CHEMTRADE LOGISTICS INCOME FUND

Q2 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.

As a general statement, our second quarter results reflect strong operations from all of Chemtrade's plants, and traction on the initiatives we implemented last year.

Before I provide an overview of the businesses, and Rohit provides more details, I wanted to comment on the results of a portfolio review that we recently undertook. As you would've seen from our financial statements, two of our specialty chemicals products, namely Potassium Chloride, or KCl, and Vaccine Adjuvants are designated as Assets Held for Sale. We acquired these businesses as part of the General Chemical acquisition and since that time have invested further in their growth. We believe that we've now built a stronger platform, and that a business with more exposure and competencies in these end-markets than Chemtrade can generate more value than we can.

As you know, our core business is industrial chemicals, and the key to profitability is a business model that minimizes costs and standardizes its products.

These specialty chemicals are not a natural fit with that business model. In order to optimally monetize these assets, we needed to make some investments to improve their operations. Now that this is done, it's the right time to attempt to divest these businesses. We have retained BMO Capital Markets as a financial advisor to assist with this process.

Assuming that we are successful in this endeavour, we intend to use the sale proceeds to pay down our senior debt, thereby improving our balance sheet flexibility and allowing us to pursue organic and other growth opportunities in our core businesses.

For perspective, these products generated roughly US $14.0 million of EBITDA for the 12 months ended June 30, 2019. There are, of course, no assurances that we will be successful in this endeavor. We will not comment further until either we have a successful sale, or we have determined that the value of retaining these businesses exceeds any value offered.

Our decision to sell these businesses means that these assets will be classified as Assets Held for Sale. This results in other accounting consequences that Rohit will explain shortly.

Turning now to the second quarter operating performance, Sulphur Products and Performance Chemicals (SPPC) posted another quarter of strong results. The initiatives we took last year to adjust our operations to structural changes in the merchant sulphuric acid market continue to bear fruit. Selling prices for sulphuric acid remain strong and this has helped offset the lower volumes available to us as a result of Vale's structural change to their operations. Our plants operated well, and this year we knew the approximate quantity of material we would obtain from Vale. This allowed us to avoid high alternate sourcing and freight costs that were previously incurred.

In our Water Solutions and Specialty Chemicals (WSSC) segment, contract renewals for water treatment products, as expected, are being made at higher prices, more than offsetting raw material cost increases. However, in the second quarter, this improvement in our water business was more than offset by weakness in some of our specialty chemicals products. As we had previously mentioned, we expected lower demand for KCl in 2019 as a key customer was rebalancing inordinately high inventory levels. We also had lower demand for another specialty chemicals product although we believe that's transient and demand will be higher for the balance of the year. We did have lower pricing and demand for sodium nitrite due to competition from an overseas supplier, and a decline in earnings for this chemical has led us to take a goodwill impairment, as Rohit will discuss.

Finally, our Electrochemicals, or EC, segment maintained high operating rates, but North East Asia caustic soda prices, which affect the pricing for our product, continued to disappoint. Demand for hydrochloric acid (HCl) from the fracking industry continued to be sluggish, but high seasonal demand for chlorine meant there was little impact on our ability to produce caustic. Even though selling HCl into the fracking market is lucrative, we took steps to diversify our customer base and switched supply into a more stable industrial end use, albeit generally at lower selling prices.

Also, these markets are geographically further away from our plant, so result in lower netbacks, i.e. freight adjusted, net sales price. Keeping in mind that our main chlor-alkali product is caustic soda, the ability to operate our North Vancouver facility at high rates is more important than chasing a volatile fracking market for HCl.

So, in general, our businesses performed well in the first half of the year – both SPPC and Water continue to gain strength, and although there continues to be some pricing pressure for caustic, the long-term outlook for higher prices hasn't changed, so we continue to be confident that better times for EC will return.

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

Rohit Bhardwaj

Thanks, Mark and good morning.

As Mark indicated, all our plants operated well in the second quarter of 2019 and results also reflected higher sulphuric acid prices and improved pricing for water products that more than offset higher input costs.

Before I review the financial results for the second quarter, there are a few items to note.

The two specialty chemical businesses that we decided to sell have been reclassified in the second quarter financial statements as Assets & Liabilities Held for Sale. Although, from a balance sheet perspective, these assets are disclosed separately, from an income statement perspective, income generated by these assets will continue to be reported as part of the WSSC segment.

While the aggregate cash flows of all the specialty businesses supported their carrying cost, once we decided to sell KCl and Adjuvants, the expected cash flow of the remaining specialty businesses was not sufficient to support the book value. Accordingly, we wrote off the goodwill associated with these products. This resulted in a non-cash charge of US$50.0 million, or $66.0 million Canadian. Since it's a non-cash charge, it does not affect EBITDA or Distributable Cash.

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 second quarter last year included two items that affected Distributable Cash and/or EBITDA. The $65.0 million reserve for legal proceedings negatively affected both EBITDA and Distributable Cash. We also incurred a premium to repay the Canexus Senior Notes and a small loan outstanding on our Fort McMurray plant. I will exclude these items in my comments this morning to better compare the actual operating performance of our businesses.

Revenue from operations for the second quarter of 2019 was $396.7 million, a decrease of $8.5 million from 2018. The decrease was primarily due to lower prices for caustic soda in the EC segment.

For the three months ended June 30, 2019, Distributable Cash after maintenance capital expenditures was $41.0 million, or 44-cents per unit compared with $33.6 million or 36-cents per unit in 2018, after the exclusions mentioned.

Aggregate EBITDA from operations for the second quarter of 2019 was $91.3 million compared with $70.5 million in the second quarter of 2018. The increase in EBITDA is due to better results in the SPPC segment and due to the adoption of IFRS 16, which had a positive impact of $13.6 million.

Turning to segmented results for the quarter, SPPC generated revenue of $126.4 million compared to $128.5 million in 2018. EBITDA for the quarter was $45.3 million, which was $19.6 million higher than 2018. Of this $19.6 million increase, about $12.0 million is attributable to improved business results. The balance includes the positive impact of IFRS 16 of $5.5 million and a claim settlement of $2.6 million.

The main reasons for the year-over-year increases was better operations and higher selling prices for merchant sulphuric acid, which more than offset the effect of lower sales volumes, primarily from Vale.

As Mark noted, a combination of better operations and more predictable by-product supply, resulted in more optimal supply-demand balancing and reduced costs such as alternate sourcing and illogical freight. We also had fewer maintenance turnarounds in the second quarter of 2019 relative to 2018.

Our WSSC segment reported second quarter revenue of $115.5 million compared with $112.4 million in 2018. EBITDA was $20.9 million, including the positive IFRS 16 impact of $1.0 million, compared with $22.4 million generated in 2018.

As Mark said, selling prices for water products are more than offsetting higher raw material costs. However, the positive impact of improved performance of water products was more than offset by lower volumes for specialty chemicals.

Our EC segment reported revenue of $154.8 million for the second quarter of 2019, which was $9.6 million lower than the same period of 2018.

Although volumes were higher than last year when the North Vancouver plant had an extended maintenance outage, continued weakness in selling prices for caustic soda more than offset the benefit of higher volumes. Chlorate volumes were lower due to reduced demand from pulp mills.

From an EBITDA perspective, including the $6.7 million benefit from IFRS 16, EBITDA for the second quarter of 2019 was $5.5 million higher than the same period of 2018. This was primarily due to higher volumes of caustic soda and reduced costs compared to 2018 that included the costs to repair the piping issue at the North Vancouver plant. However, the higher volumes and reduced costs were not enough to offset the lower caustic prices. We also realized lower netbacks for HCl as Mark explained.

Maintenance capital expenditures in the second quarter were $17.2 million. We expect maintenance capex in 2019 to range between $80.0 million and $90.0 million.

Excluding unrealized foreign exchange gains, corporate costs during the second quarter of 2019 were $21.3 million, including a positive IFRS 16 impact of $0.4 million, compared with $18.5 million in the second quarter of 2018, excluding the litigation reserve in 2018. The second quarter of 2019 includes a foreign exchange loss of $2.8 million compared to a loss of $3.8 million in 2018. The lower F/X loss this year was offset by higher legal costs in 2019 and higher compensation accruals.

We maintain ample liquidity with US$190.0 million undrawn on our US$850.0 million credit facility and are in compliance with all our bank covenants.

I'll now hand the call back to Mark.

Mark Davis

Thank you, Rohit.

Overall, we are pleased with the second quarter performance. The initiatives we have taken to improve our operations have led to significant improvements in the SPPC segment. Results from EC were based on solid business actions despite the downward movement in commodity pricing. Finally, our Water business has also improved and is gaining traction.

As you would have seen from our MD&A we changed some of the assumptions underpinning our 2019 EBITDA guidance. Our new assumptions led to a lower expectation of 2019 EBITDA but we still believe that 2019 EBITDA will be within the range previously communicated, albeit at the lower end.

The key assumption change is our expected pricing for caustic soda. We have lowered our 2019 expected annual price by US $30.0. Since our third quarter pricing is mostly set, this assumption is really based on a modest improvement in Q4 pricing. At the beginning of August, pricing for export volumes out of Asia has continued to be quite volatile, increasing one week and falling the next. For Chemtrade pricing, the end of August or early September will set the direction for our Q4 pricing. As a reminder, caustic soda pricing during the third quarter of 2018 was relatively high. The current weakness affecting our results only started significantly affecting us in the fourth quarter of 2018. Between caustic soda and HCl, our guidance assumes pricing headwinds of roughly $25.0 million in the second half of 2019 relative to 2018. Although we do expect some of this to be offset by stronger results in SPPC.

The ongoing weakness in spot caustic soda pricing exported from N.E. Asia was unexpected by us and by the industry experts. The best analysis is that this near-term pricing weakness is the result of the US-China trade tensions and tariffs. For example, we know that Chinese alumina production is down, which is a consumer of caustic.

It also seems that demand for the chlorine chain in China has not weakened. Both of these create excess caustic supply, thus constraining pricing. Its believed that current Chinese ECU prices are close to the floor of cash costs in Asia. Despite this near-term weakness, the long-term view on caustic soda pricing is still bullish. Once we are past the current weakness, the forecast calls for price increases every year for the next four years, and to remain elevated through 2025, which is two years longer than the previous forecast. The forecast now has a lower peak price than the former forecasts, but that peak price is still significantly higher than current levels.

We've tried to provide some specific colour of our views of the caustic soda market and the MD&A contains the other assumptions underlying our guidance. At a high level, most of our businesses are posting improved results and the long-term market dynamics for the product that holds the most leverage remains robust despite near-term weakness.

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

QUESTION AND ANSWER SESSION

Operator

Our first question comes from Joel Jackson, BMO Capital Markets. Your line is open.

Joel Jackson, BMO Capital Markets

Hi. Good morning, guys. Thanks for the update. A few questions, maybe I'll just start high level, just as this is first time you've ever commented on the guidance before. A two-parter here.

When you say at the low end of the range, do you mean the low end or in the lower half or the lower third? And on the third quarter for full EBITDA, adjusted EBITDA, would you expect similar, worse, or better performance relative to Q2 or Q3 of last year? Maybe if you can you give us a bit of colour. Thanks.

Mark Davis

So, when we talk about the lower range, you know, the midpoint, it's probably the lower 25% of the range. It's not the bottom of the range but if we say the middle of the range it's, you know, 50% top and 25% and bottom would be above 25%.

As far as third quarter goes, we really don't give quarterly guidance, but I did say this in the call and that, again, our biggest variable is really caustic soda pricing and what we said in the call was that the current pricing weakness for caustic really didn't affect our results significantly until Q4 last year. So, you would expect that, actually, Q3 this year versus Q3 last year to be down in the EC segment.

Rohit Bhardwaj

Yes, if you look at the back half of the year, even as the midpoint of our guidance, it would be similar to the back half of last year. So, given that we have said we expect in the lower part of our guidance, you should expect half two this year to be weaker than half two last year, as Mark said, primarily driven — I think we quantified the amount of headwinds we expect in pricing and it's $25 million in the back half of the year. So, we'll offset some of that but, you know, you shouldn't be surprised to see half two weaker than half two last year.

Joel Jackson, BMO Capital Markets

Okay. That was very helpful. My next question is on the legal reserve for the Alum cases or claims. It looks like you paid out some more cash on that. Can you give us an update? I know the reserve is still $140 million. How much cash now has been paid out through end of June or to today and then what the probability is that reserve would have to go up again? Thanks.

Rohit Bhardwaj

So, on the first part of your question, I think we've still got about C$50 million or so to pay out on it if we assume that the entire amount of reserve is paid out. During the quarter we paid about $20 million or so off the reserve. In terms of the second part of your question, whether we expect the reserve to change, we currently don't, you know, we're still very comfortable with the reserve that we have.

Joel Jackson, BMO Capital Markets

And just my last question, in selling the KCl, looking to selling KCl and vaccine adjuvant business, looks like you're maybe expecting getting about 10 times multiple on that in the market. Can you comment on that? And then does this speak to, you know, over the past several years you've had some growth businesses that you've sort of been looking into, which was KCl, high purity KCl, slurry, and some of the higher-value water treatment products. Does this sort of signal a shift or maybe the shift has already happened that maybe these kind of growth products is not what your strategy will be going forward?

Mark Davis

We won't comment, obviously, on actually expected valuations. Our statements stand for themselves. What I will say is that the rationale for selling these businesses is the rationale that we gave in the call script, that is that you need a different business model for specialty chemicals than for industrial chemicals. And we've always tried to remain true to our business model and in this case we picked up some products in a bigger acquisition that didn't fit the business model.

Joel Jackson, BMO Capital Markets

Thank you.

Operator

Thank you. Our next question comes from Jacob Bout from CIBC. Your line is open.

Jacob Bout, CIBC World Markets

Good morning. The 2019 guidance, does that exclude the US$14 million EBITDA from the potassium chloride and the vaccine business?

Rohit Bhardwaj

No. So, even from our balance sheet perspective, these are classified as assets held for sales. From a P&L perspective they remain part of the WSSC segment until the sale is closed. So, we don't expect, given where we are sitting today, we really don't expect any material loss of earnings due to a potential sale of these two businesses in 2019.

Jacob Bout, CIBC World Markets

Okay. And have you hired an advisor and the process has already started or how far down the track are you?

Rohit Bhardwaj

Mark said we've hired BMO Capital Markets.

Jacob Bout, CIBC World Markets

Okay. How often do you do a strategic review like this?

Mark Davis

We strategically review our assets, frankly, all the time. Right? As many of you, or some of you have actually heard, we're relatively simple people, and what I mean by that actually is, we're trying to create value for our stakeholders and if there are businesses that their value is higher to somebody else than it is to our current stakeholders, we'll attempt to monetize that. Having said that, we think the best value for most of our businesses is to stay where they are.

Rohit Bhardwaj

And this case, as Mark, I think, alluded to, these assets needed some investment to really get them to realize their potential, which is why we took a couple of years to invest in these business and to get their plants to be in better shape, and therefore now seemed like the time to actually try and monetize them.

Jacob Bout, CIBC World Markets

Okay. Maybe talk a bit about your thoughts on the dividend. We're in double-digit yields. Clearly the market has not been paying for this. How are you approaching that?

Mark Davis

Well, again, as we have said a number of times, we don't see any problem with sustaining our dividend and we plan to keep paying it. I've said before, too, that I think that our unit price has been in the penalty box for a number of self-inflicted wounds and once the business performs as we believe it should, we think our unit price will recover and we'll no longer be paying double-digit yields. But we see no reason to change our dividend policy right now.

Jacob Bout, CIBC World Markets

Okay. Last question is just on the margin improvements in the WSSC business. What type of ramp are you expecting there?

Rohit Bhardwaj

So, there are two things. One is the remaining specialty chem businesses that are there, we think there are some improvement opportunities there. And on the water, as prices are now starting to outpace raw materials, we expect that margin will continue to improve. But, again, you're not looking at very high increases from where we are starting to see now, but we expect that should continue for a couple of years at least.

Mark Davis

The biggest margin increase that's possible in the water business, again, is one of these difficult things to actually read, because it would be based on a sharp drop in the aluminum source, pricing of the aluminum source. As I say, it's difficult because, again, the aluminum source actually gets all tied into worldwide tariffs and things like that. We believe we can continue to grow those margins at a reasonable pace. If the aluminum input cost dropped suddenly for the same reason when we are locked into these annual contracts with municipalities, that would be a significant benefit, but it is hard for, I think, us or anyone to predict if or when that would happen.

Jacob Bout, CIBC World Markets

I'll leave it there. Thank you.

Operator

Thank you. Our next question comes from Nelson Ng from RBC Capital Markets. Your line is open.

Nelson Ng, RBC Capital Markets

Great. Thanks. My first question relates to the sales process. So, I guess you chose two facilities to move forward with. If that process goes well, are there kind of other specialty chemical assets that, I guess, you are sitting on the fence on that then you would look to sell? Could you just comment on that first?

Mark Davis

These are the most (inaudible) of the specialties we have with the exception of may be our ultra-pure business, which fits so tightly with the rest of it and is a growth opportunity for us. So, these are the two things that most likely, that don't belong, if anything doesn't belong, right? And they sell into the pharma industry, which we have nothing else that sells into the pharma industry. All our other products sell into general industry or industrial purposes and therefore, as we've said, we think that the best value for those businesses is where they are.

Nelson Ng, RBC Capital Markets

Okay. Got it. And then moving on to the EC segment, could you talk about be reduced demand from pulp mills in terms of the chlorate product? Is that a seasonal item or is it just due to a gradual slowdown that you're seeing?

Mark Davis

There are two or three things going on in that product, right? One is, there have been two or three, I don't know, pulp mill shutdowns during the year, which probably reduced North American demand by 1% or 2%. So that's one thing.

Secondly, there has been a number of mills that have taken some increased downtime because demand for their market pulp has actually been a little soft. So, the 1% or 2% is probably systemic, the other stuff is probably a this-year item.

Counterbalancing that somewhat, volume actually worked pretty nicely if you do the math. Superior or EROC has announced that it's actually shutting its Saskatoon facility by the end of the year, which removes 40,000 tonnes of chlorate from the market, which is probably about 2% of the market. So, that's what's going on there.

Nelson Ng, RBC Capital Markets

Okay. Yeah, I was just about to ask about the Saskatoon facility. So, from your Brandon facility, how should we think about its service radius in terms of, like obviously it could service Saskatchewan, but how should we think about what a radius is that you could cost effectively provide product to?

Mark Davis

North America, and exports, too. The chlorate business is different than some of the others we talked about. No matter where your plant is located in North America you're able to competitively compete anywhere you want in North America. And, as you say, especially out of Brandon, which is a low-cost plant. But your big general statement is, you know, 60% of North American chlorate supply is in Canada and 60% of demand in the US, so it's really a North American market.

Secondly, as we have talked about before, again, as a general statement, North America is actually a low power cost jurisdiction. So, you're actually able to make chlorate in North America and export it competitively into Asia, Southeast Asia, and around the world actually, at a competitive basis. So, Brandon is competitive not just in North America, but actually outside North America as well, as are a number of our competitors' plants.

Nelson Ng, RBC Capital Markets

So, just to confirm, are you exporting any of the Brandon product out?

Mark Davis

Part of the volume we produce in North America goes for export.

Nelson Ng, RBC Capital Markets

Okay. Got it. I'll leave it there. Thanks.

Operator

Thank you. And our next question comes from David Newman, Desjardins. Your line is open.

David Newman, Desjardins Capital Markets

Good morning, gentlemen.

Mark Davis

Hi, David.

David Newman, Desjardins Capital Markets

If you look at the, sort of the northeast caustic soda prices, they're at an eight-year low overall, so if you sort of extrapolate it into 4Q and you didn't get the little bit of lift in 4Q that you're kind of talking about and certainly softness in end markets as well, do you think that you could still meet the bottom end of your guidance if it kind of maintained at current levels? Or would you have to give a haircut to be a little bit below the guidance range?

Rohit Bhardwaj

So, right now what we are counting on is about US$20 pickup in the index, which, from week to week has some fluctuation, so that's quite possible. But at that point you're looking at, you know, maybe that's a $1.5 million impact in Q4, so we aren't too concern about—we expect to get that lift, but even if we don't, you know, that's not going to be a material impact.

David Newman, Desjardins Capital Markets

So, let me reiterate then, Rohit, so what you're saying is if we stay at current levels it could be like a $1.5 million impact in 4Q. Is that correct?

Rohit Bhardwaj

Yes. That's right.

David Newman, Desjardins Capital Markets

Very good. That is actually a lot less material than I would have thought. And your cash cost curve, I know you guys don't provide this information but, you know, the Northeast Asian producers are talking about being at the cash cost curve.

So, in North Van, if you kind of look on the same basis, what is your cash cost curve there? In other words, what do you have to be at caustic? I know there's a lot of working parts of chlorine and HCL et cetera, but what is your sort of cash cost curve there? Maybe just a few thoughts.

Mark Davis

Well, if you do it another way, right now we're actually at, as we said, low caustic prices, low hydrochloric prices, and you see the EC segment's report, right, of earnings and the majority of that is…

Rohit Bhardwaj

If you take of that half of that coming from North Vancouver, that is still a hefty number. Keeping in mind that the Northeast Asia stuff has to travel, even if you use about US$80 a tonne for freight cost and then the distributors has to make their margin, so even if you said our cost curve is the same, which it isn't, we have a better cost curve, we've still got that cushion over the Northeast Asia stuff.

Mark Davis

We're a long way in the positive profitability.

Rohit Bhardwaj

Yes.

David Newman, Desjardins Capital Markets

Okay. That makes sense.

Mark Davis

And just for a reminder for everyone, the key raw material cost is electrical power. The electrical power in BC versus electrical power in Asia, as a general statement, is a good place to be. Right?

David Newman, Desjardins Capital Markets

Right. Makes sense. And what about—your conversion rate now on your hydrochloric acid, what are you guys running at? I think it's a little bit lower than, obviously, more chlorine, obviously, right now with the chlorine markets being a little more robust.

Rohit Bhardwaj

Yeah, so we've said it's about 37%. And, frankly, it's getting less. We will start getting less sensitive to that because, you know, when the fracking industry is going hard then picking up extra conversion into HCl to feed the fracking market generates a lot more money.

We've diversified our base now to a more investor base, so while it's still an upgrade to chlorine, the sensitivity to a 1% change in conversion is not going to be as much as it was last year when the fracking industry was going really strong.

David Newman, Desjardins Capital Markets

Okay. And last one for me, guys, just in terms of strategic initiatives. I mean you've obviously got your KCl and the vaccines on the market, and just kind of further to a question earlier, would you look at Brazil as being a potential carve-out? Because it seems like it could be sold relatively easily. Or is that something you consider to still be core?

Mark Davis

We like the business model, it fits perfectly with the rest of the business, and I don't want to sound trite but I did actually say it, so I'll say it one more time -- anything we could do to create value for our shareholders, we're open to, right? We think the best value is retaining the assets that we have.

David Newman, Desjardins Capital Markets

Okay. Excellent. Thanks, guys.

Operator

Thank you. Our next question comes from Steve Hansen from Raymond James. Your line is now open.

Steve Hansen, Raymond James

Hey, guys. Just a single one for me. I apologize if I missed it but, Mark, you had referenced sodium nitrate hiccup in the quarter around some demand side, I believe, and I just wanted to clarify why you think that's a single quarter phenomenon and not any longer. Thanks.

Mark Davis

Actually, I didn't mean to blur, if I did. Sodium nitrate, I think, is an ongoing issue for us. A volume issue for the quarter would be phosphorus pentasulphide, P_2S_5.

Steve Hansen, Raymond James

Okay. Helpful. And just to follow-up on Dave's question, I think, earlier around the customer switch decision in operating North Van, am I understanding it correctly, I just want to clarify, is the decision to switch and move away from more volatile fracking markets is really just to benefit the operational stability? Is that...? You are taking lower netbacks, it sounds like, with the switch, so you gain on the other side? Is that the way to understand it?

Mark Davis

Yeah, but another way of saying it, if you look at MCEU profitability, okay, what's key for us is continuing to be able to make and sell caustic. Right? So, taking lower margins on HCl, it facilitates us being able to produce, which is actually a good trade.

Steve Hansen, Raymond James

Understood. Okay. That's helpful thanks. I appreciate it.

Operator

Thank you. And again, if you would like to ask a question, please press star one.

Our next question comes from Endri Leno from National Bank. Your line is now open.

Endri Leno, National Bank Financial

Hi. Good morning. Just a couple of questions for me. First on the sodium nitrate, is it related, the impairment at all, on the anti-dumping hearing or that ruling that expired in January?

Rohit Bhardwaj

No. So, the anti-dumping was against China and Germany and so that's been renewed for another period of time, so that is not an issue. But the impairment is to do with sodium nitrate and what's happened in sodium nitrate is there's been some other overseas supplier that is not covered by the tariffs that has been, you know, they had excess capacity that they're feeding to the market, and we don't believe that they are dumping but they are really impacting our ability to keep market share and pricing. So that's been over the last couple of years. It was never very—once it was, in the context of the spec-chem business, was not a huge component, which is why we didn't really talk a lot about it, but now that they've pulled the other two aside it becomes a little bit more meaningful in the context of spec-chem, although for the overall business it's still not a material product.

Endri Leno, National Bank Financial

Okay, great. Thank you. And last one for me: Is the shutdown at Georgia Pacific that you had previously discussed, is it possible to quantify what impact it had in the quarter for chlorate and how do you see it for rest of 2019?

Mark Davis

I don't remember the exact quarter numbers but I mean our assumption, as you know, for chlorate in our guidance going forward has been reduced by 10,000 tonnes per year, so a large portion of that would be attributable to the Georgia Pacific shutdown. I mean not all of it, but a large part of it.

Endri Leno, National Bank Financial

Okay, great. That's it for me. Thank you.

Operator

Thank you. And that does conclude the questions in the queue at this time. I'll turn the call back to the presenters for closing comment.

Mark Davis

Good. Well, we thank you all for your time and attention and we'll speak to you again at the third quarter call. Thank you.

Operator

Thank you very much for joining us today, ladies and gentlemen. This concludes our call and 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:

	Three months ended		Six months ended	
($'000)	**June 30, 2019**	**June 30, 2018**	**June 30, 2019**	**June 30, 2018**
Net (loss) earnings from continuing operations	$ (57,576)	$ (50,442)	$ (86,894)	$ (43,526)
Add:				
Depreciation and amortization	64,192	54,734	131,656	107,071
Net finance costs	26,211	20,099	53,322	35,771
Income tax recovery	(2,342)	(24,461)	(19,876)	(27,405)
EBITDA from continuing operations	30,485	(70)	78,208	71,911
Impairment of goodwill	65,600	-	65,600	-
Loss on disposal and write-down of assets	302	3,458	605	3,343
Unrealized foreign exchange loss (gain)	(5,110)	2,089	(9,173)	2,194
Adjusted EBITDA from continuing operations	$ 91,277	$ 5,477	$ 135,240	$ 77,448

Segmented information

SPPC -

($'000)		Three months ended June 30, 2019		Three months ended June 30, 2018		Six months ended June 30, 2019		Six months ended June 30, 2018
Revenue	$	126,441	$	128,477	$	257,520	$	251,111
Gross Profit		18,325		4,432		34,808		12,012
Adjusted EBITDA		45,288		25,661		82,813		46,927
Loss on disposal and write-down of assets		(754)		(3,468)		(752)		(3,343)
EBITDA	$	44,534	$	22,193	$	82,061	$	43,584

WSSC -

($'000)		Three months ended June 30, 2019		Three months ended June 30, 2018		Six months ended June 30, 2019		Six months ended June 30, 2018
Revenue	$	115,508	$	112,375	$	220,898	$	211,268
Gross Profit		(53,481)		13,737		(47,293)		21,680
Adjusted EBITDA		20,859		22,412		38,926		41,257
Impairment of goodwill		(65,600)		-		(65,600)		-
Gain (loss) on disposal and write-down of assets		2		10		4		-
EBITDA	$	(44,739)	$	22,422	$	(26,670)	$	41,257

EC -

($'000)		Three months ended June 30, 2019		Three months ended June 30, 2018		Six months ended June 30, 2019		Six months ended June 30, 2018
North American Sales Volumes:								
Sodium Chlorate Sales Volume (000's MT)		95		104		196		202
Chlor-alkali Sales Volume (000's MECU)		52		37		91		81
Revenue	$	154,786	$	164,428	$	303,569	$	324,374
Gross Profit		22,874		20,757		44,638		50,690
Adjusted EBITDA		46,400		40,903		94,494		90,125
Gain (loss) on disposal and write-down of assets		1,055		-		1,051		-
EBITDA	$	47,455	$	40,903	$	95,545	$	90,125

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:

	Three months ended		Six months ended	
($'000)	**June 30, 2019**	**June 30, 2018**	**June 30, 2019**	**June 30, 2018**
Cash flow from operating activities	$ 51,826	$ 27,007	$ (1,644)	$ 62,044
Add (deduct):				
Lease Payments [(1)]	(13,842)	-	(28,485)	-
Changes in non-cash working capital and other items	20,233	(46,714)	99,815	(27,660)
Adjusted cash flows (used in) from operating activities of continuing operations	**58,217**	**(19,707)**	**69,686**	**34,384**
Less:				
Maintenance capital expenditure	17,246	19,074	26,204	29,006
Distributable cash after maintenance capital expenditure from continuing operations	**40,971**	**(38,781)**	**43,482**	**5,378**
Less:				
Non-maintenance capital expenditure [(2)]	2,759	3,052	5,201	4,554
Distributable cash after all capital expenditure from continuing operations	**$ 38,212**	**$ (41,833)**	**$ 38,281**	**$ 824**

(1) Chemtrade 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 and six months ended June 30, 2018 included lease expenses of $13.6 million and $27.8 million, respectively. Chemtrade 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.