

2016 AR

Chemtrade Logistics Income Fund

2016 | Annual Report

Corporate Profile

Chemtrade operates a diversified business providing industrial chemicals and services to customers in North America and around the world.

Chemtrade is one of North America's largest suppliers of sulphuric acid, spent acid processing services, inorganic coagulants for water treatment, sodium chlorate, sodium nitrite, 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 such as our annual meeting presentation. An electronic copy of this report is available on the website.



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CHEMTRADE LOGISTICS INCOME FUND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016

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, 2016.

Chemtrade's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). Chemtrade's reporting currency is the Canadian dollar. In this MD&A, per unit amounts are calculated using the weighted average number of units of the Fund outstanding for the applicable period unless otherwise indicated.

Caution Regarding Forward-Looking Statements

Certain statements contained in this MD&A constitute forward-looking statements within the meaning of certain securities laws, including the Securities Act (Ontario). Forward-looking statements can be generally identified by the use of words such as "anticipate", "continue", "estimate", "expect", "expected", "intend", "may", "will", "project", "plan", "should", "believe" and similar expressions. Specifically, forward-looking statements in this MD&A include statements respecting certain future expectations about: the ability to close, and timing of the sale of the International business segment; the ability to close, timing and expected completion date of the plan of arrangement respecting the acquisition of Canexus Corporation; the use of proceeds of the Fund's subscription receipt offering; capital expenditures; the ability of Chemtrade to access tax losses and tax attributes; the tax characterization of planned distributions; sources, use and sufficiency of cash flows; the amount of any long-term incentive compensation; the ability to renew long-term contracts with Canfor; the effect of changes in the exchange rate, interest rates and the prices of key products; the effectiveness of our business model; the sustainability of the Fund's distribution rate; and our ability to reduce leverage levels. Forward-looking statements in this MD&A describe the expectations of Chemtrade as of the date hereof. These statements are based on assumptions and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements for a variety of reasons, including without limitation the risks and uncertainties detailed under the "RISK FACTORS" section of the Fund's latest Annual Information Form and the **Risks and Uncertainties** section below.

Although Chemtrade believes the expectations reflected in these forward-looking statements and the assumptions upon which they are based are reasonable, no assurance can be given that actual results will be consistent with such forward-looking statements, and they should not be unduly relied upon. With respect to the forward-looking statements contained in this MD&A, Chemtrade has made assumptions regarding: there being no significant disruptions affecting the operations of Chemtrade, whether due to labour disruptions, supply disruptions, power disruptions, transportation disruptions, damage to equipment or otherwise; the ability of Chemtrade to obtain products, raw materials, equipment, transportation, services and supplies in a timely manner to carry out its activities and at prices consistent with current

levels or in line with Chemtrade's expectations; the timely receipt of required regulatory approvals; the cost of regulatory and environmental compliance being consistent with current levels or in line with Chemtrade's expectations; the ability of Chemtrade to successfully access tax losses and tax attributes; the ability of Chemtrade to obtain financing on acceptable terms; currency, exchange and interest rates being consistent with current levels or in line with Chemtrade's expectations; and global economic performance.

Except as required by law, Chemtrade does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or for any other reason. The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement.

Recent Developments

Canexus Acquisition

On December 15, 2016, Chemtrade announced that it had entered into an arrangement agreement to acquire all of the issued and outstanding common shares of Canexus Corporation ("Canexus") for consideration of \$1.65 in cash per share, pursuant to a court-approved plan of arrangement which is expected to close during the first quarter of 2017.

On January 27, 2017, Chemtrade completed an offering of subscription receipts at a price of \$18.35 per unit. The offering was undertaken on a bought deal basis by a syndicate of underwriters. On closing, Chemtrade issued 21,800,000 subscription receipts, resulting in aggregate gross proceeds of approximately \$400.0 million. The net proceeds of the offering will be used to partially fund Chemtrade's acquisition of Canexus. The proceeds of the offering will be held by an escrow agent pending the fulfilment or waiver of all conditions set out in the arrangement agreement to acquire Canexus.

If the Canexus acquisition fails to close or is terminated, the proceeds of the offering and the pro rata entitlement to interest earned, net of any applicable withholding taxes, will be paid to holders of the subscription receipts and the subscription receipts will be cancelled.

In 2016, Chemtrade expensed \$8.5 million of transaction costs related to the Canexus acquisition.

Sale of International Segment

On February 24, 2017, Chemtrade entered into a definitive agreement to sell its International business segment to Mitsui & Co., Ltd. for €34.0 million. The transaction, which is subject to relevant regulatory approvals, is expected to close during the second quarter of 2017. The business provides removal and marketing services for elemental sulphur and sulphuric acid to customers globally. The International business has been classified as a discontinued operation in Chemtrade's financial statements. The comparative consolidated statement of comprehensive income and other relevant notes have been restated to show the discontinued operation separately from continuing operations. Refer to note 5 of Chemtrade's audited consolidated financial statements for the year ended December 31, 2016 for further details.

For the three months and year ended December 31, 2016, revenues from the International segment were \$26.9 million and \$159.9 million, respectively, compared with \$58.2 million and \$237.4 million for the comparative periods of 2015, respectively. There was a loss before interest, income taxes, depreciation and amortization for the three months ended December 31, 2016 of \$5.3 million for this segment and EBITDA of \$1.0 million for the year ended December 31, 2016. Comparative figures for the same periods of 2015 were EBITDA of \$4.6 million and \$16.0 million, respectively. Finally, there was a net loss of \$15.3 million and \$11.5 million for the three months and year ended December 31, 2016, respectively, compared with net earnings of \$2.6 million and \$10.4 million for the same periods of 2015, respectively.

Issuance of Convertible Unsecured Subordinated Debentures

On September 2, 2016, Chemtrade completed an agreement with a syndicate of underwriters to issue \$125.0 million principal amount of convertible unsecured subordinated debentures (“Debentures”). As allowed under provisions of the agreement to issue the Debentures, the underwriters purchased an additional \$18.8 million principal amount of the Debentures, increasing the aggregate gross proceeds of the public offering to \$143.8 million. Chemtrade incurred transaction costs of \$6.4 million, which included underwriters’ fees and other expenses of the offering. The net proceeds of the issuance were used to pay down long-term debt.

The repayment of long-term debt from the proceeds of the Debenture issuance resulted in a realized foreign exchange loss of \$20.3 million, which has been included in selling and administrative expenses in the statement of comprehensive income. Previously deferred debt issuance costs of \$0.7 million related to the repaid debt have been recognized in finance costs in the statement of comprehensive income.

Financial Highlights

These financial highlights have been presented in accordance with IFRS.

(\$'000 except per unit amounts)	Three months ended			Year ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	December 31, 2014
Revenue from continuing operations	\$ 251,748	\$ 277,460	\$ 1,067,256	\$ 1,127,466	\$ 1,002,654
Net (loss) earnings ⁽¹⁾	\$ (8,902)	\$ (80,083)	\$ (12,658)	\$ (47,590)	\$ 21,030
Net earnings (loss) from continuing operations ⁽¹⁾	\$ 6,412	\$ (82,645)	\$ (1,193)	\$ (57,995)	\$ (33,061)
Net (loss) earnings per unit ⁽¹⁾	\$ (0.13)	\$ (1.16)	\$ (0.18)	\$ (0.69)	\$ 0.35
Net earnings (loss) per unit from continuing operations ⁽¹⁾	\$ 0.09	\$ (1.20)	\$ (0.02)	\$ (0.84)	\$ (0.55)
Diluted net (loss) earnings per unit ⁽¹⁾	\$ (0.13)	\$ (1.16)	\$ (0.18)	\$ (0.69)	\$ 0.35
Diluted earnings (loss) per unit from continuing operations ⁽¹⁾	\$ 0.09	\$ (1.20)	\$ (0.02)	\$ (0.84)	\$ (0.55)
Total assets	\$ 2,162,072	\$ 2,413,245	\$ 2,162,072	\$ 2,413,245	\$ 2,228,403
Current portion of long-term debt	\$ 3,654	\$ 3,397	\$ 3,654	\$ 3,397	\$ 3,159
Long-term debt	\$ 451,526	\$ 618,254	\$ 451,526	\$ 618,254	\$ 508,482
Convertible unsecured subordinated debentures	\$ 392,389	\$ 240,726	\$ 392,389	\$ 240,726	\$ 264,492
Adjusted EBITDA from continuing operations ⁽¹⁾⁽²⁾	\$ 31,606	\$ 47,114	\$ 180,439	\$ 220,946	\$ 185,492
Adjusted EBITDA per unit from continuing operations ⁽¹⁾⁽²⁾⁽³⁾	\$ 0.46	\$ 0.68	\$ 2.61	\$ 3.21	\$ 3.07
Cash flows from operating activities	\$ 49,790	\$ 69,017	\$ 153,009	\$ 161,974	\$ 104,296
Cash flows from operating activities per unit ⁽³⁾	\$ 0.72	\$ 1.00	\$ 2.21	\$ 2.35	\$ 1.73
Adjusted cash flows from operating activities from continuing operations ⁽¹⁾⁽²⁾	\$ 30,960	\$ 33,836	\$ 144,485	\$ 174,783	\$ 156,460
Adjusted cash flows from operating activities per unit from continuing operations ⁽¹⁾⁽²⁾⁽³⁾	\$ 0.45	\$ 0.49	\$ 2.09	\$ 2.54	\$ 2.59
Distributable cash after maintenance capital expenditures from continuing operations ⁽¹⁾⁽²⁾	\$ 11,234	\$ 5,964	\$ 99,742	\$ 122,672	\$ 113,140
Distributable cash after maintenance capital expenditures per unit from continuing operations ⁽¹⁾⁽²⁾⁽³⁾	\$ 0.16	\$ 0.09	\$ 1.44	\$ 1.78	\$ 1.87
Distributions declared	\$ 20,749	\$ 20,721	\$ 82,921	\$ 82,700	\$ 74,067
Distributions declared per unit ⁽⁴⁾	\$ 0.30	\$ 0.30	\$ 1.20	\$ 1.20	\$ 1.20
Distributions paid	\$ 20,746	\$ 20,719	\$ 82,912	\$ 82,640	\$ 71,394
Distributions paid per unit ⁽⁴⁾	\$ 0.30	\$ 0.30	\$ 1.20	\$ 1.20	\$ 1.20

⁽¹⁾ 2016 annual results include \$28,760 or \$0.42 per unit of realized foreign exchange loss recognized on the repayment of long-term debt from the proceeds of the Debenture offering during the third quarter of 2016 and costs related to the Canexus acquisition. See **Recent Developments**.

⁽²⁾ See **Non-IFRS Measures**.

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

	69,157,711	69,064,590	69,096,753	68,874,207	60,360,582
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⁽⁴⁾ Based on actual number of units outstanding on record date.

Non-IFRS Measures

EBITDA and Adjusted EBITDA -

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

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

(\$'000)	<u>Three months ended</u>		<u>Year ended</u>		
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	December 31, 2014
Net earnings (loss) from continuing operations	6,412	(82,645)	(1,193)	(57,995)	(33,061)
Add:					
Depreciation and amortization	34,334	36,921	146,228	146,025	157,798
Net finance costs	12,937	10,809	62,751	33,698	74,528
Income tax recovery	(26,015)	(16,481)	(77,667)	(21,548)	(36,971)
EBITDA from continuing operations	27,668	(51,396)	130,119	100,180	162,294
Add:					
Impairment of intangible assets	—	88,738	3,143	88,738	—
Loss on disposal and write-down of assets	41	6,557	55,824	5,883	6,084
Unrealized foreign exchange loss (gain)	3,897	3,215	(8,647)	26,145	17,114
Adjusted EBITDA from continuing operations	\$ 31,606	\$ 47,114	\$ 180,439	\$ 220,946	\$ 185,492

Cash Flow -

The following table is derived from, and should be read in conjunction with, the consolidated statements of cash flows. Management believes this supplementary disclosure provides useful additional information related to the cash flows of Chemtrade including the amount of cash available for distribution to Unitholders, repayment of debt and other investing activities. Certain sub-totals presented within the cash flows table below, such as "Adjusted cash flows from operating activities", "Distributable cash after maintenance capital expenditures" and "Distributable cash after all capital expenditures", are not defined terms under IFRS. These sub-totals are used by Management as measures of internal

performance and as a supplement to the consolidated statements of cash flows. Investors are cautioned that these measures should not be construed as an alternative to using net earnings as a measure of profitability or as an alternative to the IFRS consolidated statements of cash flows. Further, Chemtrade's method of calculating each measure may not be comparable to calculations used by other income trusts or companies bearing the same description.

(\$'000)	<u>Three months ended</u>			<u>Year ended</u>	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	December 31, 2014
Cash flow from operating activities	\$ 49,790	\$ 69,017	\$ 153,009	\$ 161,974	\$ 104,296
Less:					
Cashflow from operating activities of discontinued operations	4,552	2,216	4,756	2,421	1,050
Cashflow from operating activities of continuing operations	45,238	66,801	148,253	159,553	103,246
Add (deduct):					
Changes in non-cash working capital and other items	(14,278)	(32,965)	(3,768)	15,230	53,214
Adjusted cash flows from operating activities of continuing operations	30,960	33,836	144,485	174,783	156,460
Less:					
Maintenance capital expenditure	19,726	27,872	44,743	52,111	43,320
Distributable cash after maintenance capital expenditure from continuing operations	11,234	5,964	99,742	122,672	113,140
Less:					
Non-maintenance capital expenditure ⁽¹⁾	4,448	5,206	11,554	11,585	8,780
Distributable cash after all capital expenditure from continuing operations	\$ 6,786	\$ 758	\$ 88,188	\$ 111,087	\$ 104,360

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

Consolidated Operating Results

Revenue from continuing operations for the fourth quarter of 2016 was \$251.7 million, which was \$25.7 million lower than revenue from continuing operations for the fourth quarter of 2015. On a year-to-date basis, revenue from continuing operations for 2016 was \$1,067.3 million, which was \$60.2 million lower than the revenue from continuing operations for 2015. The decrease in revenue from continuing operations is primarily due to lower selling prices for sulphuric acid and sulphur in the Sulphur Products and Performance Chemicals ("SPPC") segment, and lower volumes of certain products in the Water Solutions and Specialty Chemicals ("WSSC") segment.

Chemtrade's Adjusted EBITDA from continuing operations for the fourth quarter of 2016 was lower than the Adjusted EBITDA from continuing operations for the same period of 2015 by \$15.5 million. This is primarily due to \$8.5 million of acquisition costs expensed during the fourth quarter of 2016 related to the Canexus acquisition (see **Recent Developments**). Additionally, Adjusted EBITDA was lower in the WSSC segment due to operational issues and reduced operating rates at certain facilities within the segment. Chemtrade's Adjusted EBITDA from continuing operations for

the year ended December 31, 2016 was \$40.5 million lower than the Adjusted EBITDA from continuing operations for the same period of 2015. This is primarily due to Chemtrade recording \$20.3 million of realized foreign exchange losses during the third quarter of 2016 related to the repayment of long-term debt from the proceeds of the Debenture offering (see **Recent Developments**), weaker results in the SPPC and WSSC segments, and acquisition costs of \$8.5 million related to Canexus (see **Recent Developments**). The stronger U.S. dollar positively affected Adjusted EBITDA for 2016 by approximately \$5.8 million, but this was more than offset by the factors noted above. Additionally, during the third quarter of 2015, a gain of \$4.1 million was realized on the settlement of litigation associated with the 2011 acquisition of Marsulex.

Net earnings from continuing operations for the fourth quarter and year ended December 31, 2016 were higher than net earnings for the comparative periods of 2015 by \$89.1 million and \$56.8 million, respectively. This is primarily due to goodwill impairment of \$88.7 million recognized in the Water Solutions and Specialty Chemicals ("WSSC") segment during the fourth quarter of 2015. On a year-to-date basis, this was partially offset by a loss on the write-down of assets of \$55.7 million and an impairment of intangible assets of \$3.1 million (see **Loss on Write-Down of Assets and Intangible Asset Impairment**) in 2016, which was partially offset by the resulting income tax recovery. There was also an unrealized foreign exchange gain during 2016, compared with an unrealized foreign exchange loss during 2015 due to fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar. Net finance costs were higher in 2016 compared with 2015, primarily due to fair value adjustments on the Debentures and \$6.4 million of transaction costs related to the issuance of Debentures during the third quarter of 2016.

Results of Continuing Operations by Business Segment

SPPC -

(\$'000)	<u>Three months ended</u>		<u>Year ended</u>	
	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Revenue	\$ 141,931	\$ 158,700	\$ 592,507	\$ 650,325
Adjusted EBITDA	30,945	33,196	145,310	150,161
Impairment of intangible assets	—	—	(3,143)	—
Gain (loss) on disposal and write-down of assets	—	887	(55,779)	1,561
EBITDA	30,945	34,083	86,388	151,722
Depreciation and amortization	(18,718)	(20,783)	(77,618)	(83,866)
Net finance costs	(1,825)	(5,556)	(17,194)	(21,854)
Income tax recovery	8,220	8,120	40,772	6,070
Net earnings	\$ 18,622	\$ 15,864	\$ 32,348	\$ 52,072

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

Revenue for the fourth quarter of 2016 was \$16.8 million lower than revenue for the fourth quarter of 2015. Revenue for the year ended December 31, 2016 was \$57.8 million lower than the level generated in 2015. The decrease in revenue for the fourth quarter and year ended December 31, 2016 compared with the same periods of 2015 was primarily due to lower selling prices for sulphuric acid and sulphur. On a year-to-date basis, this was partially offset by the positive impact of the stronger U.S. dollar on U.S. dollar-denominated revenue. Adjusted EBITDA for the fourth quarter and year ended December 31, 2016 was \$2.3 million and \$4.9 million lower, respectively, than Adjusted EBITDA for the same periods of 2015. Relative to 2015, Adjusted EBITDA for the 2016 year benefited by approximately \$4.2 million due to the stronger U.S. dollar, although this was more than offset by lower margins for sulphuric acid. Net earnings for the fourth quarter of 2016 were \$2.8 million higher than net earnings for the fourth quarter of 2015. Net earnings for the year ended December 31, 2016 were \$19.7 million lower than net earnings for the same period of 2015. This was primarily due to the loss on write-down of assets and impairment of intangible assets recorded in the second quarter of 2016 (see **Loss on Write-Down of Assets and Intangible Asset Impairment**), partially offset by the resulting tax impact.

WSSC -

(\$'000)	<u>Three months ended</u>		<u>Year ended</u>	
	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Revenue	\$ 109,817	\$ 118,760	\$ 474,749	\$ 477,141
Adjusted EBITDA	20,304	27,400	115,999	121,138
Impairment of intangible assets	—	(88,738)	—	(88,738)
Loss on disposal and write-down of assets	(41)	(7,444)	(45)	(7,444)
EBITDA	20,263	(68,782)	115,954	24,956
Depreciation and amortization	(15,616)	(16,138)	(68,610)	(62,159)
Net finance costs	(4,981)	(2,660)	(14,142)	(9,927)
Income tax recovery	17,707	8,416	33,856	16,012
Net earnings (loss)	\$ 17,373	\$ (79,164)	\$ 67,058	\$ (31,118)

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 chlorate, sodium nitrite, potassium chloride, phosphorus pentasulphide, vaccine adjuvants, and sulphides. These products are marketed primarily to North American customers.

Revenue during the fourth quarter of 2016 was lower than the same period of 2015 by \$8.9 million primarily due to lower volumes of certain products within the segment. For the year ended December 31, 2016, revenue was \$2.4 million lower than the same period of 2015. The lower revenues during the fourth quarter of 2016 were partially offset by the positive impact of the stronger U.S. dollar in 2016 relative to 2015. Adjusted EBITDA during the fourth quarter and year ended December 31, 2016 was \$7.1 million and \$5.1 million lower than the same periods of 2015, respectively. During the fourth quarter of 2016, Adjusted EBITDA was negatively affected by operational issues at one water chemicals manufacturing plant, and by reduced operating rates at a specialty chemicals plant where the first phase of an expansion

was implemented. Net earnings for the fourth quarter and year ended December 31, 2016 were \$96.5 million and \$98.2 million higher, respectively, than the comparative periods of 2015. This is primarily due to the impairment of intangible assets and loss on write-down of assets recognized during the fourth quarter of 2015. This was partially offset by a higher income tax recovery in 2016 compared with 2015 which was primarily due to the reversal of certain deferred tax liabilities.

Corporate -

(\$'000)	<u>Three months ended</u>		<u>Year ended</u>	
	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Cost of services	\$ 19,643	\$ 13,482	\$ 80,870	\$ 50,353
Adjusted EBITDA	(19,643)	(13,482)	(80,870)	(50,353)
Unrealized foreign exchange (loss) gain	(3,897)	(3,215)	8,647	(26,145)
EBITDA	(23,540)	(16,697)	(72,223)	(76,498)
Net finance costs	(6,131)	(2,593)	(31,415)	(1,917)
Income tax recovery (expense)	88	(55)	3,039	(534)
Net loss	\$ (29,583)	\$ (19,345)	\$ (100,599)	\$ (78,949)

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

For the fourth quarter and year ended December 31, 2016, corporate costs, excluding unrealized foreign exchange gains and losses, net finance costs and income taxes were \$6.2 million and \$30.5 million higher than the comparative periods of 2015, respectively. Chemtrade incurred \$8.5 million of acquisition costs related to the Canexus acquisition during the fourth quarter of 2016. During the third quarter of 2016, Chemtrade realized foreign exchange losses of \$20.3 million on the repayment of long-term debt using the proceeds of the Debenture offering (see **Recent Developments**). Finally, during the third quarter of 2015, a gain of \$4.1 million was realized on the settlement of litigation associated with the acquisition of Marsulex in 2011. The fair value adjustment on the Long-Term Incentive Plan ("LTIP") in the fourth quarter and year ended December 31, 2016 was \$1.0 million and \$1.8 million lower than the comparative periods of 2015, respectively.

The comments on LTIP expenses relate to the 2014-2016, 2015-2017, and 2016-2018 LTIPs. The 2014-2016, 2015-2017, and 2016-2018 LTIP payouts are payable at the beginning of 2017, 2018 and 2019, respectively. The LTIP awards have a performance based component and a restricted share unit component. The performance based component for the 2014-2016 and 2015-2017 LTIP awards is based on total Unitholder return achieved over the three year performance period of the plan, Adjusted EBITDA growth, and total return to Chemtrade's Unitholders relative to the total return on the S&P/TSX Capped Industrial Index. The 2016-2018 LTIP award's performance based component is similar to the 2014-2016 and 2015-2017 LTIP awards except the total return to Chemtrade's Unitholders is measured relative to the total return on the S&P/TSX Dividend Index rather than the S&P/TSX Capped Industrial Index. The

restricted share unit component of the LTIP awards is a phantom plan which is payable in cash at the end of the performance period. The nature of these calculations makes it difficult to forecast the amount of LTIP expenses that will be recorded in any period, as it is based upon a valuation model which considers several variables.

Chemtrade has hedged its investment in foreign operations that use the U.S. dollar as their functional currency with its U.S. dollar-denominated long-term debt. As a result, any gains and losses arising from the U.S. dollar-denominated debt will be offset by the foreign currency gain or loss arising from the investment in the foreign operations. The gains and losses on the translation of the designated amount of U.S. dollar-denominated debt and investment in foreign operations are now being recognized on a net basis in other comprehensive income. For the three months and year ended December 31, 2016, a foreign exchange loss of \$1.9 million and foreign exchange gain of \$31.2 million, respectively, on the revaluation of the U.S. dollar-denominated debt was recognized in other comprehensive income, compared with a foreign exchange loss of \$7.2 million and \$35.6 million, respectively, during the three months and year ended December 31, 2015.

Net finance costs during the fourth quarter of 2016 were higher than the fourth quarter of 2015 by \$3.5 million due to the fair value adjustment on the Debentures and interest on the Debentures that were issued during the third quarter of 2016. For the fourth quarter of 2016, a loss of \$1.1 million was recorded relating to the fair value of the Debentures, compared with a gain of \$0.6 million during the fourth quarter of 2015. Net finance costs during the year ended December 31, 2016 were higher than the comparable period by \$29.5 million. For the 2016 year, a loss of \$9.7 million was recorded relating to the fair value of the Debentures, compared with a gain of \$11.2 million during 2015. Additionally, there were \$6.4 million of transaction costs recorded in the third quarter of 2016 related to the issuance of Debentures and additional interest expense in 2016 associated with these new Debentures.

Loss on Write-Down of Assets and Intangible Asset Impairment

Augusta Facility

On June 30, 2016, Fibrant LLC ("Fibrant") publicly announced plans to close its Augusta, Georgia caprolactam operations. Chemtrade operates a facility in Augusta that supplies sulphuric acid products to Fibrant's facility. Part way through the year, Fibrant started to wind down its operations and ceased production in November 2016, causing Chemtrade's Augusta facility to cease operations as well.

Chemtrade recorded a loss of \$55.7 million in the second quarter of 2016 on the write-down of assets associated with its sulphuric acid production facilities in Augusta, Georgia. Due to the closure of Fibrant's operations noted above, the cash flows associated with these specific assets could no longer support their carrying value.

Additionally, the closure of Fibrant's operations in Augusta was considered an indicator of impairment in the value of Chemtrade's customer contract with Fibrant. As a result, Chemtrade recorded an impairment loss of \$3.1 million related to intangible assets in the SPPC segment.

These losses are reflected in cost of sales and services on the statement of comprehensive income. There was also \$23.3 million of deferred income tax recovery recorded associated with these write-downs.

Goodwill Impairment in WSSC Segment

During the fourth quarter of 2015, Chemtrade recorded an impairment loss of \$88.7 million related to goodwill in the WSSC segment. Increased competitive pressures in the water treatment business was considered an indicator of impairment. Any estimated cash flows from future capital expenditures considered to expand the capacity of Chemtrade's operations are not considered when goodwill is tested for impairment.

Additionally, Chemtrade recorded a loss of \$7.4 million in the fourth quarter of 2015 on the write-down of assets associated with certain production facilities that manufacture water treatment chemicals. Due to the competitive pricing pressure noted above, the cash flows associated with these specific assets had been declining and could no longer support their carrying value.

These losses were reflected in cost of sales and services on the statement of comprehensive income in 2015.

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. Chemtrade currently estimates that if the U.S. dollar strengthens by one-cent, on an unhedged basis, this would have a positive impact on annual Adjusted EBITDA and Distributable cash after maintenance capital expenditures of approximately \$1.3 million and \$0.8 million, respectively, and vice-versa.

Chemtrade has entered into a series of foreign exchange contracts with its principal bankers to manage the volatility of foreign exchange rates. All foreign exchange contracts are under International Swap and Derivatives Association ("ISDA") agreements. Contracts in place at December 31, 2016 include future contracts to sell the following amounts for periods through to March 2017:

Amount	Weighted average exchange rate
US\$7,000	\$1.35

The purpose of these contracts is to manage foreign exchange risk on specific transactions in a foreign currency. The amount of the related derivative is recorded at fair value at the period end and is included with prepaid expenses and other assets or trade and other payables on the consolidated statements of financial position. The resultant non-cash charge or gain is included in selling and administrative expenses. The impact of this non-cash charge or gain is excluded from the computation of Adjusted EBITDA and Distributable cash after maintenance capital expenditures. See **Non-IFRS Measures - Cash Flow**.

Certain of Chemtrade's operating subsidiaries use the U.S. dollar as their functional currency. The investment in these U.S. dollar-denominated foreign operations has been hedged by Chemtrade's U.S. dollar-denominated credit facilities. Any gains and losses from the translation of U.S. dollar-denominated borrowings on the credit facilities will be offset by the foreign currency gain or loss arising from the investment in the U.S. foreign operations. The gains and losses on the translation of the designated amount of long-term debt and investment in foreign operations are recorded in other comprehensive income. The changes recorded in the accumulated other comprehensive income account since

December 31, 2015 were a result of changes in the Canadian/U.S. dollar exchange rate between December 31, 2015 and December 31, 2016.

The rate of exchange used to translate U.S. dollar-denominated balances has decreased from a rate of US\$1.00 = \$1.38 at December 31, 2015 to US\$1.00 = \$1.34 at December 31, 2016. See **Risks and Uncertainties** for additional comments on foreign exchange.

Finance Income and Costs

During the fourth quarter and year ended December 31, 2016, net finance costs were \$12.9 million and \$62.8 million, respectively, compared with net finance costs of \$10.8 million and net finance costs \$33.7 million, respectively, during the fourth quarter and year ended December 31, 2015. Net finance costs were higher in 2016 compared with the same periods in 2015, primarily due to fair value adjustments on the Debentures. Additionally, there were \$6.4 million of transaction costs recorded in the third quarter of 2016 related to the issuance of Debentures and additional interest incurred in 2016 related to the new Debentures.

Net finance costs include changes in the fair value of Chemtrade's Debentures. For the fourth quarter and year ended December 31, 2016, the revaluation of the Debentures resulted in losses of \$1.1 million and \$9.7 million, respectively, compared with gains of \$0.6 million and \$11.2 million, respectively, for the comparable periods of 2015.

During the fourth quarter and year ended December 31, 2016, Chemtrade recorded accretion expenses of \$0.3 million and \$1.4 million, respectively, due to the amortization of transaction costs related to Chemtrade's borrowings. In the fourth quarter and year ended December 31, 2015, Chemtrade recorded accretion expenses of \$0.6 million and \$2.1 million, respectively. See **Liquidity and Capital Resources - *Financing Activities***.

The weighted average effective annual interest rate on senior debt at December 31, 2016 was 3.44% (December 31, 2015 - 3.40%). 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 recoveries for the fourth quarter and year ended December 31, 2016 were \$10.4 million and \$6.6 million, respectively, compared with an income tax expense of \$3.0 million and \$5.5 million during the comparative periods of 2015. The large income tax recovery during 2016 is due to the release of tax provisions that were related to a previous acquisition for periods that are now statute-barred. For the fourth quarter and year ended December 31, 2016, there were deferred income tax recoveries of \$15.6 million and \$71.0 million, respectively, compared with deferred income tax recoveries of \$19.5 million and \$27.0 million, respectively, for the same periods of 2015. The increase in income tax recovery for the year ended December 31, 2016 compared with the year ended December 31, 2015 is primarily due to the reversal of deferred tax liabilities related to the assets that were written down in the SPPC segment during the second quarter of 2016 (see **Loss on Write-Down of Assets and Intangible Asset Impairment**) and the recognition of deductible temporary differences.

The effective tax rate for the fourth quarter and year ended December 31, 2016 differs from the statutory tax rate primarily due to the deduction of taxable income distributed to Unitholders, partially offset by losses incurred in a jurisdiction with a higher tax rate.

In 2014, Chemtrade acquired an income tax payable balance as part of the acquisition of General Chemical Holding Company ("General Chemical"). This balance was partially paid in 2015 with the remainder under further examination by the appropriate tax authorities. During 2016, \$21.3 million of the balance was no longer deemed to be an income tax liability. Pursuant to the purchase agreement, this balance was reclassified to trade and other payables as an amount to be returned to the vendor of the business and \$15.4 million was paid during 2016. There were no amounts recognized in the statement of comprehensive income related to this transaction.

The net decrease in deferred tax assets of \$4.5 million at December 31, 2016 relative to December 31, 2015 is primarily due to the reduction of deferred tax assets and the utilization of non-capital losses in certain jurisdictions, partially offset by an increase in capital losses and the recognition of deferred tax assets related to transaction costs on the issuance of Debentures during the third quarter of 2016.

The net decrease in deferred tax liabilities of \$80.5 million at December 31, 2016 relative to December 31, 2015 is mainly due to the reversal of certain deferred tax liabilities primarily related to assets that were written down in the SPPC segment in the second quarter of 2016 (see **Loss on Write-Down of Assets and Intangible Asset Impairment**). There was also a decrease in deferred tax liabilities during 2016 due to the impact of foreign exchange.

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, 2016, and for the years ended December 31, 2015 and December 31, 2014.

(\$'000)	<u>Three months ended</u>		<u>Year ended</u>	
	December 31, 2016	December 31, 2016	December 31, 2015	December 31, 2014
Cash flows from operating activities	\$ 49,790	\$ 153,009	\$ 161,974	\$ 104,296
Net (loss) earnings	(8,902)	(12,658)	(47,590)	21,030
Distributions paid during period	20,746	82,912	82,640	71,394
Excess of cash flows from operating activities over cash distributions paid	29,044	70,097	79,334	32,902
Shortfall of net earnings over cash distributions paid	(29,648)	(95,570)	(130,230)	(50,364)

Chemtrade considers the amount of cash generated by the business in determining the amount of distributions available for payment to its Unitholders. In general, Chemtrade does not take into account quarterly working capital fluctuations as these tend to be temporary in nature. Chemtrade does not generally consider net earnings in setting the level of distributions as this is a non-cash metric and is not reflective of the level of cash flow that Chemtrade can generate. This divergence is particularly relevant for Chemtrade as it has a relatively high level of depreciation and amortization expenses, foreign exchange gains and losses, and deferred tax expenses and recoveries.

Distributions -

Distributions to Unitholders for the three months and year ended December 31, 2016 were declared as follows:

<u>Record Date</u>	<u>Payment Date</u>	<u>Distribution Per Unit</u>	<u>Total (\$'000)</u>
Three months ended December 31:			
October 31, 2016	November 30, 2016	\$ 0.10	\$ 6,916
November 30, 2016	December 30, 2016	0.10	6,916
December 30, 2016	January 31, 2017	0.10	6,917
Sub-Total		\$ 0.30	\$ 20,749
Three months ended September 30, 2016		\$ 0.30	\$ 20,730
Three months ended June 30, 2016		\$ 0.30	\$ 20,721
Three months ended March 31, 2016		\$ 0.30	\$ 20,721
Total for the year ended December 31, 2016		\$ 1.20	\$ 82,921

Distributions to Unitholders for the three months and year ended December 31, 2015 were declared as follows:

Record Date	Payment Date	Distribution Per Unit	Total (\$'000)
Three months ended December 31:			
October 30, 2015	November 30, 2015	\$ 0.10	\$ 6,907
November 30, 2015	December 31, 2015	0.10	6,907
December 31, 2015	January 29, 2016	0.10	6,907
Sub-Total		\$ 0.30	\$ 20,721
Three months ended September 30, 2015		\$ 0.30	\$ 20,716
Three months ended June 30, 2015		\$ 0.30	\$ 20,697
Three months ended March 31, 2015		\$ 0.30	\$ 20,566
Total for the year ended December 31, 2015		\$ 1.20	\$ 82,700

Treatment of Chemtrade's distributions for Canadian Income Tax purposes for 2015 and 2016 is as follows:

	Other Income	Dividends ⁽¹⁾	Foreign Non-Business Income	Total
2015	18.3%	17.3%	64.4%	100%
2016 ⁽²⁾	19.3%	16.3%	64.4%	100%

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

(2) Represents anticipated tax characterization of planned distributions. The actual tax treatment of 2016 distributions will be determined by February 28, 2017.

Liquidity and Capital Resources

The Fund's distributions to Unitholders are sourced entirely from its investments in operating subsidiary entities. The Fund's investments are financed by trust units held by Unitholders, the credit facilities, and the Debentures. The cash flow of Chemtrade is required to fund cash distributions to Unitholders, capital requirements, interest, general corporate purposes and other legal obligations.

Cash Flow from Operating Activities

Cash flow from operating activities for the fourth quarter of 2016 was an inflow of \$49.8 million, a decrease of \$19.2 million from the fourth quarter of 2015. Cash flow from operating activities for the year ended December 31, 2016 was an inflow of \$153.0 million, which was \$9.0 million lower than the same period of 2015. The decrease in cash flow from operating activities in the fourth quarter of 2016, compared with the fourth quarter of 2015 is primarily due to lower Adjusted EBITDA, partially offset by changes in working capital.

Investing Activities

On January 16, 2015, Chemtrade completed the purchase of the operating assets of Hydor-Tech Ltd, further details of which are contained in the consolidated financial statements of Chemtrade for the year ended December 31, 2016.

Capital expenditures were \$24.6 million in the fourth quarter of 2016, compared with \$33.2 million in the fourth quarter of 2015. These amounts include \$19.7 million in the fourth quarter of 2016 and \$27.9 million in the fourth quarter of 2015.

2015 for maintenance capital requirements for continuing operations. Investment in capital expenditures was \$56.8 million during the year ended December 31, 2016, compared with \$64.1 million during the year ended December 31, 2015. These amounts include \$44.7 million during the year ended December 31, 2016 and \$52.1 million during the year ended December 31, 2015 for maintenance capital requirements for continuing operations. Chemtrade expects to incur approximately \$45.0 million of maintenance capital expenditures in 2017.

Non-maintenance capital expenditures were \$4.4 million during the fourth quarter of 2016, compared with \$5.2 million during the fourth quarter of 2015. Investment in non-maintenance capital expenditures was \$11.6 million during the year ended December 31, 2016, which was the same as the year ended December 31, 2015. Non-maintenance capital expenditures are: (i) 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, 2016, Chemtrade's credit facilities were comprised of a \$436.4 million (US\$325.0 million) five year term loan and a \$815.0 million (US\$607.0 million) revolving credit facility.

During the third quarter of 2016, Chemtrade issued an aggregate \$143.8 million principal amount of Debentures (see **Recent Developments**). Chemtrade incurred transaction costs of \$6.4 million, which included underwriters' fees and other expenses of the offering. The net proceeds of the issuance were used to repay long-term debt. The repayment resulted in a realized foreign exchange loss of \$20.3 million which is recognized in selling and administrative expenses in the statement of comprehensive income. It also resulted in the recognition of debt extinguishment costs of \$0.7 million which have been included in finance costs in the statement of comprehensive income.

In 2015, Chemtrade modified the terms of its credit facilities to extend the maturity date. Chemtrade incurred \$1.7 million of costs related to these amendments. These costs have been deferred and are being amortized to finance costs in comprehensive income using the effective interest method.

On September 16, 2016, Chemtrade modified the terms of its credit facilities to decrease the term debt available by US\$107.0 million and increase the revolving credit facility by the same amount.

There were net repayments of \$14.4 million and \$20.1 million on the revolving portion of the credit facilities during the fourth quarter of 2016 and 2015, respectively. During the years ended December 31, 2016 and 2015, there was a net repayment of \$144.8 million and a net borrowing of \$12.5 million, respectively, on the revolving portion of the credit facilities.

Distributions to Unitholders during the three months and year ended December 31, 2016 were slightly higher than the same periods of 2015 due to units issued on the conversion of Debentures since the comparative period of 2015, while the distribution per unit remained the same. For additional information on cash distributions, see **Non-IFRS Measures - Cash Flow and Excess Cash Flows and Net Earnings Over Distributions Paid**.

Financial Instruments -

In March 2014, Chemtrade entered into swap arrangements with its principal bankers, which fix the LIBOR components of its interest rates on US\$325.0 million of its outstanding long-term debt until January 2019. These swaps have been formally designated as hedges at the date of inception. All changes in the fair value of the swap arrangements have been recorded in other comprehensive income in the consolidated statements of comprehensive income.

During the first quarter of 2015, Chemtrade 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. Any gains and losses arising from the U.S. dollar-denominated debt will be offset by the foreign currency gain or loss arising from the investment in the foreign operations. The gains and losses on the translation of the designated amount of U.S. dollar-denominated debt and investment in foreign operations are being recognized in other comprehensive income.

Cash Balances -

At December 31, 2016, Chemtrade had net cash balances of \$14.7 million and working capital of \$14.2 million. Comparable figures for December 31, 2015 were \$8.0 million and \$15.5 million, respectively. Chemtrade defines working capital to exclude cash, assets held for sale, distributions payable, current portion of long-term debt and Debentures, and liabilities directly associated with assets held for sale. Cash generated by Chemtrade will be used to fund cash distributions to Unitholders, capital requirements, interest, general corporate purposes and other legal obligations.

Future Liquidity -

The future liquidity of Chemtrade is primarily dependent on cash flows of its operating subsidiaries. These cash flows will be used to finance ongoing expenditures, including maintenance capital, distributions to Unitholders and normal course financial commitments. Cash flows are sensitive to changes in volume, sales prices and input costs and any changes in these may impact future liquidity. Management believes that cash flows from operating activities will be sufficient for Chemtrade to meet future obligations and commitments that arise in the normal course of business activities. In addition, Chemtrade has revolving credit facilities which can be used for general corporate purposes, including to fund capital expenditures. See *Capital Resources* below for more details.

Capital Resources -

At December 31, 2016, Chemtrade had credit facilities of approximately \$1.3 billion (US\$932.0 million), consisting of a term loan of \$436.4 million (US\$325.0 million) and a revolving credit facility of \$815.0 million (US\$607.0 million). These credit facilities are due in October 2020. At December 31, 2016, Chemtrade had the entire term loan outstanding, and had drawn \$12.3 million on its revolving credit facility. Additionally, it had committed a total of \$21.9 million of its revolving credit facility towards standby letters of credit.

At December 31, 2016, Chemtrade had a long-term loan of \$11.8 million related to its facilities located at Syncrude's Mildred Lake oil sands facility in Alberta. The loan is secured by the assets at this facility. The loan bears interest at a fixed rate of 7.3% per annum, with monthly principal repayments due until December 2019.

At December 31, 2016, Chemtrade had four series of Debentures outstanding with an aggregate par value of \$377.2 million (market value of \$392.4 million) and maturity dates ranging from March 31, 2017 to August 31, 2023.

Debt Covenants -

As at December 31, 2016, Chemtrade was compliant with all debt covenants contained in its credit agreements.

Summary of Quarterly Results

<i>(\$ millions)</i>	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Revenue from continuing operations	\$ 251.7	\$ 273.0	\$ 262.1	\$ 280.4	\$ 277.5	\$ 304.7	\$ 276.2	\$ 269.0
Cost of sales and services	(228.5)	(230.1)	(280.1)	(246.1)	(342.1)	(262.8)	(238.0)	(229.2)
Gross profit	23.3	42.9	(17.9)	34.2	(64.6)	41.9	38.3	39.8
Selling and administrative expenses:								
Unrealized foreign exchange (loss) gain	(3.9)	(2.5)	1.7	13.4	(3.2)	(13.3)	1.4	(11.0)
LTIP expense	(1.4)	(1.2)	(1.8)	(0.2)	(2.4)	0.8	(2.2)	(2.6)
Other	(24.6)	(37.5)	(19.3)	(21.3)	(18.1)	(14.2)	(17.1)	(19.4)
Total selling and administrative expenses	(29.9)	(41.2)	(19.4)	(8.1)	(23.7)	(26.7)	(17.9)	(33.0)
Operating income (loss)	(6.7)	1.8	(37.3)	26.1	(88.3)	15.2	20.4	6.8
Net finance costs:								
Mark-to-market on Debentures	(1.1)	(7.7)	(3.3)	2.3	0.6	13.6	5.3	(8.4)
Debt extinguishment costs	—	(0.7)	—	—	—	—	—	—
Other	(11.8)	(18.4)	(10.9)	(11.1)	(11.4)	(11.4)	(10.8)	(11.3)
Total net finance (costs) income	(12.9)	(26.8)	(14.2)	(8.8)	(10.8)	2.2	(5.5)	(19.7)
Income tax recovery (expense)	26.0	9.7	31.7	10.2	16.5	(1.0)	5.7	0.4
Net earnings (loss) from continuing operations	\$ 6.4	\$ (15.3)	\$ (19.8)	\$ 27.5	\$ (82.6)	\$ 16.4	\$ 20.7	\$ (12.5)
Net (loss) earnings from discontinued operations	\$ (15.3)	\$ 0.3	\$ 2.2	\$ 1.3	\$ 2.6	\$ 2.0	\$ 2.3	\$ 3.5
Net (loss) earnings	\$ (8.9)	\$ (15.0)	\$ (17.6)	\$ 28.8	\$ (80.1)	\$ 18.5	\$ 23.0	\$ (9.0)

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 was lower in the fourth quarter of 2015 due to an \$88.7 million impairment loss on goodwill and \$7.4 million write-down of certain assets. Gross profit was lower in the second quarter of 2016 due to a \$55.7 million write-down of certain assets and a \$3.1 million impairment of intangible assets (see **Loss on Write-Down of Assets and Intangible Asset Impairment**). Gross profit was lower in the fourth quarter of 2016 due to weaker results in the WSSC segment.

Selling and Administrative Expenses

The change in fair value of Chemtrade's LTIP obligation is included in selling and administrative expenses. The amount of the expense recorded in any quarter depends on changes in the various factors used in arriving at the fair value of the obligation.

Other selling and administrative expenses during the third quarter of 2015 were low as they included a \$4.1 million gain on settlement of litigation related to the acquisition of Marsulex in 2011. Other selling and administrative expenses during the third quarter of 2016 were high as they included a realized foreign exchange loss of \$20.3 million as a result of the repayment of the term loan using the proceeds of the Debenture offering (see **Recent Developments**). Other selling and administrative expenses were also high during the fourth quarter of 2016 as they included acquisition costs of \$8.5 million related to the Canexus acquisition (see **Recent Developments**).

Net Finance Costs

Net finance costs include changes in the fair value of Chemtrade's Debentures. The amount recorded in any quarter related to the fair value adjustments on the Debentures fluctuates depending upon the market value of the Debentures at the end of the period. The primary component of other net finance costs is interest from Chemtrade's credit facilities and Debentures.

The third quarter of 2016 include debt extinguishment costs resulting from the repayment of the credit facilities. Other net finance costs were high during the third quarter of 2016 as they included \$6.4 million of transaction costs related to the issuance of Debentures.

Income Taxes

Income tax recoveries were high in the fourth quarter of 2015 and the third quarter of 2016 primarily due to higher net losses incurred during these quarters. The income tax recovery in the first quarter of 2016 was high primarily due to the reversal of certain deferred tax liabilities due to the change in value of the U.S. dollar relative to the Canadian dollar. The income tax recovery in the second quarter of 2016 was high primarily due to the reversal of certain deferred tax liabilities related to the write-down and impairment of assets (see **Loss on Write-Down of Assets and Intangible Asset Impairment**). Income tax recovery was high during the fourth quarter of 2016 primarily due to the release of a tax provision that was inherited as part of a previous acquisition for periods that are now statute-barred, as well as the reversal of certain deferred tax liabilities.

Discontinued Operations

Discontinued operations represents the International segment which was classified as a discontinued operation at December 31, 2016 (see **Recent Developments**). The net loss during the fourth quarter of 2016 is primarily due to deferred income tax expenses recognized related to the pending sale of the segment.

Outstanding Securities of the Fund

As at February 26, 2017 and December 31, 2016, the following common units and securities convertible into units were issued and outstanding:

	February 26, 2017		December 31, 2016	
	Convertible Securities	Units	Convertible Securities	Units
Common units outstanding		69,188,722		69,172,785
6.0% Debentures ⁽¹⁾	27,102	1,693,875	27,357	1,709,813
5.75% Debentures ⁽²⁾	79,637	3,981,850	79,637	3,981,850
5.25% Debentures ⁽³⁾	126,500	4,517,857	126,500	4,517,857
5.00% Debentures ⁽⁴⁾	143,750	5,784,708	143,750	5,784,708
Units outstanding and issuable upon conversion of Debentures		85,167,012		85,167,013
Subscription receipts	21,800,000	21,800,000	—	—

⁽¹⁾ Convertible at \$16.00 per unit

⁽²⁾ Convertible at \$20.00 per unit

⁽³⁾ Convertible at \$28.00 per unit

⁽⁴⁾ Convertible at \$24.85 per unit

Contractual Obligations

Information concerning contractual obligations at December 31, 2016 is shown below:

Contractual Obligations (\$'000)	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	\$ 460,459	\$ 3,654	\$ 8,156	\$ 448,649	—
Debentures	377,244	27,357	79,637	126,500	143,750
Operating leases	83,661	29,561	35,450	12,379	6,271
Interest on long-term debt	57,520	15,699	30,551	11,270	—
Interest on Debentures	87,371	18,818	32,237	24,337	11,979
Total contractual obligations	\$ 1,066,255	\$ 95,089	\$ 186,031	\$ 623,135	\$ 162,000

Related Parties

Key Management Personnel Compensation

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

The Annual Incentive Compensation (“Annual IC”) plan entitles the senior leadership team to annual cash awards based on (i) Chemtrade’s success in achieving financial objectives (financial achievement is weighted at 65% of the total Annual IC award for 2016); and (ii) their individual success in accomplishing personal objectives (weighted at 35% of the total Annual IC award for 2016) as set out in their objectives for the fiscal year.

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

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

Chemtrade has in place a deferred unit compensation plan for its trustees, pursuant to which the trustees must take at least 30% of their compensation in the form of deferred units of Chemtrade. They can also elect to take an additional portion of their compensation in the form of deferred units of Chemtrade, with the remainder as a cash payment. As at December 31, 2016, the market value of these deferred units, which is included in trade and other payables was \$4.4 million (2015 - \$3.4 million).

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

	2016	2015
Short-term compensation	\$ 8,660	\$ 7,182
LTIP	3,595	4,992
	\$ 12,255	\$ 12,174

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

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

Chemtrade's Board of Trustees periodically reviews a framework identifying the principal risks of Chemtrade's business, and ensures the implementation of appropriate systems to manage these risks. The Audit Committee reviews major financial risks, the systems implemented to monitor those risks and the strategies in place to manage those risks. Chemtrade's Responsible Care Committee reviews major operational risks, the systems implemented to monitor those risks and the strategies in place to manage those risks. In addition, Chemtrade maintains an extensive insurance program which includes general liability and environmental coverage.

Reliance on Customers and Successful Contract Re-negotiations -

A material portion of Chemtrade's earnings are dependent on the production rates of certain key customers, particularly Vale Canada Limited ("Vale"), Syncrude Canada Ltd, Tesoro Refining and Marketing Company, and Chevron Corporation.

In January 2013, Vale announced that it plans to move to a single furnace operation at its Copper Cliff, Ontario smelter, which would reduce the amount of by-product acid that Chemtrade receives from Vale. Chemtrade has been advised by Vale that the transition to a single furnace operation will take place in late 2017, but Chemtrade estimates that the amount of reduced supply from Vale will not represent a significant proportion of Chemtrade's total acid supply.

On July 18, 2016, Canfor Pulp L.P. ("Canfor") provided Chemtrade the required two year termination notice under the current sodium chlorate supply agreement and long-term services agreement, both of which expire on August 28, 2018. Chemtrade's sodium chlorate facility located at Prince George, BC serves three pulp mills owned by Canfor, two of which are connected by pipeline. While serving notice of termination is a typical step in the negotiation of long-term contracts, the parties are in the early stages of negotiation and Chemtrade is unable to predict the outcome.

Chemtrade enters into contracts of varying lengths with customers and certain producers of by-products. Although some of these contracts are renewable (or renew automatically unless notice of termination is given), there can be no assurance that such contracts will be renewed (or that notice of termination will not be given). The failure of Chemtrade to renew those contracts could materially adversely affect results of its operations.

Credit Risk -

Credit risk arises from the non-performance by counter-parties of 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 or group of counter-parties. The primary counter-parties related to the foreign exchange forward contracts, commodity price contracts and interest rate swaps carry investment grade ratings. Chemtrade's maximum exposure to credit risk at the reporting date is the carrying value of its receivables and derivative assets.

Operating Risks -

Chemtrade's revenues are dependent on the continued operation of its various manufacturing facilities. The occurrence of significant operational problems may have a material adverse effect on Chemtrade's business, results of operations and financial condition, including increased capital expenditures.

Potential Trade Restrictions -

Chemtrade is dependent upon the free flow of goods across the U.S.-Canadian border and has significant exposure to disruptions in U.S.-Canadian trade relations. Trade restrictions, including tariffs, quotas, embargoes, safeguards and customs restrictions, could increase the cost or reduce the supply of products available to Chemtrade and to its customers or may require Chemtrade to modify its current business practices, any of which could harm its business, financial condition and results of operations.

Risks of Acquisitions and the Failure to Integrate Acquired Businesses -

As part of its long-term strategy, Chemtrade has grown by acquisition and intends to acquire additional complementary businesses where such transactions are economically and strategically justified. However, there can be no assurance that Chemtrade will continue to identify attractive acquisition candidates in the future, or that it will succeed at effectively managing the integration of acquired businesses. If the expected synergies from such transactions (either present or future) do not materialize or Chemtrade fails to successfully integrate such new businesses into its existing businesses, Chemtrade's results from the acquired operations could be adversely affected.

Capital Expenditures -

Chemtrade's management provides projections of the expected level of capital expenditures related to its manufacturing operations. There is a risk that actual capital expenditures may differ from these projections. Additionally, there is a risk of ineffective capital utilization in the execution of these capital projects.

Exchange Rates -

Chemtrade is exposed to fluctuations in the exchange rate of the U.S. dollar relative to the Canadian dollar, as a portion of Chemtrade's Distributable cash after maintenance capital expenditures is earned in U.S. dollars. Chemtrade currently estimates that if the U.S. dollar strengthens by one-cent, on an unhedged basis, this would have a positive impact on annual Adjusted EBITDA and Distributable cash after maintenance capital expenditures of approximately \$1.3 million and \$0.8 million, respectively, and vice-versa.

Chemtrade also currently estimates that if the U.S. dollar strengthens by one-cent, on an unhedged basis, this would have a positive impact on the translation of net earnings of approximately \$0.1 million per annum and vice-versa. If the U.S. dollar strengthens by one-cent, on an unhedged basis, this would also have a negative impact of approximately \$0.5 million on Chemtrade's net earnings because of its U.S. dollar-denominated term debt and vice-versa.

Pension and Other Post-Retirement Employee Benefit Obligations -

Chemtrade sponsors defined benefit pension plans for qualifying employees in Canada and in the United States. Chemtrade's accounting estimates regarding the amount and timing of future funding obligations for defined benefit pension plans are based upon various assumptions, including the discount rate, compensation increase rates, mortality rates, retirement patterns and turnover rates. The actual cash funding obligations for the defined benefit pension plans are determined by valuations prepared by the actuaries for the plans and the amount and timing of the cash funding obligations so determined can be influenced by funding requirements that are established in governing legislation (e.g., in the United States by the Employee Retirement Income and Security Act of 1974, the Pension Protection Act, and Congressional Acts; and in Canada by provincial pension standards legislation) or by requirements of government bodies that regulate the pension plans. Any additional cash contributions that Chemtrade is required to make may adversely affect Chemtrade's results of operations, financial position and liquidity. Under pension law in the United States, if the sponsor of the Chemtrade defined benefit pension plans does not fulfill its contribution obligations, those obligations may become obligations of Chemtrade.

Chemtrade provides post-retirement benefits for qualifying retirees in Canada and in the United States. Estimates of the amount and timing of future obligations for post-retirement benefits are based upon various assumptions, including mortality rates and the rate of increase for health-care costs. If future trends differ from assumptions used, the amounts Chemtrade is obligated to contribute may increase. The post-retirement benefit plans are unfunded, and any future cash contributions needed to satisfy the benefit obligations under the plans may adversely affect Chemtrade's results of operation, financial position and liquidity.

Leverage Risk -

Chemtrade's degree of leverage could have adverse consequences for Chemtrade, including limiting Chemtrade's ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes; restricting Chemtrade's flexibility and discretion to operate its business; limiting Chemtrade's ability to declare distributions; having to dedicate a portion of Chemtrade's cash flows from operations to the payment of interest on its existing indebtedness and not having such cash flows available for other purposes, including operations, capital expenditures and future business opportunities; exposing Chemtrade to increased interest expense on borrowings at variable rates; limiting Chemtrade's ability to adjust to changing market conditions; placing Chemtrade at a competitive disadvantage compared to its competitors that have less debt; making Chemtrade vulnerable in a downturn in general economic conditions; and making Chemtrade unable to make capital expenditures that are important to its ongoing operations, growth and strategies.

Environmental -

Chemtrade handles certain materials that can have a significant impact on the environment. As a result, Chemtrade is exposed to the risk of costs associated with environmental clean-up and compliance with environmental laws and regulations, as well as exposure to claims from others who have suffered an injury or loss as a result of an environmental occurrence.

Certain of Chemtrade's sites are currently subject to a number of environmental claims. Environmental liabilities are based on current interpretations of applicable environmental laws and regulations when it is probable that a liability has been incurred and the amount of such liability can be reasonably estimated. The actual amount paid in respect of any such environmental liabilities may be materially greater than the amount recorded. Chemtrade may also be subject to further environmental liabilities of which management is not currently aware that may have a material impact on the business or financial condition of Chemtrade.

Interest Rates -

Chemtrade has a credit facility with term debt and operating lines of credit which bear variable rates of interest. On an unhedged basis, a change in interest rates of 1% per annum would have an impact of approximately \$4.5 million per annum.

Sulphuric Acid Pricing -

A change in sulphuric acid pricing, net of freight, of \$1 per tonne would have an impact on annual revenues in North America of approximately \$1.7 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.

Sulphur Costs -

Chemtrade uses sulphur in the manufacturing of several of its products, including sulphuric acid. At current operating levels, an increase of \$1 per tonne would have an impact of approximately \$0.3 million per annum on cost of sales. It is important to note that a change in the cost of sulphur is likely to lead to a change in the price for sulphuric acid as this is a key input cost in the manufacturing of sulphuric acid. Thus, the net impact on earnings of changes in sulphur costs would depend upon changes in sulphuric acid pricing. Increasingly, the pricing of sulphuric acid is being adjusted for changes in sulphur costs and consequently future changes in the cost of sulphur are expected to be offset by changes in sulphuric acid pricing.

Other Input Costs -

There are several other large input costs, such as aluminum hydrate, bauxite, natural gas, zinc, salt and electricity, but in most cases there are contractual arrangements with customers, or other offsets within the business, which mitigate the exposure to changes in these costs.

Labour Relations -

Chemtrade has several collective bargaining agreements. Chemtrade's operations could be disrupted if new collective bargaining agreements are not concluded prior to their expiry dates.

Critical Judgements and Sources of Estimation Uncertainty

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

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

Key Sources of Estimation Uncertainty -

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes to the audited consolidated financial statements of Chemtrade for the year ended December 31, 2016:

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

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

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

IFRS Standards and Interpretations Not Yet Adopted

On July 24, 2014, the IASB issued the complete IFRS 9 *Financial Instruments* ("IFRS 9 (2014)"). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. IFRS 9 (2014) includes finalized guidance on the classification and measurement of financial assets. The standard introduces additional changes relating to financial liabilities. The final standard also amends the impairment model by introducing a new "expected credit loss" model for calculating impairment, and new general hedge accounting requirements. Chemtrade intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. Chemtrade does not expect the amendments to have a material impact on the financial statements.

On May 28, 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). The new standard is effective for annual periods beginning on or after January 1, 2018. The standard can be applied retrospectively, or using a cumulative catch-up approach. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced which may affect the amount and/or timing of revenue recognized. Chemtrade intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. Chemtrade does not expect the amendments to have a material impact on the financial statements.

On January 13, 2016 the IASB issued IFRS 16 *Leases* ("IFRS 16"). The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *Leases* ("IAS 17"). This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. Chemtrade intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

On January 19, 2016 the IASB issued *Recognition of Deferred Tax Assets for Unrealized Losses* (Amendments to IAS 12 *Income Taxes* ("IAS 12")). The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. Chemtrade will adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. Chemtrade does not expect the amendments to have a material impact on the financial statements.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

Chemtrade maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in the reports that the Fund publicly files is recorded, processed, summarized and reported within a timely manner and that such information is accumulated and communicated to Chemtrade's Management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure. The Chief Executive Officer and the Chief Financial Officer have evaluated Chemtrade's disclosure controls procedures as of December 31, 2016 through inquiry and review. The Chief Executive Officer and the Chief Financial Officer have concluded that, as at December 31, 2016, Chemtrade's disclosure control procedures were effective.

Chemtrade also maintains a system of internal controls over financial reporting designed under the supervision of Chemtrade's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Chemtrade's Management, including the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting and evaluating its effectiveness. Management has used The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework (2013) to evaluate the effectiveness of Chemtrade's internal control over financial reporting as of December 31, 2016. Based on this evaluation, Management has concluded that as at December 31, 2016, 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, 2016 that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

Outlook

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

Other

Additional information concerning Chemtrade, including the Annual Information Form, is filed on SEDAR and can be accessed at www.sedar.com.

February 27, 2017

Management's Responsibility for Financial Reporting

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

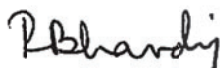
Management has developed and maintains a system of internal control over financial reporting. These controls are designed to provide reasonable assurance that assets are safeguarded, transactions are accurately recorded and financial information is timely and reliable.

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

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



Mark Davis
President & Chief Executive Officer



Rohit Bhardwaj
Vice-President, Finance & CFO

Toronto, Canada
February 27, 2017



KPMG LLP
100 New Park Place
Suite 1400
Vaughan ON L4K 0J3

Telephone (905) 265-5900
Fax (905) 265-6390
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Unitholders of Chemtrade Logistics Income Fund

We have audited the accompanying consolidated financial statements of Chemtrade Logistics Income Fund, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of comprehensive income, changes in unitholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Chemtrade Logistics Income Fund as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada
February 27, 2017

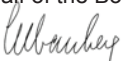
CHEMTRADE LOGISTICS INCOME FUND

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

	Notes	December 31, 2016	December 31, 2015
ASSETS			
Current assets			
Cash and cash equivalents		\$ 14,742	\$ 7,992
Trade and other receivables	6	127,660	176,818
Inventories	7	66,283	64,288
Income taxes receivable		3,712	—
Prepaid expenses and other assets		12,167	18,692
Assets held for sale	5	50,817	—
Total current assets		275,381	267,790
Non-current assets			
Property, plant and equipment	8	790,867	925,357
Other assets	9	10,529	8,303
Intangible assets	10	1,069,569	1,191,568
Deferred tax assets	25	15,726	20,227
Total non-current assets		1,886,691	2,145,455
Total assets		2,162,072	2,413,245
LIABILITIES AND UNITHOLDERS' EQUITY			
Current liabilities			
Trade and other payables	11	\$ 189,328	\$ 222,477
Distributions payable	17	6,917	6,907
Provisions	12	6,255	7,088
Income taxes payable	25	—	14,736
Current portion of long-term debt	13	3,654	3,397
Convertible unsecured subordinated debentures	14	32,281	—
Liabilities directly associated with assets held for sale	5	26,243	—
Total current liabilities		264,678	254,605
Non-current liabilities			
Long-term debt	13	451,526	618,254
Convertible unsecured subordinated debentures	14	360,108	240,726
Other long-term liabilities	15	18,028	21,392
Employee benefits	16	73,666	92,771
Provisions	12	60,709	59,903
Deferred tax liabilities	25	164,302	244,826
Total non-current liabilities		1,128,339	1,277,872
Total liabilities		1,393,017	1,532,477
Unitholders' equity			
Units	17	1,048,738	1,046,922
Contributed surplus	17	9,720	9,720
Deficit		(524,855)	(433,136)
Accumulated other comprehensive income		235,452	257,262
Total unitholders' equity		769,055	880,768
Total liabilities and unitholders' equity		\$ 2,162,072	\$ 2,413,245

The accompanying notes on pages 37 to 100 are an integral part of these consolidated financial statements.

On behalf of the Board of Trustees


Lorie Waisberg


Lucio Di Clemente

CHEMTRADE LOGISTICS INCOME FUND

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

	Notes	Year ended December 31,	
		2016	2015
Revenue	20	\$ 1,067,256	\$ 1,127,466
Cost of sales and services	23	(984,758)	(1,072,086)
Gross profit		82,498	55,380
Selling and administrative expenses	21	(98,607)	(101,225)
Operating loss		(16,109)	(45,845)
Finance income	24	—	11,199
Finance costs	24	(62,751)	(44,897)
Loss before income tax		(78,860)	(79,543)
Income tax recovery (expense)	25		
Current		6,624	(5,489)
Deferred		71,043	27,037
		77,667	21,548
Net loss from continuing operations		(1,193)	(57,995)
Net (loss) earnings from discontinued operations	5	(11,465)	10,405
Net loss		\$ (12,658)	\$ (47,590)
Other comprehensive income (loss)			
Items that may subsequently be reclassified to earnings:			
Gain (loss) on net investment hedge of foreign operations	26	31,178	(35,643)
Foreign currency translation differences for foreign operations, net of tax recovery of \$1,568 (2015 - expense of \$10,602)		(54,506)	205,183
Effective portion of change in the fair value of cash flow hedges, net of tax expense of \$531 (2015 - recovery of \$497)	26	1,518	(1,388)
Items that will not be reclassified to earnings:			
Defined benefit plan adjustments net of tax expense of \$2,222 (2015 - \$391)	16	3,860	59
Other comprehensive (loss) income		(17,950)	168,211
Total comprehensive (loss) income		\$ (30,608)	\$ 120,621
Net loss per unit	17		
Basic net loss per unit		\$ (0.18)	\$ (0.69)
Diluted net loss per unit		\$ (0.18)	\$ (0.69)
Net loss per unit from continuing operations			
Basic net loss per unit		\$ (0.02)	\$ (0.84)
Diluted net loss per unit		\$ (0.02)	\$ (0.84)

The accompanying notes on pages 37 to 100 are an integral part of these consolidated financial statements.

CHEMTRADE LOGISTICS INCOME FUND

Consolidated Statements of Changes in Unitholders' Equity

(In thousands of Canadian dollars)

	Units	Contributed surplus	Deficit	Cumulative translation account*	Unrealized losses on cash flow and net investment hedges*	Total unitholders' equity
Balance at January 1, 2015	\$1,034,308	\$ 9,720	\$ (302,905)	91,418	\$ (2,308)	830,233
Net loss	—	—	(47,590)	—	—	(47,590)
Other comprehensive income (loss)	—	—	59	205,183	(37,031)	168,211
Distributions	—	—	(82,700)	—	—	(82,700)
Issuance of units	12,614	—	—	—	—	12,614
Balance at December 31, 2015	\$1,046,922	\$ 9,720	\$ (433,136)	296,601	\$ (39,339)	880,768
Net loss	—	—	(12,658)	—	—	(12,658)
Other comprehensive income (loss)	—	—	3,860	(54,506)	32,696	(17,950)
Distributions	—	—	(82,921)	—	—	(82,921)
Issuance of units	1,816	—	—	—	—	1,816
Balance at December 31, 2016	\$1,048,738	\$ 9,720	\$ (524,855)	242,095	\$ (6,643)	769,055

*Accumulated other comprehensive income.

The accompanying notes on pages 37 to 100 are an integral part of these consolidated financial statements.

CHEMTRADE LOGISTICS INCOME FUND

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

	Notes	Year ended December 31,	
		2016	2015
Cash flows from operating activities:			
Net loss		\$ (12,658)	\$ (47,590)
Adjustments for:			
Depreciation and amortization	22	147,704	148,083
Loss on disposal and write-down of assets	23	55,824	5,883
Impairment of intangible assets	23	3,143	88,738
Income tax recovery	25	(66,789)	(18,006)
Net interest costs	24	46,105	37,490
Accretion expense	24	3,396	4,223
Net pension interest		2,945	3,187
Debt extinguishment costs including realized foreign exchange loss	13	20,960	—
Change in fair value of convertible unsecured subordinated debentures	14	9,729	(11,199)
Unrealized foreign exchange (gain) loss		(8,647)	26,145
		201,712	236,954
Increase in working capital		(8,297)	(9,345)
Interest paid		(32,027)	(37,829)
Interest received		44	15
Income taxes paid		(8,423)	(27,821)
Net cash flows from operating activities		153,009	161,974
Cash flows from investing activities:			
Decrease (increase) in restricted cash		873	(141)
Additions to property, plant and equipment	8	(56,794)	(64,053)
Increase in other assets		(1,658)	(960)
Proceeds from disposal of assets		6,210	—
Acquisition (net of cash acquired)	4	—	(27,645)
Net cash flows used in investing activities		(51,369)	(92,799)
Cash flows from financing activities:			
Distributions to unitholders	17	(82,912)	(82,640)
Issuance of convertible debentures	14	143,750	—
Transaction costs related to the issuance of convertible debentures	14	(6,376)	—
Repayment of term debt	13	(3,397)	(3,159)
Net change in revolving credit facility	13	(144,831)	12,452
(Decrease) increase in other long-term liabilities		(1,053)	1,983
Financing transaction costs	13	—	(1,697)
Net cash flows used in financing activities		(94,819)	(73,061)
Increase (decrease) in cash and cash equivalents		6,821	(3,886)
Cash and cash equivalents, beginning of the year		7,992	11,165
Effect of exchange rates on cash held in foreign currencies		(71)	713
Cash and cash equivalents, end of the year		\$ 14,742	\$ 7,992

The accompanying notes on pages 37 to 100 are an integral part of these consolidated financial statements.

CHEMTRADE LOGISTICS INCOME FUND

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

Year ended December 31, 2016 and 2015

1. CORPORATE INFORMATION:

Chemtrade Logistics Income Fund ("Chemtrade") is a publicly listed Income Trust formed in Ontario, Canada and its units are listed on the Toronto Stock Exchange ("TSX"). Chemtrade commenced operations on July 18, 2001 when it completed an initial public offering. Chemtrade operates in four business segments: Sulphur Products & Performance Chemicals ("SPPC"), Water Solutions & Specialty Chemicals ("WSSC"), International ("Intl") and Corporate ("Corp"). For additional information regarding Chemtrade's business segments, see note 28.

Chemtrade is an entity domiciled in Canada. The head office, principal address, and registered and records office of Chemtrade are located at 155 Gordon Baker Road, Suite 300, Toronto, Ontario, M2H 3N5.

Chemtrade's financial statements include all of its controlled subsidiaries and have been prepared on a going concern basis, which contemplates the realization of assets and settlements of liabilities in the normal course of business.

2. BASIS OF PREPARATION:

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements were authorized for issue by the Board of Trustees ("Board") on February 27, 2017.

(b) Basis of measurement

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

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

CHEMTRADE LOGISTICS INCOME FUND

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

Year ended December 31, 2016 and 2015

2. BASIS OF PREPARATION (continued):

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

(c) Presentation currency

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

(d) Critical judgements and sources of estimation uncertainty

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

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

Key sources of estimation uncertainty

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

- (i) Intangible assets (note 10):

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

CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

(Unaudited)

Year ended December 31, 2016 and 2015

2. BASIS OF PREPARATION (continued):

(ii) Income taxes (note 25):

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

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

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

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.

CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements
(In thousands of Canadian dollars, except per unit amounts)
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Year ended December 31, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(i) Business combinations:

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

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

(ii) Transactions eliminated on consolidation:

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

(b) Foreign currency

(i) Foreign currency transactions:

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

CHEMTRADE LOGISTICS INCOME FUND

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

Year ended December 31, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(ii) Foreign operations:

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

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

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

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

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

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

(c) Inventories

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

CHEMTRADE LOGISTICS INCOME FUND

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Year ended December 31, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(d) Property, plant and equipment

(i) Recognition and measurement:

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

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

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

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

(ii) Subsequent costs:

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

CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements
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3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(iii) Depreciation:

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

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

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

- Building 5 - 40 years
- Equipment 5 - 30 years
- Furniture and other 3 - 10 years

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

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

(e) Intangible assets

(i) Goodwill:

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

CHEMTRADE LOGISTICS INCOME FUND

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3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(ii) Other intangible assets:

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

(iii) Amortization of intangibles:

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

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

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

(f) Impairment

(i) Trade and other receivables:

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

CHEMTRADE LOGISTICS INCOME FUND

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3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(ii) Goodwill:

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

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

Valuation techniques

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

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

Value in use approach

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued):

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

Growth

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

Discount rate

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

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

Fair value less costs to sell approach

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

CHEMTRADE LOGISTICS INCOME FUND

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3. SIGNIFICANT ACCOUNTING POLICIES (continued):

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

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

(g) Employee benefits

- (i) Defined contribution plans:

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

- (ii) Defined benefit plans:

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

CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (continued):

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

(iii) Multi-employer plan:

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

(iv) Share-based compensation:

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

CHEMTRADE LOGISTICS INCOME FUND

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3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(h) Revenue recognition

(i) Sale of products:

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized. The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale.

(ii) Processing services:

Revenue earned on processing services is recognized when the services have been rendered in accordance with contractual terms. Monies received in advance of services provided is recorded as deferred revenue in other long-term liabilities.

(iii) Other:

Revenue on the sale of certain commodities within the Intl segment is recorded on a net basis. Revenue is recognized when selling prices have been fixed or are determinable, significant risks and rewards of ownership have been transferred to the buyer, and collection is reasonably assured.

(i) Provisions

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

CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

(Unaudited)

Year ended December 31, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(i) Onerous contracts:

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

(ii) Site restoration:

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

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

(iii) Environmental liabilities:

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

CHEMTRADE LOGISTICS INCOME FUND

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(Unaudited)

Year ended December 31, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(j) Financial instruments

(i) Non-derivative financial assets:

Chemtrade initially recognizes loans and receivables at fair value on the date that they are originated. All other financial assets (including assets designated 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 only non-derivative financial assets are loans and receivables and cash and cash equivalents. Loans and 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 loans and receivables are measured at amortized cost using the effective interest method, less any net impairment losses. Loans and receivables comprise trade and other receivables and a note receivable.

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 valued at fair value. Other assets include restricted cash, which is restricted for reimbursement of significant non-routine maintenance costs at one of Chemtrade's facilities.

CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

(Unaudited)

Year ended December 31, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(ii) Non-derivative financial liabilities:

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

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

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

The convertible unsecured subordinated debentures are recognized initially at fair value. Transaction costs related to the convertible unsecured subordinated debentures are expensed as incurred. Subsequent to initial recognition, the convertible unsecured subordinated debentures are measured at fair value at each period end date with the changes recorded in comprehensive income.

CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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Year ended December 31, 2016 and 2015

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(iii) Units:

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

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

(iv) Derivative financial instruments:

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

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

(v) Hedging:

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

CHEMTRADE LOGISTICS INCOME FUND

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3. SIGNIFICANT ACCOUNTING POLICIES (continued):

Cash flow hedges

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

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

(k) Lease payments

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

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(Unaudited)

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3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(l) Finance income and finance costs

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

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

(m) Income tax

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

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

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued):

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

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

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

(n) Earnings per unit

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

CHEMTRADE LOGISTICS INCOME FUND

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3. SIGNIFICANT ACCOUNTING POLICIES (continued):

(o) Segment reporting

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

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

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

(p) Standards and interpretations not yet adopted

On July 24, 2014, the IASB issued the complete IFRS 9 *Financial Instruments* ("IFRS 9 (2014)"). The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. IFRS 9 (2014) includes finalized guidance on the classification and measurement of financial assets. The standard introduces additional changes relating to financial liabilities. The final standard also amends the impairment model by introducing a new "expected credit loss" model for calculating impairment, and new general hedge accounting requirements. Chemtrade intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. Chemtrade does not expect the amendments to have a material impact on the financial statements.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued):

On May 28, 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15"). The new standard is effective for annual periods beginning on or after January 1, 2018. The standard can be applied retrospectively, or using a cumulative catch-up approach. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced which may affect the amount and/or timing of revenue recognized. Chemtrade intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. Chemtrade does not expect the amendments to have a material impact on the financial statements.

On January 13, 2016 the IASB issued IFRS 16 *Leases* ("IFRS 16"). The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *Leases* ("IAS 17"). This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. Chemtrade intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

On January 19, 2016 the IASB issued *Recognition of Deferred Tax Assets for Unrealized Losses* (Amendments to IAS 12 *Income Taxes* ("IAS 12")). The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. Chemtrade will adopt the amendments to IAS 12 in its financial statements for the annual period beginning on January 1, 2017. Chemtrade does not expect the amendments to have a material impact on the financial statements.

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4. HYDOR-TECH ACQUISITION:

On January 16, 2015, Chemtrade completed the purchase of the operating assets of Hydor-Tech Ltd. ("HTL"), an Edmonton-based manufacturer of inorganic coagulants. HTL was a leading western Canadian manufacturer of polyaluminum chloride that is widely used in municipal and industrial water treatment plants. The business combination was structured as an asset acquisition for \$27,645.

The aggregate consideration for this acquisition was allocated as follows:

	January 16, 2015	
Cash	\$	27,645

	As at December 31, 2015	
Net working capital	\$	1,045
Property, plant and equipment		11,000
Intangible assets ⁽¹⁾		15,600
Consideration — Cash	\$	27,645

⁽¹⁾ Balance represents goodwill

Goodwill is comprised of the value of expected synergies arising from the acquisition, the expertise and reputation of the assembled workforce acquired, and the geographic location of the acquiree.

The amount of revenue and earnings attributable to HTL since acquisition have been included in the consolidated statement of comprehensive income and is included in the WSSC business segment.

5. DISCONTINUED OPERATIONS:

On February 24, 2017, Chemtrade entered into a definitive agreement to sell its International business segment to Mitsui & Co., Ltd. for €34,000. The transaction, which is subject to relevant regulatory approvals, is expected to close during the second quarter of 2017. The business provides removal and marketing services for elemental sulphur and sulphuric acid to customers globally. The International business has not been previously classified as a discontinued operation. The comparative consolidated statement of comprehensive income and other relevant notes have been restated to show the discontinued operation separately from continuing operations.

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5. DISCONTINUED OPERATIONS (continued):

(a) Results of discontinued operations:

	<u>Year ended December 31,</u>	
	2016	2015
Revenue	\$ 159,924	\$ 237,421
Cost of sales and services	(145,512)	(209,400)
Gross profit	14,412	28,021
Selling and administrative expenses	(14,903)	(14,071)
Operating (loss) income	(491)	13,950
Finance income	44	15
Finance costs	(140)	(18)
(Loss) income before tax	(587)	13,947
Income tax expense		
Current	(1,129)	(2,665)
Deferred	(9,749)	(877)
	(10,878)	(3,542)
Net (loss) earnings from discontinued operations	\$ (11,465)	\$ 10,405
Net (loss) earnings per unit from discontinued operations		
Basic (loss) earnings per unit	\$ (0.17)	\$ 0.15
Diluted (loss) earnings per unit	\$ (0.17)	\$ 0.13

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5. DISCONTINUED OPERATIONS (continued):

(b) Cash flows from discontinued operations:

	Year ended December 31,	
	2016	2015
Net cash flows from operating activities	\$ 4,756	\$ 2,421
Net cash flows used in investing activities	(497)	(357)
Net cash flows for the year	\$ 4,259	\$ 2,064

(c) Net assets held for sale:

	At December 31, 2016	
Current assets		
Trade and other receivables	\$	13,788
Inventories		1,437
Income taxes receivable		816
Prepaid expenses and other assets		313
Non-current assets		
Property, plant and equipment		5,934
Intangible assets		28,529
Total assets held for sale		50,817
Current liabilities		
Trade and other payables		16,970
Provisions		812
Non-current liabilities		
Employee benefits		8,090
Deferred tax liabilities		371
Total liabilities directly associated with assets held for sale		26,243
Net assets held for sale	\$	24,574

CHEMTRADE LOGISTICS INCOME FUND

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6. TRADE AND OTHER RECEIVABLES:

	2016	2015
Trade and other receivables	\$ 128,594	\$ 178,136
Less: allowance for doubtful accounts	(934)	(1,318)
Net trade and other receivables	\$ 127,660	\$ 176,818

As disclosed in note 26, Chemtrade is exposed to normal credit and currency risks with respect to its accounts receivable. At December 31, 2016, 88.0% (2015 - 92.6%) of accounts receivable are less than 30 days past due, and less than 3% (2015 - less than 1%) of accounts receivable are greater than 120 days past due that are not provided for.

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

	2016	2015
Balance at beginning of year	\$ 1,318	\$ 1,889
Adjustments made during the year	(6)	789
Write-offs	(378)	(1,360)
Balance at end of year	\$ 934	\$ 1,318

7. INVENTORIES:

Chemtrade's inventories are as follows:

	2016	2015
Raw materials	\$ 32,173	\$ 27,630
Finished goods	25,239	28,101
Operating supplies	8,871	8,557
	\$ 66,283	\$ 64,288

The amount of inventories recognized as an expense during the year ended December 31, 2016 is \$539,767 (2015 - \$612,679).

CHEMTRADE LOGISTICS INCOME FUND

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8. 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, 2015	\$ 44,475	\$ 1,096,678	\$ 31,035	\$ 1,172,188
Acquisition (note 4)	—	11,000	—	11,000
Additions	—	—	64,053	64,053
Transfers	—	63,714	(63,714)	—
Asset retirements and write-downs	—	(24,320)	—	(24,320)
Translation	9,076	184,505	10,636	204,217
Balance at December 31, 2015	\$ 53,551	\$ 1,331,577	\$ 42,010	\$ 1,427,138
Additions	—	—	56,794	56,794
Disposals	(695)	—	—	(695)
Transfers	—	56,702	(56,702)	—
Asset retirements and write-downs	—	(84,948)	(254)	(85,202)
Reclassification to assets held for sale	—	(20,299)	—	(20,299)
Translation	1,257	(42,572)	(2,325)	(43,640)
Balance at December 31, 2016	\$ 54,113	\$ 1,240,460	\$ 39,523	\$ 1,334,096
Accumulated depreciation				
Balance at January 1, 2015	\$ —	\$ (346,194)	\$ —	\$ (346,194)
Depreciation	—	(93,355)	—	(93,355)
Asset retirements and write-downs	—	15,694	—	15,694
Translation	—	(77,143)	—	(77,143)
Depreciation allocated to inventory	—	(783)	—	(783)
Balance at December 31, 2015	\$ —	\$ (501,781)	\$ —	\$ (501,781)
Depreciation	—	(97,561)	—	(97,561)
Asset retirements and write-downs	—	29,348	—	29,348
Reclassification to assets held for sale	—	14,365	—	14,365
Translation	—	12,755	—	12,755
Depreciation allocated to inventory	—	(355)	—	(355)
Balance at December 31, 2016	\$ —	\$ (543,229)	\$ —	\$ (543,229)
Net carrying amount				
December 31, 2015	\$ 53,551	\$ 829,796	\$ 42,010	\$ 925,357
December 31, 2016	\$ 54,113	\$ 697,231	\$ 39,523	\$ 790,867

CHEMTRADE LOGISTICS INCOME FUND

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9. OTHER ASSETS:

Chemtrade's other assets are as follows:

	2016	2015
Restricted cash	\$ —	\$ 873
Note receivable	1,058	1,291
Deferred rent expense	2,345	2,489
Deferred charges	6,966	3,488
Other	160	162
	\$ 10,529	\$ 8,303

10. INTANGIBLE ASSETS:

Chemtrade's intangible assets and goodwill are as follows:

	Goodwill	Customer Relationships	Vendor Relationships	Other	Total
Cost					
Balance at January 1, 2015	\$ 788,336	\$ 573,112	\$ 8,798	\$ 53,249	\$ 1,423,495
Acquisition (note 4)	15,600	—	—	—	15,600
Impairment (note 23)	(88,738)	—	—	—	(88,738)
Assets fully amortized	—	(167,418)	(9,419)	(830)	(177,667)
Translation	131,923	70,566	621	10,411	213,521
Balance at December 31, 2015	\$ 847,121	\$ 476,260	\$ —	\$ 62,830	\$ 1,386,211
Impairment (note 23)	—	(3,143)	—	—	(3,143)
Reclassification to assets held for sale	(28,529)	—	—	—	(28,529)
Translation	(32,331)	(9,399)	—	(1,200)	(42,930)
Balance at December 31, 2016	\$ 786,261	\$ 463,718	\$ —	\$ 61,630	\$ 1,311,609
Accumulated Amortization					
Balance at January 1, 2015	\$ —	\$ (267,134)	\$ (8,544)	\$ (5,796)	\$ (281,474)
Assets fully amortized	—	167,418	9,419	830	177,667
Current year amortization	—	(48,527)	(287)	(5,914)	(54,728)
Translation	—	(34,856)	(588)	(664)	(36,108)
Balance at December 31, 2015	\$ —	\$ (183,099)	\$ —	\$ (11,544)	\$ (194,643)
Current year amortization	—	(44,121)	—	(6,022)	(50,143)
Translation	—	3,154	—	(408)	2,746
Balance at December 31, 2016	\$ —	\$ (224,066)	\$ —	\$ (17,974)	\$ (242,040)
Net carrying amount					
December 31, 2015	\$ 847,121	\$ 293,161	\$ —	\$ 51,286	\$ 1,191,568
December 31, 2016	\$ 786,261	\$ 239,652	\$ —	\$ 43,656	\$ 1,069,569

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10. INTANGIBLE ASSETS (continued):

Impairment testing for cash-generating units containing goodwill

Chemtrade performed its annual test for goodwill impairment in the fourth quarter of 2016 in accordance with its policy described in note 3. The recoverable amount of all CGUs exceeded their carrying values, however for certain CGUs within the SPPC and WSSC segments, the recoverable amount was close to the carrying value. Therefore, any adverse movement in a key assumption could lead to impairment. In Chemtrade's case, the recoverable amount is based on the value in use approach.

The carrying value of goodwill for the SPPC segment is \$302,735 (2015 - \$308,934), for WSSC segment is \$483,526 (2015 - \$508,170) and for the Intl segment is \$28,529 (2015 - \$30,017).

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

	2016
Discount rate	11.55%
Growth rate for forecast period	2.5% - 4.0%
Perpetual growth rate	2.5%
Time period	5 years

11. TRADE AND OTHER PAYABLES:

Chemtrade's payables are as follows:

	2016	2015
Trade payables	\$ 124,274	\$ 144,645
Derivative instruments (note 26)	—	408
Non-trade payables and accrued expenses	65,054	77,424
	\$ 189,328	\$ 222,477

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12. PROVISIONS:

	Current		Non-Current		Total
	Onerous Contracts	Environmental Liability	Site Restoration	Environmental Liability	
Balance at January 1, 2015	\$ 162	\$ 6,878	\$ 4,795	\$ 48,297	\$ 60,132
Additions	495	—	—	864	1,359
Reclassification to current	—	3,651	—	(3,651)	—
Accretion	—	—	168	1,919	2,087
Payments	(674)	(4,022)	(2,639)	—	(7,335)
Translation	17	581	579	9,571	10,748
Balance at December 31, 2015	\$ —	\$ 7,088	\$ 2,903	\$ 57,000	\$ 66,991
Additions	805	—	—	6,771	7,576
Reclassification to current	—	6,219	—	(6,219)	—
Accretion	—	—	186	1,833	2,019
Payments	—	(6,840)	—	—	(6,840)
Reclassification to liabilities directly associated with assets held for sale	(812)	—	—	—	(812)
Translation	7	(212)	(63)	(1,702)	(1,970)
Balance at December 31, 2016	\$ —	\$ 6,255	\$ 3,026	\$ 57,683	\$ 66,964

(a) Onerous contracts

Onerous contracts relate to customer/supplier contracts with terms that are unfavourable to Chemtrade. Management has made estimates for provisions of losses relating to these contracts and has accrued for them accordingly.

(b) Site restoration

Chemtrade has estimated a retirement obligation for its plants and has accrued for this obligation. Site restoration is expected to occur on dates ranging from 2021 to 2045.

(c) Environmental liability

Chemtrade has estimated a provision for its environmental liability in association with its acquisition of General Chemical. Expenditures are expected to occur on dates ranging from 2017 to 2046.

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13. LONG-TERM DEBT:

	2016	2015
Term bank debt		
US\$325,000 (2015 - US\$432,000)	\$ 436,378	\$ 597,888
Revolving credit facility		
US\$9,140 (2015 - US\$2,755)	12,271	3,813
Canadian dollar-denominated	—	12,000
Less: Transaction costs	(4,984)	(6,909)
Long-term debt (note (a))	\$ 443,665	\$ 606,792
Long-term loan - Fort McMurray facility (note (b))	11,515	14,859
	\$ 455,180	\$ 621,651
Less: Current portion	(3,654)	(3,397)
Long-term debt	\$ 451,526	\$ 618,254

(a) Long-term debt

At December 31, 2016, Chemtrade had senior credit facilities of \$1,251,397 (US\$932,000), consisting of a term loan of \$436,378 (US\$325,000), and a revolving credit facility of \$815,019 (US\$607,000). At December 31, 2016, Chemtrade had drawn \$12,271 (December 31, 2015 - \$15,813) on the revolving credit facility and had committed a total of \$21,912 (December 31, 2015 - \$24,925) of this facility towards standby letters of credit. The credit facilities are secured by all the property, plant and equipment of Chemtrade, excluding the Fort McMurray facility. At December 31, 2016, the weighted average effective interest rate of the facilities is 3.3% (December 31, 2015 - 3.3%).

In 2015, Chemtrade amended its long-term debt agreement by extending the maturity date of the credit facilities to October 2, 2020. Chemtrade incurred \$1,697 of transaction costs related to this amendment. These costs have been deferred and are being amortized to finance costs in comprehensive income using the effective interest method.

On September 16, 2016, Chemtrade further modified the terms of its credit facilities to decrease the term debt available by US\$107,000 and increase the revolving credit facility by the same amount.

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13. LONG-TERM DEBT (continued):

During the third quarter of 2016, Chemtrade issued \$143,750 of convertible unsecured subordinated debentures and the net proceeds of the issuance were used to repay long-term debt (note 14). The repayment resulted in a realized foreign exchange loss of \$20,288, which was recognized in selling and administrative expenses in the statement of comprehensive income. Previously deferred debt issuance costs of \$672 related to the repaid debt have been recognized in finance costs in the statement of comprehensive income.

Chemtrade is subject to certain covenants with respect to its credit facilities, which include a Net Debt to EBITDA ratio (as both terms are defined in the credit agreement) and an interest coverage ratio. Chemtrade monitors these ratios and reports them to its lenders on a quarterly basis. As at December 31, 2016 and December 31, 2015, Chemtrade was in compliance with the covenants.

(b) Long-term loan - Fort McMurray facility

The Fort McMurray facility operates processing facilities at Syncrude's Mildred Lake oil sands facility in Alberta. In order to finance a portion of the construction of such facilities, a separate loan secured by the assets was entered into and remains outstanding. This loan bears interest at a fixed rate of 7.3% per annum with monthly principal repayments due until December 2019.

14. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES:

In 2010, Chemtrade issued \$90,000 principal amount of convertible unsecured subordinated debentures. These convertible unsecured subordinated debentures bear interest at a rate of 6% per annum and are convertible, at the option of the holder, into units of Chemtrade at any time prior to the maturity date of March 31, 2017 and may be redeemed by Chemtrade in certain circumstances. At December 31, 2016, the principal amount of these debentures is \$27,357.

In 2011, Chemtrade issued \$80,000 of convertible unsecured subordinated debentures which bear an interest rate of 5.75% per annum and are convertible, at the option of the holder, into units of Chemtrade at any time prior to the maturity date of December 31, 2018 and may be redeemed by Chemtrade in certain circumstances. At December 31, 2016, the principal amount of these debentures is \$79,637.

In 2014, Chemtrade issued \$126,500 principal amount of convertible unsecured subordinated debentures which bear an interest rate of 5.25% per annum and are convertible, at the option of the holder, into units of Chemtrade at any time prior to the maturity date of June 30, 2021 and may be redeemed by Chemtrade in certain circumstances. At December 31, 2016, the principal amount of these debentures is \$126,500.

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14. CONVERTIBLE UNSECURED SUBORDINATED DEBENTURES (continued):

On September 2, 2016, Chemtrade completed an agreement with a syndicate of underwriters to issue \$125,000 principal amount of convertible unsecured subordinated debentures. As allowed under provisions of the agreement to issue the convertible unsecured subordinated debentures, the underwriters purchased an additional \$18,750 principal amount of the convertible unsecured subordinated debentures, increasing the aggregate gross proceeds of the public offering to \$143,750. Chemtrade incurred transaction costs of \$6,376 related to issuance, which include underwriters' fees and other costs related to the offering. These convertible unsecured subordinated debentures bear interest at a rate of 5.00% per annum and are convertible, at the option of the holder, into units of Chemtrade at any time prior to the maturity date of August 31, 2023, and may be redeemed by Chemtrade in certain circumstances.

Chemtrade has designated all of its convertible unsecured subordinated debentures as financial liabilities at fair value through profit or loss. At December 31, 2016, the fair value of the convertible unsecured subordinated debentures was \$392,389 (December 31, 2015 - \$240,726). For the year ended December 31, 2016, there were net finance costs of \$31,422 (2015 - \$1,937), related to these convertible unsecured subordinated debentures, which included a loss of \$9,729 (2015 - gain of \$11,199), due to the change in fair value of the convertible unsecured subordinated debentures, transaction costs of \$6,376 (2015 - \$nil), and interest expense of \$15,317 (2015 - \$13,136).

15 OTHER LONG-TERM LIABILITIES:

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

	2016	2015
Deferred revenue	\$ 137	\$ 399
Long-term portion of LTIP liability (note 18)	7,173	7,053
Interest rate swap liability (note 26)	2,963	5,012
Reserve for self-insurance	4,028	4,152
Lease obligations	2,048	1,935
Other	1,679	2,841
	\$ 18,028	\$ 21,392

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16. EMPLOYEE BENEFITS:

Chemtrade provides certain health care and pension benefits for certain SPPC, WSSC and Intl employees upon retirement.

Generally, under the SPPC, WSSC and Intl 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 WSSC hourly employees participate in the Pulp and Paper Industry Pension Trust Fund, a multi-employer, defined contribution pension plan. The plan is funded by employer and employee contributions. The employer-related expense under this plan in 2016 was \$228 (2015 - \$209).

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

Short-term employee benefits for current employees, such as salaries, paid absences, bonuses and other benefits, are accounted for on an accrual basis over the period in which the employees provide the related services. In 2016, \$121,318 (2015 - \$114,020) of short-term employee benefits were recognized in cost of sales and services, and \$46,196 (2015 - \$55,175) were recognized in selling and administrative expenses.

Chemtrade expects \$10,454 in contributions to be paid to its defined benefits plans in 2017.

	2016	2015
Present value of unfunded obligations	\$ 7,999	\$ 12,869
Present value of funded obligations	271,498	307,280
Total present value of obligations	279,497	320,149
Fair value of plan assets	(205,831)	(227,378)
Recognized liability for defined benefit obligations	\$ 73,666	\$ 92,771

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16. EMPLOYEE BENEFITS (continued):

	2016	2015
Components of net periodic benefit cost		
Current service cost	\$ 1,280	\$ 1,207
Net interest cost	2,945	3,187
Administration costs	1,836	647
Gain on curtailment	(559)	(887)
Plan settlements	27	—
Net periodic benefit cost recognized	\$ 5,529	\$ 4,154

	2016	2015
Net periodic benefit cost allocation		
Cost of sales	\$ 285	\$ 253
Selling and administrative expenses	1,569	781
Net finance costs	2,812	3,187
Net loss (earnings) from discontinued operations	863	(67)
Net periodic benefit cost recognized	\$ 5,529	\$ 4,154

	2016	2015
Other comprehensive income		
Return on plan assets, excluding interest income	\$ (9,785)	\$ 16,835
Actuarial losses (gains)	3,703	(17,285)
Gain recognized in OCI during the year	\$ (6,082)	\$ (450)

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16. EMPLOYEE BENEFITS (continued):

	2016	2015
Weighted average assumptions		
Discount rate	3.82%	4.13%
Ultimate other medical trend rate	4.50%	4.50%
Salary escalation	1.85%	1.83%
	2016	2015
Change in accrued benefit obligation		
Accrued benefit obligation at beginning of year	\$ 320,149	\$ 294,367
Current service cost	1,280	1,207
Interest cost	10,168	11,843
Contributions	289	555
Benefits paid	(20,912)	(20,467)
Gain on curtailment	(559)	(887)
Plan settlements	(6,230)	—
Foreign exchange	(9,619)	50,816
Actuarial gain from changes in demographic assumptions	(4,012)	(5,246)
Actuarial loss (gain) from changes in financial assumptions	7,802	(12,039)
Actuarial gain from experience adjustments	(87)	—
Reclassified to liabilities directly associated with assets held for sale	(18,772)	—
Accrued benefit obligation at end of year	\$ 279,497	\$ 320,149
	2016	2015
Change in plan assets		
Plan assets at beginning of year	\$ 227,378	\$ 210,167
Administration fee	(1,836)	(647)
Interest income	7,223	8,656
Contributions	7,772	9,252
Benefits paid	(20,912)	(20,467)
Foreign exchange	(6,640)	37,252
Plan settlements	(6,257)	—
Return on plan assets, excluding interest income	9,785	(16,835)
Reclassified to liabilities directly associated with assets held for sale	(10,682)	—
Plan assets at end of year	\$ 205,831	\$ 227,378

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16. EMPLOYEE BENEFITS (continued):

The asset mix in the plan is approximately 40.0% bonds (2015 - 41.5%), approximately 50.0% equity securities (2015 - 48.1%) and approximately 10.0% other investments (2015 - 10.4%).

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

	Defined benefit obligation	
	One percentage point increase	One percentage point decrease
Discount rate	\$ (25,159)	\$ 29,849

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:

	2016		2015	
	Number of Units	Amount	Number of Units	Amount
Units				
Balance – January 1	69,069,226	\$ 1,046,922	68,470,630	\$ 1,034,308
Conversion of unsecured subordinated convertible debentures	103,559	1,816	598,596	12,614
Balance – December 31	69,172,785	\$ 1,048,738	69,069,226	\$ 1,046,922

(b) Contributed surplus

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

CHEMTRADE LOGISTICS INCOME FUND

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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.

(d) Distributions

Distributions paid for the year ended December 31, 2016 were \$82,912 (2015 - \$82,640) or \$1.20 per unit (2015 - \$1.20 per unit). All of Chemtrade's distributions are discretionary and subject to Board approval.

Subsequent to year end, Chemtrade declared total distributions of \$13,836, or \$0.20 per unit.

(e) Net earnings per unit

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

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

(i) Earnings per unit:

	2016	2015
Numerator		
Net loss	\$ (12,658)	\$ (47,590)
Net interest and fair value adjustment on convertible unsecured subordinated debentures ⁽¹⁾	—	—
Diluted net loss	\$ (12,658)	\$ (47,590)

⁽¹⁾ For the years ended December 31, 2016 and 2015, the potential conversion of the convertible unsecured subordinated debentures has not been included as the effect on net earnings per unit would be anti-dilutive.

	2016	2015
Denominator		
Weighted average number of units	69,096,753	68,874,207
Weighted average convertible unsecured subordinated debenture dilutive units ⁽¹⁾	—	—
Weighted average number of diluted units	69,096,753	68,874,207

⁽¹⁾ For the years ended December 31, 2016 and 2015, the potential conversion of the convertible unsecured subordinated debentures has not been included as the effect on net earnings per unit would be anti-dilutive.

(ii) Earnings per unit from continuing operations:

	2016	2015
Numerator		
Net loss from continuing operations	(1,193)	(57,995)
Net interest and fair value adjustment on convertible unsecured subordinated debentures ⁽¹⁾	—	—
Diluted net loss from continuing operations	(1,193)	(57,995)

⁽¹⁾ For the years ended December 31, 2016 and 2015, the potential conversion of the convertible unsecured subordinated debentures has not been included as the effect on net earnings per unit would be anti-dilutive.

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

	2016	2015
Denominator		
Weighted average number of units	69,096,753	68,874,207
Weighted average convertible unsecured subordinated debenture dilutive units ⁽¹⁾	—	—
Weighted average number of diluted units	69,096,753	68,874,207

⁽¹⁾ For the years ended December 31, 2016 and 2015, the potential conversion of the convertible unsecured subordinated debentures has not been included as the effect on net earnings per unit would be anti-dilutive.

18. SHARE-BASED PAYMENTS:

Chemtrade operates a Long-Term Incentive Plan ("LTIP"), which grants cash awards based on certain criteria. The 2014-2016, 2015-2017, and 2016-2018 LTIP awards have a performance based component and a restricted share unit component. For the 2014-2016 and 2015-2017 LTIP awards, the performance based component is based on total Unitholder return over a performance period, EBITDA growth and total return to Chemtrade's Unitholders relative to the total return on the S&P/TSX Capped Industrial Index. The 2016-2018 LTIP award's performance based component is similar to the 2014-2016 and 2015-2017 LTIP awards except the total return to Chemtrade's Unitholders is measured relative to the total return on the S&P/TSX Dividend Index rather than the S&P/TSX Capped Industrial 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, 2016, a liability of \$12,844 (December 31, 2015 - \$15,156) has been recorded, of which \$5,671 (December 31, 2015 - \$8,103) is included in trade and other payables and \$7,173 (December 31, 2015 - \$7,053) is included in other long-term liabilities. For the year ended December 31, 2016, Chemtrade recorded an expense of \$4,484 (2015 - \$6,333) in selling and administrative expenses related to the LTIP.

CHEMTRADE LOGISTICS INCOME FUND

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18. SHARE-BASED PAYMENTS (continued):

Inputs for measurement of fair values

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

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

	December 31, 2016	December 31, 2015
Chemtrade units:		
Average base price	\$18.92	\$19.22
Period-end unit price	\$18.94	\$17.86
Average expected volatility	20.55%	20.53%
Index units:		
Average base price	\$186.92	\$201.85
Period-end unit price	\$229.29	\$215.82
Average expected volatility	12.76%	14.78%
Average risk free interest rate	0.60%	0.46%
Average expected remaining term	1.50 years	1.50 years

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19. COMMITMENTS AND CONTINGENCIES:

(a) Operating leases

Chemtrade enters into operating leases in the ordinary course of business, primarily for real property and equipment. Payments for these leases are contractual obligations as scheduled per each agreement. Operating lease payments in 2016 were \$34,067 (2015 - \$34,590). The future aggregate minimum lease payments for base rent amounts under non-cancellable operating leases are as follows:

2017	\$	29,561
2018		22,490
2019		12,960
2020		7,594
2021		4,785
2022 and thereafter		6,271
	\$	83,661

Chemtrade has recorded deferred rent expense of \$2,345 (2015 - \$2,489) in other assets.

(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.

When Chemtrade acquired General Chemical, it conducted environmental assessments prior to the purchase of the sites as a basis to, among other things, verify the appropriateness of estimates for remediation costs.

Chemtrade owns a number of sites as a result of the acquisitions of certain other businesses. Subject to certain limitations, Chemtrade has been indemnified by certain of the vendors for any remediation costs or environmental actions that may arise as a result of conditions existing at the time of acquisition of these sites and consequently Chemtrade has not accrued any amount in this respect.

CHEMTRADE LOGISTICS INCOME FUND

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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. Chemtrade has received indemnities from certain vendors with respect to claims arising prior to the related acquisitions.

20. REVENUE:

The revenues for Chemtrade are as follows:

	2016	2015
Sales of products and other	\$ 877,913	\$ 968,755
Processing services	189,343	158,711
	\$ 1,067,256	\$ 1,127,466

21. SELLING AND ADMINISTRATIVE EXPENSES:

The components of selling and administrative expenses are as follows:

	2016	2015
Wages, salaries and benefits, including bonuses	\$ 46,196	\$ 45,773
Share-based payments (note 18)	4,484	6,333
Other selling, general and administrative expenses	26,404	19,764
Realized foreign exchange loss (note 13)	20,823	2,490
Unrealized foreign exchange (gain) loss	(8,647)	26,145
Acquisition costs	8,472	—
Depreciation	875	720
	\$ 98,607	\$ 101,225

CHEMTRADE LOGISTICS INCOME FUND

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22. DEPRECIATION AND AMORTIZATION:

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

	2016	2015
Cost of sales and services:		
Depreciation expense	\$ 96,607	\$ 92,555
Amortization expense	50,143	54,728
Selling and administrative expenses:		
Depreciation expense	954	800
Total depreciation and amortization expense	\$ 147,704	\$ 148,083

In 2016, Chemtrade recorded total depreciation and amortization expenses of \$1,476 (2015 - \$2,058) related to discontinued operations.

23. LOSS ON WRITE-DOWN OF ASSETS AND INTANGIBLE ASSET IMPAIRMENT:

(a) Augusta Facility

On June 30, 2016, Fibrant LLC ("Fibrant") publicly announced plans to close its Augusta, Georgia caprolactam operations. Chemtrade operates a facility in Augusta that supplies sulphuric acid products to Fibrant's facility. Part way through the year, Fibrant started to wind down its operations and ceased production in November 2016, causing Chemtrade's Augusta facility to cease operations as well.

Chemtrade recorded a loss of \$55,691 in the second quarter of 2016 on the write-down of assets associated with its sulphuric acid production facilities in Augusta, Georgia. Due to the closure of Fibrant's operations noted above, the cash flows associated with these specific assets could no longer support their carrying value.

Additionally, the closure of Fibrant's operations in Augusta was considered an indicator of impairment in the value of Chemtrade's customer relationship with Fibrant. As a result, Chemtrade recorded an impairment loss of \$3,143 related to intangible assets in the SPPC segment.

These losses are reflected in cost of sales and services on the statement of comprehensive income. There was also \$23,269 of deferred income tax recovery recorded associated with these write-downs.

CHEMTRADE LOGISTICS INCOME FUND

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23. LOSS ON WRITE-DOWN OF ASSETS AND INTANGIBLE ASSET IMPAIRMENT (continued):

(b) Goodwill Impairment in WSSC Segment

During the fourth quarter of 2015, Chemtrade recorded an impairment loss of \$88,738 related to goodwill in the WSSC segment. Increased competitive pressures in the water treatment business was considered an indicator of impairment. Any estimated cash flows from future capital expenditures considered to expand the capacity of Chemtrade's operations are not considered when goodwill is tested for impairment.

Additionally, Chemtrade recorded a loss of \$7,444 in the fourth quarter of 2015 on the write-down of assets associated with certain production facilities that manufacture water treatment chemicals. Due to the competitive pricing pressure noted above, the cash flows associated with these specific assets had been declining and could no longer support their carrying value.

These losses were reflected in cost of sales and services on the statement of comprehensive income in 2015.

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24. FINANCE INCOME AND COSTS:

The components of finance income and costs are as follows:

	2016	2015
Change in the fair value of convertible debentures (note 14)	—	11,199
Finance income	\$ —	\$ 11,199
Interest expense on long-term debt	\$ 24,449	\$ 24,351
Debt extinguishment costs (note 13)	672	—
Interest expense on convertible debentures (note 14)	15,317	13,136
Transaction costs on issuance of convertible debentures (note 14)	6,376	—
Change in the fair value of convertible debentures (note 14)	9,729	—
Accretion expense on financing transaction costs	1,377	2,136
Accretion of provisions	2,019	2,087
Pension interest (note 16)	2,812	3,187
Finance costs	\$ 62,751	\$ 44,897

25. 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.

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25. INCOME TAXES (continued):

(a) Current tax expense

	2016	2015
Taxes recognized in net earnings	\$ 6,624	\$ (5,489)
Current tax recovery (expense)	\$ 6,624	\$ (5,489)
Deferred tax recovery:		
Origination and reversal of temporary differences	71,043	27,037
Deferred tax recovery	\$ 71,043	\$ 27,037
Total tax recovery from continuing operations	\$ 77,667	\$ 21,548
Tax expense from discontinued operations	(10,878)	(3,542)
Total tax recovery	\$ 66,789	\$ 18,006

(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 26.59% (2015 - 26.35%). The differences are as follows:

	2016	2015
Net loss before income tax	\$ (79,447)	\$ (65,596)
Computed income tax recovery at Canadian statutory rate	21,125	17,285
Difference resulting from:		
Income of trust taxed directly to unitholders	36,947	33,647
Difference in substantially enacted tax rate	(6,796)	(17,763)
International income tax rate differences	22,831	14,294
(Non-recognition) of deferred tax assets	(3,662)	(2,024)
Difference between capital gain tax rate and full statutory rate	(2,532)	4
Foreign exchange	1,183	71
Recognition of previously unrecognized deferred tax (liability) asset	(1,541)	146
Impairment of intangible assets	—	(30,624)
Change in provision for tax exposure items	9,509	—
Recognition of deferred tax liabilities on discontinued operations	(9,490)	—
Other	(785)	2,970
Total income tax recovery	\$ 66,789	\$ 18,006

CHEMTRADE LOGISTICS INCOME FUND

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25. INCOME TAXES (continued):

(c) Recognized deferred tax assets and liabilities

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

	2016	2015
Deferred tax assets:		
Other assets	\$ 57,275	\$ 80,300
Losses available for carryforward	91,415	84,101
Long-term debt and deferred interest	44,641	32,196
Other long-term liabilities and employee benefits	30,720	38,435
	224,051	235,032
Reclassification to deferred tax liabilities	(208,325)	(214,805)
Total deferred tax assets	\$ 15,726	\$ 20,227
Deferred tax liabilities:		
Property, plant and equipment	\$ 193,099	\$ 239,322
Intangible assets	101,241	127,157
Other liabilities	78,287	93,152
	372,627	459,631
Reclassification from deferred tax assets	(208,325)	(214,805)
Total deferred tax liabilities	\$ 164,302	\$ 244,826

CHEMTRADE LOGISTICS INCOME FUND

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25. INCOME TAXES (continued):

(d) Movement in deferred tax balances

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

	Balance, January 1, 2016	Recognized in net earnings	Foreign exchange impact	Recognized in other comprehensive income	Reclassification to liabilities directly associated with assets held for sale	Balance December 31, 2016
Property, plant and equipment	\$ (239,322)	\$ 38,437	\$ 7,786	\$ —	\$ —	\$ (193,099)
Intangible assets	(127,157)	22,528	3,388	—	—	(101,241)
Net other assets and liabilities	(12,852)	(16,748)	6,649	1,568	371	(21,012)
Losses available for carryforward	84,101	8,509	(1,195)	—	—	91,415
Long-term debt and deferred interest	32,196	12,498	(53)	—	—	44,641
Other long-term liabilities and employee benefits	38,435	(3,930)	(1,032)	(2,753)	—	30,720
	\$ (224,599)	\$ 61,294	\$ 15,543	\$ (1,185)	\$ 371	\$ (148,576)

	Balance, January 1, 2015	Recognized in net earnings	Foreign exchange impact	Recognized in other comprehensive income	Balance December 31, 2015
Property, plant and equipment	\$ (218,070)	\$ 16,637	\$ (37,889)	\$ —	\$ (239,322)
Intangible assets	(127,239)	18,090	(18,008)	—	(127,157)
Net other assets and liabilities	6,506	(14,571)	5,815	(10,602)	(12,852)
Losses available for carryforward	66,343	9,987	7,771	—	84,101
Long-term debt and deferred interest	33,857	(1,732)	71	—	32,196
Other long-term liabilities and employee benefits	35,434	(2,251)	5,146	106	38,435
	\$ (203,169)	\$ 26,160	\$ (37,094)	\$ (10,496)	\$ (224,599)

CHEMTRADE LOGISTICS INCOME FUND

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25. INCOME TAXES (continued):

(e) Unrecognized deferred tax assets

During the year, Chemtrade did not recognize \$5,208 (2015 - \$2,024) of deferred tax assets as management did not believe that it is probable that the deductible temporary differences giving rise to the deferred tax asset will be utilized.

(f) Income tax payable reclassification

In 2014, Chemtrade acquired an income tax payable balance as part of the acquisition of General Chemical Holding Company. This balance was partially paid in 2015 with the remainder under further examination by the appropriate tax authorities. During the second quarter of 2016, \$21,319 of the balance was no longer deemed to be an income tax liability. Pursuant to the purchase agreement, this balance was reclassified to trade and other payables as an amount to be returned to the vendor of the business and \$15,387 was paid during the second quarter of 2016. There were no amounts recognized in the statement of comprehensive income related to this transaction.

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26. FINANCIAL INSTRUMENTS:

(a) Categories of financial assets and liabilities

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

	2016	2015
Assets carried at fair value		
Derivative instruments	\$ 28	\$ 170
Assets carried at amortized cost		
Cash and cash equivalents	14,742	7,992
Trade and other receivables	127,660	176,818
Restricted cash (note 9)	—	873
Note receivable (note 9)	1,058	1,291
Liabilities carried at fair value		
Derivative instruments (note 11)	—	408
Convertible unsecured subordinated debentures (note 14)	392,389	240,726
LTIP liability (note 18)	12,844	15,156
Interest rate swap liability	2,963	5,012
Liabilities carried at amortized cost		
Trade and other payables	183,657	213,966
Distributions payable	6,917	6,907
Current portion of long-term debt	3,654	3,397
Long-term debt	451,526	618,254

CHEMTRADE LOGISTICS INCOME FUND

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26. FINANCIAL INSTRUMENTS (continued):

(b) Derivatives and hedging

	Notional Amount	December 31, 2016 Fair Value		Notional Amount	December 31, 2015 Fair Value		
		Asset	Liability		Asset	Liability	
Derivatives designated in a formal hedging relationship							
Interest rate swaps	US\$ 325,000	\$ —	\$ 2,963	US\$ 325,000	\$ —	\$ 5,012	
Derivatives not designated in a formal hedging relationship							
Foreign exchange contracts ⁽¹⁾	\$ —	28	—	\$ —	8	246	
Commodity forward contracts ⁽²⁾	N/A	—	—	N/A	162	162	
Total		\$ 28	\$ 2,963		\$ 170	\$ 5,420	

⁽¹⁾ See below for notional amounts.

⁽²⁾ Includes commitments to buy and sell commodities and commodity forward contracts related to those commitments.

On December 31, 2016, Chemtrade had swap arrangements with its principal bankers which fixed the LIBOR components of its interest rates on US\$325,000 of its outstanding long-term debt until January 2019. These swaps are formally designated as cash flow hedges at the date of inception and any changes in the fair value of the effective portion of the swaps are recognized in other comprehensive income.

On January 1, 2015, Chemtrade hedged its investment in foreign operations that use the U.S. dollar as their functional currency by Chemtrade's U.S. dollar-denominated long-term debt. Any foreign currency gains and losses arising from the U.S. dollar-denominated debt will be offset by the foreign currency gain or loss arising from the investment in the foreign operations. The gains and losses on the foreign currency translation of the designated amount of U.S. dollar-denominated debt and investment in foreign operations are being recognized in other comprehensive income. For the year ended December 31, 2016, a foreign exchange gain of \$31,178 (2015 - foreign exchange loss of \$35,643) on the revaluation of the U.S. dollar-denominated debt related to this hedging strategy was recognized in other comprehensive income.

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26. FINANCIAL INSTRUMENTS (continued):

Chemtrade has entered into foreign exchange contracts to manage some of its exposure to foreign currencies. Chemtrade buys and sells specific amounts of currencies at pre-determined dates and exchange rates, which are matched with the anticipated operational cash flows. Contracts in place at December 31, 2016 include future contracts to sell the following amounts for periods through to March 2017:

Amount	Weighted average exchange rate
US\$7,000	\$1.35

Chemtrade's Intl business segment has commitments to buy and sell commodities and has entered into commodity forward contracts to manage its exposure to commodity price changes.

The commitments to buy and sell commodities are treated as derivatives and are measured at fair value. The commodity forward contracts are derivatives and are measured at fair value.

(c) Fair values of financial instruments

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

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

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

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26. FINANCIAL INSTRUMENTS (continued):

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:

2016	Level 1	Level 2	Level 3	Total
Instruments designated as fair value through profit and loss				
Foreign exchange contracts	\$ —	\$ 28	\$ —	\$ 28
Convertible unsecured subordinated debentures	(392,389)	—	—	(392,389)
Instruments designated as fair value through other comprehensive income				
Interest rate swaps	—	(2,963)	—	(2,963)
Total	\$ (392,389)	\$ (2,935)	\$ —	\$ (395,324)
<hr/>				
2015	Level 1	Level 2	Level 3	Total
Instruments designated as fair value through profit and loss				
Foreign exchange contracts	\$ —	\$ (238)	\$ —	\$ (238)
Convertible unsecured subordinated debentures	(240,726)	—	—	(240,726)
Instruments designated as fair value through other comprehensive income				
Interest rate swaps	—	(5,012)	—	(5,012)
Total	\$ (240,726)	\$ (5,250)	\$ —	\$ (245,976)

CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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Year ended December 31, 2016 and 2015

26. FINANCIAL INSTRUMENTS (continued):

The fair value of the foreign exchange contracts is the difference between the forward exchange rate and the contract rate. The fair value of the interest rate swap arrangements is the difference between the forward interest rates and the contract rates discounted. 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.

The convertible unsecured subordinated debentures are classified within Level 1 because the convertible unsecured subordinated debentures actively trade on the TSX and the fair value is based on the quoted prices on the TSX.

(d) Risks associated with financial instruments

(i) Credit risk

Credit risk arises from the non-performance by counter-parties of 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, commodity price contracts and interest rate swaps carry investment grade ratings. Chemtrade's maximum exposure to credit risk at the reporting date is the carrying value of its receivables and derivative assets.

(ii) Liquidity risk

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

CHEMTRADE LOGISTICS INCOME FUND

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

Year ended December 31, 2016 and 2015

26. FINANCIAL INSTRUMENTS (continued):

Chemtrade's financial liabilities recorded in trade and other payables, including derivatives, non-trade payables and accrued expenses, and distributions payable are generally due within one year. The undiscounted cash flow requirements for long-term financial liabilities as at December 31, 2016 are as follows:

	Carrying Value	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt (note 13)	\$ 455,180	\$ 460,459	\$ 3,654	\$ 8,156	\$ 448,649	\$ —
Interest on long-term debt	—	57,520	15,699	30,551	11,270	—
Convertible unsecured subordinated debentures (note 14)	392,389	377,244	27,357	79,637	126,500	143,750
Interest on convertible unsecured subordinated debentures	—	87,371	18,818	32,237	24,337	11,979
Total	\$ 847,569	\$ 982,594	\$ 65,528	\$ 150,581	\$ 610,756	\$ 155,729

(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, 2016, 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 \$100 per annum. At December 31, 2016, on an unhedged basis, a one-cent change in the exchange rate would also have an impact of approximately \$500 on Chemtrade's net earnings because of the translation of its US dollar-denominated long-term debt.

CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

(Unaudited)

Year ended December 31, 2016 and 2015

26. FINANCIAL INSTRUMENTS (continued):

(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, 2016, on an unhedged basis, a change in interest rates of 1% per annum would have an impact of approximately \$4,500 on Chemtrade's net earnings per annum. As at December 31, 2016, Chemtrade had fixed interest rates on 97.3% of its senior debt until January 2019.

(c) *Other price risks*

Sulphuric acid pricing -

At December 31, 2016, a change in sulphuric acid pricing, net of freight, of \$1 per tonne, would have an impact on annual revenues in North America of approximately \$1,700. 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.

Sulphur costs -

Chemtrade uses sulphur in the manufacturing of several of its products, including sulphuric acid. At operating levels as at December 31, 2016, an increase of \$1 per tonne would have an impact of approximately \$300 per annum on cost of sales. It is important to note that a change in the cost of sulphur is likely to lead to a change in the price for sulphuric acid as this is a key input cost in the manufacturing of sulphuric acid. Thus, the net impact on earnings of changes in sulphur costs would depend upon changes in sulphuric acid pricing. Increasingly, the pricing of sulphuric acid is being adjusted for changes in sulphur costs and consequently future changes in the cost of sulphur are expected to be offset by changes in sulphuric acid pricing.

CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

(Unaudited)

Year ended December 31, 2016 and 2015

27. CAPITAL MANAGEMENT:

Chemtrade's objective when managing its capital is to safeguard Chemtrade's assets and its ability to continue as a going concern, to meet external capital requirements related to its credit facilities, and to maximize the growth of its business and the returns to its Unitholders. Chemtrade's capital structure is comprised of units, convertible unsecured subordinated debentures and long-term debt. The long-term bank debt does not require payment until October 2020. The convertible unsecured subordinated debentures mature on dates ranging from March 2017 to August 2023.

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 (as both terms are defined in the credit agreement) and an interest coverage ratio. Chemtrade monitors these ratios and reports them to its lenders on a quarterly basis. As at December 31, 2016 and December 31, 2015, Chemtrade was in compliance with the above covenants.

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

CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

(Unaudited)

Year ended December 31, 2016 and 2015

28. BUSINESS SEGMENTS:

Chemtrade operates in four reportable segments: SPPC, WSSC, Intl 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, and sodium bisulphite, 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 chlorate, sodium nitrite, potassium chloride, phosphorus pentasulphide, vaccine adjuvants, and sulphides. These products are marketed primarily to North American customers.

Intl provides removal and marketing services for elemental sulphur and sulphuric acid. These products are marketed to customers globally. As at December 31, 2016, this segment was classified as a discontinued operation.

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

CHEMTRADE LOGISTICS INCOME FUND

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

Year ended December 31, 2016 and 2015

28. BUSINESS SEGMENTS (continued):

Year ended December 31, 2016

	SPPC	WSSC	Intl	Corp	Total
Revenue	\$ 592,507	\$ 474,749	\$ —	\$ —	\$ 1,067,256
Inter-segment revenues	29,633	—	—	—	29,633
Operating income (loss)	8,770	47,344	—	(72,223)	(16,109)
Net finance costs	(17,194)	(14,142)	—	(31,415)	(62,751)
Income tax recovery	40,772	33,856	—	3,039	77,667
Loss from discontinued operations	—	—	(11,465)	—	(11,465)
Net earnings (loss)	32,348	67,058	(11,465)	(100,599)	(12,658)
Capital expenditures	26,450	29,168	497	679	56,794
Depreciation and amortization	77,618	68,610	1,476	—	147,704
Loss on disposal and write-down of assets	55,779	45	—	—	55,824
Impairment of intangible assets	3,143	—	—	—	3,143

Year ended December 31, 2015

	SPPC	WSSC	Intl	Corp	Total
Revenue	\$ 650,325	\$ 477,141	\$ —	\$ —	\$ 1,127,466
Inter-segment revenues	31,433	97	—	—	31,530
Operating income (loss)	67,856	(37,203)	—	(76,498)	(45,845)
Net finance costs	(21,854)	(9,927)	—	(1,917)	(33,698)
Income tax recovery (expense)	6,070	16,012	—	(534)	21,548
Earnings from discontinued operations	—	—	10,405	—	10,405
Net earnings (loss)	52,072	(31,118)	10,405	(78,949)	(47,590)
Capital expenditures	32,705	28,716	357	2,275	64,053
Depreciation and amortization	83,866	62,159	2,058	—	148,083
(Gain) loss on disposal and write-down of asset	(1,561)	7,444	—	—	5,883
Impairment of intangible assets	—	88,738	—	—	88,738

December 31, 2016

	SPPC	WSSC	Intl	Corp	Total
Total assets	\$ 1,056,986	\$ 1,051,113	\$ 50,817	\$ 3,156	\$ 2,162,072
Total liabilities	245,473	708,740	26,243	412,561	1,393,017
Intangible assets	469,816	599,753	—	—	1,069,569

CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

(Unaudited)

Year ended December 31, 2016 and 2015

28. BUSINESS SEGMENTS (continued):

December 31, 2015

	SPPC	WSSC	Intl	Corp	Total
Total assets	\$ 1,185,190	\$ 1,148,259	\$ 76,905	\$ 2,891	\$ 2,413,245
Total liabilities	462,395	784,343	34,076	251,663	1,532,477
Intangible assets	512,785	648,766	30,017	—	1,191,568

Geographic segments:

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

Revenue

	2016	2015
Canada	\$ 251,292	\$ 258,763
United States	815,964	868,703
	\$ 1,067,256	\$ 1,127,466

Property, plant and equipment, and intangible assets

	December 31, 2016	December 31, 2015
Canada	\$ 390,238	\$ 444,718
United States	1,470,198	1,635,534
Europe	—	36,673
	\$ 1,860,436	\$ 2,116,925

CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

(Unaudited)

Year ended December 31, 2016 and 2015

29. RELATED PARTIES:

Key management personnel compensation

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

The Annual Incentive Compensation (“Annual IC”) plan entitles the senior leadership team to annual cash awards based on (i) Chemtrade’s success in achieving financial objectives (financial achievement is weighted at 65% of the total Annual IC award for 2016); and (ii) their individual success in accomplishing personal objectives (weighted at 35% of the total Annual IC award for 2016) 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 determines the performance period over which performance will be measured, and the annual LTIP awards granted since 2006 have been based on a three-year performance period. All the LTIP awards granted vest at the end of the three-year period. The value of this compensation is re-measured at each reporting period based upon changes in the fair value of the awards.

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

Chemtrade has in place a deferred unit compensation plan for its trustees, pursuant to which the trustees must take at least 30% of their compensation in the form of deferred units of Chemtrade. They can also elect to take an additional portion of their compensation in the form of deferred units of Chemtrade, with the remainder as a cash payment. As at December 31, 2016, the market value of these deferred units, which is included in trade and other payables was \$4,437 (2015 - \$3,421).

CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

(Unaudited)

Year ended December 31, 2016 and 2015

29. RELATED PARTIES (continued):

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

	2016	2015
Short-term compensation	\$ 8,660	\$ 7,182
LTIP	3,595	4,992
	\$ 12,255	\$ 12,174

30. SUBSEQUENT EVENTS:

(a) Canexus Acquisition

On December 15, 2016, Chemtrade announced that it had entered into an arrangement agreement to acquire all of the issued and outstanding common shares of Canexus Corporation ("Canexus") for consideration of \$1.65 in cash per share, pursuant to a court-approved plan of arrangement which is expected to close during the first quarter of 2017.

On January 27, 2017, Chemtrade completed an offering of subscription receipts at a price of \$18.35 per unit. The offering was undertaken on a bought deal basis by a syndicate of underwriters. On closing, Chemtrade issued 21,800,000 subscription receipts, resulting in aggregate gross proceeds of approximately \$400,030. The net proceeds of the offering will be used to partially fund Chemtrade's acquisition of Canexus. The proceeds of the offering will be held by an escrow agent pending the fulfilment or waiver of all conditions set out in the arrangement agreement to acquire Canexus.

If the Canexus acquisition fails to close or is terminated, the proceeds of the offering and the pro rata entitlement to interest earned, net of any applicable withholding taxes, will be paid to holders of the subscription receipts and the subscription receipts will be cancelled.

In 2016, Chemtrade has expensed \$8,472 of transaction costs related to the Canexus acquisition in selling and administrative expenses.

CHEMTRADE LOGISTICS INCOME FUND

Notes to Consolidated Financial Statements

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

(Unaudited)

Year ended December 31, 2016 and 2015

30. SUBSEQUENT EVENTS (continued):

(b) Sale of International Segment

On February 24, 2017, Chemtrade entered into a definitive agreement to sell its International business segment to Mitsui & Co., Ltd. for €34,000. The transaction, which is subject to relevant regulatory approvals, is expected to close during the second quarter of 2017. The business provides removal and marketing services for elemental sulphur and sulphuric acid to customers globally. The International business has not been previously classified as a discontinued operation. The comparative consolidated statement of comprehensive income and other relevant notes have been restated to show the discontinued operation separately from continuing operations. See note 5 for further information.

Unitholder Information

Trustees

Lorie Waisberg (Chair)

Toronto, Ontario

David Colcleugh

Mississauga, Ontario

Mark Davis

Toronto, Ontario

Lucio Di Clemente

Toronto, Ontario

David Gee

Nobel, Ontario

Susan McArthur

Toronto, Ontario

Katherine Rethy

Huntsville, Ontario

Management

Mark Davis

President & CEO

Rohit Bhardwaj

Vice-President, Finance & CFO

Leon Aarts

Group Vice-President

Tab McCullough

Group Vice-President

Michael St. Pierre

Group Vice-President

Dan Dietz

Vice-President

Tejinder Kaushik

Vice-President,
Information Technology

Emily Powers

Vice-President, Human Resources

Susan Paré

Corporate Secretary

Head Office

155 Gordon Baker Road, Suite 300

Toronto, Ontario, Canada

M2H 3N5

Stock Exchange Listing

The 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

Vice-President, Finance & CFO

(416) 496-5856

Annual Meeting

The Annual Meeting of Unitholders will be held on May 10, 2017 at 10:00 a.m. at the Gallery, TSX Broadcast Centre, The Exchange Tower, 130 King Street West, Toronto

chemtradelogistics.com



HEAD OFFICE

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

chemtradelogistics.com