



**KRUGER PRODUCTS L.P.**

**AUDITED CONSOLIDATED FINANCIAL STATEMENT**

**FOR THE YEARS ENDED DECEMBER 31, 2017 AND DECEMBER 31, 2016**

March 7, 2018

## **Independent Auditor's Report**

### **To the Unitholders of Kruger Products L.P.**

We have audited the accompanying consolidated financial statements of Kruger Products L.P. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kruger Products L.P. and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

**(signed) PricewaterhouseCoopers LLP**

**Chartered Professional Accountants, Licensed Public Accountants**  
Toronto, Ontario

# Kruger Products L.P.

## Consolidated Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	December 31, 2017	December 31, 2016
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 25)	8,837	36,511
Trade and other receivables (note 6)	113,194	123,095
Receivables from related parties (note 16)	85	185
Current portion of advances to partners (note 14)	1,928	5,465
Inventories (note 7)	192,394	179,543
Income tax recoverable (note 15)	522	423
Prepaid expenses	8,007	7,286
	<u>324,967</u>	<u>352,508</u>
<b>Non-current assets</b>		
Advances to partners (note 14)	4,489	-
Property, plant and equipment (note 8)	761,610	762,270
Other long-term assets	6,331	6,075
Goodwill (note 9)	160,939	160,939
Intangible assets (note 9)	15,327	15,270
Deferred income taxes (note 15)	26,092	39,913
	<u>1,299,755</u>	<u>1,336,975</u>
<b>Total assets</b>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 25)	9,051	9,007
Trade and other payables (note 11)	190,698	201,477
Payables to related parties (note 16)	2,596	3,606
Income tax payable (note 15)	498	1,779
Distributions payable (notes 14 and 16)	10,382	10,148
Current portion of provisions (note 12)	333	1,885
Current portion of long-term debt (note 13)	190,947	8,859
	<u>404,505</u>	<u>236,761</u>
<b>Non-current liabilities</b>		
Long-term debt (note 13)	225,368	415,379
Provisions (note 12)	5,973	6,487
Pensions (note 10)	119,558	92,646
Post-retirement benefits (note 10)	60,457	57,162
	<u>815,861</u>	<u>808,435</u>
<b>Liabilities to non-unitholders</b>		
Current portion of Partnership units liability (note 14)	1,928	8,611
Long-term portion of Partnership units liability (note 14)	158,381	137,296
	<u>160,309</u>	<u>145,907</u>
<b>Total Partnership units liability</b>		
	<u>976,170</u>	<u>954,342</u>
<b>Total liabilities</b>		
<b>Equity</b>		
Partnership units (note 14)	356,240	336,576
Deficit	(99,742)	(42,792)
Accumulated other comprehensive income	67,087	88,849
	<u>323,585</u>	<u>382,633</u>
<b>Total equity</b>		
<b>Total equity and liabilities</b>		
	<u>1,299,755</u>	<u>1,336,975</u>
<b>Commitments and contingencies (note 17)</b>		
<b>Subsequent events (note 14)</b>		
<b>Approved by the Board of Directors</b>		
<u>/s/ James Hardy</u>		<u>/s/ David Spraley</u>
<b>Director</b>		<b>Director</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Kruger Products L.P.**  
**Consolidated Statement of Comprehensive Income (Loss)**

For years ended December 31, 2017 and December 31, 2016

(tabular amounts are in thousands of Canadian dollars)

	2017 \$	2016 \$
<b>Revenue (notes 16 and 24)</b>	1,280,014	1,227,896
<b>Expenses</b>		
Cost of sales (notes 16 and 18)	1,098,086	1,031,647
Selling, general and administrative expenses (notes 16 and 18)	90,076	92,763
Gain on sale of non-financial assets (note 8)	(75)	(2,939)
Restructuring costs, net (note 12)	(180)	552
<b>Operating income</b>	92,107	105,873
Interest expense (note 13)	42,021	44,000
Other expense (note 5)	21,990	22,754
<b>Income before income taxes</b>	28,096	39,119
<b>Income taxes (note 15)</b>	12,838	3,629
<b>Net income for the year</b>	15,258	35,490
<b>Other comprehensive loss</b>		
<b>Items that will not be reclassified to net income:</b>		
Remeasurements of pensions	(27,563)	(8,491)
Remeasurements of post-retirement benefits	(2,763)	94
<b>Items that may be subsequently reclassified to net income:</b>		
Available-for-sale investment	-	(290)
Cumulative translation adjustment	(21,762)	(10,666)
<b>Total other comprehensive loss for the year</b>	(52,088)	(19,353)
<b>Comprehensive income (loss) for the year</b>	(36,830)	16,137

The accompanying notes are an integral part of these consolidated financial statements.

# Kruger Products L.P.

## Consolidated Statement of Changes in Equity

For the years ended December 31, 2017 and December 31, 2016

(tabular amounts are in thousands of Canadian dollars, except unit amounts)

	Partnership units		Deficit \$	Accumulated other comprehensive income \$	Total equity \$
	#	\$			
<b>As of January 1, 2016</b>	54,840,093	318,012	(29,416)	99,805	388,401
Distributions payable (note 14)	-	-	(10,148)	-	(10,148)
Distributions paid (note 14)	-	-	(30,054)	-	(30,054)
Fair value adjustment (note 14)	-	267	(267)	-	-
Change in actuarial loss on pension	-	-	(8,491)	-	(8,491)
Change in actuarial gain on post-retirement benefits	-	-	94	-	94
Change in available-for-sale investment	-	-	-	(290)	(290)
Cumulative translation adjustment	-	-	-	(10,666)	(10,666)
Net income for the year	-	-	35,490	-	35,490
Issuance of partnership units (note 14)	1,536,695	18,297	-	-	18,297
<b>As of December 31, 2016</b>	<b>56,376,788</b>	<b>336,576</b>	<b>(42,792)</b>	<b>88,849</b>	<b>382,633</b>
<b>As of January 1, 2017</b>	56,376,788	336,576	(42,792)	88,849	382,633
Distributions payable (note 14)	-	-	(10,382)	-	(10,382)
Distributions paid (note 14)	-	-	(30,786)	-	(30,786)
Fair value adjustment (note 14)	-	714	(714)	-	-
Change in actuarial loss on pension	-	-	(27,563)	-	(27,563)
Change in actuarial loss on post-retirement benefits	-	-	(2,763)	-	(2,763)
Cumulative translation adjustment	-	-	-	(21,762)	(21,762)
Net income for the year	-	-	15,258	-	15,258
Issuance of partnership units (note 14)	1,298,251	18,950	-	-	18,950
<b>As of December 31, 2017</b>	<b>57,675,039</b>	<b>356,240</b>	<b>(99,742)</b>	<b>67,087</b>	<b>323,585</b>

The accompanying notes are an integral part of these consolidated financial statements.

# Kruger Products L.P.

## Consolidated Statement of Cash Flows

For the years ended December 31, 2017 and December 31, 2016

(tabular amounts are in thousands of Canadian dollars)

	2017 \$	2016 \$
<b>Cash flows from (used in) operating activities</b>		
Net income for the year	15,258	35,490
Items not affecting cash		
Depreciation	51,289	47,436
Amortization	1,092	1,146
Loss (gain) on sale of property, plant and equipment	(3)	139
Change in amortized cost of Partnership units liability (note 5)	23,013	23,363
Gain on sale of investment (note 5)	-	(324)
Foreign exchange gain (note 5)	(1,387)	(285)
Change in fair value of derivatives (note 5)	364	-
Interest expense	42,021	44,000
Pension and post-retirement benefits (note 10)	10,111	10,402
Provisions (note 12)	278	1,338
Income taxes	12,838	3,629
Gain on sale of non-financial assets (note 8)	(75)	(2,939)
Total items not affecting cash	139,541	127,905
Net change in non-cash working capital (note 26)	(35,194)	1,386
Contributions to pension and post-retirement benefit plans	(15,137)	(18,335)
Provisions paid	(1,648)	(2,267)
Income tax payments	(3,592)	(1,970)
<b>Net cash from operating activities</b>	<b>99,228</b>	<b>142,209</b>
<b>Cash flows from (used in) investing activities</b>		
Purchases of property, plant and equipment	(68,127)	(81,460)
Capitalized interest paid	(497)	(222)
Proceeds on sale of investment (note 5)	-	1,439
Government assistance received	4,646	2,400
Purchases of software	(1,149)	(563)
Proceeds on sale of property, plant and equipment	1,180	5,399
<b>Net cash used in investing activities</b>	<b>(63,947)</b>	<b>(73,007)</b>
<b>Cash flows from (used in) financing activities (note 27)</b>		
Proceeds from long-term debt	28,834	9,609
Repayment of long-term debt	(26,039)	(17,882)
Payment of deferred financing fees	(12)	(745)
Interest paid on long-term debt	(33,101)	(34,162)
Distributions and advances paid, net (note 14)	(31,547)	(22,862)
<b>Net cash used in financing activities</b>	<b>(61,865)</b>	<b>(66,042)</b>
<b>Effect of exchange rate changes on cash and cash equivalents held in foreign currency</b>	<b>(1,134)</b>	<b>(1,111)</b>
<b>Increase (decrease) in cash and cash equivalents during the year</b>	<b>(27,718)</b>	<b>2,049</b>
<b>Cash and cash equivalents - Beginning of year (note 25)</b>	<b>27,504</b>	<b>25,455</b>
<b>Cash and cash equivalents - End of year (note 25)</b>	<b>(214)</b>	<b>27,504</b>

The accompanying notes are an integral part of these consolidated financial statements.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2017 and December 31, 2016

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(tabular amounts are in thousands of Canadian dollars, except unit amounts)

### 1 General information

Kruger Products L.P. (KPLP or the Partnership) is a limited partnership registered in the Province of Quebec, Canada whose partners are Kruger Inc. (ultimate parent), KPGP Inc. (KPGP), and KP Tissue Inc. (KPT). The Partnership manufactures, sells and distributes tissue products for household, industrial and commercial use. The Partnership has plants in New Westminster, British Columbia; Crabtree, Quebec; Sherbrooke, Quebec; Gatineau, Quebec; Scarborough and Trenton, Ontario and Memphis, Tennessee. The Partnership's headquarters are located in Mississauga, Ontario, Canada.

### 2 Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and with interpretations of the International Financial Reporting Committee which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook - Accounting. These consolidated financial statements were approved by the board of directors of KPGP Inc. on March 7, 2018.

The Partnership consolidates all entities which it controls.

The principal subsidiaries of the Partnership are as follows:

K.T.G. (USA) Inc. (KTG)  
Kruger Products (USA) Inc. (KP USA)  
Grupo Tissue de Mexico S de RL de CV (GTM)  
TAD Luxembourg S.A.R.L  
TAD Canco Inc.  
Kruger Products Real Estate Holdings Inc.

### 3 Summary of significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements were as follows:

#### (a) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the available-for-sale investment and derivative liabilities which are measured at fair value through profit or loss and accounting for pensions (note 3(s)).

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Partnership's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant are disclosed in note 4.

#### (b) Consolidation

Subsidiaries are all those entities over which the Partnership has the power over the investee, is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Partnership and de-consolidated from the date that control ceases. Intercompany transactions, balances and unrealized gains/losses on transactions between group companies are eliminated on consolidation.

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## Notes to Consolidated Financial Statements

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(tabular amounts are in thousands of Canadian dollars, except unit amounts)

The purchase method of accounting is used to account for the acquisition of subsidiaries that are not under common control. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Partnership's share of the identifiable net assets acquired is recorded as goodwill.

(c) *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer. The operating segments for the Partnership include Consumer, Away-From-Home (AFH) and Other.

(d) *Foreign currency translation*

(i) Functional and presentation currency

Items included in the consolidated financial statements of each entity of the Partnership are measured using the currency of the primary economic environment in which the entity operates (the functional currency). These consolidated financial statements are presented in Canadian dollars, which is the Partnership's functional currency.

The Partnership has determined that its foreign operations located in the United States (KTG and KP USA) and TAD Canco Inc. and TAD Luxembourg S.A.R.L. have a functional currency of U.S. dollars. Mexico (GTM) has a functional currency of the Mexican peso. Consequently, revenue and expenses of these foreign operations are recorded using the rate of exchange in effect at the dates of the transactions and the translation of assets and liabilities uses the rates of exchange in effect at the period-end date, with the resulting net unrealized gains and losses arising from the translation of these foreign operations included as part of the currency translation adjustment in other comprehensive income (loss).

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the rate of exchange in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the date of the statement of financial position. Foreign exchange gains and losses arising from translating monetary foreign currency balances are included in selling, general and administrative (SG&A) expenses or other expenses.

(e) *Cash and cash equivalents*

The Partnership considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

(f) *Trade receivables*

Trade receivables are amounts due from customers from the sale of products or services rendered in the ordinary course of business. Trade receivables are classified as current assets if payment is due within one year or less. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost, less provision for doubtful accounts.



# Kruger Products L.P.

## Notes to Consolidated Financial Statements

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(tabular amounts are in thousands of Canadian dollars, except unit amounts)

(g) *Inventories*

Inventories of raw materials and spare parts are valued at the lower of weighted average cost and net realizable value. Finished products and work-in-process are valued at the lower of standard cost and net realizable value and include the cost of raw materials, direct labour and manufacturing overhead expenses. Net realizable value is the estimated selling prices less applicable selling expenses and costs to complete. If the carrying value exceeds the net realizable value, a write-down is recognized.

(h) *Borrowing costs*

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of these assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the consolidated statement of comprehensive income (loss) in the period in which they are incurred.

(i) *Property, plant and equipment*

Property, plant and equipment are stated at cost, less accumulated depreciation, investment tax credits, US State tax credits, government grants and accumulated impairment loss. Cost includes expenditures that are directly attributable to the acquisition of the asset and an estimate of the asset retirement obligation. The Partnership allocates the amount initially recognized to an item of property, plant and equipment to its segregated parts and depreciates each of these segregated parts separately. The Partnership also capitalizes interest costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. Subsequent costs are included in the asset's carrying value or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Partnership and the cost can be reliably measured. The carrying amount of a replaced asset is derecognized when replaced. Residual values, method of depreciation and useful lives of property, plant and equipment are reviewed annually and adjusted if appropriate.

Depreciation of property, plant and equipment is generally calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives as follows:

Buildings	20 to 40 years
Machinery and equipment	5 to 40 years

Assets under construction or development are depreciated from the date the asset is ready for productive use. Land is not depreciated.

Repairs and maintenance costs are charged to the consolidated statement of comprehensive income (loss) during the period in which they are incurred.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in SG&A expenses.

(j) *Goodwill*

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Partnership's interest in fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree. Goodwill is carried at cost less accumulated impairment losses.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

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(tabular amounts are in thousands of Canadian dollars, except unit amounts)

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the Partnership at which the goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU is compared to the recoverable amount, which is the higher of the value in use and the fair value less costs to sell. Any goodwill impairment is recognized immediately as an expense and is not subsequently reversed.

*(k) Intangible assets*

*(i) Trademarks*

Separately acquired trademarks have indefinite useful lives and are carried at cost. The trademarks have indefinite useful lives as the trademarks can be renewed infinitely without substantial cost. Management believes the trademarks are very well established in the marketplace and will continue to provide benefits indefinitely into the future.

*(ii) Software and licences*

Costs to purchase non-integral software and licences are capitalized and included as part of intangible assets on the consolidated statement of financial position. Costs associated with maintaining software programs are recognized as an expense as incurred.

Software and licence costs recognized as assets are amortized over their estimated useful lives, which represent management's view of the expected period over which the Partnership will receive benefits from the software and licences. The useful life of software and licences is five years.

*(l) Impairment of non-financial assets*

The carrying values of non-financial assets with finite lives, such as property, plant and equipment and intangible assets with finite useful lives are assessed for impairment whenever events or changes in circumstances indicate their carrying amounts may not be recoverable. Non-financial assets that are not amortized are subject to an annual impairment test. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use (which is the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

*(m) Related party transactions*

Related party transactions that are in the normal course of operations and have commercial substance are made under competitive terms and conditions or in accordance with the agreements with the related party.

*(n) Leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income (loss) on a straight-line basis over the period of the lease.

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## Notes to Consolidated Financial Statements

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(tabular amounts are in thousands of Canadian dollars, except unit amounts)

*(o) Provisions*

Provisions include environmental and asset retirement obligations, long-term incentives and restructuring. A provision is recognized when the Partnership has a legal or constructive obligation as a result of a past event and it is probable that settlement of the obligation will require a financial payment or cause a financial loss and a reliable estimate can be made of the amount of the obligation.

If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recorded in the consolidated statement of financial position as a separate asset, but only if it is virtually certain that the reimbursement will be received.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

*(p) Government grants, investment tax credits and US State tax credits*

Government grants, investment tax credits, and US State tax credits are accounted for using the cost reduction method, whereby such amounts are deducted from the expenditures or assets to which they relate when there is reasonable assurance that the grant or credit will be received and where the Partnership will comply with the conditions attached to the assistance.

*(q) Revenue recognition*

The Partnership recognizes revenue when it is probable that the economic benefits will flow to the Partnership, the significant risks and benefits of ownership are transferred (based on shipping terms), the price is fixed or determinable and collection of the resulting receivable is reasonably assured.

Revenue is measured based on the price specified in the sales contract and is net of discounts, rebates and allowances. Reductions to revenue for expected and actual payments to customers for rebates and allowances are based on actual expenses incurred during the period, on estimates of what is due to customers for estimated credits earned during the period and any adjustments for credits based on actual activity.

*(r) Cost of sales and SG&A expenses*

Cost of sales includes cost of finished goods sold, freight, warehousing, handling costs, and inventory write-downs. Marketing, selling, and general and administrative expenses are included in SG&A expenses.

*(s) Pensions and post-retirement benefits*

The Partnership accrues its obligation under employee benefit plans and the related costs, net of plan assets. The Partnership has the following policies:

- The costs of pensions under defined benefit plans and post-retirement benefits are actuarially determined using the projected unit credit method and management's best estimate of expected plan investment performance for funded plans, salary escalation, retirement ages of employees and expected health-care costs. Actuarial valuations for defined benefit plans and post-retirement benefits are completed annually. The discount rate applied in arriving at the present value of the pension liability represents the yield on high quality corporate bonds denominated in the currency in which the benefits are to be paid and having terms to maturity approximating the terms of the related pension liability.
- Pension assets are valued at fair value.

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## Notes to Consolidated Financial Statements

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(tabular amounts are in thousands of Canadian dollars, except unit amounts)

- Past-service costs from plan amendments are recognized immediately to the extent the benefits are vested in net income (loss) and are otherwise amortized on a straight-line basis over the average period until the benefits become vested.
- The actuarial gains or losses are recognized in full in the period in which they occur in other comprehensive income (loss) without recycling to the income statement in subsequent periods. Amounts recognized in other comprehensive income (loss) are recognized immediately in retained earnings (deficit).
- The pension expense is split into two components: (i) current service costs and past-service costs have been recognized in cost of sales and SG&A expenses; and (ii) the interest cost on the benefit obligation offset by the expected return on plan assets is recorded within interest expense on the consolidated statement of comprehensive income (loss).
- The Partnership also participates in a multi-employer pension plan and defined contribution pension plans. The costs of the multi-employer pension plan and defined contribution pension plans are charged to expense as the contributions become payable.

(t) *Income taxes*

The tax expense for the year comprises current and deferred tax. Tax is recognized in net income (loss), except to the extent that it relates to items recognized in other comprehensive income (loss) or directly in equity. In this case, the tax is also recognized in other comprehensive income (loss) or directly in equity, respectively.

The Partnership is not a tax paying entity. The income from the Partnership flows to the partners, Kruger Inc., KPGP and KPT. Accordingly no provision for income taxes has been made for the Partnership's income. The U.S. entities, KP USA and KTG are subject to tax on the basis of the tax laws enacted in the U.S. where the entities operate and generate taxable income. The remaining entities, TAD Canco Inc., GTM and TAD Luxembourg S.A.R.L., are subject to tax on the basis of the laws enacted in Canada, Mexico and Luxembourg, respectively.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. The Partnership establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax is the expected tax payable on the taxable income for the year at closing tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, or from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the consolidated statement of financial position dates and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is

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## Notes to Consolidated Financial Statements

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(tabular amounts are in thousands of Canadian dollars, except unit amounts)

an intention to settle the balances on a net basis. Deferred income tax assets and liabilities are presented as non-current.

(u) *Financial instruments*

Financial assets and liabilities are recognized when the Partnership becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Partnership has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Partnership classifies its financial instruments in the following categories:

- (i) *Financial assets and liabilities at fair value through profit or loss:* A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of comprehensive income (loss) in SG&A expenses. Financial assets and liabilities at fair value through profit or loss are classified as current, except for the portion expected to be realized or paid beyond 12 months of the dates of the consolidated statement of financial position, which are classified as non-current.

- (ii) *Financial assets and liabilities at fair value through other comprehensive income or loss:* A financial asset or liability is classified in this category if acquired for the purpose of holding the investment for a long-term period. The financial instruments classified in this category would include the available-for-sale investment, which was sold during the year ended December 31, 2016.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of comprehensive income (loss) in SG&A expenses. Gains and losses arising from changes in fair value of the available-for-sale investment are presented in the other comprehensive income (loss) in the period in which they arise. Financial assets and liabilities at fair value through other comprehensive income (loss) or loss are classified as current, except for the portion expected to be realized or paid beyond 12 months of the dates of the consolidated statement of financial position, which are classified as non-current.

- (iii) *Loans and receivables:* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include cash and cash equivalents, trade and other receivables, mortgage receivable, receivables from related parties and advances to partners. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment. Loans and receivables are classified as current, except for the portion expected to be realized beyond 12 months of the dates of the consolidated statement of financial position, which are classified as non-current.

- (iv) *Financial liabilities at amortized cost:* Financial liabilities at amortized cost include bank indebtedness, trade payables, accrued expenses, merchandising accruals, payables to related parties, distributions payable, long-term debt and the Partnership units liability. Payables are initially recognized at the amount required to be

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paid less, when material, a discount to reduce the payables to fair value. Subsequently, bank indebtedness, payables to related parties, distributions payable, trade payables, accrued expenses, and merchandising accruals are measured at amortized cost using the effective interest method. Long-term debt is recognized initially at fair value, net of any transaction costs incurred and subsequently at amortized cost using the effective interest method. The Partnership units liability is recognized initially at fair value and subsequently at amortized cost. Amortized cost is estimated based on the expected tax distributions to be paid as required by the partnership agreement using a discount rate that reflects current market assessments of the time value of money and the rates specific to the obligation, and a terminal value as the obligation will continue indefinitely.

Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

(v) *Fair value hierarchy*

The Partnership categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the inputs used in the measurement.

- Level 1 - fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date;
- Level 2 - valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other industry standard valuation techniques derived from observable market inputs; and
- Level 3 - valuations based on inputs that are less observable, unavailable or where the observable data does not support a significant portion of the instrument's fair value.

(w) *Derivative financial instruments*

The Partnership uses derivative financial instruments to manage foreign currency risk. Foreign exchange swaps and foreign exchange forwards are used to manage U.S. dollar borrowings. As these derivatives do not qualify for hedge accounting, the changes in their fair value are recorded in the consolidated statement of comprehensive income (loss) in Other (income) expense. The derivative liabilities mature within one year and are recorded in the consolidated statement of financial position in Trade and other payables.

(x) *Dividend reinvestment plan*

Pursuant to the Dividend Re-investment Plan (DRIP), the Partnership is required to issue Partnership units in lieu of cash distributions at the option of the Partners. Upon settlement of the DRIP, the difference between the distributions declared and the fair value of the units issued is charged to retained earnings (deficit).

(y) *Accounting standards implemented for the year ended December 31, 2017*

- (i) IAS 7, Statement of Cash Flows. In January 2016, the IASB issued an amendment to require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Other than the aforementioned additional disclosures, included in note 27, the application of the amendments to IAS 7 did not result in any changes to the presentation of the consolidated statement of cash flows.
- (ii) IAS 12, Income Taxes – Deferred Tax. In February 2016, the IASB issued an amendment to clarify the requirements for recognizing deferred tax assets on unrealized losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Certain other aspects of accounting for deferred tax assets are also clarified. The adoption of this

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standard had no impact on the consolidated financial statements.

- (iii) In December 2016, the IASB issued an amendment clarifying the scope of IFRS 12, Disclosure of Interests in Other Entities. The amendment clarified that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale, except for summarized financial information. The adoption of this standard had no impact on the consolidated financial statements.

(z) *Accounting standards issued but not yet applied*

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted where indicated. Management continues to assess the impact of these standards and amendments and has not yet determined whether it will early adopt them, except as noted below.

- (i) IFRS 15, Revenue from Contracts with Customers, was issued by the IASB in May 2014. The standard specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with some informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions being leases, financial instruments and insurance contracts. In September 2015, the IASB issued an amendment to defer the mandatory effective date to interim periods beginning on or after January 1, 2018, with early adoption permitted. In April 2016, the IASB issued an amendment to clarify the guidance on identifying performance obligations, licences of intellectual property and principal versus agent, and to provide additional practical expedients on transition. The amendment is effective for annual periods beginning on or after January 1, 2018.

Management has performed an assessment of IFRS 15 adoption and does not expect a significant impact on the consolidated financial statements. It is expected that the application of IFRS 15 will result in a change in the revenue recognition related to dispensers and related revenue. Management will adopt IFRS 15 using the modified retrospective approach. A transitional adjustment of \$6.3 million to reduce the balance related to the dispensers currently recorded in Other long term assets will be recognized in retained earnings (deficit) on the date of initial application, January 1, 2018.

- (ii) IFRS 9, Financial Instruments. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018, with early adoption permitted. Management has performed a preliminary assessment of IFRS 9 adoption and does not expect a significant impact on the consolidated financial statements.
- (iii) IFRS 16, Leases. In January 2016, the IASB issued IFRS 16, Leases which replaces the current guidance in IAS 17, Leases. IFRS 16 requires lessees to recognize a right-of-use asset and a lease liability reflecting future lease payments for virtually all lease contracts. IFRS 16 must be applied to an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2019, with early adoption permitted. Management can elect to adopt IFRS 16 using either the full retrospective approach or the modified retrospective approach.

Management has performed a preliminary assessment of IFRS 16 adoption and expects a significant impact on the consolidated financial statements. The right-of-use asset and lease liability are expected to be material to the consolidated statement of financial position. There is expected to be a change in presentation on the consolidated statement of comprehensive income (loss) and a significant impact on Adjusted EBITDA. IFRS 16 replaces operating lease expense (recorded in Cost of sales and Selling, general and administrative expenses) with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The

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amount related to the depreciation charge and interest expense will differ from the previous operating lease expense. Both the depreciation charge and interest expense are excluded from the calculation of Adjusted EBITDA, while the operating lease expense was previously included in the calculation. Changes to systems and processes are expected to be required, in order to collect the new data requirements.

Management is evaluating the potential implications on data systems, internal controls over financial reporting, information technology, business processes, and financing and compensation arrangements. Management is also evaluating the transition approach it will apply and whether it will use the optional exemptions or practical expedients under the standard. Additional details, including the transition approach, practical expedients elected and estimated quantitative impact on the consolidated financial statements are expected to be disclosed before the adoption of IFRS 16.

- (iv) IFRIC 23, Uncertainty over income tax treatments. In June 2017, the IFRS Interpretation Committee issued an interpretation which clarifies how the recognition and measurement requirements of IAS 12 Income taxes, are applied where there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019. Management has performed a preliminary assessment of IFRIC 23 adoption and does not expect a significant impact on the consolidated financial statements.

#### 4 Critical accounting estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the consolidated financial statements and the disclosure of contingencies at the dates of the consolidated statements of financial position, and the reported amounts of revenues and expenses during the reporting period. On a regular basis and with the information available, management reviews its estimates, including those related to pensions and post-retirement obligations, the Partnership units liability, and income taxes. Actual results could differ from those estimates. When adjustments become necessary, they are reported in earnings in the period in which they occur. The following are the estimates and judgments applied by management that most significantly affect the Partnership's consolidated financial statements.

##### *Pensions and post-retirement benefit obligations*

The present value of the pension and post-retirement obligations is dependent on actuarial calculations, which include a number of assumptions. These assumptions include the discount rate, which is used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the Partnership considers market yields of high quality corporate bonds denominated in Canadian dollars that have terms to maturity approximating the terms of the pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 10.

##### *Partnership units*

On December 13, 2012, in connection with the issuance of Partnership units to KPT, the Limited Partnership Agreement was amended to require KPLP, subject to compliance with contractual obligations and applicable law, to make distributions to its partners in such amounts as would enable KPT to discharge its obligation to pay federal and provincial income taxes (the Tax Distribution). Each partner is entitled to its share of the Tax Distribution made in respect of any given year. KPLP determined that it was appropriate to reclassify a portion of its equity to Partnership units liability, since the Tax Distribution represents a contractual obligation to deliver cash and, as such, meets the definition of a financial liability for accounting purposes under IFRS. As of December 31, 2017, \$160.3 million was recorded as a liability in respect of this obligation (December 31, 2016 - \$145.9 million).



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The Change in amortized cost of Partnership units liability of \$23.0 million has been included in Other expense, which includes an increase of \$21.1 million (2016 - \$22.2 million) for the reassessment performed as of December 31, 2017. The reassessment reflects KPLP's estimate of the net present value of the financial liability arising from the obligation to make the Tax Distribution using estimates of tax payable by the partners and a discount rate and terminal growth rate of 11.75% and 2.0% (December 31, 2016 – 11.50% and 2.0%), respectively. The change in the discount rate resulted in a decrease in liability of \$4.4 million. The provisions are based on management's best estimate of expected future Tax Distributions. Projections of tax payable are based on additional assumptions including estimates of taxable income and tax rates. Taxable income can differ significantly from accounting income as a result of both timing and permanent tax differences based on enacted tax legislation and therefore changes in the Partnership units obligation are not necessarily indicative of a change in the expected future profitability of KPLP. An increase/decrease in the discount rate by 0.5% would result in a decrease/increase in the Partnership units liability of approximately \$8.1 million and \$9.0 million, respectively. The discount rate reflects the risks associated with the business, which operates primarily in Canada.

The Partnership units liability was also adjusted during the year ended December 31, 2017 to reflect the current year advances made to the partners required to allow KPT to make tax installment payments. During the year ended December 31, 2017, pursuant to the Tax Distribution as defined in the Partnership Agreement, the Partnership made advances to its partners of \$6.4 million, of which \$1.0 million was used to pay the monthly tax installment on behalf of KPT and the remaining was advanced to Kruger Inc. and KPGP. The advances are non-interest bearing and non-recourse in nature and are settled when the Tax Distribution is declared annually. The advances of \$6.4 million were partially offset against the Tax Distributions of \$1.9 million declared and paid by the Partnership on February 28, 2018. The excess advances over the Tax distributions in the amount of \$4.5 million are repayable by the partners to the Partnership by March 31, 2019. Additional information is disclosed in note 14.

### *Impairment tests*

The Partnership performs an annual impairment test for goodwill and indefinite lived trademarks. As of December 31, 2017, no impairments were identified as a result of these tests. Recoverable amounts are determined based on management's best estimate of value in use. The estimates of value in use are based on the present value of forecasted future cash flows. Additional assumptions include estimates of the discount rate, forecasted Adjusted EBITDA, growth rates, and foreign exchange rates.

### *Income taxes*

The Partnership computes its income taxes in each jurisdiction in which its subsidiaries operate. Estimation of income taxes includes evaluating the recoverability of the deferred tax assets and the income taxes recoverable based on an assessment of the ability to use the underlying tax deductions and credits against future taxable income. The assessment requires an estimate of future taxable income compared to the net operating loss carry forwards and U.S. State tax credits. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period. During the year ended December 31, 2017, the Partnership assessed its ability to utilize the U.S. State tax credits. As a result of this assessment, a reversal of \$2.8 million (December 31, 2016 – nil) of the U.S. State tax credits was recorded in the consolidated statement of comprehensive income (loss). The impact of U.S. tax reform on the consolidated financial statements for the year ended December 31, 2017 was an increase in deferred tax expense of \$6.2 million on the consolidated statement of comprehensive income (loss) and a corresponding drawdown of the deferred income tax asset of \$6.2 million on the consolidated statement of financial position. The impact on the consolidated financial statements was a result of a decrease in the U.S. federal tax rate from 35% to 21%, effective for taxation years beginning after December 31, 2017. Management has used the best information available to assess the implications of the U.S. tax reform for periods beginning January 1, 2018. However, as more guidance becomes available in respect of the implications of the U.S. tax reform, further adjustments may be required to the consolidated financial statements.

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### 5 Other expense

	2017	2016
	\$	\$
Foreign exchange gain	(1,387)	(285)
Change in amortized cost of Partnership units liability	23,013	23,363
Change in fair value of derivatives	364	-
Miscellaneous income	-	(324)
	<u>21,990</u>	<u>22,754</u>

### 6 Trade and other receivables

	December 31, 2017	December 31, 2016
	\$	\$
Trade receivables	102,803	115,729
Other receivables	10,685	7,882
Employee loans	9	25
Less: Allowance for doubtful accounts	(303)	(541)
	<u>113,194</u>	<u>123,095</u>

### 7 Inventories

	December 31, 2017	December 31, 2016
	\$	\$
Finished products	88,639	78,436
Work-in-process	30,201	32,952
Raw materials and supplies	38,944	36,328
Spare parts	34,610	31,827
	<u>192,394</u>	<u>179,543</u>

Total inventories recognized as cost of sales during the year ended December 31, 2017 were \$933.3 million (2016 – \$882.4 million). The Partnership wrote-off inventories during the year ended December 31, 2017 totalling \$2.3 million (2016 - \$2.7 million). Inventory provisions as of December 31, 2017 were \$6.6 million (December 31, 2016 - \$6.4 million).

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## Notes to Consolidated Financial Statements

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### 8 Property, plant and equipment

	Land \$	Buildings \$	Machinery and equipment \$	Assets under construction or development \$	Total \$
<b>As of January 1, 2016</b>					
Cost	40,612	187,572	1,019,346	35,635	1,283,165
Accumulated depreciation and impairment	-	(76,554)	(468,903)	-	(545,457)
<b>Net book value as of January 1, 2016</b>	40,612	111,018	550,443	35,635	737,708
Additions	-	-	-	85,237	85,237
Capitalized interest	-	-	-	222	222
Disposals	(2,435)	-	(164)	-	(2,599)
Government assistance	-	-	(2,400)	-	(2,400)
Transfers	-	137	83,656	(83,793)	-
Depreciation	-	(4,948)	(38,791)	-	(43,739)
Exchange differences	(47)	(1,897)	(9,891)	(324)	(12,159)
<b>As of December 31, 2016</b>	38,130	104,310	582,853	36,977	762,270
<b>As of December 31, 2016</b>					
Cost	38,130	185,150	1,085,265	36,977	1,345,522
Accumulated depreciation and impairment	-	(80,840)	(502,412)	-	(583,252)
<b>Net book value as of December 31, 2016</b>	38,130	104,310	582,853	36,977	762,270
Additions	-	-	63	74,892	74,955
Capitalized interest	-	204	551	-	755
Disposals	(61)	-	(41)	-	(102)
Government assistance	-	-	(4,646)	-	(4,646)
Transfers	-	15,187	77,349	(92,536)	-
Depreciation	-	(4,911)	(40,719)	-	(45,630)
Exchange differences	(101)	(3,855)	(21,972)	(64)	(25,992)
<b>As of December 31, 2017</b>	37,968	110,935	593,438	19,269	761,610
<b>As of December 31, 2017</b>					
Cost	37,968	195,832	1,127,282	19,269	1,380,351
Accumulated depreciation and impairment	-	(84,897)	(533,844)	-	(618,741)
<b>Net book value as of December 31, 2017</b>	37,968	110,935	593,438	19,269	761,610

During the year ended December 31, 2016, the Partnership sold certain timber lands for proceeds of \$5.4 million. The sale resulted in a recovery of non-financial assets of \$2.9 million, which was recorded in the consolidated statement of comprehensive income (loss).

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### 9 Goodwill and intangible assets

	Trademarks \$	Software \$	Total \$
<b>As of January 1, 2016</b>			
Cost	11,825	7,390	19,215
Accumulated amortization	-	(3,362)	(3,362)
<b>Net book value as of January 1, 2016</b>	<b>11,825</b>	<b>4,028</b>	<b>15,853</b>
Additions	-	563	563
Amortization	-	(1,146)	(1,146)
<b>Net book value as of December 31, 2016</b>	<b>11,825</b>	<b>3,445</b>	<b>15,270</b>
<b>As of January 1, 2017</b>			
Cost	11,825	7,953	19,778
Accumulated amortization	-	(4,508)	(4,508)
<b>Net book value as of January 1, 2017</b>	<b>11,825</b>	<b>3,445</b>	<b>15,270</b>
Additions	-	1,149	1,149
Amortization	-	(1,092)	(1,092)
<b>Net book value as of December 31, 2017</b>	<b>11,825</b>	<b>3,502</b>	<b>15,327</b>
<b>As of December 31, 2017</b>			
Cost	11,825	9,102	20,927
Accumulated amortization	-	(5,600)	(5,600)
<b>Net book value as of December 31, 2017</b>	<b>11,825</b>	<b>3,502</b>	<b>15,327</b>

The carrying value of goodwill as of December 31, 2017 was \$160.9 million (December 31, 2016 - \$160.9 million).

#### *Impairment tests*

The Partnership performs an annual impairment test for goodwill and indefinite lived trademarks. As of December 31, 2017 and December 31, 2016, no impairments were identified. Goodwill of \$152.0 million is allocated to the Canada Consumer CGU and \$8.9 million is allocated to the AFH CGU. The recoverable amount of the CGU is determined based on management's best estimate of value in use. The estimates of value in use were based on the present value of the forecasted future cash flows expected to be derived from the CGUs. Based on the sensitivity analysis, no reasonable change in assumptions would result in an impairment.

### 10 Pensions and post-retirement benefits

The Partnership sponsors a number of defined benefit and defined contribution pension plans, with participation available to substantially all of its employees. Length of service and individual earnings determine the pension and post-retirement benefits for all members of the Partnership plans.

The Partnership has five registered defined benefit pension plans with a final average salary component, four of which are registered in the province of Quebec and one of which is registered in the province of Ontario. The pension obligation, net of plan assets for these five plans of \$96.5 million as of December 31, 2017 (December 31, 2016 -

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\$70.2 million) is included in Pensions on the consolidated statement of financial position. The solvency deficiency of the defined benefit plan for the Crabtree members is supported by a letter of credit in the amount of \$4.6 million (December 31, 2016 - \$4.6 million).

The Partnership has a Supplementary Retirement Plan (SRP) for designated employees. The accrued benefit liability, net of plan assets related to the SRP of \$15.1 million as of December 31, 2017 (December 31, 2016 - \$14.4 million) is included in Pensions on the consolidated statement of financial position, and is supported by irrevocable letters of credit in the amount of \$21.0 million (December 31, 2016 - \$21.0 million).

The Partnership also sponsors a Term Annuity Arrangement for the Western Manufacturing Division, which provides hourly employees with a bridging supplement commencing at age 61 and payable up to but not including age 65. The Term Annuity Arrangement is unfunded and the pension obligation of \$8.0 million as of December 31, 2017 (December 31, 2016 - \$8.0 million) is included in Pensions on the consolidated statement of financial position.

The Partnership's hourly employees at the Western Manufacturing Division are members of an industry multi-employer pension plan to which the Partnership contributes monies. During the year ended December 31, 2017, the Partnership contributed and expensed \$2.8 million (2016 - \$2.7 million) related to this defined benefit plan. Sufficient information regarding the Partnership's share of the defined benefit obligation is not available and accordingly the Partnership accounts for the multi-employer plan as a defined contribution plan.

The Partnership sponsors a defined contribution plan which covers substantially all of its salaried employees. During the year ended December 31, 2017, the Partnership recorded an expense of \$2.6 million (2016 - \$2.6 million) related to this plan.

KTG sponsors a defined contribution plan that covers substantially all of its employees. During the year ended December 31, 2017, the Partnership recorded an expense of \$0.6 million (2016 - \$0.7 million) related to this plan.

The Partnership provides certain health and other similar benefits for qualifying retirees (post-retirement benefit plans). These plans are not funded.

The measurement date of the employee future benefit plans is December 31 of each year.

By their design, the defined benefit pension plans and the post-retirement benefits plan exposes the Partnership to the typical risks faced by such plans such as investment performance (pension plans only), changes to the discount rate used to value the obligations, longevity of plan members and future inflation. Pension and benefit risk is managed by regular monitoring of the plans, applicable regulations and other factors that could impact the expenses and cash flows of the Partnership. As of December 31, 2016, the aggregate solvency deficit of the defined benefit plans was \$105.2 million (December 31, 2015 - \$108.3 million). The next actuarial valuations are required as of December 31, 2018. The funding obligations are dependent on a number of factors, including the assumptions used in the most recent actuarial valuation. Actual contributions that are determined on the basis of future valuation reports may vary significantly from the predictions.

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The cumulative actuarial losses recognized in the deficit as of December 31, 2017 and December 31, 2016 were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
	\$	\$
Pensions	123,235	95,672
Post-retirement benefits	20,311	17,548
Total	<u>143,546</u>	<u>113,220</u>

Information about the Partnership's defined benefit pension plans and post-retirement benefit plans was as follows:

	<u>Pensions</u>		<u>Post-retirement benefit plans</u>	
	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
	\$	\$	\$	\$
<b>Change in defined benefit obligation:</b>				
<b>As of January 1</b>	654,745	641,972	57,162	57,346
Current service cost	7,780	8,404	1,732	1,626
Past service cost	-	(172)	-	-
Interest cost	20,511	20,875	1,776	1,829
Employee contributions	3,484	3,768	-	-
Benefits paid	(34,301)	(34,084)	(2,976)	(3,545)
Remeasurements:				
Losses/(Gains) from changes in experience	792	(3,051)	(4,959)	-
Losses/(Gains) from changes in economic assumptions	41,912	13,231	3,725	(848)
Losses/(Gains) from changes in demographic assumptions	-	3,802	3,997	754
<b>As of December 31</b>	<u>694,923</u>	<u>654,745</u>	<u>60,457</u>	<u>57,162</u>
<b>Change in plan assets at fair value:</b>				
<b>As of January 1</b>	562,099	554,808	-	-
Expected return on plan assets	17,380	17,870	-	-
Remeasurements:				
Gains on plan assets	15,141	5,491	-	-
Administrative costs	(599)	(544)	-	-
Employer contributions	12,161	14,790	2,976	3,545
Employee contributions	3,484	3,768	-	-
Benefits paid	(34,301)	(34,084)	(2,976)	(3,545)
<b>As of December 31</b>	<u>575,365</u>	<u>562,099</u>	<u>-</u>	<u>-</u>
<b>Accrued benefit liability</b>				
Funded status - deficit	<u>119,558</u>	<u>92,646</u>	<u>60,457</u>	<u>57,162</u>

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Plan assets, which are funding the Partnership's defined benefit plans, are comprised as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
	<b>%</b>	<b>%</b>
Fixed income	38.8	39.2
Public equities	31.2	29.9
Hedge funds	17.8	18.5
Private equity	5.7	5.8
Real assets	6.5	6.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>
Quoted on an active market	70.0	70.0
Unquoted	30.0	30.0
	<b>100.0</b>	<b>100.0</b>

The following were the significant assumptions for the defined benefit pension plans and other benefit plans as of December 31:

Assumptions	<b>Pensions</b>		<b>Post-retirement benefit plans</b>	
	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Discount rate - accrued benefit obligation	3.36	3.77	3.36	3.77
Rate of compensation increases	3.25 - 4.00	3.25 - 4.00		

Except for the discount rate, the assumptions represent management's best estimates. The discount rate was based on the yield of high quality Canadian corporate fixed income investments with cash flows that match expected benefit payments.

### *Post-retirement benefit plan*

For measurement purposes, the trend factor for all health-care expenses, excluding medication, was assumed to be 3.0%. The trend factor for medication was assumed to be 4.85% the first year, with an annual 0.05% reduction for 17 years, and 4.0% thereafter.

The sensitivity analysis presented was performed by changing each assumption individually. If an actual change were to occur, it is likely that certain of these assumptions would correlate, which would create a combined impact.

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The effect of a 1% increase in the health care cost trend rate, a 1% reduction in the discount rate and a one-year change in the life expectancy rate were:

	Health care		Discount rate		Life expectancy	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	\$	\$	\$	\$	\$	\$
Increase in Post-retirement benefit obligation	7,067	5,804	10,819	10,035	1,581	1,518

### Pensions

Expected fees payable by the plan were deducted from the expected rate of return of plan assets.

The effect of a 1% reduction in the discount rate, a 1% increase in the rate of compensation and one-year change in the life expectancy rate were:

	Discount rate		Rate of compensation		Life expectancy	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	\$	\$	\$	\$	\$	\$
Increase in Pension obligation	113,176	101,776	10,297	8,355	18,229	15,359

Contributions to the defined benefit pension plans for the year ending December 31, 2018 are expected to be \$13.4 million.

The net benefit pension plan expense included the following components:

	Pensions		Post-retirement benefit plans	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	\$	\$	\$	\$
<b>Net benefit plan expense</b>				
Current service cost	7,780	8,404	1,732	1,626
Interest cost	20,511	20,875	1,776	1,829
Expected return on plan assets	(17,380)	(17,870)	-	-
Administrative cost	599	544	-	-
Past service cost <sup>(a)</sup>	-	(172)	-	-
	<u>11,510</u>	<u>11,781</u>	<u>3,508</u>	<u>3,455</u>

(a) Recognition of past service cost relating to contract amendments.



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The following amounts are recognized in other comprehensive loss:

	<b>Pensions</b>		<b>Post-retirement benefit plans</b>	
	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Gains (losses) from changes in experience	(792)	3,051	4,959	-
Gains (losses) from changes in economic assumptions	(41,912)	(13,231)	(3,725)	848
Gains (losses) from changes in demographic assumptions	-	(3,802)	(3,997)	(754)
Gains on plan assets	15,141	5,491	-	-
	<u>(27,563)</u>	<u>(8,491)</u>	<u>(2,763)</u>	<u>94</u>

### 11 Trade and other payables

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
	<b>\$</b>	<b>\$</b>
Trade payables	104,558	88,163
Accrued expenses	47,283	65,139
Merchandising accruals	38,493	48,175
Derivative liabilities	364	-
	<u>190,698</u>	<u>201,477</u>

# Kruger Products L.P.

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### 12 Provisions

	Environmental and asset retirement obligations	Long-term incentives	Restructuring	Total
	\$	\$	\$	\$
	(a)	(b)	(c)	
<b>Provisions as of</b>				
<b>January 1, 2016</b>	5,862	773	2,641	9,276
Additional provisions	(173)	786	552	1,165
Paid during the year	-	(512)	(1,755)	(2,267)
Interest accretion	198	-	-	198
<b>Provisions as of</b>				
<b>December 31, 2016</b>	5,887	1,047	1,438	8,372
<b>Current</b>	-	447	1,438	1,885
<b>Non-current</b>	5,887	600	-	6,487
<b>Provisions as of</b>				
<b>January 1, 2017</b>	5,887	1,047	1,438	8,372
Additional provisions	(911)	458	(180)	(633)
Paid during the year	-	(443)	(1,205)	(1,648)
Interest accretion	215	-	-	215
<b>Provisions as of</b>				
<b>December 31, 2017</b>	5,191	1,062	53	6,306
<b>Current</b>	-	280	53	333
<b>Non-current</b>	5,191	782	-	5,973

(a) Environmental and asset retirement obligations

The Partnership has made a provision for the potential obligation under a land lease at one of its plant locations to demolish the building and restore the land at the end of the lease to its original condition. The current lease ends in 2028 but an extension is currently being negotiated. The estimated undiscounted amount to settle this obligation would be between \$8.1 million and \$10.7 million. The liability is estimated using a discounted cash flow with a discount rate of 4.165% (December 31, 2016 – 3.635%).

(b) Long-term incentives

Long-term incentives include the Executive Long-Term Incentive Plan (LTIP) for the Partnership. The LTIP uses performance share units and results are based primarily on Adjusted EBITDA (note 19) return on capital employed using a three year average, along with other components. The LTIP is paid in cash in May of the year following the three year period it is earned. The compensation expense is recognized over the same three year period.

(c) Restructuring

During the first quarter of 2014, the Partnership undertook a review of corporate overhead costs and identified a number of cost reduction opportunities. As of December 31, 2017, all remaining obligations had been settled and the initiative is complete.

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In response to market cost pressures, in the first half of 2015, senior management undertook a comprehensive review of its cost structure and identified a number of cost reduction opportunities. As of December 31, 2017 there was a remaining provision of \$0.1 million relating to this program.

### 13 Long-term debt

	<b>Maturity</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
		<b>\$</b>	<b>\$</b>
Revolving credit facility <sup>(a)</sup>	2020	181,055	196,682
Nordea facility <sup>(b)</sup>	2019	16,405	26,244
Caisse facility <sup>(c)</sup>	2018	181,761	192,084
Ontario loan <sup>(d)</sup>	2026	2,513	820
Quebec PM loan <sup>(e)</sup>	2026	34,581	8,408
		<u>416,315</u>	<u>424,238</u>
Less: Current portion of long-term debt		<u>190,947</u>	<u>8,859</u>
		<u>225,368</u>	<u>415,379</u>

#### a) Revolving credit facility

On September 28, 2015, the Partnership entered into the fifth amended and restated credit agreement, as amended by a consent letter dated as of March 8, 2016 and by a first Supplemental Credit Agreement dated as of August 9, 2016 (the Credit Agreement) related to its revolving credit facility (the Credit Facility). The Credit Facility was increased to \$300.0 million from \$125.0 million. The borrowings under the Credit Facility bear interest at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates or LIBOR, plus a margin varying between 0.20% and 2.375% depending on the ratio of funded debt to EBITDA (as defined in the Credit Agreement) and the type of advance. The Credit Agreement is for a five year period and will mature on September 25, 2020. The Credit Agreement provides for certain restrictive undertakings and covenants to be complied with by the Partnership.

As of December 31, 2017, unamortized deferred financing fees were \$0.9 million (December 31, 2016 - \$1.3 million).

The Credit Agreement is guaranteed by KP USA, GTM, KP AFH and any new subsidiaries acquired by the Partnership (the Restricted Subsidiaries). The Partnership and the Restricted Subsidiaries provide first ranking security interests and hypothecs over their current and future tangible assets to secure the obligations under the Credit Agreement including a pledge of 100% of the stock or ownership interest in all subsidiaries owned by the Partnership and the Restricted Subsidiaries.

As of December 31, 2017, the Partnership had \$83.0 million (net of letters of credit of \$25.9 million) available on the Credit Facility (December 31, 2016 - \$67.0 million, net of letters of credit of \$26.0 million). The weighted average interest rate for the year ended December 31, 2017 was 3.20% (2016 – 3.35%).

#### b) Nordea facility

On July 8, 2011, the Partnership entered into a credit agreement with Nordea Bank AB (the Nordea Facility), providing for a term loan in the principal amount of approximately U.S.\$46.2 million, to be used for the financing of a TAD tissue machine in its subsidiary, KTG. The Nordea Facility has a term of seven years and bears interest at a fixed interest rate of 2.87% per annum, comprised of a Swedish state reported interest rate, risk premium and administrative margin. The loan is secured by the assets of the Partnership ranking pari passu with the Senior Lenders of the Credit Agreement. The loan is repayable in 14 equal consecutive semi-annual

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instalments of principal together with interest commencing on June 28, 2013. As of December 31, 2017, U.S.\$13.2 million was outstanding related to the facility (December 31, 2016 – U.S.\$19.8 million). As of December 31, 2017 unamortized deferred financing fees were \$0.2 million (December 31, 2016 - \$0.3 million). On September 28, 2015, the Partnership entered into the third amended credit agreement (the “Nordea Credit Agreement”) related to its Nordea Facility, in connection with amendments to the Credit Facility. No significant changes were made to the Nordea Facility.

c) Caisse facility

On August 6, 2011, TAD Canco Inc. entered into a credit agreement with the Caisse de dépôt for a term loan facility (the Caisse Facility) for U.S.\$211.1 million for the purposes of financing the expansion of KTG, including construction of a new Memphis TAD machine and expansion of the tissue plant. Under the terms of the Caisse Facility, draws were only permitted until February 15, 2014, at which time the Partnership had drawn U.S. \$125.0 million.

The Caisse Facility is for a seven-year term, maturing on August 16, 2018. The Caisse Facility bears interest at a base rate of 8% per annum, with an applicable margin rate set each period based on KTG’s net debt to EBITDA (as defined in the Caisse Facility) ratio and KTG’s excess cash flows, as defined in the agreement. The applicable margin consists of (i) 5% per annum at any time prior to the Memphis TAD machine service commencement date and KTG Excess cash flow has become positive, and (ii) thereafter, if the net debt to KTG EBITDA (as defined in the Caisse Facility) ratio is (A) higher or equal to 2.5, the greater of interest calculated at 5% per annum and an amount equal to 30% of KTG excess cash flow (B) lower than 2.5 but not lower than 2.0, the greater of interest calculated at 5% per annum and an amount equal to 25% of KTG excess cash flow or (C) lower than 2.0, the greater of interest calculated at 4% per annum and an amount equal to 15% of KTG excess cash flow. The weighted average interest rate on the Caisse Facility was 14.77% for the year ended December 31, 2017 (2016 – 14.84%).

The Caisse Facility is secured by all assets of TAD Canco Inc., KTG and all equity interests of TAD Luxembourg S.A.R.L. The facility was drawn only after the base equity investment of U.S.\$107.0 million by the Partnership had been contributed to TAD Canco Inc.

TAD Canco Inc. does not need to comply with financial covenants within this credit agreement. In addition, the Caisse Facility has cross default provisions with certain debt agreements of the Partnership.

d) Ontario loan

On July 1, 2015, the Partnership entered into a conditional loan agreement with the Government of Ontario (Ontario loan), for financing related to the expansion project at its Trenton facility. The Ontario loan is secured with assets acquired for the expansion. The agreement provides for a maximum loan amount of \$10.0 million, with up to one-half the loan available as a grant. The Ontario Loan has a moratorium on repayment of the principal for the initial 5 years following the date of the first loan disbursement, after which the principal is to be repaid in 5 equal annual payments. A portion of the loan interest is forgivable, subject to prescribed conditions. As of December 31, 2017, the Partnership had drawn \$6.0 million on the loan (December 31, 2016 – \$2.0 million).

e) Quebec PM loan

On August 9, 2016, the Partnership entered into an agreement with Investissement Quebec (Quebec PM loan), for financing related to the acquisition, relocation and installation of a paper machine to be located at the Crabtree facility (PM Project). The Quebec PM loan is secured by the acquired paper machine and the portion of the property on which the paper machine will be installed. The security is second ranking immediately after the security granted in favour of the Credit Facility. The agreement provides for a maximum loan amount of \$39.5

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million. Borrowings under the Quebec PM Loan bear interest at a fixed interest rate of 2.5% per annum for a period of seven years from the date of the first loan disbursement. The interest rate thereafter increases to a fixed rate of 3.5% per annum until the eighth anniversary of the first loan disbursement, a fixed rate of 4.5% per annum until the ninth anniversary of the first loan disbursement, and a fixed rate of 5.5% per annum thereafter. Monthly interest payments commence the month following the first loan disbursement. The loan has a moratorium on repayment of the principal for the initial 24 months following the date of the first loan disbursement, after which the principal is to be repaid in 96 monthly consecutive payments. The monthly repayments are reduced, in the reverse order of maturity, by repayments to Investissement Quebec corresponding to the Partnership's receipt of Government of Quebec electricity tariff rebates. As of December 31, 2017, \$39.4 million had been drawn and was outstanding (December 31, 2016 – \$9.7 million).

The Credit Agreement has cross default covenants with the Nordea Facility, the Caisse Facility and the Ontario Loan.

The financing fees for the loans are amortized using the effective interest method over the expected life of the loans. The amortization amounts are included in interest expense.

The aggregate future principal repayments required on long-term debt are as follows:

	<u>\$</u>
Less than 1 year	193,110
Between 1 and 5 years	216,888
More than 5 years	<u>13,374</u>
	<u><u>423,372</u></u>

Interest expense reflected on the consolidated statement of comprehensive income (loss) was as follows:

	<u>2017</u>	<u>2016</u>
	<u>\$</u>	<u>\$</u>
Interest expense on long-term debt	36,899	38,968
Interest accredited on provisions and other liabilities	215	198
Pension and post-retirement benefits, net	<u>4,907</u>	<u>4,834</u>
	<u><u>42,021</u></u>	<u><u>44,000</u></u>

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### 14 Distributions and Partnership units liability

	<b>Partnership units liability</b>
	<b>\$</b>
As of January 1, 2016	125,176
Change in amortized cost of Partnership units liability (note 5)	23,363
Tax Distributions	(2,632)
As of December 31, 2016	<u>145,907</u>
As of January 1, 2017	145,907
Change in amortized cost of Partnership units liability (note 5)	23,013
Tax Distributions	(8,611)
As of December 31, 2017	<u>160,309</u>

The Partnership unit distributions paid, the portion of the distribution reinvested by the partners, the additional Partnership units issued at the unit price, and the gross proceeds were as follows:

	<b>2017</b>			
<b>Distribution Payment Date</b>	<b>Partnership unit distributions</b>	<b>Unit price</b>	<b>Issuance of Partnership units</b>	<b>Gross proceeds</b>
	<b>\$</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
January 16, 2017	10,148	15.25	309,196	4,715
April 17, 2017	10,203	15.30	309,183	4,731
July 17, 2017	10,259	13.23	357,887	4,735
October 16, 2017	10,324	14.81	321,985	4,769
	<u>40,934</u>		<u>1,298,251</u>	<u>18,950</u>
	<b>2016</b>			
<b>Distribution Payment Date</b>	<b>Partnership unit distributions</b>	<b>Unit price</b>	<b>Issuance of Partnership units</b>	<b>Gross proceeds</b>
	<b>\$</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
January 15, 2016	9,871	10.29	442,929	4,558
April 15, 2016	9,951	12.31	359,138	4,421
July 15, 2016	10,016	11.75	394,797	4,639
October 17, 2016	10,087	13.77	339,831	4,679
	<u>39,925</u>		<u>1,536,695</u>	<u>18,297</u>

On January 15, 2018, the Partnership paid a distribution of \$10.4 million to partners. Pursuant to the Partnership's Distribution Reinvestment Plan (DRIP), a portion of the distribution was reinvested by the partners, resulting in the Partnership issuing 361,174 Partnership units at a price of \$13.50. During the year ended December 31, 2017, a fair value adjustment of \$0.7 million was recorded to reflect the market value of the Partnership units issued.

Subsequent to December 31, 2017, the Partnership declared a distribution of \$10.4 million, payable on April 16, 2018.

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The Partnership paid Partnership unit distributions, Tax Distributions and advances to its related parties as follows:

	<b>2017</b>			
	<b>Tax Distributions</b>	<b>Advances paid</b>	<b>Partnership unit distributions</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Paid to Kruger Inc. <sup>(a)</sup>	2,665	5,377	17,175	25,217
Paid to KPGP	-	-	3	3
Paid to KPT <sup>(b)</sup>	481	1,040	4,806	6,327
<b>Total paid</b>	<b>3,146</b>	<b>6,417</b>	<b>21,984</b>	<b>31,547</b>
				<b>2016</b>
		<b>Advances paid</b>	<b>Partnership unit distributions</b>	<b>Total</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>
Paid to Kruger Inc. <sup>(a)</sup>		1,029	16,717	17,746
Paid to KPGP		-	3	3
Paid to KPT <sup>(b)</sup>		205	4,908	5,113
<b>Total paid</b>		<b>1,234</b>	<b>21,628</b>	<b>22,862</b>

(a) During the years ended December 31, 2017 and December 31, 2016, Partnership unit distributions were paid to Kruger Inc. net of the DRIP reinvestment. During the year ended December 31, 2017, Kruger Inc.'s DRIP reinvestment was \$17.2 million (2016 - \$16.7 million).

(b) During the years ended December 31, 2017 and December 31, 2016, Partnership unit distributions were paid to KPT net of the DRIP reinvestment. During the year ended December 31, 2017, KPT's DRIP reinvestment was \$1.8 million (2016 - \$1.6 million).

### *Tax Distributions*

On February 28, 2017, the Partnership declared a Tax Distribution of \$8.6 million, of which \$1.4 million was used to settle the advances to KPT and pay the final tax instalment on behalf of KPT. The remaining \$7.2 million was used to settle Kruger Inc.'s and KPGP's respective advances, with the balance paid to Kruger Inc. and KPGP.

During the year ended December 31, 2017, pursuant to the Tax Distribution as defined in the Partnership Agreement, the Partnership made advances to its partners of \$6.4 million, of which \$1.0 million was used to pay the monthly tax instalment on behalf of KPT and the remaining was advanced to Kruger Inc. and KPGP. The advances are non-interest bearing and non-recourse and were partially offset against the Tax Distributions of \$1.9 million paid by the Partnership on February 28, 2018. The excess advances over the Tax Distributions in the amount of \$4.5 million are repayable by the partners to the Partnership by March 31, 2019.

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### 15 Income taxes

The Partnership is not a tax paying entity for the years ended December 31, 2017 and December 31, 2016. The income (loss) from the Partnership flows to the partners, Kruger Inc., KPGP, and KPT. However, the Partnership's subsidiaries KP USA, KTG, TAD Canco Inc., GTM and TAD Luxembourg S.A.R.L. are corporate entities and, therefore, are subject to tax.

The consolidated income tax expense for the Partnership of \$12.8 million for the year ended December 31, 2017 (2016 – \$3.6 million) related to KP USA, KTG, TAD Luxembourg S.A.R.L and GTM.

The components of income taxes were as follows:

	2017	2016
	\$	\$
Current tax expense	2,346	3,250
Deferred tax expense	10,492	379
	<u>12,838</u>	<u>3,629</u>

Details of the provision for income taxes and the reconciliation of the consolidated Canadian federal and provincial statutory income tax rates to the effective tax rate on earnings were as follows:

	2017		2016	
	\$	%	\$	%
Combined federal and provincial income tax rates after manufacturing and processing credits	7,361	26.2	10,288	26.3
Income tax in partners' hands	(4,917)	(17.5)	(7,540)	(19.3)
Difference in statutory income tax rate of foreign operations	906	3.2	733	1.9
U.S. State tax credits not recognized	2,756	9.8	-	-
Change in U.S. tax rates	6,205	22.1	-	-
Investment tax credits	-	-	(337)	(0.9)
Permanent and other	527	1.9	485	1.3
	<u>12,838</u>	<u>45.7</u>	<u>3,629</u>	<u>9.3</u>

Components of the deferred income tax asset (liability) were as follows:

	December 31, 2017	December 31, 2016
	\$	\$
Property, plant and equipment	(53,509)	(74,045)
Net operating losses	56,340	80,424
Long term debt and deferred financing charges	7,208	10,536
Inventory and accrued liabilities	2,238	4,282
U.S. State tax credits	11,978	16,902
Other	1,837	1,814
	<u>26,092</u>	<u>39,913</u>



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The analysis of the deferred tax assets and (liabilities) was as follows:

	December 31, 2017	December 31, 2016
	\$	\$
Deferred tax asset to be recovered within 12 months	2,238	4,282
Deferred tax asset to be recovered after 12 months	23,854	35,631
	<u>26,092</u>	<u>39,913</u>

In addition to the above, the Partnership has deferred tax assets of \$33.9 million related to net operating loss carry-forwards and \$7.8 million related to U.S. State tax credits which have not been recognized in the consolidated financial statements.

The Partnership had the following net operating loss carry-forwards available as of December 31, 2017:

	U.S. Federal		U.S. State		Canada	
	\$	Expiry date	\$	Expiry date	\$	Expiry date
2003	6	2023	-	2018	-	
2004	5,036	2024	1,177	2019	-	
2005	26	2025	-	2020	-	
2006	5,561	2026	5,558	2021	-	
2009	1,530	2029	-	2024	-	
2011	600	2031	55	2026	1,154	2031
2012	2,657	2032	5,294	2027	10,689	2032
2013	55,995	2033	58,114	2028	22,076	2033
2014	61,587	2034	62,638	2029	23,198	2034
2015	35,746	2035	37,654	2030	22,435	2035
2016	28,940	2036	30,678	2031	24,128	2036
2017	16,997	2037	17,213	2032	23,865	2037
	<u>214,681</u>		<u>218,381</u>		<u>127,545</u>	

The Partnership had the following U.S. State tax credits available for carry-forward as of December 31, 2017:

	U.S. State	
	\$	Expiry date
2012	1,609	2027
2013	13,034	2028
2014	1,701	2029
2015	1,586	2030
2016	1,811	2031
	<u>19,741</u>	

These credits are available to reduce future Tennessee excise tax and franchise tax otherwise payable by its subsidiary, KTG.

The impact of U.S. tax reform on the consolidated financial statements for the year ended December 31, 2017 was an increase in deferred tax expense of \$6.2 million on the consolidated statement of comprehensive income (loss) and a corresponding drawdown of the deferred income tax asset of \$6.2 million on the consolidated statement of financial position. The impact on the consolidated financial statements was a result of a decrease in the U.S. federal tax rate from 35% to 21%, effective for taxation years beginning after December 31, 2017. Management has used the best

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information available to assess the implications of the U.S. tax reform for periods beginning January 1, 2018. However, as more guidance becomes available in respect of the implications of the U.S. tax reform, further adjustments may be required to the consolidated financial statements.

### 16 Related party transactions

The Partnership makes sales to and acquires goods and services from Kruger Inc. and its subsidiary companies (related parties) in the normal course of business. These transactions are measured at the exchange amount, which is the amount agreed on by the related parties, and are non-interest bearing.

Sales of goods to Kruger Inc. for the year ended December 31, 2017 were \$1.1 million (2016 - \$0.9 million). Goods are sold based on the price lists in force and terms that would be available to third parties.

Purchases of goods and services from Kruger Inc. for the year ended December 31, 2017 were \$36.2 million (2016 - \$33.1 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the year ended December 31, 2017 were \$10.5 million (2016 - \$8.3 million). Goods are purchased from Kruger Inc. and related parties under normal commercial terms and conditions. These purchases of goods and services are included within cost of sales and selling, general and administrative expenses in the consolidated statement of comprehensive income (loss). During the year ended December 31, 2017, management fees of \$4.3 million (2016 - \$4.2 million) were paid to Kruger Inc. for management services provided to the Partnership.

Balances due to and from related parties were as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
	\$	\$
Receivables from Kruger Inc.	33	171
Receivables from subsidiaries of Kruger Inc.	-	14
Receivables from KPT	52	-
	<u>85</u>	<u>185</u>
Payables to Kruger Inc.	2,202	2,646
Payables to subsidiaries of Kruger Inc.	394	534
Payables to KPT	-	426
	<u>2,596</u>	<u>3,606</u>

The receivables from and payables to related parties are based on commercial terms agreed on between the parties, unsecured and non-interest bearing. There were no provisions related to the receivables from related parties as of December 31, 2017 and December 31, 2016. There were no loans outstanding with related parties as of December 31, 2017 and December 31, 2016.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2017 and December 31, 2016

(tabular amounts are in thousands of Canadian dollars, except unit amounts)

The Partnership had declared distributions which are payable to its related parties as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
	\$	\$
Distribution payable to Kruger Inc.	8,723	8,511
Distribution payable to KPGP	1	1
Distribution payable to KPT	1,658	1,636
Total distribution payable	<u>10,382</u>	<u>10,148</u>

### 17 Commitments and contingencies

Non-cancellable operating lease commitments related to land, buildings, IT services, vehicles and other machinery and equipment were as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
	\$	\$
Less than 1 year	14,631	13,698
Between 1 and 5 years	41,127	44,509
More than 5 years	<u>32,866</u>	<u>38,865</u>
	<u>88,624</u>	<u>97,072</u>

Operating lease expense recognized in the consolidated statement of comprehensive income during the year ended December 31, 2017 was \$15.1 million (2016 - \$14.6 million).

As of December 31, 2017, the Partnership had commitments under service contracts of \$6.0 million for 2018, \$4.9 million for 2019, and \$4.1 million for 2020 and beyond.

The Partnership has committed to incurring the costs associated with the installation of underground hydro lines to supply the Gatineau Plant, which will be capitalized and amortized over their estimated life. The installation is expected to be complete during the year ended December 31, 2018.

From time to time, the Partnership is involved in various litigation matters arising in the ordinary course of its business. The Partnership has no reason to believe the disposition of any such current matter could reasonably be expected to have a material adverse impact on the Partnership's financial position, results of operations or its ability to carry on any of its business activities.

As of December 31, 2017, the Partnership had irrevocable letters of credit outstanding of \$25.9 million (December 31, 2016 - \$26.0 million), which included letters of credit for the pension plans disclosed in note 10.

As of December 31, 2017, the Partnership had foreign exchange swaps outstanding of \$31.5 million (December 31, 2016 - nil) and foreign exchange forwards outstanding of \$19.0 million (December 31, 2016 - nil), with settlement dates ranging from January 3, 2018 to January 31, 2018.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2017 and December 31, 2016

(tabular amounts are in thousands of Canadian dollars, except unit amounts)

### 18 Expense by nature

	2017	2016
	\$	\$
Materials and production costs	590,481	547,699
Salaries, wages and other employee benefit expenses	280,134	280,781
Energy costs	59,832	60,237
Depreciation and amortization	52,381	48,582
Freight and warehousing	151,349	136,013
Marketing, selling and administrative expenses	53,985	51,098
	<u>1,188,162</u>	<u>1,124,410</u>

Classified in the consolidated statement of comprehensive income (loss) were:

	2017	2016
	\$	\$
Cost of sales	1,098,086	1,031,647
SG&A expenses	90,076	92,763
	<u>1,188,162</u>	<u>1,124,410</u>

### 19 Segment information

#### Reportable segments

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer who is considered to be the Chief Operating Decision Maker. The Partnership operates in three industry segments: Consumer, AFH and Other.

(a) Consumer

This segment operates using the Partnership's manufacturing facilities in Canada (New Westminster, British Columbia; Crabtree, Quebec; Sherbrooke, Quebec; Gatineau, Quebec) and in the United States (Memphis, Tennessee). The Consumer segment includes sales of branded tissue products such as Cashmere™, Purex™, White Swan™, Scotties™, Sponge Towels™ and White Cloud™ and private label tissue products.

(b) AFH

This segment operates using the Partnership's manufacturing facilities in Canada. The AFH business sells tissue products primarily through distributors to businesses involved in property management, health care, food service, manufacturing and lodging and also to public facilities.

(c) Other

This segment includes sales of parent rolls by the Partnership to other tissue manufacturing companies primarily in the United States and also in Canada and sales of recycled fibre primarily to its parent company. It also includes start-up costs related to capital projects.

Segment operating income is the earnings (loss) for each such segment before (i) interest expense, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) impairment (gain on sale) of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) foreign exchange loss (gain), (viii) costs related to restructuring activities, (ix) changes in amortized cost of Partnership units liability, (x) change in fair value of derivatives, and (xi) one-time costs due to pension revaluations related to past service. "Consumer Segment Adjusted EBITDA", "AFH Segment Adjusted

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2017 and December 31, 2016

(tabular amounts are in thousands of Canadian dollars, except unit amounts)

EBITDA” and “Other Segment Adjusted EBITDA” means in each case the Segment operating income for the respective reportable segment of KPLP.

The Partnership’s assets, operations and employees are located primarily in Canada and the United States. The same long-term assets of the Partnership are used for the Consumer, AFH and Other segments. Accordingly, assets cannot be allocated to these segments.

	<b>2017</b>			
	<b>Consumer</b>	<b>AFH</b>	<b>Other</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue from external customers	1,040,428	233,321	6,265	1,280,014
Segment Adjusted EBITDA	138,158	6,235	(163)	144,230
Depreciation and amortization				52,381
Interest expense				42,021
Change in amortized cost of Partnership units liability				23,013
Change in fair value of derivatives				364
Gain on sale of property, plant and equipment				(3)
Gain on sale of non-financial assets				(75)
Restructuring costs, net				(180)
Foreign exchange gain				(1,387)
Income before income taxes				28,096
Income taxes				12,838
Net income				<u>15,258</u>

	<b>2016</b>			
	<b>Consumer</b>	<b>AFH</b>	<b>Other</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue from external customers	986,881	227,062	13,953	1,227,896
Segment Adjusted EBITDA	146,367	5,217	947	152,531
Depreciation and amortization				48,582
Interest expense				44,000
Change in amortized cost of Partnership units liability				23,363
Loss on sale of property, plant and equipment				139
Gain on sale of non-financial assets				(2,939)
Restructuring costs, net				552
Foreign exchange gain				(285)
Income before income taxes				39,119
Income taxes				3,629
Net income				<u>35,490</u>

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2017 and December 31, 2016

(tabular amounts are in thousands of Canadian dollars, except unit amounts)

### Geographic segments

The Partnership operates in Canada, the United States and Mexico. Revenue and assets were allocated to geographic segment based on the location of the customer and long-term assets, respectively.

				<b>2017</b>
	<b>Canada</b>	<b>US</b>	<b>Mexico</b>	<b>Total</b>
	\$	\$	\$	\$
Revenue	774,587	452,837	52,590	1,280,014
Property, plant and equipment	397,133	364,435	42	761,610
Goodwill	160,939	-	-	160,939
Intangible assets	15,327	-	-	15,327

				<b>2016</b>
	<b>Canada</b>	<b>US</b>	<b>Mexico</b>	<b>Total</b>
	\$	\$	\$	\$
Revenue	746,483	429,627	51,786	1,227,896
Property, plant and equipment	357,689	404,581	-	762,270
Goodwill	160,939	-	-	160,939
Intangible assets	15,270	-	-	15,270

### 20 Compensation of key management

	<b>2017</b>	<b>2016</b>
	\$	\$
Compensation awarded to key management included:		
Salaries and other short-term employee benefits	5,268	6,444
Post-employment benefits	538	537
Other long-term benefits	534	728
	<u>6,340</u>	<u>7,709</u>

Key management includes the Partnership's senior executives.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

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(tabular amounts are in thousands of Canadian dollars, except unit amounts)

### 21 Financial instruments

#### *Classification of financial instruments*

As of December 31, 2017, the classification of the financial instruments, as well as their carrying amounts and fair values, was as follows:

	<b>Classification</b>	<b>Measurement</b>	<b>Carrying amount</b>	<b>Fair Value</b>
			<b>\$</b>	<b>\$</b>
Cash and cash equivalents	loans and receivables	amortized cost	8,837	8,837
Trade and other receivables	loans and receivables	amortized cost	113,194	113,194
Receivables from related parties	loans and receivables	amortized cost	85	85
Advances to partners	loans and receivables	amortized cost	6,417	6,417
Bank indebtedness	financial liabilities	amortized cost	(9,051)	(9,051)
Trade payables	financial liabilities	amortized cost	(104,558)	(104,558)
Accrued expenses	financial liabilities	amortized cost	(47,283)	(47,283)
Merchandising accruals	financial liabilities	amortized cost	(38,493)	(38,493)
Derivative liabilities	financial liabilities	fair value	(364)	(364)
Payables to related parties	financial liabilities	amortized cost	(2,596)	(2,596)
Distributions payable	financial liabilities	amortized cost	(10,382)	(10,382)
Long-term debt	financial liabilities	amortized cost	(416,315)	(419,940)
Partnership units liability	financial liabilities	amortized cost	(160,309)	(160,309)

The following table details the fair value hierarchy of financial instruments by level as of December 31, 2017:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Derivative liabilities	-	(364)	-	(364)
Long-term debt	-	(419,940)	-	(419,940)
Partnership units liability	-	-	(160,309)	(160,309)

As of December 31, 2016, the classification of the financial instruments, as well as their carrying amounts and fair values, was as follows:

	<b>Classification</b>	<b>Measurement</b>	<b>Carrying amount</b>	<b>Fair Value</b>
			<b>\$</b>	<b>\$</b>
Cash and cash equivalents	loans and receivables	amortized cost	36,511	36,511
Trade and other receivables	loans and receivables	amortized cost	123,095	123,095
Receivables from related parties	loans and receivables	amortized cost	185	185
Advances to partners	loans and receivables	amortized cost	5,465	5,465
Mortgage receivable	loans and receivables	amortized cost	1,000	1,000
Bank indebtedness	financial liabilities	amortized cost	(9,007)	(9,007)
Trade payables	financial liabilities	amortized cost	(88,163)	(88,163)
Accrued expenses	financial liabilities	amortized cost	(65,139)	(65,139)
Merchandising accruals	financial liabilities	amortized cost	(48,175)	(48,175)
Payables to related parties	financial liabilities	amortized cost	(3,606)	(3,606)
Distributions payable	financial liabilities	amortized cost	(10,148)	(10,148)
Long-term debt	financial liabilities	amortized cost	(424,238)	(431,041)
Partnership units liability	financial liabilities	amortized cost	(145,907)	(145,907)

# Kruger Products L.P.

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(tabular amounts are in thousands of Canadian dollars, except unit amounts)

The following table details the fair value hierarchy of financial instruments by level as of December 31, 2016:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Mortgage receivable	-	-	1,000	1,000
Long-term debt	-	(431,041)	-	(431,041)
Partnership units liability	-	-	(145,907)	(145,907)

### *Fair value*

Cash and cash equivalents, trade and other receivables, receivables from related parties, advances to partners, mortgage receivable, bank indebtedness, trade payables, accrued expenses, merchandising accruals, payables to related parties and distributions payable are short-term financial instruments whose fair value approximates the carrying amount, given they will mature in the near future. As of December 31, 2017, the fair values of the Credit Facility, the Nordea Facility and the Caisse Facility were \$182.0 million, \$16.6 million and \$183.9 million (December 31, 2016 – \$198.0 million, \$26.6 million and \$196.8 million), respectively, which approximates the current principal amount outstanding as the interest rate approximates current market interest rates. As of December 31, 2017, the fair values of the Quebec PM Loan and the Ontario Loan were \$34.9 million and \$2.5 million (December 31, 2016 – \$8.8 million and \$0.8 million), respectively, which are recorded on discounted future cash flows using a market rate of 4.4%, net of the government grant recorded on the below-market rate of interest.

The fair value of the derivative liabilities was based on foreign exchange rates in the active market. The change in the fair value of the derivative liabilities of \$0.4 million loss during the year ended December 31, 2017 (2016 – nil) was recorded in the consolidated statement of comprehensive income (loss) in Other expense. The valuation methodology used was categorized as a Level 2 methodology.

### *Fair value of the Partnership units liability*

The Partnership units liability is classified as a financial liability at amortized cost. Management has estimated the fair value of the Partnership units liability using a discounted cash flow model. Significant assumptions include the income tax obligation, discount rate and an industry capitalization rate (note 4). There were no significant changes in the assumptions during the year ended December 31, 2017.

### *Objectives and policies relating to financial risk management*

The Partnership's activities result in exposure to a variety of financial risks, including risks related to credit, currency, liquidity and interest rate risks.

### *Credit risk*

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Partnership's financial instruments exposed to credit risk include cash and cash equivalents, trade and other receivables, receivables from related parties and advances to partners. The Partnership places its cash and cash equivalents with financial institutions of high creditworthiness.

The Partnership sells its products to a variety of customers under certain credit terms and therefore is exposed to credit risks. Normal trade receivables are due in 30 days from the invoice date and amounts in excess of 90 days past the invoice date are considered delinquent. The Partnership routinely assesses the financial strength of its customers and mitigates against identified exposure primarily by lowering credit limits with high risk accounts. The customers of the Partnership are well established companies and accordingly, the Partnership has experienced limited financial loss with respect to credit risk. As a result, the Partnership believes its exposure to credit risk is limited.



# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2017 and December 31, 2016

(tabular amounts are in thousands of Canadian dollars, except unit amounts)

	December 31, 2017	December 31, 2016
	\$	\$
Trade receivables	102,803	115,729
Less: Allowance for doubtful accounts	(303)	(541)
Total trade receivables, net	<u>102,500</u>	<u>115,188</u>
Trade receivables, net		
0 to 60 days	101,546	110,024
61 to 90 days	728	2,625
Over 90 days	529	3,080
Less: Allowance for doubtful accounts	(303)	(541)
	<u>102,500</u>	<u>115,188</u>

In accordance with the Partnership agreement, advances made to the partners are settled when the Partnership declares the Tax Distribution. Accordingly, the exposure to credit risk in respect of the advances to the partners is limited.

### *Currency risk*

Currency risk is the risk the Partnership's earnings may fluctuate due to changes in Canadian to U.S. dollar exchange rates.

The Partnership sells certain of its products in U.S. dollars at prevailing U.S. dollar prices. A majority of the currency exposure is naturally offset by U.S. dollar expenses and the U.S. dollar denominated debt.

The Partnership uses derivative financial instruments to manage foreign currency risk. Foreign exchange swaps and foreign exchange forwards are used to manage U.S. dollar borrowings. As of December 31, 2017, the Partnership had foreign exchange swaps outstanding of \$31.5 million (December 31, 2016 – nil) and foreign exchange forwards outstanding of \$19.0 million (December 31, 2016 – nil) with settlement dates ranging from January 3, 2018 to January 31, 2018. Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the result on net income before tax during the year ended December 31, 2017 would have been a (decrease) increase of approximately \$2.4 million (2016 – nil).

As of December 31, 2017, the Partnership has net liabilities denominated in U.S. dollars of \$23.2 million (December 31, 2016 - \$33.0 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the hypothetical result on income before income taxes for the year ended December 31, 2017 would have been an increase/decrease of \$1.2 million (2016 - \$1.7 million).

### *Liquidity risk*

The purpose of liquidity risk management is to maintain sufficient cash and cash equivalents and to ensure the Partnership has sufficient authorized credit facilities to finance operations. The Partnership had unused lines of credit available of \$83.0 million as of December 31, 2017 (December 31, 2016 - \$67.0 million). The Partnership prepares projections to ensure it has sufficient funds to fulfill its obligations. The Partnership monitors the covenants on its credit facilities in the normal course of business. Refinancing risks are minimized by ensuring the Credit Facility will not mature for two years. On March 8, 2016, the Partnership obtained an amendment to provide for an increase in the maximum ratio of funded debt to EBITDA to be complied with by the Partnership during the year ended December 31, 2016. Additional information is disclosed in note 13. The ability to pay its obligations relies on the Partnership collecting its trade receivables in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs. The Partnership's trade and other payables of \$190.7 million (December 31, 2016 - \$201.5 million) are all due for payment within 12 months of the dates of the consolidated statement of financial position.

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As of December 31, 2017, the Caisse Facility, which matures on August 16, 2018, has been classified as short-term debt, resulting in a working capital deficit. Management fully expects to refinance all or part of the indebtedness prior to the maturity date and is currently exploring various refinancing alternatives. Subject to refinancing being obtained, the Partnership believes its cash flows generated from operations combined with its available cash and credit facilities provide sufficient funding to meet its obligations.

The Partnership's contractual obligations in respect of its financial instruments comprise the following:

	<b>December 31, 2017</b>		
	<b>Less than 1 year</b>	<b>1 to 5 years</b>	<b>Greater than 5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Long-term debt <sup>(a)</sup>	215,546	233,285	14,064
Trade and other payables	190,698		
Payables to related parties	2,596		
Distributions payable	10,382		

(a) Long-term debt includes principal repayments and an estimate of interest based on current interest rates.

	<b>December 31, 2016</b>		
	<b>Less than 1 year</b>	<b>1 to 5 years</b>	<b>Greater than 5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Long-term debt <sup>(a)</sup>	42,251	458,150	4,858
Trade and other payables	201,477		
Payables to related parties	3,606		
Distributions payable	10,148		

(a) Long-term debt includes principal repayments and an estimate of interest based on current interest rates.

The above table excludes the Partnership units liability. Payments on the Partnership units liability are made upon the declaration of the Tax Distribution, which for 2017 was \$1.9 million (2016 - \$8.6 million) and paid the following February. The Partnership units liability is estimated based on expected future Tax Distributions and is an obligation that will continue into perpetuity (note 4).

### *Interest rate risk*

As of December 31, 2017, the Partnership had variable rate debts of \$181.1 million (December 31, 2016 - \$196.7). These loans bear interest at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates or LIBOR, plus a margin varying between 0.20% and 2.375%. A 1% increase/decrease in the market rate of interest would result in a decrease/increase in income before income taxes of \$1.8 million for the year ended December 31, 2017 (2016 - \$2.0 million). On March 8, 2016, the Partnership obtained an amendment which provides for the borrowings under the Credit Facility to bear interest during the year ended December 31, 2016 at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates or LIBOR, plus a margin varying between 0.20% and 2.875% depending on the ratio of funded debt to EBITDA and the type of advance. Additional information is disclosed in note 13.

## 22 Capital management

The Partnership's policy is to maintain a sufficient capital base in order to maintain a strong consolidated statement of financial position and otherwise meet financial tests for the credit facilities.

Capital comprises net debt (long-term debt and bank indebtedness, less cash and cash equivalents) and equity (including the Partnership units classified as a liability). The Partnership monitors externally imposed debt covenants

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as established pursuant to its credit facility agreements. The requirements include a quarterly debt to EBITDA ratio and EBITDA to interest expense coverage ratio (as defined in the Credit Agreement).

### 23 Environmental costs

The Partnership is subject to extensive regulation by various federal and provincial agencies concerning compliance with environmental control statutes and regulations. These regulations impose limitations on the discharge of materials into the environment and require the Partnership to operate in compliance with the conditions of permits and other governmental authorizations. Future environmental expenditures will depend on the emergence of new regulations and technological developments.

### 24 Economic dependence

The Partnership manufactures, distributes and sells a wide range of disposable tissue paper and related products primarily in Canada and the U.S. As of December 31, 2017, the Partnership had two major customers which represented 30.8% (2016 – 30.7%) of total revenues, and of these customers, one represented 19.2% (2016 – 21.2%) of the total revenues. The Partnership's concentration of credit risk primarily arises from exposure to these two customers and amounted to approximately 34.8% of the trade receivables as of December 31, 2017 (December 31, 2016 – 31.0%). These customers are included in the consumer segment.

### 25 Cash and cash equivalents

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
	<u>\$</u>	<u>\$</u>
Cash and cash equivalents	8,837	36,511
Bank indebtedness	<u>(9,051)</u>	<u>(9,007)</u>
Cash and cash equivalents in the consolidated statement of cash flows	<u>(214)</u>	<u>27,504</u>

### 26 Non-cash working capital

The change in non-cash working capital on the consolidated statement of cash flows comprised the following:

	<b>2017</b>	<b>2016</b>
	<u>\$</u>	<u>\$</u>
Decrease (increase) in trade and other receivables	1,217	(17,298)
Decrease in receivables from related parties	100	-
Increase in inventories	(22,650)	(1,517)
Decrease (increase) in prepaid expenses	(1,334)	1,181
Decrease (increase) in other long-term assets	(256)	127
Decrease (increase) in income taxes	987	(427)
Increase (decrease) in trade and other payables	(12,248)	19,489
Decrease in payables to related parties	<u>(1,010)</u>	<u>(169)</u>
	<u>(35,194)</u>	<u>1,386</u>

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

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(tabular amounts are in thousands of Canadian dollars, except unit amounts)

### 27 Cash flows from (used in) financing activities

The change in financing activities on the consolidated statement of cash flows comprised the following:

	Advances to partners	Prepaid interest	Accrued interest	Distributions payable	Long-term debt	Partnership units	Total
	\$	\$	\$	\$	\$	\$	\$
<b>As of January 1, 2016</b>	(6,863)	(1,093)	292	9,871	436,042	318,012	756,261
Proceeds from long-term debt	-	-	-	-	9,609	-	9,609
Repayment of long-term debt	-	-	-	-	(17,882)	-	(17,882)
Payment of deferred financing fees	-	-	-	-	(745)	-	(745)
Interest paid on long-term debt	-	(7,288)	(26,874)	-	-	-	(34,162)
Distributions and advances paid, net	(1,234)	-	-	(39,925)	-	18,297	(22,862)
Interest expense on long-term debt	-	7,232	27,629	-	4,107	-	38,968
Foreign exchange	-	-	(292)	-	(6,893)	-	(7,185)
Distributions declared	-	-	-	40,202	-	-	40,202
Tax Distributions declared	2,632	-	-	-	-	-	2,632
Fair value adjustment	-	-	-	-	-	267	267
<b>As of December 31, 2016</b>	<b>(5,465)</b>	<b>(1,149)</b>	<b>755</b>	<b>10,148</b>	<b>424,238</b>	<b>336,576</b>	<b>765,103</b>
Proceeds from long-term debt	-	-	-	-	28,834	-	28,834
Repayment of long-term debt	-	-	-	-	(26,039)	-	(26,039)
Payment of deferred financing fees	-	-	-	-	(12)	-	(12)
Interest paid on long-term debt	-	(6,519)	(26,582)	-	-	-	(33,101)
Distributions and advances paid, net	(9,563)	-	-	(40,934)	-	18,950	(31,547)
Interest expense on long-term debt	-	7,045	26,949	-	2,905	-	36,899
Foreign exchange	-	-	(311)	-	(13,611)	-	(13,922)
Distributions declared	-	-	-	41,168	-	-	41,168
Tax Distributions declared	8,611	-	-	-	-	-	8,611
Fair value adjustment	-	-	-	-	-	714	714
<b>As of December 31, 2017</b>	<b>(6,417)</b>	<b>(623)</b>	<b>811</b>	<b>10,382</b>	<b>416,315</b>	<b>356,240</b>	<b>776,708</b>