedges, which are recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency gains and losses are reported on a net basis within selling and administrative expenses.

(ii) Foreign operations:

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

Foreign currency differences are recognized in other comprehensive income and in accumulated other comprehensive income in unitholders' equity. When a foreign operation is sold, the cumulative amount of such exchange difference is recognized in the income statement as part of the gain or loss on sale.

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

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

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

Year ended December 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

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

(c) Inventories

Finished goods inventory is valued at the lower of average cost and net realizable value. Average cost includes all costs of purchase, costs of conversion and other costs incurred to bring inventories to their present location and condition. Costs of conversion include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on normal production capacity. Raw material inventory and operating supplies are recorded at the lower of cost determined on a first-in, first-out basis, and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(d) Assets held for sale:

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

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

- management is committed to a plan to sell;
- the asset is available for immediate sale;
- an active program to locate a buyer is initiated;
- the sale is highly probable, within 12 months of classification as held for sale (subject to limited exceptions);
- the asset is being actively marketed for sale at a sales price reasonable in relation to its fair value; and
- actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

Year ended December 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

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

(e) Property, plant and equipment

(i) Recognition and measurement:

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

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

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

(ii) Subsequent costs:

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

Year ended December 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(iii) Depreciation:

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

Depreciation is recognized in comprehensive income on a straight-line basis over the estimated useful life of each part of an item of PPE, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

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

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

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

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

(f) Leases

Chemtrade leases various assets that include rail cars, private fleet, real estate, vehicles and other heavy-duty machinery and equipment to conduct its daily operations.

(i) Definition of a lease

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

Year ended December 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

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

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

(ii) As a lessee

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

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

Chemtrade recognizes an ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost. Subsequent to initial recognition, the ROU asset is measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. In comparison, the

Year ended December 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

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

Chemtrade depreciates the ROU asset on a straight-line basis over the lease term, unless Chemtrade expects to obtain ownership of the leased asset at the end of the lease. The lease term consists of:

- the non-cancellable period of the lease;
- periods covered by options to extend the lease, where Chemtrade is reasonably certain to exercise the option; and
- periods covered by options to terminate the lease, where Chemtrade is reasonably certain not to exercise the option.

If Chemtrade expects to obtain ownership of the leased asset at the end of the lease, Chemtrade depreciates the ROU asset over the underlying asset's estimated useful life.

(iii) As a lessor

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

(g) Intangible assets

(i) Goodwill:

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

Year ended December 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(ii) Other intangible assets:

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

(iii) Amortization of intangibles:

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

| | |
|--------------------------|---------------|
| • Customer relationships | 10 - 16 years |
| ▪ Other | 5 - 10 years |

(h) Impairment

(i) Trade and other receivables:

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

(ii) Goodwill:

Chemtrade performs a goodwill impairment test on an annual basis or more frequently when events or changes in circumstances indicate that the carrying amount of a CGU or CGU group likely exceeds its recoverable amount.

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

Year ended December 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

Valuation techniques

The recoverable amount of each CGU or CGU group is based on the higher of its value in use and its fair value less costs to sell. The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on both external sources and internal sources. If the recoverable amount of the CGU or CGU group is estimated to be less than its carrying amount, the carrying amount of the CGU or CGU group is reduced to its recoverable amount. An impairment loss is recognized immediately in comprehensive income. Any impairment loss on goodwill that is recognized cannot be reversed.

Value in use approach

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

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

Forecast Operating Margins and Maintenance and Other Capital Expenditures

Chemtrade forecasts operating margins and maintenance and other capital expenditures based on financial budgets, past experience, future growth trends such as gross domestic product ("GDP") growth and inflation, associated economic risk assumptions, assumptions regarding the speed of COVID-19 economic recovery and estimates of achieving key operating initiatives, covering a five year period.

Terminal Growth Rate

Subsequent to the five year forecast period, Chemtrade applies a terminal growth rate. The terminal growth rate is based on estimated long-term GDP growth and inflation in the markets in which Chemtrade operates.

Discount rates

Chemtrade assumes a pre-tax discount rate in order to calculate the present value of its projected cash flows. The discount rate represents a weighted average cost of capital ("WACC"). The WACC is an estimate of the overall required rate of return on an

Year ended December 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate.

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

Fair value less costs to sell approach

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

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

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

(i) Employee benefits

(i) Defined contribution plans:

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

(ii) Defined benefit plans:

A defined benefit pension plan is a post-employment benefit plan other than a DC plan. Chemtrade's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have

Year ended December 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

earned in return for their service in the current and prior periods. That benefit is then discounted to determine its present value and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on high quality bonds that have maturity dates approximating the terms of Chemtrade's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

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

(iii) Multi-employer plan:

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

(iv) Share-based compensation:

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

(j) Revenue recognition

(i) Sale of products:

Revenue from the sale of products in the course of ordinary activities is measured and recorded at the most likely amount of consideration expected to be received, net of returns, trade discounts and volume rebates. Revenue is recognized at the point in time when control of the product transfers to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably,

Year ended December 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized. The timing of the transfers of control varies depending on the individual terms of the contract of sale.

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

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

(ii) Processing services:

Revenue earned on processing services is recognized when the services have been rendered in accordance with contractual terms, recovery of the consideration is probable, the associated costs can be estimated reliably, and the amount of revenue can be measured reliably.

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

(k) Provisions

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

(i) Onerous contracts:

A provision for onerous contracts is recognized when the expected benefits to be derived by Chemtrade from a contract are lower than the unavoidable cost of meeting its

Year ended December 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, Chemtrade considers whether an impairment loss on the assets associated with that contract needs to be recognized, and if appropriate recognizes such loss in comprehensive income.

(ii) Decommissioning liabilities:

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

(iii) Environmental liabilities:

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

(iv) Reserve for legal proceedings:

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

Year ended December 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(I) Financial instruments

(i) Non-derivative financial assets:

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

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

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

Chemtrade de-recognizes the trade receivables sold under its receivables purchase facility when all the risks and rewards of ownership of the receivable are transferred substantially. The balances presented within 'trade and other receivables' in the consolidated statement of financial position are net of the receivables transferred.

Chemtrade classifies its cash inflows from the receivables transferred within operating activities in the consolidated statement of cash flows because it views the principal nature of these inflows as related to the sale of products and services.

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

(ii) Non-derivative financial liabilities:

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

Year ended December 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

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

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

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

(iii) Units:

The Fund units meet the definition of a financial liability under IFRS as the redemption feature of the Fund units creates an unavoidable contractual obligation to pay cash.

The Fund units are considered to be "puttable instruments" because of the redemption feature. IFRS provides a very limited exemption to allow puttable instruments to be presented as equity provided certain criteria are met.

The Fund classifies units as equity because they meet all of the following Puttable Instrument Exemption criteria.

- Units entitle the holder to a pro rata share of the Fund's net assets in the event of its liquidation. Net assets are those assets that remain after deducting all other claims on the assets.
- Units are the class of instruments that are subordinate to all other classes of instruments because they have no priority over other claims to the assets of the Fund on liquidation and do not need to be converted into another instrument before they are in the class of instruments that is subordinate to all other classes of instruments.

Year ended December 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

- All instruments in the class of instruments that is subordinate to all other classes of instruments have identical features.
- Apart from the contractual obligation for the Fund to redeem the units for cash or another financial asset, the units do not include any contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Fund, and it is not a contract that will or may be settled in the Fund's own instruments.
- The total expected cash flows attributable to the units over their lives are based substantially on the net income and the changes in the recognized net assets and unrecognized net assets of the Fund over the life of the units.

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

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

Chemtrade recognizes the liabilities for unpaid cash distributions, distributions opted to be reinvested and bonuses thereon at the time such distributions are declared. Liabilities for distributions opted to be reinvested and bonuses thereon are de-recognized when such units are issued to the participants.

(iv) Derivative financial instruments:

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

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

Year ended December 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(v) Hedging:

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

Cash flow hedges

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

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income and presented in unrealized gains/losses on cash flow hedges in equity remains there until the forecast transaction affects earnings.

When the hedged item is a non-financial asset, the amount recognized in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognized. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in earnings. In other cases the amount recognized in other comprehensive income is transferred to earnings in the same period that the hedged item affects earnings.

Year ended December 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

IFRS 9 accounting policy choice for hedge accounting

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

(m) Government grants

Grants that compensate Chemtrade for expenses incurred are recognized in profit or loss as an offset to expense recognized in selling and administrative expenses in the periods in which the expenses are recognized, unless the conditions for receiving the grant are met after the related expenses have been recognized. In this case, the grant is recognized when it becomes receivable.

Chemtrade recognizes government grants when there is reasonable assurance that it will comply with the conditions attached to the grants and when there is a reasonable assurance that the grants will be received.

(n) Finance income and finance costs

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

(o) Income tax

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates and laws enacted or substantively enacted at the reporting date,

Year ended December 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

and any adjustment to tax payable in respect of previous years.

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

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

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

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

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

Year ended December 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(p) Earnings per unit

Chemtrade presents basic and diluted earnings per unit ("EPU") data for its units. Basic EPU is calculated by dividing the earnings attributable to unitholders of Chemtrade ("Unitholders") by the weighted average number of units outstanding during the period.

Diluted EPU is determined by adjusting the earnings attributable to Unitholders and the weighted average number of units outstanding for the effects of all dilutive potential units, which currently consist of convertible unsecured subordinated debentures and deferred units.

(q) Segment reporting

An operating segment is a component of Chemtrade that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of Chemtrade's other components. All operating segments' operating results are reviewed regularly by Chemtrade's Chief Executive Officer ("CEO") to make decisions about resources to be allocated to each segment and assess its performance, and for which discrete financial information is available. The CEO is the chief operating decision maker. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily Chemtrade's headquarters), head office expenses, finance costs and income tax assets and liabilities.

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

(r) Standards and interpretations adopted during the period:

Several amendments and interpretations apply for the first time in 2020, but do not have an impact on Chemtrade's consolidated financial statements.

(s) Standards and interpretations not yet adopted:

(i) Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

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*

Year ended December 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

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 introduce a practical expedient to account for a change in the basis for determining the contractual cash flows of financial instruments that are affected by IBOR reform. Under the practical expedient, Chemtrade will not derecognize or adjust the carrying amount of financial instruments for modifications required by IBOR reform, but will instead update the effective interest rate to reflect the change in the interest rate benchmark. The practical expedient will be applied when the modification is required as a direct consequence of IBOR reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

The amendments also provide relief from specific hedge accounting requirements, such that existing hedge relationships directly affected by IBOR reform will not be subject to discontinuation, and new hedging relationships that do not qualify under the current standards will be permitted, if changes to the hedge relationships are within the scope of the amendments.

At December 31, 2020, Chemtrade has \$727,870 (US\$572,000) US LIBOR relating to term bank debt and revolving credit and \$29,420 (US\$23,120) US LIBOR relating to a receivables purchase facility that will be subject to IBOR reform. Chemtrade expects that the interest rate benchmark for these loans will be changed and is still evaluating whether any significant modification gain or loss will arise as a result of applying the amendments to these changes.

At December 31, 2020, Chemtrade has cash flow hedges of 1-month LIBOR risk. Chemtrade expects that indexation of the hedged items and hedging instruments to 1-month LIBOR will be replaced. Whenever the replacement occurs, Chemtrade expects to apply the amendments and related reliefs related to hedge accounting. However, there is uncertainty about when and how replacement may occur. When the change occurs to the hedged item or the hedging instrument, Chemtrade will remeasure the cumulative change in fair value of the hedged item or the fair value of the interest rate swap, respectively. Hedging relationships may experience hedge ineffectiveness if there is a timing or other mismatch between the transition of the hedged item and that of the hedging instrument. Chemtrade does not expect that amounts accumulated in the cash flow hedge reserve will be immediately reclassified to profit or loss because of IBOR transition.

Year ended December 31, 2020 and 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

Disclosure

The amendments will require Chemtrade to disclose additional information about the Fund's exposure to risks arising from IBOR reform and related risk management activities.

Transition

Chemtrade plans to apply the amendments on January 1, 2021. Application will not impact amounts reported for 2020 or prior periods.

(ii) Other standards

The following new and amended standards are not expected to have a significant impact on Chemtrade's consolidated financial statements:

- COVID-19-Related Rent Concessions (Amendment to IFRS 16)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to Conceptual Framework (Amendments to IFRS 3)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

4. TRADE AND OTHER RECEIVABLES:

| | 2020 | 2019 |
|--|------------------|-------------------|
| Trade and other receivables before expected credit losses ⁽¹⁾ | \$ 87,019 | \$ 156,275 |
| Less: expected credit losses | (760) | (927) |
| Trade and other receivables | \$ 86,259 | \$ 155,348 |

⁽¹⁾ See Receivables Purchase Facility below.

As disclosed in note 25, Chemtrade is exposed to normal credit and currency risks with respect to its accounts receivable. At December 31, 2020, 93.1% (2019 - 94.3%) of accounts receivable are less than 30 days past due, and less than 3% (2019 - less than 3%) of accounts receivable are greater than 120 days past due that are not provided for.

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

Year ended December 31, 2020 and 2019

4. TRADE AND OTHER RECEIVABLES (continued):

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

| | 2020 | 2019 |
|----------------------------------|---------------|---------------|
| Balance at beginning of year | \$ 927 | \$ 2,566 |
| Adjustments made during the year | 26 | (43) |
| Write-offs | (193) | (1,596) |
| Balance at end of year | \$ 760 | \$ 927 |

Receivables Purchase Facility

During 2020, Chemtrade entered into a factoring facility of up to \$100,000 (the "A/R Facility") with HSBC Bank Canada. The A/R Facility is an uncommitted receivables purchase facility for the purchase of eligible receivables owed to Chemtrade from trade debtors on an undisclosed basis with no recourse. As at December 31, 2020, trade receivables sold under the A/R Facility were \$36,973 (2019 - nil).

5. INVENTORIES:

Chemtrade's inventories are as follows:

| | 2020 | 2019 |
|--------------------|-------------------|-------------------|
| Raw materials | \$ 53,714 | \$ 68,420 |
| Finished goods | 27,057 | 22,036 |
| Operating supplies | 30,765 | 31,817 |
| | \$ 111,536 | \$ 122,273 |

The amount of inventories recognized as an expense during the year ended December 31, 2020 was \$967,136 (2019 - \$1,024,127).

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

Year ended December 31, 2020 and 2019

6. ASSETS HELD FOR SALE:

During 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.

The following are details regarding the assets held for sale and the associated liabilities as at December 31, 2020 and December 31, 2019:

| Assets held for sale | December 31, 2020 | | December 31, 2019 | |
|--|--------------------------|----------------|--------------------------|----------------|
| Trade and other receivables | \$ | 7,762 | \$ | 6,844 |
| Inventories | | 7,045 | | 7,751 |
| Prepaid expenses and other assets | | 105 | | 94 |
| PPE | | 56,902 | | 57,398 |
| ROU assets | | 124 | | 292 |
| Intangible assets | | 127,801 | | 130,393 |
| Total | \$ | 199,739 | \$ | 202,772 |
| Liabilities directly associated with assets held for sale | | | | |
| Trade and other payables | \$ | 3,124 | \$ | 4,667 |
| Lease liabilities | | 130 | | 226 |
| Deferred tax liabilities | | 13,795 | | 13,817 |
| Total | \$ | 17,049 | \$ | 18,710 |

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

Year ended December 31, 2020 and 2019

7. PROPERTY, PLANT AND EQUIPMENT:

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

| | Land | Plant and equipment | Facilities and equipment under construction | Total |
|--|-----------|------------------------|--|--------------|
| Cost | | | | |
| Balance at January 1, 2019 | \$ 93,628 | \$ 1,853,192 | \$ 108,262 | \$ 2,055,082 |
| Additions | — | — | 96,299 | 96,299 |
| Decommissioning provisions | — | 18,682 | — | 18,682 |
| Transfers | — | 101,697 | (101,697) | — |
| Reclassification to assets held for sale | (1,889) | (50,435) | (19,114) | (71,438) |
| Asset retirements and write-downs | (1,060) | (52,522) | (260) | (53,842) |
| Foreign exchange rate changes | (2,428) | (60,471) | (3,305) | (66,204) |
| Balance at December 31, 2019 | \$ 88,251 | \$ 1,810,143 | \$ 80,185 | \$ 1,978,579 |
| Additions | — | — | 77,088 | 77,088 |
| Decommissioning provisions | — | 15,567 | — | 15,567 |
| Transfers | — | 76,773 | (76,773) | — |
| Assets held for sale | — | 89 | (733) | (644) |
| Asset retirements and write-downs | (2) | (108,466) | (547) | (109,015) |
| Foreign exchange rate changes | (908) | (20,901) | (3,207) | (25,016) |
| Balance at December 31, 2020 | \$ 87,341 | \$ 1,773,205 | \$ 76,013 | \$ 1,936,559 |
| Accumulated depreciation | | | | |
| Balance at January 1, 2019 | \$ — | \$ (794,412) | \$ — | \$ (794,412) |
| Depreciation | — | (140,978) | — | (140,978) |
| Reclassification to assets held for sale | — | 14,040 | — | 14,040 |
| Asset retirements and write-downs | — | 37,775 | — | 37,775 |
| Foreign exchange rate changes | — | 31,239 | — | 31,239 |
| Depreciation allocated to inventory | — | 719 | — | 719 |
| Balance at December 31, 2019 | \$ — | \$ (851,617) | \$ — | \$ (851,617) |
| Depreciation | — | (137,883) | — | (137,883) |
| Asset retirements and write-downs | — | 90,068 | — | 90,068 |
| Foreign exchange rate changes | — | 13,826 | — | 13,826 |
| Depreciation allocated to inventory | — | (646) | — | (646) |
| Balance at December 31, 2020 | \$ — | \$ (886,252) | \$ — | \$ (886,252) |
| Net carrying amount | | | | |
| December 31, 2019 | \$ 88,251 | \$ 958,526 | \$ 80,185 | \$ 1,126,962 |
| December 31, 2020 | \$ 87,341 | \$ 886,953 | \$ 76,013 | \$ 1,050,307 |

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

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8. LEASES:

(i) ROU assets

Chemtrade leases various assets that include rail cars, private fleet, real estate, vehicles and other heavy-duty machinery and equipment. Chemtrade's ROU assets are presented below:

| | Rail cars | Private Fleet | Real Estate | Vehicles | Other ⁽¹⁾ | Total |
|---|----------------|---------------|---------------|------------|----------------------|----------------|
| Balance at January 1, 2019 | \$ 129,490 | \$ 4,336 | \$ 30,401 | \$ 1,133 | \$ 11,355 | \$ 176,715 |
| Depreciation | (44,538) | (1,411) | (3,319) | (610) | (3,025) | (52,903) |
| Additions | 55,988 | — | — | 494 | 344 | 56,826 |
| Derecognition and others ⁽²⁾ | (1,969) | (93) | — | (91) | (1,989) | (4,142) |
| Foreign exchange rate changes | (1,251) | (158) | (507) | (34) | (322) | (2,272) |
| Balance at December 31, 2019 | 137,720 | 2,674 | 26,575 | 892 | 6,363 | 174,224 |
| Depreciation | (42,822) | (1,748) | (2,888) | (600) | (3,104) | (51,162) |
| Additions | 35,248 | 2,381 | — | 408 | 2,223 | 40,260 |
| Derecognition and others ⁽²⁾ | (10,495) | — | (18) | (107) | 170 | (10,450) |
| Foreign exchange rate changes | (732) | (75) | (105) | — | (37) | (949) |
| Balance at December 31, 2020 | 118,919 | 3,232 | 23,564 | 593 | 5,615 | 151,923 |

⁽¹⁾ Other includes leased assets such as forklifts, trucks and storage tanks.

⁽²⁾ Includes derecognition, reclassifications and other adjustments.

(ii) Lease liabilities

Chemtrade's lease liabilities schedule is presented below:

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Balance at beginning of year | \$ 182,025 | \$ 189,937 |
| Additions | 40,260 | 56,826 |
| Interest expense | 8,211 | 8,812 |
| Principal repayment ⁽¹⁾ | (61,614) | (61,518) |
| Derecognition and others ⁽²⁾ | (5,314) | (5,661) |
| Foreign exchange rate changes | (2,085) | (6,371) |
| Total | 161,483 | 182,025 |
| Less: Current portion | 47,501 | 48,392 |
| Balance at end of year | \$ 113,982 | \$ 133,633 |

⁽¹⁾ Excludes sub-lease receipts.

⁽²⁾ Includes derecognition, reclassifications and other adjustments.

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

Year ended December 31, 2020 and 2019

8. LEASES (continued):

The maturity analysis of Chemtrade's contractual undiscounted lease liabilities is presented below:

| | December 31, 2020 | December 31, 2019 |
|---|--------------------------|--------------------------|
| Less than one year | \$ 52,217 | \$ 54,799 |
| One to five years | 104,783 | 127,144 |
| More than five years | 23,785 | 22,367 |
| Total undiscounted lease liabilities | \$ 180,785 | \$ 204,310 |

(iii) Amounts recognized in profit or loss

| | December 31, 2020 | December 31, 2019 |
|--|--------------------------|--------------------------|
| Depreciation | \$ 51,162 | \$ 52,903 |
| Interest expense (included in finance cost) | 8,211 | 8,812 |
| Income from sub-leasing ROU assets | (137) | (249) |
| Expenses relating to short term leases | 7,242 | 9,260 |
| Expenses relating to leases of low-value assets, excluding short term leases of low value assets | 556 | 387 |

9. OTHER ASSETS:

Chemtrade's other assets are as follows:

| | 2020 | 2019 |
|-----------------------|-----------------|-----------------|
| Deferred charges | 3,765 | 5,641 |
| Long-term receivables | 2,232 | 2,639 |
| Other | 1,025 | 1,036 |
| | \$ 7,022 | \$ 9,316 |

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

Year ended December 31, 2020 and 2019

10. INTANGIBLE ASSETS:

Chemtrade's intangible assets and goodwill are as follows:

| | Goodwill | Customer Relationships | Other | Total |
|--|-----------------|-------------------------------|--------------|--------------|
| Cost | | | | |
| Balance at January 1, 2019 | \$ 748,846 | \$ 748,841 | \$ 63,129 | \$ 1,560,816 |
| Reclassification to assets held for sale | (99,093) | (9,997) | (58,294) | (167,384) |
| Impairment | (65,600) | — | — | (65,600) |
| Foreign exchange rate changes | (25,656) | (12,841) | (2,392) | (40,889) |
| Balance at December 31, 2019 | \$ 558,497 | \$ 726,003 | \$ 2,443 | \$ 1,286,943 |
| Impairment | (56,000) | — | — | (56,000) |
| Foreign exchange rate changes | (1,714) | (4,869) | (18) | (6,601) |
| Balance at December 31, 2020 | \$ 500,783 | \$ 721,134 | \$ 2,425 | \$ 1,224,342 |
| Accumulated Amortization | | | | |
| Balance at January 1, 2019 | \$ — | \$ (361,678) | \$ (31,502) | \$ (393,180) |
| Reclassification to assets held for sale | — | 5,415 | 31,756 | 36,991 |
| Amortization | — | (65,083) | (3,494) | (68,577) |
| Foreign exchange rate changes | — | 7,500 | 1,528 | 9,028 |
| Balance at December 31, 2019 | \$ — | \$ (413,846) | \$ (1,892) | \$ (415,738) |
| Amortization | — | (64,733) | (134) | (64,867) |
| Foreign exchange rate changes | — | 4,311 | 22 | 4,333 |
| Balance at December 31, 2020 | \$ — | \$ (474,268) | \$ (2,004) | \$ (476,272) |
| Net carrying amount | | | | |
| December 31, 2019 | \$ 558,497 | \$ 312,157 | \$ 551 | \$ 871,205 |
| December 31, 2020 | \$ 500,783 | \$ 246,866 | \$ 421 | \$ 748,070 |

Impairment testing for cash-generating units containing goodwill

During the second quarter of 2019, Chemtrade performed a test for goodwill impairment for the specialty chemicals 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

Year ended December 31, 2020 and 2019

10. INTANGIBLE ASSETS (continued):

forecast performance of each CGU and CGU group, Chemtrade performed a test for goodwill impairment for the water solutions CGU group in WSSC. Although the water solutions CGU group's operating performance had been improving, as a result of applying the higher discount rate, this CGU group'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 group, its recoverable amount equalled its carrying value.

Chemtrade performed its annual test for goodwill impairment in the fourth quarter of 2020 in accordance with its policy described in note 3. The recoverable amount of all CGUs and CGU groups exceeded their carrying values and no impairment loss was recognized in the fourth quarter of 2020 (2019 - nil). The test was performed using a pre-tax discount rate of 11.7% to 13.1% (2019 – 11.1% to 12.4%) and a terminal growth rate of 2.5% (2019 – 2.5%). Assumptions used in the operating cash flows and maintenance and other expenditures consider financial budgets, past experience, future growth trends such as GDP growth and inflation, associated economic risk assumptions, assumptions regarding the speed of COVID-19 economic recovery and estimates of achieving key operating initiatives, covering a five year period.

The carrying value of goodwill for the SPPC segment is \$298,831 (2019 - \$303,009), for the WSSC segment is \$159,130 (2019 - \$212,666) and for the EC segment is \$42,822 (2019 - \$42,822). For 2020, the goodwill for the WSSC segment includes \$97,124 (2019 - \$99,093) related to assets held for sale.

11. TRADE AND OTHER PAYABLES:

Chemtrade's payables are as follows:

| | 2020 | 2019 |
|---|-------------------|------------|
| Trade payables | \$ 128,572 | \$ 134,743 |
| Non-trade payables and accrued expenses | 79,376 | 64,951 |
| | \$ 207,948 | \$ 199,694 |

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12. PROVISIONS:

| | Onerous Contracts | Decommissioning liability | Environmental Liability | Legal Provision | Total |
|-------------------------------|----------------------|------------------------------|----------------------------|--------------------|------------|
| Balance at January 1, 2019 | \$ 7,226 | \$ 70,660 | \$ 60,882 | \$ 94,926 | \$ 233,694 |
| Adjustments ⁽¹⁾ | (7,226) | 1,953 | 5,789 | — | 516 |
| Additions | — | 10,893 | — | 40,662 | 51,555 |
| Accretion | — | 1,359 | 2,631 | — | 3,990 |
| Payments | — | (1,205) | (5,131) | (122,186) | (128,522) |
| Foreign exchange rate changes | — | (250) | (2,849) | (3,524) | (6,623) |
| | — | 83,410 | 61,322 | 9,878 | 154,610 |
| Less: Current portion | — | 990 | 8,915 | 9,878 | 19,783 |
| Balance at December 31, 2019 | \$ — | \$ 82,420 | \$ 52,407 | \$ — | \$ 134,827 |
| Adjustments ⁽¹⁾ | — | 15,567 | 8,170 | — | 23,737 |
| Additions | — | 754 | — | 772 | 1,526 |
| Accretion | — | 1,120 | 1,614 | — | 2,734 |
| Payments | — | (505) | (3,788) | (1,626) | (5,919) |
| Foreign exchange rate changes | — | (292) | (1,440) | (118) | (1,850) |
| | — | 100,054 | 65,878 | 8,906 | 174,838 |
| Less: Current portion | — | 1,311 | 7,663 | 8,906 | 17,880 |
| Balance at December 31, 2020 | \$ — | \$ 98,743 | \$ 58,215 | \$ — | \$ 156,958 |

⁽¹⁾ Includes adjustments due to change in discount rate in 2020 and 2019 and the implementation of IFRS 16 in 2019.

(a) Onerous contracts

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

(b) Decommissioning liability

Chemtrade has estimated a decommissioning liability for its plants and has accrued for this obligation. Decommissioning is expected to occur on dates ranging from 2021 to 2050.

(c) Environmental liability

Chemtrade has estimated a provision for its environmental liability in association with its sites. Expenditures are expected to occur on dates ranging from 2021 to 2050.

Year ended December 31, 2020 and 2019

12. PROVISIONS (continued):

(d) Legal provision

Chemtrade has estimated an overall provision for litigation. Provisions are calculated based on a current estimate of the amount that will be incurred in settling outstanding legal matters. The legal provision as at December 31, 2020 and 2019 includes a reserve for legal proceedings described below.

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 year ended December 31, 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. By the third quarter of 2019, additional settlements were negotiated and paid, such that all of the lawsuits, including all class action lawsuits arising directly out of the anti-competitive actions in the water business were settled. Only a few ex-employee initiated derivative actions remain outstanding. While Chemtrade believes that the reserve is sufficient, the outcome and timing of the remaining actions are uncertain.

Notes to Consolidated Financial Statements
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13. LONG-TERM DEBT:

Changes in long-term debt are as follows:

| | Term bank debt (US\$ denominated) | Revolving credit (US\$ denominated) ⁽¹⁾ | Revolving credit (Cdn\$ denominated) ⁽¹⁾ | Transaction costs | Total |
|---|--------------------------------------|---|--|----------------------|-----------|
| Maturity | October 24, 2024 | October 24, 2024 | October 24, 2024 | | |
| Credit limit US\$ ⁽²⁾ | 325,000 | 525,000 | | | 850,000 |
| Drawn US\$ | 325,000 | 258,305 | | | 583,305 |
| Balance at January 1, 2020 | \$ 421,948 | \$ 318,601 | \$ 7,724 | \$ (3,999) | \$744,274 |
| Net change | — | 17,781 | 31,276 | — | 49,057 |
| Gain on net investment hedge of foreign operations | (8,385) | (9,790) | — | — | (18,175) |
| Foreign exchange rate changes | — | 2,100 | — | — | 2,100 |
| Financing transaction costs ⁽³⁾ | — | — | — | (1,324) | (1,324) |
| Accretion expense on financing transaction costs | — | — | — | 982 | 982 |
| Balance at December 31, 2020 | \$ 413,563 | \$ 328,692 | \$ 39,000 | \$ (4,341) | \$776,914 |

⁽¹⁾ At December 31, 2020, Chemtrade had committed a total of \$18,880 of the revolving credit facility towards standby letters of credit.

⁽²⁾ At December 31, 2020, Cdn\$ limit of the senior credit facilities ("Credit Facilities") was \$1,081,626, consisting of a term bank debt of \$413,563 and a revolving credit facility of \$668,063.

⁽³⁾ 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. 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 (US\$ denominated) | Revolving credit (US\$ denominated) ⁽¹⁾ | Revolving credit (Cdn\$ denominated) ⁽¹⁾ | Transaction costs | Total |
|---|--------------------------------------|---|--|----------------------|-----------|
| Maturity ⁽²⁾ | October 24, 2024 | October 24, 2024 | October 24, 2024 | | |
| Credit limit US\$ ⁽³⁾ | 325,000 | 525,000 | | | 850,000 |
| Drawn US\$ | 325,000 | 245,399 | | | 570,399 |
| Balance at January 1, 2019 | \$ 443,203 | \$ 250,313 | \$ — | \$ (4,502) | \$689,014 |
| Net change | — | 82,211 | 7,724 | — | 89,935 |
| Gain on net investment hedge of foreign operations | (8,330) | (9,103) | — | — | (17,433) |
| Foreign exchange rate changes | (12,925) | (4,820) | — | 1 | (17,744) |
| Financing transaction costs ⁽²⁾ | — | — | — | (558) | (558) |
| Accretion expense on financing transaction costs | — | — | — | 1,060 | 1,060 |
| Balance at December 31, 2019 | \$ 421,948 | \$ 318,601 | \$ 7,724 | \$ (3,999) | \$744,274 |

⁽¹⁾ At December 30, 2019, Chemtrade had committed a total of \$10,660 of the revolving credit facility towards standby letters of credit.

⁽²⁾ During the fourth quarter of 2019, Chemtrade modified certain terms of its Credit Facilities including extending the maturity date from December 14, 2023 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.

⁽³⁾ At December 30, 2019, Cdn\$ limit of the Credit Facilities was \$1,103,555, consisting of a term bank debt of \$421,948 and a revolving credit facility of \$681,607.

Notes to Consolidated Financial Statements
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Year ended December 31, 2020 and 2019

13. LONG-TERM DEBT (continued):

The Credit Facilities are secured by substantially all of Chemtrade's assets. At December 31, 2020, the weighted average effective interest rate of the facilities was 4.3% (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 December 31, 2020, Chemtrade was in compliance with all covenants.

14. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES:

Changes in convertible unsecured subordinated debentures are as follows:

| | Convertible unsecured subordinated debentures ⁽¹⁾ | | | | | | Total |
|---|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|-----------------------------|------------------|
| | Fund 2014 5.25% Debentures | Fund 2016 5.00% Debentures | Fund 2017 4.75% Debentures | Fund 2019 6.50% Debentures | Fund 2020 8.50% Debentures | CEI Series VI Debentures | |
| Maturity | June 30, 2021 | August 31, 2023 | May 31, 2024 | October 31, 2026 | September 30, 2025 | December 31, 2021 | |
| Interest rate | 5.25 % | 5.00 % | 4.75 % | 6.50 % | 8.50 % | 6.50 % | |
| Principal outstanding at January 1, 2020 | 126,500 | 143,750 | 201,115 | 100,000 | — | 74,584 | 645,949 |
| Principal outstanding at December 31, 2020 | — | 143,750 | 201,115 | 100,000 | 86,250 | — | 531,115 |
| Balance at January 1, 2020 | 127,525 | 132,250 | 178,992 | 95,578 | — | 74,584 | 608,929 |
| Issuance ⁽²⁾ | — | — | — | — | 86,250 | — | 86,250 |
| Redemption ⁽³⁾⁽⁴⁾ | (126,499) | — | — | — | — | (74,584) | (201,083) |
| Conversion | (1) | — | — | — | — | — | (1) |
| Change in fair value recognized in profit or loss | 13,690 | 12,928 | 19,933 | 9,916 | (677) | — | 55,790 |
| Change in fair value due to own credit risk ⁽⁵⁾ | (14,715) | (18,678) | (42,055) | (27,494) | (1,048) | — | (103,990) |
| Balance at December 31, 2020 | — | 126,500 | 156,870 | 78,000 | 84,525 | — | 445,895 |

⁽¹⁾ 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 "Fund Debentures". The Fund Debentures, the Chemtrade Electrochem Inc. ("CEI") Series VI Debentures and the CEI Series V Debentures, which were redeemed during the first quarter of 2019 are collectively referred to as the "Debentures". Chemtrade has designated the Debentures as financial liabilities at fair value through profit or loss.

⁽²⁾ During the third quarter of 2020, Chemtrade completed a public offering of the Fund 2020 8.50% Debentures, at a price of \$1,000 per debenture. 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.

⁽³⁾ 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. Chemtrade used its Credit Facilities to fund the redemption.

⁽⁴⁾ During the third and fourth quarters of 2020, the Fund redeemed all of the outstanding Fund 2014 5.25% Debentures at a total aggregate redemption price of \$128,252, being equal to the principal amount of debentures redeemed, plus accrued and unpaid interest to, but

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14. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES (continued):

excluding, the redemption date. Chemtrade used a portion of the net proceeds from the Fund 2020 8.5% Debentures offering, proceeds received from its A/R Facility and its Credit Facilities to fund the redemption.

⁽⁵⁾ The change in fair value of the Debentures due to Chemtrade's own credit risk has been presented in other comprehensive income, net of taxes, rather than net earnings.

| | Convertible unsecured subordinated debentures ⁽¹⁾ | | | | | | Total |
|---|--|----------------------------------|----------------------------------|----------------------------------|-------------------------------|--------------------------------|-----------------|
| | Fund 2014 5.25% Debentures | Fund 2016 5.00% Debentures | Fund 2017 4.75% Debentures | Fund 2019 6.50% Debentures | CEI Series V Debentures | CEI Series VI Debentures | |
| Maturity | June 30, 2021 | August 31, 2023 | May 31, 2024 | October 31, 2026 | December 31, 2020 | December 31, 2021 | |
| Interest rate | 5.25 % | 5.00 % | 4.75 % | 6.50 % | 6.00 % | 6.50 % | |
| Principal outstanding at January 1, 2019 | 126,500 | 143,750 | 201,250 | — | 84,011 | 74,584 | 630,095 |
| Principal outstanding at December 31, 2019 | 126,500 | 143,750 | 201,115 | 100,000 | — | 74,584 | 645,949 |
| Balance at January 1, 2019 | 120,175 | 129,375 | 170,962 | — | 84,011 | 74,696 | 579,219 |
| Issuance ⁽²⁾ | — | — | — | 100,000 | — | — | 100,000 |
| Redemption ⁽³⁾ | — | — | — | — | (84,011) | — | (84,011) |
| Conversion | — | — | (121) | — | — | — | (121) |
| Change in fair value recognized in profit or loss | 663 | 1,635 | 2,774 | (4,854) | — | 414 | 632 |
| Change in fair value due to own credit risk ⁽⁴⁾ | 6,687 | 1,240 | 5,377 | 432 | — | (526) | 13,210 |
| Balance at December 31, 2019 | 127,525 | 132,250 | 178,992 | 95,578 | — | 74,584 | 608,929 |

⁽¹⁾ Chemtrade has designated the Debentures as financial liabilities at fair value through profit or loss.

⁽²⁾ During the fourth quarter of 2019, Chemtrade completed a public offering of the Fund 2019 6.50% Debentures, at a price of \$1,000 per debenture. 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.

⁽³⁾ During the first quarter of 2019, Chemtrade redeemed the remaining portion of the outstanding CEI Series V Debentures at a total aggregate redemption price of \$84,052, being equal to 100% of the principal amount of debentures outstanding, plus accrued and unpaid interest to, but excluding, the redemption date. Chemtrade used its Credit Facilities to fund the redemption.

⁽⁴⁾ The change in fair value of the Debentures due to Chemtrade's own credit risk has been presented in other comprehensive income, net of taxes, rather than net earnings.

For the year ended December 31, 2020, interest expense of \$30,905 (2019 - \$29,927) and transaction costs of \$4,013 (2019 - \$4,539) relating to the Debentures were recognized in net finance costs.

Notes to Consolidated Financial Statements
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Year ended December 31, 2020 and 2019

15. OTHER LONG-TERM LIABILITIES:

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

| | 2020 | 2019 |
|---|------------------|-------------|
| Long-term portion of LTIP liability (note 18) | \$ 14,258 | \$ 12,287 |
| Interest rate swap liability (note 25) | 22,164 | 7,143 |
| Reserve for self-insurance | 3,818 | 3,895 |
| Long-term payable | — | 2,450 |
| Other | 675 | 1,074 |
| | \$ 40,915 | \$ 26,849 |

16. EMPLOYEE BENEFITS:

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

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

Certain hourly employees participate in the Pulp and Paper Industry Pension Trust Fund, a multi-employer, negotiated costs defined benefit plan. The plan is funded by employer and employee contributions. The employer-related expense under this plan in 2020 was \$266 (2019 - \$300).

All eligible Canadian employees participate in a DC plan. The DC plan is self-directed. Participants choose from a range of investment options offered by the plan administrator. Chemtrade provides a basic contribution of 4% of base salary for participants. Participants can make additional voluntary contributions up to 2% of their base salary, and Chemtrade matches each dollar contributed up to 2% for a total of 6% of base salary. Chemtrade's contributions to the DC plan vest immediately. The employer-related expense under this plan in 2020 was \$2,684 (2019 - \$2,498).

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

Short-term employee benefits for current employees, such as salaries, paid absences, bonuses and other benefits, are accounted for on an accrual basis over the period in which the

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16. EMPLOYEE BENEFITS (continued):

employees provide the related services. In 2020, \$174,251 (2019 - \$174,586) of short-term employee benefits were recognized in cost of sales and services, and \$61,609 (2019 - \$52,627) were recognized in selling and administrative expenses.

Chemtrade expects \$8,913 in contributions to be paid to its defined benefit plans in 2021.

| | 2020 | 2019 |
|--|-------------|-------------|
| Present value of unfunded obligations | \$ 9,084 | \$ 7,219 |
| Present value of funded obligations | 405,000 | 389,894 |
| Total present value of obligations | 414,084 | 397,113 |
| Fair value of plan assets | (362,721) | (343,819) |
| Recognized liability for defined benefit obligations | \$ 51,363 | \$ 53,294 |
| | 2020 | 2019 |
| Components of net periodic benefit cost | | |
| Current service cost | \$ 2,537 | \$ 2,326 |
| Net interest cost | 1,551 | 1,949 |
| Administration costs | 2,405 | 2,274 |
| Loss on curtailment | 241 | 105 |
| Net periodic benefit cost recognized | \$ 6,734 | \$ 6,654 |
| | 2020 | 2019 |
| Net periodic benefit cost allocation | | |
| Cost of sales | \$ 2,371 | \$ 2,143 |
| Selling and administrative expenses | 2,812 | 2,562 |
| Net finance costs | 1,551 | 1,949 |
| Net periodic benefit cost recognized | \$ 6,734 | \$ 6,654 |
| | 2020 | 2019 |
| Other comprehensive income | | |
| Return on plan assets, excluding interest income | \$ (33,428) | \$ (37,499) |
| Actuarial losses | 30,903 | 42,416 |
| (Gain) loss recognized in OCI during the year | \$ (2,525) | \$ 4,917 |

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16. EMPLOYEE BENEFITS (continued):

| | 2020 | 2019 |
|---|------------|------------|
| Weighted average assumptions | | |
| Discount rate | 2.41 % | 3.10 % |
| Ultimate other medical trend rate | 4.50 % | 4.50 % |
| Salary escalation | 3.00 % | 3.00 % |
| | 2020 | 2019 |
| Change in accrued benefit obligation | | |
| Accrued benefit obligation at beginning of year | \$ 397,113 | \$ 378,629 |
| Current service cost | 2,537 | 2,326 |
| Interest cost | 11,184 | 14,256 |
| Employee contributions | 387 | 401 |
| Benefits paid | (23,321) | (24,184) |
| Loss on curtailment | 241 | 105 |
| Plan settlements | 85 | (5,299) |
| Foreign exchange rate changes | (5,045) | (11,537) |
| Actuarial loss (gain) from changes in demographic assumptions | 65 | (2,631) |
| Actuarial loss from changes in financial assumptions | 30,523 | 43,179 |
| Actuarial loss from experience adjustments | 315 | 1,868 |
| Accrued benefit obligation at end of year | \$ 414,084 | \$ 397,113 |
| | 2020 | 2019 |
| Change in plan assets | | |
| Plan assets at beginning of year | \$ 343,819 | \$ 328,516 |
| Administration fee | (2,405) | (2,274) |
| Interest income | 9,633 | 12,307 |
| Employer contributions | 5,467 | 6,312 |
| Employee contributions | 387 | 401 |
| Benefits paid | (23,321) | (24,184) |
| Foreign exchange rate changes | (4,372) | (9,459) |
| Plan settlements | 85 | (5,299) |
| Return on plan assets, excluding interest income | 33,428 | 37,499 |
| Plan assets at end of year | \$ 362,721 | \$ 343,819 |

Year ended December 31, 2020 and 2019

16. EMPLOYEE BENEFITS (continued):

The asset mix in the plan is approximately 61.0% bonds (2019 - 60.1%), approximately 30.0% equity securities (2019 - 30.4%) and approximately 9.0% other investments (2019 - 9.5%).

Assumed discount rates, inflation rates and mortality rates have an effect on the amounts recognized on the consolidated statement of financial position. Holding other assumptions constant, changes in key assumptions that are reasonably possible would have affected the defined benefit obligation by the amounts shown below:

| | Defined benefit obligation | |
|-------------------------------|----------------------------|------------|
| | Increase | Decrease |
| Discount rate (1% movement) | \$ (43,798) | \$ 53,501 |
| Inflation rate (1% movement) | \$ 13,250 | \$ (4,010) |
| Mortality rate (10% movement) | \$ (11,939) | \$ 13,192 |

17. UNITS AND OTHER COMPONENTS OF EQUITY:

(a) Units:

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

| | 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 |
| Conversion of unsecured subordinated convertible debentures | 35 | 1 | 5,056 | 121 |
| Issuance of units under the DRIP | 568,061 | 2,912 | — | — |
| Balance – December 31 | 93,169,158 | \$ 1,465,029 | 92,601,062 | \$ 1,462,116 |

(b) Contributed surplus

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

Year ended December 31, 2020 and 2019

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

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

AOCI is comprised of the following separate components of equity:

Cumulative translation account

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

Unrealized gains/losses on cash flow and net investment hedges

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

Change in fair value of convertible debentures due to credit risk

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

(d) Distributions:

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 may be newly issued by Chemtrade from treasury or may 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, as determined by the Board.

Distributions paid for the year ended December 31, 2020 were \$69,582 (2019 - \$111,116) or \$0.75 per unit (2019 - \$1.20 per unit). Of the distributions paid for the year ended December 31, 2020, \$66,670 (2019 - \$111,116) were in cash and \$2,912 (2019 - nil) were reinvested in additional units pursuant to the DRIP. All of Chemtrade's distributions are discretionary and subject to Board approval.

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

Distributions declared, including the bonus distributions for the year ended December 31, 2020 were \$64,998 (2019 - \$111,116) or \$0.70 per unit (2019 - \$1.20).

On January 20, 2021, Chemtrade declared a cash distribution of \$0.05 per unit for the month of January 2021 payable on February 23, 2021 to Unitholders of record at the close of business on January 29, 2021.

(e) Net loss per unit:

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

| | 2020 | 2019 |
|---|---------------------|--------------------|
| Numerator | | |
| Net loss | \$ (167,478) | \$ (99,654) |
| Net interest and fair value adjustment on the Debentures ⁽¹⁾ | — | — |
| Net fair value adjustment on deferred unit plan ⁽²⁾ | — | — |
| Diluted net loss | \$ (167,478) | \$ (99,654) |

⁽¹⁾ For the years ended December 31, 2020 and 2019, the potential conversion of the Debentures have not been included as the effect on net loss per unit would be anti-dilutive.

⁽²⁾ For the year ended December 31, 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 year ended December 31, 2019, the deferred units would have been settled on the secondary market and therefore, had no potential dilutive effect on net loss. See Note 18.

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Denominator | | |
| Weighted average number of units | 92,686,735 | 92,596,685 |
| Weighted average Debentures dilutive units ⁽¹⁾ | — | — |
| Weighted average deferred unit plan dilutive units ⁽²⁾ | — | — |
| Weighted average number of diluted units | 92,686,735 | 92,596,685 |

⁽¹⁾ For the years ended December 31, 2020 and 2019, the potential conversion of the Debentures have not been included as the effect on net loss per unit would be anti-dilutive.

⁽²⁾ For the year ended December 31, 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 year ended December 31, 2019, the deferred units would have been settled on the secondary market and therefore, had no potential dilutive effect on net loss. See Note 18.

Year ended December 31, 2020 and 2019

18. SHARE-BASED PAYMENTS:

Chemtrade operates a 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 of companies comprising the S&P/TSX Dividend Composite Index. The performance based component of the 2020 - 2022 LTIP awards is based on return on investment capital 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.

As at December 31, 2020, a liability of \$19,384 (December 31, 2019 - \$17,881) has been recorded, of which \$5,126 (December 31, 2019 - \$5,594) is included in trade and other payables and \$14,258 (December 31, 2019 - \$12,287) is included in other long-term liabilities. For the year ended December 31, 2020, Chemtrade recorded an expense of \$6,828 (2019 - expense of \$11,555) in selling and administrative expenses related to the fair value adjustments on the LTIP.

Chemtrade has in place a 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 50% of their compensation in the form of deferred units of Chemtrade. As at December 31, 2020, 556,948 deferred units at a value of \$3,286 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:

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18. SHARE-BASED PAYMENTS (continued):

| | December 31, 2020 | December 31, 2019 |
|---------------------------------|-------------------|-------------------|
| Chemtrade units: | | |
| Average base price | \$14.01 | \$15.41 |
| Period-end unit price | \$5.83 | \$11.03 |
| Average expected volatility | 57.18% | 27.60% |
| Index units ⁽¹⁾ : | | |
| Average base price | — | \$151.71 |
| Period-end unit price | — | \$182.02 |
| Average expected volatility | — | 5.42% |
| Average risk free interest rate | 0.10% | 1.69% |
| Average expected remaining term | 1.50 years | 1.50 years |

⁽¹⁾ 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.

19. COMMITMENTS AND CONTINGENCIES:

(a) Purchase commitments

Chemtrade has contractual commitments for the purchase of electricity in Brazil, of which approximately 90 to 100 percent of the cost is passed onto one major customer, and minimum purchase commitments under some multi-year salt supply contracts. Chemtrade's outstanding purchase commitments as at December 31, 2020 are as follows:

| | | |
|------|-----------|---------------|
| 2021 | \$ | 35,488 |
| 2022 | | 14,578 |
| 2023 | | 14,578 |
| 2024 | | 14,578 |
| 2025 | | 14,578 |
| | \$ | 93,800 |

(b) Environmental clean-up costs

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

Year ended December 31, 2020 and 2019

19. COMMITMENTS AND CONTINGENCIES (continued):

(c) Other claims

Chemtrade is involved in certain claims arising from the ordinary course and conduct of its business which, in the opinion of management, will not have a material impact upon the financial position of Chemtrade.

20. REVENUE:

The revenues for Chemtrade are as follows:

| | 2020 | 2019 |
|---------------------|---------------------|---------------------|
| Sales of products | \$ 1,218,981 | \$ 1,351,859 |
| Processing services | 160,658 | 180,996 |
| | \$ 1,379,639 | \$ 1,532,855 |

21. SELLING AND ADMINISTRATIVE EXPENSES:

The components of selling and administrative expenses are as follows:

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Wages, salaries and benefits, including bonuses | \$ 61,609 | \$ 52,627 |
| Share-based payments (note 18) | 6,828 | 11,555 |
| Other selling and administrative expenses | 32,322 | 31,134 |
| Realized foreign exchange loss | 5,869 | 4,590 |
| Unrealized foreign exchange loss (gain) | 833 | (10,787) |
| Depreciation (note 22) | 3,478 | 3,662 |
| Reserve for legal proceedings (note 12) | — | 40,000 |
| Government grants | (2,563) | — |
| | \$ 108,376 | \$ 132,781 |

Government grants

The Canada Emergency Wage Subsidy ("CEWS") was announced on March 27, 2020. Under this program, qualifying businesses can receive up to 75% of their employees' wages, with employers being encouraged to provide the remaining 25%. Although the legislation was finalized on April 11, 2020, interpretations and guidance continue to emerge. Eligible employers can start recognizing the subsidy as a receivable from the date the legislation was finalized provided there is reasonable assurance that they have met the relevant conditions and will continue to comply with the conditions for receipt of the subsidy. Chemtrade believes it has met the relevant conditions and has recorded a receivable in trade and other receivables in the consolidated statement of financial position.

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22. DEPRECIATION AND AMORTIZATION:

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

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Cost of sales and services: | | |
| Depreciation expense on PPE | \$ 136,270 | \$ 139,173 |
| Depreciation expense on ROU assets (note 8) | 49,297 | 51,046 |
| Amortization expense | 64,867 | 68,577 |
| Selling and administrative expenses (note 21): | | |
| Depreciation expense on PPE | 1,613 | 1,805 |
| Depreciation expense on ROU assets (note 8) | 1,865 | 1,857 |
| Total depreciation and amortization expense | \$ 253,912 | \$ 262,458 |

23. NET FINANCE COSTS:

The components of net finance costs are as follows:

| | 2020 | 2019 |
|---|-------------------|------------------|
| Interest expense on long-term debt | \$ 36,432 | \$ 38,143 |
| Interest expense on convertible debentures (note 14) | 30,905 | 29,927 |
| Transaction costs on issuance of convertible debentures (note 14) | 4,013 | 4,539 |
| Change in the fair value of convertible debentures (note 14) | 55,790 | 632 |
| Interest expense on lease liabilities (note 8) | 8,211 | 8,812 |
| Accretion expense on financing transaction costs (note 13) | 982 | 1,060 |
| Accretion of provisions (note 12) | 2,734 | 3,990 |
| Pension interest (note 16) | 1,551 | 1,949 |
| Interest income | (322) | (565) |
| Net finance costs | \$ 140,296 | \$ 88,487 |

Year ended December 31, 2020 and 2019

24. INCOME TAXES:

Chemtrade is a mutual fund trust and a specified investment flow-through trust (“SIFT”) for income tax purposes. Chemtrade is subject to current income taxes at the top marginal tax rate applicable to individuals of approximately 53.5% on all taxable income not distributed to Unitholders. Chemtrade is also subject to current income taxes on all taxable income, other than dividends, earned from Canadian corporate and flow-through subsidiaries (other than Canadian subsidiaries that earn certain investment income) at a tax rate similar to the corporate tax rate. Chemtrade will not be subject to tax on income received from non-Canadian subsidiaries, provided that the income is distributed to Unitholders during the year. Based on the current organization of Chemtrade and its subsidiaries, it expects that its income distributed to Unitholders will not be subject to SIFT tax.

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.

(a) Income tax (expense) recovery

| | 2020 | 2019 |
|---|-------------------|---------|
| Taxes recognized in net earnings | (7,313) \$ | (4,524) |
| Current tax expense | (7,313) \$ | (4,524) |
| Deferred tax recovery: | | |
| Origination and reversal of temporary differences | 54,777 | 28,815 |
| Deferred tax recovery | 54,777 \$ | 28,815 |
| Total tax recovery | 47,464 \$ | 24,291 |

(b) Reconciliation of the effective tax rate

The provision for income taxes in comprehensive income represents an effective rate different than the Canadian corporate statutory rate of 26.02% (2019 - 26.68%). The differences are as follows:

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24. INCOME TAXES (continued):

| | 2020 | 2019 |
|--|---------------------|--------------|
| Net loss before income tax | \$ (214,942) | \$ (123,945) |
| Computed income tax recovery at Canadian statutory rate | 55,924 | 33,069 |
| Difference resulting from: | | |
| Income of trust taxed directly to unitholders | 30,528 | 34,375 |
| Difference in substantially enacted tax rate | (16,249) | (21,133) |
| International income tax differences | (3,934) | 4,465 |
| Recognition of previously unrecognized deferred tax (liability) asset | (3,701) | (1,009) |
| Tax adjustments related to prior years | 437 | (6,109) |
| Goodwill impairment | (13,063) | (16,140) |
| Other | (2,478) | (3,227) |
| Total income tax recovery | \$ 47,464 | \$ 24,291 |

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24. INCOME TAXES (continued):

(c) Recognized deferred tax assets and liabilities

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

| | 2020 | 2019 |
|---|-------------------|------------------|
| Deferred tax assets: | | |
| Other assets | \$ 64,959 | \$ 40,656 |
| Losses available for carryforward | 193,411 | 195,504 |
| Long-term debt and deferred interest | 60,205 | 69,124 |
| Other long-term liabilities and employee benefits | 41,973 | 37,474 |
| | 360,548 | 342,758 |
| Reclassification to deferred tax liabilities | (240,566) | (245,766) |
| Total deferred tax assets | \$ 119,982 | \$ 96,992 |
| Deferred tax liabilities: | | |
| PPE | 183,015 | 195,967 |
| Intangible assets | 32,664 | 41,004 |
| Other liabilities | 38,316 | 30,647 |
| | 253,995 | 267,618 |
| Reclassification from deferred tax assets | (240,566) | (245,766) |
| Total deferred tax liabilities | \$ 13,429 | \$ 21,852 |

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24. INCOME TAXES (continued):

(d) Movements in deferred tax balances

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

| | Balance January 1, 2020 | Recognized in net earnings | Foreign exchange rate changes | Recognized in other comprehensive income | Assets held for sale | Balance December 31, 2020 |
|--|-------------------------------|----------------------------------|--|---|-------------------------|---------------------------------|
| PPE | \$ (195,967) | \$ 10,998 | \$ 1,976 | \$ — | \$ (22) | \$ (183,015) |
| Intangible assets | (41,004) | 7,604 | 736 | — | — | (32,664) |
| Net other assets and liabilities | 10,009 | 16,846 | (212) | — | — | 26,643 |
| Losses available for carryforward | 195,504 | (888) | (1,205) | — | — | 193,411 |
| Long-term debt and deferred interest | 69,124 | (10,447) | — | 1,528 | — | 60,205 |
| Other long-term liabilities and employee benefits | 37,474 | 30,664 | (1,711) | (24,454) | — | 41,973 |
| | \$ 75,140 | \$ 54,777 | \$ (416) | \$ (22,926) | \$ (22) | \$ 106,553 |

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

(e) Unrecognized deferred tax assets

For the year ended December 31, 2020, Chemtrade did not recognize \$13,516 (2019 - \$13,634) of deferred tax assets as management did not believe that it is probable that the deductible temporary differences giving rise to the deferred tax assets will be utilized.

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25. FINANCIAL INSTRUMENTS:

(a) Categories of financial assets and liabilities

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

| | IFRS 9 Classification | 2020 | 2019 |
|--|------------------------------------|----------------|-------------|
| Foreign exchange contracts asset | Fair value - hedging instrument | \$ — | \$ 1,019 |
| Interest rate swap liability (note 15) | Fair value - hedging instrument | 22,164 | 7,143 |
| Convertible unsecured subordinated debentures (note 14) ⁽¹⁾ | Fair value through profit and loss | 445,895 | 608,929 |
| LTIP liability (note 15,18) | Fair value through profit and loss | 14,258 | 12,287 |
| Cash and cash equivalents | Amortized cost | 12,511 | 13,466 |
| Trade and other receivables (note 4) | Amortized cost | 86,259 | 155,348 |
| Trade and other payables (note 11) | Other financial liabilities | 207,948 | 199,694 |
| Distributions payable | Other financial liabilities | 4,677 | 9,260 |
| Lease liabilities (note 8) | Other financial liabilities | 161,483 | 182,025 |
| Long-term debt (note 13) | Other financial liabilities | 776,914 | 744,274 |

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

Year ended December 31, 2020 and 2019

25. FINANCIAL INSTRUMENTS (continued):

(b) Derivatives and hedging:

| | December 31, 2020 | | | December 31, 2019 | | |
|--|-------------------|-------------|------------------|-------------------|-----------------|-----------------|
| | Notional Amount | Fair Value | | Notional Amount | Fair Value | |
| | | Asset | Liability | | Asset | Liability |
| Derivatives designated in a formal hedging relationship | | | | | | |
| Interest rate swaps | US\$ 575,000 | \$ — | \$ 22,164 | US\$ 325,000 | \$ — | \$ 7,143 |
| Derivatives not designated in a formal hedging relationship | | | | | | |
| Foreign exchange contracts ⁽¹⁾ | — | — | — | — | 1,019 | — |
| Total | | \$ — | \$ 22,164 | | \$ 1,019 | \$ 7,143 |

⁽¹⁾ See below for notional amounts.

On January 24, 2019, Chemtrade entered into 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.

For the year ended December 31, 2020, a foreign exchange gain of \$18,175 (2019 - \$17,433) on the revaluation of the U.S. dollar-denominated debt related to this hedging strategy was recognized in other comprehensive income, net of tax.

Chemtrade enters 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. As at December 31, 2020, there were no foreign exchange contracts in place.

Year ended December 31, 2020 and 2019

25. FINANCIAL INSTRUMENTS (continued):

(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 Debentures and derivatives, Chemtrade classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

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

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

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

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

| 2020 | Level 1 | Level 2 | Level 3 | Total |
|---|---------------------|--------------------|-------------|---------------------|
| Instruments at fair value through profit and loss | | | | |
| Convertible unsecured subordinated debentures | (445,895) | — | — | (445,895) |
| Instruments at fair value through other comprehensive income | | | | |
| Interest rate swaps | — | (22,164) | — | (22,164) |
| Total | \$ (445,895) | \$ (22,164) | \$ — | \$ (468,059) |

Year ended December 31, 2020 and 2019

25. FINANCIAL INSTRUMENTS (continued):

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

The Fund's Debentures are classified within Level 1 because they are actively traded on the TSX and the fair value is based on the quoted prices on the TSX. The CEI debentures were classified as Level 2 as their fair value is determined using observable inputs. Any changes in the fair value of the Debentures are recognized in net earnings except for changes due to the Fund's 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 statement of financial position. Any changes in the effective portion of fair value of these arrangements are recognized in other comprehensive income.

(d) Risks associated with financial instruments

(i) Credit risk

Credit risk arises from the non-performance by counter-parties of their contractual financial obligations. Chemtrade manages credit risk for trade and other receivables through established credit monitoring activities. Chemtrade does not have a significant concentration of credit risk with any single counter-party. The primary counter-parties related to the foreign exchange forward contracts and interest rate swaps carry investment grade ratings. Chemtrade believes its credit risk of counterparty non-performance continues to be relatively low, notwithstanding the impact of the COVID-19

Year ended December 31, 2020 and 2019

25. FINANCIAL INSTRUMENTS (continued):

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.

(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.

The undiscounted cash flow requirements for financial liabilities as at December 31, 2020 are as follows:

| | Carrying Value | Total | Less Than 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
|---|---------------------|---------------------|-------------------|-------------------|---------------------|-------------------|
| Trade and other payables (note 11) | \$ 207,948 | \$ 207,948 | \$ 207,948 | \$ — | \$ — | \$ — |
| Distributions payable | 4,677 | 4,677 | 4,677 | — | — | — |
| Lease liabilities (note 8) | 161,483 | 180,785 | 52,217 | 74,378 | 30,405 | 23,785 |
| Long-term debt (note 13) | 776,914 | 781,255 | — | — | 781,255 | — |
| Interest on long-term debt | — | 126,958 | 33,266 | 66,532 | 27,160 | — |
| Convertible unsecured subordinated debentures (note 14) | 445,895 | 531,115 | — | 143,750 | 287,365 | 100,000 |
| Interest on Debentures | — | 124,557 | 30,572 | 58,741 | 29,812 | 5,432 |
| Total | \$ 1,596,917 | \$ 1,957,295 | \$ 328,680 | \$ 343,401 | \$ 1,155,997 | \$ 129,217 |

Year ended December 31, 2020 and 2019

25. FINANCIAL INSTRUMENTS (continued):

(iii) *Market risk*

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

(a) *Currency risk*

Chemtrade is exposed to fluctuations in the exchange rate of the US dollar relative to the Canadian dollar as a portion of Chemtrade's earnings are in US dollars, with earnings positively affected when the US dollar strengthens relative to the Canadian dollar. At December 31, 2020, on an unhedged basis, Chemtrade estimates that a one-cent change in the exchange rate would have an impact on the translation of net earnings of approximately \$900 per annum. At December 31, 2020, on an unhedged basis, a one-cent change in the exchange rate would also have an impact of approximately \$5,200 on Chemtrade's net earnings because of the translation of its US dollar-denominated long-term debt. 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.

(b) *Interest rate risk*

Chemtrade has a credit facility with long-term debt and operating lines of credit which bear variable rates of interest. As at December 31, 2020, on an unhedged basis, a change in interest rates of 1% per annum would have an impact of approximately \$7,800 on Chemtrade's net earnings per annum. As at December 31, 2020, Chemtrade had fixed interest rates on 93.7% of its senior debt until April 2021 and 52.9% thereafter until December 2023.

Managing interest rate benchmark reform and associated risks

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates. Chemtrade has exposures to IBORs on its financial instruments that will be replaced or reformed as part of these market-wide initiatives. There is uncertainty over the timing and the methods of transition in some jurisdictions that Chemtrade operates in. Chemtrade anticipates that IBOR reform will impact its risk

Year ended December 31, 2020 and 2019

25. FINANCIAL INSTRUMENTS (continued):

management and hedge accounting. Chemtrade is currently evaluating the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties.

Derivatives

Chemtrade holds interest rate swaps for risk management purposes which are designated in cash flow hedging relationships. The interest rate swaps have floating legs that are indexed to 1-month LIBOR. Chemtrade's derivative instruments are governed by contracts based on the International Swaps and Derivatives Association (ISDA)'s master agreements.

ISDA is currently reviewing its standardized contracts in the IBOR reform and plans to amend certain floating-rate options in the 2006 ISDA definitions to include fallback clauses that would apply on the permanent discontinuation of certain key IBORs. ISDA is expected to publish an IBOR fallback supplement to amend the 2006 ISDA definitions and an IBOR fallback protocol to facilitate multilateral amendments to include the amended floating-rate options in derivative transactions that were entered into before the date of the supplement. Chemtrade currently plans to adhere to the protocol if and when it is finalized and to monitor whether its counterparties will also adhere. If this plan changes or there are counterparties who will not adhere to the protocol, Chemtrade will negotiate with them bilaterally about including new fallback clauses.

Hedge accounting

Chemtrade is evaluating the extent to which its cash flow hedging relationships are subject to uncertainty driven by IBOR reform as at December 31, 2020. Chemtrade's hedged items and hedging instruments continue to be indexed to 1-month LIBOR. These benchmark rates are quoted each day and the IBOR cash flows are exchanged with counterparties as usual.

Chemtrade's exposure to 1-month LIBOR designated in hedging relationships is US\$575,000 nominal amount at December 31, 2020, representing both the nominal amount of the hedging interest rate swap and the principal amount of the hedged USD denominated secured bank loan liability maturing in 2024.

(c) *Other price risks*

Product Price and Sales Volume Risk -

Every \$50 change in the price per metric tonne ("MT") of North American produced sodium chlorate would have an impact on earnings before income taxes of

Year ended December 31, 2020 and 2019

25. FINANCIAL INSTRUMENTS (continued):

approximately \$18,750 per annum. Every \$100 change in the price per metric electrochemical unit ("MECU") of chlor-alkali products produced in North America would have an impact on earnings before income taxes of approximately \$14,100 per annum. These sensitivities to changes in prices are based on approximately 375,000 MT of North American sodium chlorate sales and 141,000 MECU of North American chlor-alkali sales for the year ended December 31, 2020, respectively.

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

Electricity Price Risk -

Every four percent change in the price of electricity in North America would have an impact on earnings before income taxes of approximately \$4,500 per annum. This sensitivity to changes in electricity prices is based on North American electricity consumption of approximately 2,381,000 megawatt hours for the year ended December 31, 2020. A four percent change in the price of electricity in North America is considered reasonable given historical price changes and market expectations for future movement.

Sulphuric acid pricing -

At December 31, 2020, a change in sulphuric acid pricing, net of freight, of \$10 per tonne, would have an impact on annual revenues in North America of approximately \$10,300. In any specific period, the exact impact would depend upon the volume that is subject to sales contracts where pricing has been fixed for a period of time. The magnitude of realized price changes also depends upon regional market dynamics. It is difficult to reliably estimate the impact of price changes on earnings as this depends upon the volume subject to risk-sharing supply contracts and changes in sulphur costs for manufactured sulphuric acid. These factors lessen the impact of price changes on earnings relative to revenue.

Salt Costs -

Chemtrade uses salt in the manufacturing of its sodium chlorate and chlor-alkali products. At current operating levels, an increase of \$2 per tonne of salt prices in North America would have an impact of approximately \$900 per annum on earnings before income taxes.

Year ended December 31, 2020 and 2019

25. FINANCIAL INSTRUMENTS (continued):

Sulphur costs -

Chemtrade uses sulphur in the manufacturing of several of its products, including sulphuric acid. At operating levels as at December 31, 2020, an increase of \$10 per tonne would have an impact of approximately \$1,700 per annum on cost of sales and services. It is important to note that a change in the cost of sulphur is likely to lead to a change in the price for sulphuric acid as this is a key input cost in the manufacturing of sulphuric acid. Thus, the net impact on earnings of changes in sulphur costs would depend upon changes in sulphuric acid pricing.

26. CAPITAL MANAGEMENT:

Chemtrade's objective when managing its capital is to safeguard Chemtrade's assets and its ability to continue as a going concern, to meet external capital requirements related to its credit facilities, and to maximize the growth of its business and the returns to its Unitholders. Chemtrade's capital structure is comprised of units, Debentures and long-term debt. The long-term bank debt does not require payment until October 2024.

The Debentures mature on dates ranging from August 2023 to October 2026.

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

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

Chemtrade is subject to certain covenants on its credit facilities, which include a Net Debt to EBITDA ratio and an Interest Coverage ratio (as all terms are defined in the credit agreement). Chemtrade monitors these ratios and reports them to its lenders on a quarterly basis. As at December 31, 2020 and December 31, 2019, Chemtrade was in compliance with the above covenants.

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

Year ended December 31, 2020 and 2019

27. REPORTABLE SEGMENTS:

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

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

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

EC manufactures and markets sodium chlorate and chlor-alkali products including caustic soda, chlorine and hydro-chloric acid (HCl), largely for the pulp and paper, oil and gas and water treatment industries. These products are marketed primarily to North American and South American customers.

Corp is a non-operating segment that provides centralized services, such as treasury, finance, information technology, human resources, legal and risk management, and environmental, health and safety support.

Year Ended December 31, 2020

| | SPPC | WSSC | EC | Corp | Total |
|---|------------|------------|------------|----------|-------------|
| Revenue | \$ 423,027 | \$ 445,897 | \$ 510,715 | \$ — | \$1,379,639 |
| Inter-segment revenues | 16,989 | — | 4,242 | — | 21,231 |
| Operating income (loss) | 11,546 | (9,112) | 1,725 | (78,805) | (74,646) |
| Net finance costs | | | | | (140,296) |
| Income tax recovery | | | | | 47,464 |
| Net loss | | | | | (167,478) |
| Depreciation and amortization | 92,843 | 46,967 | 114,102 | — | 253,912 |
| Net loss on disposal and write-down of PPE ⁽¹⁾ | 20,524 | 433 | 42 | — | 20,999 |
| Change in environmental liability | — | 8,170 | — | — | 8,170 |
| Impairment of goodwill | — | 56,000 | — | — | 56,000 |
| Capital expenditures | 28,377 | 15,242 | 32,324 | 1,145 | 77,088 |

⁽¹⁾ Net loss on disposal and write-down of PPE includes a write-down of \$19,193 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.

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

Year ended December 31, 2020 and 2019

27. REPORTABLE SEGMENTS (continued):

Year ended December 31, 2019

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

December 31, 2020

| | SPPC | WSSC | EC | Corp | Other | Total |
|-------------------|------------|------------|------------|----------|------------|--------------|
| Total assets | \$ 862,605 | \$ 607,728 | \$ 906,249 | \$ 3,762 | \$ 119,982 | \$ 2,500,326 |
| Total liabilities | 220,755 | 172,240 | 215,235 | 50,043 | 1,236,238 | 1,894,511 |
| Intangible assets | 361,469 | 169,939 | 216,662 | — | — | 748,070 |

December 31, 2019

| | SPPC | WSSC | EC | Corp | Other | Total |
|-------------------|------------|------------|------------|----------|-----------|--------------|
| 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

| | Year ended December 31, | |
|---------------|-------------------------|--------------|
| | 2020 | 2019 |
| Canada | \$ 454,246 | \$ 495,777 |
| United States | 860,916 | 966,030 |
| South America | 64,477 | 71,048 |
| | \$ 1,379,639 | \$ 1,532,855 |

Year ended December 31, 2020 and 2019

27. REPORTABLE SEGMENTS (continued):

| PPE, ROU assets and intangible assets | | | |
|--|------------------------------|------------------|----------------------|
| | December 31, 2020 | | December 31, 2019 |
| Canada | \$ | 997,912 | \$ 1,072,296 |
| United States | | 834,705 | 968,837 |
| South America | | 117,683 | 131,258 |
| | \$ | 1,950,300 | \$ 2,172,391 |

28. RELATED PARTIES:

Key management personnel compensation

Key management personnel is comprised of trustees and the senior leadership team of Chemtrade. Trustees receive compensation in the form of an annual retainer. In addition to their salaries, Chemtrade also provides other benefits to the senior leadership team. One such benefit is the contribution to a post-employment DC plan on their behalf. Chemtrade provides a basic contribution of 4% of base salary for plan participants. They can make additional voluntary contributions up to 2% of their base salary, and Chemtrade matches each dollar contributed up to 2% for a total of 6% of base salary. Contributions to the DC plan vest immediately.

These plans for the senior leadership team are identical to the plans offered to all employees in the same jurisdiction.

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

The LTIP as described in note 18 is designed to align the interests of the participants with the interests of Unitholders. It is a cash plan where payment is triggered upon the successful achievement of pre-defined performance criteria. Each year the Compensation and Corporate Governance Committee of the Board determines the performance period over which performance will be measured. The annual LTIP awards granted have been based on a three-year performance period and the awards vest at the end of the three-year period, other than the 2020-2022 LTIP which has various performance and vesting periods ranging between 15 and 27 months. The value of this compensation is re-measured at each reporting period based upon changes in the fair value of the awards.

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

Year ended December 31, 2020 and 2019

28. RELATED PARTIES (continued):

Certain members of the senior leadership team are subject to a mutual term of notice upon termination of employment without cause; they are entitled to termination benefits of 12 to 24 months gross salary. In addition they are entitled to either their target Annual IC or a value based on the most recently completed financial year.

Chemtrade has in place a deferred unit compensation plan for its trustees, pursuant to which the trustees can elect to take all or a portion of their compensation in the form of deferred units of Chemtrade, with the remainder as a cash payment. Currently, the trustees are required to take 50% of their compensation in the form of deferred units of Chemtrade. As at December 31, 2020, the market value of these deferred units, which is included in trade and other payables was \$3,286 (2019 - \$3,387).

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

| | 2020 | 2019 |
|-------------------------|------------------|-----------|
| Short-term compensation | \$ 9,535 | \$ 8,306 |
| LTIP | 4,785 | 7,974 |
| | \$ 14,320 | \$ 16,280 |

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Information for unitholders

Trustees

Lorie Waisberg (Chair)
Toronto, Ontario

Lucio Di Clemente
Toronto, Ontario

Daniella Dimitrov
Toronto, Ontario

Emily Moore
Mississauga, Ontario

Douglas Muzyka
Philadelphia, Pennsylvania

Katherine Rethy
Huntsville, Ontario

Scott Rook,
Toronto, Ontario

Management

Scott Rook
President & Chief Executive Officer

Rohit Bhardwaj
Chief Financial Officer

Leon Aarts
Group Vice-President, Commercial

Tejinder Kaushik
Vice-President,
Information Technology

Tim Montgomery
Group Vice-President, Manufacturing and
Engineering

Susan Paré
Corporate Secretary
General Counsel

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

Head office

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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

Website

computershare.com

Investor information

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

Rohit Bhardwaj
Chief Financial Officer
(416) 496-4177

Annual and special meeting

The annual and special meeting of unitholders will be held on May 11, 2021 at 10:00 a.m.

Virtual-only meeting via live audio webcast at
<https://web.lumiagm.com/283819479>

chemtradelogistics.com



CHEMTRADE

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