CHEMTRADE LOGISTICS INCOME FUND

Q4 2018 Results Conference Call

Mark Davis

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

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

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

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

As evidenced by our results, 2018 was a challenging and disappointing year for Chemtrade. Most of the issues within our control have now been addressed. Our markets continue to be positive and our results will show improvement over the year as the initiatives we have implemented continue to gain traction. In short, between the actions we are taking and the dynamics within our markets, we believe that all our significant product lines can and will perform better going forward than they did in 2018.

As we noted on calls during 2018, we anticipated that results for the second half of 2018 would be better than the first half of 2018, and they were slightly better. We achieved that result despite some substantial unexpected changes in demand for some products, particularly in the last half of the fourth quarter. As noted below, we believe that the specific decrease in demand in the fourth quarter for these products is temporary.

Rohit will review some of the specifics in his remarks, but first to help set perspective, I have a few comments about four major aspects that influenced our full year results.

Turning first to our EC segment and in particular our chlor-alkali products. Our North Vancouver chlor-alkali plant has been a very solid contributor to Chemtrade's results since we acquired it in 2017, and it will continue to be so. Demand and prices for caustic soda and hydrochloric acid have been generally strong ever since they were added to our portfolio. Although these products performed well, the financial performance could have been even better but for three issues, two of which occurred in the first half of 2018.

In the first quarter, production at the plant was constrained because of issues associated with western Canadian rail shipping and insufficient rail cars to handle our hydrochloric acid, or HCl demand. In the second quarter, the plant underwent a significant planned maintenance turnaround, which had about a

$14.0 million impact on our Q2 results. The required maintenance was performed, the plant was safely brought back online and has operated well ever since. Finally, as Rohit will discuss, one of the products which suffered reduced fourth quarter demand was HCl. This resulted in a late-year decrease in sales of both HCl and also caustic as production of these products are co-dependent.

2018 was also a year of adjusting to a major structural change in the merchant sulphuric acid market. As we have noted in the past, process changes at our largest merchant acid supplier substantially reduced the volume that we received from them. This reduction was much larger than anticipated, representing about 50% of the product we receive from them, or almost 25% of the total volume of merchant acid Chemtrade sold in 2017. Throughout the year this reduced volume required adjusting our customer base and cost structure. Much of this work is done, especially on the customer side, but we still have some more room to further rationalize our cost structure to better reflect the reduced supply. Further, in the first part of the year this shortage of supply was exacerbated by our own heavy plant turnaround schedule. The good news is that the changed supply dynamics and strong demand have resulted in increasing merchant acid prices that are beginning to have a beneficial impact on financial results as contracts come up for renewal.

Our regen sulphuric acid business continues to be strong, although as indicated on our last call, our fourth quarter results were affected by a major maintenance turnaround at our largest customer. In addition, we had a longer than expected maintenance turnaround at one of our other regen plants.

In our Water Products business, margins are being squeezed as raw material costs continued to rise. But most of the plant operating issues are behind us. I'll have a little more to say about that in my closing remarks.

Finally, the largest impact on our financial results in 2018 was a non-operational issue related to civil lawsuits that arose out of alleged anti-competitive conduct of General Chemical entities prior to it being acquired by Chemtrade in 2014. In the second and third quarters, as the legal and settlement costs became clearer, we established a litigation reserve of $100.0 million. Although we had negotiated an indemnity from the Seller as part of our acquisition, our legal and settlement costs are substantially higher than we had expected and more than that indemnity.

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

Rohit Bhardwaj

Thank you, Mark and good morning everyone.

As Mark indicated, our 2018 results were below expectations. The litigation reserve for the General Chemical pre-acquisition anti-trust lawsuits had a significant impact on EBITDA and distributable cash in 2018. To better understand our operating results, I will exclude the litigation reserve and the $7.4 million refinancing costs incurred to repay certain Canexus Senior Notes and another small project financing loan that we inheritted as part of another acquisiton.

Looking first at the results for the fourth quarter of 2018, revenue from continuing operations was $390.8 million, which was $4.1 million higher than the fourth quarter of 2017 despite a decrease in merchant sulphuric acid volume. The increase in revenue was largely driven by higher revenues in water products.

Aggregate EBITDA from continuing operations for the fourth quarter of 2018 was $65.0 million compared with $61.5 million in the fourth quarter of 2017. The increase in EBITDA is mainly attributable to lower corporate costs, including lower incentive compensation accruals.

For the full year 2018, Distributable cash from continuing operations after maintenance capital expenditures and before the litigation reserve and loan repayment costs, was $149.0 million, or $1.61 per unit, compared with $120.8 million, or $1.37 per unit in 2017. This was comfortably ahead of our distribution rate of $1.20 per unit. The per unit amounts are based on a weighted average number of units outstanding of 92.6 million units in 2018, versus 88.2 million units outstanding in 2017.

Consolidated revenue from continuing operations for 2018 was $1.6 billion, which was $126.6 million higher than 2017. The increase was due primarily to the full year contributions from the acquired businesses compared with about ten months in 2017. Aggregate EBITDA from continuing operations for 2018 before the litigation reserve was $296.2 million compared with $301.7 million in the previous year, before severances, accruals for an onerous lease and Canexus acquisition costs incurred that year.

Turning to segmented results for the fourth quarter, Sulphur Products and Performance Chemicals, or SPPC generated revenue of $129.1 million, essentially the same as that generated in 2017. However, EBITDA for the quarter was $17.3 million, which was $7.1 million lower than 2017. From a revenue perspective, higher prices for merchant sulphuric acid helped to offset lower volumes due to reduced availability of merchant acid supply. The decrease in EBITDA was driven by several things. From a merchant acid perspective, margins were flat despite the revenue increase due to lower volume; our contractual sharing some of the price increases with our suppliers; and higher raw material and freight costs. EBITDA was negatively affected by unplanned downtime at two of our customers and an extended maintenance outage at one of our regen customers. Results were also negatively affected by an extended outage at one of our large regen plants, which resulted in higher costs to source alternative product to fulfil customer obligations.

Our Water Solutions and Specialty Chemicals or WSSC segment reported fourth quarter revenue of $102.4 million compared with $95.2 million in 2017. EBITDA was $11.9 million compared with $15.0 million generated in 2017. The increased revenue was mainly due to higher volumes and selling prices of our water products. However, despite increasing prices, the rising raw materials costs continue to squeeze margins. We expect to see margins improve as contracts are renewed at prices reflecting the higher raw material costs.

During the quarter, two customers for two of our specialty chemicals in different industries (potassium chloride, or KCl and phosphorus pentasulfide, or P_2S_5) significantly reduced their purchases. We expect that once they normalize their inventory levels they will resume buying at historic levels. Mark will provide additional colour on KCl shortly.

Our Electrochemicals or EC segment reported revenue of $159.3 million and EBITDA of $46.2 million, both of which were close to the levels achieved in 2017. Lower caustic prices were offset by higher hydrochloric acid prices. However, a downturn in demand for HCl late in the second half of the quarter led to lower production of chlor-alkali. As noted on the last call, there has been some volatility in caustic prices recently; however, and as Mark will outline in his closing remarks, the long-term forecast for caustic soda remains favourable.

Maintenance capital expenditures in the fourth quarter were $31.5 million, bringing total maintenance capex in 2018 to $77.7 million. We expect maintenance capex in 2019 to be $80.0 -$90.0 million.

Excluding unrealized foreign exchange gains and losses, corporate costs during the fourth quarter of 2018 were $10.4 million, compared with $24.6 million in the fourth quarter of 2017. The primary reasons for the decrease was an accrual in the fourth quarter of 2017 of $8.6 million related to the Calgary Canexus office lease and a decrease in LTIP and Incentive compensation costs of $6.5 million in the fourth quarter of 2018 compared to the previous year.

Our balance sheet remains sound, with our bank covenants well below required levels and we maintain ample liquidity. We have over US$300.0 million of room on our US$525.0 million revolving facility. During the fourth quarter we amended the credit agreement to add approximately one more year of term. The credit facility now matures in December 2023. We also announced the redemption of Series V of the Electrochem debentures and concluded that in January 2019.

I'll now hand the call back to Mark.

Mark Davis

Thank you, Rohit.

We would like to provide you with some high-level comments about the market dynamics for certain key products. The market conditions for all our main products remain positive and we will certainly benefit from these market dynamics. The speed and magnitude of these positive dynamics on our bottom line depends on specific products. Chlor-alkali, for example, is more immediate and not subject to risk-sharing contracts while something like regen acid is subject to longer term contracts, s omarket dynamics take longer to work their way through the system.

Now to some specific product comments.

The only real outlier to the generally positive comments is KCl. As Rohit indicated earlier, one of the major consumers of our active pharmaceutical ingredient or API product, potassium chloride, drastically reduced purchases in Q4 and has indicated lower requirements for 2019 than the past few years. Pricing remains firm and demand for our product continues to grow, but 2019 will see reduced sales of our API material as the customer right-sizes their inventory to reflect their current sales rate.

Turning to sulphuric acid, supply/demand and pricing for each of ultrapure, regen and merchant are positive. Ultrapure continues to be sold out, and we were able to increase pricing in 2018 and again for 2019. We expect that the North American demand for ultrapure sulphuric acid will continue to grow and we are contemplating how best to meet this growth.

Regen demand, based on refinery production of alkylate, also shows growth. Regen contracts are multi-year, but as they come due are being renewed at higher base pricing.

Finally, merchant sulphuric acid price has improved and continues to improve. Although we did not anticipate the magnitude of the reduced volume from our key supplier, once the reduction was clear we anticipated increased pricing. Pricing continues to move up, although we do not capture all of this increase as we share improvements with our by-product suppliers under our risk sharing agreements.

As we have previously noted, alum pricing is also increasing as the market has stabilized and raw material costs are increasing. While margins are squeezed under existing contracts during times of rising raw material costs, as contracts are renewed we are recovering the raw material cost increase. In fact, our recent renewals reflect pricing that more than recovers raw materials. This business has been under

pressure for some time now and the margin squeeze will continue for as long as raw materials continue to rise, but based on recent price increases, we expect to be able to improve margins as contracts are renewed.

Finally, I want to provide some colour on our EC segment as sodium chlorate and chlor-alkali are our largest exposure to typical commodity price and volume movements.

First, chlorate. The North American sodium chlorate industry is expected to operate at a utilization rate of close to 95%. We noted previously that prices have increased from 2018 to 2019. Recently, one of our customers, Georgia Pacific at Port Hudson, Louisiana has announced that it is ceasing bleached pulp production at the end of the first quarter. While we will be affected in 2019 by the loss of this customer, looking beyond this year, the closure should not have a material effect on the sodium chlorate industry. This customer mill represents only about 1% of chlorate demand, so the industry will still operate well above the 90% utilization rate.

Turning to chlor-alkali, we want to provide our view on caustic soda and HCl. As a reminder, we can produce about 220,000 tonnes of caustic soda and about the same volume of HCl. Accordingly, variations in price or volume could have material effects.

Starting with caustic, the Northwest region of North America only has enough supply to handle about 50% of demand. Accordingly, although there may be short term volume issues, as a general statement, we can sell all the caustic we can produce. Thus, the key metric to measure is caustic pricing.

As we've mentioned in our last two calls, pricing for caustic soda has been lower than expected, but the longer term forecast for caustic remains very strong. There were a number of specific events that caused caustic price to fall at the end of 2018 but the longer-term, very positive supply / demand characteristics we've talked about before still exist. The near-term weakness was not expected, but very recently we have finally seen some upward movement in the index -- indicating that the circumstances that caused the near-term pricing weakness are working their way through the system. We expect caustic pricing to improve every quarter in 2019, albeit the starting point is relatively low caustic pricing in Q1. As a reminder, our highest pricing was realized in the first quarter of 2018. Therefore Q1 2019's pricing will be significantly lower than Q1 2018 and we expect it to be over $200 per metric tonne lower. This would translate to a roughly $11.0 million impact. We do expect to offset that by higher production volumes assuming that rail service is better than what we encountered in the first quarter of 2018.

While the near-term weakness was unexpected, the future pricing forecast is for even higher pricing for caustic and for a longer period than previous forecasts. One of the key industry publications has recently updated its pricing forecast and its forecast period. They now expect caustic pricing for 2019 to average slightly lower than the 2018 average, which means that pricing should strengthen as the year progresses. We expect that by the end of 2019 prices will be about $125 per tonne higher than the beginning of 2019. While this publication lowered its 2019 average pricing, it forecasts 2020 to be up about $150 per tonne from 2019, and 2021 and 22 to be up another $200 from that base. Additionally, the publication has added 2023 to its forecast horizon at prices essentially the same as 2022. So, in short, although we suffered through unexpected caustic pricing weakness in Q4 last year and Q1 this year, the longer term forecast for this product is extremely positive and we expect to see enhanced pricing in the second half of 2019 and for many years thereafter.

Lastly, a quick word on HCl. As Rohit mentioned, we saw a steep decline in demand in late November and December as the fracking industry throttled back for a number of reasons. One key metric shows that the number of Canadian rigs dropped materially in December. Rig count numbers for the fracking industry for January already show an increase in the number of rigs and our demand for HCl is returning to expected levels.

Our usual caveat -- commodity pricing is extremely difficult to predict accurately. What we can say is that the market supply/demand characteristics for most of our products are quite favourable. Some of our products do not reap the full benefit from tight markets while others, like caustic, clearly do. We are well positioned to benefit from these dynamics and believe our results will reflect this as the year progresses and for future years.

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

Q&A

Operator

At this time, I would like to remind everyone, in order to ask a question, please press *, then the number 1 on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

And your first question comes from the line of Jacob Bout. Please go ahead, your line is open.

Jacob Bout — CIBC World Markets,

Good morning.

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

Hi, Jacob.

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

Morning.

Jacob Bout

First question on the chlorates. So, you mentioned the Georgia-Pacific shutdown, and you said it was 1 percent of chlorate demand. Can you talk about what that actually means for you as far as volumes? And then how should we be thinking about that as far as the market? Are we going to see more competitive pricing? Or is your intention to sell that remainder into the export market?

Mark Davis

Yeah. Look, it's give or take 20,000 tonnes. And we see it as, with the utilization rate of the industry, there's no need for pricing to weaken to actually help us place the product. So, we think there's places to place the products and at high utilization rates. Even without this, the market pricing remains firm.

Jacob Bout

Going to the WSSC, just help us out on some of the buckets here. What I'm trying to drive at is what a normalized EBITDA contribution should be from the sector, how you're looking at this. So, the decline that you saw year on year, how much was from the sulfuric acid prices versus volumes of the KCl or the phosphorus pentasulfide?

Rohit Bhardwaj

Okay. So, Jacob, firstly, as a reminder, Q4 is seasonally the lowest quarter of the year, particularly in the water treatment business. When you look at our—EBITDA is about $3 million lower than Q4 last year. And I'd say the water stuff is pretty flat. If anything, we've been able to offset the cost increases by pricing. As I said, it's still not overachieved on that, but it's kind of flat.

So, the big change, the big miss in Q4 versus Q4 were those two specialty chemicals, the P2S5 and KCl, and I'd say two-thirds of that was P2S5 and a third was KCl. And, as Mark mentioned, the KCl is low-volume but high-margin business, and it's not a—by no means a spot business, at least not the high-value stuff. So, it will take us some time to—between this customer turn to buy it again, and finding alternate lucrative markets for that product.

The P2S5 should be a quicker rebound. Maybe by Q2 I think we should be back to normal levels, if this one customer rebalances their inventory. And we continue to expect, on the alum business, that as prices continue—so currently, the data points we have is that prices are being able to more than offset cost. What is really critical, the trajectory of cost increases in 2019. To the extent they stabilize or start to go down, our margin should expand, but we are having some good data points on pricing right now.

Jacob Bout

So, what's the typical lag, then, between higher input pricing and when you can—

Rohit Bhardwaj

So, if you think about it, a lot of our business is annual contract. So, if you assume that these come up evenly through the year, you say that they take six months. But the bigger issue is, just how costs keep going up. If costs stay flat, then you'd say, in six months, should be totally caught up. But if costs keep going up, then you're just constantly chasing this rising cost curve, so. But if costs were flat, give it about six months.

Jacob Bout

Just to end off here, how should we be thinking about normalized EBITDA for the WSSC business? Is this a $85 million EBITDA business? A hundred million EBITDA business?

Mark Davis

Look, as big general statements and buckets, SPPC should actually perform better in '19 than '18. Our Electrochemical business actually, obviously, is clearly dependent on caustic and HCl pricing, but we expect it actually to do at least as well as it did last year. And we give back a little of the SPPC up in the WSSC segment.

Jacob Bout

Okay. Thank you.

Mark Davis

Thanks.

Operator

Your next question comes from the line of Joel Jackson. Please go ahead. Your line is open.

Joel Jackson — BMO Nesbitt Burns

That's the same line of questioning I want to go on, so just a couple questions to follow up on this. So, are you saying that you expect WSSC to be down a little bit in '19? That's my first question.

And then, you did about 19 million of EBITDA in WSSC in Q1 of '18. So, what should Q1 look like in that segment? It looks like there's a $3 million headwind on P2S5 and KCl. And then I would hope that you had some growth, but it sounds like you're expecting WSSC to be down in Q1 and in '19. Is that correct?

Rohit Bhardwaj

Well, in Q1, yes, because the P2S5 issue will take probably until Q2 to be fully normalized, and the KCl might take a bit longer. Q1, again, for alum, is not typically a high seasonal quarter, as you can see, even last year, it was about $19 million. So, we think Q1 will be down a bit from there. And for the whole year, we should be very close to last year. Maybe if we're down, it'll be just not a material down.

Joel Jackson

Okay. So, did the WSSC business—the assets mostly acquired from GCC—I mean, it's been challenging on many levels. You're many years into this. It is trading well below what it was, and it doesn't seem like it's improving, despite alum prices going up. Mark, is this the time to maybe look at a portfolio change and divest this business?

Mark Davis

Well, I'll give you two-and-a-half answers. One, the alum business, actually, is improving. And as we've tried to indicate is—it'll take some time to be seen, because the raw material costs have been escalating faster than the contracts allow us to pass it through. So, we don't believe that, actually, 2018, nor first part at least of 2019, if raw material costs keep on escalating, the true reflection of that business performance, we think it will be better than what you've seen.

And I'll also say that we, too, have been disappointed with the performance, and everyone in that business knows the challenge ahead of them to improve results. And again, I think we have the initiatives underway that are driving improvements in that business. As far as your—

Joel Jackson

Okay. Mm-hmm.

Mark Davis

—second question—this is the one-and-a-half part is, which was portfolio change—we actually are not anxious to dispose of this business. It actually has good synergies with our merchant acid business, and again, we think this business can be improved. So, we're not in a hurry to do anything with that is—I think as most of you know, though, we actually do try and focus on value. And, if there's a higher-value use of any of our assets to somebody else, is we would always consider that if it drives shareholder value. But selling a business off a trough when you believe it's improving is not something we're particularly keen on doing, nor do we have to.

Joel Jackson

Okay. That was helpful, Mark. So, my final question is sort of putting some of it all together. So, if I understand all your different comments we've heard in the last 30 minutes, it sounds like you're guiding to '19 EBITDA about flat with '18, or maybe slightly up. Electrochem may be flat, SPPC up a bit, but giving most of it back in WSSC. Is that all correct?

Mark Davis

No. We think that SPPC should be materially better. It should more than offset WSSC is a little down or flat. And look, the big assumption, in aggregate, that people have to make, including us, is where we expect the chlor-alkali pricing to go during the year. And as I said, the index has actually finally started to show signs of moving up, and very recent expert industry reports are planning on price increases throughout the year. So—

Rohit Bhardwaj

Yeah. I think—

Mark Davis

—you're overly harsh in the bottom line comments on '19 verse '18.

Rohit Bhardwaj

And on the Electrochem side, I mean, on the caustic, we are expecting '19 price to average lower than '18, and that's what's kind of the forecasts are showing as well. So, we're not counting on similar pricing environment of '18; we're expecting it to be lower than '18, but we're expecting higher production volumes. As you know, last year we had a couple of those issues in Q1 and Q2. So, we've said that the volume should—the volume-up should offset the lower pricing and so, therefore, be kind of flat to maybe slightly positive. But that's where we're expecting the EC segment to round out.

Joel Jackson

Thank you.

Mark Davis

Thanks, Joel.

Operator

Your next question comes from the line of Steve Hansen. Please go ahead. Your line is open.

Steve Hansen — Raymond James

Yeah. Good morning, guys. A couple of questions. First is just on these contract structures for the water treatment business. Is there an ability to migrate towards a semi-annual or perhaps quarterly contract structure, where there's some sort of raw material adjustment factor placed in? It just strikes me that having the annual resets is—

Mark Davis

Let me give—let me give you a long answer. No.

Steve Hansen

No?

Mark Davis

But seriously, these are all municipal bids, subject to municipal bidding requirements. And these guys bid fixed, one-year contracts. We, as you know—look, it'd be consistent with our business model to actually go to a municipality and say, hey, give us a five-year contract, we'll pass through raw material ups and downs. It just isn't doable; otherwise, we would do it.

Rohit Bhardwaj

It's a bureaucratic process, and it's scattered over hundreds and hundreds of municipalities. So, it's not like two big guys who can go and try and do something. So, we have wasted energy to try and engage with them in that process.

Steve Hansen

Understood. Okay. Just had to ask. And just on the operational issues that hit Q4 in the Sulphur business, can you just maybe give us a sense for exactly where we're at on those? There was some internal and some external issues that you described, some customer outages in one of your own large regen plants. Any of that going to bleed into Q1? Or are those all complete?

Mark Davis

The external ones are all complete, and they were—look, there's a big turnaround at Exxon and Beaumont. Irving Oil, I think you all know, had had issues, and there was a third one I'm forgetting … And one of our other regen customers had issues. The bleeding in the first quarter question —in our own facility, actually—during a major turnaround in our Richmond, California facility, as we were doing the turnaround, we found more things that needed fixing than what we had anticipated. So, we stayed down longer to fix them.

The good news/bad news story is, capacity is very tight on the West Coast. So that you have good customers, good demand, you're able to operate your plants high. But when you don't, it's actually expensive to send the material elsewhere to be processed. Even if you do it within your own system, it's a long distance. And so, we think that the Richmond reliability was improved during the fourth quarter shutdown, and we're going to continue picking away, actually, at making Richmond a better and more robust plant.

Steve Hansen

Okay. That's helpful. And just to dig into the water treatment issue a little bit more, on the reduced purchases from your two customers, can you just maybe give us a sense for exactly what's happening behind the scenes? I think you've alluded to it, but just so we're clear. The reduced purchases, does that stem from their own end markets being challenged? Or is it just an inventory readjustment? I'm just trying to understand if this is going to be something that we're going to continue to sort of combat going forward, or if it's just a onetime thing. So, any commentary on exactly why they went through these reduced purchases would be helpful, I think.

Rohit Bhardwaj

Yeah. So, Steve, if you look at KCl, the history there is that our plant was sold out for a few years, and we were struggling to keep up with the demand. So, one of the customers, I

guess, was—not I guess—was deliberately over-purchasing to ensure that they have higher inventory, just because we did short them a couple years ago.

Steve Hansen

Hmm.

Rohit Bhardwaj

So, they had this pattern of buying more. And then, as we have increased some of our capacity, debottlenecked the plant, and they saw we were more reliable in our supply and meeting their demand, I guess they made the decision to rebalance and reduce that safety stock they had built up.

And so, two things happened. One is, in the short term it swings the other way, because they were overstocked, to bring stock back. And secondly, the levels they were buying at were artificially higher because they were building up a pipeline. So, one of them is just a short-term thing that'll take some time to wind down. The other one is, now we have a view on what their real demand is, so we can now go out and sell some of that product out to other markets.

Mark Davis

So, we expect 2019 to be the most severe hit because it'll take us time to replace the customers for the product this guy isn't taking, and his destocking will actually be throughout the year of 2019. So, 2020 should be a better year for that business because, actually, they'll be resuming their normal run rates. And in the interim, we're pursuing additional sales, because this is relatively unique, high-margin product, but that's not an instantaneous sale.

Rohit Bhardwaj

And if you look at KCl, macro conditions still remain very robust. The projections are still CAGRs of 6 percent. So, we definitely believe that this is just a—we just have to, you know, have the dislocations that we've got to fix, but our future prospects are still very sound for that product.

The P2S5 is a little bit more unusual, where it's not actually atypical for a couple of the key customers to reduce their purchases towards the end of the year. This time, it was a little bit more severe, and we think that Q1, there may be some bleed-over into Q1, but by Q2, we should be back to kind of normal levels. So that one's a little quicker recovery.

Mark Davis

And look, just again, just for those that don't know, there are only two P2S5 producers in North America. It's an ingredient that goes into automotive lubricants. So there seems to be no downturn in the necessity of automotive lubricants, and that's why we think it's a temporary thing, and they should resume normal ordering patterns relatively soon.

Steve Hansen

Okay. No. That's very helpful. That colour helps. Just one last one, if I may, and it just relates to the EC Q1. You already referred to the pricing dynamics, and I think I understand that quite well. It's just more on the HCl demand drop-off that you saw late Q4 and how that extends into Q1. Will you still be able to run at reasonably high rates in Q1 if the HCl demand is

still a little bit curtailed? I know the rig counts are better, but they're still low. And so, I'm just trying to get a sense for your—

Mark Davis

Yeah. Well, we should be able to run at decent rates in Q1. I'm not sure yet, quite honestly, if we're going to be able to run at full rates. It depends on how quickly the fracking industry comes back. Because I think -- you're aware, Steve, but this is for everybody else—is to the extent we can't sell HCl, we could still produce caustic if we could sell chlorine, but that's actually not instantaneous either. So, we think we're going to run pretty good rates in Q1. But certainly, the faster that HCl demand comes back, the more towards full rates we can get.

Steve Hansen

Very helpful, guys. Thanks.

Operator

Your next question comes from the line of David Newman. Please go ahead. Your line is open.

David Newman — Desjardins Securities Inc.

Good morning.

Rohit Bhardwaj

Good morning.

David Newman

Just on SPPC, again, just to sort of look at 2019, I think, Mark, you had previously flagged that Vale could move up in the volume a little bit, to 400,000 to about 425,000 tonnes. So, if I look at sort of the sharing in the price with your suppliers, and then the volume picture, what is the key driver, I guess, for your view on 2019 being better than 2018?

Mark Davis

I'm just um-ing because there's about six reasons. Let me name some of them—one is, merchant asset pricing continues to increase. Second, is we continued to shed excess railcar costs during the year, although that actually has a little bit of a drag because you have to clean them as you shed them. Three is that ultra-pure pricing continues to go up. And fourth, is that regen, both pricing and volume, actually gives us a benefit in 2019. And five, as we've said before, is we've changed our SBS marketing strategy. So, you put all those things together, as I said, there's five or six individual reasons that are all positive, that should drive SPPC to have a better year in '19 than '18.

Rohit Bhardwaj

And to put that in perspective, the merchant acid pickup that we are expecting is actually not that significant, relative to where we think SPPC should benefit. For the regen, the ultra-pure, and the SBS, are probably larger factors than the merchant acid part by itself.

David Newman

Okay. And just on the volume picture, are you guys counting on any additional by-product supply? Or no?

Mark Davis

Look. The increase that we've talked about before, is again based on Vale's best estimate of what they'll produce. It's hard for us to believe that they would provide less than they did last year. The question is whether or not it's an extra 50,000 tonnes or 75,000 tonnes. Again, as we've talked about on other calls, this is a new process for them and they're still optimizing it. And they don't try and optimize for acid production; they try and optimize for nickel production. But to the best of our knowledge, we believe there's another 50,000 tonnes there in '19 verse '18, maybe more, but in that magnitude.

David Newman

All right. And just on—maybe, Rohit, maybe IFRS 16. All these, the comments on the EBITDA, I would presume that's a like-for-like? And what do you anticipate could be the EBITDA lift on the back of IFRS 16? I'm just thinking of the rule of seven; maybe it could be like 25 million, $30 million EBITDA lift. And is that over and above the commentary?

Rohit Bhardwaj

Okay. So, for our commentary, we ignored IFRS 16.

David Newman

Okay.

Rohit Bhardwaj

I think it's actually going to be about a $60 million pickup for us.

David Newman

How much? Sorry?

Rohit Bhardwaj

Between 55 million and $60 million pickup in EBITDA. And we ignored that for our commentary because that's just accounting stuff. What we will be doing is we will be identifying that in our disclosure, so you can see how much it is, because it's kind of not normal business stuff. From a distributable cash perspective, it will be flat. So, the way our distributable cash would work is, we would take the hit for the lease payments themselves, the cash outlay that takes place, so there'd be no impact, on a relative basis, on de-cash. But EBITDA—

David Newman

Yeah. Just below the line. Right?

Rohit Bhardwaj

Think that'll be a benefit. Now for our bank covenants, et cetera, we are also going to adjust our—basically, we'll be pretending like IFRS 16 never came into place. So, it'll be nothing for our bank covenant perspective, but from a reported perspective, you will see the lift in EBITDA, but we will be—we will be very constant as to how much that is.

David Newman

Okay. Very good. So, just to reiterate, it's 55 million to 60 million. And is there sort of roughly a segment split? Or should we be looking at just where your weighted average segments are today?

Rohit Bhardwaj

We think it'll be disproportionately in the SPPC segment, because that's where we have a very large fleet of railcars, and the rest will be Electrochem. The Water will be, probably, the least.

David Newman

Okay. And you've mentioned about the railcars, obviously, laying up railcars and selling them. When's that process done? How far are you through it? And could there be an EBITDA lift just on the back of that? Obviously, that would have been part of the, I guess, I don't know if it's capital leases or operating leases, but what would be the lift to any cost savings there?

Mark Davis

Yes, but it's probably 2020 and going forward.

David Newman

Okay.

Mark Davis

None of these things are owned, by the way, so we have a bunch of laddered leases. So as these—so we can shed cars every year. But in the year you shed them, between cleaning them and refurbishing them and things like that, there's no cost pickup until the following year. So, starting 2020, we should actually see some cost reductions from having reduced rail size fleet.

David Newman

Okay. And last one for me, guys. Just in Brazil. Obviously, Suzano closed on Fibria. Is that a business that you think you might be married to longer term? Or any change in perspective, given the new ownership in Brazil?

Mark Davis

No. Look. I think we've said this a number of times -- that there's no great synergistic fit between Brazil and us. Having said that, from a business model perspective with risk-shared contracts, US dollar fixed-margin business, a AAA guy across the fence from us as a counterparty, because we like the business, right? So, it kind of ties into the portfolio question I actually answered before. We like this business and intend to keep it. If somebody actually sees a whole bunch more value in it than we do, we're just trying to create value, but we think it's a nice business to own and to keep.

David Newman

Very good. Thanks, guys.

Operator

Again, if you would like to ask a question, that is *, then 1 on your telephone keypad.

And your next question comes from the line of Endri Leno. Please go ahead. Your line is open.

Endri Leno — National Bank Financial

Hi. Good morning. Thanks for taking my questions. And most of them have been answered, but first, I just wanted to clarify, the Richmond facility in Virginia, in SPPC, is that back online now?

Rohit Bhardwaj

So, the Richmond one is actually in California, and that is back online and operating okay.

Endri Leno

Great. Thank you.

Mark Davis

Just while we're talking about that, — so we have a number of regen plants, and essentially, they take their turns in where we devote major capital. Those people that have actually held us for years know that we spent a lot of money over the years at Beaumont, for example. The next number of years, it's Richmond's turn. So, we will be spending a disproportionate amount of our capital in that regen business to actually make Richmond a better, more reliable facility. So as Rohit says, yes, it's done and back online and operating, but we'll likely talk about Richmond in quarters to come.

Endri Leno

Great. Thank you. And, Rohit, you mentioned before your bit of guidance for Capex for 2019. Do you have any guidance in terms of what tax you expect to pay? And whether have been any developments on the legal matters?

Rohit Bhardwaj

Okay. So, I'll deal with the tax one. And the tax one, we expect, maybe 5 million to $7 million of cash taxes that we'll pay out. Where we pay the most taxes, actually, is in our Brazil segment. In the US, we pay a little bit of minimum tax, what's called BEAT tax with the tax reform that took place. In Canada, we don't expect cash taxes for a long time to come. So overall, cash taxes should be lower than last year, and probably in the 5 million to $7 million range.

And, Mark, you want to talk on the litigation stuff there?

Mark Davis

Yeah. So, we continue to work our way through the class action suits, as we've talked about before. As you all know, we have our $100 million reserve. The big case, which is called a direct purchaser's case, which is what we announced the settlement on before, this has received interim court approval. The $51 million on that settlement goes into a court escrow account, sometime in the first quarter. And then the class gets to opt in or opt out, before you get to the final order. So that's going in normal course. As we mentioned, there's three or four other ancillary cases that we're in discussions with, and at the right valuation we'll settle them;

and at the wrong valuation we'll fight them. But they're all working through in the normal course, as we had expected when we created the reserve.

Endri Leno

Okay. Thank you. And very last one for me. There's been some pretty inclement weather in Vancouver over the last week, and have you seen any delays on the rail side of things?

Rohit Bhardwaj

In Vancouver, no. And I think one of the things, as we had mentioned, was the—given where the HCl demand was early in this quarter, we haven't had to—we are not that sensitive to rail issues. But as HCl demand picks up, and if there are further rail issues, they'll affect us. But right now, we are okay.

Endri Leno

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

Mark Davis

Thanks.

Operator

And your next question comes from the line of Benoit Laprade. Please go ahead. Your line is open.

Benoit Laprade — Scotia Capital Inc.

Thank you. Good morning, gentlemen. One last one. We talked a lot about all the operating segments. Just curious, how should we think of the corporate segment for 2019?

Rohit Bhardwaj

So, I mean, clearly, the corporate segment in 2018 had the big $100 million expense sitting there. But if you normalize that out, we should be very close to what we experienced in 2018. The one difference, I would say, is that in 2018 we had significantly lower incentive compensation costs, given our financial performance. So, assuming '19 is a normal year, we should be—we should be okay.

Benoit Laprade

Okay. Thanks. And—

Rohit Bhardwaj

And if you want—if you want a number, probably in that 65 million to $70 million range.

Benoit Laprade

Great. Thanks for this. And just curious, we talked about litigation. Any update colour you can provide on the older ones, i.e. the MEG and/or Superior Plus litigation?

Mark Davis

Look. I'd love to talk more about those; those are positives. But they are working their way through discoveries and through the court system. I'm not sure if everyone knows, but these are actually cases that are brought in the Province of Alberta, and their court schedule is lengthy. So, we continue to pursue those. They are moving, but they're moving as quickly as we could push them, which means they're moving at glacial speed.

Benoit Laprade

Great. Thank you. That's it for me.

Mark Davis

Thanks.

Operator

And your next question comes from the line of Nelson Ng. Please go ahead. Your line is open.

Nelson Ng — RBC Dominion Securities Inc.

Great. Thanks. Just a quick clarification on caustic and hydrochloric acid. In Q1, did you say that pricing for caustic should be a bit lower than Q4, given that spot markets in Asia remain low?

Mark Davis

Yes.

Nelson Ng

And then hydrochloric is about the same pricing, but volumes in Q1 might be a little bit higher than in Q4? Does that sound right?

Rohit Bhardwaj

Yeah. In Q1, the run rates will be a little better than Q4. But in terms of pricing, the issue with our pricing is it depends on our mix. We definitely get higher netbacks as we service the Canadian market, and lower netbacks as we go into the US. So, there is a bit of a mix issue, depending on how quickly the fracking activity in Canada picks up, so that might be a bit of a factor.

Nelson Ng

Okay. And then on maintenance Capex, so at 78 million, it was at a little bit lower than the 80 million to 90 million range. Were any kind of large projects pushed into 2019? And should we be assuming something at the higher end of the range for 2019?

Rohit Bhardwaj

I wouldn't—no, not necessarily. I think we have—in between that, there'll be like 200, 300 projects we did. So, while we give some ranges, we don't always get very precise with that value. But there's no one big thing we deferred, for example, so that shouldn't be a factor.

Nelson Ng

Okay. And then just one last follow-up on the legal part and the settlement. In terms of the, I guess, US$51 million settlement and the payment in Q1, and then also, I guess, the

future settlements, you're able to draw on your revolver to fund that. Right? Or that's the intention—

Rohit Bhardwaj

Yeah. As we mentioned, we have lots of liquidity and room in our covenants to allow us to borrow that money.

Nelson Ng

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

Mark Davis

Thanks.

Operator

There are no further questions in the queue. I turn the call back over to the presenters.

Mark Davis

Thank you, all, for joining us this quarter, and we'll talk to you at the end of the first quarter. Thank you.

Operator

This concludes today's conference call. 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	Year ended

($'000)		December 31, 2018		December 31, 2017		December 31, 2018		December 31, 2017
Net (loss) earnings from continuing operations	$	(97,185)	$	45,457	$	(131,517)	$	78,822
Add:								
Depreciation and amortization		53,840		55,880		214,507		204,447
Net finance costs		25,263		19,721		74,126		86,073
Income tax recovery		(10,648)		(61,464)		(48,680)		(92,692)
EBITDA from continuing operations		(28,730)		59,594		108,436		276,650
Impairment of goodwill		90,000		—		90,000		—
(Gain) loss on disposal and write-down of assets		1,031		152		(4,039)		4,498
Unrealized foreign exchange loss (gain)		2,696		1,708		1,826		2,027
Adjusted EBITDA from continuing operations	$	64,997	$	61,454	$	196,223	$	283,175

Segmented information

SPPC -

($'000)	Three months ended December 31, 2018	Three months ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
Revenue	$ 129,082	$ 129,012	$ 509,765	$ 509,373
Gross Profit	1,023	10,622	28,041	51,535
Adjusted EBITDA	17,254	24,325	86,418	112,892
(Loss) gain on disposal and write-down of assets	(1,031)	380	4,039	(38)
EBITDA	16,223	24,705	90,457	112,854
Depreciation and amortization	(17,904)	(16,979)	(72,410)	(72,613)
Net finance costs	(3,589)	(3,164)	(13,728)	(18,676)
Income tax recovery	3,289	23,894	14,450	40,582
Net (loss) earnings	$ (1,981)	$ 28,456	$ 18,769	$ 62,147

WSSC -

($'000)	Three months ended December 31, 2018	Three months ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
Revenue	$ 102,442	$ 95,174	$ 430,311	$ 411,935
Gross Profit	(88,168)	5,634	(55,106)	50,560
Adjusted EBITDA	11,929	14,968	77,300	88,836
Impairment of goodwill	(90,000)	—	(90,000)	—
Loss on disposal and write-down of assets	—	—	—	(25)
EBITDA	(78,071)	14,968	(12,700)	88,811
Depreciation and amortization	(13,178)	(13,019)	(51,784)	(52,578)
Net finance costs	(5,100)	(4,266)	(17,876)	(19,341)
Income tax recovery	8,292	38,100	26,371	61,437
Net (loss) earnings	$ (88,057)	$ 35,783	$ (55,989)	$ 78,329

EC -

($'000)	Three months ended December 31, 2018	Three months ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
North American Sales Volumes:				
Sodium Chlorate Sales Volume (000's MT)	101	98	406	353
Chlor-alkali Sales Volume (000's MECU)	46	42	178	158
Revenue	$ 159,276	$ 162,483	$ 655,671	$ 547,830
Gross Profit	25,797	23,611	113,848	88,939
Adjusted EBITDA	46,196	46,763	193,442	156,720
Loss on write-down of assets	—	(532)	—	(4,435)
EBITDA	46,196	46,231	193,442	152,285
Depreciation and amortization	(22,758)	(25,882)	(90,313)	(79,256)
Net finance costs	(1,348)	(7,111)	(18,742)	(19,518)
Income tax expense	(4,439)	340	(15,881)	(7,931)
Net earnings	$ 17,651	$ 13,578	$ 68,506	$ 45,580

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 December 31, 2018	Three months ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
Cash flow from operating activities	$ 79,853	$ 62,168	$ 244,464	$ 151,296
Less:				
Cash flow used in operating activities of discontinued operations	—	—	—	(3,809)
Cash flow from operating activities of continuing operations	79,853	62,168	244,464	155,107
Add (deduct):				
Changes in non-cash working capital and other items	(31,105)	(20,739)	(125,136)	32,436

Adjusted cash flows (used in) from operating activities of continuing operations	**48,748**	**41,429**	**119,328**	**187,543**
Less:				
Maintenance capital expenditure	31,474	34,738	77,690	66,715
Distributable cash after maintenance capital expenditure from continuing operations	**17,274**	**6,691**	**41,638**	**120,828**
Less:				
Non-maintenance capital expenditure [(1)]	5,650	2,243	14,676	8,060
Distributable cash after all capital expenditure from continuing operations	**$ 11,624**	**$ 4,448**	**$ 26,962**	**$ 112,768**

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