

CHEMTRADE LOGISTICS INCOME FUND

Q1 2020 Results Conference Call

Mark Davis

Good morning, ladies and gentlemen.

In these truly unprecedented circumstances, I hope all of you are safe and well. We thank you for joining us today.

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.

COVID-19 has turned all our worlds upside down. We are all affected in some way or another. We send our sincere best wishes to all of you to stay safe and stay healthy.

As usual, Rohit Bhardwaj is on the call today, but due to the pandemic we are doing this call virtually and are in different locations.

Chemtrade, as you may be aware, falls under the essential business classification under US State and Canadian Provincial orders. Our employees' health and safety have been our highest priority as all of our operations have continued. We have implemented measures to ensure that our employees can continue their work safely and that we can continue to supply our customers. I would like to start this call by thanking each member of our workforce for their dedication and performance during these trying times.

Specifically, I want to acknowledge and thank them for their adherence to all the safety precautions we put in place, watching out for each other and their individual efforts in the communities where they live. They have been outstanding.

On this morning's call, Rohit will provide a brief review of our first quarter results and an update on liquidity. As you will note from our news release yesterday, our Q1 results were not significantly affected by COVID-19.

The focus on Covid and its future effects take our attention away from our first quarter results. Rohit will detail these, but from an operating sense the improvements we

implemented continue to bring benefits. SPPC sustained the improvements it realized in 2019, our water business continued to improve and our EC segment was affected by caustic pricing which will, in time, turn in our favour. The focus and concern over Covid minimizes the many challenges the business faced and overcame in the first quarter. This includes the rail blockade which received a lot of press in Q1, but was another issue overcome by the business, again, thanks to the improvements we have made and the efforts of our employees.

Following Rohit's review, I will have some comments on the current economic environment for Chemtrade and, to the extent we can, some comments on our outlook for the balance of the year.

Rohit?

Rohit Bhardwaj

Thank you, Mark. Good morning and I hope that everybody is keeping well.

Before I comment on our first quarter results, I wanted to mention a non-cash item that affected our results. As we've mentioned for the last number of quarters, our water business continues to improve and is one of our businesses in which demand should not be adversely affected by COVID. Having said that and despite continually improving results, COVID has resulted in everyone facing increasing business risks and thus a higher imputed cost of capital. Due to this increased cost of capital, we were required to record a goodwill impairment on our water business of \$56 million. The following discussion will exclude this non cash goodwill impairment charge.

Looking first at the aggregate results for the first quarter of 2020, revenue was \$366.9 million, a decrease of \$18.4 million from 2019. The revenue decrease was primarily due to lower volumes of sulphuric acid in the Sulphur Products and Performance Chemicals, or SPPC, segment, and lower prices for caustic soda and hydrochloric acid in the Electrochemicals, or EC, segment. These decreases more than offset higher selling prices for sulphuric acid and higher sales volumes for water products.

Aggregate EBITDA for the first quarter of 2020 was \$80.9 million compared with \$44.0 million in the first quarter of 2019, which included a \$40.0 million litigation reserve. For the first quarter this year, EBITDA for our businesses was \$10.4 million lower than last year, and ignoring the litigation reserve, corporate expense was \$7.3 million better.

Distributable cash after maintenance capital expenditures for the first quarter was \$38.2 million, or 41-cents per unit. As announced on March 11, effective with our March distribution, which was paid on April 30th, we reduced our distribution rate to 5-cents per unit, making distributions declared for the first quarter 25-cents per unit.

Now, turning to segmented results for the quarter, SPPC generated revenue of \$113.0 million compared with \$131.1 million in 2019. EBITDA for the quarter was \$34.6 million, which was \$2.9 million lower than 2019. Selling prices for merchant sulphuric acid were higher this year.

The higher prices for merchant acid allowed us to maintain our margins for acid products even though we received substantially less volume from our by-product supplier. For the segment as a whole, EBITDA was slightly down from last year as the steady margins for acid products were offset by lower contributions from sodium hydrosulphite and sulphur.

Our Water Solutions and Specialty Chemicals, or WSSC, segment reported first quarter revenue of \$113.3 million compared with \$105.4 million in 2019. EBITDA substantially improved to \$25.7 million from the \$18.1 million generated in 2019. Our water products continue to improve, contributing about half of the segment's year over year improvement. The improvement was driven by increased alum selling price and volume while our raw material costs remained stable. Our other water products also enjoyed generally higher volumes and prices.

During the first quarter of 2020, as a result of changes in macro-economic conditions we recorded a goodwill impairment.

Within the segment, Specialty Chemicals EBITDA was higher than 2019, primarily due to stronger results from phosphorous pentasulfide, or P_2S_5 . While our water products should continue to have success over the balance of the year, the outlook for P_2S_5 is not as positive as we expect the demand for automotive lubricants, which is the end market for P_2S_5 , for the balance of the year to be adversely affected by COVID-19.

Our EC segment reported revenue of \$140.5 million for the first quarter of 2020, which was \$8.2 million lower than the same period of 2019. The lower revenue was due to lower selling prices for caustic soda and lower volume and prices for hydrochloric acid.

Despite the end market diversification we have achieved, HCl volume continued to struggle due to the downturn in the fracking industry.

From an EBITDA perspective, EBITDA of \$32.9 million for the first quarter of 2020 was \$15.2 million lower than the same period of 2019. This was primarily due to lower selling prices for both caustic soda and HCl. Our Brazil operation also reported lower EBITDA compared with the same period last year.

Maintenance capital expenditures in the first quarter were \$11.0 million. Maintenance capex in 2020 is difficult to predict, primarily because of the uncertainty of being able to find contractors to carry out the work due to the pandemic. If we are able to hire contractors, we estimate maintenance capex of about \$80 million for 2020, although it's quite possible that we will not spend this amount in 2020.

Excluding unrealized foreign exchange gains, corporate costs during the first quarter of 2020 were \$12.4 million, compared with \$59.7 million in the first quarter of 2019. The 2019 costs included a \$40.0 million litigation reserve. Even excluding this reserve, 2020 costs were \$7.3 million lower primarily due to lower incentive compensation accruals.

Turning to liquidity, which we know is high on everyone's agenda, we maintain ample liquidity. Between cash on hand and our undrawn revolving facility, we have approximately US\$200 million as available liquidity.

Regarding debt maturities, we have no maturities within the next twelve months. Our senior credit facility does not mature until October 2024. We are in compliance with all our bank covenants. Further, in light of the current uncertain economic climate, we have negotiated an amended covenant package on our senior credit facility, which provides us with additional covenant room over the next two years.

I'll now hand the call back to Mark.

Mark Davis

Because it is so topical, I wanted to underscore what Rohit just noted, which is that we do not have liquidity concerns and are in compliance with all of our bank covenants.

Despite these uncertain times, we will try to provide some relevant information about the balance of 2020.

Recall that in early 2020 we issued Guidance for the year that we have now suspended. At a high level, the midpoint of our Guidance would have resulted in Chemtrade generating sufficient cash to satisfy all of our obligations and to cover our historical distribution rate of \$1.20 per year.

As we became aware of the potential economic effects of COVID-19, we moved aggressively to position Chemtrade for this downturn. After 13 years of maintaining a distribution rate of 10 cents per month, we reduced our monthly distribution by 50%. This increased our liquidity by about \$55 million a year. Subject to all the uncertainties I will discuss, we expect that we will generate sufficient distributable cash during this unprecedented year to satisfy all of our obligations and to sustain our current distribution rate.

The uncertainty of this pandemic makes it very difficult to estimate future earnings with any degree of specificity. This lack of specificity is what led us to withdraw our Guidance.

Since the chemical industry is an essential industry, our facilities have continued to operate. Our team has done an outstanding job throughout this pandemic, operating safely, overcoming obstacles, and keeping our customers supplied. In our case, it's not a question of whether we can continue to operate or whether there will be demand for our products. The question is how much will demand be affected by the shut down or slowdown of much of the economy, and how long will this state last?

Although we are still in very uncertain times, we have now been through a couple of months of widespread restrictions and have had time to talk to our customers. While we will not yet be re-instituting Guidance, we can make some comments on how the pandemic is affecting our business in the second quarter and how it may affect the balance of the year.

At the highest level, our two largest concerns caused by COVID are its effect on the oil and gas industry, and the ability for Chemtrade and its customers to perform maintenance turnarounds safely during COVID. Having said that, certain segments of our business, such as our products that help purify drinking water, are not suffering from reduced demand during this pandemic.

Turning to some more specifics, in the Outlook Section of our MD&A we set out the following:

While we can no longer provide a definitive Guidance EBITDA range, we can give you our current view of certain of our Guidance assumptions. Our current views of these assumptions could be wrong and we specifically caution that this is a very fluid situation. Our comments below are based largely on input from our customer base which can, and likely will, change over time. Accordingly, the following comments should be read with extreme care and given the fluidity of the situation, we will not update these comments until our next MD and A.

Comments on certain key elements contributing to Chemtrade's earnings are as follows:

- COVID-19 related restrictions substantially reduced demand for gasoline and thus demand for our regen services. We expect this to have a significant negative effect in the second quarter of 2020 and slowly improve over the balance of the year, but still ending the year well below normal demand.
- We still expect that none of the principal manufacturing facilities (as set out in Chemtrade's Annual Information Form) incurs significant unplanned downtime. However, due to the deferral of certain maintenance turnarounds and the future availability of contractors to perform required maintenance, there could be an effect on the reliability of our operations.
- Key assumptions in the EC Segment are as follows:

We now expect that North American MECU production volume of approximately 170,000 tonnes, limited primarily by demand for our chlorine and HCl products. If demand for these products decreases further, our production will decrease. Conversely, if demand increases, production could be higher.

We now expect that 2020 average caustic soda price will be stable for the year.

North American production volume of sodium chlorate will be approximately 400,000 MT.

- A foreign exchange rate of US\$ 0.72 per C\$ 1.00.
- Chemtrade also expects:

Maintenance Capital Expenditures to range about \$80.0 million; our ability to spend this amount will largely be dependent on the availability of needed contractors.

Lease Payments to range between \$55.0 million and \$60.0 million.

Cash Interest (excluding the impact of IFRS 16) to range between \$70.0 million and \$75.0 million.

Cash Taxes to range between \$5.0 million and \$10.0 million.

So, again, as a general statement, decreased demand from the oil and gas industry is the main negative effect on Chemtrade. This affects both our regen business (which is linked to refineries producing gasoline) and the fracking industry which uses hydrochloric acid and is linked to production rates of our chlor-alkali plant.

Starting with our SPPC segment:

Sulphuric Acid

Recall that we sell acid to three markets. Regen acid to the refining industry; merchant acid to North American general industry; and Ultra-pure acid to the semiconductor industry.

The first and perhaps most obvious area that affects us is refinery production. In a typical recession, cheaper crude oil and hence cheaper gas prices at the pump somewhat mitigate the effect of the recession and therefore the reduction in refinery utilization rates is not too significant. Clearly, it's different this time as with very few cars on the road, gasoline production is down substantially. It is very expensive for our major refinery customers to completely shut down. Therefore, we expect refineries to run at historically low rates, but that they will continue to operate. This affects our regen business. We believe that refineries will operate in Q2 at rates approximately 35% lower than last year, which is essentially the lowest rate our refinery customers can operate without fully shutting down their facilities.

We expect a slight improvement in Q3, and for Q4 to be better than Q3 but still about 15% lower than we had assumed in our original Guidance for 2020.

The positive side of this is that as the economy regains its footing and people start to drive more, we expect that refineries' production rates will improve and with that, our regen earnings. We believe this is a direct COVID-related downturn and it will be remedied as the effect of the pandemic lessens.

Merchant sulphuric acid demand is also down due to the general reduction in industrial manufacturing activity. As we have noted before, sulphuric acid is one of the main raw materials for the production of water treatment chemicals. This lets us consider placing more of the sulphuric acid we generally sell to the industrial market into our own water chemicals business instead of sourcing from third parties. Despite our ability to self-supply, we believe that the extreme slowdown of industrial demand will be a downside in Q2, and to a lesser extent in Q3. We expect by Q4 that there will be sufficient demand between self-supply and general industry demand that we will return to more normal earnings.

Finally, Ultrapure acid. To date, our customers have not indicated any change to their operations and thus our demand for this product is expected to continue unaffected by COVID.

So, as a general statement, in our SPPC segment the most significant effect of COVID-19 should be the downturn in refinery operating rates. We believe that Q2 will see the most significant effect, while it should slowly improve over the rest of the year.

EC

I'll comment on both of EC's main products, Chlor-alkali and Chlorate.

First, Chlor-alkali

As noted, the biggest COVID related effects are from the oil and gas industry. SPPC is affected by refinery operating rates, while EC is affected by activity in the fracking industry.

Our original Guidance forecast MECU production of 190,000 tonnes in 2020. Recall that we must make and sell either chlorine or HCl in order to make and sell caustic.

Thus, our operating rates are determined by the amount of chlorine or hydrochloric acid that we can sell. Our original Guidance was based on converting about 39% of our chlorine into HCl. HCl is a key component in fracking oil and gas, and is a major end market for us. In 2019 we actively and successfully diversified our HCl customer base, adding end use customers outside the fracking industry. Nevertheless, we still intended to sell approximately 40% of our HCl into the fracking industry. As a result of both COVID and low oil prices, the fracking industry has suffered a significant downturn. Our chlorine demand has increased, which offsets some but not all of the HCl demand that has been lost. The result is that (again based on current views) our 2020 MECU production will be limited to 170,000 tonnes, or 10.5% less than our original Guidance due to chlorine / HCl demand. For the co-product caustic soda, we had assumed that the NE Asia spot index for caustic soda, which is a key determinant of our pricing, would be flat for the first half of 2020 from where it ended in 2019 and increase by about 15% over the second half of 2020. We still feel comfortable about our first half projection but are now assuming that the index will be flat for the balance of the year.

Over time we will be able to sell more chlorine and the fracking industry should improve, but we do not foresee either of those events occurring during the balance of 2020. And longer term, as we have been saying, we believe that caustic pricing will increase for a number of years as the worldwide economy regains its footing and the macro caustic supply / demand balances tighten up again.

Chlorate

Again, for a reminder, sodium chlorate is used to bleach pulp. Bleached pulp is used to make paper but also for tissue, diapers and similar uses. Our withdrawn Guidance detailed our assumption that we would sell 420,000 tonnes in 2020. To date we are tracking this assumption, but our customers have indicated that they expect some softness later this year. So, we now expect to produce about 5% less chlorate than our original Guidance. While tissue and related demand has been strong, there has been significant weakness of paper demand in North America. As noted, this will have a negative effect on us but not to the same magnitude as the oil and gas downturn I've already discussed.

WSSC

Finally, I want to make a brief comment on our Water products.

Not surprisingly, our water products – primarily used to treat drinking water -- have seen no reduction in demand. This business continues to experience improved performance over its 2019

results. While this is good news, the improvement is not sufficient to offset the expected weaknesses in the rest of our business we have discussed.

Those conclude our comments on our demand expectations, but I also want to briefly comment on operations and foreign exchange.

We announced last month that we had postponed the major turnaround of our North Vancouver plant. The same is true for our other plants, and for our customers. A plant turnaround requires a lot of outside workers as well as a supply chain of parts and equipment. Until the COVID environment stabilizes, most of heavy industry has deferred what maintenance work they can. We are conducting whatever work we can to ensure that we can operate safely. However, we do have a concern that as turnarounds are delayed, reliability of our plants and of our customers' plants could suffer.

Finally, the only good news out of all this, if you can call it that, is that the lower Canadian dollar helps us. Our Guidance had assumed a Canadian dollar valued at 0.77 while it is now trading at roughly 71.5. This is expected to have a favourable impact of about \$11 million for the last three quarters of 2020, however this is, of course, dependent upon how our business performs over the rest of the year and on changes in the exchange rate.

In summary, this year we expect to generate sufficient cash to satisfy our obligations and fund our distributions. Demand for some of our products will suffer in 2020 but as the economy returns, we expect demand to return.

(1) Non-IFRS Measures*EBITDA and Adjusted EBITDA –*

Management defines EBITDA as net earnings before any deduction for net finance costs, income taxes, depreciation and amortization. Adjusted EBITDA also excludes other non-cash charges such as impairment, change in environmental liability, gains and losses on the disposal and write-down of property, plant and equipment, 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:

(\$'000)	Three months ended March 31	
	2020	2019
Net loss	\$ (97,875)	\$ (29,318)
Add:		
Depreciation and amortization	63,917	67,464
Net finance costs	67,452	27,111
Income tax recovery	(21,121)	(17,534)
EBITDA	12,373	47,723
Add:		
Impairment of goodwill	56,000	-
Change in environmental liability	3,381	-
(Gain) loss on disposal and write-down of property, plant and equipment	(482)	303
Unrealized foreign exchange loss (gain)	9,608	(4,063)
Adjusted EBITDA	\$ 80,880	\$ 43,963

Segmented information**SPPC -**

(\$'000)	Three months ended March 31	
	2020	2019
Revenue	\$ 113,022	\$ 131,079
Gross profit	14,461	16,483
Adjusted EBITDA	34,632	37,525
Gain on disposal and write- down of property, plant and equipment	49	2
EBITDA	\$ 34,681	\$ 37,527

WSSC -

(\$'000)	Three months ended March 31	
	2020	2019
Revenue	\$ 113,338	\$ 105,390
Gross (loss) profit	(42,370)	6,188
Adjusted EBITDA	25,706	18,067
Impairment of goodwill	(56,000)	-
Change in environmental liability	(3,381)	-
Gain on disposal and write-down of property, plant and equipment	457	2
EBITDA	\$ (33,218)	\$ 18,069

EC -

(\$'000)	Three months ended March 31	
	2020	2019
North American sales volumes:		
Sodium chlorate sales volume (000's MT)	102	101
Chlor-alkali sales volume (000's MECU)	36	39
Revenue	\$ 140,541	\$ 148,783
Gross profit	6,853	21,764
Adjusted EBITDA	32,933	48,094
Loss on disposal and write-down of property, plant and equipment	(24)	(4)
EBITDA	\$ 32,909	\$ 48,090

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:

<i>(\$'000)</i>	<u>Three months ended March 31</u>	
	2020	2019
Cash flows from (used in) operating activities	\$ 31,220	\$ (53,470)
Add (Less):		
Lease payments net of sub-lease receipts	(13,795)	(14,643)
Changes in non-cash working capital and other items	31,849	79,582
<i>Adjusted cash flows from operating activities</i>	49,274	11,469
Less:		
Maintenance capital expenditures	11,043	8,958
<i>Distributable cash after maintenance capital expenditures</i>	38,231	2,511
Less:		
Non-maintenance capital expenditures	746	2,442
<i>Distributable cash after all capital expenditures</i>	\$ 37,485	\$ 69

QUESTION AND ANSWER SESSION**Operator**

Thank you, gentlemen. Just a reminder, in order to ask a question, simply press star followed by the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Bria Murphy of BMO Capital Markets. Your line is open.

Bria Murphy, BMO Capital Markets

Hi. This is Bria Murphy on for Joel Jackson. Thanks for taking my question. Given limited COVID-19 related impacts in Q1 and obviously the expectation that some of your businesses will be materially impacted in the coming quarters, do you expect Q1 to represent the highest quarter for earnings for the year?

Mark Davis, President & Chief Executive Officer

Yes.

Bria Murphy

Okay, thanks. And then just maybe on the water business, obviously the margins were quite strong in the first quarter. Are there any one-time mix effects in Q1 and how sustainable do you think the strong margins are going forward?

Mark Davis

So, we think the business, as we said, has improved and continues to improve. The one thing we are watching is whether or not some municipalities might have pre-ordered to make sure their supply chain stayed strong in the face of COVID. But most people don't have that much storage, so we expect the business to continue strong. Rohit, did you want to add anything?

Rohit Bhardwaj, Chief Financial Officer

No, I think that's a fair comment, Mark.

Bria Murphy

Okay. And then just one last quick one for me: How do you expect corporate costs to trend in 2020 versus 2019 levels?

Rohit Bhardwaj

So, if you look at corporate costs, as we pointed out, they were really low in Q1. We had net reversals in our long-term incentive accruals. So, our range for corporate costs annually is about \$65 million to \$70 million. We expect the same, keeping in mind that there is a US component to our corporate costs, so with the lower Canadian dollar we will see corporate costs being higher than they would have been last year, but they should still fall within that \$65 million to \$70 million range.

Bria Murphy

Thank you.

Operator

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

Jacob Bout, CIBC World Markets

Good morning. I wanted to start with the SPPC, the volumes that you're seeing overall in that segment and how have they been in April versus what you saw in first quarter?

Mark Davis

Lower. They start trending down, I guess, right at the end of March really. But April is reflective of the comments we gave on guidance, regen down substantially, merchant down around the edges.

Jacob Bout

So, 30%, 40%, is how we should be thinking about?

Mark Davis

I think we said 35% for regen.

Jacob Bout

Okay. And then has there been any improvement, or has it just steadily gotten worse as you're kind of proceeding through to the second quarter?

Mark Davis

There's a lot of noise out there. Look, we're only, I guess we're about a month and a half into the quarter, and we all watch the news and I think the thing I saw yesterday was 26 million more Americans were moving around last week than week before, right? So that should have, if that keeps up, you know, maybe the refineries that hit the trough, but we've had some stuff that's been better and some stuff that's been worse. So, we'll have to wait and see.

Jacob Bout

Okay. And then can you remind us again regen volumes as a percentage of overall SPPC?

Rohit Bhardwaj

We said about 40% or so of SPPC would be regen.

Jacob Bout

Okay. And then on the EC side, as we think about North Van, how should we think about fixed versus variable cost at North Van?

Rohit Bhardwaj

Maybe I can take that one. So, we do have a pretty high variable margin in that business and the reality with most of our chemical plants is that so long as you're operating, even if you're operating at 75%, 80% of capacity, there's really not much fixed cost that you can shed, because these are automated plants and you tend to have a certain minimum crew that you run, so while there may be some maintenance and some other costs, by and large the fixed costs kind of remain intact.

Jacob Bout

Okay. And, sorry, you said up to 75%?

Rohit Bhardwaj

No, no, I mean, it's maybe, you know, because these plants are not designed to run less than 24 hour shifts, by and large, so you do, you'll just turn it down, so you really won't shed cost unless you decided to start operating in a different manner.

Mark Davis

You should assume our fixed costs are fixed and the reduction in volume we actually talk about is pure margin hurt. We're not going to be able to save our way to mitigate that in costs.

Jacob Bout

And then you made, in the commentary on caustic prices I think you said second quarter, you know, prices should be relatively stable through the remainder of the year. And if we look at some of the industry publications, they talk about caustic prices moving higher in the US Gulf. How are caustic prices in second quarter versus what you saw in first quarter for you?

Rohit Bhardwaj

The caustic prices have, again, remember our customers and we had a big reliance on what happened to that Northeast Asia index and prices fell awfully far on that index, below actually where the year ended. But they've now started to come back, right? So, we've seen pretty stable caustic pricing through the year and, as you heard from our comments, that's kind of what we're assuming for the balance of the year. If you read the reports you're reading, and we do too, it looks like there could be some more upward movement in caustic pricing as the chlorine derivatives have actually, demand has fallen quicker. And look, we hope that that's so and hope it'll last for a while, but we're assuming pricing is flat for the year.

Jacob Bout

Okay. I'll leave it there. Thank you.

Mark Davis

Thanks.

Operator

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

Unknown Speaker, Desjardins Capital Markets

Good morning. This is (inaudible) in for David Newman. Thank you very much for taking our questions and now thank you for the colour earlier. Very helpful. So, our first questions come regarding chlorine and HCl. You said that chlorine has been down a bit because of the industrial activity and HCl obviously being impacted by oil and gas as well. Do you plan to have any adjustment from the normal conversion rate of 35%, 37%?

Rohit Bhardwaj

Yes, so we're expecting—

Rohit Bhardwaj

Okay, I'm going to say that we're expecting, we had said 40% was what we had thought we would be at for chlorine conversion to HCl. We now think is going to be around 30%. And so that is kind of the reduction that we're forecasting right now based on reduced demand from industry and from the fracking. So even though we had diversified away from the fracking industry, we still had a fair bit going into fracking and now we see that even dropping to maybe 25%.

Unknown Speaker

25% to 30% for now?

Rohit Bhardwaj

Yeah.

Unknown Speaker

All right. And regarding, coming back to the caustic soda in Northeast Asia, we've seen that with domestic price in China caused more exports to buy and also the auto manufacturing plants are coming back in China, which then boosts the chlorine usage, so do you think that can make, ah, it can result in more supply in the export market and probably driving down the caustic price?

Mark Davis

We don't know. I guess that the question there, too, is what happens to the aluminum producers and other caustic demand within China. Right now the views seem to be that caustic demand has actually held over there more than the chlorine derivatives, so there's been upward pressure on caustic pricing, which, as you know, is good for us. But if I'm leery, frankly, to forecast supply/demand characteristics in North America, I'm even more leery to forecast them in Asia.

Rohit Bhardwaj

I can just add one thing to that. You mentioned the automotive industry. So, as far we know, actually that the automotive industry uses slightly more caustic than chlorine. So, it's somewhat balanced, but if you (inaudible), it actually takes a bit more caustic. So, if that industry picks up, it should be actually slightly positive.

Unknown Speaker

I see. Very helpful, thank you. And maybe just shifting gears to SPPC, is the regen (inaudible) are pro rata with the refinery utilization rate so that if you see refinery going down, let's say 5%, regen will also go down by the same amount?

Mark Davis

Yes. And I'm just pausing because, you know, that's a really good wrapper of a statement, but the other statement is that generally, specific refineries spent acid goes to specific of our regen plants. And most of our regen plants don't just get product from one refinery, right? So, if all of the refineries that were sort of by a particular plant go down 35%, their alkylate production goes down by 35%, probably their regen, regen production goes down. It's a little bit of a mix and a match, right?

Unknown Speaker

I see. Maybe just the last question regarding the Richmond turnaround, so I assume that you postponed the small turnaround in Q1 and that in turn can delay the Q4 big turnaround as well. Is there are any—have you heard anything from the big refiners that you (inaudible)?

Mark Davis

We still think that Q4, we're still planning on that Q4 turnaround happening. The refinery really needs to make it happen and we keep planning on that to happen. So, I'm pretty sure that one happens. Some of the other ones I'm more concerned about.

Unknown Speaker

Okay. Thank you very much. That's all for me.

Mark Davis

Thanks.

Operator

Just a reminder, in order to ask a question, simply press star then the number one on your telephone keypad.

Your next question comes from the line of Ben Isaacson of Scotiabank. Your line is open.

Ben Isaacson, Scotiabank

Thank you. First question is on the debt covenants. Can you just talk about what those old covenants were and what the new ones are?

Rohit Bhardwaj

Sure. So, the two key covenants are debt, senior debt-to-EBITDA. As a reminder, senior debt excludes our convertible debentures, which really are bank debt. And then the other one is on earnings, and interest coverage. And again, as a reminder, our entire previous credit agreement is on SEDAR. It's un-redacted. It was posted in about April of 2017. The covenant for the debt-to-EBITDA, which is the main one, was 4.21 and it was meant to step down to 3.75 at the end of the year. And now we will be posting our amendment shortly, but you will see that the allowable covenant is over 5 times. I've always been prudent and we like to have ample room, we don't ever get squeezed or get even anywhere near close to a covenant, we try and have at least a one turn room

or near one turn room in it, so you will see that that you'll see the covenant step up and then you will see it gradually step down over the next couple of years.

Ben Isaacson

And the interest coverage?

Rohit Bhardwaj

The interest coverage goes from 3 to 2.75 and then slowly steps back up to 3 over the next couple of years.

Ben Isaacson

Great, thank you. My next question is on the sensitivity of your maintenance CapEx. If you are not able to spend it, can you talk about how low the reliability of the plants can go?

Mark Davis

No. I'm sorry, I don't mean to be abrupt, but we're doing work as we can to actually make sure our plants stay reliable. Most of our turnarounds I believe are going to happen and we're going to fix the most important things. We share the concern because we're concerned, the more people you have on site are the more potential spreaders of the virus and to the extent that we can minimize that, we will, but we still want to do the work. So, I suspect most of our work is going to get done. Some of it might get pushed, but our concern is finding contractors.

Ben Isaacson

Got it. That's helpful. And then the last question is if you could just bridge your outlook of stable caustic pricing for the remainder of the year roughly to your optimism longer term and kind of, is that going to be demand driven? I mean what are you looking for in that bridge from stability to more optimal?

Mark Davis

So, ex-COVID, the general statement is caustic demand grows by GDP every year. And there has been no new capacity announced, right? So the macro thesis of all the market experts has been that as demand continues to grow, supply/demand gets tighter and tighter and pricing goes up and the pricing the caustic has to reach to justify reinvestment economics is hundreds of dollars above where caustic is currently selling for.

So, if you looked, and, frankly, I don't have it in front of me, but if you looked on our website, I think in January of our latest business update, we actually show IHS's forecast, this was from January, of actually price increases for the next, expected for the

next, I think, five years. And by memory I think it was supposed to go up by \$50 or something like that in 2021 and then by maybe another \$200 over the next number of years.

So, I'm looking at, ah, I'm cosmically discerning Rohit nodding at my statements. So, a big generic statement is if you took that forecast from January and, look, because everyone needs to redo stuff from then when the world stabilizes again, there's arguably US\$300 of price increase on caustic over 220,000 tonnes of production. That's kind of the (inaudible) out there.

Ben Isaacson

Okay. And then just to follow up, just to come back to the debt covenants, can you just tell me what the net debt-to-EBITDA covenant metric was at the end of the quarter, please?

Rohit Bhardwaj

Sure. We were at about 3.3 times.

Ben Isaacson

And that's an LTM?

Rohit Bhardwaj

Yes, it's an LTM, yeah. So I should point out one other thing is that most of our debt is in US dollars, so on an LTM basis, a lower Canadian dollar helps us, but when there's spikes in the exchange rate like they were at the end of Q1, our debt gets converted at the spot rate whereas EBITDA stays obviously at a historic rate.

So, over time that's beneficial, but our covenant actually went up in Q1 because the EBITDA didn't have the benefit of the low Canadian dollar whereas our debt took the entire hurt of the lower Canadian dollar.

Mark Davis

Yes. On an LTM basis that actually hurts us if it goes up suddenly. When you get the full year of a lower exchange rate then it's beneficial for us.

Ben Isaacson

Understood. Thank you very much. Appreciate it.

Mark Davis

Thank you.

Operator

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

Unknown Speaker

Hi. Just a brief follow up here on ultra-pure. So, you didn't comment on the demand and pricing for ultra-pure in Q1, but what do you expect for the rest of the year? Is it still strong like what we've seen in 2019?

Mark Davis

Yes. And look, if we want, because the next, because we look at these things, the next possible upside for us is there's a whole bunch of, again, press in the US about wanting to onshore more chip makers and some of you know, we have a large market share of ultra-pure acid and if they start on-shoring more chip makers, we'd like to be their partners to provide them with the extra ultra-pure acid they require. So, it should be this for rest of the year.

Unknown Speaker

Great. And for specialty chemicals on the WSSC side, what do you expect for sodium nitrite and KCL for the rest of the year? We know that P_2S_5 is going to be impacted by (inaudible), but what about the other two?

Mark Davis

Both of those guys should be pretty stable from where they were, Rohit, I think.

Rohit Bhardwaj

Yes, I think sodium nitrite may be down a little bit because some of it goes into automotive, but it's such a small percentage that I'd probably call for flat.

Unknown Speaker

Thank you very much. That's all for me.

Mark Davis

Thanks.

Operator

I have no further questions in the queue. I turn the call back to the presenters for any closing remarks.

Mark Davis

Good. Well, thank you all for joining us. For those of you that are interested, as we're having our virtual AGM on Friday, but I could assure you that we won't be saying anything there that you haven't heard today. So, feel free to join us, and everyone stay healthy and well and we'll see you next quarter. Thanks.

Operator

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