

**Chemtrade Logistics Income Fund**

**Q1 2022 Results**

**May 10, 2022**

**8:30 AM**

**Operator:** Good day. Thank you for standing by. Welcome to the Chemtrade Logistics Income Fund First Quarter 2022 Results Conference Call. At this time, all participants are in a listen-only mode. After the speakers' remarks, there will be a question-and-answer session.

To ask a question during the session, you will need to press star, one on your telephone keypad. Please be advised that today's conference is being recorded. If you require any further assistance, please press star, zero.

Thank you. I would now like to hand the conference over to your speaker today, Mr. Rohit Bhardwaj, Chief Financial Officer. Sir, please go ahead.

**Rohit Bhardwaj:** Thank you, Rachel. Good morning, everyone, and thank you for attending our First Quarter 2022 Earnings Conference Call. Joining me today on the call is Scott Rook, our President and Chief Executive Officer. After two years, it is great to be doing this call in person from our office this morning. Please also note that the call has an accompanying presentation available on our website that is supplemental to our discussion this morning.

The first quarter of 2022 was a strong quarter for Chemtrade, categorized by continued improvement across most of our key products with notable strength in Chlor-Alkali chemicals and supported by a broad-based rebound in industrial end markets.

To begin today's discussion, I will provide a high-level overview of the first quarter results and our segmented performance. I will then outline the increase to our 2022 adjusted EBITDA guidance that we announced yesterday. Scott will then comment on the strong market dynamics that we're seeing across our business, supporting the increase to our guidance.

He will also provide an update on some of the exciting organic growth projects that we are undertaking, which we believe offer significant growth potential for Chemtrade over the coming years. Scott will also reiterate the steps that we're taking to position Chemtrade an industry leader in ESG, and he will detail some of the defensive attributes of our business following our prepared remarks. We will then open up the call for analysts' Q&A.

Before proceeding, 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 and other financial measures referenced through this call can be found in the disclosure documents filed by Chemtrade with the securities regulatory authorities available on [sedar.com](http://sedar.com).

One of the measures that we'll 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, although our accompanying presentation will refer to adjusted EBITDA, we will just refer to EBITDA in our remarks as opposed to adjusted EBITDA. Non-IFRS and other financial measures are fully defined in our MD&A.

Starting with the consolidated results for the first quarter of 2022, we delivered strong year-over-year improvement across our key financial metrics, including revenue, EBITDA, and distributable cash. We generated revenue of \$390.3 million, an increase of \$77.9 million, or 25 percent, over the first quarter of 2021.

We earned \$107.8 million in EBITDA, an increase of \$52.4 million, or 95 percent higher, than the first quarter of 2021. As a reminder, last year's results include results from the business that was sold in November, 2021 up to the date of sale. During the first quarter of 2021, this business contributed revenue and EBITDA of \$12.7 million and \$5 million respectively.

The improved results that we delivered this quarter are due to improved fundamentals for key products in both of our operating segments. The year-over-year impact of foreign exchange movements was immaterial this quarter.

Our improved EBITDA for the quarter resulted in distributable cash of \$63.3 million, an increase of \$45.4 million, compared with the same period in 2021. Distributable cash per unit was also materially higher year-over-year. Notably, our attractive \$0.05 per month distribution remains very well covered with a payout ratio of 25 percent this quarter and 48 percent on a trailing 12-month basis.

Additionally, we took a number of steps last year to improve the balance sheet, including an equity financing last March and the sale of our Specialty Chem business last November. As a result of these steps, we significantly improved our leverage, and Chemtrade ended the quarter with a total leverage ratio of 3.5 times, compared with 5.9 times a year ago.

Turning now to our segmented performance for the first quarter of 2022, we would first like to remind you that we reconfigured our operating segments effective this quarter. Following the sale of our Potassium Chloride and Vaccine Adjuvants business in November, we combined the Sulphur Products and Performance Chemicals, or SPPC segment, with the remaining Water Solutions and Specialty Chem, or WSSC segment, to form a new segment called Sulphur and Water Chemicals, or SWC. The Electrochem segment remains unchanged as a result of this reconfiguration.

Starting with the SWC segment, we generated revenue of \$229 million during the first quarter of 2022, an increase of \$38.2 million over the first quarter of 2021. The increase in revenue is primarily attributable to higher selling prices for Merchant sulfuric Acid, Water Solutions products, and Sulphur products, and increased sales volumes of Regen sulfuric Acid.

The improved demand for Regen Acid is reflective of higher gasoline demand year-over-year in addition to impacts on Regen volumes in Q1 of 2021 from the severe winter storms in the U.S. and stay-at-home orders in California. The higher selling prices we achieved in the SW segment are largely reflective of higher sulphur prices and, in the case of Merchant Acid, tight industry supply as well.

As a reminder, the increase in revenue for the segment was partially offset due to the sale of the Potassium Chloride and Vaccine Adjuvants business last year, which generated \$12.7 million in revenue for the first quarter of 2021.

For the first quarter of 2022, the SWC segment delivered \$62.5 million in EBITDA, an increase of \$12.7 million over the first quarter of 2021. This was primarily driven by stronger results in our Regen Acid business. While the sulphur costs increased sharply year-over-year, the higher selling prices we were able to realize for our Water Solutions products more than offset the impact of the higher raw material costs during the first quarter.

Additionally, as previously discussed, the sale of the Specialty Chem business created a \$5 million year-over-year EBITDA headwind in the first quarter. Adjusting for this item, EBITDA for the SWC segment in the first quarter increased by \$17.7 million year-over-year, a robust improvement that sets the stage for a strong 2022 for this segment.

Transitioning to our EC segment, we generated \$161.4 million in revenue in the first quarter of 2022, an increase of \$39.7 million over the prior period. The higher revenue is primarily due to higher selling prices that we achieved for each of our Chlor-Alkali products, Caustic Soda, Chlorine, and Hydrochloric Acid, as market fundamentals for all three of these products remain favorable.

This resulted in a realized metric ECU netbacks being up approximately \$715 year-over-year, with approximately 60 percent of this increase attributable to stronger caustic soda pricing.

Our Brazil business also delivered improved results relative to the first quarter of 2021. The improved results on our North America business and Brazil were partially offset by lower sales volumes of sodium chlorate, which continues to experience soft demand related in part to decreased end use demand for office paper.

For the first quarter, the EC segment earned \$65.6 million in EBITDA, an increase of \$38.4 million over the first quarter of 2021. This significantly improved performance in our Chlor-Alkali business resulting from the higher pricing we achieved in the period marks a very strong start for the EC segment in 2022.

Our corporate costs in the first quarter of 2022 were \$20.2 million, slightly lower than the \$21.5 million of corporate costs in the same period in 2021. The decrease in corporate costs reflects lower costs related to our long-term incentive plan of \$1.4 million and higher realized foreign exchange gains of \$2.9 million year-over-year, offset by \$4.7 million recognized in the prior period relating to government support programs.

Turning now to our balance sheet, our leverage ratios and liquidity continued to improve during the first quarter of 2022, reflecting the robust EBITDA we delivered and the various steps we undertook to strengthen our financial position last year.

As of quarter end, Chemtrade's net debt to adjusted EBITDA ratio stood at 3.5 times, down from 4.2 times at the end of 2021 and down from 5.9 times at the end of Q1 2021. Additionally, we had US \$215.6 million undrawn in our senior credit facility. And following the convertible debenture refinancing completed earlier this year, we have no debt maturities until May 2024.

Chemtrade remains compliant with all debt covenants contained in its credit agreement. Despite our improving liquidity position, we continue to take additional steps to further strengthen our balance sheet. Subsequent to the end of the quarter, we completed the sale of an idled acid plant in Augusta, Georgia for net proceeds of US \$10 million. Last month, we also announced the launch of a process to sell real estate at our North Vancouver, B.C. site through a sale and leaseback contract, which, if completed, would provide Chemtrade with additional financial flexibility and liquidity for our primary capital priorities of deleveraging and investing in economically attractive organic growth projects.

Given that the sale process is ongoing, we are limited in what we can say at this time, but we will provide an update when terms of an agreement are reached or the process is terminated.

Moving to our guidance, we announced yesterday evening an increase in our 2022 EBITDA guidance. We are now expecting EBITDA of \$300 million to \$330 million this year versus a prior

guidance of \$265 million to \$295 million and 2021 EBITDA of \$280.4 million. The primary drivers of this increased guidance are our strong start to the year, the strength in chlor-alkali products we have seen recently, and the favorable market conditions for many of our other key products.

Notably, we now forecast that the average Northeast Asia spot price for caustic soda, that will be a key determinant for our realized selling price in 2022, will be US \$575 per ton, which is US \$285 per ton higher than in 2021. This is US \$135 per ton higher than our previous assumption.

The average index value used for the first half of 2022 was US \$660 per ton, which implies an average value of US \$485 per ton for the second half of 2022. For clarity, the average index values for Q2 and Q3 help set pricing for the second half of the year. The rest of our assumptions are set out on the slide deck and our MD&A, and I will not go through them on this call.

We believe that this revised guidance illustrates the strong improvement we're delivering across the business and the strong market conditions for most of our key products, which Scott will elaborate on momentarily.

The biannual turnaround at our North Vancouver chlor-alkali facility the second quarter of this year is expected to have a \$20 million EBITDA impact. Even ignoring the impact of this turnaround, the midpoint of our revised guidance of \$315 million will mark year-over-year growth of \$66.5 million after normalizing for the sale of our Specialty Chem business and the benefit of settling the NATO lawsuit in 2021.

We also expect this positive momentum to continue in the coming years, as we will execute on the compelling organic growth opportunities ahead, which Scott will provide updates on. Additionally, the midpoint of our updated guidance translates into an implied distribution payout ratio for 2022 of approximately 50 percent, highlighting the sustainability of our attractive distribution.

With that, I will now turn the call over to Scott, who will walk you through the outlook for our key products and provide an update on our organic growth projects. Scott?

**Scott Rook:** Thank you, Rohit, and good morning, everyone. Thank you for joining us today. And I'm pleased to walk you through all of the items that have us excited about Chemtrade's outlook, not only for this year but also for the years to come. I believe that the future is the brightest it's been for Chemtrade in many years, and I'm extremely confident in our ability to execute on what we see as a very favorable backdrop for our key products.

Beginning with sulphur products, we see a strong outlook for three forms of sulfuric acid that Chemtrade produces, Regen, UltraPure, and Merchant Acid. Demand for Regen Acid, used in the

production of gasoline, continues to rebound nicely, as individuals once again begin to move about more freely, and driving activity has picked up, leading to higher refinery utilization rates across North America.

In fact, we've seen U.S. driving miles return to 2019 levels. And we have not yet seen any notable negative impact on driving activity from high gasoline prices, though this is something we continue to monitor closely.

The demand for UltraPure acid, which, as a reminder, is used in the semiconductor industry, continues to have a very strong outlook as the U.S. has placed strategic importance on domestic semiconductor production. As a result of this onshoring, which is taking place over the coming years, demand for UltraPure Acid is projected to increase by two to three times over the next five years.

In a moment, I'll provide an update on the projects we're undertaking to capitalize on this sharp demand growth. Additionally, our performance in UltraPure acid continues to improve as we have successfully replaced the bulk of the volumes we lost in early 2021.

Meanwhile, Merchant Acid, which has seen widespread industry uses, continues to see a demand rebound on broad-based improvement in industrial end markets. In addition to these improving demand dynamics, we also maintain a positive outlook for sulfuric acid pricing near term.

This result is based on recent sharp increases in sulphur prices that we have witnessed and as market supply of sulfuric acid is very tight currently, with notably strong demand from the fertilizer end market that has resulted from supply dislocations caused by the Russian-Ukraine war.

Sulphur prices for Q2, 2022 have increased by approximately \$200 per ton quarter-over-quarter to \$480, driven by the tight market conditions. As a reminder, sulphur is a key input into making on-purpose sulfuric acid, which in turn is a significant raw material for the production of our water chemicals.

As a result, we expect the recent spike in sulphur prices we have witnessed to be a short-term margin headwind for our water chemicals products. However, we have taken proactive steps to pass through these higher input costs to our customers, and we expect this margin impact to be transitory.

Despite these near-term pressures, we maintain a positive outlook for our water chemicals portfolio, given the essential nature of these chemicals and their growing demand from increasing regulations for water treatment and broader population growth.

Transitioning to the outlook for our Electrochemical segment, the market dynamics for Chlor-Alkali remain very positive, with strong demand in pricing for both caustic and chlorine. Caustic soda prices, which have seen recent support from the ongoing Russia-Ukraine conflict, which, has led to a

dislocation of the supply of aluminum in Eastern Europe and a pickup of aluminum production elsewhere, leading to increased caustic soda demand in North America.

The Northeast Asia spot index for caustic soda was \$650 per ton in mid-April, materially higher than a year ago. And we anticipate that demand in pricing for caustic soda will remain elevated for at least the next 12 to 18 months as a result of the dynamics we are seeing in the market.

Additionally, we continue to see a very bullish long-term outlook for caustic soda, as demand for this, used across many industrial applications, including in the production of aluminum and lithium ion batteries, is projected to continue to steadily grow over time. And there's very limited supply projected to come online globally in the coming years.

As a reminder, for every \$50 per ton increase in caustic soda pricing, the business generates approximately \$10 million Canadian in incremental margin. The chlorine market also continues to benefit from favorable market conditions.

Industry supply of chlorine remains tight, following capacity rationalization that took place last year and recent industry outages, while demand for chlorine from industrial and construction end markets continues to rebound, supporting pricing. We believe that these factors will help keep chlorine pricing elevated through the balance of 2022.

The outlook for hydrochloric acid, which is used in fracking, also continues to improve, supported by ongoing, steady increases in U.S. and Canadian rig counts and geopolitical conflicts.

Industry experts anticipate that the Russia-Ukraine conflict will lead to a pickup of exports of natural gas from North America to Europe, increase fracking activity of 20 percent to 25 percent over the next year, and ultimately higher HCL demand.

The improved demand for both chlorine and hydrochloric acid is particularly notable as strong demand for these products allows our North Vancouver Chlor-Alkali plant to run at high operating rates and fully capture the benefits of higher caustic soda prices, as these are co-products.

As a reminder, the North Vancouver plant is taking its biannual turnaround this quarter. We have been executing this turnaround during April, and it remains on schedule with the plant restarting this week.

Finally, while sodium chlorate markets remained under pressure from ongoing softness in demand for office paper, we have yet to see a material recovery in volumes to date. We are focused on renewing contracts at higher prices, and we remain optimistic that a more widespread return to the office could drive improved demand.

Given the lack of recovery in demand to date, we have made the difficult decision to close our sodium chlorate facility in Beauharnois, Quebec, which we expect to be completed by the end of this year. The plant has an annual capacity of approximately 40,000 ton, and the volumes from this facility will be absorbed by our Brandon and Prince George facilities.

We anticipate this footprint rationalization will lead to improved cost structure for our sodium chlorate business moving forward. As a result, or as a reminder, our sodium chlorate facility in Brandon, Manitoba has the lowest production cost in the industry.

Turning now to the compelling organic growth opportunity we are executing, UltraPure is the largest single opportunity for organic growth that we have seen over the medium term, and we have already outlined the explosive growth that we expect to see over the next five years.

As a reminder, many companies, such as Intel, have announced plans to onshore their semiconductor production in North America. Chemtrade is poised to benefit from this onshoring as the leading North American producer of UltraPure Acid. We previously announced the expansion of our Cairo, Ohio UltraPure facility.

This will increase the facility's production capacity by 60 percent, which includes upgrading the quality of the plant's existing capacity, and is expected to be attractive financially, with greater than 25 percent ROIC expected on our \$50 million investment.

The project continues to progress on schedule and is expected to be completed by the end of 2023, with the new capacity coming online in 2024. We continue to evaluate additional projects to capture more of the demand growth that's projected, and we expect to have more positive news to deliver soon.

We also continue to make good progress on monetizing our hydrogen that's a byproduct of our sodium chlorate manufacturing process. As a reminder, hydrogen is valuable as it is expected to be a significant energy source in a low-carbon future, and Chemtrade already produces the most desired form of hydrogen, being green hydrogen, in our process.

We continue to expect construction of our hydrogen project at Prince George facility to commence this year, and production of hydrogen from the project will begin next year. In addition, we continue to progress in the planning stages of a hydrogen project at our Brandon, Manitoba facility, expected to be more significant, given the scale of this facility. We will share more details on this project soon.

In addition to the UltraPure and Hydrogen projects we have previously announced, we have a number of smaller organic growth projects at various stages of evaluation and development. As we



discussed earlier, we see growing demand for water chemicals, driven by increasing regulation. And we believe Chemtrade is well-positioned to capitalize on this opportunity as one of North America's largest suppliers of inorganic coagulants for water treatment.

We are undertaking some smaller projects to expand our production capacity of poly aluminum chloride, or PAC, and aluminum chlorohydrate, or ACH, which are forecasted to see demand growth of more than 5 percent per year. These projects are proceeding on schedule. They are expected to be completed later this year and will contribute more meaningfully to next year's results.

We also continue to make good strides on operational efficiency projects and continue to target \$10 million or more of incremental cost savings annually through various initiatives. These include the productivity and reliability initiatives we've outlined in previous calls, as well as from other sources, such as leveraging technology to improve performance.

We remain acutely focused not only on driving top-line growth but also on building a culture of continuous improvement, striving for ongoing improvements in operational efficiency and effectiveness.

I would be remiss if I did not reiterate our commitment to ESG and remind investors of the key targets we recently introduced across the spectrum of environmental, social, and governance as we strive to be good stewards for all of our stakeholders, including the communities in which we operate.

Some of our key ESG targets pertain to reducing greenhouse gas emissions and using an increasing amount of renewable energy, reducing our industrial waste, driving improvements in workplace safety, and increasing diversity across Chemtrade's leadership team.

While we remain in the relatively early stages of our ESG journey, we believe that Chemtrade can be a leader on this front in the chemical industry and the targets we have established across the company for this leadership position. We will be providing increased visibility into our ESG performance moving forward, including through the publication of a sustainability report, which will be issued in the second quarter.

Finally, before I conclude, I would like to briefly touch on the topic of a potential economic downturn and how Chemtrade is well-positioned to navigate such an economic environment, should it occur, given numerous defensive attributes.

We have not yet seen any signs of this to date in our business, but there is some speculation that as central bank's unwind, pandemic-driven stimulus, we could experience a recession. In the SWC segment, our water treatment chemicals, which are used by municipalities for drinking water and waste water, are non-discretionary. They are therefore unlikely to be affected by a recession.

Our Regen business also typically holds up well in recessions, as refinery utilization rates tend to remain quite high, even in a typical economic recession, though the pandemic was, of course, different. Meanwhile, the semiconductor industry is recovering from the global chip shortage. And given the new investments in the U.S., this is unlikely to be affected by a recession.

Merchant sulfuric acid demand is tied to general industrial activity and is likely to experience reduced demand as a recession. However, it's important to remember that we have risk shared contracts for a large portion of this business, where we share price movements with our byproduct supply partners. Also, demand for sulfuric acid in North America is likely to remain elevated, due to additional fertilizer demand in North America as a result of the Russia-Ukraine war.

In the EC segment, for Chlor-Alkali, a recession itself is not an issue. The impact will be determined by the imbalance in demand between the two co-products, caustic soda and chlorine. We will be hurt if the recession reduces demand for caustic more than it does for chlorine, but the reverse is also true.

Finally, demand for chlorate does typically get affected in a recession, but given the loss of volume due to the pandemic and people working remotely, we expect that the additional demand created by people returning to the office would offset any recessionary-related demand reduction. So, we are by no means immune to recessions. We believe we are well-positioned if one occurs.

To conclude, we believe that the strong improvements we have delivered in the first quarter sets the stage for a year of robust growth for Chemtrade, supported by ongoing improvements across most key products and a broad-based rebound in industrial end markets, including a very strong Chlor-Alkali backdrop.

Moreover, we believe the future beyond 2022 also remains bright for Chemtrade with attractive organic growth opportunities and a number of areas expected to drive growth. And our strengthened balance sheet and liquidity positions help to support these opportunities.

With that, we'll now open the call for questions, and Rohit and I would be happy to address them with you.

**Operator:** And as a reminder, to ask a question, you will need to press star, one on your telephone keypad. And to withdraw your question, just press the pound key. We'll pause for a moment to compile the Q&A roster. Your first question comes from the line of Jacob Bout with CIBC. Please proceed with your question.

**Jacob Bout:** Good morning.

**Rohit Bhardwaj:** Morning.

**Scott Rook:** Good morning.

**Jacob Bout:** So, the strongest first quarter on record, or at least that I can remember. But, when I look at your guidance, and I factor in the first quarter, it implies a flattish remainder of the year. And I know there's a lot going on here but just had a few questions around that.

I guess when we look at the SWC result, it was up I think 26 percent year-on-year. You changed the reporting here, so it's a little bit difficult to kind of triangulate what's going on here. But, I'm assuming the majority of that is primarily because of better SPPC, or the old SPPC results. And then, if we look at water chemicals, how did that, or the old WSSC, how did that perform on a year-on-year basis?

**Rohit Bhardwaj:** Okay. Jacob, so let me help you with that. So, firstly, we spelled out that there, that \$5 million last year from the Spec Chem and that segment that isn't there. So, you've got to adjust for that. And once you do that, the biggest improvement in EBIDTA. So, revenue is a different story, but EBIDTA, it's primarily a Regen story because Regen demand has picked up. We've got some pricing improvements. Last year, as a reminder, there were those severe winter storms. There was, California had stay-at-home orders in Q1 of 2021.

So, most of the improvement year-over-year in that segment is Regen. The water treatment held its own. We were able to more than pass through sulphur costs in Q1. Now as Scott mentioned, early in Q2, sulphur spiked again. So short-term, there will probably be headwinds there.

But, I think our business has demonstrated a very good ability to pass through these costs. So, it's just a matter of time before they pass through the new elevated sulphur costs.

**Jacob Bout:** So then, when we look forward to the remainder of the year, when we, you've talked about a bunch of things happening on the electrochemical side, the North Van turnaround, that type of thing. But, when we think about the SWC results going forward, is that going to be relatively flattish after we account for the squeeze in margins due to the higher sulphur prices?

**Rohit Bhardwaj:** Yeah. So, if you look at last year, Q1 was the biggest hit that the Regen business took. It did start to, starting April last year, Regen started to pick up and get more normalized. So again, I don't think we want to get very specific on a segment-by-segment basis, but I think generally speaking, yeah, I think you can assume that the rest of the year for that segment is not going to be showing the kind of improvement that it did in Q1.

**Jacob Bout:** Okay. I'll leave it there. Thank you.

**Rohit Bhardwaj:** Okay, yeah.

**Operator:** Thank you. And our next question comes from the line of Joel Jackson with BMO Capital Markets. Your line is open.

**Joel Jackson:** Hi. Good morning. Would be able to share what you think will be the revenue and the EBITDA mix between SWC and electrochem, the high level for the year?

**Rohit Bhardwaj:** So I think--.

**Joel Jackson:** --Any granularity you can provide would be very helpful.

**Rohit Bhardwaj:** So I think, let me go back to, I guess we can draw from Jacob's question where I said that for the remainder of the year, SWC EBITDA is, it wouldn't show the kind of improvement that it did in Q1. And revenue, I would say in SWC, I probably wouldn't focus on revenue because revenue is going to be high, but that's driven by sulphur.

So, it's really kind of a, it's not that relevant. It's more of an EBITDA story. And so, you can think that the, most of the improvement that is going to come is going to be from the EC segment and keeping in mind that Q2, we've got the turnaround, yeah.

**Joel Jackson:** So, okay, so what means is for the rest of the year, Q2, Q3, Q4, in SWC, the margins are going to be a fair bit below 2021 margins.

**Rohit Bhardwaj:** When you say margins, you mean percentage margins.

**Joel Jackson:** EBITDA margins, percentage margins.

**Rohit Bhardwaj:** Yeah, EBITDA, as a percentage of revenue.

**Joel Jackson:** Will be, for the rest of the year, in SWC.

**Rohit Bhardwaj:** Yeah.

**Joel Jackson:** Significantly below 2021 margins.

**Rohit Bhardwaj:** Yeah, so just, and Joel, just as a reminder, in that business, typically when revenues are elevated due to higher raw material costs, the margin percentage does decline. So, our goal is to try and not typically presume (ph) a margin percentage and try to push through the higher sulphur costs. So, even if we're successful at that, the percentage of revenue does go down. And conversely, in a falling sulphur environment, our percentage margin goes up.

**Joel Jackson:** Okay, that's helpful. So, my last question is, on the sale and leaseback opportunity you're looking at, which is interesting, I saw a very good report a month or two ago. It goes, it's to March, that Vancouver industrial land is going for about \$7 million an acre now. Can you talk about what type of valuation range you might expect? Is there any contamination? Any other interesting aspects about the property, good or bad, that might weigh into what kind of valuation you may get? And who are the interested, potential interested buyers?

**Scott Rook:** So, Joel, this is Scott. All I'll say right now is it's really, I'll repeat what we've put in the news release. So, we are marketing the land, not going to comment on expected value. We do not see, we don't see any significant, let's say, areas of concern with marketing this land. We are excited about what this can be. We think that we have many interested parties in this land, and the process is going to happen, let's say, on schedule. So, it's ongoing and good progress to date.

**Rohit Bhardwaj:** Let me just add one thing to that, Joel. So, this is a pretty unique parcel of land, a pretty large parcel of land. So, there are really no comparable properties that have been sold in the near past. And in terms of environmental stuff, chlor-alkali facilities tend to be pretty benign from an environmental perspective. So, I don't think we have any major concerns from an environmental perspective.

**Joel Jackson:** Thank you.

**Scott Rook:** This land, the land that we have, it's a deep water port. And so, that in itself sets it apart. And so, we think it is, we believe it's a very valuable piece of land, and we're, and we see advantages with this process.

**Joel Jackson:** Thanks again.

**Rohit Bhardwaj:** You're welcome.

**Operator:** Thank you. And our next question comes from the line of Steve Hansen with Raymond James. Your line is open.

**Steve Hansen:** Yes, good morning, guys. Maybe I'll just ask a follow-up on Joel and ask the question another way. Is there a value floor at which you would not be willing to go ahead with? I'm just trying to get a context for what we can expect at the low end of the range. I won't speculate on the high end, of course. But, is \$2 million an acre too low? Any context there would be interesting.

**Rohit Bhardwaj:** No, so we have a floor, but we aren't going to share that. So, this is a bit, so this kind of land is sold, think of it like a sale of a business. So, there's no list price. It's really a marketed process, and the buyers will set the price. And if it's acceptable to us, we'll take it. And if it isn't, we won't. So, we really can't share that, the internal floor that we have.

**Steve Hansen:** Okay, that's helpful. But, maybe just one extra one. As I recall, the site, there's actually a big piece of open land on the site as well. Are there higher, better use opportunities for that land beyond just the industrial use today? Or is it just strictly industrial zoned?

**Rohit Bhardwaj:** No, I don't think we want to get into those, but they are, in Vancouver, there are many uses of land in that area. But, it won't be residential, we can tell you that. But, the other options--.

**Steve Hansen:** --Sure.

**Scott Rook:** It is zoned as industrial. So, the whole parcel of land is zoned industrial use.

**Steve Hansen:** Okay, helpful.

**Scott Rook:** Yeah.

**Steve Hansen:** And just if I may, if I go back to one of the earlier questions on the Regen business, recognizing the California issue and lock-downs, etc., is there, are the economics of that business strictly a volume business? I'm trying to understand the year-over-year changes.

Is it just that the rate of the refinery is running that much better? Or is there actually a skew to the economics based upon how the underlying economics of the crack is running because crack economics have been outstanding here of late? I'm just trying to get a sense if there is any kicker there that helped juice things at all.

**Scott Rook:** Yeah. So, I would say with our Regen business, it is, it's primarily volume but also some price. This business has long-term contracts. And as those contracts expire, then there's typically a change in price, so primarily volume but also some price.

**Joel Jackson:** Okay, helpful. And then just maybe lastly, just on the monetization of the hydrogen opportunity, have you guys quantified the magnitude of that opportunity, whether it's Prince George or Manitoba thus far?

**Rohit Bhardwaj:** Yeah. I think Prince George we have. Prince George, we've said it could be between \$3 million and \$5 million a year without any capital from our side. And Brandon, we haven't quantified it, but we've said Brandon is about five times the size, or four times the size of Prince George. But, we haven't, because hydrogen is very specific to geographies, etc., so we haven't quantified the Brandon opportunity.

**Joel Jackson:** Okay, very helpful, guys. Thanks.

**Operator:** Our next question comes from the line of Nelson Ng with RBC Capital Markets. Please proceed with your question.

**Nelson Ng:** Great. Thanks. And good morning, everyone.

**Rohit Bhardwaj:** Good morning.

**Nelson Ng:** I had a few chlorate questions. So, the first one was, in terms of the decision to close the chlorate facility in Quebec, will you be recognizing like a charge to close or decommission the site?

**Rohit Bhardwaj:** Yeah. So, there are two aspects of that question. One is just the closure cost, which are not material, and we have factored them into our revised guidance. And in terms of the

charge, there may be some non-cash charge, but we're still kind of evaluating what that might be. But, we don't think, from a cash perspective, it's not going to be significant.

**Nelson Ng:** Okay. And then you lease the land, right? You don't own it. So, there won't be any--.

**Rohit Bhardwaj:** --Yeah. No, there's no land--.

**Nelson Ng:** --Post proceeds or anything like that. Okay. All right. And then, just a bigger-picture question in terms of, I guess, given that the facility is in Quebec, I presume power prices in Quebec are still pretty low. Like, so this facility, in terms of the production cost, it's still competitive, still pretty competitive relative to the rest of the industry.

**Rohit Bhardwaj:** So--.

**Nelson Ng:** --Like the decision to close the facility versus selling it, and are power prices in Quebec about to increase? Or can you just talk about the decision to close rather than sell?

**Rohit Bhardwaj:** Yeah. So, firstly, so it's always a hard decision to close a plant. It's not something we like doing, but in terms of the variable costs of that plant, you're probably right, that the hydroelectric costs in Quebec are pretty good. But, it's a very small-scale plant. A 40,000 chlorate plant is a very small size. So, from a fully loaded basis, it just didn't, we could optimize our results much better than trying to keep it running and get the other two plants to run harder.

In terms of sale opportunities, it's difficult to sell a standalone plant. This whole industry is very, there are only a few players in this industry, so trying to do anything does have some antitrust considerations as well. So, the right thing to do for the industry is to shed capacity because we know that demand has been dropping, so--.

**Nelson Ng:** --Okay. And just on that, sorry, go on.

**Scott Rook:** Yeah. I was just going to say again, just reiterating what we said is that this was a hard decision as we looked at, we looked at, obviously, our business in the industry. We have seen, this industry has seen a significant drop-off in office paper.

And we, in North America, office paper has dropped 40 percent to 50 percent. So overall, the demand for bleach pulp has been down 10 percent. We had excess capacity at our other sites. Brandon is the lowest-cost plant in the world. And we thought that, however unfortunate it was, that we could consolidate and reduce our fixed costs.

**Rohit Bhardwaj:** And the one last aspect to the hydrogen, so we are, already had a hydrogen project in Prince George, and we will have a hydrogen project in Brandon. And so, the profitability of

those two plants improved quite a bit because of that, and we want to run those plants as hard as we can, so--.

**Nelson Ng:** --Okay. And just on that, you touched on the demand dropping off. So, I guess year-over-year, the demand for chlorate, or the sales volume reduced, so even like relative to a year ago, you saw your volumes reduced. So, was that more industry-wide, or is that specific to your business mix, given that, I guess, people have been returning to the office in the past year?

**Scott Rook:** So, that is across the industry. So, we saw, with COVID, we saw demand destruction, we believe, in the chlorate market of about 10 percent. And so, we were hoping that we were going to see a rebound in demand. That really hasn't happened. We do think that it's roughly stabilized, and we're still somewhat optimistic that we'll see a small pickup in demand.

But we, but what we see with our customers and other customers in the market, they're making decisions about whether they're going to run bleached pulp or unbleached pulp. And so, there's been a, there's been more demand recently, or demand growth for unbleached pulp going into brown packaging.

And so, with lots of shipments from Amazon and such, the increase in cardboard packaging has been growing. And so, downstream customers, some customers have been making the switch to go from bleached pulp into unbleached.

**Nelson Ng:** I see, yeah.

**Scott Rook:** And so, with that as the outlook, we made the tough decision that we did.

**Nelson Ng:** Okay, got it. Thanks for the color. And then just one last question for me. So, Rohit, you mentioned that there's roughly a one quarter lag in terms of the caustic prices from Asia in terms of Q2, Q3 setting prices for the second half. Given how volatile the prices have been month-to-month, like, for example, if April prices are high, and it's expected to drop off in May, like are you able to lock in Q3 in April versus May? Or how much flexibility is there for you to lock in several months at a time?

**Rohit Bhardwaj:** Yeah, so this is, we're dealing with very sophisticated customers here. So, it is in negotiation. And so, I don't, I think it's, so here's one thing I can tell you, is given the nature of our customers and our business dealings, we typically don't hit the high points in a quarter, and we don't forget the low points in any given quarter. So, we tend to be a little bit more muted than the absolute index.



So, to answer your question specifically, no, we will not be able to capture the April. It will be part of kind of an average calculation. But, it would be very difficult for us to convince our customers to lock in April when there's May and June still to come.

**Nelson Ng:** Okay. So, in general, it's, we should just think of it as an average one-quarter lag.

**Rohit Bhardwaj:** Yeah, yeah.

**Nelson Ng:** Okay, excellent. I'll leave it there. Thank you.

**Operator:** Thank you. And our next question comes from the line of Chi Le with Desjardins. Your line is open.

**Chi Le:** Morning, Scott and Rohit.

**Rohit Bhardwaj:** Morning.

**Chi Le:** My question is related to the water treatment. You mentioned the sulfuric acid price. But, there's also alum price, and I believe I've seen it falling over quite significantly. So, could there be a margin benefit for you on that front?

**Rohit Bhardwaj:** You say aluminum prices?

**Chi Le:** Yes.

**Rohit Bhardwaj:** Yeah. So, as raw materials start to stabilize and potentially come down, yes, we typically get a period of time where there is higher pricing of the higher margins because pricing doesn't come, sales prices don't come down that quickly. But right now, given what just happened to sulphur in Q2, we don't see that happening in the next quarter or so. We'll have to see how the rest of the year plays out.

**Scott Rook:** And this is Scott. What I'll add is, with our water business, the rapid pickup in sulphur prices will begin to have an impact on our business later in Q2 and, again, with, since water, and especially alum is primarily sold to city municipalities, those contracts are annual contracts with fixed prices.

So, it does take, it takes some time. Our team is working very aggressively on pricing to push those through, but it takes time. And so, we will have a headwind with this, we'll have a headwind based on this big run-up in sulphur, but when sulphur changes, that headwind turns into a tailwind for us.

**Chi Le:** That's good color. Thank you. My second question will be related to chlorine and hydrochloric acid. So given that both of the chemicals are doing really well, can you discuss whether you view the economics between chlorine and hydrochloric acid to be of a different, so that we are not, that incentivized to get more chlorine into HCl.

**Scott Rook:** Yeah, certainly. So, if you went back a couple of years ago, with Chemtrade, you always heard from me that the most profitable thing that we can do with our chlorine molecule is turn it into hydrochloric acid and to sell that into the fracking industry near our North Vancouver plant.

And that still remains true today, but the advantage of hydrochloric acid is not as strong because of a couple things. So, fracking activity has, well, it did drop off from its peak, let's say, in 2018. So, fracking activity dropped off. And so, demand for hydrochloric acid followed that. It went in line. And demand for chlorine grew.

So again, so what we see, as we look forward out over the next year or two years or so, what we're hearing from our customers is that it's quite possible that hydrochloric demand will pick up 20 to 25 percent over the next two years and, because North America is going to be exporting oil and natural gas to Europe.

And if there was infrastructure in place, then there could be more of a pickup in, 20 percent to 25 percent is only limited by, I think, the infrastructure that's in place right now currently.

And so, I think there's, it's possible that there will be more infrastructure put in place, which could enable that number to go up. But, that's yet to be seen, so a lot of work in the oil and gas industry, I think, happening in North America to come up with a plan to move more oil and gas from North America to Europe.

And then, so I think that, so demand for hydrochloric will grow, we think, 20 percent, 25 percent over the next two years and possibly more. So for us, so I still think that that will hold, but the dynamics in chlorine have certainly changed a lot over the past couple of years. And chlorine is more valuable than it was.

**Chi Le:** Thanks, Scott. So, is your conversion rate still in the range of like, say, lower than 30 percent right now?

**Rohit Bhardwaj:** Yeah, it's about 30 percent. And given today's environment, as I think you pointed out as well, there's not that much of a difference between chlorine and HCl. Now, if fracking picks up, then we can up that a bit. It's very easy for us to increase the amount going to HCl, but today, it's about 30 percent, and that's fine.

**Chi Le:** Understood. Thank you. My last question will be about the operational efficiency), so following the closure of your sodium chlorate factory, as you look at the portfolio right now across North America, do you identify any other area where you could see an opportunity for improvement or cleaning up the portfolio?

**Rohit Bhardwaj:** So, I think on the water business, it's very important to know that we have many plants, but they are small, and they need to be close to customers. So, there's very little opportunity there in terms of chlor-alkali. We only have one plant.

And looking at our asset network, it's fine. So, we've got some smaller products that don't necessarily belong in the portfolio, but those could be sale candidates. But, frankly, they won't really move the needle very much. But, there's, we don't really have any optimization opportunities in terms of network of plants of any significance.

**Chi Le:** Thank you both. I'll pass it on.

**Rohit Bhardwaj:** Okay. Thank you. Rachel, if there are no more questions, sorry, go ahead.

**Operator:** Our next question comes from the line of Stephen Kwai with National Bank Financial. Your line is open.

**Stephen Kwai:** Hey, guys. Thanks for taking my questions. Yeah, most of mine have actually been answered already, so just one quick one for me. Just on your CapEx guidance, I noticed there was an increase, albeit marginal. Just wondering what that's attributable to. Thank you.

**Rohit Bhardwaj:** Yeah. So, I mean, you've probably read the talk about inflation. And so, we're not immune from that. And all equipment prices are going up. So, there's a slight change there, but, again, nothing significant.

**Stephen Kwai:** Okay, great. Thanks.

**Operator:** And our last question comes from the line of Steve Hansen with Raymond James. Your line is open.

**Steve Hansen:** Yeah, thanks. Just a quick clarification. Rohit, can you perhaps repeat the assumption that you have in for the second half on caustic soda? I think you said \$440 for the back half implied?

But, I just wanted to, see if that's correct. And any reason that you've got a relatively cautious view versus recent market pricing? Is there some sort of, the outlook you describe is actually quite bullish, I found, but the pricing seems less the case.

**Rohit Bhardwaj:** So, I think there are so many macro things out there, geopolitical events happening, and so it's just hard for, and also caustic pricing is near record highs. And while we think they could persist, it's just hard to make that into kind of our assumptions because there are so many uncertainties out there. So, what we want to do is to be very transparent, set out our assumption, and then we'll see how the rest of the year plays out.

**Steve Hansen:** Okay, fair enough, appreciate it. Thanks.

**Operator:** Thank you. There are no other questions on the queue. I will now turn the call back to Scott. Please go ahead.

**Scott Rook:** All right. So thanks, everyone. We appreciate your time today, and have a great rest of the day.

**Operator:** This concludes today's conference call. Thank you for participating. You may now disconnect.