

CHEMTRADE LOGISTICS INCOME FUND

Q3 2021 Results Conference Call

Rohit Bhardwaj

Good morning, everyone and thank you for joining us today. We also have Scott Rook, our CEO on the call this morning and like the last few earnings calls each of us are in a different location.

I would like to highlight that we will have a slide presentation to accompany our earnings results discussion today. You should be able to view the presentation on the webcast link provided and the slides will also be available for download from our website.

I will begin by reviewing results for the third quarter of 2021 and then I will provide an update to our 2021 full year earnings guidance and underlying assumptions and key sensitivities, after which Scott will follow with his remarks on the current state and outlook for the business and then following that we will have a Q&A session.

Before I start on the Q3 results, I would like to 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 ease, while our accompanying presentation will refer to Adjusted EBITDA, we will just refer to it as EBITDA in our remarks as opposed to Adjusted EBITDA. Both these terms are fully defined in our MD&A.

Starting with the aggregate results for the third quarter of 2021, revenue was \$365.0 million, an increase of \$19.2 million from the third quarter of 2020. The increase in revenue for the third quarter is mainly due to higher volumes and pricing for chlor-alkali products. The higher volume was due to higher demand for chlorine and hydrochloric acid (or HCl), which allowed us for higher operating rates at our

North Vancouver facility. The higher volumes combined with higher pricing for HCl and chlorine gave a lift to revenue for the period. This was partially offset by the continued strength of the Canadian dollar relative to the US Dollar, which had a negative impact on revenues of \$15.2 million. The Canadian dollar relative to the U.S. dollar was significantly stronger during the third quarter at US\$1.00 equaling Canadian\$1.26 compared with the same period of 2020 when US\$1.00 equaled Canadian \$1.33.

Consolidated EBITDA of \$67.3 million was \$2.6 million higher than the third quarter of 2020. Higher corporate costs due to higher Long Term Incentive Plan or LTIP accruals and the stronger Canadian dollar partially offset the stronger business performance. Distributable Cash of \$19.3 million was \$7.2 million higher than the same period of 2020. As a reminder, every one cent of increase in the Canadian dollar per U.S. dollar is expected to reduce annual EBITDA by roughly \$2.1 million and Distributable Cash by \$1.1 million and vice-versa.

Shifting now to the individual segment results for the quarter, Sulphur Products and Performance Chemicals, or "SPPC" generated revenue of \$109.2 million during the third quarter of 2021, which was \$3.9 million higher than the third quarter of 2020, despite the negative \$5.1 million impact of the stronger Canadian dollar. The increase in revenue is due to higher selling prices for sulfur products, regen and merchant acid, partially offset by lower sales volumes of acid products. We are pleased to see the SPPC segment continue to rebound as COVID-19 restrictions were lifted in North America and miles driven returned to pre-pandemic levels. As a reminder, our regen business serves gasoline refineries. We also benefited from higher pricing in regen and merchant acid due to improved demand and higher Sulphur costs. In Ultrapure acid we have made good progress replacing sales volume that was lost from the previously disclosed, large end-use customer.

EBITDA for the period was \$33.5 million, which was \$2.5 million higher than 2020. The labour disruption at our large byproduct supplier, Vale, had a negative impact of roughly \$6.0 million on EBITDA. The stronger Canadian dollar had a negative impact of \$1.5 million.

Our Water Solutions and Specialty Chemicals or "WSSC" segment reported third quarter revenue of \$119.4 million which was similar to the third quarter of 2020. The stronger Canadian dollar had a negative impact on revenue of \$5.7 million. However, higher prices for water products offset the foreign exchange impact and lower sales volumes of water products.

EBITDA for the period was \$25.7 million, which was \$3.5 million lower than the same period in 2020. As previously disclosed, escalating raw material costs, especially for sulphuric acid and aluminum have caused a reduction to margins. While selling prices are being adjusted to pass through cost increases, given the upward trajectory of raw material costs, it will take additional time before selling prices fully offset raw material increases. As a reminder, the water products business is generally a contract business with municipal customers that typically requires annual commitments on pricing. As a result, our ability to recoup raw material cost increases typically lags because we are unable to adjust selling prices until contracts come up for renewal. This is creating a short term headwind for the business as raw materials are rising, but there should be a tailwind benefit when raw materials are declining.

The Electrochemical or "EC" segment reported third quarter revenue of \$136.4 million, a \$15.7 million increase over the third quarter of 2020. The higher revenue was primarily due to higher sales volumes and selling prices for chlor-alkali products and higher sales volumes of sodium chlorate. Sales volumes for caustic soda, HCl and chlorine increased by 20%, 22% and 24%, respectively compared to the same period of 2020. Selling prices for HCl and chlorine increased by 27% and 26%, respectively. This was partially offset by lower selling price for sodium chlorate and the negative impact of \$4.4 million due to the stronger Canadian dollar.

EBITDA for the period was \$33.7 million compared to \$24.5 million in 2020, an increase of \$9.2 million. The factors that benefitted Revenue also benefitted EBITDA and more than offset the impact of the stronger Canadian dollar of \$2.3 million.

Corporate costs for the third quarter of 2021 were \$25.7 million compared to \$20.1 million in the same period in 2020. Excluding unrealized foreign exchange gains, corporate costs were \$5.6 million higher than the same period of 2020. The increase in corporate costs was primarily due to a \$6.7 million increase in LTIP accruals. The higher LTIP expenses were partially offset by lower discretionary spending during the period compared with 2020.

Turning now to our balance sheet, we maintain Senior Credit Facilities that consist of a US\$325.0 million term loan and a US\$525.0 million revolving credit line which in total represents an aggregate credit facility

of US\$850.0 million. We continue to maintain ample liquidity with US\$271.2 million undrawn on our Credit Facility at the end of the quarter.

As of September 30, 2021, Chemtrade was compliant with all debt covenants contained in its credit agreement with a Senior Debt-to-EBITDA Ratio of approximately 3.5. Chemtrade has no debt maturities until August 2023. Also as a reminder, our decision to borrow mainly in U.S. dollars provides a long-term hedge against currency fluctuation.

I would also like to highlight the recent completion of the sale of the assets relating to the two specialty chemicals within the WSSC business, potassium chloride and vaccine adjuvants. The sale to Vertellus LLC closed on November 2nd and generated US \$155.0 million in gross proceeds which were used to pay down debt in our credit facility. Based upon the midpoint of guidance for 2021 and after making a pro-forma adjustment for the loss of a full year's EBITDA of the disposed business, this repayment will reduce Chemtrade's senior Debt:EBITDA ratio by approximately 0.7 times. So, this has had a significant impact on de-levering the balance sheet and positioning Chemtrade to focus its resources on its core business. The earnings from these businesses will be included in our earnings until the closing of the sale which occurred on November 2nd.

Subsequent to the end of the third quarter of 2021, Chemtrade settled a lawsuit relating to Canexus Corporation's North American Terminal Operations (NATO) assets for \$21.0 million. A net benefit of approximately \$17.6 million will be recorded in corporate costs during the fourth quarter of 2021.

I will now shift to our financial outlook. We reinstated our guidance for 2021 last quarter and so I would like to take a few minutes to provide an update to that forecast and our revised assumptions.

For the full year 2021 we reiterate our prior guidance, but now expect to be at the higher end of the range. This does consider the loss of earnings from the assets sold on November 2, 2021 but excludes the benefit of the lawsuit settlement during the fourth quarter of 2021. The guidance is detailed on the slide so I won't read it out.

There are a few significant factors to be considered when comparing 2021's EBITDA range and actual EBITDA achieved in 2020 and these are shown on the slide.

The Key assumptions driving that outlook are in our M, D&A and shown on the slide:

I will not read these out for you but will remind you that our caustic soda price generally lags the North East Asia spot index by a quarter.

The Key Sensitivities that will have an annual impact our EBITDA and shown on the slide: again, I will not read these out.

I'll now hand the call over to Scott for some comments on the longer-term outlook for Chemtrade's business.

Scott?

Thank you, Rohit.

Good morning everyone and thank you for joining us on today's third quarter earnings call. I hope you are all doing well.

As you heard from Rohit's update on the third quarter, we now have two solid quarters of positive momentum and are really excited about the outlook for our earnings.

I will now spend some time updating you on our view of our Longer-Term outlook strategy.

One of the primary goals of our strategy is to deliver sustained earnings growth which will result in an improved balance sheet and reward investors. Additionally, Chemtrade will focus on being a leading example for Corporate Environmental, Social and Governance (or ESG) Responsibility. This is ingrained in our culture and we will continue to strive towards making a positive impact for our employees, customers, shareholders, and the society we operate in.

There are three key components to our strategy. The first component is being positioned to benefit from a market recovery as the COVID-19 vaccines get rolled out and the economy returns to more normal levels. The second, is that we are diligently pursuing organic growth opportunities that will deliver increased size, scale, and diversity of our earnings. In the near term we are focused on organic growth

opportunities that we find attractive and in several years, as our balance sheet strengthens, we will consider acquisitions again. And finally, a key area of focus for us is our operational excellence. We are passionate about improving our productivity, assets, and people to drive sustainable earnings. We see our business and our balance sheet improving with time.

The Market Recovery component of our strategy is clearly starting to materialize. First, beginning with the EC business which includes our chlor-alkali product line, in the third quarter we saw significant improvement in the caustic soda market. As you may know, the caustic market price for our North Vancouver production is closely tied to the North East Asian spot price. In the third quarter, China curtailed caustic production as part of their national policy to reduce energy consumption. An ICIS report in October indicated production was capped at 50-70% of capacity. China also reduced production rates on alumina which requires caustic as a key feedstock. This has required alumina producers outside of China to run at higher rates to meet global demand. The resulting impact is an increase in demand for exports of caustic soda from China coupled with lower supply that is driving a higher North East Asian spot. We expect this trend to continue, providing a nice lift to caustic soda pricing. In the last few weeks, we saw dramatic increases in the North East Asia caustic prices, with the price hitting over US\$900 per tonne an all-time high. The industry publication IHS reported that the average price for October was US\$777, which is a dramatic increase from earlier in 2021.

As a reminder for every US\$50 per tonne increase in caustic pricing the business generates about US\$10.5 million in greater margin. For perspective, even if the NE Asia spot price for caustic was US\$400 per tonne, which it was prior to the recent dramatic run-up, and if it stayed flat at that level for three quarters of next year, that would mean a roughly \$25.0 million improvement over our outlook this year.

HCL demand and pricing also continued to improve with oil prices moving higher and fracking activity picking up. This is particularly true for Western Canada where our chlor-alkali production is based. Chlorine demand and pricing also continued to benefit from strong demand for PVC and bleach products combined with the capacity in the U.S. that was rationalized earlier this year. Additionally, there have been multiple weather related events in 2021 that reduced production, particularly in the US Gulf Coast. We expect pricing will remain at these levels driven by strong demand.

Improved fundamentals for co-products chlorine and HCl have the added benefit of allowing us to maintain high operating rates at the North Vancouver chlor-alkali facility, thereby selling more caustic soda.

We are seeing some modest improvement in demand for sodium chlorate as offices and schools reopen and demand for printing paper recovers.

In the WSSC business,

As Rohit mentioned, we are seeing higher raw material costs, particularly with our largest product line, aluminum sulphate. As I mentioned in my comments on the caustic soda market, the curtailments that China has made in alumina production are impacting global supply dynamics and driving pricing higher. Alumina is a key feedstock for our aluminum sulphate product. So, the higher pricing is negatively impacting our water business. We are also seeing higher pricing for sulfuric acid, which is the other key raw material used to make aluminum sulphate. So, these raw material increases in the water business will offset some of the gains that we are expecting in the caustic soda in our EC segment. However, we will look to pass the higher costs on to our end use customers as those contracts and bids are renewed. This has been an ongoing process that will provide a tailwind to the business when the raw materials revert to historical levels.

In the SPPC Business,

Regen sulphuric acid has maintained its momentum on improved volume led by higher North American refinery utilization. In the third quarter schools across North America reopened, signifying another milestone in the post-COVID-19 return to normalcy. U.S. highway traffic data has returned to pre-pandemic levels further confirming that we all seeing about our daily lives. We expect that driving miles in 2022 will be back to pre-pandemic levels

The Merchant Acid market is also benefiting from the recovery in industrial production. This market was very tight in the third quarter resulting in strong demand for our product and higher pricing. The key raw material in sulfuric acid, sulphur, has also commanded higher pricing but the merchant acid business has been able to pass the majority of these costs through to end users.

The Ultrapure Acid business has made good progress offsetting the reduction in demand at one of our customers that was previously disclosed. We have been working closely with a number of customers to grow our share of their business and we expect our Ultrapure business to be back to near sold out levels in 2022.

So, this is a nice transition point to discuss the organic growth opportunities. We remain focused on the significant potential for growth that we see in our current businesses.

As we have previously mentioned, the single largest opportunity for organic growth is in our Ultrapure sulphuric acid that mainly supplies the semiconductor industry. The long-term fundamentals for the semiconductor industry remain strong, with leading global semiconductor manufacturers announcing U.S. expansion plans coupled with the U.S. government's commitment to support domestic chip manufacturing capacity as a matter of national security.

As I mentioned, we have seen a strong recovery in demand for Ultrapure acid and expect to return to 2020 sales levels next year. We have been evaluating options to add capacity to meet the growing needs of our key customers. I am pleased to announce that our Board has approved an expansion of approximately 60% of our Ultrapure acid capacity at our Cairo, Ohio facility. In addition to adding capacity at our site, we will also improve the quality capability of the site. We expect that the Cairo facility will be the first site in the United States capable of producing Ultrapure acid at the quality level needed for the new fabrication plants in the U.S. The estimated cost of our expansion is approximately CAD \$50M with a targeted return rates of 25% and an expected startup of 2024.

We are also making solid progress in developing our co-production of hydrogen that is part of the sodium chlorate process. We have been pursuing several opportunities in the hydrogen market that will allow us to fully monetize these hydrogen streams. Our plants manufacturing sites use hydroelectric power, so we are generating green Hydrogen which is important from an ESG perspective and financial return. We are excited to leverage this unique position to help to reduce the global carbon footprint while also creating a sustainable revenue stream.

I will now spend a few minutes talking about the Operational Excellence initiatives we have been working on.

Starting with the Productivity and Reliability initiative that we initiated in 2020, we are making progress on a number of projects that will help us reduce waste in our business. You can read some of these projects on the slide. The projects are critical to generating sustainable earnings and will help offset some of the inflationary cost increases going forward. These projects have become even more important as inflation has picked up in the last quarter. We remain committed to supporting these initiatives with the ultimate goal to develop a culture of continuous improvement that leverages the best practices and technology to drive improved performance.

I would now like to discuss our ESG Approach and how we will be implementing systems company wide to help us track our performance.

Targets will be set and integrated into our long-term strategic planning which will include:

- Environmental - Such as Green House Gas (GHG), waste and energy management
- Social – workforce and operational safety, emergency preparedness and employee diversity and inclusion
- Governance – Focus on ethical and doing the right thing, management of our legal and regulatory environment and proactively governing our environmental and social issues

Some of our recent ESG highlights include:

Our focus on renewable energy, where 96% of the electricity used at our 17 largest facilities was generated from renewable hydroelectric sources in 2020. From a waste generation standpoint, over 75% of our industrial waste is high clay alumina (HCA). In 2020, we repurposed 27% and reduced landfill costs. Our target for 2022 is to reprocess 30% of our HCA waste. And most importantly, on Safety in 2020, employee injury frequency (excluding COVID-19) was at a seven-year low. This has created a culture where our employee retention rate in 2020 was 86.6%.

So, in summary,

We are excited about the momentum we are seeing in our post COVID-19 recovery. Our earnings growth remains well positioned to benefit from the recovery. Commercially, we will continue to pursue organic growth opportunities in Ultrapure acid and hydrogen. Operationally we will continue to focus on driving productivity and reliability to reduce cost. Additionally, we will be a leading example for Corporate ESG

Responsibility. These initiatives are critical to our business performance and we remain committed to seeing them come to fruition.

In conclusion, we are seeing a strong recovery in many parts of our business as we enter into 2022 with strong momentum and an improved balance sheet.

Thank you.

Rohit and I will now be happy to take any questions.

Question and Answer Session

Operator: Your first question comes from the line of Joel Jackson from BMO Capital Markets.

Joel Jackson, BMO Capital Markets

Hi, good morning, gentlemen. I have a few questions. I'm going to ask them one by one. I appreciate the reiterated color on the upside to the caustic pricing. When caustic prices go up double in a couple of months, do you capture pricing that quickly? Look, I know you'll get into discussions end of November, early December. Does that work where you can capture the benchmark, or when you have such a high rate of increase over a short period of time, you get demand disruption, you get much more intense discussions? How does it work?

Scott Rook, President & Chief Executive Officer

So, Joel, this is Scott. So right now, demand is very strong, and so we do capture those price increases. But remember that our pricing on caustic is generally set on last quarter's--the average for last quarter's caustic price.

Joel Jackson, BMO Capital Markets

Sorry, I'm asking for Q1. I'm asking for Q1 pricing, sorry, exactly. I'm asking--sorry to interrupt. I'm asking for November and December, early December, IHS benchmarks doubling in a couple of months. Can you capture that for Q1, or will the discussions be more intense?

Scott Rook, President & Chief Executive Officer

I believe we can capture that.

Joel Jackson, BMO Capital Markets

And then you raised MECU production this year to the, I think, 190,000. It's been higher than we've seen it the last few years. What will MECU production be next year? Can you keep that 190 rate going until the turnaround in North Van? And then what would production be for '22, do you think?

Rohit Bhardwaj, Chief Financial Officer

Yeah, so in '22, Joel, we do have the turnaround at North Van, right, so we lose some production there. So, I think, you know, we should still be able to be in that 190-ish range because we'll run the plant harder for the rest of the year and just take the downtime for probably in Q2 when we do our turnaround.

Joel Jackson, BMO Capital Markets

That's helpful. And what will corporate costs look like in 2022?

Rohit Bhardwaj, Chief Financial Officer

So, we should be back--I mean, there's a lot of noise. So, I'll qualify my response just that the LTIP is one that is hard for us to give an accurate response. So, I would say that generally, our normal run rate is between \$65 million and \$70 million. And then we'll have to see where the LTIP ends up next year, and that will depend on our performance. So, it could be a bit higher than that, based on how we perform.

Joel Jackson, BMO Capital Markets

And just finally, if I understand your color on WSSC, so we should expect some margin contraction as these annual contracts for alum keep rolling. Then you should get margin expansion across '22 later in the year; does that make sense?

Rohit Bhardwaj, Chief Financial Officer

Yeah, and that's really—if you look back at 2020, that's really what happened in that year.

Joel Jackson, BMO Capital Markets

Thank you.

Operator: Your next question comes from the line of Steve Hansen from Raymond James. Your line is open.

Steve Hansen, Raymond James

Yeah. Thanks, guys. Just a question on the ultrapure side to start. It sounds like you've been able to fill that book a little bit sooner or faster than expected. Has there been, you know, one or two customers that have stepped up to that production volume, or what's changed that has allowed you to get back to fill the hole, so to speak?

Scott Rook, President & Chief Executive Officer

So, yes, we have filled up our business faster. If you remember at the beginning of this year, I said it might take 18 months or more, and we've done that in actually a little under 12 months. So, what's driving that, I think, is just the strong demand for chips. So, number one, it's the strong demand for chips, and there is a shortage of acid in the U.S., so imports have to come in in order to meet the full demand. Imports coming in have been affected by the supply chain disruptions that we've all seen. Number two, Chemtrade made improvements in our quality. We invested capital during 2020, to upgrade our quality. And I think it took time to get that approved by our customers, including new customers. But the customers have approved the material after we made quality improvements, and we're seeing the benefit of stronger volumes. So, we have new customers that we've brought on that we've gotten qualified, and so we have increased both that existing customers as well as new.

Steve Hansen, Raymond James

Okay, helpful. And if I'm thinking about the margin profile for the new volume or the new customers, the ultrapure market is pretty opaque, I think, for most of us. So, you know, has there been a tightening in that market and should the new volumes that you're recovering with here, should they be at better margins than prior, or is it just the recovery of the volume--or the earnings you had lost earlier? I'm trying to understand if there's any differential to the new customer volumes and the margin perspective.

Scott Rook, President & Chief Executive Officer

So, I would say right now, equal to the margins that we've had, let's say, in '19 and '20. We are seeing competition coming in with imports. So, there's two things going on. There's competition coming in with imports, but there's also improvements that we are making in quality and So we feel that products that have improved quality should have higher prices.

Rohit Bhardwaj, Chief Financial Officer

I can just add one thing to that, Steve. So, what's going to be actually interesting is when you look a couple of years out, we know there's going to be additional capacity required in the U.S. And what's going to be interesting is as you look at pricing based on that reinvestment economics, logically, pricing should go up once we get that new capacity coming in because people have--we're now competing with older assets, by and large. And then there should be a pricing reset three years out, I'd say.

Steve Hansen, Raymond James

Okay, helpful. And Rohit, can you just remind us what the hit was? I think you had stated that back at the time when the customer void opened up. But what was the rough hit on that just from memory?

Rohit Bhardwaj, Chief Financial Officer

So, we didn't actually quantify it. What we had said was that if you look at SPPC, 80% of SPPC is the three types of acids. And within that, about a quarter of it was ultrapure, and this was a very significant customer. So, I think that's where we left it and I think we really didn't go much deeper than that.

Steve Hansen, Raymond James

Okay, very good. And just one last one, if I may. You referenced some modest uptick on the chlorate side as demand is recovering. I mean, how are you thinking about sort of the opportunity there from a recovery standpoint, and any pricing benefits that you might be seeing?

Scott Rook, President & Chief Executive Officer

We are seeing a modest uptick in volume. I mean, it's a couple of percent uptick in volume, but I'll also say that raw material prices are going up, and so pricing should at least follow that.

Steve Hansen, Raymond James

Okay, so a flat margin profile at best with some of the cost inflation, but better volumes on the margin.

Scott Rook, President & Chief Executive Officer

Yes.

Steve Hansen, Raymond James

Okay. That's all, thanks. I'll jump back in queue.

Operator

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

David Newman, Desjardins

Good morning.

Scott Rook, President & Chief Executive Officer

Hey, David

David Newman, Desjardins

Just looking at the ultrapure again, I think initially when you were sort of thinking about this, you were contemplating perhaps bringing on a partner to get you down to sort of 5 nanometer capability and that sort of thing. So how does that fold in? What is the capability that you're going to have out of Cairo to kind of get to the smaller scale overall? And maybe just kind of give us the spread of the timing of the CAPEX over the next couple of years.

Scott Rook, President & Chief Executive Officer

Okay, great. So, we have considered a partner, but we chose not to go with a partner for the Cairo expansion. Our team has been working on the design of the plant for over 18 months. And as I previously mentioned, we made improvements to our production process in 2020, and even some in '21. And we've seen good results from that that gave us confidence that we could design this facility to meet the demands of customers for the new fab plants. We have been working very closely with those fab plants. And again, that's why we have the confidence that we can do that.

Now, that being said, the expansion in Cairo is the first expansion of more expected to come. And so, we are certainly not precluding or excluding working with a partner on, let's say, the next expansion project, which could be quite sizable.

David Newman, Desjardins

Okay. And to be clear, so when you talk about the new fabs coming in, so you can get down to 5 nanometer and below?

Scott Rook, President & Chief Executive Officer

Yes.

David Newman, Desjardins

Okay, very good.

Scott Rook, President & Chief Executive Officer

Yeah. No, that's exactly what we are—that's what this plant is targeted for.

David Newman, Desjardins

Very good, okay. And the spread of CAPEX, probably Rohit, right?

Scott Rook, President & Chief Executive Officer

Yes.

Rohit Bhardwaj, Chief Financial Officer

Yeah, so I think we will be starting this up in, let's say, middle of '22-ish. And then we expect to get online by '24, so you can kind of take it from there. And as we get closer to the plans, we'll give you a little bit more granularity on the actual spend of the CAPEX.

David Newman, Desjardins

Okay, very good. And then I look at--you upped your guidance a bit for this year. It looks like your \$5 million came from caustic; and then about \$2 million, a bit of a recovery on FX here. But as you're sort of

contemplating--I don't know when you think about you're going to be thinking about putting out 2022 guidance. But you're in a bit of a conundrum here because, obviously, with the blazing hot prices that we're seeing in chemical space, a little bit of a rollover recently. How do you think about that in terms of setting your guidance for next year, timing? And you've got obviously caustic, chlorine, hydrochloric, merchant, regen, ultrapure, all working, now a chlorate recovery. So other than water and just chlorate pricing and a few other just small areas, things seem to be firing on all cylinders. And maybe just talk about how--what we should be thinking about. I mean, can you get to those numbers that we talked about in the past like, you know, 340, 350 in EBITDA?

Scott Rook, President & Chief Executive Officer

So, I'll start with that. Then I'll ask Rohit to add some color on that. Simply, the biggest unknown that I feel that we have right now is what's going to happen to caustic soda. Caustic soda has gone basically, in 10 months, from \$190 up to \$900. And so it was just an explosive run-up. However, last week it fell from \$900 down to a price in the \$500s. So, where it's going to settle out, we don't know, and so we're going to give ourselves some time and continue to study this market, and that's the biggest unknown. Everything else, I think, we feel like we have a good handle, at least as good as we can, on what's going to happen next year. But caustic is a very difficult commodity to forecast.

David Newman, Desjardins

Okay. And when are you putting out the 2022 guidance? I mean, I'm sure it's probably going to be 4Q, you're going to maybe think about this, or how are you going to--?

Rohit Bhardwaj, Chief Financial Officer

We might do it a little bit earlier than that. We might actually do that in January; maybe middle to late January is when we'd probably put it out. So, we won't wait until the annual results.

David Newman, Desjardins

Got it, okay. And congratulations on the sale of specialty chemicals. I think, Rohit, that you had sort of mentioned in the past that you might be able to get improved terms with respect to rates, term and covenant, and as your debt load eases. Maybe you can talk about that and just the set-up on the balance sheet.

Rohit Bhardwaj, Chief Financial Officer

Sure. So, you know, when the pandemic started we went out and got a modified covenant package just to be safe. And so clearly, we don't need that now that we've paid down the debt using the proceeds, even removing the earnings from the specialty chemical business. So, we will be most likely talking to our lenders to modify the covenants to a more traditional covenant package. And on that, when we got the relief, our borrowing costs went up by 50 basis points across the grid. So, we fully expect to roll that back and go back to a traditional covenant package. And we're also looking at, we've got three years left on the term. The Canadian lending market is back to being pretty normal. So five-year term loans are pretty common. So, we look at what extensions we do there. And finally, we look at the size of the facility, too, because the facility is quite large, and now we have a very large undrawn revolving facility. And so, we will look at whether that makes sense or not to save some fees. So, there's a few things going there, but all in all I think the balance sheet is definitely in a lot better shape. We still would like to get debt down, total debt down a little bit, and as we do have these organic growth opportunities. So clearly, we want to maintain the flexibility so we can fund these organic growth opportunities, too.

David Newman, Desjardins

Very good. And last one for me, and I'll hand the line over. Scott, maybe as you think about the chlorine prices have started to check back as well. And any sense on the demand/supply factors at play there in the market? And when you look at the equation of chlorine versus hydrochloric acid, does that make you consider bringing more hydrochloric acid, because the chlorine market has been very robust as well? So how do you think about the balance of converting that into hydrochloric acid?

Scott Rook, President & Chief Executive Officer

Yeah. So historically, there's been a very clear winner for us, and that's HCl and the fracking industry in Western Canada. That was by far our preferred outlet for the chlorine molecule. During the past year as the chlorine market has tightened up, chlorine prices have come up nicely and so--I'll say the clear advantage of HCl has not been as strong, so that's not been as strong. Right now, we see--certainly, as we look out for the next six months, it appears to us that the chlorine market is going to stay pretty tight. So that's what it looks like, and we'll see how that plays out.

But we also see right now with high oil prices, we are beginning to see fracking activity--not beginning, we've seen that--fracking activity and fracking demand is picking up, and that's also pushing up our HCl

prices. So that I expect to continue as well, and so I think we'll still find ourselves where our preferred outlet is HCl and the fracking industry in Western Canada.

David Newman, Desjardins

Excellent, very helpful. Thanks, Scott. Thanks, Rohit.

Rohit Bhardwaj, Chief Financial Officer

Welcome.

Operator

The next question comes from the line of Jason Bout from CIBC. Your line is open.

Jacob Bout, CIBC

Good morning.

Rohit Bhardwaj, Chief Financial Officer

Morning.

Scott Rook, President & Chief Executive Officer

Good morning.

Jacob Bout, CIBC

I wanted to go back to the ultrapure market, and just any commentary you have on supply dynamics, you know, over the next say three to five years, what other capacity is being built?

Scott Rook, President & Chief Executive Officer

So, the capacity that is being built. The demand over the next three to five years should increase by more than 75%. A 75% increase in total demand, which is very, very promising, that would be in line or maybe even slightly conservative relative to the announced fabrication expansions coming from the major players here in the U.S. And that would include TSMC, Intel, Samsung, and others. So, if you look

at if they bring the fabs on or as they bring the fabs on per their announcement, the market demand will grow by 75% or more.

Now, in terms of expansions, there's our expansion in Cairo, but clearly the market is going to need more significant expansions. So, my comment was that this is our first our first announced expansion, and I expect to have more coming out before long.

Jacob Bout, CIBC

Sorry, and that 75% increase in total demand, how many tonnes would that be?

Scott Rook, President & Chief Executive Officer

Yeah. So that's going to be an increase of, let's say, of 75,000 tonnes.

Jacob Bout, CIBC

And maybe just turning to the chlorine market. I know the complaint historically has been, you know, lack of rational behavior within the industry. You know, what are the current dynamics right now?

Rohit Bhardwaj, Chief Financial Officer

So, the uncertainty that was there was the two sales that took place of the two businesses, ERCO and then Canexus, obviously, in doing those sales processes where there was some irrational behavior. So, I think we'll get a better sense of this, too, when we see some contract renewals and we see how people are going to deal with the increase in energy costs, principally, and because when people are behaving rationally, there should definitely be passthrough. And so, I think it's a bit early for us to tell, because one of the sales concluded, you know, midway through this year. So, we'll really see next year and we'll get a good sense then.

Jacob Bout, CIBC

So, expect clarity, what, beginning of next year?

Rohit Bhardwaj, Chief Financial Officer

I'd say by middle of next year. Because these contracts are not calendar contracts. They do come up at different times.

Jacob Bout, CIBC

Okay. Last question here is just on alumina prices, and I know you talked about it reverting back to historic levels. When do you think that will be?

Rohit Bhardwaj, Chief Financial Officer

Depending on the trajectory because you're playing a catch-up game, right? So, if raw materials keep escalating, then you don't catch up. So really, it's going to depend on when raw material costs stabilize. And once they're stabilized, it's probably I'd say a few months after that. A couple quarters after that is when we start to actually see the benefit of the higher prices and the lower costs.

Jacob Bout, CIBC

So, a couple of years of lower margins, or how do you think about that?

Rohit Bhardwaj, Chief Financial Officer

Well, so we'll have to see what happens. If raw materials stabilize the middle of next year, then by end of next year we should be kind of starting to see the recovery in our selling price. But again, if raw materials keep going up, then we keep deferring the catch-up by, let's say, six months.

Jacob Bout, CIBC

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

Rohit Bhardwaj, Chief Financial Officer

Welcome.

Operator

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

Endri Leno, National Bank

Hi, good morning. Thanks for taking my questions, and congrats on the good quarter. A question for me, I'll start on the ultrapure extended capacity. I just wanted to clarify that 60% increase at the Cairo

facility: how much does that represent an increase on your overall production of ultrapure?

Scott Rook, President & Chief Executive Officer

Yeah. So, we have not shared our total capacity nor the capacity of our individual sites. So, I don't plan to share that right now, but what we are sharing is that the investment is going to be \$50 million, and we're expecting or targeting a 25% return on that.

Endri Leno, National Bank

Okay. And if I may follow up on that, Scott, have you had any preliminary discussions to sell that capacity, or is it too early at this point?

Scott Rook, President & Chief Executive Officer: No, we are well into the discussions to sell the capacity.

Endri Leno, National Bank

Okay, that's great. And next couple of questions for Rohit, actually. If you can, please remind us what is your target debt level that you'd be targeting?

Rohit Bhardwaj, Chief Financial Officer

So, we'd like our total debt, which includes convertible debentures, to be below 4 times EBITDA, and our senior debt to be 2.5 or below. So senior debt, once we've paid off using the proceeds of the sale, we are really pretty close to that. And total debt, we've still got a bit of a ways to go, but there is no upcoming maturity. So, this is really more of a longer-term target for us.

Endri Leno, National Bank

Great, thank you. The last one for me, with everything as demand is actually going up for most of your products, how are you thinking about the dividend for next year, or a distribution, I should say?

Rohit Bhardwaj, Chief Financial Officer

So, I mean, clearly our board looks at that all the time, and we have our views on it as well. But I think given our debt, given that we have organic growth opportunities, we believe that for now, the

distribution that was set is a good level and there are better uses of capital. But in time, of course, our board and we will look at it. But I think at this stage, the better use of capital is to reduce debt to have flexibility, because we do have some interesting organic growth opportunities, which is kind of different from the historic view.

Endri Leno, National Bank

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

Operator

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

Ben Isaacson, Scotia Bank

Thank you very much, and good morning everybody, and congrats on the good quarter. Just two questions for you. Number one, the company is clearly moving out of recovery mode into slowly growth mode. And you've committed to this \$50 million project right now, which is great. I guess my question is, as we look forward, if you had a bigger war chest, where would you be putting that money right now? Where are there low-hanging fruit opportunities to get returns similar to that 25% that you just mentioned? Can you maybe just talk about the segments or the products or maybe even the time, in terms of where you'd like to see those investments being made?

Scott Rook, President & Chief Executive Officer

Sure, Ben.

So, number one is ultrapure, so the expansion that we are doing in Cairo, it's the first expansion. But given the expected total demand in the North American market for ultrapure, the market is going to need a sizable expansion. And so that is a project that we are looking at very closely and thinking about what's the right way to meet the needs of the market.

Number two would be our hydrogen. So, we previously announced our first commercial deal, if you will, for hydrogen, at our facility in British Columbia. We have that. The hydrogen that we produce in Brandon is five times the amount of the hydrogen that's in BC. So, there are a number of options that we are looking at for hydrogen that all of which would require some capital in order to bring that to the

marketplace. But again, as we have said, it's green hydrogen which should command a premium in the market, and there are nice opportunities. We're evaluating those opportunities as well and thinking about what's the right time to try to bring that to the marketplace and do that in a way that we can balance growth in the company with our leverage.

And then number three would be some of the specialty products that we have in our water treatment business. So, we have nice opportunities in the PAC and ACH market. We have other specialty products that we are developing. Our production is, the demand right now is very close to our capacity with some of those products, and we have opportunities we think that we are looking at to add capacity; so, add significant capacity in water treatment.

So those are three main areas that we are thinking about, all of which would need capital, but would be nice growth projects for the company.

Ben Isaacson, Scotia Bank

Such a great answer. Before I get to my second question, just to follow up on this, are the returns that you are projecting similar to the 25%, or are they more kind of mid-teens? Or how do you think about--I mean, you said number one, two, and three. Do you want to just put a little bit into everything to diversify, or is it really you want to finish number one first in ultrapure before moving on to hydrogen, et cetera?

Scott Rook, President & Chief Executive Officer

Right now, it's a little early to say. I would say that in ultrapure, that I think 25% is a reasonable number there. And then the others, I think that's a good number--it's a good number for us to strive towards, strive to meet. So, I think that's enough for now.

Ben Isaacson, Scotia Bank

Okay, that's perfect. Let me just move on quickly to my last question which is when we're thinking about kind of midcycle run rate margins or EBITDA margins for the three segments, you know, when I look at the SPPC, you guys have done a good job being consistent in that 30% area, plus or minus a little bit, over quite a long time. Do you expect that to continue in the water treatment segment? Again, same thing, you've been in kind of low 20s and that's a step change higher than what we've seen in the past

few years--sorry, going '19 '18, '17. How do you expect that to be in the long run? Obviously, I'll leave the EC segment because that's a little bit more volatile. But can you talk about the water and the sulphur segments?

Rohit Bhardwaj, Chief Financial Officer

Yeah, I think those are fair. I think in the water segment, the thing to keep in mind, although it wouldn't be a huge factor, though, is the specialty chem business, you know, had a higher margin as you'd expect. But, I mean, that's not going to make a huge difference. But the water business, I think once we get back to raw materials being stable, then I think there's no reason why we shouldn't be back to those kind of margin levels. And again, in the sulphur and the SPPC segment, there's nothing structurally that's that different that should not allow us to be back at those midcycle margins.

Ben Isaacson, Scotia Bank

Okay, so then just on EC, like roughly 30% is kind of the run rate that we should be thinking about when everything is back to normal?

Rohit Bhardwaj, Chief Financial Officer

So, you're talking about EC?

Ben Isaacson, Scotia Bank

Yeah, yeah, yeah. Sorry, just asking on EC.

Rohit Bhardwaj, Chief Financial Officer

Yeah, EC is a tough one, right, because we have to see what does a midcycle look like.

Ben Isaacson, Scotia Bank

Fair enough.

Rohit Bhardwaj, Chief Financial Officer

So, I think that one, let's just hold off, yeah.

Ben Isaacson, Scotia Bank

Yeah, that's fine, that's fine. Thank you very much.

Rohit Bhardwaj, Chief Financial Officer

Welcome.

Operator

You have a follow-up question that comes from the line of Steve Hansen from Raymond James. Your line is open.

Steve Hansen, Raymond James

Yeah, guys. Sorry, just one follow-up on the ultrapure opportunity. Are you able to provide us with any context as to how these new contract discussions might be structured? Are they going to be multiyear agreements, and will pricing be reset on a regular basis? I'm just trying to understand how the margin profile is going to vary with some of this new business, if at all, or how consistent you think it might be relative to where you've been in the past?

Scott Rook, President & Chief Executive Officer

So, what I can share right now is that what I see is a longer-term commitment, which is different than what we've had before. And so by longer-term I'll say a multiyear agreement, coupled with stable demand. Well, I'll say a growing demand profile; not stable but stable in terms of demand. So, we have seen volatility in the past, which if we are going to make this investment, we don't--I don't want to see that volatility if we're going to make this investment. So that's what we're structuring, a longer-term agreement. Of course, what's also tied into that are future quality requirements, so that's a piece of it as well.

Steve Hansen, Raymond James

And just so I understand that business a little bit better, like with the merchant business you're exposed to some degree of sulphur prices. What are the exposures there to think about from the input cost perspective that could push your margins around a little bit, if at all?

Rohit Bhardwaj, Chief Financial Officer

Yeah, I think the real input there is sulphur. And typically in the SPPC segment, we are able to offset that. It maybe takes a bit of a lag, but generally speaking, that industry is pretty good at passing through sulphur. And, of course, we've got the byproduct that we do sharing of, you know, selling price changes there. The other input cost is the bit of energy that we use for our regen business. But most of the regen contracts are such that you pass through changes in natural gas. So really the volatility there is not so much driven from the input side. It's really more from the pricing side.

Steve Hansen, Raymond James

Okay, helpful. Thank you.

Operator: There are no further questions at this time. I would like to turn the conference back to Rohit Bhardwaj.

Rohit Bhardwaj, Chief Financial Officer

Thank you for your attention. Scott, do you have any closing remarks?

Scott Rook, President & Chief Executive Officer

I'd just like to thanks to everyone for your time and have a great rest of the day.

Rohit Bhardwaj, Chief Financial Officer

Yeah, bye.

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, net 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 EBITDA and Adjusted EBITDA to net earnings is provided below:

(\$'000)	<u>Three months ended September 30</u>		<u>Nine months ended September 30</u>	
	2021	2020	2021	2020
Net loss	\$ (20,159)	\$ (48,318)	\$ (54,685)	\$ (141,694)
Add:				
Depreciation and amortization	56,590	64,640	179,554	197,566
Net finance costs	18,657	46,121	59,277	116,279
Income tax expense (recovery)	8,248	(17,627)	(6,963)	(32,626)
EBITDA	63,336	44,816	177,183	139,525
Add:				
Impairment of goodwill	-	-	-	56,000
Change in environmental liability	-	-	-	3,743
Net (gain) loss on disposal and write-down of property, plant and equipment	(132)	19,829	423	19,360
Unrealized foreign exchange loss	4,049	5	10,239	2,430
Adjusted EBITDA	\$ 67,253	\$ 64,650	\$ 187,845	\$ 221,058

Segmented information

SPPC -

(\$'000)	<u>Three months ended September 30</u>			<u>Nine months ended September 30</u>				
		2021	2020		2021	2020		
Revenue	\$	109,231	\$	105,351	\$	306,391	\$	322,333
Gross profit (loss)		17,601		(8,298)		36,179		15,657
Adjusted EBITDA		33,494		31,041		91,957		97,287
Net (loss) gain on disposal and write-down of property, plant and equipment		(76)		(18,949)		(320)		(18,932)
EBITDA	\$	33,418	\$	12,092	\$	91,637	\$	78,355

WSSC -

(\$'000)	<u>Three months ended September 30</u>			<u>Nine months ended September 30</u>				
		2021	2020		2021	2020		
Revenue	\$	119,383	\$	119,789	\$	326,761	\$	346,583
Gross profit (loss)		19,176		19,195		48,099		(6,220)
Adjusted EBITDA		25,734		29,199		71,051		82,145
Impairment of goodwill		-		-		-		(56,000)
Change in environmental liability		-		-		-		(3,743)
Net gain (loss) on disposal and write-down of property, plant and equipment		291		(894)		15		(437)
EBITDA	\$	26,025	\$	28,305	\$	71,066	\$	21,965

EC -

(\$'000)	<u>Three months ended September 30</u>			<u>Nine months ended September 30</u>				
		2021	2020		2021	2020		
North American sales volumes:								
Sodium chlorate sales volume (000's MT)		91		87		274		283
Chlor-alkali sales volume (000's MECU)		52		42		138		111
Revenue	\$	136,389	\$	120,710	\$	381,561	\$	391,369
Gross profit (loss)		8,231		(3,508)		5,926		9,518
Adjusted EBITDA		33,706		24,509		84,644		91,177
Net (loss) gain on disposal and write-down of property, plant and equipment		(83)		14		(118)		9
EBITDA	\$	33,623	\$	24,523	\$	84,526	\$	91,186

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 condensed consolidated interim 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 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.

A reconciliation of these supplementary cash flow measures to cash flow from operating activities is provided below:

(\$'000)	<u>Three months ended September 30</u>		<u>Nine months ended September 30</u>	
	2021	2020	2021	2020
Cash flows from operating activities	\$ 81,360	\$ 91,728	\$ 125,810	\$ 188,962
Add (Less):				
Lease payments net of sub-lease receipts	(13,100)	(14,256)	(38,799)	(42,418)
Changes in non-cash working capital and other items	(33,358)	(48,030)	10,776	(24,109)
Adjusted cash flows from operating activities	34,902	29,442	97,787	122,435
Less:				
Maintenance capital expenditures	15,589	17,346	39,359	40,444
Distributable cash after maintenance capital expenditures	19,313	12,096	58,428	81,991
Less:				
Non-maintenance capital expenditures	5,714	743	7,270	2,283
Distributable cash after all capital expenditures	\$ 13,599	\$ 11,353	\$ 51,158	\$ 79,708