

CHEMTRADE LOGISTICS INCOME FUND

Q1 2021 Results Conference Call

Rohit Bhardwaj

Good morning, everyone. I hope you are all doing well. We want to thank you for joining us today, albeit virtually. Also joining us today is our CEO Scott Rook we are however in different locations.

This morning I will review the Q1 2021 results after which Scott will follow with some remarks on the current state and outlook for the business. Following that we will have a Q&A session.

Before I start on the Q1 results, I would like to remind you that our presentation contains certain forward-looking statements that are based on current expectations and are subject to a number of uncertainties and risks, and actual results may differ materially. Further information identifying risks, uncertainties and assumptions, and additional information on certain non-IFRS measures referred to in this call can be found in the disclosure documents filed by Chemtrade with the securities regulatory authorities, available at sedar.com.

One of the non-IFRS measures that we will refer to in this call is Adjusted EBITDA, which is EBITDA modified to exclude only non-cash items such as unrealized foreign exchange gains and losses. For simplicity, we will just refer to it as EBITDA as opposed to Adjusted EBITDA. Both these terms are fully defined in our MD&A.

As a reminder, since Chemtrade falls under the essential business classification under U.S. State and Canadian Provincial orders, all our operations have continued during the COVID-19 pandemic. Our highest priority has been our employees' health and safety. By following the measures we implemented, our employees have ensured that they can continue to work safely and supply our customers. Given the challenging circumstances created by the pandemic, our measures have been largely effective. I want to start this call by again thanking each member of our workforce for their dedication and outstanding performance during these trying times.

Our first quarter results reflect the ongoing matters that we referred to in our last call. While we are starting to see some improvement from the impact of the COVID-19 pandemic, we are still dealing with the effects in some of our businesses. As we have previously mentioned COVID-19 has not had a significant impact on the Water solutions business. However, we continue to see an impact on some of our other products including regen and merchant sulphuric acid, sodium chlorate and hydrochloric acid, or HCl.

Results

Starting with the aggregate results for the first quarter of 2021, revenue was \$312.4 million, a decrease of \$54.5 million from 2020, which was relatively unaffected by the COVID-19 pandemic. The decrease in revenue for the first quarter is primarily due to lower sales volume of acid in the Sulphur Products and Performance Chemicals, or SPPC segment; lower sales volumes of sodium chlorate and lower selling prices of caustic soda in the Electrochemicals or EC segment, and lower sales volume of water solutions products and phosphorus pentasulphide or P_2S_5 in the Water Solutions and Specialty Chemicals or WSSC segment,. The stronger Canadian dollar relative to the U.S. dollar had a negative impact on revenue of \$12.5 million. Consolidated EBITDA of \$55.4 million was \$25.5 million lower compared to Q1, 2020. This is due to higher corporate costs and lower EBITDA by the operating segments. EBITDA for the first quarter of 2021 was negatively affected by approximately \$2.8 million due to the severe winter storm experienced in the US and by \$2.6 million due to the stronger Canadian dollar. As a reminder, every one cent of increase in the Canadian dollar per U.S. dollar is expected to reduce annual EBITDA by roughly \$2.0 million and Distributable Cash by \$1.1 million and vice-versa.

Shifting now to the individual segment results for the quarter, SPPC generated revenue of \$92.0 million compared with \$113.0 million in the same period in 2020. The reduction in revenue is mainly attributed to lower sales volumes for acid products and by the stronger Canadian dollar.

EBITDA for the period was \$28.0 million, which was \$6.7 million lower than 2020. The reduction in EBITDA was due to the impact of lower sales volumes of Ultrapure, Regen and merchant sulphuric acid. The stronger Canadian dollar had a negative impact of \$1.3 million.

The SPPC segment continued to be affected by COVID-19 compared to the Q1 2020 period that was largely unaffected by the pandemic. Regen refinery utilization rates continued to remain low at the beginning of Q1 this year due to stay at home orders in some regions of North America. Ultrapure acid sales volumes were lower due to a major customer shifting their demand to a competitor. We are making progress regaining the lost Ultrapure acid volume and are confident we will be back to previous levels in the next 12-18 months.

The WSSC segment reported first quarter revenue of \$98.8 million compared with \$113.3 million in 2020. The decrease was primarily due to lower sales volumes of water solutions products and specialty chemicals resulting from the severe winter storm in the U.S. that disrupted our operations, as well as those of some of our customers.

EBITDA decreased to \$21.8 million from \$25.7 million in Q1 2020, \$3.9 million lower for the period.

Although the Water treatment chemicals business has been relatively unaffected by COVID-19, we saw some reduction in demand in Q1 2021 compared to 2020 due to the unusually strong demand at the end of Q1 2020 as customers built their inventory levels in advance of stay-at-home orders. P₂S₅, used in automotive lubricants, was down as Q1 2020 was unusually strong. In addition, demand for P₂S₅ has been affected by reduced automotive manufacturing and driven miles.

Our EC segment reported first quarter revenue of \$121.7 million compared to \$140.5 million in 2020. The lower revenue was primarily due to lower sales volumes of sodium chlorate and lower prices for caustic soda and for HCl.

EBITDA for the period was \$27.2 million compared to \$32.9 million in 2020 a decrease of \$5.8 million.

Sodium chlorate margins were lower due to a continued COVID-19 related reduction in demand as people are still not fully back working in the office and schools are not fully reopened, resulting in reduced consumption of printing paper. The North East Asia spot price during Q4 2020 was lower than Q4 2019, resulting in lower selling prices for caustic soda. More recently, spot prices have been significantly higher, although it's important to note that there's generally a quarter lag in pricing and that the index is denominated in US dollars.

Excluding unrealized foreign exchange gains, corporate costs during the first quarter were \$9.1 million higher compared to 2020. Several items contributed to the higher costs, primarily accruals under the Long Term Incentive Plan or LTIP that were \$11.1 million higher during the first quarter compared to 2020. As we have said previously, the LTIP is subject to volatility in the unit price changes and during Q1 2020, there was a \$5.6 million reversal of accruals as the unit price was falling, whereas during the first quarter of 2021, accruals were being increased by \$5.5 million as the unit price was rising. Additionally, the former CEO's retirement in Q1 resulted in additional accruals of \$3.0 million. And finally, the company settled the remaining anti-trust lawsuits close to the amount reserved and recorded an additional \$1.1 million in expenses. These higher expenses were partially offset by \$4.7 million of government grants claimed during Q1, 2021.

Maintenance Capex in the first quarter was \$8.2 million compared with \$11.0 million in 2020. While we were able to complete all critical work needed to ensure our sites remain reliable, activities continue to remain limited with travel restrictions and stay at home orders in certain parts of North America during the first quarter. We anticipate 2021 maintenance Capex to be between \$75.0 million and \$80.0 million.

Turning to our balance sheet, during the first quarter we completed an equity offering of 9.8 million units that raised \$70.1 million in gross proceeds. We used the cash generated from the offering to pay down debt under Chemtrade's existing credit facilities and for general trust purposes. We continue to maintain ample liquidity with US\$241.9 million undrawn on our US\$850 million credit facility. We are in compliance with all our bank covenants and there are no debt maturities until late in 2023. After the end of the first quarter, we negotiated another credit amendment to extend the higher covenant levels we had negotiated last year for another year. The higher covenant levels will now be in place throughout 2022 and phased out during 2023.

Due to the ongoing uncertainties with the COVID-19 pandemic we are still not ready to give earnings guidance, but additional detail can be found in the Management Discussion and Analysis section of the Quarterly Report. Once economic conditions normalize, and our visibility is improved we will commence issuing formal guidance again.

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

Scott?

Scott Rook

Thank you, Rohit.

Good morning, and thank you to everyone that is joining us for today's call. I hope you are all doing well and staying safe.

Before I get started, I would first like to thank the Chemtrade employees for their hard work and dedication during the first quarter of 2021. We continue to operate our sites safely during these difficult times and that is a reflection of the commitment of our employees.

Turning now to our Outlook,

Due to the economic uncertainty that we face from COVID-19 we are still not able to predict the key elements necessary to provide meaningful Guidance. As Rohit mentioned, Q1 2021 presented challenges for our business on a number of fronts. COVID-19 continued to have an impact on our SPPC and EC businesses. Additionally, the Gulf Coast cold weather impacted not only several of our locations, but also several of our customers and raw material suppliers. Finally, Rohit quantified our sensitivity to the US-Canadian exchange rate and this is a factor when comparing 2021 results with 2020.

As we look ahead, we see improved performance particularly in the second half of 2021 and we see continued strengthening in 2022 – particularly in the SPPC and Electrochem businesses. Chemtrade is well positioned to benefit from a resurgence in demand across many products as we move closer towards a post-COVID recovery. As mentioned, our earnings are impacted by the CAD exchange rate; however, the impact is reduced at the cash level. In the next few years, our strategy will be to deliver earnings growth driven by 3 factors. They are:

- 1) Market Recovery from post COVID-19

- 2) Organic Growth coming from Ultrapure acid, our Water business and Hydrogen
- 3) Operational Efficiencies – driven through Productivity and Reliability initiatives

We anticipate that the second half of the year will start to improve and as we move closer towards a post-COVID-19 recovery Chemtrade is well positioned to benefit from a resurgence in demand. We also expect all of our key plants to operate well throughout the year with no atypical turnarounds planned.

Turning now to our outlook by Business segment:

In the Water Solutions segment,

We expect to have another good year with stable demand similar to 2020 and largely unaffected by COVID-19. The industry is however seeing significant increases in the cost of raw materials, particularly in sulphuric acid due to the rising cost for sulphur. In the short-term, spikes in raw materials can result in reduced margins as it takes some time to pass these on to customers. We are confident in our ability to eventually pass these on to customers.

Despite these short-term headwinds, this is an attractive segment for us and there are some long-term organic growth opportunities driven by tighter government regulations and population growth that are creating a need for more specialized products.

In the SPPC Business,

Regen and merchant sulphuric acid will depend on higher North American refinery utilization and industrial activity. Stay at home orders in parts of the U.S. and Canada at the beginning of 2021 had a negative impact on the North American refinery industry. As restrictions continue to be eased, we expect full year refinery rates to be higher than in 2020. We also expect that driving miles in 2022 should be back to 2019 levels.

In April, U.S. highway traffic data climbed above pre-pandemic levels for the first time since the start of the pandemic. We expect this to continue as COVID-19 vaccinations are increasingly administered in the U.S.

Merchant acid is also expected to improve with higher demand for metals, fertilizers and other industrial output. For now, however, we anticipate 2021 volumes to be similar to 2020. We expect that the significant spike in the cost of Sulphur will be offset by higher selling prices for sulphuric acid.

Our Ultrapure sulphuric acid that mainly supplies the semiconductor industry has faced some short-term headwinds. One of our large end customers decided to obtain acid from an alternate source at the end of last year. We shifted our capacity to supply another large semiconductor customer. Additionally, in the second quarter, we began resupplying the customer that moved away, although not in the same quantity as the prior year. We believe demand for Ultrapure acid will continue growing in the U.S. and the mid to long term outlook for Ultrapure acid remains very positive for us. We are actively pursuing new business with both new and existing customers. However, given the nature of this product and stringent quality specification it will take time to fully replace the lost volume. We have also invested in capital upgrades to ensure we continue to meet the stringent quality requirements of the industry.

The long term fundamentals for the semiconductor industry are strong with leading foundry and integrated manufacturers recently announcing U.S. expansion plans. The new U.S. administration is focused on supporting the domestic chip manufacturing industry. We think there are very strong fundamentals for this business with current U.S. demand for Ultrapure sulfuric acid exceeding domestic capacity.

Shifting now to the EC business and our chlor-alkali product line,

This business saw the steepest decline over the past two years resulting from near record low caustic soda prices coupled with low fracking activity in North America. In the first quarter, we are seeing some early signs of improvement across the business that gives us confidence for the next several years.

Caustic soda global demand is forecasted to increase by 8% this year driven by aluminum for automotive and infrastructure projects, as well as growing usage in lithium production. There is minimal new supply slated to come online. Taiwan contract pricing, which historically has been a leading indicator for North East Asian spot pricing, is starting to move higher. So, we believe the trough is behind us and the market

fundamentals will continue to improve over the next several years. Most recently, North East Asia caustic soda prices have significantly appreciated and are at a level not seen since 2019.

Our North Vancouver plant is expected to operate at a higher level in 2021 than 2020, when we had our biennial maintenance turnaround.

Demand for HCl has started to improve as oil pricing has recovered, resulting in additional fracking activity, particularly in Western Canada.

We also anticipate improvement in demand for chlorine driven by strong demand for PVC and bleach, in addition to capacity rationalization in the U.S.

Sodium Chlorate demand in North America will continue to be affected by the extent of school closures and people working from home during the pandemic reduces paper demand leading to lower demand for pulp production. As schools and offices reopen, demand for sodium chlorate should recover, but likely will not resume back to historic levels. Given our current customer mix, we expect our sales volumes in 2021 to be lower than 2020. We have two pulp mill customers who have shut-down over the past six months. We expect realized selling prices in 2021 to be lower than 2020 due to the expectations of a stronger Canadian dollar relative to the U.S. dollar. Over time, we expect to recover the impact of the currency exchange as well as rising costs of production.

Finally, we are also exploring a number of growth opportunities in the Hydrogen market. Sodium Chlorate and to a lesser extent chlor-alkali produce hydrogen as a co-product. Our manufacturing sites use hydro-electric power so we are actually generating green Hydrogen. In Q1 we announced a deal for one of our small chlorate plants that requires no capital investment from Chemtrade and will start to have significant returns starting in five years. The big opportunity for Hydrogen is at our Brandon, Manitoba facility and that is about five times the size of the Prince George facility. We are investigating ways to develop that hydrogen stream into a commercially marketable green hydrogen product.

So in summary,

Looking forward, we anticipate we will deliver growth in earnings as the markets improve with the COVID-19 recovery. Commercially, we will focus on organic growth opportunities in Ultrapure, water and hydrogen to capitalize on our current business opportunities. Operationally, we will continue to focus our efforts on Productivity, and Reliability. These initiatives will be the key to our success.

Thank you.

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

QUESTION AND ANSWER SESSION

Operator

Your first question is from the line of Ben Isaacson of Scotiabank.

Ben Isaacson, Scotiabank

Thank you very much. First question is on the chlorine shortage. Can you talk about how that is impacting your business, how you run your plants, conversion rates to hydrochloric acid, et cetera?

Scott Rook, President & Chief Executive Officer

Sure. We are seeing a shortage in the chlorine market and therefore, increased chlorine demand for us. In our MD&A we called out that we see that we're running higher rates at our chlor-alkali facility and we are running at a rate of 190,000 MECU. And so that's a reflection both of more demand for chlorine and HCL. And since caustic soda is a by-product we're able to sell caustic as well.

Ben Isaacson, Scotiabank

Second question is, thank you for the update that you gave on semiconductors. Just one question on that. Because of the backlog, is there a backlog in demand for ultrapure acid with you right now or is it really just lost sales until we start to see some of the bottlenecks improve? And then maybe a second part to that, what is your ultimate goal in terms of where you want to be with ultrapure acid?

Scott Rook, President & Chief Executive Officer

So, we do not have a current backlog. We are seeing increased demand for our ultrapure and we're able to meet that demand and we see this growing. And what's our ultimate goal? We want to remain the primary supplier of ultrapure acid in North America and be the market leader in North America.

Ben Isaacson, Scotiabank

But I think it takes up, what, 25% of your acid is ultrapure. Is that something you could eventually hope to get towards 50%?

Rohit Bhardwaj, Chief Financial Officer

Well, the way it works is we already debottlenecked and got some capacity expansions previously, so it's not as straightforward as just converting one into the other. The next step change will have to be additional capacity that we'd have to install. It's not like HCL and chlorine where you can just adapt and go one way or the other. Ultrapure requires its own infrastructure that needs to be invested in.

And from a volume basis, we sell more than a million tonnes of merchant sulphuric acid. Ultrapure you're talking about, you know, less than 10% of that is going to be the overall US market. So, it's really not a volume game. It's really a question of making investment in the purification and the downstream part of ultrapure.

Ben Isaacson, Scotiabank

And then just last question for me: Can you just remind us where you stand right now on leverage, what is your target, and how long do you think it'll take to get to that target?

Rohit Bhardwaj, Chief Financial Officer

So, we look at it in three different ways. The first way we look at it is we obviously don't want to be spent from a covenant perspective. So, we always try and be well ahead of that and ensure there's a lot of room between our covenant and our senior debt.

Then in terms of our targets, we have two targets. One is Total Debt-to-EBITDA, which includes our convertible debentures and our longer-term target there is to be below four. And on our senior bank debt our longer-term target is to be below three and potentially even two and a half. So, the way we're going to get there is really by, you know, two things. One obviously is the earnings growth, which has the biggest impact on leverage ratio. And secondly, as you do start to get back to those levels of earnings, we've also used that excess cash flow between some organic growth and the balance going towards debt reduction. So it will take, to get to those levels, you're looking at two to three years and dependent upon how strong the recovery is.

Ben Isaacson, Scotiabank

That's great. Thank you very much.

Operator

Your next question is from the line of Joel Jackson with BMO Capital Markets.

Joel Jackson, BMO Capital Markets

Hi. Good morning, everyone. I have a few questions. I'll ask one by one. If you look at SPPC, it's been, I think, eight quarters in a row of year-over-year sales decline. You have a bit of currency headwind now. When would you expect that business for revenue to turn toward getting a year-over-year comp? Like in Q2 should we expect continued sales decline, year-over-year decline, and could we get to growth year over year by the end of second half?

Scott Rook, President & Chief Executive Officer

So, Joel, we will see. I feel confident that the second half of this year in the SPPC segment is going to be stronger than the first half of this year. What we saw in this business was late in Q1 of last year and in Q2, a very large drop off in refining rates in North America. We saw some pickup in Q3 and Q4, but then in Q1 of this year refining rates, particularly on the West Coast, dropped off due to the stay-at-home orders. So, we saw another drop in the West Coast after Q1, but we're seeing that pickup, and so I feel that Q2 of this year is going to be stronger than Q1 and then Q3 we see even more demand. And it looks like 2022, from miles driven, is certainly going to get close again to 2019 levels.

Joel Jackson, BMO Capital Markets

Okay. And then the next question, WSSC, you had a tough comp in Q1 2020. When would you expect WSSC to also turn back to growth? Now you've got to be able to pass through some cost inflation but, similar question, when would you expect WSSC return to growth again?

Rohit Bhardwaj, Chief Financial Officer

So there's short-term spike in sulphur that we've seen from the start of the year, it's almost tripled. So, in the short term, that's a challenge, because the usual business is annual contracts, and they do come up throughout the year, but it does take time to reset those. But, as you will know from the experience in 2020 where our water business was up over \$20 million from the year before, is that once you get past that initial spike in raw material cost, you actually do have higher margins for a period of time. So we fully expect that 2022 is going to be quite strong for the water business.

Scott Rook, President & Chief Executive Officer

So, Joel, just to add on to that, if I can, recall that, again, as Rohit had mentioned, 2020 was a very strong year of growth for the WSSC business, greater than \$20 million higher. So, there is underlying market growth, demand growth, as well as pricing and the impact of raw materials. And so, this business is definitely impacted by the big run up in sulphur and sulphuric acid prices. Many of our customers are municipal cities and our agreements with them, these are publicly available, they're annual contracts. And so, as those contracts expire throughout the year there's a rolling basis of those contracts. And as those contracts roll off, the new ones would reflect the higher raw material costs.

Joel Jackson, BMO Capital Markets

So would that mean you would expect, in those contracts, like would you expect the worst of the inflation to happen kind of middle of this year? So we're still progressing through Q2, Q3, and as we get to Q4 and early next year and things refreshing, then you can start to get the pass through?

Rohit Bhardwaj, Chief Financial Officer

So, Joel, two things, one is to see how Tampa index for sulphur evolves through the year, because, if you follow it historically, which obviously we have, it can be very volatile. It can go up and down pretty violently. So, we have to see what happens in Q3 and Q4 for sulphur. If Tampa sulphur stays where it is, then you're absolutely right, as we get rolling to next year we'll start to have it fully priced in. And then, obviously, you know, typically when that's goes down you hang on to the pricing for some period of time with expanded margins. But it's difficult to answer your question without knowing where sulphur is going to go, because it's a key factor.

Joel Jackson, BMO Capital Markets

Okay. Thanks for that. So, my final question would be it looks like the payout ratio this year is going to be plus or minus 100%, so would you agree with that assessment? And then, Scott, Rohit, is it time to reconsider the distribution again or do you think at this tough part of the cycle you have enough cushion and it's still working?

Scott Rook, President & Chief Executive Officer

We are comfortable and our board is comfortable with the distribution where it is. And look, we're thinking about this business in terms of where we want to be two and three years from now and, as I talked about, we have a plan to grow earnings and that's going to come from market recovery, organic growth, and our operational objectives, and we feel confident and comfortable with the distribution where it is.

Joel Jackson, BMO Capital Markets

Would you agree to pay out to about 100% this year give or take?

Rohit Bhardwaj, Chief Financial Officer

Well, we have decided not to give guidance and I don't think we want to be that precise with where we think 2021 is going to be. But I think the bigger question is, even if that were true, I think Scott's remarks are still there. So, from a distribution policy perspective, I don't think 2021's payout ratio is a big variable.

Joel Jackson, BMO Capital Markets

Thank you very much.

Operator

Your next question is from the line of Steve Hansen with Raymond James.

Steve Hansen, Raymond James

Yeah. Good morning, guys. A couple for me, if I may. Rohit, first was on the corporate costs, a pretty noisy period. Can you just give us a sense for the run rate we should expect it going forward? Should it be more normal through the balance of the year on corporate outlook?

Rohit Bhardwaj, Chief Financial Officer

Yeah. So, the normal run rate should be around roughly \$17 million - \$18 million or in that range per quarter. We really have a hard time predicting LTIP, because it's very sensitive to movements in the unit price. My remarks are more on a normal LTIP basis we should be in that range.

So we also had the CEO retirement, that's done, we also had some government grants that we booked that, you know, there's not a lot more to book in this year. So, when I look ahead I really don't see a lot of unusual things in the rest of the year other than the LTIP, which is hard for us to predict.

Steve Hansen, Raymond James

Okay. That's helpful. Just turning to Electrochem for a moment, I think you've mentioned twice that the rates were higher, and I apologize, Scott, I missed it, but I think you might've mentioned a rate where you're running currently in North Vancouver. Could you just maybe give us a sense for where that rate is today and how far we need to go to get back to capacity and over what timeframe? Just give us a sense for how that business is going to start to recover here.

Scott Rook, President & Chief Executive Officer

Sure. So, that business, we talked about and we mentioned in our MD&A that we have moved that production up to 190,000 MECU. Last year we shared that the rates were 155,000 MECU roughly. And so we produce chlorine molecule and we produce caustic. That plant could do 5% or 10% or more volume but then we get into turnaround schedules and that type of thing. So, there's a little more volume that's available for us, but it's primarily price. And the price appreciation that we're beginning to see right now is on caustic soda, and we've talked a lot about that. We have also seen increases in chlorine and we're beginning to see increases in HCL.

And so, we have options for the chlorine molecule as we look at it and with that chlorine molecule we can sell it as chlorine or we could sell it as hydrochloric acid. And then our margins depend on whether it's HCL or chlorine and as well as how far we have to move it. And so, for us, our preference would be not to move it very far, because the longer we move it, the more it costs. So we're better off if we can sell HCL in Western Canada. That's the best thing for us and most profitable. And then, again, the farther away we have to move it is a drop in margin for us.

Steve Hansen, Raymond James

Understood. Helpful. And so, just to follow on that question then, if there's optionality in that molecule, is that a decision point that you're going to be executing at some point? I'm trying to understand. I know you shifted your production base last year to offset some of the volatility we've been seeing in the markets. Are you contemplating a shift back?

Scott Rook, President & Chief Executive Officer

Well, yeah, so back in 2017 and 2018 the oil prices were relatively high. We're actually close to those oil prices right now. But rig counts across North America were over 1,000 rigs and so there was very, very strong demand for HCL, particularly in Western Canada. And so we're watching that. And with higher oil prices now, we're really just beginning to see the rig counts move up. And you can see those just as easily as we can. There's been a small bump up in rig counts. But if oil stays where it is, we're watching it very closely, and we're thinking that rig counts will go up, particularly in Western Canada, so the best thing that we can do is to sell a lot of HCL in Western Canada and that's a very good thing for us. But right now we can sell all of the chlorine molecule and so that's good, but for now it's a question of optimizing the product mix.

Steve Hansen, Raymond James

Very helpful. Thank you.

Operator

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

David Newman, Desjardins Capital Markets

Good morning, gentlemen. Thanks for the detailed run-through. Really appreciate that. Just kind of digging down a little bit more near term, not to be myopic about it, but if we're kind of looking out on the water chemical side in terms of the compression that we might see in margins, should we go back to that period, you know, I guess a year and a half ago, two years ago, when you had a little bit of compression at that time for the same reasons and use that as kind of the example for looking into this year, maybe a couple of quarters where you have margin pressure and then recovery sort of thing? Or what's your view on how we should be thinking about how we build that out?

Rohit Bhardwaj, Chief Financial Officer

So, I think the last time there was a pretty big run-up in both acid and aluminum and since then we have made quite a few changes in the business, so it shouldn't be as severe as what occurred back then, because there's been other change in the business. But you can use that as your starting point and then don't go as far as that. Now again, sorry, I should point that this is subject to what continues to happen with the Tampa index for sulphur for the next couple of quarters.

David Newman, Desjardins Capital Markets

Okay. And what about aluminum? It's starting to move up as well. So are you seeing that beginning to factor in or no?

Rohit Bhardwaj, Chief Financial Officer

We do tend to carry a fair bit of inventory of that, so we will be sheltered for a period of time, but at this stage it's not as big of a factor.

David Newman, Desjardins Capital Markets

Okay. And then going over back to caustic, I think your guidance is now \$20 lower versus 2020. It was \$40 lower. So if I kind of build that out, it looks like you're calling for US\$220 per metric ton. And current prices are certainly well above that in Northeast Asia. So are you just being conservative about the caustic soda? And when should we start to really see that kick in? There's the three-month lag, so I have to think that Q2 is kind of where you start seeing some dividends there.

Rohit Bhardwaj, Chief Financial Officer

So probably more Q3, I would say. Q2 is still based on what was will happen in Q1. There is some appreciation going on, but it wasn't that much. And the other thing to keep in mind is that the Northeast index is a US dollar index, so there is a bit of impact on the exchange as well.

David Newman, Desjardins Capital Markets

Okay. And then on HCL, your burn rate was, I think, in the 20s, and you guys had sort of like pushed some out for industrial production because you had no other outlet for it. And now we've got energy coming back and the fracking and the rig counts and all that beginning to slowly recovery here. What's your plans in terms of the actual burn rate? You obviously, I think, Scott, you flagged that you'd like to see hydrochloric acid (HCL) in Western Canada. So, what is your plan for stepping up the burn rate in North Van?

Scott Rook, President & Chief Executive Officer

Well, look, what's the plan? Our plan is to move as much HCL into Western Canada as we can. And so what do we think that that's going to be? I think that's going to slowly creep up from where it is right now just as rig counts increase in Western Canada, to be frank. I mean that's what it's going to be. We would like to see that that's going to be maybe 30% second half of this year, but we'll see. It's really hard to predict.

Rohit Bhardwaj, Chief Financial Officer

In 2019, just about 37% was converted into HCL. If you look back in 2018, we were in the 40% range. Last year, we were in the low 20%. But the thing to keep in mind is that we retain flexibility, so if the fracking recovers, we will not be missing that opportunity. We can make these decisions on a daily routine basis and we keep enough slack in our system that we can easily tackle it on the opportunity.

David Newman, Desjardins Capital Markets

So it's that quick to adjust?

Rohit Bhardwaj, Chief Financial Officer

Yes.

David Newman, Desjardins Capital Markets

Very good. And last one from me, guys. Just if you look at sort sodium chlorate, one of the things about the market in general, it's a rational oligopoly, and I'm sure you're waiting for everybody to go back to work and see how this really shakes out in terms of whether or not it's a hybrid model, people working from home, working in the office, or whatever the case may be at a number of organizations, but as everybody goes back to work do you sense that there could be, amongst yourselves and your competitors, this laying up of capacity again at some point to kind of rationalize the market to the new secular trend?

Scott Rook, President & Chief Executive Officer

Right now there's enough spare capacity in the market where rationalization could take place. And so we are certainly going to watch it as people go back to school and go back to the offices and to see the rate that people start using office paper again. The other thing to watch is that we have had a couple of customers that have closed and the industry has seen pulp mills that were producing office paper that have closed. And so we'll be watching to see if demand picks up, if any of those customers decide to restart mills, and overall how much demand goes back. And then, for us, we'll make decisions after that.

David Newman, Desjardins Capital Markets

Very good. Thanks, guys.

Operator

Your next question is from the line of Nelson Ng with RBC Capital Market.

Nelson Ng, RBC Capital Markets

Great, thanks. Just a quick clarification for Scott. You mentioned the two paper mill customers that have shut down their operations over the past six months. Are they temporary shutdowns or temporary mothballs and if demand picks up they will reopen? Or are they looking to kind of repurpose those mills longer term?

Scott Rook, President & Chief Executive Officer

Our understanding right now is that the plan is those mills are going to stay closed. We've asked that question and our understanding is that the plan is that they will stay closed. I'll say that we've been given a caveat that it's possible, if demand were to really pick back up, they could restart.

And, as I have asked that question, I've been told about lumber mills and that there have been a number of lumber mills that closed and then, with the big increase in lumber right now, that mills have restarted. But what I've been told is that those mills, at least for the pulp mills that we're talking about, they don't have any immediate plans to reopen.

Nelson Ng, RBC Capital Markets

Okay. Got it. And then the next question relates to the wage subsidy. So, do you expect to receive wage subsidies in Q2 and Q3? I wasn't too sure like what the requirements were from your perspective.

Rohit Bhardwaj, Chief Financial Officer

We should be able to claim a little bit in Q2 but, frankly, what we claimed in Q1 this year was, beyond just catch up on 2020 claims. So it is unlikely to be material. And then after Q3 and Q4, they've extended it past June, but based on what we see right now we don't think that's going to be a big factor for us.

Nelson Ng, RBC Capital Markets

Okay. Got it. And then just one last thing on ultrapure. You mentioned that there's good demand kind of medium term and longer term and you're still looking to kind of place the rest of the volume that you have from the customer loss. From your perspective, like if you're seeing a lot of growth in a few years' time, and given that there is kind of a lead time to grow your capacity, does it make sense to start growing your capacity now? Because I think, Rohit, you mentioned that the small capacity additions and debottlenecking has been done. Like can you just walk us through the cost and the process or the lead time to increase capacity and does it make sense to do that ahead of selling out on your own existing volumes?

Scott Rook, President & Chief Executive Officer

With our ultrapure, there's two things going on. Number one, we're working to improve our quality on our existing lines and so, as our customers are producing smaller note sizes, the quality requirements increase significantly. And so we've been working with them and we have plans and we're spending capital to increase the quality so that our products will be suitable for what the market's looking for. At the same time, we're looking at that demand over three to four to five years and looking at when we're going to need additional capacity. And so we're looking at that and our plans right now say that two to three years from now we'll probably need capacity. And so we're looking at that and planning accordingly.

Nelson Ng, RBC Capital Markets

Okay. Any colour on the cost or the investments required to improve the quality and then if you were to improve capacity?

Rohit Bhardwaj, Chief Financial Officer

A lot of it depends on where that capacity is added. One of the key things you need for ultrapure acid is oleum that comes out of sulphuric acid plants. So clearly you'll do it where you have that capacity. And then the other question for us is, do we do this by ourselves? Do we partner with somebody? Because in the end this is a business where we do not go direct to the end customer, because we only supply one chemical into that business whereas typically it's a portfolio of chemicals that goes in and generally there's some value-added distributor in the middle.

So you really have to figure out level of leverage, partnerships, joint ventures, or deploy your own capital. And it's not just about the cost of capital. It's about expertise as well. So there are a few moving parts there, so we really can't give you a definitive answer, but we are seriously looking at this because the US is going to significantly increase the production of chips and therefore the demand for ultrapure acid.

Nelson Ng, RBC Capital Markets

Okay, great. Thanks for the colour. I'll leave it there.

Operator

Thank you. Once again, if you would like to ask an audio question, please press star one.

And your next question is from the line of Stephen Kwai with National Bank.

Stephen Kwai, National Bank Financial

Hey, guys. Thanks for taking my questions. I'm just calling for Endri. Most of the questions I had have been answered. I may have missed this but, Rohit, could you just remind us about the covenants please?

Rohit Bhardwaj, Chief Financial Officer

Our bank covenants?

Stephen Kwai, National Bank Financial

Yes.

Rohit Bhardwaj, Chief Financial Officer

Yeah. So, the bank covenant started this year off at 5.25 and we ended the year and ended the quarter below 4, so there's a lot of room there. Plus we just, I don't know if it's up on SEDAR yet, but we did another amendment where we pushed out the step-downs through 2022 and they get phased out in 2023. So those covenants will be up, if they're not up on SEDAR, they'll be up today shortly. And, so you can actually see what those step-downs look like. But we always like to have ample room.

Stephen Kwai, National Bank Financial

Okay, great. And I think you mentioned in the opening remarks, I may have missed it, but you said driving to back to 2019 levels in 2022, but how did you see April again? That's what I missed there.

Rohit Bhardwaj, Chief Financial Officer

So I think what Scott mentioned was the US highway traffic data suggested that April highway traffic was back to pre-pandemic levels. That was the comment on April.

Stephen Kwai, National Bank Financial

Okay, great. That's all my questions. Thanks.

Operator

And at this time there are no further questions. I'll turn the floor back over to the moderator for any closing remarks.

Rohit Bhardwaj, Chief Financial Officer

All right. Thank you for my side. Scott, do you have anything you would like to add?

Scott Rook, President & Chief Executive Officer

No, I'd just like to thank everyone for their time. Thank you very much. Have a nice day. Bye.

Operator

Thank you. This does conclude today's conference call. You may now disconnect.

(1) Non-IFRS Measures

EBITDA and Adjusted EBITDA –

Management defines EBITDA as net earnings before any deduction for net finance costs, income taxes, depreciation and amortization. Adjusted EBITDA also excludes other non-cash charges such as impairment, change in environmental liability, net gains and losses on the disposal and write-down of property, plant and equipment, and unrealized foreign exchange gains and losses. EBITDA and Adjusted EBITDA are metrics used by many investors and analysts to compare organizations on the basis of ability to generate cash from operations. Management considers Adjusted EBITDA (as defined) to be an indirect measure of operating cash flow, which is a significant indicator of the success of any business. Adjusted EBITDA is not intended to be representative of cash flow from operations or results of operations determined in accordance with IFRS or cash available for distribution.

EBITDA and Adjusted EBITDA are not recognized measures under IFRS. Chemtrade's method of calculating EBITDA and Adjusted EBITDA may differ from methods used by other income trusts or companies, and accordingly may not be comparable to similar measures presented by other organizations.

A reconciliation of EBITDA and Adjusted EBITDA to net earnings is provided below:

(\$'000)	Three months ended March 31	
	2021	2020
Net loss	\$ (20,448)	\$ (97,875)
Add:		
Depreciation and amortization	62,393	63,917
Net finance costs	21,498	67,452
Income tax recovery	(8,596)	(21,121)
EBITDA	54,847	12,373
Add:		
Impairment of goodwill	-	56,000
Change in environmental liability	-	3,381
Net loss (gain) on disposal and write-down of property, plant and equipment	151	(482)
Unrealized foreign exchange loss	430	9,608
Adjusted EBITDA	\$ 55,428	\$ 80,880

Segmented information

SPPC -

(\$'000)	Three months ended March 31	
	2021	2020
Revenue	\$ 91,967	\$ 113,022
Gross profit	7,223	14,461
Adjusted EBITDA	27,971	34,632
Net (loss) gain on disposal and write-down of property, plant and equipment	(12)	49
EBITDA	\$ 27,959	\$ 34,681

WSSC -**Three months ended March 31**

(\$'000)		2021	2020
Revenue	\$	98,786	\$ 113,338
Gross profit (loss)		13,811	(42,370)
Adjusted EBITDA		21,803	25,706
Impairment of goodwill		-	(56,000)
Change in environmental liability		-	(3,381)
Net (loss) gain on disposal and write-down of property, plant and equipment		(82)	457
EBITDA	\$	21,721	\$ (33,218)

EC -**Three months ended March 31**

(\$'000)		2021	2020
North American sales volumes:			
Sodium chlorate sales volume (000's MT)		92	102
Chlor-alkali sales volume (000's MECU)		41	36
Revenue	\$	121,687	\$ 140,541
Gross (loss) profit		(105)	6,853
Adjusted EBITDA		27,177	32,933
Net loss on disposal and write-down of property, plant and equipment		(57)	(24)
EBITDA	\$	27,120	\$ 32,909

Cash Flow –

Management believes supplementary disclosure related to the cash flows of the Fund including the amount of cash available for distribution to Unitholders, repayment of debt and other investing activities provides useful additional information. A cash flows table presenting this information is included in the Fund's MD&A filed on SEDAR. The table is derived from, and should be read in conjunction with, the condensed consolidated interim statements of cash flows. Certain sub-totals presented within the cash flows table, such as "Adjusted cash flows from operating activities", "Distributable Cash after maintenance capital expenditures" and "Distributable Cash after all capital expenditures", are not defined terms under IFRS. These sub-totals are used by Management as measures of internal performance and as a supplement to the condensed consolidated interim statements of cash flows. Investors are cautioned that these measures should not be construed as an alternative to using net earnings as a measure of profitability or as an alternative to the IFRS condensed consolidated interim statements of cash flows. Further, Chemtrade's method of calculating each measure may not be comparable to calculations used by other income trusts or companies bearing the same description.

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

(\$'000)	Three months ended March 31	
	2021	2020
Cash flow (used in) from operating activities	\$ (6,396)	\$ 30,321
Add (Less):		
Lease payments net of sub-lease receipts	(13,028)	(13,795)
Changes in non-cash working capital and other items	45,495	32,748
Adjusted cash flows from operating activities	26,071	49,274
Less:		
Maintenance capital expenditures	8,187	11,043
Distributable cash after maintenance capital expenditures	17,884	38,231
Less:		
Non-maintenance capital expenditures	582	746
Distributable cash after all capital expenditures	\$ 17,302	\$ 37,485