

**Chemtrade Logistics**

**Income Fund**

**August 11, 2022**

**10:00 AM**

**Operator:**

Good morning. My name is Rob, and I will be your conference operator today. At this time, I would like to welcome everyone to the Chemtrade Logistics Income Fund's second quarter 2022 results conference call. All lines have been placed on mute to prevent any background noise.

After the speaker's remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press \* followed by the number 1 on your telephone keypad. Thank you. Rohit Bhardwaj, Chief Financial Officer, you may begin your conference.

**Rohit Bhardwaj:**

Thanks Rob. Good morning everyone and thank you for attending our second quarter earnings conference call. Joining me today on the call is Scott Rook, our President and Chief Executive Officer. Please note that this call has an accompanying presentation available on our website.

The second quarter of 2022 was another strong quarter for Chemtrade. We continued to capitalize on favorable market conditions across most of our product portfolio. The operational initiatives that we have undertaken in recent years are helping drive our performance. We are also enthusiastic about our organic growth projects, which we feel bode well for the future.

To begin today's call, I will first walk you through our second quarter results and the drivers of our strong performance. I will then highlight the latest increase to our guidance for this year that we announced yesterday. Following that, Scott will outline the ongoing, positive market dynamics that we are seeing across our business. Scott will also provide an update on our exciting organic growth projects. He will then conclude by highlighting several aspects that he believes make Chemtrade an attractive, long-term investment, including our defensive positioning for a potential economic downturn. Following our prepared remarks, we will open the call for analyst 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 risks and uncertainties, and actual results may differ materially. Further information identifying risks, uncertainties and assumptions and additional information on certain non-IFRS and other financial

measures referred to in this call can be found in the disclosure documents filed by Chemtrade with the securities regulatory authorities available on [sedar.com](https://www.sedar.com).

One of the measures that we will refer to in this call is adjusted EBITDA, which is EBITDA modified to exclude only non-cash items that have unrealized foreign exchange gains and losses. For simplicity, although our accompanying presentation will refer to adjusted EBITDA, we will just refer to it as EBITDA in our remarks as opposed to adjusted EBITDA. Non-IFRS and other financial measures are fully defined in our MD&A.

Starting with our consolidated results for the second quarter of 2022, we delivered strong, year-over-year improvement across our key financial metrics. This included a 32% increase in revenue, a 25% increase in EBITDA, and a 22% increase in distributable cash. Notably, this growth was realized, despite the sale of our specialty chemicals business in Q4 '21, which contributed \$4.5 million of EBITDA in Q2 of last year. In addition, we had \$21 million of headwinds, from the combined impact of the biennial maintenance turnaround of our North Vancouver Chlor-Alkali plant this quarter, and costs leading to the decision to close our Beauharnois, Quebec sodium chloride facility.

The second quarter, revenue and EBITDA in both business segments increased compared to Q2 of 2021. This increase reflects the improved pricing and demand environment for many of our key products, strong operational execution across the business, and our ongoing focus on productivity and efficiency. Chlor-Alkali chemical fundamentals in particular have been very strong and have had a significant contribution to our performance.

Our payout ratio and leverage metrics also improved during the quarter. This reflects the growth in EBITDA, strong cash generation, and the numerous, proactive steps we have taken to strengthen our financial position. Our \$0.05 per month distribution remains well covered, with a payout ratio of 60% this quarter, and 47% on a trailing, 12-month basis, and our leverage ratio ending the quarter was 3.2, down from 6.1 a year ago.

Moving to our segmented performance. In the sulfur and water chemicals, or SWC segment, we generated revenue of \$269.5 million during the second quarter, an increase of \$55.7 million over the same quarter of '21. EBITDA for the quarter was \$54.8 million, an increase of \$0.8 million compared to the second quarter of '21. Adjusting for the specialty chem business sold in Q4 of '21, EBITDA increased by \$5.3 million, relative to the last year period. The increase in SWC revenue is attributed to higher selling prices that we achieved for merchant sulfuric acid, regen acid, and our water solutions products. The highest selling prices for our sulfur-based products reflect strong end-market demand, tight industry supply, and higher sulfur prices.

In the sulfuric acid product lines, we have been able to pass through the higher sulfur cost as they are realized. However, in our water chemicals business that relies mainly on annual one-year fixed-price contracts our ability to pass through cost increases has typically lagged by about six months, on average. We've done a good job of keeping pace with the increase over the last year, but there was another significant increase for sulfur during the second quarter. Given the magnitude of the increase in the second quarter, we have taken a more proactive approach to negotiating with our customers to pass through those elevated, raw material costs. So we think we will be able to catch up faster than we had in previous quarters. We're also starting to see sulfur costs decline in third quarter and as costs come down in the water business, we typically see a benefit.

Transitioning to our electrochemical, or EC segment. This segment had a really strong quarter. Revenue of \$176.9 million was up \$53.4 million year-over-year, and EBITDA of \$50.7 million was up \$27 million year-over year. This was despite the negative impact of approximately \$21 million related to the biennial maintenance turnaround at the North Vancouver plant in the second quarter and costs related to the plant closure of our Beauharnois, Quebec facility.

The higher revenue and EBITDA are attributed to higher selling prices that we achieved for each of our three Chlor-Alkali products caustic soda, chlorine, and hydrochloric acid. Our realized, MECU netbacks during Q2 were up approximately \$1,000 year-over-year, with 55% of the increase coming from stronger caustic soda pricing and the remaining from higher chlorine prices and, to a lesser extent, higher hydrochloric acid pricing. We continue to benefit from strong Chlor-Alkali market dynamics, with chlorine and hydrochloric acid demand enabling us to run out of North Vancouver facility at higher operating rates and capitalize on the strong caustic soda pricing in the market.

As I previously mentioned, this quarter we completed the maintenance turnaround at our North Vancouver facility. I'm happy to say, the turnaround was well executed. But it did result in the plant being offset for about three weeks, resulting in an approximately \$17 million impact to EBITDA. Despite the impact of the turnaround, we still delivered exceptional growth in the EC segment this quarter. Our Brazil business also delivered strong results on a year-over-year basis in the second quarter, as demand from our key customer was higher and general market fundamentals are strong.

Sodium chloride volumes were lower compared to year ago, with ongoing softness related to decreased and use demand for office paper. We are working to mitigate the impact of these declines as contracts come up for renewal. We have also outlined the steps we are taking to improve our cost structure in sodium chlorate, which Scott will reiterate shortly. Overall, it has been a truly extraordinary

quarter for EC segment. And we believe that favorable market conditions will continue over the medium to long term.

Turning to corporate costs, our corporate costs for the second quarter of '22 was \$23.8 million, \$11.2 million higher than the same period of '21. The main drivers of the year-over-year increase were threefold. First, our incentive and LTIP costs were higher by \$4.6 million. Second, we recognize the foreign exchange loss of \$400,000 in this quarter, compared to a gain of \$4.1 million in Q2 last year. And finally, we recognized a gain of \$1 million for government support programs in Q2 of last year. Our operating costs are relatively consistent with the prior period, reflecting our ongoing focus on efficiency to try and offset the impact of higher inflation.

Moving to our balance sheet. As I previously mentioned, our leverage ratios and liquidity continue to improve. This is due to the higher EBITDA from both our business segments, as well as the initiatives we undertook to strengthen our balance sheet. This includes the recent sale of an idled sulfuric acid plant in Augusta, Georgia during the second quarter, for cash proceeds of U.S. \$10 million.

At the end of the second quarter, we had approximately U.S. \$248 million available on our senior credit facility, and we have no debt maturities until May 24. Recently we amended certain terms of our credit facility to accommodate one of our growth projects, on which Scott will elaborate later. The steps we have taken to strengthen our balance sheet have been effective, and we intend to take additional steps to further improve our leverage and liquidity and to provide us with the flexibility to pursue economically attractive growth projects. We are continuing to evaluate the potential sale and leaseback of our North Vancouver real estate, but we do not have any further updates for you on that process at this time.

Turning to our guidance, yesterday we announced the substantial increase to our '22 EBITDA guidance. We are now expecting EBITDA of \$360 to \$380 million this year versus our prior guidance of \$300 to \$330 million. This increase to our guidance reflects the strong results we have delivered in the first half of the year, and the ongoing strength in market fundamentals for most of our key products, including the in Chlor-Alkali segments. We now forecast that the average Northeast Asia spot price of caustic soda should be a key determinant for our realized price in '22 will be U.S. \$640 per ton. This is U.S. \$350 per ton higher than in '21 and U.S. \$65 per ton higher than our previous estimate. Recall that every U.S. \$50 per ton change in pricing translates into approximately \$10 million of incremental EBITDA for Chemtrade. The remainder of our key guidance assumptions are set out on the slide deck in our MD&A. Our revised EBITDA guidance indicates a record year for Chemtrade.

The midpoint of '22 adjusted EBITDA guidance is \$370 million, \$121.5 million improvement over '21 after adjusting for the sale of the specialty chem business, which was roughly \$14.2 million, last year and the NATO lawsuit settlement last year of roughly \$17.7 million. And also despite the combined \$21 million impact of the North Vancouver turnaround and closure of the Quebec facility.

And for some additional context, year to date, we generated \$189.6 million in EBITDA compared to \$120.6 million in 2021, which reflects a \$69 million improvement in the first half of the year. It validates the sometimes difficult strategic decisions we have taken across the business in recent years. It also illustrates our focus on maximizing the value of our existing assets to our productivity and reliability initiatives. In addition, I would be remiss if I did not mention our employees across Chemtrade who continue to drive our company forward. Without them, none of these results will be possible. I will now hand this call over to Scott, who will walk you through some of the reasons why we believe Chemtrade's future remains bright.

**Scott Rook:**

Thank you, Rohit, and good morning, everyone. Thank you for joining us on today's call. I'm looking forward to discussing the continued, strong momentum that we are delivering across our business lines and the initiatives that we're undertaking to ensure this momentum continues for years to come. This includes a continued emphasis on reliability and productivity across our facilities to increase our production rates, enhance safety, limit plant downtime, and maximize margins.

Starting with our sulfur products, market fundamentals remain strong for all three forms of sulfuric acid that Chemtrade produces. Regen acid used in the production of gasoline has rebounded from 2022, supported by relatively high refinery utilization rates. We, however, continue to closely monitor potential impacts on driving activity from high gasoline prices. While this could have an impact on refinery utilization rates, and therefore, demand for our regen acid, we would expect any impact to be very minor, in the range of low, single-digit percentages decline from current strong demand levels. For ultrapure acid, we continue to be able to sell as much as we can produce. Demand remains very strong from the semiconductor industry. In the short term, we've been focusing on better reliability and increasing our production at our current facilities to capture this strong demand. And we now have two projects underway to add capacity over the next few years. These projects in Cairo, Ohio and Arizona will ensure we maintain our leadership position in North America for ultrapure acid. I will elaborate more on these growth projects shortly. The supply-demand balance in the merchant acid market

remains tight. Merchant acid has widespread industrial uses. As a result, pricing and demand continued to be strong during the second quarter.

Moving on to our water-treatment chemicals, elevated sulfur prices remained the headwind in the second quarter, with raw material prices still roughly double where they were last year. However, we have had success in the proactive negotiations we have held with our customers to pass through these price increases. It will still take time to fully pass through these higher input costs. But we are making good strides in this area, and we are confident that will be passed this headwind in short order. In the third quarter, we're also seeing sulfur prices decline from the recent peaks. So if sulfur continues to decline, that should provide a nice lift to the water chemicals business. Demand for water chemicals continues to grow steadily, and we continue to position Chemtrade for this growing demand through various small, organic growth projects, especially for PAC and ACH, where demand is growing roughly 5% annually.

Turning to the outlook for our EC segment, I'm pleased to say that we expect this to be a record year for the segment and by a pretty significant margin. Based on second quarter, Northeast Asia spot prices for caustic soda, we also expect the third quarter to be a record quarter for this business. Caustic soda prices have come down from the recent highs in the second quarter, but remain elevated, relative to the pricing we've seen in recent years. Northeast Asia spot index pricing in July was US\$585 per metric ton, compared to \$350 per metric ton one year ago. Industry consultants expect near-term pricing of caustic soda to remain supported by strong demand for aluminum and dislocations in the supply of aluminum in Eastern Europe, stemming from the Russia/Ukraine war. We maintain a bullish outlook for caustic soda, supported by continued demand growth for aluminum, as well as for lithium-ion batteries, and limited new capacity announced. One would expect that higher Chlor-Alkali pricing would be required before additional capacity is added to fulfill anticipated global demand growth in the coming years. Given Chemtrade's exposure to caustic soda prices, we stand to benefit should prices remain elevated, as is evident in our results this quarter.

We also continue to generate robust margins in chlorine, taking advantage of current market tightness. We have seen strong pricing and demand for chlorine, following industry capacity rationalizations that took place last year, and with industrial and construction demand having rebounded. It remains our expectation that pricing for chlorine will remain strong through the balance of this year and into 2023. The hydrochloric acid market is slowly becoming more favorable, in terms of both volume and price. This is resulting from higher fracking activity in North America, as seen in higher rig counts which are now above the five-year average. North American rig count was 950 in July of 2022,

compared to 606, on average in 2021, and 522 in 2020. We expect this trend to continue to improve as geopolitical conflicts drive increased exports of LNG from North America to Europe, resulting in higher fracking activity. As a reminder, caustic soda and chlorine are co-products, and that we can upgrade chlorine to hydrochloric acid. Thus, strong fundamentals for chlorine and hydrochloric acid allow us to fully capture the benefits of higher caustic soda pricing. Recently, fundamentals for all three of these chemicals have been strong, resulting in record results for our Chlor-Alkali business.

Finally moving on to sodium chlorate. Market demand for chlorate remained subdued, only to softness in demand for office paper. However, with a broader return to the office, we have begun to see a modest pickup in demand. We are also optimistic that industry-operating rates are poised to improve as a result of two factors. First, capacity rationalizations that are taking place in the industry. And second, with the ongoing conflict in Ukraine, there's potential for increased export volumes from North America to Europe, where electricity prices are highly elevated. Recall that on last quarter's conference call, we announced that we will be closing our Beauharnois facility by the end of this year, which will lead to improved cost structure for our sodium chlorate business, moving forward. Despite the current challenges facing this business, it remains a strong earnings and cash flow generator for Chemtrade.

With that, I will now discuss two ultrapure acid projects that we have announced to drive incremental, organic growth in the coming years and generate additional value for our unit holders. As you have heard us discuss in past quarters the largest single opportunity for organic growth that we see over the medium term is capturing the significant anticipated growth for ultrapure acid. Demand for ultrapure acid is expected to significantly increase over the next five years as the U.S. industry has committed to becoming self-reliant for microchip manufacturing. Several large semiconductor manufacturers have announced plans to increase semiconductor production in North America.

A few weeks ago, we announced an exciting joint arrangement with Kanto Group to capture more of this market demand. This growth arrangement, which will be called KPCT Advanced Chemicals, brings together Kanto Group's technology, which is currently being used by the leading semiconductor producers in Asia, with Chemtrade's North America industry experience. The new plant will be built in Casa Grande, Arizona. Chemtrade will own 49% of the joint arrangement, and the preliminary cost of the plant is expected to be between U.S. \$175 million and \$250 million. Chemtrade expects to achieve an IRR on this investment of at least 20%.

We're continuing to make progress on our expansion project in Cairo, Ohio, and remain on schedule for a 2024 startup. We now expect the capital costs for this project to be closer to US\$50

million. The combined total capacity for the two plants will be 130,000 metric tons of ultrapure acid once both projects are completed.

Our hydrogen project at Prince George sodium chlorate facility also continues to progress well and remains on schedule for 2023 startup. And we are continuing to evaluate options for a hydrogen project at our Brandon, Manitoba sodium chlorate facility, which produces a larger volume of byproduct hydrogen. Hydrogen is expected to be a significant energy source in a low carbon future. Chemtrade already produces the most desired form of hydrogen, being green hydrogen, given our manufacturing processes use hydroelectric power. In addition to ultrapure and hydrogen we continue to undertake a few smaller organic growth projects across our water business. This includes several projects to expand capacity of our higher growth PAC and ACH products, which see demand growth of more than 5% a year. These projects remain on track to be completed this year and will contribute to results next year.

With the recent concerns expressed by economists of an economic slowdown or recession, I want to take this opportunity to review our defensive attributes. We continue to see robust market conditions across our business at this time and maintain a positive outlook. But if a downturn were to occur, we believe we are well-positioned, defensively.

In the SWC segment, our water treatment chemicals are non-discretionary products. We believe this segment's earnings would remain largely unaffected by a recession and if raw materials decline earnings should improve. Similarly, we would expect our regen and ultrapure acid business to see a limited impact from an economic downturn. Regen demand is tied to refinery utilization rates which typically remain stable in recessions as the number of miles driven tends to remain steady. Ultrapure demand, meanwhile, is expected to be supported over the coming years by expansions in the semiconductor industry. The primary area of our SWC segment where we would expect to see an impact in recession is merchant sulfuric acid, which is widely used in many industries and is thus affected by a general recession. However, as previously mentioned, the North American industry is currently tight, because of global supply dislocations, which could dampen the impact of any economic weakness.

In our EC segment, the impact on chlor-alkali from a recession would be determined by the relative demand difference between co-products, caustic soda, and chlorine. If a recession were to impact chlorine's demand by a greater extent than caustic, we could, in fact, see a benefit in this business and vice versa. If caustic demand falls more than chlorine, there would be a negative impact.

Finally, as discussed, demand for sodium chlorate is already subdued, and we would, therefore, expect any impact on demand for chlorate in a recession from current levels to be limited. As a result of these factors, while we are, by no means, immune to recessions, we believe we are well-positioned



should one occur. Finally, I wanted to highlight that Chemtrade published our latest sustainability report during the second quarter. And I would encourage you all to visit our website to review the document.

We believe that the steps we're taking across the spectrum of environmental, social, and governance will position Chemtrade as an ESG leader in the chemical industry. We look forward to providing increased visibility into our ESG performance, moving forward.

To conclude, we believe that we continue to demonstrate the power of our business and our strategy, one that's characterized by a unique and compelling combination of stability and growth. Chemtrade is a well-diversified business that is well-positioned for current and future growth. However, never losing sight of what is important to our investors, we also have remained focused on prudent capital allocation, balancing investing in growth with maintaining a strengthened balance sheet and continuing to return capital to unit holders through our distribution. We will also continue to take the necessary steps to transform Chemtrade into an ESG leader, as well. With that, we will now open the call for Q&A, and Rohit and I would be happy to address any questions you may have at this time.

**Operator:** At this time, I would like to remind everyone in order to ask a question, press \* then number 1 on your telephone keypad. Your first question comes from a line of Ben Isaacson from Scotiabank. Your line is open.

**Ben Isaacson:** Thank you very much, and good morning. And congrats on the great progress that we're seeing. So, I just have two questions. First question is on the distribution. So payout ratio is now sub-50%, on an LTM basis. Outlook looks pretty good. Is there the possibility that you'll start to revisit that distribution, and not go back to where you were, but maybe give some increases each year, going forward and just kind of reset expectations with the market, in terms of that distribution growth?

**Scott Rook:** So, yes, I'll answer that. I would say that our distribution policy is set by our board. But we would be evaluating options, such as using the excess cash that we generate. We could increase our distributions to shareholders. Or, if we find that we have good organic growth projects, we could use that money to continue to build our pipeline growth projects. And so, we will evaluate those options as we go forward, quarter by quarter, and make the best decisions that we think are on the long-term interest of shareholders.

**Ben Isaacson:** That's great. And then, just final question for me. Sulfur prices have come down really hard, really quickly. I was hoping you could just kind of walk us through in, the SW segment, what

are the different moving pieces, in terms of that sulfur-price crash and how it impacts that part of the business, in terms of the lag and the magnitude for various business lines within the SWC segment?

**Rohit Bhardwaj:** Okay. So, on the merchant sulfuric acid side, the industry is well-positioned to absorb ups and downs in sulfur and it's done in a pretty real-time basis. So, we don't expect as sulfur is coming down for any margin expansion, just like we didn't take any margin contraction when sulfur went up. There may be some marginal benefits, but nothing significant.

The water business is where we have lags. And, on average, it takes six months or so to catch up. So, as raw materials come down, we actually stand to benefit because typically, when costs are coming down, producers are not rushing to drop pricing. So if you look historically, 18 months to two years after raw materials have stabilized and come down, margins tend to stay elevated, and then things change. So, I think we are still playing catch up in Q2, because as you know, Q2 spiked. But with Q3 sulfur coming down and potentially going down further, we hope to see margin expansions into '23, and maybe even a bit into '24, as well.

**Ben Isaacson:** And then, just on top of that. How is your inventory, in terms of sulfur? I mean, do you have a lot of high-cost sulfur to work through?

**Rohit Bhardwaj:** No, we tend not to carry a lot of inventory. In fact, sulfur has been very tight. So, if anything we've had very little inventory.

**Ben Isaacson:** And then just final point from me is, you said that you're being more proactive, in terms of trying to renegotiate those contracts. But does the sulfur price crush make that mute now? I mean, you're going in with a bit of a weaker hand. You were talking about higher sulfur costs, but now that's kind of gone away. So how does that impact your proactive approach?

**Scott Rook:** Yeah, so our customers and our teams know that we have been playing catch up with sulfur for well over, let's say, for 18 months or so. And our teams will pass through price increases if sulfur jumps up again. And that has repeated itself numerous times with these very high sulfur prices. So there are increases that I would say that the market is expecting, and those will continue to go up. Now, our team will continue to emphasize those. But the point I think that we want to make is that in the water business, going back historically, has tended to do pretty well once sulfur prices start to fall off. And so, we think that's a reasonable outlook, and we're going to push hard to ensure that happens.

**Rohit Bhardwaj:** Can I just add one thing. I'll add just one comment. Even though sulfur has come down in Q3, it's still elevated compared to where it was in from historic levels. So I think we'll still be putting pressure to increase prices, because even at this level, it's higher than it was at the start of the year, for example. So there are some contracts that still need to get higher pricing.

**Ben Isaacson:** Thanks so much.

**Operator:** Your next question comes from the line of Nelson Ng from RBC Capital Markets. Your line is open.

**Nelson Ng:** Great, thanks, and congrats on a strong quarter. My first question relates to the ultrapure acid. So can you remind us, what your market share is today and with the Cairo expansion and the JV greenfield development with Kanto? Like, are you expected to grow your market share over the next few years? Or will demand be growing so much that your market share might be flat or even decline?

**Scott Rook:** So our market share, in terms of production in North America has been 80%, or a little bit higher, for Chemtrade over the past year. The market has been growing rapidly, and so, although we have been targeting to increase our production over the past 18 months through increases, let's say, in operating better, we have not added capacity. And so, with the capacity expansions, we have Cairo, Ohio, and we have the joint venture. So as the market has grown the market has turned to imports. But we are targeting to continue to be the market leader. And so that's about as specific as I'll get. We will be the market leader for ultrapure. Bringing on the capacity that we set 130,000 ton, that will meet most of the market growth demands, we think, for the next two to three years.

**Nelson Ng:** Okay. That makes sense. So, in terms of the 130K, what percentage increase of production does that mean for you guys?

**Scott Rook:** We have not shared our production capacity. We have not shared specific capacity. So, therefore, I won't comment on a percent increase. We'll just say that the new capacity we're bringing on is 130.

**Nelson Ng:** Okay. And that meets the demand growth for the next two to three years, is your view? Okay.

**Scott Rook:** Yes. That's our view.

**Nelson Ng:** Okay, great. And then just moving on to the EC segment. So obviously, caustic prices, are, kind of -- they were quite high that -- it looks like it peaked in Q2, and it's come down a bit in Q3. Given the lag in realized pricing, would you expect the EC segments EBITDA to also peak in Q3 this year?

**Rohit Bhardwaj:** Well, so keeping in mind Q2, we have the turnaround for North Vancouver, which we won't have in Q3. But at this stage, yeah, we think that, based on kind of the forecasts, the current levels of pricing will probably be around for a while. But you're right, I think, we don't expect, at this stage, that it goes back to the 650-plus pricing that we saw that was used for Q3.

**Nelson Ng:** Okay. Thanks. And then just one last question. Sorry, Scott, you're going to say something?

**Scott Rook:** Yes. I was just going to say, with that in mind, now to answer your question, Q3 would be reasonable to say that that would be a record quarter, as far as this year.

**Nelson Ng:** Okay. That's great. And then just one last question on taxes. So your corporate structure has been relatively tax efficient. Do you see any impact from Biden's 15% corporate minimum tax? Like, or are you guys not large enough to -- for that tax to be applicable?

**Rohit Bhardwaj:** No, we don't see that having an impact on us. I mean, we are subject to the BEAT tax, but that's not as significant.

**Nelson Ng:** Okay, great. Thank you.

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

**Steve Hansen:** Yes. Good morning, guys. Thanks for the question. I'm just curious if you could, perhaps, elaborate on your decision to take on a partner with the new ultrapure project. It does strike me as a reasonable way to balance the capital outlay. But just curious as to how that partner development process evolved and where it came from? And why take on a partner when you've got such a strong position already? Thanks.

**Scott Rook:** Yes. So, the rationale for taking on a partner is this. I'd say that the smallest chip's production in the world takes place in Asia. And so, therefore, the smaller the chip, the higher the purity of the acid it requires. And so, with the smallest chips being produced in Asia, that also corresponds, we think, with the highest quality, ultrapure acid produced in the world. And so, if you look at chip production in North America over the past ten to 15 years, the size of the chip and the technology of the chip was -- of the chips -- is a little more older technology than what takes place in Asia. And so, with the expansions that are coming to the U.S., the expansions in the fabs are going to be looking for smaller and smaller and smaller chips. And so, I think the fabs were interested in, let's say a new technology. And as we looked at that, we felt that there was a lot of strength, let's say, in partnering with someone in Asia, let's say, that has a long history of supplying some of the chip producers in Asia. And then, it's putting together their, let's say, downstream technology, and then our presence in North America, our infrastructure, our knowledge of the market and all that. And then from a from a balance sheet perspective, as well, I think there were a lot of advantages for us, on the balance sheet.

**Steve Hansen:** Okay. That's great. That's helpful. I'm just thinking back to the North Van facility, again, I know the turnaround's just been completed and sounds like it went to plan. Can you

just remind us, whether or not there's going to be any additional requirements for turnarounds in the next year, and as we think about that into the estimates?

**Rohit Bhardwaj:** That turnaround is once every two years. And so, the next one will be scheduled for 2024.

**Steve Hansen:** Okay, great. And then, just lastly, is just as you think about the leverage profile, which continues to improve here, down to 3.2, I think, on the period. Where do you view that as sort of normalizing out and the target range? For me perhaps, Rohit, just as you think about balancing some of your capital outlays with even the distribution question earlier on the call? Thanks.

**Rohit Bhardwaj:** Yes. So I think our target is to be below three times. But we also balance that in any period with what organic growth opportunities we have. As Scott mentioned, this expansion is a 20% return on capital, which is very attractive. So we do balance leverage versus opportunities in growth. But I think the key discretionary item we've already brought up this was distribution which as Scott said is a board decision. But I don't think there has been a rush to increase that, because we Chemtrade is changing into organic growth business, and there's a lot of attractive organic growth. And we are mindful that we got to keep an eye on leverage, too. And that was one of the things that Scott mentioned on one of the reasons we took on a partner, as well. So our long-term target is to be below three times.

**Steve Hansen:** Okay. Very helpful, guys. Thanks.

**Operator:** Your next question comes from a line of Endri Leno from National Bank. Your line is open.

**Endri Leno:** Good morning. Thanks for taking my questions and congrats on the good quarter. The first question I wanted to ask it's a little bit on the ultrapure. Scott, you mentioned that with the added capacity, you'll be able to meet the demand for the next two or three years. Does that imply that, as you're meeting demand, the market will continue to be tight as it is now? And would there be any interest or anything you're hearing that you are perhaps, or other players that might increase in capacity?

**Scott Rook:** So, we have not heard anyone adding capacity in North America. We are keeping a very close eye on that. But what I will say is that capacity is very tight right now. And we can sell every pound, every kg that we can produce. And we are very focused on improving our reliability and our throughput at our plants so that we can meet the demand of our customers.

**Rohit Bhardwaj:** I think I can add to that. You may have noticed that in our revised guidance, our maintenance Capex number was increased. And one of the key reasons for that is to ensure we have

even better reliability in the ultrapure business, because as Scott said, we can sell every pound produced, and more, so.

**Endri Leno:** Thank you. That would have been my other question, Rohit, so good answer, as well. Thank you. For the ultrapure, and I don't know, to the extent obviously that you can share, has all of the increased capacity been placed or are you still going through those negotiations?

**Scott Rook:** We won't comment on that at this time.

**Rohit Bhardwaj:** Yes, but I think the point though is the market is very tight. So we're not worried about what's going to happen, but we just can't give you any specifics.

**Endri Leno:** And then, the last question, again, there on the ultrapure, in terms of financing these initiatives, I know you mentioned some cash from your operations. I mean, any other sources to highlight? I mean, do you have enough capacity on your credit facility or you need to take more or any kind of color you can get there?

**Rohit Bhardwaj:** Sure. So yes, we're generating a lot of excess cash flow. We expect that to continue for a period of time. And also, it's not like we are going to write a check for it today. It is spread out, over time. And yes, to answer your questions, we have ample room on the facility. We've got undrawn, roughly U.S. \$250 million, plus all this excess cash. So we're not concerned about our ability to finance it.

**Endri Leno:** Great. Thank you. That's it for me.

**Rohit Bhardwaj:** Thank you.

**Operator:** Your next question comes from the line of Chi Le from Desjardins. Your line is open.

**Chi Le:** Hi, good morning. Congrats on a good quarter. And my question would be on sodium chlorate. So you said, in Brazil you experienced strong fundamentals and strong demand from the key customer. Does it mean that the paper market in Brazil has improved? And what about the North American market? Where do you see the demand is compared to the pre-pandemic level?

**Scott Rook:** So we have seen, the market has seen, a total drop-off in demand. What I've shared before is of at least 10% is a total decline in the market, primarily coming from a reduction in office paper. With COVID closing schools and offices, office paper has declined, I think roughly 40%, or so. And so, that's being one of the major issues. And chlorate has led to about a 10% overall market decline.

That 10% decline led to us making an announcement last quarter that we were going to close our Beauharnois, Quebec facility, and it led to another announcement by one of the other suppliers. And so, we are seeing a modest uptick in chlorate demand across Canada. And even in the U.S. now that people are returning to schools and returning to offices, there's a modest pickup in demand. But what

we're seeing, let's say, even over the last couple of months, is that, I think there's a growing interest in exports of chlorate from North America going to Europe. With the price of electricity in Europe has skyrocketed, tied to the natural gas price increase in Europe. And so, electricity is roughly 60% to 70% of the variable cost of chlorate. So that's leading to very high chlorate increases in Europe. And so anyhow, so that's leading to increased demand.

**Rohit Bhardwaj:** And I can answer your Brazil questions. For the Brazil question, we've been talking about this for a couple of years now, that our key customer there has announced significant capital investments in the mill that we support. And those are now coming to play. And also, they optimize their entire network and their mill there is now getting to be better on their cost curve. So that's positive. And we've been calling for this a couple of years. It's good to see it coming through. And in terms of growth, Brazil is the largest pulp manufacturer. But it's really positioned to export to Asia, and so Asian demand is growing. And Brazil will keep adding two million ton pulp mills every couple of years. So that's where the growth is, because they have the eucalyptus trees that grow within seven years. So they definitely are the leader, in terms of feeding the growth that's coming from Asia. And so, it's very different from North America. But North America, until recently hasn't been a big export market, whereas Brazil is a predominantly export market.

**Chi Le:** Thank you. That is good color. And maybe follow up on Beauharnois closure. So you incurred \$3.9 million in cost in 2Q. Should we model in any further cost before it's closed by the end of this year?

**Rohit Bhardwaj:** Yes. There will be some more costs, but they're not going to be significant. This was the most significant cost item.

**Chi Le:** All right. And my last question is, going back to the ultrapure JV. So, IRR of 20% for this JV. How would you benchmark it against, say, Cairo or other brownfields versus greenfield development?

**Rohit Bhardwaj:** So brownfields tend to be higher -- sorry, go ahead, Scott.

**Scott Rook:** Yeah, so our Cairo, Ohio facility is an expansion of an existing facility. And so, because of that, that makes it a little more efficient. And we have publicly said that Cairo, Ohio will have a 25% return, whereas we're calling for with our joint venture is 20%.

**Chi Le:** Thank you. That's it for me. I'll pass the line.

**Rohit Bhardwaj:** Yeah. Thank you.

**Operator:** Your next question comes from a line of Joel Jackson from BMO Capital Markets. Your line is open.

**Joel Jackson:** Good morning, gentlemen. I got a bunch of questions. I'll go one by one. On the ultrapure prospect here with Kanto, can you talk about, if it's about \$130 - 140 million Canadian CapEx spend over what if it gets approved '23, '24, maybe early '25. Can you give us kind of the breakdown what Capex would look like, capital intensity in a different years?

**Rohit Bhardwaj:** Joel, we're not in a position right now, as we mentioned on the news release. We are getting detailed engineering studies done right now. We don't expect any significant costs in '22. You'll start to see in '23, '24. And we'll give you more color by the end of this year, once we've got the detailed studies done.

**Joel Jackson:** Next on North Van. So, the MECU sales volume seemed pretty strong guidance this year despite the biennial turnaround. I don't know if you're buying other third-party caustic or other products, but should we think about 200,000 tons in a non-turnaround year and 180 in turnaround year or how should we think about it?

**Rohit Bhardwaj:** That's I'd say 190 to 195 maybe. So, 200 would be a very, very strong --

**Joel Jackson:** (Inaudible) -- some background noise.

**Rohit Bhardwaj:** There's some background noise, yes.

**Joel Jackson:** Can you say last part again, Rohit?

**Rohit Bhardwaj:** Yeah, so 200 would be -- you're talking about caustic or you talking about MECU?

**Joel Jackson:** MECU.

**Rohit Bhardwaj:** Yeah MECU. I would say 200,000 would be flawless. It would be difficult to achieve. So I probably say 190 to 195 would be a good year for us, without a turnaround.

**Joel Jackson:** So the 181 this year -- sorry, 180 this year, is that because you were buying third-party products for the sales is more than production, or...

**Rohit Bhardwaj:** No. So what we do is -- we do buy, but we don't count that in this volume. Because, frankly, when you buy it, we don't really make much margin on it. So this 180 is actually our production and go ahead with that production number.

**Joel Jackson:** Okay. Keep going here. Your guidance seems to imply you expect a decent drop down in caustic pricing that hits your books in Q4. I guess, we'll get the August benchmarks soon that will sort of start the discussions for Q4 with your customers. Is that right, your guidance implies a pretty big deep drop down in caustic? Sorry. Go ahead, Rohit.



**Rohit Bhardwaj:** Yes. If you do the math on that, so you will come up with US\$525 index value in Q3, which will set our Q4 pricing. So that's what has been set at, and that's really where the current market looks like, is in that ballpark. So I think our estimate is pretty good.

**Joel Jackson:** So \$525 index for Q3 that then will be used as discussion starters for Q4 realized prices?

**Rohit Bhardwaj:** Exactly.

**Joel Jackson:** Okay. And then the other question I wanted to ask was, and you've given sensitivity around this, but maybe you can be a little more explicit here. So, if we say that, according to the midpoint of your guidance, you're going to get about \$110 million higher EBITDA in 2022, year-over-year, how much of that is straight from caustic pricing?

**Rohit Bhardwaj:** So, what we've said is that, our entire ECU is up. And I think what we told you there is about 55% of the up in the ECU is coming from caustic, and a significant portion of the remaining 45% from chlorine and then some from hydrochloric. So it's more than a caustic story. It's actually all three elements combined. And so chlorine is actually a big contributor as well.

**Joel Jackson:** Just one more thing. What was the index value that you're using for Q2 -- that was for Q2, the second Q2 realized prices? For --

**Rohit Bhardwaj:** I think in the 650 plus range. Let me -- I can actually tell you exactly. I have it here. It was just over \$700.

**Joel Jackson:** Okay. And then, just my last question is, I think Scott's mentioned a couple times, that you expect Electrochem to have its best quarter ever in Q3, so certainly better than Q1 of this year. Would you expect the same for the company, that Q3 will be the highest earnings of the year?

**Rohit Bhardwaj:** So, I think we made the comment around costs around chlor-alkali. I don't think we want to get into quarterly. I think we've given you our guidance for the year and let's leave it at that. Yeah.

**Scott Rook:** Yes, exactly.

**Joel Jackson:** Okay. Thanks a lot.

**Rohit Bhardwaj:** Thank you.

**Operator:** And there are no further questions at this time. Mr. Scott Rook, I turn the call back over to you for some closing remarks.

**Scott Rook:** All right. Well, we'd just like to say thanks everyone for your time. I'd like to thank our employees and have a good rest of the day. Thank you.

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