

CHEMTRADE LOGISTICS INCOME FUND
Q1 2019 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.

On today's call, in addition to discussing the first quarter performance, we will provide financial guidance for 2019. Based on discussions with investors, and recognizing the additional complexity due to our significant growth over the past several years, we believe that analysts and investors will find the improved transparency into our business useful.

The business results for the first quarter of 2019 show that many of the expected improvements we talked about on our last call are starting to take effect.

We had strong operating results in Sulphur Products and Performance Chemicals (SPPC). As you heard on previous calls, there were significant structural changes in the merchant acid market last year because of process changes at our largest merchant acid supplier that substantially reduced the volume we received from them.

We did a lot of work last year adjusting our customer base and cost structure to account for this. In the first quarter, we also benefitted from higher selling prices for merchant acid that more than offset lower volumes and higher freight costs.

Within our Water Solutions and Specialty Chemicals (WSSC) segment our water business is starting to show the improvement we anticipated.

We are selling more volume of our polyaluminum chloride, or PACl and aluminum chlorohydrate, or ACH products and margins on aluminum sulphate or alum products improved as the positive effect of increased selling prices obtained in contract renewals is catching up with higher raw material costs.

As we have noted before, because contracts typically are annual, there's sometimes a lag until we can recover higher input costs.

On an aggregate segment basis, the improvement in water was partially offset by lower sales volume of potassium chloride, or KCl. We had indicated an expectation of reduced purchases by a key customer until they rationized their inventory levels. As we had mentioned on our last

earnings call, we now believe that the customer will continue to buy at reduced rates through 2019.

We continue to pursue additional markets, but it's a longer sales cycle due to the need to qualify our product. Other than this one customer, in general terms, pricing remains firm and overall demand for our KCl product is strong.

Finally, our Electrochemicals or EC segment, as anticipated, was affected by lower prices for caustic soda and reduced hydrochloric acid demand. As forecast on our last call, the revenue impact in the first quarter compared to Q1 last year was about \$11 million.

Both industry publications and we remain very positive about the mid- and long-term prospects for these products despite the near-term weakness.

So, in general our businesses started the year well – there were marked improvements in SPPC and Water and we have expectations that EC will improve as the year unfolds.

Now, some additional comments on our first quarter results.

As noted in the financial statements and our news release, reported EBITDA is affected by two non-operational matters. First, we increased the litigation reserve that was established in 2018 by approximately C\$40 million. This relates to the anti-trust matter inherited with the General Chemical acquisition. We have now settled the two class action suits related to this matter. The largest class action suit was settled during 2018 and the other class action suit more recently. There were a number of related lawsuits, including some by plaintiffs that had opted out of the main class action.

By and large, these are now settled, with only certain derivative actions outstanding; however, the costs to do so have been larger than anticipated.

Accordingly, we increased the reserve to cover the now settled claims as well as legal expenses and the expected costs of the few derivative actions which remain.

The only good news is that the majority of the cases have now been settled.

The other matter is the adoption of IFRS 16 on January 1, 2019. This is related to the accounting treatment of leases. For Chemtrade, this is reflected as an increase in EBITDA. EBITDA for 2018 is not required to be restated, so our remarks will note the positive impact on this year's EBITDA. The change in lease accounting treatment does not affect Distributable Cash.

Our first quarter operating EBITDA was \$84.0 million, excluding the reserve but including the \$14.6 million benefit from IFRS 16. This compares with \$72.0 million in the first quarter last year or essentially the same EBITDA if the lease benefit is excluded. The year over year result was driven by a material improvement in our SPPC segment offsetting the first quarter weakness in our EC segment. We expect that SPPC will continue to perform well and EC's results should improve as the year progresses.

Rohit will now provide you with some additional details on the first quarter results before I provide some further information on our path forward.

Rohit Bhardwaj

Thank you, Mark and good morning everyone.

As Mark indicated, our operating results for the first quarter of 2019 showed improvement over the last quarter of 2018, although, as expected, some of the issues that emerged late in the fourth quarter continued to have an impact on first quarter results.

The application of IFRS 16 at January 1, 2019 means that Chemtrade now recognizes depreciation and interest expense, instead of operating lease expense, for leases that were previously classified as operating leases. This results in an increase in EBITDA, but it does not affect distributable cash. Also, comparative information is not restated.

The increase in the reserve for legal proceedings of \$40 million impacts both EBITDA and Distributable Cash. I will exclude the litigation reserve in my comments this morning to better compare the actual operating performance of our businesses.

Revenue from operations for the first quarter of 2019 was \$385.3 million, an increase of \$3.8 million from 2018. This increase was primarily due to higher selling prices for sulphuric acid in the SPPC segment, and higher selling prices and sales volumes for certain water chemical products in the WSSC segment, partially offset by lower prices and lower volumes for caustic soda in the EC segment.

For the three months ended March 31, 2019, Distributable cash after maintenance capital expenditures was \$42.5 million, or 46-cents per unit compared with \$44.2 million or 48-cents per unit in 2018.

Aggregate EBITDA from operations for the first quarter of 2019 was \$84.0 million compared with \$72.0 million in the first quarter of 2018. The increase in EBITDA is mainly attributable to the adoption of IFRS 16, which amounted to \$14.6 million, offset by lower EBITDA in the EC and Corporate segments.

Turning to segmented results for the quarter, SPPC generated revenue of \$131.1 million compared to \$122.6 million in 2018. EBITDA for the quarter was \$37.5 million, which was \$16.3 million higher than 2018, including the positive impact of IFRS 16 of \$5.2 million. Even without the IFRS impact, EBITDA for this segment increased over Q1 last year by over \$10 million. The main reason for the year-over-year increases was higher selling prices for sulphuric acid, which more than offset the effect of lower sales volumes and higher freight costs.

Our WSSC segment reported first quarter revenue of \$105.4 million compared with \$98.9 million in 2018. EBITDA was \$18.1 million, including the positive IFRS 16 impact of \$1.5 million, compared with \$18.8 million generated in 2018.

As Mark said, selling prices for water products are finally offsetting higher raw material and freight costs. Also, sales volumes for PACI and ACH are higher. The positive impact of improved performance of water products was more than offset by lower results for specialty chemicals.

For the EC segment, I will first explain changes in revenue and then changes in EBITDA. We reported revenue of \$148.8 million for the first quarter of 2019, which was \$11.2 million lower than the same period of 2018.

This was primarily due to a 21% decrease in selling prices for caustic soda which was partially offset by higher selling prices for chlorine and HCl of 35% and 13%, respectively.

Although chlor-alkali production levels during the first quarter of 2019 were similar to the first quarter of 2018, sales volumes during the first quarter of 2019 were lower than 2018. During the first quarter of 2018, we purchased a larger quantity of caustic soda in order to meet our supply obligations.

From an EBITDA perspective, despite the \$7.5 million benefit from IFRS 16, EBITDA for the first quarter of 2019 was \$1.1 million lower than the same period of 2018. This was primarily due to lower caustic soda pricing. However, results were also negatively affected by reduced demand for HCl in 2019. During the first quarter of 2019, approximately 37% of the chlorine molecule was upgraded to HCl compared with approximately 41% during the first quarter of 2018.

Maintenance capital expenditures in the first quarter were \$9.0 million. We expect maintenance capex in 2019 to range between \$80 million and \$90 million.

Excluding unrealized foreign exchange gains and the litigation reserve, corporate costs during the first quarter of 2019 were \$19.7 million, including a positive IFRS 16 impact of \$0.4 million, compared with \$17.4 million in the first quarter of 2018. The first quarter of 2019 includes foreign exchange losses of \$1.1 million compared to a gain of \$1.6 million in 2018.

We maintain ample liquidity and our bank covenants remain well below required levels. We have roughly US\$193.2 million room on our US\$525 million revolving facility.

During the first quarter we completed the redemption of Series V of the Electrochem debentures.

I'll now hand the call back to Mark.

Mark Davis

Thank you, Rohit.

As we noted in our earnings announcement yesterday, we believe the increased complexity of our business has made it more difficult for our stakeholders to understand the key drivers, risks and opportunities inherent in the business.

We will, therefore, provide guidance so that all stakeholders have a better understanding of the key factors that could affect our results.

Chemtrade's 2019 EBITDA guidance excludes the litigation reserve but includes the effect of the adoption of IFRS 16 on Leases. Chemtrade expects its 2019 EBITDA to range between \$335 million and \$375 million, which includes a lease benefit of between \$55 and \$60 million. IFRS 16 will not have an impact on Distributable Cash after Maintenance Capital Expenditures. We also expect:

1. Maintenance Capital Expenditures to range between \$80 million and \$90 million.
2. Cash Interest (excluding the impact of IFRS 16) to range between \$70 million and \$75 million.
3. Cash Taxes to range between \$5 million and \$10 million

There is additional information underlying our assumptions in our MD and A.

Focussing on our businesses, many of the initiatives we are pursuing are starting to show their benefits. The improvements in SPPC are obvious and our water products results have also improved. Although our EC segment did not start this year as strongly as last year, the macro economic dynamics remain positive. We expect EC results to improve in the latter half of this year and be even stronger for several years to come.

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

Operator

Joel Jackson with BMO Capital Markets, your line is open.

Bria Murphy — BMO Capital Markets

Hi. This is Bria Murphy on for Joel Jackson.

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

Hi.

Bria Murphy

So it seems that the WSSC business is now able to pass through higher raw material costs. How many basis points of margin expansion can the business gain across 2019, do you think?

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

Are you talking of the WSSC segment? Or the SPPC segment?

Bria Murphy

The WSSC business.

Mark Davis

So I think what you asked was how successful are we passing through the costs in the Water business?

Bria Murphy

Yeah. I guess, yeah. And how much of it do you expect to be able to pass through as the year goes on?

Mark Davis

Look. As we've said before, we expect to recover all of the raw material cost increases as contracts renew. And to date, we've been successful in actually doing that, and that's why we were able to talk about our margins in that business expanding in the first quarter. There's more to come because contracts don't all renew in one quarter, but our success in passing them through has been pretty good.

Rohit Bhardwaj

And I think the other factor there is that some of the raw materials in that business are actually starting to plateau off in their increases, so we hope to have margin expansion because we still have contracts coming up that we can raise pricing at. That answer your question?

Operator

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

Jacob Bout — CIBC World Markets

Good morning.

Rohit Bhardwaj

Morning.

Mark Davis

Morning, Jacob.

Jacob Bout

The Litigation Reserve, what's outstanding right now? Is everything pretty much covered off? And is there any recourse on this Litigation Reserve?

Mark Davis

Yeah. So we'll go backwards— no, there is no recourse against the vendor. And again, what's outstanding is, there are this class of cases called qui tam cases, which are essentially cases that, even though a state or government entity didn't do anything, an individual could step into the shoes of the state and actually bring a case that the state wasn't interested enough in pursuing. So that's what's left. There's not very many of those but again, since we're in the middle of litigation, I'd rather not comment any further.

Jacob Bout

Timeline on that? Like is that something that could roll out over the next couple of years? Or do you hope to have that wrapped up in the next quarter or two?

Mark Davis

Look, —we hope it doesn't last that long. One of them has actually already been dismissed, and there's not very many of these. So we expect them to wind up.

Jacob Bout

Okay. And maybe just turning now to the SPPC. Been a long time since we've seen kind of 30 million-plus. It depends on if you adjust for IFRS 16 or not. But how sustainable is that?

Rohit Bhardwaj

We are very confident with SPPC, and we've been saying this for a few quarters now, that we've been taking these actions to rightsize the business. With the tightness in the market, with the reduced volume, prices are going up. So all those things are coming, and there's good momentum in 2019, and we see that momentum continuing on for the year.

Jacob Bout

Okay. And then you gave us some guidance on chlorate volumes. How are you looking at pricing over the next year?

Mark Davis

We think pricing is stable. I think we talked earlier, I guess, or at the end of last year— that the price increases that we obtained more than offset the increase in electrical costs. It's still relatively early in the year, but we certainly expect to actually at least have consistent margins, but obviously, we're going to try and grow them.

Jacob Bout

Right. Last question here just on debt covenants. Can you just remind us what it is? And then what the relevant calculation would be?

Rohit Bhardwaj

So the key covenant is a debt to EBITDA, and for this purpose, debt is senior bank debt. It does include the one series outstanding of Electrochem debentures. And EBITDA does not include—or adds back the Litigation Reserve, so it's not counted for EBITDA for bank purposes. The covenant is currently at 4 times, and we are currently at about 3.25.

Jacob Bout

Thank you.

Operator

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

David Newman — Desjardins Securities

First of all, guys, congratulations on a solid quarter, and thanks for providing the guidance. It is helpful.

Mark Davis

You're welcome.

David Newman

Just more holistically, and I think you're probably—I think I know the answer already. But I just want to get a sense of your debt and dividend policy overall. In other words, the debt levels where you are right now with the reserve, additional reserve and whatnot, are there any assets that you would consider to be not as core and that you might part with? Is there anything you can do on that front?

And I think you're adamantly sort of sticking by the dividend at this juncture and, certainly, you should see a lift in the stock today. But is there anything on the dividend policy at all that you would consider—I guess, taken together with the debt, do you think the debt could decline operationally, just from good results and that sort of thing?

Mark Davis

Yeah. So big general, holistic answers to a big general, holistic question.

David Newman

Excellent.

Mark Davis

First, as we've said a number of times, is that there was a time in the financial crisis when we were paying out \$1.20, and we were valued at 4.50 bucks, right, and that was a temporary dislocation in the markets. We actually believe that actually, after we show a couple of good quarters, our stock price should actually respond appropriately, and we won't be paying out as big of a yield percentage as we are now.

What we've said a number of times is that we have no liquidity problems, so we intend to keep paying out our distribution and don't see any problems with that. We do think, actually, that as earnings improve, we will actually de-lever on that basis.

And I guess, finally, is we're always out to maximize value from our business. If there are assets that someone actually is willing to pay a robust valuation on, and it's better in their hands than ours, we would consider it. But that's totally from a value perspective, not, in our view, a need to reduce leverage, because we think we have adequate liquidity as it is.

David Newman

And sort of to throw a little bit of a hook into it, if there's a recession of any sort—not to say there's one on the horizon—but have you guys conducted, sort of, the what-if analysis as to what the debt could be, and if your businesses didn't fare as well? I'm thinking of the more variable components of your business, like the EC. But have you run it at sort of a what-if scenario?

Mark Davis

Yeah. Look. We run a bunch of scenarios on different earnings levels. The difficulty is this—and I think you know this, and we've said it before—is if the biggest variable is our EC segment, which it probably is, the question actually is, how widespread is the recession? Because our main market for caustic in western Canada will always be, even in a recession, undersupplied.

So the question comes back to, what does the recession do in China? And frankly, we're just not smart enough to know, if there's a recession, if the chlorine side of the chlor-alkali molecule gets hurt more or less than the caustic side, and that's going to drive the price, right?

The only other, I guess, mitigation I'll put on that is, the quasi-natural hedge we also have is that, if there is a recession, usually the Canadian dollar goes lower, and we benefit from a lower Canadian dollar.

David Newman

Right.

Mark Davis

So again, big macro thing is, yeah, we've run a bunch of scenarios. We think we're fine on all the debt covenant issues and things like that. The wild card that we're just not smart enough to calculate, although we've done some sensitivities, is what happens when China goes into a recession? Which part of the—well, the chlor-alkali molecule is harmed more than the other, which will govern price for caustic in western Canada?

David Newman

Good answer, Mark. Thank you. And then just more granular, just on sulphur pricing, obviously doing well. What about on the volume side? I think you sort of indicated at some point that you might be up to like 400,000 or 450,000 tonnes. Is that still in the cards? And is that contemplated in your guidance for the year?

Rohit Bhardwaj

Yeah. So the volumes which have been declining quarter over quarter—we're still lower this quarter versus Q1 last year, but it's only by 3, 4 percent. If you remember last year, we were down 15, 16 percent so finally, we've bottomed out. We are starting to see a little bit more product from Vale, so we have got some of that in our outlook, baked in. But frankly,

getting tonnes on the margin don't make us that much profit. But we do have some baked in there, yes.

Mark Davis

I mean just for reference, right, is we sell 1.3 million tonnes—

Rohit Bhardwaj

Yeah.

Mark Davis

—give or take of merchant asset volume, and it's conceivable that Vale might give us another 50,000 so it's (very little), and it's a base of 1.3 million, right?

David Newman

And the upper and lower end of the range—last question, guys—the upper end and lower end of the range, what does the lower end of the range assume? I assume it assumes current conditions. What gets you to the upper end of the range, to the 375?

Rohit Bhardwaj

So, I mean, the key variable is chlor-alkali and caustic soda, so that would be the biggest variable. The rest, it can go up 3 million, \$4 million, but to get that kind of swing would definitely be on the hydrochloric and caustic soda side.

David Newman

I see.

Mark Davis

So, we want fracking activity to actually increase and, as we've noted, we want to watch the Northeast Asia spot pricing for caustic.

David Newman

Very good. Thanks, guys.

Mark Davis

Thanks.

Rohit Bhardwaj

Thank you.

Operator

Nelson Ng with RBC Capital Markets, your line is open.

Nelson Ng — RBC Capital Markets

Great. Thanks. Mark, just a quick follow-up on your comments regarding the caustic side and about a recession, and the fact that the western Canadian market is undersupplied. Given that pricing is based on Asian prices, are you guys looking to decouple your pricing mechanism from the Asian spot price to something else?

Mark Davis

You know, it's actually not our pricing mechanism. What happens is, there's a— there's one key distributor, primarily, who is— there's a couple of competitors. The big guy, actually, is a distributor who actually sources its product from Asia. So it's not that our contracts are tied to that index but in the market, when we actually go on a quarterly basis to price our product, the competitor can offer our customers product based on the index. So we'd be quite

happy to decouple and make that a more stable business, like a lot of our other businesses, but the market dynamics don't permit that.

Nelson Ng

I see. And you don't see any kind of changes in the near future in terms of those dynamics. Right?

Mark Davis

No. No, we don't.

Rohit Bhardwaj

Yeah. Because I mean, as Mark said, the market is undersupplied, and that's because product from China actually physically arrives here, so that's why that pricing is the way it is.

Nelson Ng

Okay. Got it. And then just moving on to the \$140 million legal reserve. How much of that has been paid in terms of cash out the door?

Rohit Bhardwaj

Yeah. Roughly half has been paid out.

Nelson Ng

Okay. And then the remaining should be paid this year or incurred this year. Right?

Rohit Bhardwaj

Yeah. I would say the vast majority would be paid. I mean, there'll be a bunch in the third quarter and most of it by the end of the year.

Mark Davis

Yeah. It might drag into 2020, but you should assume it's all done this year.

Nelson Ng

Okay. And then just one last question regarding the—you mentioned that there's still a few derivative actions remaining. So, these are—you mentioned that these are individuals, and there's just a few or a pretty few number of individuals who are still—where it's still ongoing. Is that correct?

Mark Davis

No. Again, these are actions by government entities where the governments themselves didn't pursue the actions, but an individual could take an action in the name of, for example, a state government, right? So in this case, actually, it's one particular person who actually has taken a couple of these actions in the name of the state government. As we've said, one of these has actually already been dismissed, and we're working on the others, but there are obviously costs associated with actually resolving those.

Nelson Ng

Okay. Got it. Thanks. That's all for me.

Mark Davis

Thanks.

Operator

Steve Hansen with Raymond James, your line is open.

Steve Hansen — Raymond James

Yeah. Hey, guys. Couple quick ones, if I may. Just curious, first of all, on the Water side. Just is there a way—can you perhaps quantify which percentage of the contracts have rolled thus far to recover some of these input costs? Or maybe inversely, what percentage is still left to reset?

Rohit Bhardwaj

So, I mean, we have contracts coming up. In the Water business, as you can imagine, there are numerous small contracts. And last year, what we were facing was rising raw material prices, so contracts were continually being rolled over. So it's really hard to give you a percentage, but it's not like they're significant—you can almost think of it as linearly flat over the year.

So we've caught up now with the raw materials increases back for, let's say by the end of last year, and for about half the contracts; half will catch up as the year goes on. But now, one of the positive aspects is that at least one of the raw materials, the aluminum source, was actually starting to stabilize and maybe even come down a bit, so that should actually give us margin expansion even on existing volume.

Steve Hansen

Understood. Okay. And so if we're looking at some of the delta, again, I'm trying to understand what factors were driving the improvements. And you also referred to the PAC and the alum prices getting a little bit better. Is there a way to think about, sort of, the contract resets, as opposed to just the raw pricing increases? I don't know if I can even distinguish the two. But I'm just trying to understand what drove the improvement, whether it was one factor or another.

Rohit Bhardwaj

Yeah. So it would be—so the PAC-ACH, again, we've talked about this now for a couple of years, where we had issues trying to get the plants to run at higher rates, and we're finally getting some success there. The demand was always there; it was more running our plants and getting capacity to go up. So actually, the improvements we saw in the Water business, probably half of it is alum, where it's merely a pricing game, and the other half would be PAC-ACH volumes being higher.

Steve Hansen

Okay. That's actually very helpful. And then just to follow up on, I think you recall—so last quarter, you gave us understanding that one of your customers on the KCl side was going to be buying less volume, and I think you're suggesting now, that same customer is going to buy less for the balance of the year as well. Is this a large magnitude delta versus what we talked about last period? Or is it just more of the same? I'm trying to understand.

Rohit Bhardwaj

No. I think we said last year that we expected the customer to buy at the lower rate through 2019. And this is a specialized product where you need to go through a qualification process. So while we are exploring other avenues for this product, it does take time to get qualified. So we thought, through 2019, we will see the negative effect of lower volume. And then, 2020, we hope this customer buys a bit more, and we hope some of the other prospects

that we have, get qualified. Because as a macro statement, there's very strong demand for this product.

Mark Davis

It's no different, Steve, than actually the advice we gave in the last call. We're just we're just repeating it. So it's no worse than what we said the on last call.

Steve Hansen

Okay. Thank you. I was just trying to clarify that. Appreciate it. And then, just on the last one, I don't want to beat this Litigation Reserve to death, but I'm just trying to understand. I think if I'm being fair on our side, you gave us the reserve, the \$100 million. And before, you thought it was well covered at that time, and now we're seeing an extra chunk. I mean, your degree of confidence today versus the last time you gave us the reserve, in terms of being fully covered, I'm just trying to—I know you get advice on all these things from these different parties and law firms but—

Mark Davis

So first, let me say, actually, that frankly, every time we've given you a reserve, actually, we've felt fully confident and have been, obviously, unpleasantly surprised. What I can say, I guess, actually, is we feel more confident now because there's less moving parts, right?

Steve Hansen

Right.

Mark Davis

As we've indicated, all of the direct actions, frankly, have actually been resolved, although one of them's still subject to court approval, right? So, I think our degree of certainty is higher now because there's less moving parts. But again, we felt confident, actually, on the other reserves too, but it was more complex matters. As we peel them away, actually, is our degree of certainty is better.

Steve Hansen

Yeah. Okay. That's fair. Thanks, guys. That's it for me. Thanks.

Operator

Benoit Laprade with Scotiabank, your line is open.

Benoit Laprade — Scotiabank

Thank you. Good morning, gentlemen. Any guidance you can provide on the growth CapEx side?

Rohit Bhardwaj

Yeah. There's not a lot of growth CapEx. So I would say at the higher end of our range of 80 to 90 would include the growth as well.

Benoit Laprade

Okay. And just going back to—well, I guess water treatment more specifically, but your legacy SPPC and WSSC—typically, usually, seasonality was stronger in Q2 and Q3. I assume this would be the case again this year? And I guess, related to that, you've seen some margin improvement on the WSSC side, but margins remain—EBITDA margins remain well below

where they have been in the past, even excluding the impact of IFRS 16. So I guess the question is, what would be your midterm targeted EBITDA levels in that segment?

Rohit Bhardwaj

So, one thing I should caution you in SPPC is that we had a really strong start in Q1, so I wouldn't count on too much improvement from those levels in Q2 and Q3 as is typical. I think we expect to continue strong, but not to the same extent as in prior years.

On WSSC, the issue is within that segment, you've got the water products that tend to be lower margin, then you've got the specialty chemicals that tend to be higher margin. So the Specialty is the one that has gone down volume-wise, and that's a significant detractor for margins. So I would say that what you're seeing in the decrease in margin is mainly driven by the mix between Spec and Water.

In terms of your overall question as to what's midterm target for WSSC, I'd say that, within our guidance—the midpoint of our guidance—we're assuming kind of a flat WSSC, last year to this year, recognizing that the hurt from Spec is higher in 2019, because 2018, we only started to experience that towards the end of the year. So Water's going to be up from last year, but it's going to be offset by Spec.

Benoit Laprade

Great. And if I—again, I don't want to overkill it—but if I heard you correctly, Mark, so we should expect the dividend to be declared unchanged a couple of weeks from now?

Mark Davis

Yes.

Rohit Bhardwaj

Yes.

Benoit Laprade

Thanks.

Operator

Again, if you'd like to ask a question, please press *, 1 on your telephone keypad.

Endri Leno with National Bank, your line is open.

Endri Leno — National Bank

Hi. Good morning. Just a couple of questions for me. First, do you expect any sort of interruption, extra costs or anything, from the termination of agreement with Canfor?

Mark Davis

What termination of agreement with Canfor?

Endri Leno

There was the—there was one—the one that expired in August of last year, you have it in your AIF.

Mark Davis

We've renewed that.

Rohit Bhardwaj

Yeah. That was renewed, yeah, this year.

Endri Leno

Okay. It's been renewed. Okay. Great. Thanks. And the other question I had is there was some news, or the semiconductor sales were down, actually, in Q1 of 2019. Have you seen any ultrapure price changes for acid? Or do you expect any changes going forward?

Mark Davis

Well, as we've been saying for a while, in North America, ultrapure sulphuric acid is actually in an oversold position. And again, everything we can make, we're selling, and prices have been increasing for that product. They increased last year, and they're increasing again this year.

Endri Leno

Okay. Thanks. That's it for me.

Mark Davis

Thanks.

Rohit Bhardwaj

Thank you.

Operator

Anoop Prihar with GMP Securities, your line is open.

Anoop Prihar — GMP Securities

Good morning. Just one question, Rohit, on the interest coverage ratio. Can you just take us through that? Is there any twist to that calculation? And where's the limit currently sit?

Rohit Bhardwaj

So the limit is 3 times. And the only twist would be we'd back out the IFRS 16 finance cost that goes through to the costs in the new year. And we're sitting at above 4 right now, so there's a lot of room in that covenant as well.

Anoop Prihar

Thank you.

Operator

There are no further questions at this time. I would now like to turn the call back over to the presenters for final remarks.

Mark Davis

We thank you all for your attention. We are quite pleased, actually, that some of our businesses are showing the improvements we foreshadowed last year. And for those of you that are in town, we look forward to seeing you at our AGM, which starts soon. Thanks very much.

Operator

This concludes the Chemtrade Logistics Income Fund Q1 2019 Results Conference Call. We would like to thank you for your participation. You may now disconnect.

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 EBITDA and Adjusted EBITDA to net earnings is provided below:

(\$'000)	Three months ended	
	March 31, 2019	March 31, 2018
Net (loss) earnings ⁽¹⁾	\$ (29,318)	\$ 6,916
Add:		
Depreciation and amortization ⁽¹⁾	67,464	52,337
Net finance costs ⁽¹⁾	27,111	15,672
Income tax recovery	(17,534)	(2,944)
EBITDA	47,723	71,981
Add:		
Loss (gain) on disposal and write-down of assets	303	(115)
Unrealized foreign exchange (gain) loss	(4,063)	105
Adjusted EBITDA	\$ 43,963	\$ 71,971

⁽¹⁾ Chemtrade has initially applied IFRS 16 at January 1, 2019. In applying IFRS 16, in relation to the leases that were previously classified as operating leases, Chemtrade recognizes depreciation and interest expense, instead of operating lease expense. During the three months ended March 31, 2019, Chemtrade recognized \$13.6 million of depreciation expense related to the new right-of-use assets and \$2.2 million of interest expense related to the new lease liabilities. Adjusted EBITDA and net earnings for the three months ended March 31, 2018 included lease expenses of \$14.2 million. Chemtrade has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated.

Segmented information

SPPC –

(\$'000)	Three Months Ended	
	March 31, 2019	March 31, 2018
Revenue	\$ 131,079	\$ 122,634
Gross profit	16,483	7,580
Adjusted EBITDA ⁽¹⁾	37,525	21,266
Gain on disposal and write-down of assets	2	125
EBITDA	37,527	21,391

⁽¹⁾ Chemtrade has initially applied IFRS 16 at January 1, 2019. In applying IFRS 16, in relation to the leases that were previously classified as operating leases, Chemtrade recognizes depreciation and interest expense, instead of operating lease expense. For the three months ended March 31, 2018, Adjusted EBITDA included lease expense of \$5.6 million, whereas, lease expense related to the three months ended March 31, 2019 was excluded from the calculation of Adjusted EBITDA, as a result of recognizing depreciation expense related to right-of-use assets and interest expense related to lease liabilities. Chemtrade has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated.

WSSC

(\$'000)	Three Months Ended	
	March 31, 2019	March 31, 2018
Revenue	\$ 105,390	\$ 98,893
Gross profit	6,188	7,943
Adjusted EBITDA ⁽¹⁾	18,067	18,845
Gain (loss) on disposal and write-down of assets	2	(10)
EBITDA	18,069	18,835

⁽¹⁾ Chemtrade has initially applied IFRS 16 at January 1, 2019. In applying IFRS 16, in relation to the leases that were previously classified as operating leases, Chemtrade recognizes depreciation and interest expense, instead of operating lease expense. For the three months ended March 31, 2018, Adjusted EBITDA included lease expense of \$1.0 million, whereas, lease expense related to the three months ended March 31, 2019 was excluded from the calculation of Adjusted EBITDA, as a result of recognizing depreciation expense related to right-of-use assets and interest expense related to lease liabilities. Chemtrade has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated.

EC

	Three Months Ended	
	March 31, 2018	March 31, 2017
North American sales volumes:		
Sodium chlorate sales volume (000's MT)	101	98
Chlor-alkali sales volume (000's MECU)	42	44
Revenue	\$ 148,783	\$ 159,946
Gross profit	21,764	29,933
Adjusted EBITDA ⁽¹⁾	48,094	49,222
Loss on write-down of assets	(4)	—
EBITDA	48,090	49,222

⁽¹⁾ Chemtrade has initially applied IFRS 16 at January 1, 2019. In applying IFRS 16, in relation to the leases that were previously classified as operating leases, Chemtrade recognizes depreciation and interest expense, instead of operating lease expense. For the three months ended March 31, 2018, Adjusted EBITDA included lease expense of \$7.3 million, whereas, lease expense related to the three months ended March 31, 2019 was excluded from the calculation of Adjusted EBITDA, as a result of recognizing depreciation expense related to right-of-use assets and interest expense related to lease liabilities. Chemtrade has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated.

Corporate

<i>(\$'000)</i>	Three Months Ended	
	March 31, 2019	March 31, 2018
Cost of services	\$ 59,723	\$ 17,362
Adjusted EBITDA ⁽¹⁾	(59,723)	(17,362)
Unrealized foreign exchange gain (loss)	4,063	(105)
Loss on write-down of assets	(303)	—
EBITDA	(55,963)	17,467

⁽¹⁾ Chemtrade has initially applied IFRS 16 at January 1, 2019. In applying IFRS 16, in relation to the leases that were previously classified as operating leases, Chemtrade recognizes depreciation and interest expense, instead of operating lease expense. For the three months ended March 31, 2018, Adjusted EBITDA included lease expense of \$0.3 million, whereas, lease expense related to the three months ended March 31, 2019 was excluded from the calculation of Adjusted EBITDA, as a result of recognizing depreciation expense related to right-of-use assets and interest expense related to lease liabilities. Chemtrade has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated.

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)	Three months ended	
	March 31, 2019	March 31, 2018
Cash flow (used in) from operating activities ⁽¹⁾	\$ (53,470)	\$ 35,037
Add (Less):		
Lease payments ⁽¹⁾	(14,643)	—
Changes in non-cash working capital and other items	79,582	19,054
Adjusted cash flows from operating activities	11,469	54,091
Less:		
Maintenance capital expenditure	8,958	9,932
Distributable cash after maintenance capital expenditure	2,511	44,159
Less:		
Non-maintenance capital expenditure ⁽¹⁾	2,442	1,502
Distributable cash after all capital expenditure	\$ 69	\$ 42,657

⁽¹⁾ Chemtrade has initially applied IFRS 16 at January 1, 2019. In applying IFRS 16, in relation to the leases that were previously classified as operating leases, Chemtrade recognizes depreciation and interest expense, instead of operating lease expense. Cash flow from operating activities for the three months ended March 31, 2018 included lease expenses of \$14.2 million. Chemtrade has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated.

⁽²⁾ Non-maintenance capital expenditures are: (a) pre-identified or pre-funded, usually as part of a significant acquisition and related financing; (b) considered to expand the capacity of Chemtrade's operations; (c) significant environmental capital expenditures that are considered to be non-recurring; or (d) capital expenditures to be reimbursed by a third party.