

## Q2 2018 Results Conference Call (Script)

### 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.

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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](http://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.

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I want to start this call with some comments on a couple of significant matters. Rohit will then provide details on our second quarter results. After Rohit has reviewed second quarter results, I will provide an outlook, including some product specific comments.

Our second quarter results were largely as we expected and reflected some of the remnants of the non-market related issues we discussed on our last couple of calls and the heavy schedule of plant turnarounds. The good news is that the majority of the turnarounds for the year are completed, and specific actions to improve the issues are well on track. As discussed, we anticipate that our second half results will be considerably stronger than the first half of this year and we expect 2019 results to be better than 2018.

Our reported results were significantly affected by a litigation reserve of \$65 million to cover the potential costs of resolving the civil actions commenced against General Chemical, a company that was acquired by Chemtrade in 2014, and certain competitors for anti-competitive actions in the water business. This issue was disclosed in our public filings when we acquired General Chemical and we obtained an indemnity from the vendor of over US\$60 million primarily for this matter.

Several developments have caused us to make a reserve at this time. First, although the indemnity has covered the costs incurred to date, legal fees have been much higher than originally thought. Secondly, as noted in prior public documents, the seller is challenging the quantum of the remaining indemnity. Finally, one of the co-defendants recently settled certain claims against it for approximately US\$30 million. Accordingly, we felt it prudent to take the reserve at this time although it may be some time before these matters are finally resolved.

The other significant events in the quarter were much more positive. Importantly, we safely completed the extensive maintenance turnaround at our North Vancouver chlor-alkali facility. We replaced the faulty piping with new nickel piping. We estimate that including the value of forgone production, this turnaround cost us roughly \$14 million in the quarter. We are pleased to report that the plant was safely brought back on line and is operating at normal levels.

We also safely and effectively completed a large number of maintenance turnarounds in other parts of our business, particularly our acid plants. We also made good progress on training and ramping up production at our water plant that we had previously discussed.

As many of you know, plant turnarounds place substantial work on an organization, not just at the plant but all related functions such as logistics and customer service. I'd like to thank all of our employees for their successful efforts.

Rohit will now provide you with some additional details on the second quarter results.

### **Rohit Bhardwaj**

Thank you, Mark and good morning everyone.

As Mark indicated, our operating results for the second quarter of 2018 were affected by a significant number of plant turnarounds and by costs associated with some remaining non-market related issues, which are pretty much behind us. Additionally, the reserve for the General Chemical pre-acquisition anti-trust lawsuits had a significant impact on EBITDA and distributable cash. Two other items also affected distributable cash as we took steps to simplify and clean up our balance sheet. First, we incurred a premium of \$7.4 million to repay the Canexus Senior Notes and a small loan outstanding on our Fort McMurray plant. The repayment using bank debt lowers our going forward interest costs. Secondly, we realized a foreign exchange loss of \$3.8 million related to the repayment of debt and certain internal tax related initiatives. The foreign exchange loss also affected EBITDA. I will exclude these items in my comments this morning to better compare the actual operating performance of our businesses.

Revenue from continuing operations for the second quarter of 2018 was \$405.3 million, which was similar to 2017.

For the three months ended June 30, 2018, after the exclusions mentioned, distributable cash after maintenance capital was \$37.4 million, or 40-cents per unit compared with \$58.7 million or 63-cents per unit in 2017. The main reason for the decline was lower results in the Water Solutions and Specialty Chemicals (or WSSC) segment and in the Sulphur Products and Performance Chemicals (or SPPC) segment. Additionally, as Mark mentioned, the extensive turnaround at the North Vancouver plant cost us approximately \$14 million.

On the same basis, aggregate EBITDA from continuing operations for the second quarter of 2018 was \$74.2 million compared with \$95.0 million in the second quarter of 2017. The decrease in EBITDA is mainly attributable to lower EBITDA in the WSSC and SPPC segments.

Turning to segmented results for the quarter, SPPC generated revenue of \$128.5 million compared to \$129.3 million in 2017. EBITDA for the quarter was \$25.7 million, which was

\$8.2 million lower than 2017. As we had previously disclosed, we had a large number of maintenance turnarounds scheduled for the second quarter. Between maintenance costs and the lost value of production, we estimate that the financial effect of this activity was roughly \$8 million compared to the same period last year. As a reminder, we did not have any turnarounds during the second quarter of 2017. From a revenue perspective, higher prices for merchant acid helped to offset lower volumes due to reduced availability of merchant acid supply as a result of the additional turnarounds. The profitability of SBS also declined during the second quarter of 2018 relative to the same period in 2017.

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Our WSSC segment reported second quarter revenue of \$112.4 million compared with \$113.5 million in 2017. EBITDA was \$22.4 million compared with \$31.3 million generated in 2017. While revenue held steady, the decrease in EBITDA is primarily due to higher costs for alumina and sulphuric acid, which are the main raw materials for alum. Results were also affected by unfavourable customer mix. Finally, we generated lower earnings for KCI due to temporary production issues related to the work we are doing to increase capacity. Those issues have now been largely resolved.

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Our Electrochemicals (or EC) segment reported revenue of \$164.4 million and EBITDA of \$40.9 million, both of which were close to last year despite the significant maintenance turnaround in the quarter, which we estimate affected results by about \$14 million. Compared to last year, strong demand and higher prices for caustic and HCl offset the significant costs incurred to implement the permanent fix at our North Vancouver plant.

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Maintenance capital expenditures in the second quarter were \$19.1 million. We expect maintenance capex in 2018 to be between \$80 million and \$100 million.

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Excluding unrealized foreign exchange gains and losses, corporate costs during the second quarter of 2018 were \$83.5 million, compared with \$11.8 million in the second quarter of 2017. The primary reason for the increase was the \$65 million reserve for the anti-trust law suits. We also incurred a realized foreign exchange loss of \$3.8 million.

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Our balance sheet remains sound, with our bank covenants well below required levels and we maintain ample liquidity. We have roughly US\$293.1 million room on our US\$525 million revolving facility. During the second quarter we made further improvements to our balance sheet by redeeming the Senior Notes originally issued by Canexus. We also redeemed a long-term project finance loan related to our Fort McMurray facility. The costs are reflected in this quarter's results, but we will benefit from lower interest costs going forward and from a simplified capital structure.

I'll now hand the call back to Mark.

## Mark Davis

Thank you, Rohit.

As I noted in my opening remarks, we made great progress on fixing the non-market related issues we faced late last year and in the first quarter this year. We said we expected the second half of 2018 to be stronger than the first as we got all the fixes completed, and our view has not changed.

Looking forward, we continue to see strength in most of our products, including caustic which I will discuss further in a minute.

Speaking generally about several of our major products, all our sulphuric acid products are seeing firm demand and upward movement in pricing. U.S. refineries continue to operate at high rates, driving demand for our regen services. Ultra pure acid continues to be in short supply and prices are increasing, too. Finally, merchant acid supply/demand characteristics are also strong, and we are moving up pricing as contracts allow. This was evident in the second quarter's results, as SPPC's revenue during the second quarter of 2018 was similar to the second quarter of 2017, even though merchant acid sales volume was 14% lower than the second quarter of 2017.

Alum pricing is also moving up, although the contracts are generally annual and do not instantaneously re-price. As we noted before, margins have contracted due to the increase in the key raw materials, sulphuric acid and an aluminum source- either hydrate or bauxite. One of the reasons pricing for these raw materials is increasing is the tariffs and sanctions the U.S. has imposed on aluminum producers. We will recover these costs as contracts renew. We also believe we will have a cost advantage over our competitors as many of our plants can run with either bauxite or hydrate, while many of our competitors do not have this flexibility

The sodium chlorate industry continues to run at very high utilization rates and pricing remains firm. Similarly, hydrochloric acid, or HCL demand remains strong and the industry is currently seeking price increases in the U.S. as fracking demand is stable.

Finally, given the recent volatility in Asian markets for caustic soda, we think it's worthwhile to explain how prices are established in our market. As we have said in the past, the most relevant index in our market is the NE Asia spot index. However, in most cases, our prices don't automatically adjust when the index moves. Rather, most of our caustic contracts are negotiated. So, for example, most Q3 pricing was settled during the month of June. While buyers refer to NE Asia index, and over a period of time our pricing will change in accordance with index changes, monthly fluctuations don't necessarily translate into changes in pricing. For example, earlier this year, we didn't capture the high points in the NE Asia index. Buyers do have a preference to obtain local supply so while we will track along with the index, as a general statement, our prices do not hit the absolute peaks and valleys of the index.

There are a number of dislocations in the current chlor alkali market that is affecting NE Asia spot pricing that we believe are temporary. Despite the recent drop in the IHS NE Asia index, pricing of chlor alkali in the U.S. west coast remains stable. There are distinct reasons for the recent fall in the index related to specific supply / demand isolated incidents, but very few Chinese suppliers are offering product at the numbers indicated in the most recent Index. We believe, and the industry reports suggest, that the numbers reported in

the index have bottomed out and are now starting to firm. More importantly for us is the continued longer-term view. The key to us is that the long-term thesis supporting high caustic prices remains. Simply put, growing demand and limited supply will cause prices to recover and stay high for a number of years. IHS, a leading industry publication, still maintains its view, and we agree, that caustic pricing should be robust through their forecast horizon of 2022. They do state that given high industry utilization rates, we can expect short-term volatility from isolated incidents, but the trend is for higher pricing. We believe that we are currently experiencing this short-term volatility, but it will pass.

We continue to expect that business results for the second half of 2018 will be significantly better than the first half, and 2019 will be better than 2018. Finally, we expect that 2019 will be stronger than 2018. Business operations issues are largely behind us; fundamentals for our core products are favourable, and we look forward to executing on our plans.

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

### **Operator**

At this time, I would like to remind everyone in order to ask a question, please press \*, followed by the number 1 on your telephone keypad.

Your first question comes from the line of Jacob Bout with CIBC. Your line is open.

**Jacob Bout** — CIBC World Markets

Good morning.

**Mark Davis** — President and Chief Executive Officer, Chemtrade Logistics Income Fund

Good morning.

**Rohit Bhardwaj** — Chief Financial Officer, Chemtrade Logistics Income Fund

Morning.

**Jacob Bout**

Maybe just can you provide us a bit more detail on how you came up with that \$65 million reserve number? Does that assume a settlement similar to the 30 million to 35 million that you were talking about previously?

**Mark Davis**

It's our best estimation of potential legal plus settlement costs, right? So the other party's settlement had some basis in the estimation and legal costs had some estimate in the estimation. And the other thing that, I guess, we'd like to add is that under the IFRS rules, we're actually not allowed to offset our expected recovery under the indemnity.

**Rohit Bhardwaj**

And the reason for that is, as we've said, there is a dispute around the indemnity. And under IFRS, you have to be virtually certain of recovery to be able to book the recovery. So this accrual does not have any benefit of any indemnity that we could recover on.

**Jacob Bout**

So you think there's ... do you think there is a good chance of a recovery then?

**Mark Davis**

Well, yes, we do. But as we've said in our disclosure, the vendor who provided it is disputing it, and it'll wind its way through probably litigation or maybe arbitration.

**Jacob Bout**

And how long do you think this whole process is going to take?

**Mark Davis**

Well, if it's litigated the whole process can take years. If actually, there's a reasonable settlement, it could be even within a year.

**Jacob Bout**

And at this point it looks like there's going to be some litigation?

**Rohit Bhardwaj**

Not necessarily. If you look at the way we set up the reserve, it's sitting as a current liability. We suggest that we think we can have it settled in 12 months.

**Jacob Bout**

Okay. Just moving to North Vancouver, talk a bit about how that is operating? And the nameplate capacity, has there been any improvement there? Are you still around that 210,000 tonnes of chlorine?

**Mark Davis**

Yeah. Look, it's operating really well, and the nameplate capacity hasn't changed.

**Jacob Bout**

Okay. And then the conversion of the chlorine to hydrochloric, where are you at with that right now?

**Rohit Bhardwaj**

So, we have been increasing that. We were at about 40 percent. We think for the remainder of the year we can be higher than that and creeping up around 50 percent, or even maybe a tad higher.

**Jacob Bout**

Okay. Last question here; on the SPPC side you've talked historically about the balance, about reduced supply, and then higher acid prices. How should we be thinking about this segment on a go-forward basis? Is this a 100 million EBITDA business? Or can we get back to kind of somewhere close to 150 million EBITDA?

**Rohit Bhardwaj**

The 150 million is unlikely because that included our Montreal East facility that we sold to Suncor way back, so I would say that's unrealistic. But we should be able to get beyond the 100 million.

**Jacob Bout**

Okay. Thank you.

**Operator**

Your next question comes from the line of Joel Jackson with BMO Capital Markets. Your line is open.

**Joel Jackson** — BMO Capital Markets

Hi. Good morning.

**Mark Davis**

Hi, Joel.

**Rohit Bhardwaj**

Good morning.

**Joel Jackson**

Maybe for the first question on caustic, can you talk about what Q3 contract pricing looked like? Were you able to take your 20 caustic price customers up on average pricing or flat for Q3? And then have customers come to you now and started negotiations for Q4? Or are we waiting until September for the next IHS update?

**Rohit Bhardwaj**

So for Q3 our pricing, as Mark said, contracts were settled in June, and the key driver there was the May month-end price, which for IHS was about \$565 or so.

As far as Q4 goes, most likely that'll be done in September once the August month-end price is known.

**Joel Jackson**

And sorry, on the Q3 was that better than Q2 realizations?

**Rohit Bhardwaj**

It was slightly better than Q2, yeah.

**Joel Jackson**

Slightly better? Okay.

**Rohit Bhardwaj**

Yeah.

**Joel Jackson**

Okay. And if we switch to SPPC, Mark, what's driving acid? And I've also seen, I mean, sulphur looks like it's also tight in the continent, despite Mosaic taking Plant City offline. But maybe some of the drivers that's really driving sulphur and acid, that part of the complex maybe?

**Mark Davis**

Yeah. Well, the—again, you have to take acid in really three flights, right? One is our regen business, which is as we've discussed, the refineries are running really high utilization rates. Secondly is our ultra-pure business where we've been saying for the last number of quarters that the demand actually outstrips North American supply. So, there's been pricing movements there. And then third is the merchant asset game where, as we indicated again a couple of quarters ago, Vale substantially reduced supply. The US and Canadian industrial economies are actually firing on all cylinders, so the relatively small reduction of supply, combined with robust industrial demand, is having the expected effect on pricing.

**Joel Jackson**

I had another question on the reserve. If you go through the mountains of filings and documents, it looks like Gen Chem had some sort of conditional amnesty; then some of their employees were indicted and charged and things like that. But can you elaborate on that? I mean, is there some question about even what Gen Chem—GC's responsibilities are? Then you have your own disputes about how much your indemnity is. Like it there seems like a lot going on there.

**Mark Davis**

Look, I won't go into too much of it because it's all subject to litigation, but I mean as a general statement, if a wrongdoer, which in this case General was one of them, goes to the



Department of Justice and actually discloses its own wrongdoing, it actually receives amnesty from criminal prosecution. And for most customers it actually is not subject to treble damages because they've also made this voluntary disclosure.

That does not give you amnesty from civil litigation. So, all the reserve and the issues we're dealing with are related to civil litigation matters, but there is no criminal risk.

**Joel Jackson**

Thank you.

**Mark Davis**

Thank you

**Rohit Bhardwaj**

Thanks.

**Operator**

Your next question comes from the line of David Newman with Desjardins Capital Markets. Your line is open.

**David Newman** — Desjardins Capital Markets

Not to overplay it, but the 65 million, there's also a clause in there that sort of states you could be precluded from doing business. Is this just sort of a boilerplate clause that you put in your AIF to reflect that? Or is there a chance that your dealings with municipalities could be affected at all?

**Mark Davis**

Look, this has been public for years, right?

**David Newman**

Yeah.

**Mark Davis**

And we have not lost any municipal business because of historical actions. It's a theoretic risk but it actual hasn't happened in the four years we've owned the business.

**Rohit Bhardwaj**

And the unfortunate, I guess, —when I look at it, the issue that the two key participants in the industry, the two biggest guys, us and GEO both are defendants, so it'll be hard for anyone to get alum if—

**David Newman**

Right.

**Rohit Bhardwaj**

—people are (unintelligible) or not.

**Mark Davis**

But again, just to let—a municipality or two have actually asked us about it—

**Rohit Bhardwaj**

Yeah.

**Mark Davis**

—and again, the actions predate us, and we haven't actually lost any business, right?

**David Newman**

Okay. And then on your guidance for—well, you don't have guidance—but 2018 as you look at it for the second half being stronger than the first half, does that anticipate any erosion, I guess, in the caustic markets that we reflected through at the end August through to, I guess, it would hit up in 4Q? Or I guess 1Q?

**Mark Davis**

Even if the index doesn't rebound, which again, as we expect it will, second half will be stronger than first.

**David Newman**

Okay. Okay. Got it. Okay. And would that cascade into early '19 as well? And I agree with you on the long-term fundamentals, but it's just the machinations of what's going on in the index right now.

**Mark Davis**

I don't think anyone forecasted what's happening in the index now, so I have a hard time projecting what's going to happen.

**David Newman**

Yeah, yeah.

**Mark Davis**

But, I mean, what is heartening actually, is the index has already started moving up from the reported trough. And as some people on the call will know, the amount of business that's conducted on the spot market—

**David Newman**

Is small.

**Mark Davis**

—is very small, right?

**David Newman**

Right.

**David Newman**

So—

**Rohit Bhardwaj**

And the other factors to consider are that hydrochloric acid prices have been very robust and continue ... the drilling activity continues to be very strong. And then if you look at our own individual kind of results, if you recall Q1 2018 is when we had that unexpected—so we had the rail issues in Q2; this quarter we had the big fix.

So, 2019, we are comfortable saying 2019 is going to be better than 2018, if for no other reasons than those, but of course we expect more than that.

**David Newman**

Okay. And then if you look at the industry on sulphur, the regen, there's a wall of, I guess, turnarounds that are going to happen in the fall, I guess, on the refineries. How does that play into demand for the regen acid? Can they pre-buy? Like how does it work?

**Mark Davis**

Well, third quarter is—second quarter and third quarters are the big quarters for our regen business, right?

**David Newman**

Yeah.

**Mark Davis**

And as a general statement, the turnarounds that the refineries have do not have a disproportionate effect on our earnings. Every so often, like was it two years ago—

**Rohit Bhardwaj**

Yeah.

**Mark Davis**

—is there was a big turn—once every five-year refinery turnaround that affected essentially one of our dedicated plants, but we don't see that this year. Just normal turnaround schedule, so normal seasonality.

**David Newman**

Okay. Very good. Thanks, guys.

**Mark Davis**

Thanks.

**Operator**

Your next question comes from the line of Steven Hansen with Raymond James. Your line is open.

**Steven Hansen — Raymond James**

Yeah. Hey, guys. Sorry, I just wanted to go back to ACH plant and the alum plant where you had some operating issues in the past, and just get some clarification on exactly where you're at in that and what we should expect for the balance of the year. It was an issue that we were fixing for a couple of quarters now. It sounds like that's less of an issue going forward, but I just wanted to get some clarification.

**Mark Davis**

Yeah. No, look, that's less of an issue going forward. Quite frankly, what's more of an issue, as we said in our remarks, is the escalating raw material costs, right? So, we expect to still experience some pain in our water business in third and fourth quarters as raw material cost increase. And as I said, you can't renegotiate all of these contracts at once. If you take a longer-term view of it, as we always do, when pricing for those raw materials stabilizes or tails down, the money we lose on the up we actually regain on the down.

**Steven Hansen**

Understood.

**Mark Davis**

But that's bigger issues than—the raw materials is a bigger issue than operations.

**Steven Hansen**

Okay. That's helpful. And on the acid turnaround side, is there some still to be completed through the balance of the year? I know you said the predominance of them was in the first half, but just trying to get a sense for the cadence in the back half?

**Rohit Bhardwaj**

Yeah. There are a few turnarounds in Q3 and Q4, but that activity is going to be very similar to last year's activity. So, there'll likely be no major ones left, and they should be very similar to last year's back half.

**Mark Davis**

The big delta as we try to say through our call—

**Rohit Bhardwaj**

Within first half.

**Mark Davis**

— is that in the second quarter of '17, I don't think there was any turnaround.

**Rohit Bhardwaj**

Yeah. The first half last year was actually light, whereas second half of '18 is very similar to second half of '17, and there's nothing really major.

**Steven Hansen**

Obviously so back to a more normalized rate then?

**Mark Davis**

Correct.

**Steven Hansen**

Okay. That's helpful. And then just the last one for me, I'm just thinking about that HCl conversion that you mentioned earlier and you wanted to push that a little bit harder. Is the 50 percent, is that sort of the threshold that you would look to max out at for North Van? Or is there an opportunity set to add some capital there and push that beyond that level?

**Rohit Bhardwaj**

No, we don't have to—I mean, we can get to about 60 percent without adding capital. You'll have to make sure you've got railcars and all the other things. And then, as we've said in the past, we like to preserve a chlorine outlet, so I don't think we want to go all the way there in today's market because HCl is something that is more cyclical than chlorine demand, so we would not like to vacate the chlorine market probably much more than 50,

55 percent conversion. But directly we could go to 60 percent right now without adding any capital.

**Mark Davis**

Yes. So, I think that historically we've been about 40 percent—

**Rohit Bhardwaj**

Yeah.

**Mark Davis**

—right, of conversion. And with the capital on the ground we can go to 60 is we're going to continue to push it higher, but don't expect we get to 60, but we should be higher next year than we are this year.

**Steven Hansen**

Understood. Very helpful. Thanks, guys.

**Mark Davis**

Thanks.

**Operator**

Again, to ask a question please press \*, followed by the number 1 on your telephone keypad.

Your next question comes from the line of Nelson Ng with RBC Capital Markets. Your line is open.

**Nelson Ng** — RBC Capital Markets

Great. Thanks. Just a quick clarification on the higher raw material costs hitting WSSC. So, is that more of an indirect impact from the tariffs in terms of just generally lower production causing higher costs? Or I assume you're buying all your materials locally, right?

**Mark Davis**

Two things. One is sulfuric acid is a big cost, and as I said, that's going up, which is a bigger benefit to us in aggregate than it is a hurt, right? And the second is, our bauxite and hydrate are not—

**Rohit Bhardwaj**

Local.

**Mark Davis**

—North America local, right.

**Rohit Bhardwaj**

Yeah.

**Mark Davis**

They're imported. And we did say it's possibly one of the reasons that that pricing is moving up. It feels to us that the aluminum tariffs are having an overall effect on the industry. And one of the results is that the cost of hydrate, in particular, but bauxite as well, actually, is increasing.

**Nelson Ng**

Okay. Got it. And then just one last question. Can you just comment about the level of rail service? Has it fully recovered? Or come back to normal?

**Mark Davis**

Look—

**Nelson Ng**

Because I think in the last quarter you mentioned that it could take a while?

**Mark Davis**

So, the level of rail service has been just fine. I will say that it's been summer, right? And the biggest issues last year obviously came when winter came, and then it takes a while to work out of that.

So, I will say that certainly in the second quarter and our look at the third quarter is we don't foresee any rail issues affecting our earnings. Hopefully the rails are in better shape for when it starts to snow.

**Nelson Ng**

Okay. Thanks, Mark.

**Mark Davis**

Thanks.

**Operator**

Your next question comes from the line of Endri Leno with National Bank. Your line is open.

**Endri Leno** — National Bank

Hi. Good morning. Most of my questions have been answered, but just a couple for me. The financial impact on the SPPC for 8 million and the EC for 14 million, just to clarify, is that on a revenue or EBITDA basis?

**Rohit Bhardwaj**

That's EBITDA and that excludes any CapEx. We would not—that's not an issue. This is all operating costs.

**Endri Leno**

Great. Thanks. And—

**Rohit Bhardwaj**

To clarify that, there's the EBITDA impact of lost value of production as well. But it's not revenue, but the EBITDA impact of lost production.

**Endri Leno**

Okay. Great. Thanks. And for the WSSC, as you negotiate contracts with the higher prices or you pass them on, are there any large or meaningful contracts coming up in Q4 or even early in 2019? When can we expect to see that?

**Mark Davis**

So, the basis of that business is about 60 percent of it is municipal contracts that are generally municipal bids, and they come up all through the year. So, we will be actually picking away at increasing pricing with every bid that comes due, but there is a lag.

**Rohit Bhardwaj**

And we got, as we've said, we've got 35, 36 plants and there is no customer concentration there, so it's a lot of small customers that we increased pricing at.

**Endri Leno**

Great. Thanks. That's it for me.

**Mark Davis**

Thank you.

**Operator**

Your next question comes from the line of Steven Hansen with Raymond James. Your line is open.

**Steven Hansen**



Yeah. Sorry, guys, I hate to go back to this reserve issue, but I just wanted to clarify to make sure I understand it. So, the reserve that's been taken excludes the potential indemnity that you might have, which is debated, so that's a 65 versus a 60 number, as I understand it, but the 60 could be in question. Can you share with us the potential magnitude dispute of the 60? I'm trying to understand the net exposure here if—

**Mark Davis**

Yeah. Look, the indemnity dispute is .... if you look at the purchase agreement there's a potential stepdown in the quantum of the indemnity after a certain period of time if certain things haven't happened. So, we're disputing—we don't believe the stepdown applies; the vendor believes it does. The quantum in dispute is US\$23 million.

**Steven Hansen**

Understood. Okay. That's very helpful. Thank you.

**Rohit Bhardwaj**

Just to clarify because a lot of the indemnity, as Mark said, we have to date been using that to offset legal costs since the acquisition. So, a fair amount of that indemnity has been already used up, so what's being disputed, as Mark said, is the US\$22 million.

**Steven Hansen**

I understand. So, a piece of that's already been taken. Okay. So, can you tell us how much has been eaten away so far on the legal cost side?

**Mark Davis**

We'd rather not go into that.

**Steven Hansen**

Okay. I understand.

**Mark Davis**

Thanks.

**Steven Hansen**

That's helpful. Thanks, guys.

**Mark Davis**

Thank you.

**Operator**

Your next question comes from the line of Joel Jackson with BMO Capital Markets. Your line is open.

**Joel Jackson**

Hi. Just looking at second half year earnings in SPPC and WSSC, can you give an idea which of the two segments probably would see the better uptick in second half year earnings? Like sort of year-over-year growth?

**Rohit Bhardwaj**

Yeah. So SPPC is where we expect to see the more uptick, as Mark said. WSSC, we are facing the squeeze on the raw materials. It will depend a bit on how raw materials costs progress through the back half of the year.

But that will put a bit of—it may put a bit of a damper on the uptick.

**Mark Davis**

And look, just big picture, if you think about what we've said, we actually said that the market dynamics for actually all of SPPC—all of the acid products are good and the bulk of the turnarounds are behind us, right? So SPPC—

**Joel Jackson**

Does that—

**Mark Davis**

—stronger.

**Joel Jackson**

Does that sort of imply that WSSC will be flattish in the second half of the year, which is sort of flattish year over year as well?

**Rohit Bhardwaj**

Not necessarily. I think we still expect improvements in WSSC, but you asked relative to SPPC, and relative to SPPC—

**Mark Davis**

Yeah.

**Rohit Bhardwaj**

—it won't be as robust.

**Joel Jackson**

Okay. Thank you very much.

**Mark Davis**

Thanks.

**Operator**

There are no further questions in queue at this time. I turn the conference back over to our presenters.

**Mark Davis**

We thank you, all, for your attention this quarter. And we'll look forward to speaking with you next quarter.

Thanks very much.

**Operator**

This concludes today's conference call. You may now disconnect.