

## **CHEMTRADE LOGISTICS INCOME FUND**

### **Q3 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 we 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](http://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.

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

As a reminder, since Chemtrade falls under the essential business classification under US State and Canadian Provincial orders, all our operations have continued during the COVID-19 pandemic. Our highest priority has been our employees' health and safety. By following the measures we implemented, our employees have ensured that they can continue to work safely and supply our customers. Given the challenging circumstances created by the pandemic, our measures have been largely 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.

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On this morning's call, Rohit will provide a review of our third quarter results and a number of financing initiatives we took during the quarter. But first, I have a few comments on the general market conditions that prevailed during the quarter.

Our third quarter results reflected the various matters we referred to in our second quarter call. Results were affected by continued weak demand for certain products and the deferral of our Vancouver turnaround.

I will briefly discuss the macro conditions that prevailed during the quarter as these provide some context for Rohit's more detailed comments.

As we've mentioned, COVID-19 adversely affected demand for certain of our products. It has not affected our Water Solutions business. However, the ongoing pandemic continues to affect demand for our regen, merchant acid, sodium chlorate and hydrochloric acid, or HCl, products. Regen demand rebounded from its trough in the second quarter, but our third quarter demand was still about 10 % lower than demand at the same time last year. Secondly, demand for merchant sulphuric acid, which is one of the world's most widely used chemicals, was also lower than last year due to the generally reduced level of economic activity. Thirdly, in our last call, we mentioned a decrease in demand of printing paper as more people worked from home. This affected our sodium chlorate demand which was weaker in the third quarter than last year and weaker than we had expected. Finally, fracking activity and thus demand for HCl showed some improvement during the year, but remained well below 2019 levels.

Turning to operations, a lack of contractors resulted in our deferring the planned third quarter turnaround of our North Vancouver chlor-alkali facility into the fourth quarter. This turnaround is now complete and the plant is up and operating well.

Following Rohit's review, I will have some comments on the future economic environment facing Chemtrade.

Rohit?

**Rohit Bhardwaj**

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

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Looking first at the aggregate results for the third quarter of 2020, revenue was \$345.9 million, a decrease of \$49.8 million from 2019. The decrease in revenue for the third 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 third quarter of 2020 was \$64.7 million compared with \$90.0 million in the third quarter of 2019.

For the third quarter this year, EBITDA was \$25.4 million lower than last year. As I will outline shortly, this shortfall was attributable to the EC segment, due to low caustic soda prices and reduced demand and prices for HCl and lower results in the SPPC segment. This was partially offset by stronger results from the Water Solutions and Specialty Chemicals, or WSSC segment, driven by our water business.

Distributable cash after maintenance capital expenditures for the third quarter of 2020 was \$12.1 million, or 13-cents per unit. Distributions declared for the third quarter were 15-cents per unit.

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Now, turning to segmented results for the quarter, SPPC generated revenue of \$105.4 million compared with \$127.8 million in 2019. The decrease in revenue in the third quarter of 2020 was primarily due to the COVID-19 pandemic which resulted in lower sales volumes for regen and merchant acid and other SPPC products.

The most significant factor that negatively affected EBITDA during the third quarter of 2020 was reduced demand for merchant acid and regen services. Merchant acid demand was lower due to the reduced level of economic activity. As Mark noted, sulphuric acid is one of the world's most widely used chemicals. Government orders restricting non-essential travel and people working from home continued to reduce demand for gasoline. Therefore, refineries operated at low utilization rates, which led to the reduced demand for regen services. EBITDA for the third quarter of 2020 was \$31.0 million, which was \$12.6 million lower than 2019.

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Our WSSC segment reported third quarter revenue of \$119.8 million compared with \$122.4 million in 2019. The slight decrease is due to lower sales volumes 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 \$29.2 million from the \$24.3 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.

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Our EC segment reported revenue of \$120.7 million for the third quarter of 2020, which was \$24.7 million lower than the same period of 2019. The lower revenue in the third quarter of 2020 was primarily due to lower sales volumes for hydrochloric acid and caustic soda, and decreased selling prices by 30% for HCl, and 11% for caustic soda. This was partially offset by a 4% increase in selling prices for chlorine. HCl demand from the fracking industry has been sharply lower during 2020 and this has resulted in our having to operate the North Vancouver facility at reduced rates. As a reminder, we have ample demand for caustic soda, as our core region is short of domestic supply of caustic soda and relies upon Asian imports for the balance. We are constrained by our ability to place the chlorine molecule, either as chlorine or as HCl. Our core region doesn't have a lot of demand for chlorine and we typically ship it as far as shipping rates allow.

From an EBITDA perspective, EBITDA for the EC segment of \$24.6 million for the third quarter of 2020 was \$18.2 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 third quarter, netbacks, i.e., selling prices less freight, for HCl were 43% lower compared with the same period of 2019.

Maintenance capital expenditures in the third quarter were \$17.3 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.

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Excluding unrealized foreign exchange gains, corporate costs during the third quarter of 2020 were \$20.2 million, compared with \$20.8 million in the third quarter of 2019. The lower costs were primarily due to lower incentive compensation accruals.

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Turning to our balance sheet, during the third quarter we took actions to completely redeem the debentures that were set to mature in 2021. To fund the redemption, we completed a public offering of \$86.3 million principal amount of convertible unsecured subordinated debentures with an interest rate of 8.50% per annum. Those funds, plus availability under our credit agreement, were used during and after the quarter ended to complete the redemption of the outstanding 2021 debentures at their face amount plus accrued interest for a total of \$128.3 million.

With the full redemption of the 2021 debentures, we now have no debt maturities until 2023.

We maintain ample liquidity, with US\$227.8 million undrawn on our US\$850 million credit facility. We are in compliance with all our bank covenants.

I'll now hand the call back to Mark.

### **Mark Davis**

The economic uncertainty caused by COVID-19 continues to prevent us from knowledgeably predicting with specificity the key elements necessary to make Guidance meaningful. However, we can comment on certain key items that are expected to affect our earnings. We caution that COVID-19 continues to create a very fluid situation and what we say is based on our current understanding of our customers and markets which can, and likely will, change over time. Accordingly, the following comments should be read with extreme care and we will not update these comments until our next MD&A.

Comments on certain key elements contributing to Chemtrade's 2020 fourth quarter earnings are as follows:

#### **Key Facilities**

As previously advised, we have a significant maintenance turnaround at one of our regen plants. The plant is tied to a once every five-year major maintenance turnaround at this plant's refinery customer.

Our North Vancouver chlor-alkali facility will also have its biennial turnaround in the fourth quarter instead of the third as planned due to the availability of contractors. This has now been completed and the plant is back on line.

## **Demand**

Demand for many of our products continues to be weaker due to COVID-19's effect on the economy. In particular,

- Fracking activity and thus demand for HCL has shown some improvement during the year, but remains well below 2019 levels.
- Demand for Regen services which is dependent upon gasoline demand has been improving but is still approximately 10% below normal levels.
- Demand for printing paper remains low as large numbers of people are still working from home. This has led to reduced demand for sodium chlorate.
- Demand for water products is stable, however the fourth quarter is a seasonally low demand quarter with generally reduced water consumption in the winter months.

## **Pricing**

- Despite lower demand pricing for most of our products is expected to remain stable in the fourth quarter.
- The main exception is pricing for caustic soda. The Northeast Asia spot index for caustic soda, which is very influential on our caustic soda selling price, settled at a very low level towards the end of the third quarter. It was approximately US\$50.0 per tonne below the level relative to the same period in 2019.

Turning to 2021 we can make some similar comments:

## **Key Facilities**

We expect all of our plants to operate well during 2021. We expect normal turnaround activity, with no atypical turnarounds planned.

## **Demand**

As a general statement, we expect that COVID-19 will continue to affect demand for certain of our products in 2021. However, we expect that our sales volumes for 2021 will be higher than 2020.

Certain more specific demand comments are as follows.

- **WSSC:**
  - Demand for our Water Solutions business should be similar to 2020 and largely unaffected by COVID-19.

- **SPPC:**
  - Regen and ultra-pure volumes are expected to be higher than 2020, but still below pre-pandemic levels; and
  - Merchant acid volume should be similar to 2020 levels.
- **EC:**
  - The North Vancouver chlor-alkali plant is expected to operate at a higher level than 2020, when we had the biennial maintenance turnaround. The plant's operating rates are expected to be constrained by HCl demand. If there is increased activity in the fracking industry our HCl demand could increase.
  - Finally, sodium chlorate demand should be higher than 2020, but still lower than historic levels. Demand will be affected by the extent work from home during the pandemic reduces paper demand and thus reduced bleached pulp production.

### **Pricing**

Most of our products do not experience cyclical pricing. However, caustic soda pricing can move significantly.

In 2021 we expect that the Northeast Asia spot index for caustic soda should move higher during the year. The long-term supply demand characteristics still support upward price movements for many years. During 2021 pricing is expected to start increasing, and to continue increasing for at least several years. Recall that we generally incur a quarterly lag between our caustic soda price and movements in the index. Due to this lag, unless the index prices move up soon, the annual index level for 2021 is expected to be lower than 2020.

Finally, given the reduced demand for sodium chlorate, there could be some pressure on selling prices during 2021.

To summarize, we believe that the severity of COVID-19 in 2020 will result in 2020 being a trough year for Chemtrade. This has been much more than a typical recession. In a typical recession, parts of our business such as regen and chlorate are not as adversely affected as they were in 2020. These businesses were hurt because of the curtailment of non-essential travel and the requirement for people to work from home, as opposed to just the typical reduction in demand experienced in an economic recession. We expect 2021 to be better than 2020. As the effects of COVID-19 on the economy dissipate, we are well positioned to take advantage of the better economic conditions and generate higher earnings.

I would like to add these comments were all drafted and prepared, as was our MD&A, before the announcement of the Pfizer vaccine. We actually have no particular view about how quick and how effective that vaccine will change the effect of the pandemic but obviously the quicker people and the economy get back to normal the quicker we will benefit from it.

Finally, I would like to conclude by letting you know that this is my last conference call. As you would have seen in our news release of yesterday, I've decided to retire on February 28, 2021, at which point I will also be stepping down from the Board. Scott Rook will be appointed CEO and to the Board on March 1, 2021. Scott is well prepared to drive improvements in Chemtrade's performance and he, of course along with Rohit, will answer your future questions.

Thank you. Rohit and I would now be pleased to take questions.

## QUESTION AND ANSWER SESSION

### Operator

Okay, thank you. At this time, if anybody would like to ask a question, please press star one on your telephone keypad. That is star one on your telephone keypad.

Your first question will come from Joel Jackson from BMO Capital Markets. Your line is open.

### Joel Jackson, BMO Capital Markets

Hi. Good morning, Mark, Rohit. A couple of questions. I'll go one by one. Obviously, the fourth quarter is typically your weakest quarter. You've called that out this year as well. The last couple of years we've seen the fourth quarter to be about \$20 million EBITDA lower than the third quarter, so sequentially. This year you have got some heavy turnarounds, stuff going on with COVID. Is that about the right amount is about \$20 million? Like it should be similar sequential decline in the fourth quarter as usual or is this year different?

### Rohit Bhardwaj, Chief Financial Officer

Yes, I mean I don't think we want to really get into that specific about Q4. I think what the right way to look at it is we've pointed to the two big turnarounds, so Richmond and North Vancouver. In the past, we've said each is about \$5 million of an effect. And then I think we've got to think about the fact that regen is coming back. If you compare to last year Q4, regen is coming back. And to the extent it's down a bit, the impact is not going to be as severe as normal, because we do have the large turnaround in Richmond and Q4 is a seasonally low quarter, so the operating rates will not have as severe an impact. But we are still looking at merchant being down. And the other thing you should think about is we now know that the caustic soda index has settled for Q4 and, as Mark pointed to, US\$50 per tonne lower. So, I think I would kind of do that kind of math as opposed to go sequentially. I think you're better off starting with last year Q4 and then kind of modelling in a couple of these things that we've pointed to for Q4.

### Joel Jackson

That's helpful. Thanks. And then I appreciate the comments on 2021. You talked before about kind of normalized Chemtrade earnings in kind of \$300 million to \$350 million range. If we assume sort of a normal, sorry, like a reasonable caustic recovery across 2021 as you talked about, is it reasonable to expect you can get at least to the low point of that range next year? Anything you can provide to be a little more granular would be helpful. Maybe even you talk about, you talked about water, (inaudible) water in 2021 (inaudible).

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### Mark Davis, President & Chief Executive Officer



So, look, it kind of goes like this, is water is going to continue to be good. It was good this year. It's going to be good next year, right. SPPC should see improvement because we shouldn't have that trough in regen in the second quarter, right? How much better depends a little bit, not a little bit, how much better depends on how quickly the economy recovers between driving miles and therefore refinery utilization rates and general industrial activity, which, as we said, hurt us in the third quarter. So, it's a question of how quickly.

And all that is, I don't want to say nits and bits. That's all important and actually it's all better than this year, but to get to the numbers that you're talking about, I mean one of the factoids is that the Northeast Asian spot index for caustic is actually at its lowest point that it's been in the last 10 years. It's about \$210 right now. The 10-year average, if you want to talk about run-rate stuff, the 10-year average for the spot price is \$350, so up US\$140, US\$150 a tonne, right? So if you normalize for what caustic pricing should be and if you get some recovery in the HCl markets so you can run Vancouver at full rates, you put all that stuff together and that's how you get to those numbers.

### **Joel Jackson**

Thank you very much.

### **Operator**

Your next question will come from Ben Isaacson from Scotiabank. Your line is open.

### **Ben Isaacson, Scotiabank**

Thank you very much, and good morning. Maybe just to follow up to Joel's question, maybe I'll ask in a bit of a different way. Fed Chairman Powell came out yesterday and said that any economic recovery will lead to an economy that won't ever look the same as what it did pre-COVID and work-from-home is here to stay. And so, when you think about that and really in that context you could discuss what kind of trough to peak EBITDA is in each of the three segments. And if you assume, I don't know what the right number is, \$60 million of kind of corporate negative EBITDA, if each of the three segments are at trough, can you fund your distribution at that level? Thank you.

### **Mark Davis**

Well, the answer to the last question is yes. To the more detailed question, I am going to answer it differently for you. If you believe what Powell says, and I don't necessarily agree or disagree, but if you go through our business again, the WSSC segment has been largely unaffected by the pandemic, right?

In our SPPC segment, okay, you get affected two ways. One is driving miles, and second is general industry for merchant acid demand. Although the world might not return to normal like Mr. Powell says, I believe that Americans are going to drive historic of miles, so I think our regen business will actually come fully back. And if you look at the trend that's been on the last couple of years, it's actually been improving every year and should continue to do so, right? Which actually leaves Powell's comments about

what the new world can look like in the EC segment, right? And as you know, we've two moving parts in the EC segment. We've the chlor-alkali part and the chlorate part. As far as chlor-alkali is concerned and, again, we've all talked a lot about chlor-alkali, but the big general statement is that the chlorine derivatives or the vinyls snapback faster than manufacturing does and that provides a mismatch of supply and demand between the chlorine side and the caustic side. So, once the economic recovery has some duration and some breadth, we are back to, in our view, the supply-demand characteristics, which actually should juice caustic pricing, even though the world looks different.

So you take all that and you actually, in our view, netback to sodium chlorate, right, and to the general statement, year-over-year printing paper production is down about 20% driven by work at home, so the question is how much does that reverse. Okay. I'm not sure it reverses 100%, but there will be some reversal. And when there is some reversal that increases demand for our sodium chlorate and snugs up that market.

So a longwinded answer to say I don't disagree with Powell that actually the world is going to look different when actually it comes back to life, but I suspect the biggest effect on Chemtrade is the bleach pulp production in North America and what that does to sodium chlorate business.

Rohit, I don't know if you want to add anything to that or?

### **Rohit Bhardwaj**

I'll just add one thing, which is really drilling a bit down into the Northeast Asia index for caustic. So, the other thing that's been happening there is the differential between the spot price in Northeast Asia and the contract price in Taiwan has widened considerably, has gone up to \$150 differential. Historically, it's about a \$30 differential. So these kind of dislocations can occur when there are extreme shocks to the economy like you had with the pandemic, but really, for a contract price to be that far away from a spot price doesn't make sense and the fundamentals will support kind of the differential getting narrower again. So, two things at play, one is going up just because of the fundamentals of chlorine and caustic molecule getting back into sync, and the other thing is the differential shrinking. So that gives more clearance to our recovery in the caustic market.

### **Ben Isaacson**

That's great. Thank you for that comprehensive answer, guys. And just as a follow up, I'm looking at your yield at 13% almost and you're not alone, Enbridge is at 9% right now. When you think about that yield, what do you think the market lacks in terms of confidence in terms of letting that yield sit there? I mean when you break it into controllables versus uncontrollable or non-controllables, you guys are kind of checking the boxes that you can, and when you talk about a recovery in 2021... Do you think that's really what investors are doing, is they're just nervous about when that recovery starts? Why are investors leading that yield so high?

### **Mark Davis**

Well, I can ask you why Scotia's yield is so high too, but I won't, right?

**Ben Isaacson**

No. Good point.

**Mark Davis**

Look, I think there is a bunch of reasons. One I think is a general statement. I think there is great fear everywhere. I guess the TSX went back up again, right? But I think there are a couple of things that are particular to Chemtrade, right, is one is, we've made no bones about, is that we are more highly levered than we'd like to be and it's our game plan to reduce leverage. So, I think actually we get penalized a little bit for that. And then secondly, historically, we'd been a much more stable business before we actually acquired Canexus. Now we acquired Canexus off a chlor-alkali earnings rate which was substantially below where we are even today, but that has actually introduced a great deal of cyclicalities into our earnings.

So, I think my guess is you take those two comments plus the additional cyclicalities for shareholders that you weren't used to it and I think it's a wait-and-see story and I think that when that index starts to move in the right direction, which we believe it will, I think there will be a rapid effect on our unit price. But I could be wrong. But anyway, that's my best explanation on all that.

**Ben Isaacson**

That's great. Thank you so much.

**Mark Davis**

Thanks.

**Operator**

And your next question will come from Jacob Bout from CIBC. Your line is open.

**Jacob Bout, CIBC World Markets**

Good morning. And Mark, wishing you the best in retirement.

**Mark Davis**

Thanks, Jacob.

**Jacob Bout**

I wanted to start just with North Van. Did you build enough inventory to offset production for the quarter?

**Rohit Bhardwaj**

So, I mean we can build some inventory but, frankly, at where the caustic price is right now, because also to build inventory we've got to move the chlorine, right, so we're already constrained with moving chlorine, so it's hard to, you know, we already are trying to sell out as much as we can, so the only way you could build inventory of caustic is if we had excess market for chlorine. So, we do a little bit but, frankly, it's not really enough because of the constraints we've on the chlorine side.

**Mark Davis**

If your question is directed as can we keep our customers supplied, yes. If it's directed at do you have enough inventory so they won't see the cost effect of the shutdown in a quarter, the answer is no, we will see it.

**Jacob Bout**

Okay. And you said the plant is fully operational at this point?

**Mark Davis**

Yes.

**Jacob Bout**

Okay. Any update on the civil lawsuit for General Chemical and what's, just remind us again what's still outstanding there.

**Mark Davis**

Yes, if you recall, and actually if you are successful on being able to block out this stuff like I try to, the only thing that's left are some of these derivative suits brought by one particular employee in three or four states. And those things are continuing to slowly wind its way through those various state courts.

Some have been dismissed, there are motions on some of them, but the court world has also drastically slowed down in light of COVID. We remain at the same views that actually there is not a material risk to Chemtrade, but I'd like to tell you that we've put a stake in the heart of all those, but it's just slow going. But again, from a financial perspective, we think we are there.

**Jacob Bout Markets**

Okay. And then the \$19 million write down in SPPC, what was the rationale for this write down?

**Rohit Bhardwaj**

So, we are rationalizing some capacity in the Gulf Coast where we've a plant that we felt we could actually generate additional returns by shutting down that facility completely and moving the production to another facility. We are able to spread our costs out and, frankly, it should have a knock-on effect on the market as well.

**Mark Davis**

This is the last straw of a process. If you remember, maybe a year ago we actually said that we stopped producing regen acid at this facility, right, and this is just winding down the rest of it.

**Jacob Bout**

All right. I'll leave it there. Thank you.

**Operator**

And your next question will come from Paul Bilenki from TD Securities. Your line is open.

**Paul Bilenki, TD Securities**

Good morning. I hope you're both keeping well and congratulations, Mark, on the upcoming retirement.

**Mark Davis**

Thank you.

**Paul Bilenki**

So, just to start off, I was a bit surprised that the SPPC segment EBITDA was essentially flat compared to Q2 given the better refinery utilization rates. And I would have thought maybe overall industrial demand for merchant would have also improved modestly. What were the dynamics at play here as to why there wasn't some quarter-over-quarter improvement there?

**Mark Davis**

Look, there's a minor thing, right. The one minor thing is the hurricanes that were down there wasn't a material hit to us, but it probably cost us a couple of million bucks.

The bigger thing is, ah, your comment is right about refineries, but what I think surprised us a little too, again, to be honest, is that, despite what you read in the newspapers, I think a bunch of industrial production in North America was actually weaker in the third quarter than it was in the second quarter. The second quarter hit drivers, and as you saw it in refineries, but the third quarter seemed to hit general industry. And I say that

because the biggest reason we actually didn't see incremental increase is that our merchant acid volume, and therefore profitability, was down.

So, again, we view that as a COVID effect that didn't make the newspapers. Everyone saw the refineries and people not driving in the second quarter, but I think the effect on industrial production in the third quarter was lighter than people knew about and that affected our merchant acid volume, which affected our profitability. Those are the two points really.

**Paul Bilenki**

Okay, great. That's very helpful. And maybe staying with that segment and the last big piece there, ultra pure, in your 2021 outlook you noted that you expect ultra pure demand to be up year over year but still below pre-pandemic levels. In recent quarters I thought you had stated that it was not really being impacted by the pandemic and that you could still sell as much as you could produce essentially. Have you seen any softening in that business recently and can you speak to what's going on there?

**Rohit Bhardwaj**

So, there is always some short-term stuff that happens there, but the long-term fundamentals are still very strong. The US is still short product. There is actually, potentially, some new capacity might be required there in the next two, three years. So, while there is some short-term supply chain kind of issues that come up from time to time, we still think that the future there is really strong in the US.

**Paul Bilenki**

Okay, great. And turning to the water chemicals, you've done a really good job stabilizing that business and then growing the margins. Looking ahead, I know you said that you expect the volumes to remain relatively stable next year. Is there anything more you can do on sort of the margin side to drive additional EBITDA growth or is the \$100 million annual level sort of the right way to think about that business moving forward?

**Mark Davis**

I think, look, we're going to continue actually growing margins, but the step change growth that actually you've seen over the last couple of years is going to slow down, because we did a lot and fixed a lot, right? But we still have plans and desires to actually continue growing the margins and we will, just that the material increase you saw over the last couple of years, you know, that will dampen down.

**Paul Bilenki**

That's great. Thank you very much. I will turn it over.

**Mark Davis**

Thanks, Paul.

**Operator**

Your next question will come from David Newman from Desjardins. Your line is open.

**David Newman, Desjardins**

Also congrats, Mark, on the retirement, and hello, Rohit.

**Mark Davis**

Thank you.

**David Newman**

Very welcome. I hope you have a great retirement. It's a tough time to kind of, the middle of winter, but hopefully everything gets settled down here.

Hydrochloric acid obviously been the limiter on utilization and whatnot, as you flagged, and what is the actual utilization that you're seeing in this current environment because of that limiter? And I guess the second part of that question would be does a Biden administration limit the limiter, I guess, so to speak?

**Rohit Bhardwaj**

So, I guess in terms of the capacity utilization, we are running at about 75% or so capacity utilization. We think it should start to go up. And your question on the new administration, the expectation is that there will be higher stimulus spending, which should be a benefit to general industrial activity. But as you know, the HCl is very much driven by fracking and we think that, again, oil should start to go up and the predictions are that we should start to see over \$50 oil, which is a good sign for fracking. And fracking can turn on a dime, as you know. Those decisions are made on a weekly basis, so can quickly ramp up.

So, all in all, I think we already will expect to see utilization rates higher next year in North Vancouver and that's without building in a very strong HCl recovery. And if we do see that oil go up, then it could be better than that.

**David Newman**

And what's the actual conversion rate now of the chlorine? And if you look at the mix that you have, I know you made an effort earlier in the year to kind of push it towards industrial, do you think that fracking might be partially impaired or what's your view and does it give you sort of strategically thinking about maybe reallocate more of the hydrochloric acid to other areas?

**Rohit Bhardwaj**

So, right now we are converting about 25% of the chlorine molecule into HCl. We have the ability, as you may recall, to go up to 60%, so we are definitely on the low end where we are at today. And in terms of HCl, yeah, we did develop an industrial market but, again, there are some limits to how big that market is. So, frankly, we are moving more chlorine, even though it's being moved at, you know, the marginal tonne is kind of even at a loss at times on a netback basis. So, we do have the flexibility to go back into HCl now, to fracking.

Now fracking, what's interesting is this traditional fracking. There's also a use in oil sands of different technologies with HCl being used there. And of course, on the longer-term horizon there is still that whole LNG project, which is still in the works. We don't know when it's going to be, whether it's two years out whatever, but it is still there. Plus, we will consider looking at other uses for chlorine, whether it's other derivatives that we can tap into, but we are trying to, you know, right now we are moving as much HCl as we can into the industrial market.

### **David Newman**

Okay. And if you look at the, you know, I'm not sure where we were in 2020 versus 2019, et cetera, but the turnaround as you head in sort of 2021, what's sort of the anticipated slate of turnarounds, I guess, into next year and in terms of quarters and where?

### **Rohit Bhardwaj**

Yeah, so it's the normal activity. So, 2020 was unusual with North Vancouver, well, unusual in the sense North Vancouver is every two years, and the regen one is once every five years, so we should go back to kind of a 2019 frequency of turnarounds. In terms of quarters, we do tend to have them slightly higher in Q4 and Q1. So, I think you should look back at 2019 as kind of the frequency, but nothing unusual in 2021.

### **David Newman**

Excellent. All right, thank you, gentlemen, and congrats again, Mark, on the retirement.

### **Mark Davis**

Thank you, David.

### **Operator**

And your next question will come from Endri Leno from National Bank. Your line is open.

### **Endri Leno, National Bank Financial**

Hi. Good morning. Most of my questions have been asked actually, but just one. I was wondering if you—how do you feel about your covenants? I mean with the Q4 being a



bit hit and 2021 looking a bit weaker, I mean do you see any need to amend the covenants on your credit facilities again?

**Rohit Bhardwaj**

The short answer is no, but we did, when we went and got covenant amendments, we purposely took a very negative view of the world and we went out two years. So, we are well below, you know, the covenant, for example, is going to be 5.25 every 3.6, so even if you model in a weaker Q4 it's going to be nowhere close to the covenants.

**Endri Leno**

Great. Thank you very much. That's great. That's it for me. Thank you.

**Operator**

Again, if anybody would like to ask a question, please press star one on your telephone keypad. Your next question comes from Steve Hansen from Raymond James. Your line is open.

**Steve Hansen, Raymond James**

Good morning, guys. How are you doing? Mark, I'm just going to reflect back. This might not be a question for you, it might be for Scott or Rohit here, but just your comment about EC segment or Canexus introducing more volatility or cyclical into your business, I mean how do you feel about that business in the portfolio longer term as you stand here today? It's obviously not something you'd want to sell in the current environment, I recognize that, but is this moving up your thoughts around what you want to do with that business longer term?

**Mark Davis**

Well, we've had this talk before, but if you remember, we bought it off a really, really low run rate of earnings, right? And we've said a number of sessions and still will, that the macro supply demand characteristics, which have been distorted by COVID, are still really positive for that business and for lots of years, five, seven years of increasing pricing, right? Although they don't go out that far. I guess they go out five years, right? And we think it's a nice business. And although it actually added some cyclical, it's also cyclical primarily on the upside and we think it's actually beneficial. And when you couple one cyclical business with businesses that are generally stable, I think it's a nice collection of assets.

Having said all that, in February you get to ask Scott and see whether or not he disagrees with me. But that's the current headspace and I think the company as a whole is much better with it than it would be without it.

**Steve Hansen**

That's helpful. Thanks. And just to try and get a sense for what we should be monitoring to understand the limitations on North Van in particular, Rohit already talked about some of vacating some of the HCl and the chlorine, but is it the general economic activity in just the BC region that you're looking to move or how far out should we be looking for that radius to understand where you're vacating? Because the way I think about it is, you know, fracking rates and activity levels are actually up a little bit lately, so it really strikes me that it's the economic activity levels on chlorine that have been the limiting factor. So, I'm just trying to get a sense for where and how we should be watching here to get you back to full rates at the plant.

**Mark Davis**

I'm going to tell you that it's a complex equation, because it goes like this, right? It's actually expensive to move HCl and chlorine, but you can move it, right? So, the question gets to be is how far can you move it and what do you get back in order to let you sell caustic? So, the higher price caustic is, the further you could actually move those other products and find a home. Right?

So, we sell HCl beyond just Western Canada. We sell down into the US, into the Midwest, into California. We move lots of chlorine down the West Coast of the US. But it gets to be an analysis of your margin on your ECU unit as a whole and where you start knocking into other competitors, right? So, you get to look at broader than just fracking in Western Canada and you can look at fracking in the Midwest, in the Dakotas. What you could also look at are some of the vinyl guys want to use more of their own chlorine internally and vacate some of the markets they serve for other purposes. But it's a complicated analysis from the outside.

**Steve Hansen**

Okay. Understood. And I'll just echo everybody else and say congratulations and I wish you the best in retirement.

**Mark Davis**

Thanks, Steve. Take care.

**Steve Hansen, Raymond James**

Cheers.

**Operator**

Your next question will come from Paul Bilenki from TD Securities. Your line is open.

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**Paul Bilenki, TD Securities**

Thanks again. Just one more quick one. You recently entered into a receivables purchase facility. Would you be able to share it all your expectations on the amount of receivables you're expecting to sell under this facility and the timing there?

**Rohit Bhardwaj**

Yeah, so we did enter into this facility. It's for a select group of customers so we could, I would say, on average, draw maybe between \$40 million, \$50 million and basically it reduces working capital and give us optimization of cash. It's a reasonably priced facility and it's a non-recourse facility, so it does have the benefit of being totally non-recourse and off-balance sheet, so it doesn't affect any covenants. Yeah, so it's just a positive. I wouldn't say it's a huge thing, but it is a bit positive, yes.

**Paul Bilenki**

All right. That's great. Thanks again.

**Operator**

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

**Mark Davis**

Well, as usual, thanks, everyone, for their attention. As I joke, I think this is only my 78<sup>th</sup> consecutive analyst quarterly conference call, so I will happily turn over next quarter to Rohit and Scott. But thanks for everyone's attendance and I will look forward to seeing you all at some point in time. Thank you.

**Operator**

Thank you, everyone. This will bring the conference call today to a close. You may now disconnect.

**(1) Non-IFRS Measures**

*EBITDA and Adjusted EBITDA –*

Management defines EBITDA as net earnings before any deduction for net finance costs, 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 ("PPE"), 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 September 30</u>		<u>Nine months ended September 30</u>	
	2020	2019	2020	2019
Net loss	\$ (48,318)	\$ (163)	\$ (141,694)	\$ (87,057)
Add:				
Depreciation and amortization	64,640	65,380	197,566	197,036
Net finance costs	46,121	22,675	116,279	75,997
Income tax recovery	(17,627)	(8,825)	(32,626)	(28,701)
EBITDA	44,816	79,067	139,525	157,275
Add:				
Impairment of goodwill	-	-	56,000	65,600
Change in environmental liability	-	-	3,743	-
Loss on disposal and write-down of PPE	19,829	9,917	19,360	10,522
Unrealized foreign exchange loss (gain)	5	1,046	2,430	(8,127)
Adjusted EBITDA	\$ 64,650	\$ 90,030	\$ 221,058	\$ 225,270

**SPPC -**

(\$'000)	<u>Three months ended September 30</u>		<u>Nine months ended September 30</u>	
	2020	2019	2020	2019
Revenue	\$ 105,351	\$ 127,798	\$ 322,333	\$ 385,318
Gross (loss) profit	(8,298)	11,086	15,657	45,894
Adjusted EBITDA	31,041	43,689	97,287	126,502
Loss on disposal and write-down of PPE	(18,949)	(9,221)	(18,932)	(9,973)
<b>EBITDA</b>	<b>\$ 12,092</b>	<b>\$ 34,468</b>	<b>\$ 78,355</b>	<b>\$ 116,529</b>

**WSSC -**

(\$'000)	<u>Three months ended September 30</u>		<u>Nine months ended September 30</u>	
	2020	2019	2020	2019
Revenue	\$ 119,789	\$ 122,432	\$ 346,583	\$ 343,330
Gross profit (loss)	19,195	12,836	(6,220)	(34,457)
Adjusted EBITDA	29,199	24,335	82,145	63,261
Impairment of goodwill	-	-	(56,000)	(65,600)
Change in environmental liability	-	-	(3,743)	-
Loss on disposal and write-down of PPE	(894)	(1,661)	(437)	(1,657)
<b>EBITDA</b>	<b>\$ 28,305</b>	<b>\$ 22,674</b>	<b>\$ 21,965</b>	<b>\$ (3,996)</b>

**EC -**

(\$'000)	<u>Three months ended September 30</u>		<u>Nine months ended September 30</u>	
	2020	2019	2020	2019
North American sales volumes:				
Sodium chlorate sales volume (000's MT)	87	98	283	294
Chlor-alkali sales volume (000's MECU)	42	49	111	140
Revenue	\$ 120,710	\$ 145,423	\$ 391,369	\$ 448,992
Gross (loss) profit	(3,508)	17,495	9,518	62,133
Adjusted EBITDA	24,594	42,804	93,561	137,298
Gain (loss) on disposal and write-down of PPE	14	(178)	9	873
<b>EBITDA</b>	<b>\$ 24,608</b>	<b>\$ 42,626</b>	<b>\$ 93,570</b>	<b>\$ 138,171</b>

*Cash Flow –*

The following table is derived from, and should be read in conjunction with the condensed consolidated interim statements of cash flows. Management believes this supplementary disclosure provides useful additional information related to the cash flows of Chemtrade including the amount of cash available for distribution to Unitholders, repayment of debt and other investing activities. Certain sub-totals presented within the cash flows table below, 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 condensed consolidated interim 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 condensed consolidated interim 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.

(\$'000)	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Cash flows from operating activities	\$ 90,866	\$ 80,462	\$ 188,763	\$ 78,811
Add (Less):				
Lease payments net of sub-lease receipts	(14,256)	(14,131)	(42,418)	(42,616)
Changes in non-cash working capital and other items	(47,168)	(9,524)	(23,910)	90,291
<b>Adjusted cash flows from operating activities</b>	<b>29,442</b>	<b>56,807</b>	<b>122,435</b>	<b>126,491</b>
Less:				
Maintenance capital expenditures	17,346	19,668	40,444	45,871
<b>Distributable cash after maintenance capital expenditures</b>	<b>12,096</b>	<b>37,139</b>	<b>81,991</b>	<b>80,620</b>
Less:				
Non-maintenance capital expenditures	743	4,631	2,283	9,831
<b>Distributable cash after all capital expenditures</b>	<b>\$ 11,353</b>	<b>\$ 32,508</b>	<b>\$ 79,708</b>	<b>\$ 70,789</b>

