

CHEMTRADE LOGISTICS INCOME FUND

Q3 2018 Results Conference Call

Mark Davis

Good morning, ladies and gentlemen. Thank you for joining us for our conference call and webcast today.

As usual, joining me is Rohit Bhardwaj, our Chief Financial Officer.

Before I commence the review, I would remind you that our presentation contains certain forward-looking statements that are based on current expectations and are subject to a number of uncertainties and risks, and actual results may differ materially. Further information identifying risks, uncertainties and assumptions, and additional information on certain non-IFRS measures referred to in this call can be found in the disclosure documents filed by Chemtrade with the securities regulatory authorities, available at sedar.com.

One of the non-IFRS measures that we will refer to in this call is Adjusted EBITDA, which is EBITDA modified to exclude only non-cash items such as unrealized foreign exchange gains and losses. For simplicity, we will just refer to it as EBITDA as opposed to Adjusted EBITDA. Both these terms are fully defined in our MD&A.

As we noted on our first and second quarter calls, we anticipated that results for the second half of 2018 would be better than the first half of 2018, and 2019 results to be better than 2018. We are still of that belief. While in aggregate, our third quarter results were strong, EBITDA from the operating businesses does not reflect the full earnings potential of the business. However, we are still on track to deliver stronger results in the second half of the year than we did in the first half.

Before Rohit and I review our third quarter results, I have some comments on the additional litigation reserve we announced last week, which significantly affected our reported Q3 results.

As we announced last week, subject to court approval, we settled the main class action civil lawsuit that arose out of alleged anti-competitive conduct of General Chemical entities acquired by Chemtrade in 2014. The final court ruling is expected about mid-year 2019. As part of our acquisition we had negotiated an indemnity from the Seller. Unfortunately, our legal and settlement costs are substantially higher than we had expected and well in excess of that indemnity. Although the main action has been resolved, there are a few smaller lawsuits involving a substantially lower volume of commerce that remain outstanding. As a result, during the third quarter of 2018, we increased our litigation reserve by \$35 million. This is in addition to the \$65

million reserve established during the second quarter of 2018. This reserve is to cover, in aggregate, legal fees related to these matters, the settlement amount for the main action and our estimate of amounts necessary to resolve the lawsuits that remain outstanding. Obviously, this is a distasteful result, but we are happy to get this behind us, so we can continue to focus on our improving businesses.

Our discussion of the business and its results will exclude the effect of the litigation reserve.

Turning now to our businesses and their markets, third quarter EBITDA was over \$88 million, an increase of about \$14 million versus Q2, and \$7 million versus Q3 last year. As a general statement, market conditions for our products remained favourable. Pricing for all our sulphuric acid products – regen, merchant and ultra-pure – continued to move up. In particular, higher pricing for merchant acid mitigated the significantly reduced volume of merchant acid we received from our major by-product supplier this year as opposed to last year as they implement their process change. While sulphuric acid, the main product in the Sulphur Products and Performance Chemicals (or SPPC) segment performed well, some of the smaller products experienced issues which led to the segment reporting a decline in EBITDA during the third quarter of 2018 relative to the third quarter of 2017. Rohit will comment on some of the actions we have taken to rectify this situation.

Our water chemicals business reported higher volumes and revenue for aluminum sulphate or alum. We are seeing higher prices in the market for alum as all suppliers seek to recover increased raw material costs, but as we indicated on the last call, increasing raw material costs are squeezing our margins until contracts can be renegotiated. This is not a year-end contracting business, but we are seeing price increases as contracts renew and expect that we will more than recoup these costs over time.

Our potassium chloride, or KCl plant is increasing output following its expansion however we needed to rework certain of our higher margin material as it wasn't produced to the necessary specification

Our chlor-alkali business performed well, although netbacks for caustic soda during the third quarter were lower than the second quarter.

I will have some closing remarks on the outlook for our key products after Rohit provides you with some additional details on the third quarter results.

Rohit Bhardwaj

Thank you, Mark and good morning everyone.

As Mark indicated, while our operating results for the third quarter of 2018 don't fully reflect the earning potential of the business, they show an improvement over the first half of the year. The additional reserve for the remaining General Chemical pre-acquisition anti-trust lawsuits had a significant impact on EBITDA and distributable cash. I will exclude this item in my comments this morning to better compare the actual operating performance of our businesses.

Revenue from continuing operations for the third quarter of 2018 was \$418.2 million, which was \$17.7 million higher than the third quarter of 2017 despite the decrease in merchant sulphuric acid volume. As Mark mentioned, this increase in revenue was largely driven by higher revenues in water products.

For the three months ended September 30, 2018, distributable cash after maintenance capital was \$54.0 million, or 58-cents per unit compared with \$46.8 million or 51-cents per unit in 2017. The main reason for the increase was higher results in the Water Solutions and Specialty Chemicals (or WSSC) segment and in the Electrochemicals (or EC) segment.

Aggregate EBITDA from continuing operations for the third quarter of 2018 was \$88.8 million compared with \$81.9 million in the third quarter of 2017. The increase in EBITDA is mainly attributable to higher EBITDA in the WSSC and EC segments.

Turning to segmented results for the quarter, SPPC generated revenue of \$129.6 million compared to \$125.6 million in 2017. EBITDA for the quarter was \$22.2 million, which was \$3.0 million lower than 2017. From a revenue perspective, higher prices for merchant acid helped to offset lower volumes due to reduced availability of merchant acid supply. EBITDA was negatively affected by poor results for SBS and sulphur. Sulphur results were negatively affected by turnarounds at refineries which resulted in reduced supply.

As far as SBS is concerned, we will be transitioning to selling through the distributor that previously marketed our SBS. This will provide increased operational flexibility and reduced costs. Consequently, once the transition is complete, results will improve.

Our WSSC segment reported third quarter revenue of \$116.6 million compared with \$103.1 million in 2017. EBITDA was \$24.1 million compared with \$21.1 million generated in 2017. The increased revenue was mainly due to higher volumes and selling prices of our water products. However, despite increasing prices, the rising raw materials costs continue to squeeze margins. We expect to see margins improve as contracts are renewed at prices reflecting the higher raw material costs.

While market conditions for KCl remain firm, we generated lower earnings due to the need to rework certain material that wasn't produced to specification. While this was not a large amount

of volume it was our API material which attracts high margins and thus the rework affected results. Most of the rework has now been completed. Finally, results benefited by an insurance recovery of \$2.2 million. This relates to an issue that occurred in 2016.

Our EC segment reported revenue of \$172.0 million and EBITDA of \$57.1 million, both of which were close to last year. Netbacks for caustic soda and hydrochloric acid or HCl were higher than the third quarter of 2017. The positive effect of higher prices was somewhat offset by lower sales volume. While there has been some volatility in caustic prices recently, the long term forecast for caustic soda remains favourable, with higher prices expected through at least 2022.

Sodium Chlorate results were lower than the third quarter as higher input costs and lower sales volume more than offset higher realized pricing. The main reason for the lower volume was the loss of a customer and we have placed this volume elsewhere in 2019.

Maintenance capital expenditures in the third quarter were \$17.2 million. We expect maintenance capex in 2018 to be between \$80 million and \$90 million.

Excluding unrealized foreign exchange gains and losses, corporate costs during the third quarter of 2018 were \$49.7 million, compared with \$19.9 million in the third quarter of 2017. The primary reason for the increase was the \$35 million reserve for the anti-trust law suits. Ignoring this, corporate costs during the third quarter of 2018 were lower than the third quarter of 2017 by \$5.2 million due to \$7.1 million of lower incentive compensation.

Our balance sheet remains sound, with our bank covenants well below required levels and we maintain ample liquidity. We have roughly US\$332.7 million room on our US\$525 million revolving facility.

I'll now hand the call back to Mark.

Mark Davis

Thank you, Rohit.

Even though we had to increase the amount of our litigation reserve, we are pleased to have settled the main class action lawsuit and to have that uncertainty behind us.

2018 has been a challenging year for our SPPC and WSSC segments and our financial performance does not reflect the full potential of the underlying businesses. Both of those segments have undergone a number of substantial changes, ranging from a significant reduction in merchant acid volume to raw material pricing pressure on water chemicals. As we've mentioned, we are taking actions to improve these and other issues and the result should be seen in 2019 as we indicated last quarter.

Despite these issues, from a distributable cash perspective, through the first three quarters of the year, excluding the litigation reserve, we generated \$1.34 per unit of distributable cash which was well in excess of our year to date distributions of 90-cents per unit. While the anti-trust lawsuits are costing us considerably more than we expected, as Rohit mentioned, we maintain ample liquidity and we intend to draw on our credit facility to fund these expenses.

We remain focused on the things we can control such as ensuring that our plants operate well and our supply chain is robust and efficient. These actions should allow us to capitalize on the generally favourable conditions for most of our products.

The fourth quarter typically generates lower EBITDA than our third quarter. In SPPC, both regen and our access to sulphur tends to be lower, as the production of gasoline tends to be lower in the winter months and refineries often take turnarounds in the winter. In particular, in this fourth quarter, the main pipeline-connected refinery for our Beaumont facility is taking an extended turnaround that will affect SPPC's fourth quarter. The fourth quarter is also seasonally lower for our water products. Finally, in our EC segment, demand for chlorine also tends to be weaker. Since we need to sell either chlorine or HCl to produce caustic soda, we anticipate running our North Vancouver chlor-alkali facility at slightly reduced rates in the quarter. Having said that, the second half of 2018 will deliver better results than our first half. The third quarter should be our annual peak and while the fourth quarter will be weaker, it is expected to be better than the fourth quarter of 2017.

While we need to continue to execute well, we are looking forward to 2019 when many of our improvement initiatives will have taken effect and the markets for our products continue to look firm. A few brief comments on how we see the markets for our key products. As mentioned pricing for all of our acid products, regen, ultra-pure and merchant have upward momentum, especially merchant acid. Alum pricing is also moving up as we have indicated over recent quarters and now as a result of raw material cost push. The chlorate industry continues to run at high utilization rates. Pricing for 2019 has moved up, albeit not by the magnitude we would have expected from a sold out industry.

Turning to chlor alkali, the HCl market remains quite attractive from both a volume and pricing perspective. As Rohit mentioned, there was some recent volatility in the North East Asia caustic

price. Recall that imports for this region has a strong correlation to the price we can obtain for our product. One difficulty is that the volume actually sold under that index has decreased significantly over recent years. That means that sales of relatively small volumes can have a short term disproportionate effect on the index price. We believe this is what is happening now. We, along with industry experts, continue to believe that the long-term fundamentals for caustic soda remain strong and pricing is expected to increase materially from its current level and be high through at least 2022, which is as far as the experts project.

To conclude, while 2018 has been a trying year we are seeing the improvements in the second half of the year that we expected and continue to see a much improved 2019.

Thank you for your attention. Rohit and I would now be pleased to answer questions.

Operator: Thank you, Mr. Davis. At this time, I would like to remind everyone, in order to ask a question today, you may press *, then the number 1 on your telephone keypad. If your question has been answered, or you wish to remove yourself from the queue, you may press the # key. Our first question comes from the line of Joel Jackson from BMO Capital Markets. Joel, your line is open.

Joel Jackson — BMO Capital Markets: Hi. Good morning, guys.

Mark Davis — President and Chief Executive Officer, Chemtrade Logistics Income Fund: Hey, Joel.

Rohit Bhardwaj — Vice-President, Finance & Chief Financial Officer, Chemtrade Logistics Income Fund: Good morning.

Joel Jackson: Thanks for the very good colour on Q4. So, you're basically saying you expect, I guess, slightly lower earnings in all your three segments in Q4, overall a lot higher than Q4 '17. Correct?

Mark Davis: Correct.

Joel Jackson: Okay. I just want to follow up on some of your comments. Are you, right now, capturing on chlorate, as you look into the pricing for next year, settling contracts or pricing? Are you capturing enough price increases to cover higher electricity costs? And then similar question on the alum side. At what point, what month, what quarter do you think higher alum pricing that you're realizing through the—will offset the higher asset and material costs? Thanks.

Mark Davis: Yeah. So, the simple answers are yes, we believe our price increases are more than offsetting our power cost increases. Remember that if you're looking at us compared to other chlorate producers, the jurisdictions in which you're based have a big influence on your power costs. But we're doing fine on that basis—like to do better, of course, but we're more than recapturing.

Alum pricing, as we've indicated, is moving—60 percent of our business is municipal contracts. Those are generally annual bids where you're locked into pricing. So, if raw material pricing stops moving, over the next six or nine months, as the bids come due, we should actually, we believe, more than recapture that. But if they keep moving up, it'll continue to be a drag until they stabilize, and then when they move down actually we should benefit.

Joel Jackson: Okay. And finally, I'll ask the question—I want to understand your commentary on caustic. So obviously, the northeast Asian caustic price index is quite illiquid—it's been illiquid all year. Have any of your 20 or so caustic customers asked now to reopen pricing for Q1? Or are we still waiting a month? Or I mean, what specific are you saying, what you're expecting for caustic for Q1 at this point?

Mark Davis: So as a grossly over-general statement and generalized statement, the index pricing for the last month of every quarter is the key determinant on how we're able to price for the following quarter. And it's not that our customers have to ask for it; that's basically the way our contracts work, or the market works. So, the pricing for early December will have a large determinant on the price we realize in the first quarter next year.

Joel Jackson: But right now—it's a little early, but right now it looks like you might see lower pricing in Q1? Or it's really just a few weeks too early?

Rohit Bhardwaj: It's a little early, and I think in the last week or two, the northeast Asia index seems to be recovering a bit. So, it'll be lower than Q1 last year, pretty assured of that. But it's hard to tell where it's going to land.

Mark Davis: Yeah. And as all of you on the phone, I think, have read the industry report, there's a number of things that the industry believes are one-off events that actually have—and as I said—a disproportionate effect due to minimal volume. So, we have to wait for, again, another month to see actually if the one-off events actually had a positive effect on the index versus where we are today.

Joel Jackson: Thanks, guys.

Mark Davis: Thanks.

Operator: Your next question comes from the line of Jacob Bout from CIBC. Jacob, your line is open.

Jacob Bout — CIBC World Markets: Good morning.

Mark Davis: Good morning, Jacob.

Rohit Bhardwaj: Good morning.

Jacob Bout: First question. I want to start off on the dividend and your thoughts that maintain the dividend at current levels. I know payout ratio was kind of sub 60 percent for the quarter. But at a 10 percent yield, would you ever consider cutting that dividend to pay down debt?

Mark Davis: I'll just say no. As long as we can actually afford the distribution rate—we set it back in 2007—we see no reason to change it. So a 10 percent dividend yield, in our view, is rich, and we think actually, hopefully, that yield will come down as our share price recovers. But we have no current inclination to actually reduce the distribution, despite the 10 percent yield.

Jacob Bout: Maybe then turning to the SPPC business. I think you've got to go back 10 years to where we saw margins similar to what we saw in the quarter. So maybe you can help us with what happened in this quarter? So, I think you talked a bit about poor results from the sodium bisulphite, turnarounds in the sulphur side, and the outsourcing of marketing. How big of a hit was that on each one of those?

Rohit Bhardwaj: So, the big one is the sodium—sorry, go ahead?

Jacob Bout: No. Yeah. Just for the quarter.

Rohit Bhardwaj: Okay. Yeah. Yeah. For the quarter. So, the big one is SBS because there are two things there. One is, SBS is a by-product that comes out of our acid plants, so we cannot control, to large extent, how much gets generated. And so, when we've had these issues of the market being long, we normally have had lower margin in trying to sell that product, but we've also incurred, actually, additional costs to dispose of it, and to move it at a negative economics.

So the hurt—so if you look at our quarter, we were down \$3 million from last year Q3, and I'd say the SBS hurt was even more than that. So, call it 4 million or \$5 million for the bigger impact on the quarter. Sulphur was not as significant, but call it in the 1 million, 1.5 million as well. So, there were a couple of pretty significant things here that affected the results for the third quarter.

Jacob Bout: And how about the outsourcing of the marketing? Where do you see yourself?

Rohit Bhardwaj: So we're—we'll be transitioning that, so it'll take a few months to get that transitioned because we had made other arrangements. And while we have a contract with the marketer, it'll take a few months to get the supply chain all worked out. And so, I would say by Q2 next year, we should start to see the benefits of the marketing.

Jacob Bout: And is that 2 million to 3 million? Or what would that be?

Rohit Bhardwaj: Yes. Yeah. That sounds about right. But we don't want to get too much into those economics right now but yeah, should be in that ballpark.

Jacob Bout: Okay. And then maybe just stepping back a bit. As a segment, SPPC business, do you ever get back to that kind of 140 to 150 EBITDA range, or?

Rohit Bhardwaj: So, one thing to remember is that 140 to 150 included our Montreal East business that we disposed of—we sold. So that took away about 20 million, \$25 million. So now we're trying to reset the expectation from the 150 to the 125, and—

Mark Davis: There should—there should, as the years—as the years go, and as we get into '19, be movement back towards that number, right? The other things that are affecting this, if you're taking this big long-term look at life. In addition to Montreal, again, remember that Vale cut significant volume this year, which not only actually had us lose margin but also, we're carrying excess railcar costs, right? And there was—we didn't process as much regen in the quarter because some of our refineries took turnarounds, et cetera. So, you put all that in as pricing increases, as our cost structure is rationalized, as SBS becomes a positive contributor, we definitely start moving back towards those numbers.

Rohit Bhardwaj: Yeah. And sorry, you have to keep in mind the Augusta closure as well, right? So, there've be some kind of systemic changes to the business. So, there's some transient things that might take a few quarters to recover from, but there are a couple of structural things that have happened in that segment.

Jacob Bout: Okay. Last question here. North Van, I noticed chlor-alkali volumes down year on year. How's the plant running? And what's kind of a normalized run rate that we should be thinking about?

Rohit Bhardwaj: The plant is running well. But as Mark mentioned, given what we're seeing in chlorine seasonally, and a little bit in HCl as well, we would run a slightly reduced rate. But in terms of operating the plant, I mean, getting the 50,000 ECUs a quarter, it is definitely a reasonable run rate. We could overachieve on that a little bit as well, but that would be kind of a sustainable run rate.

Jacob Bout: Yep. All right. Thank you very much.

Mark Davis: Thanks.

Operator: Your next question comes from the line of David Newman from Desjardins. David, your line's open.

David Newman — Desjardins Securities: Good morning.

Mark Davis: Hi, David.

Rohit Bhardwaj: Good morning.

David Newman: Guys, the Vale, I think you previously suggested that the volumes—kind of going back to Jacob's question—might actually come up a bit in '19. Is that still in sort of the cards? Or do you think that's—we're going to kind of maintain where we are on a volume basis?

Mark Davis: No. No. We should come—we should come back up. If you recall, kind of a couple years ago, we had thought there'd be a 25 percent cut. The cut was about 50 percent, right?

David Newman: Right.

Mark Davis: We'll end up somewhere between 50 and 75, but it should be more than we got this year.

David Newman: Okay. Got it. And then on the turnarounds. I mean, from what I'm reading, it's pretty much in the rear-view mirror. So, you should be able to recapture, perhaps, the 1 or 2 million in 4Q? Or halfway through 4Q kind of thing?

Rohit Bhardwaj: Well, yeah. But I think if you're—as Mark mentioned, there is one large—it's not our turnaround, but it's the big customer for our Beaumont facility that's pipeline-connected.

Mark Davis: Correct.

David Newman: Okay.

Rohit Bhardwaj: It's a cracker outage, and that tends to be an extended outage from the customer side.

David Newman: Would that be kind of a wash with what you saw in this quarter?

Mark Davis: You've also got to remember, in the regen business, this third quarter's always seasonally strongest—

David Newman: Yeah. Right.

Mark Davis: —right? So—

David Newman: No. I mean, just on the refinery component.

Rohit Bhardwaj: So, the truth is the one—the other refinery issue we had in Q3 was actually a sulphur operation—

David Newman: Sulphur, right. That's what—that's what I'm referring to. Sorry, guys.

Rohit Bhardwaj: Okay. Because we were talking the regen acid. The sulphur—the sulphur should be—the sulphur was not as significant. That's maybe, you're talking about \$1 million. It's not (unintelligible)—

David Newman: That's right. That's right. Yep.

Rohit Bhardwaj: Yeah. Yeah. That should be—

Mark Davis: Yeah. Yeah. That should be okay.

David Newman: Very good. Very good. Okay. And then, it looks like you sold some assets in the quarter. You reflected about an \$8 million gain. Is there—did you sell some things? Or what's going on?

Rohit Bhardwaj: Yeah. So, we had—we had some real estate that we sold, and we're still using that site. But we did sell it and recognize a gain on it.

David Newman: Okay. And you sort of flagged that, I think, as something maybe you might do. Are there any other assets you might be thinking about selling? And what are you sort of thinking in proceeds at all?

Rohit Bhardwaj: Well, no, this was kind of a—more of a one-off. I think what Mark has mentioned in the past is that there are certain—there's certain products in our portfolio that, if at the right value, might make sense. But there isn't—there's nothing imminent on that front.

Mark Davis: Yeah. No. There's—

David Newman: Okay. And Olin flagged freight costs. I mean, did you—I mean, that's something that seems to be pervading the entire industry. And we know railroads have always been a bit of a problem throughout the winter period. So, any railroad update on freight costs? Can you get that through on water pricing as well? And things like that?

Mark Davis: That's a big, bold question.

David Newman: Yeah.

Mark Davis: Let's try it this way, right, I think there's consistent pressure on rail freight rates. But as you said, that's an industry-wide thing, so we ought to be able to recoup those. I think all the railways have actually been working diligently to improve their service levels from some of the less-than-stellar service levels last year. So, I believe they've made serious efforts and serious steps. And obviously, the proof will be in the pudding during the winter, right?

On the alum business, is that's primarily a trucking business, and—

David Newman: Okay.

Mark Davis: —and for those of you that actually have read about the trucking industry, costs are going up, and drivers are short—

David Newman: Shortfall.

Mark Davis: —in short supply. But again, having said all that, is due to our geographic footprint, arguably, increasing freight costs ought to make our more proximate plants actually more competitive than further distant plants, because they have a bigger freight hit than our plants. So, it's a similar story in alum as it is with raw materials. I believe we're going to get all those freight costs back, but the contract—the municipal stuff comes up on an annual basis.

David Newman: Okay. I was more thinking about the ACH PAC plant. I know you're kind of moving stuff around, to kind of keep the customer happy. It's a fledgling business and all that. So is that kind of getting sorted out too, as well?

Rohit Bhardwaj: Yeah. I think there, that product can travel longer distances, so there's some impact—

David Newman: Yeah. Yeah.

Rohit Bhardwaj: —but we don't think that's going to be significant.

Mark Davis: But yeah, you're right, Dave. You go back to what we said a while ago, actually as the production of our facilities has been lined out, the illogical movements we've had to make have actually been reduced, and we're finding good customer take-up.

David Newman: Very good. Last one for me. On CapEx for next year. I would assume you're kind of running around where you are this year. And is there—with the hydrochloric acid prices where they are, and obviously that's doing very well, would you consider a second burner? And would the—would that be considered for '19?

Rohit Bhardwaj: So right now, I mean, I think that we've got 80 million to 90 million in Capex, so probably the 90s. Again, we don't have our plans all finalized but in that kind of ballpark. And as for HCl goals, we actually have three burners right now, and—

David Newman: Yeah. Yeah.

Rohit Bhardwaj: —and we're obviously pleased with the announcement of that LNG terminal, that could have a significant impact on natural gas fracking. But that's a ways out, so very unlikely we would put in a fourth burner in '19, but we'll obviously be considering it because it can then be used—

Mark Davis: If it's—

Rohit Bhardwaj: —at the right time. Yeah.

Mark Davis: —if it's conceivable, we might make a decision in '19—

Rohit Bhardwaj: Yes.

Mark Davis: —and we wouldn't actually have it online in '19.

David Newman: Very good. Thanks, guys.

Mark Davis: Thanks.

Rohit Bhardwaj: Thank you.

Operator: Your next question comes from the line of Steve Hansen from Raymond James. Steve, your line is open.

Steve Hansen — Raymond James: Yeah. Hey, guys. Thanks. The bulk of the questions have been asked, but I just wanted to ask one sort of broader, maybe harder question. As painful as it's

been, it is good to see this General Chemical issue, I think behind us now. But I think the one criticism that comes up is maybe the lack of due diligence that was done on General Chemical, or the lack of foresight around how large this penalty could've been. I understand there was an indemnity in place. But how do you respond to investors who are concerned about the due diligence process? I understand we're not really in the M&A activity [audio gap]. For investors who are thinking about that in the future, how do you respond? And how do you give them comfort? Thanks.

Mark Davis: Yeah. Look, quite simply—well, maybe it's not simple. It is—the issue was well known by us at the time we were acquiring General. We obtained top-notch antitrust advice from a white-shoe law firm out of Washington, and their analysis indicated that the high end of our range should be substantially less than the indemnity we obtained, so we thought we were way onside.

And in fairness to, actually, I think them, is the damages that are going to be paid on this thing are also well inside the indemnity. The legal costs that are associated with it is, I think, where the biggest miss from both the law firm and we were. So, from a—from a diligence perspective, as far as—as far as we're concerned, we actually did all the right diligence and came to the wrong conclusion on the quantum of the risk and the costs.

On a go-forward basis, I think—I think what is quite clear to us is, no matter what the size of the indemnity is, we won't buy into an antitrust risk again because the expert advice we got on quantification of the risk was wrong by a large factor. And again, I don't think through any fault of theirs either; it was just it's a hard thing to estimate. So that's where we are.

Steve Hansen: Appreciate it, guys. Thanks.

Mark Davis: Thanks.

Operator: Ladies and gentlemen, again, if you would like to ask a question, you may press *, then the number 1 on your telephone keypad.

Your next question comes from the line of Ammar Shah from National Bank. Ammar, your line is open.

Ammar Shah — National Bank Financial: Hey. Good morning, guys.

Rohit Bhardwaj: Good morning.

Mark Davis: Good morning.

Ammar Shah: The majority of my questions have been answered. Just one. In your prepared remarks, you mentioned that you replaced a customer in the EC segment. Just wondering when that's going to kick into results?

Mark Davis: Probably 2019.

Ammar Shah: Is that like a first half 2019?

Mark Davis: Yeah. Yeah. It is—unlike alum business—and again, overly simplification—is the chlorate business is a bunch of annual contracts that often start in the beginning of the year. There are exceptions, but the majority. So, for the calendar year 2019, we've replaced that customer.

Ammar Shah: Perfect. That's it for me. Thank you.

Mark Davis: Thanks.

Operator: Your final question comes from the line of Damir Gunja from TD Securities. Damir, your line's open.

Damir Gunja — TD Securities: Thank you. Good morning.

Mark Davis: Hi, Damir.

Damir Gunja: I just wanted to just close the loop on the indemnity. Was curious about the timing, and actually the booking of that potentially coming in? Or has a partial payment—

Rohit Bhardwaj: So—

Damir Gunja: —already been made there?

Rohit Bhardwaj: —sorry. I think if you read our—what we settled with the plaintiffs, we actually, essentially assigned our rights to that indemnity dispute, over to them as part of our settlements. We gave them US\$51 million in cash—or we will give them that in cash, and they will take over the proceeds—any proceeds from this indemnity dispute.

Damir Gunja: Fully?

Rohit Bhardwaj: Yes.

Damir Gunja: Yes. Okay. Okay. I didn't realize that was net. Okay. I misread that.

Rohit Bhardwaj: Okay.

Damir Gunja: Thanks very much.

Mark Davis: Thank you.

Operator: We have no further questions. I turn the call back to Mr. Davis.

Mark Davis: Well, thank you, everyone, for participating, and we'll speak to you again at the end of the fourth quarter. Thank you.

Operator: This does conclude today's conference. You may now disconnect.

(1) Non-IFRS Measures*EBITDA and Adjusted EBITDA –*

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

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

A reconciliation of net earnings to EBITDA and Adjusted EBITDA is provided below:

(\$'000)	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30,</u> <u>2018</u>	<u>September 30,</u> <u>2017</u>	<u>September 30,</u> <u>2018</u>	<u>September 30,</u> <u>2017</u>
Net earnings (loss) from continuing operations	\$ 9,194	\$ 22,413	\$ (34,332)	\$ 33,365
Add:				
Depreciation and amortization	53,596	52,411	160,667	148,567
Net finance costs	13,092	19,154	48,863	66,352
Income tax recovery	(10,627)	(12,754)	(38,032)	(31,228)
EBITDA from continuing operations	65,255	81,224	137,166	217,056
Loss (gain) on disposal and write-down of assets	(8,413)	282	(5,070)	4,346
Unrealized foreign exchange loss (gain)	(3,064)	356	(870)	319
Adjusted EBITDA from continuing operations	\$ 53,778	\$ 81,862	\$ 131,226	\$ 221,721

Segmented information

SPPC -

(\$'000)	<u>Three months ended</u>		<u>Nine months ended</u>	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenue	\$ 129,572	\$ 125,639	\$ 380,683	\$ 380,361
Gross Profit	15,006	10,176	27,018	40,913
Adjusted EBITDA	22,237	25,215	69,164	88,567
Gain (loss) on disposal and write- down of assets	8,413	(282)	5,070	(418)
EBITDA	30,650	24,933	74,234	88,149
Depreciation and amortization	(18,011)	(17,524)	(54,506)	(55,634)
Net finance costs	(3,659)	(4,275)	(10,139)	(15,512)
Income tax recovery	2,176	6,887	11,161	16,688
Net earnings	\$ 11,156	\$ 10,021	\$ 20,750	\$ 33,691

WSSC -

(\$'000)	<u>Three months ended</u>		<u>Nine months ended</u>	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Revenue	\$ 116,601	\$ 103,055	\$ 327,869	\$ 316,761
Gross Profit	11,402	11,908	33,082	44,927
Adjusted EBITDA	24,114	21,089	65,371	73,868
Loss on disposal and write-down of assets	—	—	—	(25)
EBITDA	24,114	21,089	65,371	73,843
Depreciation and amortization	(13,168)	(12,698)	(38,606)	(39,559)
Net finance costs	(4,642)	(5,103)	(12,776)	(15,075)
Income tax recovery	6,568	8,966	18,079	23,337
Net earnings	\$ 12,872	\$ 12,254	\$ 32,068	\$ 42,546

EC -

(\$'000)	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30,</u> <u>2018</u>	<u>September 30,</u> <u>2017</u>	<u>September 30,</u> <u>2018</u>	<u>September 30,</u> <u>2017</u>
North American Sales Volumes:				
Sodium Chlorate Sales Volume (000's MT)	103	110	305	255
Chlor-alkali Sales Volume (000's MECU)	51	54	132	116
Revenue	\$ 172,021	\$ 171,810	\$ 496,395	\$ 385,347
Gross Profit	37,361	36,941	88,051	65,328
Adjusted EBITDA	57,121	55,430	147,246	109,957
Loss on write-down of assets	—	—	—	(3,903)
EBITDA	57,121	55,430	147,246	106,054
Depreciation and amortization	(22,417)	(22,189)	(67,555)	(53,374)
Net finance costs	(3,659)	(2,145)	(17,394)	(12,407)
Income tax expense	(3,556)	(3,552)	(11,442)	(8,271)
Net earnings	\$ 27,489	\$ 27,544	\$ 50,855	\$ 32,002

Cash Flow –

Management believes supplementary disclosure related to the cash flows of the Fund including the amount of cash available for distribution to Unitholders, repayment of debt and other investing activities provides useful additional information. A cash flows table presenting this information is included in the Fund's MD&A filed on SEDAR. The table is derived from, and should be read in conjunction with, the consolidated statements of cash flows. Certain sub-totals presented within the cash flows table, 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.

A reconciliation of these supplementary cash flow measures to cash flow from operating activities is provided below:

(\$'000)	<u>Three months ended</u>		<u>Nine months ended</u>	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Cash flow from operating activities	\$ 102,567	\$ 70,452	\$ 164,611	\$ 89,130
Less:				
Cash flow used in operating activities of discontinued operations	—	—	—	(3,809)
Cash flow from operating activities of continuing operations	102,567	70,452	164,611	92,939
Add (deduct):				
Changes in non-cash working capital and other items	(66,371)	(9,119)	(94,031)	53,175
Adjusted cash flows (used in) from operating activities of continuing operations	36,196	61,333	70,580	146,114
Less:				
Maintenance capital expenditure	17,210	14,550	46,216	31,977
Distributable cash after maintenance capital expenditure from continuing operations	18,986	46,783	24,364	114,137
Less:				
Non-maintenance capital expenditure ⁽¹⁾	4,472	1,461	9,026	5,817
Distributable cash after all capital expenditure from continuing operations	\$ 14,514	\$ 45,322	\$ 15,338	\$ 108,320

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