

# **Q4 2014 Financial and Operational Results & Setting the Stage for 2016 and Beyond**

March 2015

# Q4 2014 Results & Key Takeaways



## Results

Cash operating profit

**\$20.7**<sup>(1)</sup>  
million

## Key Takeaways

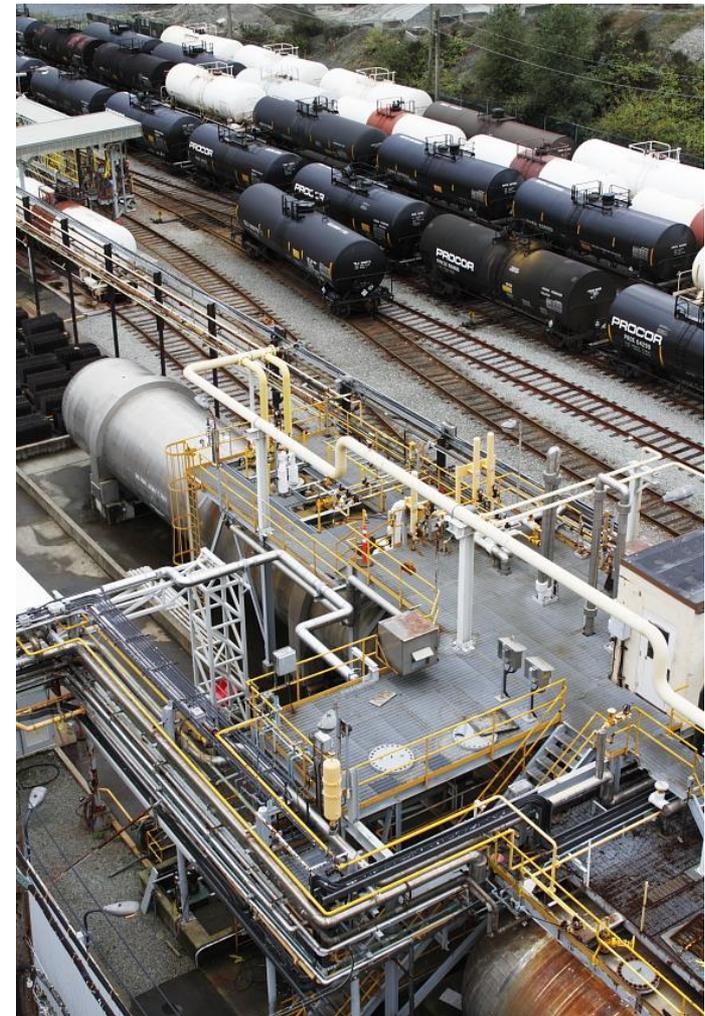
- Solid quarter for North American Sodium Chlorate
- North American Chlor-alkali business benefitted from \$2M hydrochloric acid contract settlement
- Stable results continue in Brazil
- NATO facility was re-commissioned; operational performance is improving



# 2014 Results Summary

**Cash operating profit for 2014 was \$89M<sup>(1)</sup>**

- Record production volumes at Brandon
- Record financial performance for Brazil
- Commissioning and ramp-up at NATO
- Lower North American sodium chlorate netbacks and higher costs
- Non-cash impairment, inventory write-downs and severance costs affected results



(1) After severance costs of \$5.0M and inventory write-downs of \$1.8M

# 2015 Outlook

## Strong Start to the Year



### Sodium Chlorate

- Solid sodium chlorate prices
- Devaluation of the Canadian dollar relative to the US dollar is a net benefit
- Brandon plant expected to produce a record of 316,000 MT's in 2015
- Industry operating rates are expected to remain in the low 90% range in 2015

### Chlor-alkali

- Caustic soda prices moderated entering 2015 showing some improvement in March
- Chlorine netbacks have shown recent improvement
- We expect to see a decrease in hydrochloric acid demand and pricing due to slow-down of activity in the oil and gas sector in Q2

### Brazil

- Remains stable cash flow producer

### NATO

- 1.0-1.5 additional unit train volumes contracted commencing in Q3 2015
- Lower unit train nominations for Q2 2015 pursuing spot contract opportunities

Cash Operating Profit  
January/February  
~\$19 million



# Our Approach

## Stabilize



**“To succeed, a company must have a clear and focused strategic plan accompanied by flawless execution.”**

1

### Stabilize

Optimize performance at  
NATO

2

### Strategize

Develop a clear focus  
& direction for the  
company

3

### Energize

Execute the plan; build a  
culture of performance &  
success

#### NATO Update:

- During the last quarter of 2014 we made significant operational progress at NATO
- The site has proven it can consistently load unit trains in 17 hours or less
- At currently contracted levels (5.5 trains/week commencing in Q3 2015) we should break even (at full nominations)
- Exploring options to increase unit train volumes and looking to reduce cost structure

# Our Approach Develop a Plan



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### Develop a Plan to:

1. Create Portfolio Alignment
2. Increase Financial Flexibility
3. Optimize Performance

# 1. Creating Portfolio Alignment

## NATO Divestment Update



- NATO was identified as an asset that did not align with our portfolio or our core competencies, as a result a sale process was initiated
- The disposition process began in Q3 2014, with strong initial interest shown from oil and gas producers, midstream players, refiners and financial sponsors
- In Q4 2014, oil prices decreased dramatically causing the industry to curtail capital spending due to uncertainty; this has affected both the number of interested parties and indications of value for the asset
- Discussions are ongoing, but no definitive agreement has been reached
- Near-term objective is to optimize NATO operations and contract additional volumes
- The plan remains to sell NATO and return to a pure-play chemical company

# 2. Increasing Financial Flexibility

## Dividend Reduction & Potential NACA Divestment



### 1. Dividend Amendment

- In order to maintain capital management flexibility, the Board has reduced the dividend to \$0.01/share per quarter
- Results in Canexus incrementally retaining \$67M of cash annually to reduce debt and fund committed capital expenditures

### 2. Potential Divestiture

- Along with the NATO process, Canexus continues to evaluate all alternatives to best position the business for success going forward
- North Vancouver sale process initiated
- Engaged financial advisor
- Bids have been received and are being evaluated
- No assurance that a transaction, if pursued, will be completed

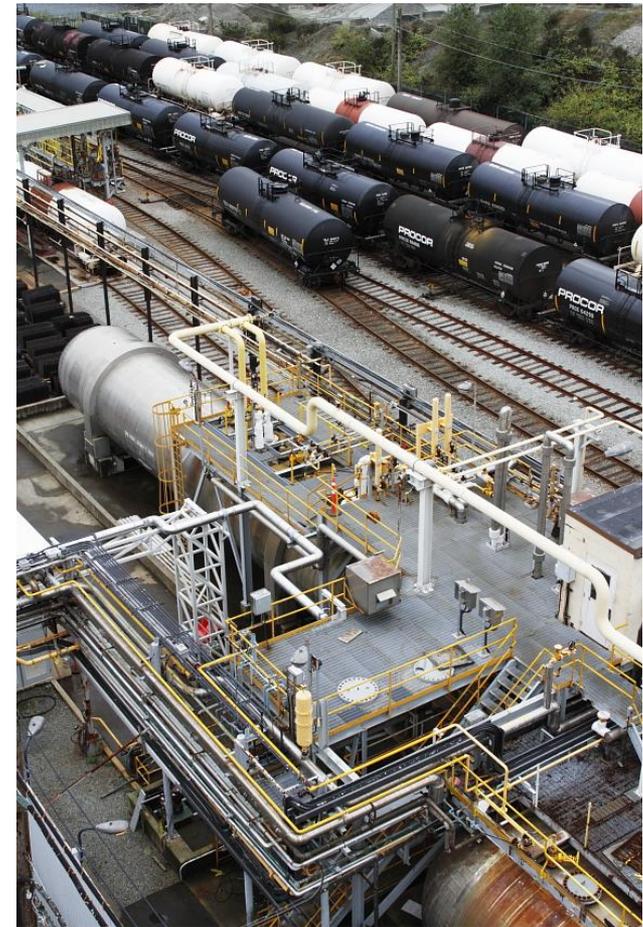
Total Debt Ratio Target  
3.5 x Cash Flow



# 3. Optimizing Performance Business Improvement Program



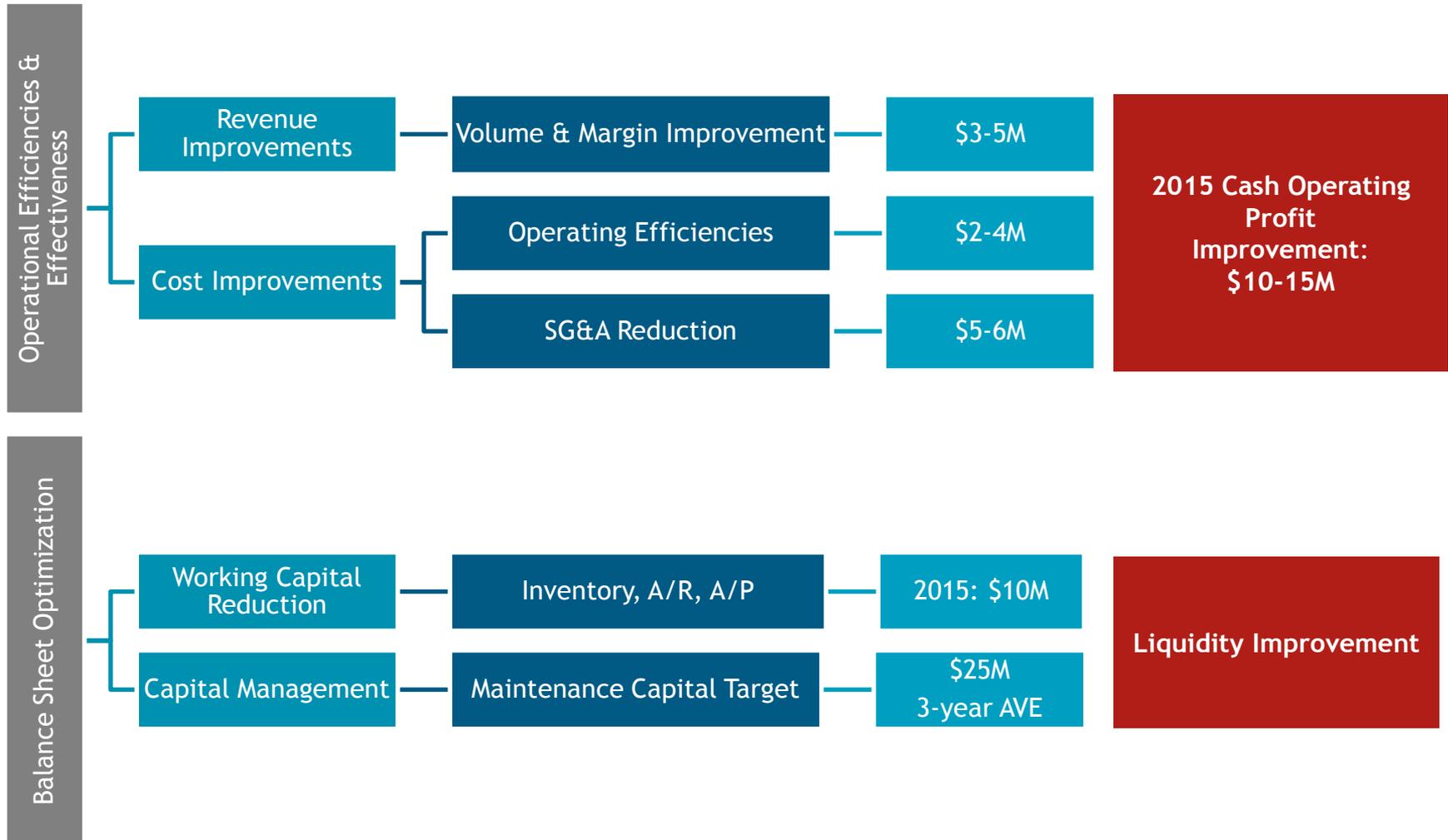
- The Business Improvement Program (“BIP”) is a plan to reenergize our company
- The program extends across all areas and all operations from the head office to the plants and is led by a group of senior executives
- The goal of the program is to ensure the long-term sustainability of the organization by implementing near and long-term improvements in business process and structure to generate sustainable long-term returns
- The BIP will focus on increased cash flow and improve balance sheet values through:
  - Volume & Margin Improvement
  - Operating Efficiencies
  - SG&A Reduction
  - Working Capital Reduction
  - Capital Management
- Over time the Business Improvement Program will transition into a continuous improvement program



# Business Improvement Program Objective



Key optimization opportunities deliver cash operating profit, liquidity and margin improvement



# Business Improvement Program

## Key Initiatives



### Operating Efficiencies & Effectiveness

#### Volume & Margin Improvements

- Increasing chemical spot sales
- Reorganizing plant workflow processes
- Optimizing plant operations to reduce input usage cost
- Optimizing logistics to lower freight and distribution costs

#### Operating Efficiencies

- Reviewing expenses, controlling and cutting costs
- Reviewing and renegotiating support contracts
- Streamlining processes and rationalization
- Automation improvements

#### SG&A Reduction

- Right-sizing the organization
- Reducing and optimizing hours
- Reviewing contractor positions

### Balance Sheet Optimization

#### Working Capital Reduction

- Reducing inventory levels
- Accelerating collection of accounts receivables and extending payment terms

#### Capital Management

- \$25M ongoing maintenance capital average over three years focussing on safety and reliability



# Moving Forward

## Execute



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2015

- Primary focus will be resetting our foundation for growth through operational optimization and debt reduction from lower dividend and asset sales

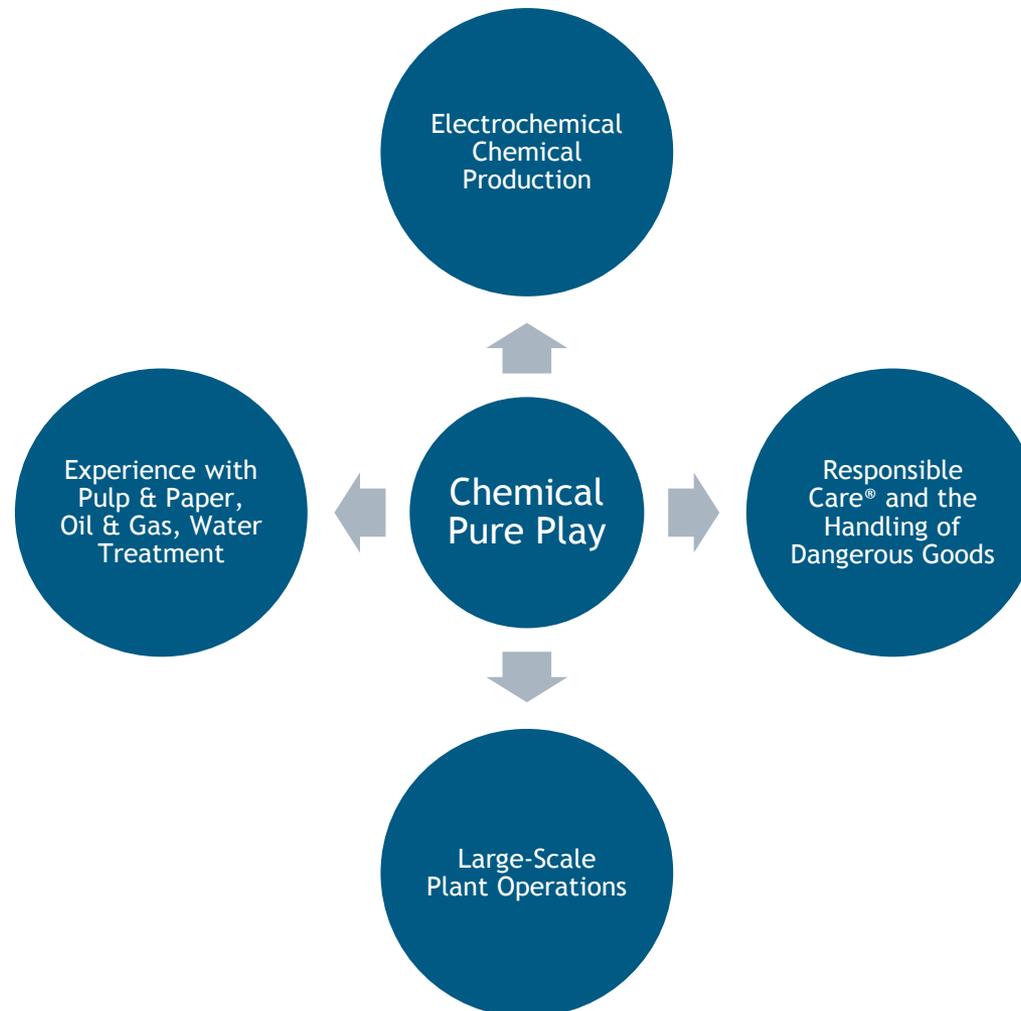
2016

- Return to being a pure-play chemicals company with a focus on operational excellence
- Pursue organic and acquisition opportunities

# 2016 and Beyond Core Competencies



In 2016, we expect to realize the full impact of the Business Improvement Program and will have the financial flexibility to “return to our roots” and leverage our core competencies to grow



# Capital Allocation

## A Disciplined Approach

Allocation of funds will balance ongoing business operations, future growth and shareholder returns



2015 - 2016

### Sustainment Capital

- Maintain safe, reliable, efficient operations
- Targeting \$25M as a go forward run-rate average over the next 3 years



2017 and Beyond

### Growth Investment

- Organic Growth
  - Brandon expansion
  - Brazil greenfield
- Chemical acquisitions
  - Strategic fit
  - Leverage core competencies
  - Flawless integration and maximum synergy attraction
  - Accretive

# Creating Shareholder Value Value Proposition



As Canexus initiates a period of resetting and transition, value creation is being restored

## Increase Financial Flexibility

- Asset Divestitures
- Dividend Reduction
- Business Improvement Program

2015



2017



## Long-term Chemical Growth

- Organic
- Acquisitions

# Forward-looking Statements



This presentation contains forward-looking statements and information relating to expected future events relating to Canexus and its subsidiaries, including with respect to: stability of results in Brazil; improvements in operational performance at NATO; expectations for record sodium chlorate production at Brandon and industry operating rates; expectations for HCl demand and oil and gas activity in Q2; expectations for loading times on unit trains, the number of contracted unit trains at NATO and impact on profitability; the intention and ability to dispose of NATO; expectations for the amount of retained cash arising from the dividend reduction and the purposes to which it will all be applied; the evaluation of bids for North Vancouver and the potential for a sale; the ability of the BIP to achieve its goals, including in relation to balance sheet optimization and operation efficiencies and the quantum of associated cash operating profit and liquidity improvements.; expectations for Canexus' future financial flexibility and ability to leverage core competencies and the relative allocation of capital to sustain and growth both organically and by chemical acquisitions. The use of the words "expects", "anticipates", "continue", "estimates", "projects", "should", "believe", "plans", "intends", "may", "will" or similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking statements for a variety of reasons, including market and general economic conditions, future costs, treatment under governmental regulatory, tax and environmental regimes and the other risks and uncertainties detailed under "Risk Factors" in the Corporation's Annual Information Form filed on the Corporation's SEDAR profile at [www.sedar.com](http://www.sedar.com). Management believes the expectations reflected in these forward-looking statements are currently reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. Due to the potential impact of these factors, Canexus disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law. Financial outlook information contained in this presentation about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Such financial outlook information should not be used for purposes other than those for which it is disclosed herein.

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