



## MEGlobal Canada Inc.

Consolidated Financial Statements for the  
Years Ended December 31, 2014 and 2013  
and Independent Auditors' Report



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KPMG LLP  
Suite 1900  
150 West Jefferson  
Detroit, MI 48226

## Independent Auditors' Report

The Board of Directors  
MEGlobal Canada Inc. and subsidiary:

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of MEGlobal Canada Inc. and subsidiary, which comprise the consolidated statement of financial position as of December 31, 2014 and 2013, the consolidated statements of comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

#### *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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing. 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 is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

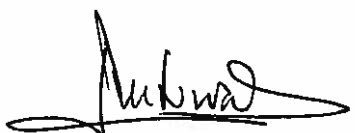
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MEGlobal Canada Inc. and subsidiary as of December 31, 2014 and 2013, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

**KPMG LLP**

Detroit, Michigan  
February 27, 2015

## Signatures and Acknowledgement

The attached Annual Financial Statements of MEGlobal Canada Inc. for the fiscal year ended December 31, 2014 are hereby signed and acknowledged.



Luis Antuna



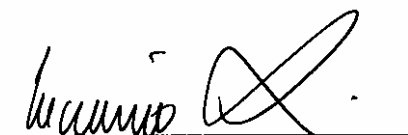
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Ester Baiget



Kamal Al-Behbehani



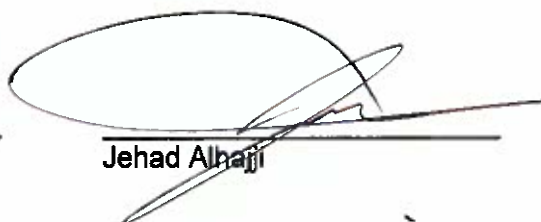
Luciano Poli



Mohammad Husain



Raja Zeidan



Jehad Alhaji

**MEGlobal Canada Inc.**  
**Consolidated Statements of Comprehensive Income**

(\$ IN MILLIONS) for the year ended December 31

	<b>Notes</b>	<b>2014</b>	<b>2013</b>
Net Sales	12	983	1042
Cost of sales		687	697
Other income (expense)	10	2	(25)
Operating Income		298	320
Net loss (gain) on foreign currency transactions		1	(2)
Interest expense	6,7	9	4
Net Finance Costs		10	2
Income Before Income Taxes		288	318
Provision For Income Taxes	10	67	74
Net Income		221	244
Other comprehensive income (loss)			
Exchange differences on translating foreign operations		(1)	(3)
Pension and other post-retirement benefits	14	(5)	7
Other comprehensive (loss)income for the year, net of tax		(6)	4
Total Comprehensive Income for the year		215	248
Income attributable to:			
Equity holders of the parents		221	243
Non-controlling interest	1	-	1
		221	244
Total comprehensive income attributable to:			
Equity holders of the parents		215	247
Non-controlling interest	1	-	1
		215	248

See Notes to the Consolidated Financial Statements.

**MEGlobal Canada Inc.**  
**Consolidated Statements of Financial Position**

(\$ IN MILLIONS) for the year ended December 31 (except share data)

	<b>Notes</b>	<b>2014</b>	<b>2013</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant, and equipment (net of accumulated depreciation)	3	134	168
Goodwill	4	659	659
Deferred Income taxes	10	5	4
Deferred charges and other assets	5	153	169
<b>Total non-current assets</b>		<b>951</b>	<b>1000</b>
<b>Current assets</b>			
Cash and cash equivalents		5	36
Accounts receivable			
Trade (net of allowance for doubtful accounts of \$0)	12, 15	81	99
Other		22	15
Inventories	2	36	31
<b>Total current assets</b>		<b>144</b>	<b>181</b>
<b>Total Assets</b>		<b>1095</b>	<b>1181</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Common stock, no par value per share	11		
Class A – authorized, 500,000 shares;		-	-
Issued and outstanding, 500,000 shares in 2014 and 2013			
Class B – authorized, 500,000 shares;		-	-
Issued and outstanding, 500,000 shares in 2014 and 2013			
Additional paid-in-capital		821	826
Retained earnings		(265)	(141)
Effect of foreign currency translation		19	15
Equity attributable to equity holders of the parents		575	700
Non-controlling interest	1	-	18
<b>Total equity</b>		<b>575</b>	<b>718</b>
<b>Non-current liabilities</b>			
Deferred income tax	10	47	54
Pension and other post-retirement benefits	14	21	15
Other deferred liabilities		-	1
<b>Total non-current liabilities</b>		<b>68</b>	<b>70</b>
<b>Current liabilities</b>			
Notes payable	6, 12	377	320
Accounts payable			
Trade	12	59	48
Other		10	7
Income taxes payable		-	13
Accrued and other current liabilities		6	5
<b>Total current liabilities</b>		<b>452</b>	<b>393</b>
<b>Total liabilities</b>		<b>520</b>	<b>463</b>
<b>Total Equity and Liabilities</b>		<b>1095</b>	<b>1181</b>

See Notes to the Consolidated Financial Statements.

MEGlobal Canada Inc.  
**Consolidated Statements of Cash Flows**

(\$ IN MILLIONS) for the year ended December 31

	<b>Notes</b>	<b>2014</b>	<b>2013</b>
<b>Operating Activities</b>			
Net Income		221	244
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation/amortization	3	65	73
Deferred income taxes	10	(3)	(9)
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable	15	18	(57)
Inventories	2	(5)	(7)
Accounts payable	12, 15	14	(7)
Other assets and liabilities		(32)	(6)
<b>Cash provided by operating activities</b>		<b>278</b>	<b>231</b>
<b>Investing Activities</b>			
Capital expenditures	3	(8)	(45)
Deposit with security trustee	7	-	5
<b>Cash used in investing activities</b>		<b>(8)</b>	<b>(40)</b>
<b>Financing Activities</b>			
Payments on long-term debt	7	-	(9)
Net borrowing on MEGlobal B.V. facility	6	57	227
Dividends paid to stockholders		(340)	(400)
Dividends paid to minority shareholders		(18)	(3)
<b>Cash used in financing activities</b>		<b>(301)</b>	<b>(185)</b>
<b>Summary</b>			
(Decrease) Increase in cash and cash equivalents		(31)	6
Cash and cash equivalents at January 1		36	30
<b>Cash and cash equivalents at December 31</b>		<b>5</b>	<b>36</b>

See Notes to the Consolidated Financial Statements.

MEGlobal Canada Inc.  
Consolidated Statements of Changes in Equity

(\$ IN MILLIONS)

	Attributable to owners			Total	Non-controlling interests	Total
	Additional paid in capital	Retained earnings	Foreign currency translation reserve			
Balance at January 1, 2013	826	9	18	853	21	874
Payment of dividends	-	(400)	-	(400)	(3)	(403)
Profit for the year	-	243	-	243	1	244
Other comprehensive income ( loss) for the year	-	7	(3)	4	(1)	3
Total comprehensive income for the year	-	250	(3)	247	-	247
Balance at December 31, 2013	826	(141)	15	700	18	718
Payment of dividends	-	(340)	-	(340)	(18)	(358)
A&O unwind of noncontrolling interest	(5)	-	5	-	-	-
Profit for the year	-	221	-	221	-	221
Other comprehensive loss for the year	-	(5)	(1)	(6)	-	(6)
Total comprehensive income for the year	-	216	(1)	(215)	-	215
Balance at December 31, 2014	821	(265)	19	575	-	575

See Notes to the Consolidated Financial Statements.



## Notes to Consolidated Financial Statements Years Ended December 31, 2014 and 2013

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Operations** – MEGlobal Canada Inc. (“the Company”) formed in 2004, is a Canadian federal corporation. It operates as a joint venture between Dow Chemical Canada ULC (“DCC ULC”, formerly Dow Chemical Canada Inc.) and PicCan Holdings Inc. (“PicCan”). Each party holds a 50% interest. MEGlobal B.V. a related-party joint venture was formed simultaneously by Dow Europe Holding B.V. (“DEH”) and Petrochemical Industries Company (“PIC”) as the global marketing affiliate of the Company.

The Company is a producer of monoethylene glycol (“MEG”) and diethylene glycol (“DEG”), commonly referred to as ethylene glycol (“EG”). It operates three world scale EG facilities in Alberta, Canada. The Company has one consolidated subsidiary, Alberta & Orient Glycol Company Limited (“A&O”) which owns one of the aforementioned plants. Prior to October 1, 2014 the Company owned 75% of A&O, with the remaining minority ownership belonging to Waldorf Services B.V., which was reflected as non-controlling interest on the accompanying financial statements. On October 1, 2014, the Company elected to convert its 600,000 preferred shares of A&O into 600,000 common shares and in addition purchased Waldorf’s Services B.V.’s 300 shares for an immaterial value. With these transactions, the Company owns 100% of A&O as of October 1, 2014.

The Company’s registered office is located at 2100, 450 – 1<sup>st</sup> Street SW, Calgary, Alberta, Canada.

**Basis of Presentation** – The consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and have been prepared on the historical-cost basis except for the revaluation of certain financial instruments and defined benefit plans as explained in note 14. All amounts in the notes are expressed in millions, and presented in U.S. dollars, unless otherwise noted.

**Principles of Consolidation** – The consolidated financial statements include the accounts of the Company and wholly owned subsidiary A&O. Upon consolidation, all material intercompany accounts, transactions, and profits have been eliminated. Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date that control ceases.

**Financial Instruments and Risk Management** – The Company’s financial instruments consist of cash and cash equivalents, accounts receivable, notes receivables with related parties, notes payable to bank and related parties, accounts payable, long-term debt and foreign exchange forward contracts. The Company’s estimate of the fair value of these financial instruments approximates their carrying amounts as of December 31, 2014 and 2013, with the exception of the long-term debt (note 7). The estimated fair value amounts have been determined by the Company using available market information and valuation methodologies. Foreign exchange forward contracts are derivative instruments used by the Company to hedge its foreign currency exposure. Where hedge accounting can be applied, a hedge relationship is designated by the Company as a fair value hedge. The hedge is documented at inception detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the specific future commitment or liability being hedged, the risk that is being hedged, the type of instrument used and how effectiveness will be measured. The hedge must be highly effective in accomplishing the objective of offsetting changes in the fair value being hedged, both at inception and over the life of the hedge. Gains and losses on derivative instruments designated and qualifying as fair value hedging instruments, as well as the offsetting losses and gains on the hedged items, are reported within income in the same accounting period.

**Cash and Cash Equivalents** – Cash and cash equivalents consist of cash and money market funds with an original maturity of three months or less.

**Inventories** – Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out (“FIFO”) method.

**Property** – Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses and include expenditures for major renewals and betterments. Expenditures for normal maintenance and repairs are expensed as incurred. Depreciation of plant and equipment is computed using the straight-line method over the estimated useful lives of the assets.

Properties under construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income.

**Goodwill** – Goodwill represents the excess of the contributed value of DCC ULC and Piccan over the fair value of net tangible and identifiable intangible assets of the Company at formation. Goodwill is not amortized, but is subject to impairment testing. Any impairment is recognized immediately in income and is not subsequently reversed.

**Intangibles, Deferred Charges and Other Assets** – The Company amortizes intangible assets over their estimated useful lives, the ethylene supply agreement over twenty years (2024) and the A&O off take agreement over the remaining contractual life of the agreement (2014), and other assets on a straight line basis or productive use method as appropriate.

**Impairment of Tangible and Intangible Assets** – The Company evaluates long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverable amount of the asset is estimated, in order to determine the extent of any impairment loss. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and reflects the risks specific to the asset for which the estimates of future cash flow have not been adjusted. If the recoverable amount of an asset is estimated to be less than its carrying amount, the asset is reduced to its recoverable amount and an impairment loss is recognized as an expense. When an impairment loss subsequently reverses, the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. This reversal would be recognized as income.

**Provisions** - Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. When the Company expects a provision to be reimbursed, the inflow is recognized as an asset only when the reimbursement is certain.

**Income Taxes** – Deferred income tax assets and liabilities are computed for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. Such deferred income tax asset and liability computations are based on substantially enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Income tax expense is

the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Revenue Recognition** – The Company recognizes revenue when the risk and reward of the ownership of the goods have been transferred to the customer and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or expected to be received and represents amounts for goods and services provided in the normal course of business, net of discounts and sales related taxes.

**Foreign Currency Translation** – The functional currency for the Company is U.S. dollars, while the A&O subsidiary uses Canadian dollars. The translation from the applicable foreign currencies to U.S. dollars is performed for the statement of financial position accounts using current exchange rates in effect at the reporting date. For expenses and revenues, the transaction date exchange rate or an average exchange rate is used. Gains or losses resulting from the translation are included in equity. Foreign currency transaction gains or losses are reflected on a separate line item in the consolidated statements of comprehensive income.

At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

**Non-controlling Interest** – Non-controlling interest on the consolidated statements of financial position reflects the portion of A&O that was owned by the non-controlling interest shareholder prior to October 1, 2014. The related earnings impact has been included on a separate line item in the consolidated statements of comprehensive income prior to the acquisition of the remaining 25% on October 1, 2014.

**Recent Accounting Pronouncements** – The Company has adopted the following standards effective for the annual periods beginning on or after January 1, 2014:

- IAS 32 (Amendments) – Offsetting Financial Assets and Financial Liabilities
- IAS 36 (Amendments) – Recoverable Amount Disclosures for Non-Financial Assets
- IAS 39 (Amendments) – Novation of Derivatives and Continuation of Hedge Accounting

The Company has also adopted all of the other new and revised standards and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2014. This has resulted in no changes to the Company's accounting policies. The Company has also considered other standards and interpretations which were issued but not yet effective, and anticipate that their adoption in future periods will have no material impact on the financial statements of the Company.

***Critical Accounting Judgments and Key Sources of Estimation Uncertainty***

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Revenue recognition – Sales are billed to customers based on provisional pricing and are subsequently adjusted for the actual settlement prices. As of the end of the reporting period the Company estimates the final settlement price based on the prices observed in the market.

Impairment of goodwill – Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the end of the reporting period is \$659. Details of the impairment calculation are set out in note 4.

Estimation of useful life and residual value for property, plant and equipment – The Company assesses the carrying value of property, plant, equipment, identifiable intangible assets, and long-lived assets annually, or more frequently if events or changes in circumstances indicate that such carrying value may not be recoverable. Factors that trigger an impairment review include underperformance relative to historical or projected future results, significant changes in the manner of use of the acquired assets or the strategy for the overall business and significant

negative industry or economic trends. The most significant variables in determining cash flows are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. Amounts estimated could differ materially from what will actually occur in the future.

Allowances for doubtful accounts – The Company creates an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. If the customers' financial conditions were to deteriorate, additional allowances may be required in future periods.

Allowances against inventory – The Company periodically reviews inventory for excess amounts, obsolescence and declines in net realizable value below cost, and creates an allowance against the inventory balance for any such decline. These reviews require management to assess the estimated future demand for products. Possible changes in these estimates could result in revisions to the evaluation of inventory in future periods.

Legal contingencies – Legal contingencies cover a wide range of matters threatened in various jurisdictions against the Company. Provisions are recorded for pending litigation when it is determined that an unfavorable outcome is probable and the amount of loss can be reasonably estimated, after consideration of advice from attorneys. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of the settlement may materially vary from estimates.

Employee benefits – Short term employee benefits are measured on an undiscounted basis and are expensed as the related service is performed. Liabilities are recognized for the amount expected to be paid under the short and long term incentive programs offered by the Company. These obligations can be estimated reliably.

**Disclosure** – The financial statements were authorized for issue by the Chief Financial Officer on February 27, 2015.

## 2. INVENTORIES

Details of inventory at December 31 are as follows:

	<u>2014</u>	<u>2013</u>
Finished Goods	16	15
Raw Materials and Supplies	20	16
Total	<u>36</u>	<u>31</u>

### 3. PROPERTY

Details of the net book value of the property at December 31 are as follows:

	Land & Waterway Improvements	Buildings	Machinery & Equipment	Construction in Progress	Total
<u>Cost</u>					
As at January 1, 2013	7	34	466	17	524
Additions	-	5	53	(13)	45
Disposals	-	-	(14)	-	(14)
Foreign currency	-	(1)	(12)	(2)	(15)
As at January 1, 2014	7	38	493	2	540
Additions	-	1	6	1	8
Disposals	-	-	(4)	-	(4)
Foreign currency	-	(1)	(14)	-	(15)
As at December 31, 2014	7	38	481	3	530
<u>Accumulated Depreciation</u>					
As at January 1, 2013	4	16	327	-	347
Depreciation expense	-	2	48	-	50
Disposals	-	-	(10)	-	(10)
Foreign currency	-	(1)	(14)	-	(15)
As at January 1, 2014	4	17	351	-	372
Depreciation expense	1	2	39	-	42
Disposals	-	-	(4)	-	(4)
Foreign currency	-	(1)	(13)	-	(13)
As at December 31, 2014	5	18	373	-	396
<u>Carrying Amounts</u>					
As at January 1, 2013	3	18	139	17	177
As at January 1, 2014	3	21	142	2	168
As at December 31, 2014	2	20	108	4	134

The following useful lives are used in the calculation of depreciation expense:

Buildings	5 to 40 years
Machinery and equipment	1 to 20 years

## 4. GOODWILL AND OTHER INTANGIBLE ASSETS

Details of Goodwill and Other Intangibles at December 31 are as follows:

	Goodwill	Intellectual Property	Catalyst Supply and Other Agreements	Software	Total
<u>Cost</u>					
As at January 1, 2013	659	35	31	6	731
Additions	-	-	-	-	-
As at January 1, 2014	659	35	31	6	731
Additions	-	-	-	-	-
As at December 31, 2014	659	35	31	6	731
<u>Amortization</u>					
As at January 1, 2013	-	35	31	6	72
Amortization expense	-	-	-	-	-
As at January 1, 2014	-	35	31	6	72
Amortization expense	-	-	-	-	-
As at December 31, 2014	-	35	31	6	72
<u>Carrying Amounts</u>					
As at January 1, 2013	659	-	-	-	659
As at January 1, 2014	659	-	-	-	659
As at December 31, 2014	659	-	-	-	659

The Company has one cash-generating unit for the purposes of impairment testing. The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on future production volume increases, financial budgets, market prices, and the industry supply demand balance of glycol as reviewed by the directors covering a ten-year period, and a discount rate of 5.80% per annum (2013: 5.88%). There is no impairment of goodwill in the current and prior year.

## 5. DEFERRED CHARGES AND OTHER ASSETS

	<u>2014</u>	<u>2013</u>
Ethylene supply agreement	142	152
A&O off take agreement	-	3
Ethylene storage cavern	8	8
Other	3	6
	<u>153</u>	<u>169</u>



## 6. NOTES PAYABLE

**Inter-JV Revolving Credit Facility** – The Company has a revolving credit facility in place with MEGlobal International FZE, a subsidiary of MEGlobal B.V. for working capital financing up to a maximum of \$400 at an interest rate of 1.5% above the Base Rate (Base Rate is defined as the funding cost of MEGlobal BV, which represents 1 to 6 month USD LIBOR and a spread of 1.50%). The facility can also be used to deposit excess funds at the Base Rate. As of December 31, the Company had borrowed \$377 at a rate of 3.16% in 2014 and \$320 at a rate of 3.17% in 2013. These are indefinite credit facility agreements subject to termination by either party. Interest is accrued monthly.

**Demand Debenture** - The Company issued a \$500 demand debenture to Mizuho Corporate Bank, LTD., as security for MEGlobal B.V.'s refinanced \$203 medium term loan and \$202 revolving credit facility. The bank may call on this debenture if there is an event of default as defined in the credit agreements. MEGlobal B.V. is in compliance with all covenants and has had no events of default.

**Operational Facility** – Under the cash management services provided by Dow, the Company also has in place an overnight cash sweeping facility with a subsidiary of Dow, Dow International Finance Sarl (“DIFS”), previously DCC ULC. Under this arrangement, the Company sweeps all bank accounts and either invests or borrows funds on an overnight basis. Under the terms of the agreement, the Company can borrow up to a maximum of Canadian Dollars (“CAD”) \$10 at interest rates ranging from one month LIBOR plus a positive spread as set by Dow each half year that represents transactions with unrelated parties under similar terms and conditions plus 0.125% and inversely invest with DCC ULC at one month LIBOR plus a positive spread as set by Dow each half year that represents transactions with unrelated parties under similar terms and conditions minus 0.125%. At December 31, the Company had borrowed less than \$1 at a rate of 1.80% in 2014, and had borrowed less than \$1 at rates of 1.75% in 2012. These are indefinite credit agreements subject to termination by either party.

Interest on the above facilities netted to \$9 in expense in 2014 and \$4 in expense in 2013.

## 7. LONG-TERM DEBT

A&O entered into a long-term facility in 1996 with a syndicate of lenders whereby it granted a security interest in all of the A&O's assets, undertakings and property. Interest on this debt was payable semi-annually in arrears. This facility was paid off during November 2013.

## 8. DERIVATIVE INSTRUMENTS AND HEDGING

The Company's operations require active participation in foreign exchange markets. The Company enters into foreign exchange forward contracts to hedge various currency exposures. Exposures primarily relate to assets and liabilities denominated in foreign currencies. The primary business objective of the activity is to optimize the U.S. dollar value of the Company's assets and liabilities with respect to exchange rate fluctuations. Assets and liabilities denominated in the same foreign currency are netted, and only the net exposure is hedged. At December 31, 2014 and 2013, the Company had forward contracts to buy, sell or exchange foreign currencies. These contracts had various expiration dates and are with The Dow Chemical Company. The Company has not engaged in any cash flow hedges.

	<u>2014</u>			<u>2013</u>		
	Gain	Loss	Fair Value	Gain	Loss	Fair Value
Derivatives relating to: Foreign Currency	-	(4)	(4)	-	(1)	(1)

## 9. OPERATING LEASES

The Company has entered into leases for rail cars.

<u>Minimum lease commitments</u>	<u>2014</u>	<u>2013</u>
2014	1	1
2015	1	1
2016 and beyond	1	1
Total	<u>3</u>	<u>3</u>

In addition, the Company leases land from DCC ULC, silver from MEGlobal International FZE and Union Carbide Corporation, and equipment from others under operating leases. At December 31, 2014, future minimum rental commitments under these non-cancelable leases are immaterial.

## 10. INCOME TAXES

The provision for income taxes consists of the following:

	<u>2014</u>	<u>2013</u>
Current		
Federal	43	50
Provincial & Local	27	33
Deferred	(3)	(9)
Total	<u>67</u>	<u>74</u>

Tax rate reconciliation:

	<u>2014</u>		<u>2013</u>	
Income before income taxes	<u>288</u>		<u>318</u>	
Tax at the Canadian statutory rate	72	25.0%	79	25.0%
Permanent differences	2		(1)	
Currency re-measurement and translation not subject to tax	<u>(7)</u>		<u>(4)</u>	
Tax expense and effective tax rate for the year	<u>67</u>	23.2%	<u>74</u>	23.3%

The Company reviewed their transactions between related parties, and due to a change in the estimate for 2012, profit before tax was adjusted by \$27, resulting in an adjustment to income tax of (\$7) in 2013.

Net income taxes paid during 2014 were \$95 and in 2013 were \$71.

Significant components of the Company's deferred income tax assets and liabilities are as follows:

	<u>2014</u>	<u>2013</u>
Deferred Income Tax Assets:		
Post-retirement benefit obligations	5	4
Total	<u>5</u>	<u>4</u>
Deferred Income Tax Liabilities:		
Other Assets	39	46
Property	8	8
Total	<u>47</u>	<u>54</u>
Net Deferred Income Tax Liabilities	<u>42</u>	<u>50</u>

## 11. COMMON STOCK

The Company has two classes of common stock: Class A and Class B. Both classes of shares carry no par value per share.

Class A shares:

Authorized: 500,000 shares

Issued and outstanding: 500,000 shares

Stockholder: Dow Chemical Canada ULC.

Class B shares:

Authorized: 500,000 shares

Issued and outstanding: 500,000 shares

Stockholder: PicCan Holdings Inc.

These classes of common stock have the same rights, preferences and restrictions.

## 12. RELATED PARTY TRANSACTIONS

The Company has entered into certain commercial arrangements with its stockholders or affiliates of the stockholders as part of the formation of the venture.

They include:

- Ethylene Supply Agreement
- Ethylene Oxide (EO)/EG Swap Agreement
- Technology License Intellectual Property (IP) Agreement
- Catalyst Supply Agreement
- Storage Sublease
- Ground Lease
- Utilities Services Agreements
- Technical Services Agreement
- General Services Agreement
- Secrecy Agreement
- Employee Seconding Agreement
- Other Assignment and Assumption Agreements

A summary of significant transactions with affiliated entities is as follows:

		2014		2013	
		Dow consolidated companies	MEGlobal B.V.	Dow consolidated companies	MEGlobal B.V.
Purchases	Ethylene	297	-	299	-
	Services	126	7	148	1
Sales	Inventory	4	857	15	896
	Services	7	-	6	1
Included in the December 31 Statement of financial position					
	Receivables	3	69	2	86
	Payables	34	378	24	320

Dow consolidated companies includes: The Dow Chemical Company ("TDCC"), Union Carbide Corporation, DCC ULC, Dow Europe Holding B.V., DCOMCO, Dolpa S.a.r.l, DIFS and other TDCC subsidiaries and or related companies to a smaller extent

MEGlobal B.V. includes: MEGlobal Americas Inc., MEGlobal Europe GmbH, MEGlobal International FZE, MEGlobal Asia Limited, MEGlobal Mexico S.A. de C.V., MEGlobal Trading Co. Ltd. MEGlobal Comercio Do Brasil Ltda, Equipolymers GmbH, and Equipolymers SRL

All outstanding balances with these related parties are priced on an arm's length basis and are to be settled in accordance with standard terms of the agreements.

The Company also acts as the host to key seconded employees from subsidiaries of TDCC. These individuals retain benefits from their respective home company. The Company reimburses the relevant TDCC subsidiaries for employment costs incurred.

The Ethylene Supply Agreement commits the Company to purchase and obligates DCC ULC to supply a contract quantity of ethylene each year for a term of 240 months commencing July 1, 2004, on a predetermined contract pricing formula. The provisions of the agreement allow for certain cost adjustments based on contractual formulas and raw material inputs and are generally settled in conjunction with the monthly related company settlement and reconciliation process. Management believes that the impacts of these settlements are not significant.

There were no material transactions with directors requiring disclosure in accordance with IAS 24.17 (R) as it relates to compensation and benefits. Directors are reimbursed for travel expenses.

### 13. EMPLOYEE BENEFIT PROGRAMS

Benefit program expenses which include compensation and all Company benefit programs totaled \$34 in 2014 and \$36 in 2013. Employees of the Company maintained their participation in all DCC ULC sponsored health and welfare benefit programs for the year 2014 and 2013. The Company pays for the costs incurred under these plans. The employee savings and pension plans are in the name of the Company.

## 14. POST RETIREMENT BENEFITS

The Company operates a non-contributory defined Benefit Plan (“Plan”) for its employees. The Plan became effective July 1, 2004 replacing the Dow Chemical Canada Inc. Salaried Employees Pension Plan and the Union Carbide Pension Plan for Canadian employees; both plans had been in place for the Company’s employees up until that time. All former Dow Chemical Canada Inc. (“DCCI”) employees, who were also members of their respective plans, transferred to employment with the Company on July 1, 2004 and became employees of the Company and members of the Plan on July 1, 2004. As of December 31, 2011, the defined benefit plan was closed to new entrants. The Company introduced a new defined contribution plan for employees hired on or after January 1, 2012.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out as of December 31, 2013. These valuations reflect the past service costs and asset transfers of the Union Carbide Canada and the DCCI Salaried Employees Pension plans to the Plan. The Plan’s liabilities were assessed by utilizing the Projected Unit Credit actuarial method.

The pension plan exposes the Company to actuarial risks such as longevity risk, currency risk, interest rate risk and investment risk.

The Company provides certain health and welfare benefits to retired employees. These benefits which are supplemental to provincial health care plans cover eligible employees age 50 and over who have completed a minimum of ten years of credited active service. The Company and the retiree share the costs of these benefits. This unfunded benefit plan is cancellable by the Company.

### Actuarial assumptions:

Valuations at:	Defined Benefit Pension Plans		Other Post-retirement Benefits	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Discount rate	4.05%	4.92%	4.08%	4.97%
Salary increases – current year	5.00%	4.75%	3.50%	3.50%
Salary Increases – subsequent year	5.00%	5.00%	3.50%	3.50%
Salary Increases – thereafter	3.50%	3.50%	3.50%	3.50%
Social security increase	3.00%	3.00%		
Inflation	2.00%	2.00%		
Health Care trend rates:				
Drugs - initial	-	-	6.50%	7.00%
Drugs - ultimate trend	-	-	5.00%	5.00%
Drugs - year ultimate trend rate reached	-	-	2018	2018
Other health care	-	-	4.00%	4.00%

Defined benefit cost:

	Defined Benefit Pension Plans		Other Post-retirement Benefits	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Profit and loss (P&L)				
Current services costs	3	3	-	-
Net interest cost	-	1	-	1
Cost recognized in P&L	<u>3</u>	<u>4</u>	<u>-</u>	<u>1</u>
Other comprehensive income (OCI)				
Actuarial gain/(loss) due to:				
- liability experience	1	6	-	-
- liability assumption changes	9	(6)	-	(1)
Actuarial gain/(loss) arising during period	<u>10</u>	<u>-</u>	<u>-</u>	<u>(1)</u>
Return on plan assets (greater)/less than discount rate	(2)	(5)	-	-
Remeasurement effects recognized in OCI	<u>8</u>	<u>(5)</u>	<u>-</u>	<u>(1)</u>
Defined benefit cost	<u>11</u>	<u>(1)</u>	<u>-</u>	<u>-</u>

Net financial position:

	Defined Benefit Pension Plans		Other Post-retirement Plans	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Development of net financial position				
Defined benefit obligation	65	60	6	6
Fair value of assets	<u>50</u>	<u>51</u>	<u>-</u>	<u>-</u>
Net defined benefit liability	<u>15</u>	<u>9</u>	<u>6</u>	<u>6</u>

Reconciliation of benefit obligation:

	Defined Benefit Pension Plans		Other Post-retirement Benefits	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Benefit liability at January 1	60	59	6	6
Current service costs	2	3	-	-
Interest cost	3	2	-	-
Actuarial (gain) losses arising from:				
- Demographic assumptions	(1)	4	-	-
- Financial assumptions	11	(10)	-	-
- Experience assumptions	1	6	-	-
Benefits paid	(5)	(1)	-	-
Gain (loss) due to exchange rate movements	(6)	(3)	-	-
Benefit liability at December 31	<u>65</u>	<u>60</u>	<u>6</u>	<u>6</u>

Reconciliation of fair value of plan assets:

	Defined Benefit Pension Plans	
	<u>2014</u>	<u>2013</u>
Fair value of plan assets at January 1	51	40
Company contributions	3	7
Benefits paid	(4)	(1)
Interest income on plan assets	3	2
Return on plan assets greater than discount rate	2	5
Gain (loss) due to exchange rate movements	(5)	(2)
Fair value of plan assets at December 31	<u>50</u>	<u>51</u>

The fair value of plan assets is analyzed as follows:

	Defined Benefit Pension Plans	
	<u>2014</u>	<u>2013</u>
Cash	-	2
Bonds	21	19
Equity	29	30
Total	<u>50</u>	<u>51</u>

The Company's 2015 funding requirements for the defined benefit plan is expected to be \$4.

Contributions to the defined contribution plan were immaterial in 2014 and will remain so in 2015.

Pension and postretirement costs are included in the employee benefits component of labor and thus follow labor costs to various line items of the consolidated statements of comprehensive income.

A one percentage point decrease in the discount rate would have an impact of \$15 on the defined benefit obligation of the pension plans and a \$1 impact on the defined benefit obligation of other postretirement obligations.

The plan assets do not include any of the Company's financial instruments, nor property occupied by, or other assets used by the Company.



## 15. RISK MANAGEMENT

**Market** – The Company’s products are primarily sold under a sales and distribution agreement with MEGlobal B.V. and its subsidiaries around the globe. Prices are primarily affected by industry cycles and supply and demand balances. MEGlobal B.V. addresses the associated business risks, by customer and geographic diversification, stringent credit management, and efficient channels to markets.

MEGlobal B.V. assumes inventory positions, related price risks, commercial and credit risks of trade customers and related working capital financing.

	<u>2014</u>	<u>2013</u>
Sales by customer:		
MEGlobal B.V.	857	896
Waldorf Services B.V.	45	61
Other	81	85
	<u>983</u>	<u>1042</u>

**Capital Management** – The Company has a capital structure with relatively low debt leveraging. Adequate liquidity is provided through operational cash flow, intercompany financing which was raised through third party long-term debt and pooled via the subsidiaries of MEGlobal B.V. to the Company. The Company’s overall risk and financial strategy is reviewed quarterly by the Finance Committee, and remains unchanged from the prior year, and is in line with its target ratios.

	<u>2014</u>	<u>2013</u>
Accounts payables and accruals	75	60
Income taxes payable	-	13
Notes payable	377	320
Net deferred taxes	42	50
Less: cash and cash equivalents	(5)	(36)
Net debt	<u>489</u>	<u>407</u>
Total capital	<u>575</u>	<u>700</u>
Capital and net debt	<u>1064</u>	<u>1107</u>

**Credit** – The Company is protected from third party credit risk due to the MEGlobal B.V. distribution channels. In addition, the Company is selling products to local customers on open account and secured terms and engages in an active and conservative credit management policy that includes credit insurance. Management believes there are no significant past due receivables subject to credit risk. In accordance with management procurement policies, trade payables are settled in accordance with normal credit terms. With respect to financial assets, the maximum exposure is equal to the carrying amount of the assets on the statement of financial position. Temporary surplus cash is placed either with TDCC or with top rated third party banks.

Trade Accounts Receivable Aging Analysis

	<u>2014</u>	<u>2013</u>
Current	81	99
Past Due 1-30 days	-	-
Past Due Over 30 days	-	-
Total	<u>81</u>	<u>99</u>

**Concentration** – The Company participates in the manufacturing and trade industry sector and can be analyzed by the following geographic regions post intercompany eliminations:

	<u>2014</u>		<u>2013</u>	
	Assets	Liabilities	Assets	Liabilities
Geographic region:				
North America	1064	143	1117	143
Middle East	31	377	59	320
Asia	-	-	5	-

The Middle East region concentration relates to:

- Assets - trade and note receivables with MEGlobal International FZE, an affiliated company of MEGlobal B.V. based in Dubai, UAE; who sells products into all international markets.
- Liabilities - note payable with MEGlobal International FZE.

The Asia region concentration relates to:

- Assets - trade receivables with Waldorf Services B.V., an affiliated company of Far Eastern New Century Corporation based in Taiwan; who previously was an off take party in the A&O venture.

**Interest** – The Company is exposed to interest rate risk on all interest bearing deposits and borrowings. The Company’s revolving credit facility with MEGlobal International FZE is based on a floating interest rate linked to the lenders cost of funds plus 1.5%. The fluctuation of interest and the exposure on the floating rate versus fixed rate is insignificant due to the size of the facility and the projected rate movement. These are discussed in detail in notes 6 and 7.

**Liquidity** – As disclosed on the face of the financials, the Company manages its short term obligations based on its own cash flow and credit facilities granted from the related companies.

The dividend policy of the Company is driven by a targeted debt to equity ratio, cash flow and liquidity, and is restricted by certain tax and legal provisions prevailing in the various jurisdictions in which the Company operates.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments:

	2014				2013			
	0 to 3 months	3 to 12 months	>1 year	Total	0 to 3 months	3 to 12 months	>1 year	Total
Accounts payables and accruals	75	-	-	75	60	-	-	60
Notes payable	76	220	88	384	62	184	80	326
Total Liabilities	151	220	88	459	122	184	80	386

**Foreign exchange** – The Company is exposed to foreign currency translation and transaction gains and losses based on the nature and structure of its operations and changes in reporting and transaction currencies. The Company manages these foreign currency risks with foreign exchange contracts. See note 8 for details of the contracts.

## 16. RECONCILIATION TO UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (“USGAAP”) (UNAUDITED)

The financial statements of the Company are prepared in accordance with IFRS, which differ in certain respects from USGAAP. Retrospective application of new USGAAP has been incorporated. The significant differences and their effect on the net income and stockholders’ equity are set out below:

Year ended December 31,	<b><u>2014</u></b>
<b>Net income attributable to equity holders of the parents as reported in the consolidated statements of comprehensive income</b>	221
Items increasing / (decreasing) reported net income after taxes:	
- Depreciation / Amortization on adjusted basis, net of tax	7
<b>Net income attributable to equity holders of the parents in accordance with USGAAP</b>	<b><u><u>228</u></u></b>

Year ended December 31,	<b><u>2014</u></b>
<b>Stockholders’ equity attributable to equity holders of the parents as reported in the consolidated statement of financial position</b>	575
Items increasing / (decreasing) reported stockholders’ equity:	
- Basis difference to adjust asset values	(600)
- Cumulative depreciation / amortization on adjusted basis, net of tax	107
- Defined benefit pension , net of tax	(1)
<b>Stockholders’ equity attributable to equity holders of the parents in accordance with USGAAP</b>	<b><u><u>81</u></u></b>