

CHEMTRADE LOGISTICS INCOME FUND

Q2 2020 Results Conference Call

Mark Davis

Good morning, ladies and gentlemen. We thank you for joining us today.

I hope all of you are staying safe and well.

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 usual, Rohit Bhardwaj is on the call today, but like the last one, we are in different locations.

Chemtrade, as we explained on our last call, falls under the essential business classification under US State and Canadian Provincial orders. As all our operations have continued, our highest priority has been our employees' health and safety.

Our employees continue to follow the measures we implemented, ensuring that they can continue to work safely and supply our customers. To date the measures have been very effective. I want to start this call by again thanking each member of our workforce for their dedication and outstanding performance during these trying times.

On this morning's call, Rohit will provide a brief review of our second quarter results and an update on liquidity. But first, I have a few comments on the general market conditions that prevailed during the quarter.

Our Q1 results were relatively unaffected by COVID-19. But at the time we reported on Q1 results, we indicated that our second quarter would be affected by the pandemic.

At that time, we explained that while some of our businesses are not impacted by the effects of the virus, we did expect that our products that serve the oil and gas industries would be materially affected.

The big takeaway is that we performed better in the second quarter than we had expected, and as I will outline later, we now expect to generate higher earnings for the year than we had anticipated at the time of the first quarter's report.

The parts of our business that we expected to be firm despite COVID-19, in particular the entire Water Solutions & Specialty Chemicals, or WSSC, segment performed well. Additionally, the refining industry came back quicker than we expected.

Although results are down from last year, they are better than we expected. On the other side, the fracking industry has not recovered, and that continued to have a negative impact on demand for hydrochloric acid. While we continue to pursue chlorine sales, it takes time to develop new markets for chlorine as there's limited demand close to our facility. This meant our North Vancouver plant operated at below capacity for the second quarter, resulting in lower levels of caustic soda sales.

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. I hope that everybody is keeping well.

Looking first at the aggregate results for the second quarter of 2020, revenue was \$347.5 million, a decrease of \$49.2 million from 2019. The decrease in revenue for the second quarter is primarily due to lower selling prices and lower sales volumes for hydrochloric acid and caustic soda in the Electrochemicals, or EC, segment, and lower sales volume of regen and merchant sulphuric acid in the Sulphur Products and Performance Chemicals, or SPPC segment

Aggregate EBITDA for the second quarter of 2020 was \$75.5 million compared with \$91.3 million in the second quarter of 2019.

For the second quarter this year, EBITDA for our operating businesses was \$17.7 million lower than last year and corporate expense was \$1.9 million better. As I will outline shortly, the largest shortfall was in the SPPC segment as we expected, largely due to lower refinery utilization rates.

Distributable cash after maintenance capital expenditures for the second quarter of 2020 was \$31.7 million, or 34-cents per unit. As announced on March 11, effective with our March distribution, we reduced our distribution to 5-cents per unit, making distributions declared for the second quarter 15-cents per unit.

Now, turning to segmented results for the quarter, SPPC generated revenue of \$104.0 million compared with \$126.4 million in 2019. The decrease in revenue in the second quarter of 2020

was primarily due to the COVID-19 pandemic which resulted in lower sales volumes for regen and merchant acid and sulphur products, partially offset by higher selling prices for ultra pure sulphuric acid.

The most significant factor that negatively affected EBITDA during the second quarter of 2020 was a reduction in demand for regen services. Government orders restricting non-essential travel and people working from home reduced demand for gasoline. Therefore, refineries operated at low utilization rates which led to the reduced demand for regen services. EBITDA for the second quarter of 2020 was \$31.6 million, which was \$13.7 million lower than 2019. As a reminder, EBITDA during the second quarter of 2019 benefitted from a \$2.6 million recovery related to the settlement of an old claim regarding faulty equipment.

Our WSSC segment reported second quarter revenue of \$113.5 million compared with \$115.5 million in 2019. The slight decrease is due to lower sales volume of water solutions products and lower sales volumes of specialty chemical products, partially offset by higher selling prices for water solutions products.

EBITDA improved to \$27.2 million from the \$20.9 million generated in 2019. The improvement was due to higher margins for water products, which benefitted from higher selling prices and lower raw material costs.

Our EC segment reported revenue of \$130.1 million for the second quarter of 2020, which was \$24.7 million lower than the same period of 2019. The lower revenue in the second quarter of 2020 was primarily due to lower sales volumes for hydrochloric acid and caustic soda, a decrease of 39% in selling prices for HCl, and a decrease of 15% in selling prices for caustic soda. This was partially offset by a 6% increase in selling prices for chlorine.

From an EBITDA perspective, EBITDA of \$36.0 million for the second quarter of 2020 was \$10.4 million lower than the same period of 2019. This was primarily due to lower selling prices for both caustic soda and HCl, as well as the effect of operating the North Vancouver facility at reduced rates. Our production rate was constrained by reduced demand for HCl. In the second quarter, netbacks, i.e., selling prices less freight, for HCl were 54% lower compared with the same period of 2019.

Maintenance capital expenditures in the second quarter were \$12.1 million. Maintenance capex in 2020 continues to be 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 between \$75 million and \$80 million for 2020.

Excluding unrealized foreign exchange gains, corporate costs during the second quarter of 2020 were \$19.4 million, compared with \$21.3 million in the second quarter of 2019. The lower costs were primarily due to lower incentive compensation accruals.

Turning to liquidity, we maintain ample liquidity, with US\$211 million undrawn on our US\$ 850 million credit facility.

We are in compliance with all our bank covenants. As noted on our last call and in our disclosure, we have negotiated an amended covenant package on our senior credit facility, which provides us with additional covenant room over the next two years.

As you would have seen on our balance sheet, the June 2021 series of unsecured subordinate convertible debentures with a par value of \$126.5 million are now shown as a current liability. There is still almost a year of term remaining on these debentures. However, we plan to redeem them well before maturity and are pro-actively evaluating refinancing options.

Finally, we announced last month that we have established a Distribution Reinvestment Plan that became available with the July distribution. We believe this is an outstanding opportunity for our unitholders as it provides a way to accumulate Chemtrade units without fees and currently includes a 3% bonus distribution.

I'll now hand the call back to Mark.

Mark Davis

As noted last call, and subject to all the uncertainties I will discuss, we expect that we will generate sufficient distributable cash, even during this unprecedented year, to satisfy all of our obligations and to sustain our current distribution rate. In fact, on a year-to-date basis we have already generated \$0.75 distributable cash per unit.

The uncertainty of this pandemic continues to make it difficult to estimate future earnings with any degree of specificity. This lack of specificity is what led us to withdraw our Guidance earlier in the year.

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.

Similar to last quarter, we have updated the key assumptions affecting our business in this quarter's MD&A.

Our current views of these assumptions could be wrong, and we specifically caution that this is a very fluid situation. Our comments are based largely on input from our customers which can, and likely will, change over time. Accordingly, the following comments should be taken with extreme care; and given the fluidity of the situation, we will not update these comments until our next MD&A.

Last quarter we indicated that certain of our products, such as Water Solutions, would not be significantly affected by COVID, while other products such as regen acid would be more affected. As we mentioned earlier, this is exactly what we saw in the second quarter. Our water business performed very well, continuing the improvement that started more than a year

ago. Our regen business, which serves gasoline refineries, was materially affected by COVID as people drove less, but it was not as severely affected as we had feared.

I will now provide a few more details on our various business segments, starting with our SPPC segment:

First, 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. Ultra pure acid continues to perform well. Merchant acid may suffer from some reduced demand depending on how robust industrial activity is for the balance of the year. However, I'll direct my comments to regen, since reduced demand for this product risks having the most material effect from COVID.

The key for regen profitability is the operating rate of refineries producing gasoline, or more specifically, alkylate. Last quarter we had expected that operating rates for refineries in the second quarter would be approximately 35% lower than last year. In fact, refineries did operate at lower rates in the second quarter, but only about 25% lower than last year. Further, we saw an increase in operating rates as the quarter progressed.

Last quarter we had expected that operating rates in Q3 and Q4 would improve from Q2, although still be below 2019 levels. We had assumed that Q3 would be 25% lower than Q3, 2019 and that Q4 would be 15% lower than Q4, 2019. We still believe that the operating rates will ramp up in Q3 and Q4 and end the year below 2019 rates, but now expect the difference to only be about 15% for both quarters. In other words, we have actually updated our run rates for refineries to be still below last year, but above what we thought at the end of last quarter.

Turning to the EC segment.

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

While our views on SPPC have improved, there are some headwinds in our EC segment. From a big picture perspective, you will see from our updated MD&A assumptions that we now expect to sell about 5% less chlorate and 10% lower MECUs in 2020 than we anticipated at the end of last quarter.

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 last quarter assumption was that we would produce 170,000 MECUs in 2020. We have now reduced this assumption to 155,000, since our operating rates are constrained by low demand for HCl and chlorine. We do expect to be able to resume full production as demand for these products increases, but our assumption is that this will not happen until 2021.

The other change is our assumption regarding the price of our caustic soda. We now assume that the NE Asia spot index for caustic that is instrumental in establishing our selling price for the second half of 2020, will be about US\$40 lower than we assumed at the end of the last quarter. For the whole year, we expect that the NE Asia average spot price for caustic soda will be about US\$60 lower than what we saw in 2019. As many of you know, our pricing is affected by movements of the NE Asia index. This index can move quite quickly and is often quite volatile.

We see little risk of downward movements in the index. We have forecast no movement for the balance of the year, but depending on the macroeconomic dynamics for the two co-products, it is possible to see a significant upward movement before the end of the year. Having said that, we are not assuming that will happen. Longer term, as we have been saying, we believe that caustic pricing will increase for several years as the worldwide economy regains its footing and the macro caustic supply / demand balances tighten up once again.

Next, Chlorate.

Again, as a reminder, sodium chlorate is used to bleach pulp. Bleached pulp is used to make paper but also for tissue, diapers and similar uses. While demand in certain segments is up, other segments such as copy paper are down. This has resulted in several pulp mills curtailing production. While this does not affect pricing under our contracts, we now assume that we will produce and sell about 5% less chlorate this year than we assumed at the time of our last report.

The chlorate industry still operates at high utilization rates, and over time we expect to be able to replace this volume either in North America, or through exports, as North American production is very cost competitive to other jurisdictions.

Finally, I want to make a brief comment on our WSSC segment, specifically our water products. Not surprisingly, our water products – primarily used to treat municipal drinking water -- have seen no reduction in demand. This business continues to experience improved performance over its 2019 results. This is a combination of plants operating well, and margins expanding as raw material costs are lower.

As I mentioned, we now expect to generate slightly higher earnings in 2020 than we had expected at the end of last quarter. Obviously, we were too cautious last quarter with our assumptions, and could be so again this quarter. A number of our businesses have remained strong despite COVID. However, COVID has affected demand for some of our products. As the effects of COVID recedes, we expect that demand for these products will return to normal. Looking only at this year, the significant areas where we might have been too conservative and which you may choose to monitor include:

- Are North Americans driving more so that gasoline and alkylate production are increasing?
- Are people returning to their offices and thus driving demand for fine paper? and

- Is there a combination of North American chlorine/ HCl demand increase and / or Asian caustic price increases that affects the balance of the year profitability of our chlor-alkali facility?

Looking into 2021, as many of you know, we have two significant turnarounds in the third and fourth quarters this year that will affect our earnings this year, but not next. Our North Vancouver chlor-alkali plant undergoes significant maintenance work every other year. In 2020, this will occur in the third quarter. Additionally, one of our refinery customers will take its 5-year major turnaround in the fourth quarter of 2020 and so our plant which serves that refinery will also take its turnaround then. Since these two major turnarounds will not be repeated in 2021 and we expect the effect of the virus to be less pronounced, we expect that 2021 will be a better year than 2020.

One last point.

I want to make one important point about the defensive aspects of our business. We generally fare better in a typical economic downturn than we have fared in 2020. Our hardest hit business is the regen business. In a typical recession, refinery utilization rates don't go nearly as low as they have this time, as cheap gasoline tends to dampen the effect of reduced economic activity on gasoline demand. The sharp decline in demand this time was a result of travel restrictions imposed to reduce the spread of COVID-19. Similarly, the steep decline in demand for fine paper, which resulted in reduced demand for sodium chlorate, was not due to economic recession but rather it was a result of the large number of people working from home. There's no doubt that economic downturns will affect us, but not to the extent that the downturn due to the pandemic has affected us this year.

QUESTION AND ANSWER SESSION

Operator

At this time, if you would like to ask a question over the phone lines, please press star then one on your telephone keypad. We will pause for a moment to compile the Q&A roster.

Your first question comes from the line of Joel Jackson. Your line is open.

Joel Jackson, BMO Capital Markets

Good morning, gentlemen. I have a few questions. The first question I'd ask is can you help us ballpark what is the earnings sensitivity in SPPC on a quarterly run rate if, you know, plus or minus, refinery rates or alkylate rates are 10% plus or minus?

Rohit Bhardwaj, Chief Financial Officer

Joel, I'll caveat something first, that typically our plants produce regen and merchant acid at the same time, so we get into some allocations, etcetera. But typically, regen is about half of our acid business, so about 40% of SPPC is regen. Regen tends to be a very high variable margin business, so the main cost of regen is basically natural gas. And you need 4 MMBTUs of natural gas to combust one tonne of spent acid. Gas is at \$2, \$3 an MMBTU, so it's like \$10. It's a very, very low variable cost.

There is a freight aspect in some cases, but basically what happens is, as you have volume dropping off, you do have a big reduction in variable margin. And if you look at what happened in the current quarter, if you go back and see how the revenue declined and how the EBITDA declined, you'll see about a 50% kind of contribution factor. And you can assume the most of that is coming from regen. So, there is a high degree of sensitivity towards refinery utilizations running low.

Now it gets a little more complex than that, because alkylate is a part of a blend of chemistry used for alkylation, so even as rates go down, sometimes they'll use more alkylate, because that's the most valuable part of the chain. So, there's not a straightforward answer, unfortunately, Joel, but all I can say is that that's the one business that is very sensitive to volume, more than most of our businesses.

Joel Jackson

Okay. So you're saying about half of the year-over-year decline in the second quarter in SPPC is from the 25% reduction in refinery utilization. Correct?

Mark Davis, President & Chief Executive Officer

He didn't say that. But the predominant down quarter over quarter will be based on regen. Not all of it, but the majority of it.

Joel Jackson Markets

Okay. That's helpful. Turning to WSSC, this business is now, I guess sort of I want to get at is you're now running at an earnings trajectory in this business that would be close, somewhere between the 2016 and 2017 levels. Is that what you expect this business to end up this year? Can you hold these margins? And then do you typically—we will see the drop off in WSSC margin in the fourth quarter that we've seen historically?

Mark Davis

So, the first answer is we expect this business to continue improving, the water business, right? So, I think that the step change in earnings has already occurred. But we'll keep on blocking and tackling and growing those earnings. That's the one answer. The second answer is, yes, this is a seasonal business and the third quarter of that business will be better than the fourth quarter.

Joel Jackson

And then drop off in the fourth?

Mark Davis

Yes.

Joel Jackson

Okay, that's it for me. Thank you.

Mark Davis

Thanks, Joel.

Operator

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

Ziad Saada, Scotiabank

Hi. This is Ziad on for Ben. Thanks for taking my question. I just had one quick one on the leverage outlook.

I think you guys mentioned that you're feeling confident that you'll be able to cover all of your financial obligations over the near term and I think, just one, just a clarification question. Does that mean you're — I believe there was some talk about permission to use the revolver or if you're allowed to use a revolver to pay down the debentures, so I just wanted to clarify if that's the case. And then also, does that then mean that there's no longer any need to kind of go find financing elsewhere, say, capital markets or otherwise?

Rohit Bhardwaj

I can answer the leverage question. So, when we make that statement that we have enough resources to fund our obligations, we are generally referring to our day-to-day obligations and not necessarily refinancing of debt. Having said that, we are allowed to dip into our credit facilities based on our leverage levels and below certain leverage levels we can draw down on the facility. But realistically, we do have to look at refinancing options that involve raising new money to fully redeem the debenture.

Ziad Saada

Perfect. Thank you. That's very clear. Thank you.

Operator

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

David Newman, Desjardins Capital Markets

Good morning, Mark and Rohit.

Mark Davis

Hey, David.

David Newman

Just looking at these periods where you kind of can dig down and look for cost savings and whatnot, and you didn't flag it, but I'm just wondering did you, ah, when you went plant to plant or your COO went plant to plant and on the ground level, were you able to identify cost savings and any of those that might be permanent?

Mark Davis

So, yes, but I might answer the question a little differently. It's actually not due to COVID. When we brought in Scott, one of the reasons was to get a special set of eyes actually on all of our operations and we've instituted a number, it's a big number, so I'll say a plethora of cost-saving opportunities. And, in aggregate, they will be meaningful. Individually, almost none of them are. Right? So, like we say internally, there is no silver bullet here on cost reduction. If there was, we would have shot it. But what Scott and his guys have been able to turn up, there's a bunch of bronze bullets and we're going to move them all forward and it's going to, over time, be a reduction and a sustainable reduction of costs. But none of that is due to COVID. All of our guys continue to go to work and continue to operate.

David Newman

Any sense of amounts? Like the actual materiality of what you might be able to take out in aggregate?

Mark Davis

Give me another quarter to work on that, right? Remember, he has only been here a year and it's taken this stuff a little while to get up and operating. And, like I say, I have to add up a bunch of them. But in aggregate it will be a number actually that we could see, right? The question is how soon they are, because some of these things take time.

David Newman

Okay.

Rohit Bhardwaj

If I can add though one thing, which is, I know your question was framed around cost savings and in the end, you know, I think the big push is to improve efficiency and productivity, which results in expanded margins, whether it's coming from cost or whatever. So, it's not just pure like procurement type stuff. This goes way beyond that and gets into productivity across the board, logistics, manufacturing. They're just basically one end to the other.

David Newman

Just working better versus slashing costs.

Mark Davis

Correct.

Rohit Bhardwaj

Yes. Exactly.

David Newman

Okay. And then chlorate, I understand why volumes are a little bit weaker now, but did you benefit at all from the early quarter spike in tissue demand? Everybody was making a mad dash in the store to buy toilet paper and it seems to have settled down a little bit and now we're kind of in the zone of looking at paper demand. Will you be able to benefit at all in a quarter on the back of that?

Mark Davis

Well, that certainly helps, and I don't have the numbers handy in front of me, but the percentage of chlorate and therefore bleach pulp that goes into paper versus tissue is, I'm going to say 60% of it's paper and 20% of it's tissue or something like that. Those numbers are wrong, but it's that kind of magnitude. So, the increase of one doesn't offset the decrease of the other.

Rohit Bhardwaj

And if I can add, if you look at our chlorate volumes for the second quarter, we didn't really see any real drop off. So, I think that initial uptick in the demand for pulp masked the down that was happening.

So, if you look at our volume quarter over quarter, it's basically flat. Q2 this year looks just like Q2 last year. But we have updated our assumption and that is at the, you know, now we are starting to see the decline due to paper.

David Newman

Okay. And then on a margin perspective though, obviously, with the benefit of FX and then pricing' taken from a margin perspective, what's the outlook? Volume down but maybe pricing and FX maybe a little less so beneficial?

Rohit Bhardwaj

Yeah. So, I think the FX — pricing, this pricing, it doesn't tend to be like spot pricing. We tend to have contracts, so pricing is not something that gets negotiated all the time. But FX is definitely a positive factor, so right now FX will probably make up for the lost volume on the chlorate side.

David Newman

Okay, very good. And then if I look at, ah, not the beat a dead horse, but if I look at the, not only just water but also regen, people staycations, RV rentals are through the roof, things like that, just driving activity and things like that. And at the same time, water, people at home, water in the summer obviously consumed more, maybe pools, who knows, more pools and people filling up the pools. Do those two segments in particular, from just what's going on in society, do you think there's a chance that, you know, we're down 15%, call it, right now in driving activity, but maybe in this quarter it looks a little better, along with water?

Mark Davis

Water is fine. Right? Again, there's not a big up there, but it continues to actually improve from what we had expected. So, I think that's a net positive. Our assumptions on regen volume, again, are based on actually what our customers tell us and what we see, basically what our customers tell us. Again, we were wrong. We were too pessimistic in the second quarter. And I'm going to say we're just not smart enough to know how stay vacations and RVs compare to guys driving to and from the office every day as far as gasoline and thus alkylate usage stack up. As I said in the call speech, if you want to be more positive than what we believe are our conservative assumptions, monitor whether or not there continues to be an increase on a month-to-month basis of people driving, which is what we saw through the second quarter.

David Newman

Okay. And last one for me, guys. As you stand here today and kind of going through, I guess, the worst of the COVID impacts, do you feel that the trough is now in the rear-view mirror, pardon the pun, and that going forward it sounds like it could be, and this is sort of gleaned from your comments, Mark, is that things seem to be more perhaps constructive?

Mark Davis

I think that yes, kind of, okay? I think we're past the trough. And again, a bunch of our products weren't affected. I think we're past the trough in our SPPC segment, okay, but you'll have normal seasonality. If you remember, it's always better in second and third quarter, right? We did say that there's headwind in our EC segment.

So, I don't think it gets worse than what our assumptions are baked in. The question in my mind is when it gets better. And again, we've assumed that it doesn't really get any better this year. So, I don't want to say that we're out of the trough, because actually, if you look at our assumptions, there are some headwinds in the EC segment in the second half of the year. But I think we climb out of that, right?

David Newman

Excellent. Understood. Great results, guys.

Mark Davis

Thanks.

Operator

Your next question comes from the line of Endri Leno. Your line is open.

Endri Leno, National Bank Financial

Good morning, guys. Thanks for taking my questions. Just a couple of quick ones for me, or maybe not quick, but that the first one, I think the ultra pure acid where you're seeing strength, I was wondering, I mean is there anything there you can do to increase volumes, perhaps sell more, add capacity if possible? Like any comments there?

Mark Davis

Sorry, which product? I missed that.

Endri Leno

Ultra pure.

Mark Davis

We're basically sold out, right? The opportunity in ultra pure, on an incremental basis, is to improve our reliability, because it's a very highly specified product, so any time you're out of spec, you're losing good sales and we continue to chip away at that. And then actually continue to move pricing to the extent we can. But we're not sitting under a major underutilized capacity in ultra pure.

Endri Leno

Can you increase capacity there given the demand?

Mark Davis

We're going to try. It's a little slip of a comment. There's a number of things that are at different plants that we own that we're looking at to figure out what is the most economically feasible debottlenecking opportunity. And we think we've identified a couple, but it takes a little more time and engineering work. But to the extent we can, we will.

Endri Leno Financial

Okay. That's great to hear. Thank you. The next one is just more, I guess, a bit of a housekeeping, but in terms of, ah, water volumes were down in Q2, you said of the product. Is that just a timing thing on shipments?

Rohit Bhardwaj

So, it was not significantly down, but the volume was, you know, there is a bit of unknowns in that. It depends a bit on weather, it depends on spring runoff, just a few normal things, nothing unusual. But it was more than made up by the higher pricing.

Endri Leno

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

Operator

Again, if you'd like to ask a question over the phone lines, please press star then one on your telephone keypad. Your next question comes from the line of Steve Hansen. Your line is open.

Steve Hansen, Raymond James

Good morning, guys. Just the first one, Rohit, I think you mentioned contractor limitations or the inability to perhaps find some for maintenance turnarounds. Hopefully that's something you can address. But if it's not, is there anything that you expect would impact your operational cadence?

Rohit Bhardwaj

No. No, I think the timing may shift a little bit because if, for example, you're in a region where there's some big other industrial players and, you know, so we may have to shift timings because you shouldn't compete with them for the same pool of contractors, because we tend to be the smaller guys in the market. So, I think it just may shift a little bit of timing, but we're not really too worried about it.

Steve Hansen

Okay. That's helpful. And just on the water business, in an earlier question, I think in response to Joel's question in particular on the water side, Mark, you described incremental improvements from here in water. What's really going to drive that? Is it more of the same or is there something else that's happening along the way? (Inaudible) you had the benefits of contract pricing and lower feedstock, et cetera, but is there something else that's going to drive that that you're targeting or is it just maybe more of the same?

Mark Davis, President & Chief Executive Officer

Yeah, yeah, probably three other things, which are exciting for us, but in aggregate, you know, when you look at it in aggregate, as you'll recall, we actually constructed a PAC and ACH facility or facilities a number of years ago. We continue to find opportunities to actually find additional volumes for those products. And that's capacity we already have, right? So that's one.

Secondly is a bunch of these little silver bullets I talked about are actually little incremental efficiency changes at a variety of the water facilities, you know, how we make it, how we schedule, how we fill rail cars, sorry, or trucks, right? And one of the third ones is, again, distribution costs. There are prospects there to improve distribution costs.

So, between all of those, we continue to grind away at actually continuing a pretty good trend of increased profitability in the water business. And it just gets incrementally harder once you take a step change like we have, but we'll keep on pushing that envelope.

Steve Hansen

Okay. Helpful. And not to be too granular, but I'm just trying to understand the forward cadence on the regen business in particular. If I'm to understand it, the worst is behind us. We'd likely get some sort of seasonal uptick in volumes, as you suggested. But on a year-over-year basis we're still challenged just given the driving situation. Can we think about that in terms of some sort of magnitude? I'm just trying to understand, it sounds like we're going to get some volume benefit and that's a highly sensitive item, but how should we think about that cadence through the back half here on SPPC in particular?

Mark Davis

Through the back half of the year? As we indicated in the call, and in our assumptions too, is that the back half of the year should be about 15% less volume than we had in the back half of 2019. So, look, there's—the potential upside is it's not down 15%. It's down 10%. It's down 5%. But our assumption is we're down 15%.

Rohit Bhardwaj

Do keep in mind that earlier we said that we do have a large turnaround coming in our Richmond facility in Q4. So yeah, keep that in mind, too.

Steve Hansen

Okay. No, that's helpful, guys. Thanks. Appreciate it.

Operator

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

Ziad Saada, Scotiabank

Hi. Thanks for taking another one of my questions. Sorry, just a quick follow-up. When we were talking earlier about the accessing the capital markets as a potential financing option, if you do go down that path, does that mean the asset sale program kind of goes a bit on the back burner? Or is the asset sale still kind of a priority for raising that capital?

Mark Davis, President & Chief Executive Officer

The asset sale was actually never, frankly, driven by the need to raise capital. So, in our mind, they are two separate discussions, right? One is we need to refinance those 2021s and we'll get that done, right? Secondly, the assets that we have for sale, as we said, don't really fit directly into our core competencies or have any kind of synergistic mesh with the rest of our business and if somebody who's actually more in that business is willing to pay us a price that's value added to our running that business, we would sell those assets.

So, both of those things are still going to continue. And I appreciate people not asking us about the status of that, but since we're on this track is they continue to be held as assets held for sale, which means we continue to have a belief that actually those assets will be sold to someone who values them higher than we do.

Ziad Saada

Perfect. Thanks very much.

Operator

There are no further questions over the phone lines at this time. I turn the call back over to the presenters.

Mark Davis, President & Chief Executive Officer

Great. Thank you all for your time and attention. Stay safe and we'll talk to you all next quarter.

(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:

(\$'000)	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	2020	2019	2020	2019
Net earnings (loss)	\$ 4,499	\$ (57,576)	\$ (93,376)	\$ (86,894)
Add:				
Depreciation and amortization	69,009	64,192	132,926	131,656
Net finance costs	2,706	26,211	70,158	53,322
Income tax expense (recovery)	6,122	(2,342)	(14,999)	(19,876)
EBITDA	82,336	30,485	94,709	78,208
Add:				
Impairment of goodwill	-	65,600	56,000	65,600
Change in environmental liability	362	-	3,743	-
Loss (gain) on disposal and write-down of property, plant and equipment	13	302	(469)	605
Unrealized foreign exchange (gain) loss	(7,183)	(5,110)	2,425	(9,173)
Adjusted EBITDA	\$ 75,528	\$ 91,277	\$ 156,408	\$ 135,240

SPPC -

(\$'000)	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	2020	2019	2020	2019
Revenue	\$ 103,960	\$ 126,441	\$ 216,982	\$ 257,520
Gross profit	9,494	18,325	23,955	34,808
Adjusted EBITDA	31,614	45,288	66,246	82,813
(Loss) gain on disposal and write-down of property, plant and equipment	(32)	(754)	17	(752)
EBITDA	\$ 31,582	\$ 44,534	\$ 66,263	\$ 82,061

WSSC -

(\$'000)	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	2020	2019	2020	2019
Revenue	\$ 113,456	\$ 115,508	\$ 226,794	\$ 220,898
Gross profit (loss)	16,955	(53,481)	(25,415)	(47,293)
Adjusted EBITDA	27,240	20,859	52,946	38,926
Impairment of goodwill	-	(65,600)	(56,000)	(65,600)
Change in environmental liability	(362)	-	(3,743)	-
Gain on disposal and write-down of property, plant and equipment	-	2	457	4
EBITDA	\$ 26,878	\$ (44,739)	\$ (6,340)	\$ (26,670)

EC -

(\$'000)	<u>Three months ended June 30</u>		<u>Six months ended June 30</u>	
	2020	2019	2020	2019
North American sales volumes:				
Sodium chlorate sales volume (000's MT)	94	95	196	196
Chlor-alkali sales volume (000's MECU)	33	52	69	91
Revenue	\$ 130,118	\$ 154,786	\$ 270,659	\$ 303,569
Gross profit	6,173	22,874	13,026	44,638
Adjusted EBITDA	36,034	46,400	68,967	94,494
Gain (loss) on disposal and write-down of property, plant and equipment	19	1,055	(5)	1,051
EBITDA	\$ 36,053	\$ 47,455	\$ 68,962	\$ 95,545

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 June 30		Six months ended June 30	
	2020	2019	2020	2019
Cash flows from (used in) operating activities	\$ 66,677	\$ 51,826	\$ 97,897	\$ (1,644)
Add (Less):				
Lease payments net of sub-lease receipts	(14,367)	(13,842)	(28,162)	(28,485)
Changes in non-cash working capital and other items	(8,591)	20,233	23,258	99,811
Adjusted cash flows from operating activities	43,719	58,217	92,993	69,681
Less:				
Maintenance capital expenditures	12,055	17,246	23,098	26,200
Distributable cash after maintenance capital expenditures	31,664	40,971	69,895	43,481
Less:				
Non-maintenance capital expenditures	794	2,759	1,540	5,200
Distributable cash after all capital expenditures	\$ 30,870	\$ 38,212	\$ 68,355	\$ 38,281