



**KRUGER PRODUCTS L.P.**

**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE 3-MONTH AND 9-MONTH PERIODS ENDED SEPTEMBER 30, 2021  
AND SEPTEMBER 30, 2020**

# Kruger Products L.P.

## Unaudited Condensed Consolidated Statements of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	September 30, 2021	December 31, 2020
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash, cash equivalents and restricted cash (note 17)	118,639	128,739
Trade and other receivables	98,827	88,041
Receivables from related parties (note 14)	1,076	13
Advances to partners (note 12)	9,937	5,647
Inventories	258,189	215,934
Income tax recoverable	505	358
Prepaid expenses	8,243	8,315
	<u>495,416</u>	<u>447,047</u>
<b>Non-current assets</b>		
Property, plant and equipment (note 6)	1,207,540	1,194,191
Right-of-use assets (note 7)	107,002	107,633
Other long-term assets (note 14)	40,364	10
Goodwill	152,021	152,021
Intangible assets	30,084	26,205
Deferred income taxes	33,383	24,217
<b>Total assets</b>	<u><u>2,065,810</u></u>	<u><u>1,951,324</u></u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	231,904	332,072
Payables to related parties (note 14)	7,429	9,097
Income tax payable	371	554
Distributions payable (notes 12 and 14)	12,202	11,919
Current portion of provisions (note 9)	3,192	4,913
Current portion of long-term debt (note 10)	39,205	9,495
Current portion of lease liabilities (note 11)	30,175	25,341
	<u>324,478</u>	<u>393,391</u>
<b>Non-current liabilities</b>		
Long-term debt (note 10)	915,142	743,978
Long-term lease liabilities (note 11)	99,799	105,634
Long-term payable to related party (note 14)	41,777	-
Long-term provisions (note 9)	8,885	9,549
Other long-term liabilities	-	575
Pensions (note 8)	26,972	161,333
Post-retirement benefits (note 8)	57,747	63,038
<b>Liabilities to non-unitholders</b>	<u>1,474,800</u>	<u>1,477,498</u>
Current portion of Partnership units liability (note 12)	14,132	31,244
Long-term portion of Partnership units liability (note 12)	164,040	154,180
<b>Total Partnership units liability</b>	<u>178,172</u>	<u>185,424</u>
<b>Total liabilities</b>	<u><u>1,652,972</u></u>	<u><u>1,662,922</u></u>
<b>Equity</b>		
Partnership units (note 12)	455,939	439,571
Deficit	(116,504)	(224,503)
Accumulated other comprehensive income	73,403	73,334
<b>Total equity</b>	<u>412,838</u>	<u>288,402</u>
<b>Total equity and liabilities</b>	<u><u>2,065,810</u></u>	<u><u>1,951,324</u></u>
<b>Subsequent events (notes 10 and 12)</b>		

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

**Kruger Products L.P.**  
**Unaudited Condensed Consolidated Statements of Comprehensive Income**  
**For the 3-month and 9-month periods ended September 30, 2021 and September 30, 2020**

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended September 30, 2021 \$	3-month period ended September 30, 2020 \$	9-month period ended September 30, 2021 \$	9-month period ended September 30, 2020 \$
<b>Revenue (note 14)</b>	391,392	369,103	1,041,132	1,131,012
<b>Expenses</b>				
Cost of sales (note 14)	345,577	307,733	903,885	932,255
Selling, general and administrative expenses (note 14)	29,055	31,267	86,404	91,393
Loss on sale of non-financial assets	2	-	5	1
Restructuring costs, net (note 9)	166	52	207	1,273
<b>Operating income</b>	16,592	30,051	50,631	106,090
Interest expense	18,740	9,746	47,925	31,659
Other expense (note 5)	11,728	2,477	10,781	10,629
<b>Income (loss) before income taxes</b>	(13,876)	17,828	(8,075)	63,802
<b>Income taxes (note 13)</b>	(4,618)	(627)	(7,823)	8,055
<b>Net income (loss) for the period</b>	(9,258)	18,455	(252)	55,747
<b>Other comprehensive income (loss)</b>				
<b>Items that will not be reclassified to net income (loss):</b>				
Remeasurements of pensions	44,377	(4,142)	138,418	(40,797)
Remeasurements of post-retirement benefits	1,670	(439)	6,019	(3,827)
<b>Items that may be subsequently reclassified to net income (loss):</b>				
Cumulative translation adjustment	7,441	(6,320)	69	7,907
<b>Total other comprehensive income (loss) for the period</b>	53,488	(10,901)	144,506	(36,717)
<b>Comprehensive income for the period</b>	44,230	7,554	144,254	19,030

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

# Kruger Products L.P.

## Unaudited Condensed Consolidated Statements of Changes in Equity

For the 9-month periods ended September 30, 2021 and September 30, 2020

(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, 2020</b>	63,293,136	408,978	(183,188)	79,012	304,802
Distributions payable (note 12)	-	-	(11,847)	-	(11,847)
Distributions paid (note 12)	-	-	(23,336)	-	(23,336)
Fair value adjustment (note 12)	-	(196)	196	-	-
Change in actuarial loss on pension	-	-	(40,797)	-	(40,797)
Change in actuarial loss on post-retirement benefits	-	-	(3,827)	-	(3,827)
Cumulative translation adjustment	-	-	-	7,907	7,907
Net income for the period	-	-	55,747	-	55,747
Issuance of partnership units (note 12)	2,521,439	25,526	-	-	25,526
<b>As of September 30, 2020</b>	<b>65,814,575</b>	<b>434,308</b>	<b>(207,052)</b>	<b>86,919</b>	<b>314,175</b>
<b>As of January 1, 2021</b>	66,216,999	439,571	(224,503)	73,334	288,402
Distributions payable (note 12)	-	-	(12,202)	-	(12,202)
Distributions paid (note 12)	-	-	(24,116)	-	(24,116)
Fair value adjustment (note 12)	-	(132)	132	-	-
Change in actuarial gain on pension	-	-	138,418	-	138,418
Change in actuarial gain on post-retirement benefits	-	-	6,019	-	6,019
Cumulative translation adjustment	-	-	-	69	69
Net loss for the period	-	-	(252)	-	(252)
Issuance of partnership units (note 12)	1,572,458	16,500	-	-	16,500
<b>As of September 30, 2021</b>	<b>67,789,457</b>	<b>455,939</b>	<b>(116,504)</b>	<b>73,403</b>	<b>412,838</b>

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

# Kruger Products L.P.

## Unaudited Condensed Consolidated Statements of Cash Flows

For the 9-month periods ended September 30, 2021 and September 30, 2020

(tabular amounts are in thousands of Canadian dollars)

	9-month period ended September 30, 2021	9-month period ended September 30, 2020
	\$	\$
<b>Cash flows from (used in) operating activities</b>		
Net income (loss) for the period	(252)	55,747
Items not affecting cash		
Depreciation	61,292	48,497
Amortization	2,539	1,184
Loss on sale of property, plant and equipment	326	87
Change in amortized cost of Partnership units liability (note 5)	10,283	10,903
Foreign exchange loss (note 5)	498	86
Change in fair value of derivatives (note 5)	-	(360)
Interest expense	47,925	31,659
Pension and post-retirement benefits (note 8)	12,486	11,121
Provisions (note 9)	1,547	6,137
Income taxes (note 13)	(7,823)	8,055
Loss on sale of non-financial assets	5	1
Total items not affecting cash	129,078	117,370
Net change in non-cash working capital (note 18)	(120,743)	27,086
Contributions to pension and post-retirement benefit plans	(11,451)	(11,793)
Provisions paid (note 9)	(4,173)	(2,054)
Income tax payments	(2,019)	(1,808)
<b>Net cash from (used in) operating activities</b>	<b>(9,560)</b>	<b>184,548</b>
<b>Cash flows from (used in) investing activities</b>		
Purchases of property, plant and equipment	(19,438)	(12,758)
Purchases of property, plant and equipment related to the TAD Sherbrooke Project	(88,273)	(194,118)
Interest paid on credit facilities related to the TAD Sherbrooke Project	(608)	(7,167)
Purchases of software	(774)	(1,633)
Proceeds on sale of shares	-	992
Proceeds on sale of property, plant and equipment	8	-
<b>Net cash used in investing activities</b>	<b>(109,085)</b>	<b>(214,684)</b>
<b>Cash flows from (used in) financing activities (note 19)</b>		
Proceeds from long-term debt	225,197	193,538
Repayment of long-term debt	(21,913)	(84,520)
Payment of deferred financing fees	(8,935)	(500)
Payment of lease liabilities	(18,954)	(14,506)
Interest paid on long-term debt	(24,753)	(21,762)
Distributions and advances paid, net (note 12)	(41,360)	(18,372)
<b>Net cash from financing activities</b>	<b>109,282</b>	<b>53,878</b>
<b>Effect of exchange rate changes on cash and cash equivalents held in foreign currency</b>	<b>(737)</b>	<b>586</b>
<b>Increase (decrease) in cash, cash equivalents and restricted cash during the period</b>	<b>(10,100)</b>	<b>24,328</b>
<b>Cash, cash equivalents and restricted cash - Beginning of period (note 17)</b>	<b>128,739</b>	<b>93,141</b>
<b>Cash, cash equivalents and restricted cash - End of period (note 17)</b>	<b>118,639</b>	<b>117,469</b>

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

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2021 and September 30, 2020

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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 unaudited condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34 - Interim Financial Reporting 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 unaudited condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements of the Partnership for the year ended December 31, 2020.

These unaudited condensed consolidated financial statements were approved by the board of directors of KPGP on November 11, 2021.

### 3 Summary of significant accounting policies

The significant accounting policies that have been used in the preparation of these unaudited condensed consolidated financial statements are described in the annual audited consolidated financial statements of the Partnership for the year ended December 31, 2020 and have been applied to all periods presented except the following accounting policies, which were adopted effective January 1, 2021.

- (i) IFRS 9/IAS 39, IFRS 7, IFRS 4 and IFRS 16, Interest Rate Benchmark Reform (Phase 2). In August 2020, the IASB issued amendments that address issues arising from the implementation of interest rate benchmark reform, including the replacement of one benchmark with an alternative one. The mandatory effective date was for annual periods beginning on or after January 1, 2021. The amended standards had no material impact on the unaudited condensed consolidated financial statements.
- (ii) IFRS 16, COVID-19-Related Rent Concessions. In May 2020, the IASB issued an amendment to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification for any reduction in lease payments originally due on or before June 30, 2021. In March 2021, the IASB issued an amendment to extend the practical expedient to any reduction in lease payments originally due on or before June 30, 2022. The mandatory effective date was for annual periods beginning on or after April 1, 2021, with early adoption permitted. The amended standard had no impact on the unaudited condensed consolidated financial statements.

The impact of new standards, amendments to standards and interpretations that have been issued but not yet effective for financial periods beginning on or after January 1, 2022 and have not been early adopted are as follows:

- (i) IAS 1, Classification of Liabilities as Current or Non-current. In January 2020, the IASB issued an amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. The mandatory effective date would be annual periods beginning on or after January 1, 2023, with early adoption permitted. The amended standard is not expected to have an impact on the unaudited condensed consolidated financial statements.

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

### For the 9-month periods ended September 30, 2021 and September 30, 2020

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

- (ii) IFRS 3, Reference to Conceptual Framework. In May 2020, the IASB issued an amendment to IFRS 3 to (i) clarify references to the 2018 Conceptual Framework in order to determine what constitutes an asset or liability in a business combination, (ii) add an exception for certain liabilities and contingent liabilities to refer to IAS 37 or IFRIC 21 and (iii) clarify that an acquirer should not recognize contingent assets at the acquisition date. The mandatory effective date would be annual periods beginning on or after January 1, 2022, with early adoption permitted. The amended standard is not expected to have an impact on the unaudited condensed consolidated financial statements.
- (iii) IAS 37, Onerous Contracts – Cost of Fulfilling a Contract. In May 2020, the IASB issued an amendment to IAS 37 to clarify which costs to include in estimating the cost of fulfilling a contract for the purpose of assessing whether that contract is onerous. The mandatory effective date would be annual periods beginning on or after January 1, 2022, with early adoption permitted. The amended standard is not expected to have an impact on the unaudited condensed consolidated financial statements.
- (iv) IAS 16, Proceeds before Intended Use. In May 2020, the IASB issued an amendment to IAS 16 to clarify the accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment into use. The mandatory effective date would be annual periods beginning on or after January 1, 2022, with early adoption permitted. The amended standard is not expected to have a material impact on the unaudited condensed consolidated financial statements.
- (v) IAS 1, Disclosure of Accounting Policies. In February 2021, the IASB issued amendments to IAS 1 to provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The mandatory effective date would be annual periods beginning on or after January 1, 2023, with early adoption permitted. The amended standard is not expected to have an impact on the unaudited condensed consolidated financial statements.
- (vi) IAS 8, Accounting Policies, Changes to Accounting Estimates and Errors. In February 2021, the IASB issued amendments to IAS 8 to introduce a new definition of accounting estimates to clarify the distinction between changes in accounting policies and changes in accounting estimates and the correction of errors. The mandatory effective date would be annual periods beginning on or after January 1, 2023, with early adoption permitted. The amended standard is not expected to have an impact on the unaudited condensed consolidated financial statements.
- (vii) IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction. In May 2021, the IASB issued amendments to IAS 12 that require an entity to recognize deferred tax on certain transactions such as leases and decommissioning obligations that give rise to equal amounts of taxable and deductible temporary differences on initial recognition. The mandatory effective date would be annual periods beginning on or after January 1, 2023, with early adoption permitted. The amended standard is not expected to have an impact on the unaudited condensed consolidated financial statements.

#### 4 Critical accounting estimates and judgments

The preparation of these unaudited condensed 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 unaudited condensed consolidated financial statements and the disclosure of contingencies at the dates of the unaudited condensed 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. Actual results could differ from those estimates. When adjustments become necessary, they are reported in earnings in the period in which they occur. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and the future periods if the revision affects both current and future periods.

**Kruger Products L.P.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**For the 9-month periods ended September 30, 2021 and September 30, 2020**

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

The estimates and judgement applied by management that most significantly affect the unaudited condensed consolidated financial statements are the same as the ones that applied to the annual audited consolidated financial statements for the year ended December 31, 2020, updated for the following:

*COVID-19*

During the 9-month period ended September 30, 2021, management considered the impact of COVID-19 on the Partnership's critical accounting estimates and judgments, including the Partnership's assessment of the assumptions and estimates made in its valuation of the Partnership units liability and pension liability, the assumptions utilized in its assessment of the recoverability of deferred tax assets, the assessment of triggering events with respect to its impairment analysis for non-current assets and the impact on credit risk and liquidity risk.

While management has concluded that there was no material change in the assumptions relevant to the valuation of the Partnership units liability or recoverability of deferred tax assets as of September 30, 2021 and that during the 9-month period ended September 30, 2021, no triggering event had occurred requiring an impairment test to be performed with respect to non-current assets, the length and severity of the COVID-19 pandemic could result in future material changes to those assumptions or future impairment charges. As away-from-home activities re-opened, demand in the AFH Segment began to improve in the third quarter. The Partnership determined that its exposure to credit risk and liquidity risk associated with its trade receivables was reduced and released a Covid-19 related AFH accounts receivable provision of \$1.3 million recorded in 2020. Management will continue to assess the expected credit losses associated with its trade receivables.

**5 Other expense**

	<b>3-month period ended September 30, 2021</b>	<b>3-month period ended September 30, 2020</b>	<b>9-month period ended September 30, 2021</b>	<b>9-month period ended September 30, 2020</b>
	\$	\$	\$	\$
Foreign exchange (gain) loss	8,301	(3,386)	498	86
Change in amortized cost of Partnership units liability	3,427	5,863	10,283	10,903
Change in fair value of derivatives	-	-	-	(360)
	<u>11,728</u>	<u>2,477</u>	<u>10,781</u>	<u>10,629</u>



# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2021 and September 30, 2020

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

### 6 Property, plant and equipment

	Land \$	Buildings \$	Machinery and equipment \$	Assets under construction or development \$	Total \$
<b>As of January 1, 2021</b>					
Cost	38,203	319,272	1,288,832	285,524	1,931,831
Accumulated depreciation	-	(98,267)	(639,373)	-	(737,640)
<b>Net book value as of January 1, 2021</b>	38,203	221,005	649,459	285,524	1,194,191
Additions	-	-	-	60,847	60,847
Capitalized interest	-	-	-	1,830	1,830
Disposals	-	-	(334)	-	(334)
Transfers	237	64,813	252,906	(317,956)	-
Depreciation	-	(7,416)	(41,742)	-	(49,158)
Exchange differences	2	24	(52)	190	164
<b>As of September 30, 2021</b>	38,442	278,426	860,237	30,435	1,207,540
<b>As of September 30, 2021</b>					
Cost	38,442	384,116	1,541,279	30,435	1,994,272
Accumulated depreciation	-	(105,690)	(681,042)	-	(786,732)
<b>Net book value as of September 30, 2021</b>	38,442	278,426	860,237	30,435	1,207,540

### 7 Right-of-use assets

	Land \$	Buildings \$	Equipment \$	Motor vehicles \$	Total \$
<b>As of January 1, 2021</b>					
Cost	38,068	150,149	9,641	2,631	200,489
Accumulated right-of-use depreciation	(25,174)	(62,679)	(3,535)	(1,468)	(92,856)
<b>Net book value as of January 1, 2021</b>	12,894	87,470	6,106	1,163	107,633
Additions, net of lease terminations	188	9,114	3,926	222	13,450
Right-of-use depreciation	(1,274)	(9,837)	(2,488)	(447)	(14,046)
Exchange differences	-	(24)	(1)	(10)	(35)
<b>As of September 30, 2021</b>	11,808	86,723	7,543	928	107,002
<b>As of September 30, 2021</b>					
Cost	38,256	159,184	13,527	2,668	213,635
Accumulated right-of-use depreciation	(26,448)	(72,461)	(5,984)	(1,740)	(106,633)
<b>Net book value as of September 30, 2021</b>	11,808	86,723	7,543	928	107,002

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2021 and September 30, 2020

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

### 8 Pensions and post-retirement benefits

The following were the significant assumptions for the defined benefit pension plans and other benefit plans:

	Pensions		Post-retirement benefit plans	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
	%	%	%	%
Assumptions				
Discount rate - accrued benefit obligation	3.25	2.57	3.25	2.57
Rate of compensation increases	3.25 - 4.00	3.25 - 4.00		

The net benefit pension plan expense included the following components:

	Pensions		Post-retirement benefit plans	
	3-month period ended September 30, 2021	3-month period ended September 30, 2020	3-month period ended September 30, 2021	3-month period ended September 30, 2020
	\$	\$	\$	\$
<b>Net benefit plan expense</b>				
Current service cost	3,643	3,017	553	503
Interest cost	3,726	5,166	314	400
Expected return on plan assets	(3,132)	(4,108)	-	-
Administrative cost	147	127	-	-
	<u>4,384</u>	<u>4,202</u>	<u>867</u>	<u>903</u>

	Pensions		Post-retirement benefit plans	
	9-month period ended September 30, 2021	9-month period ended September 30, 2020	9-month period ended September 30, 2021	9-month period ended September 30, 2020
	\$	\$	\$	\$
<b>Net benefit plan expense</b>				
Current service cost	10,386	9,147	1,658	1,540
Interest cost	11,772	15,523	945	1,197
Expected return on plan assets	(9,481)	(12,346)	-	-
Administrative cost	442	434	-	-
	<u>13,119</u>	<u>12,758</u>	<u>2,603</u>	<u>2,737</u>

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2021 and September 30, 2020

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

### 9 Provisions

	Environmental and asset retirement obligations <sup>(a)</sup>	Long-term incentives, DSUs, PSUs and RSUs <sup>(b)</sup>	Restructuring	Total
	\$	\$	\$	\$
<b>Provisions as of</b>				
<b>January 1, 2021</b>	6,545	7,179	738	14,462
<b>Current</b>	-	4,309	604	4,913
<b>Non-current</b>	6,545	2,870	134	9,549
<b>Provisions as of</b>				
<b>January 1, 2021</b>	6,545	7,179	738	14,462
Additional provisions	-	1,508	39	1,547
Reclassification	-	137	-	137
Paid during the period	-	(3,691)	(482)	(4,173)
Interest accretion	104	-	-	104
<b>Provisions as of</b>				
<b>September 30, 2021</b>	6,649	5,133	295	12,077
<b>Current</b>	-	2,897	295	3,192
<b>Non-current</b>	6,649	2,236	-	8,885

(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 March 2028 with permission to secure the site until March 2053. The undiscounted amount to settle this obligation is estimated to be between \$13.1 million and \$17.3 million. The liability is estimated using a discounted cash flow with a discount rate of 2.12% (December 31, 2020 – 2.12%).

(b) Long-term incentives, DSUs, PSUs and RSUs

Long-term incentives include the Executive Long-Term Incentive Plan (LTIP) for the Partnership. The LTIP uses performance share units (PSUs) and restricted share units (RSUs). Performance results are based primarily on Adjusted EBITDA (note 15) return on capital employed using a three-year average, along with other components. The PSUs are paid in cash in June of the year following the three-year period they are earned. The PSU expense is recognized over the same three-year period. The RSUs are expensed and vest one-third each year and are paid in cash each June.

The Partnership has adopted a policy that requires that each director own a minimum of 5,000 common shares and/or share equivalents in the form of deferred share units (DSUs) of KPT. A deferred share unit plan (Plan) has been adopted which allows independent directors to receive all or part of their director retainer fees in the form of DSUs. The Plan allows for the issuance of additional units as dividend equivalents when KPT declares and issues a dividend to shareholders. Upon the individual ceasing to be a director, the DSUs will be paid out in cash. As of September 30, 2021, DSUs of \$0.5 million were recorded (December 31, 2020 – \$0.4 million).

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2021 and September 30, 2020

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

### 10 Long-term debt

	Maturity	September 30, 2021 \$	December 31, 2020 \$
KPLP Senior Credit Facility <sup>(c)</sup>	2026	-	8,941
Senior Unsecured Notes due April 24, 2025	2025	123,141	122,847
Senior Unsecured Notes due April 9, 2029 <sup>(b)</sup>	2029	132,121	-
AgCredit Agreement <sup>(a)</sup>	2023, 2025, 2036, 2037	498,428	444,933
KPSI IQ Debenture	2028	102,851	98,251
KPSB IQ Debenture <sup>(e)</sup>	2034	20,480	-
Nordea2 Credit Facility <sup>(d)</sup>	2029	55,899	53,225
Quebec PM Loan	2026	19,130	23,024
Ontario Loan	2026	2,297	2,252
		954,347	753,473
AgCredit Agreement <sup>(a)</sup>		12,792	-
KPSI IQ Debenture		13,689	1,250
Nordea2 Credit Facility <sup>(d)</sup>		7,302	3,307
Quebec PM Loan		4,937	4,938
Ontario Loan		485	-
<b>Less: Current portion of long-term debt</b>		39,205	9,495
<b>Long-term debt</b>		915,142	743,978

Amounts are net of deferred financing fees

#### a) AgCredit Agreement

On March 19, 2021, the Partnership entered into the Second Amendment to the AgCredit Agreement, to allow for IQ's expected investment in the Sherbrooke Expansion Project and to provide for other capital investment financing requirements.

Subsequent to September 30, 2021, on November 1, 2021, the Partnership drew US\$7.7 million on the US\$188 million term loan facility and \$4.6 million on the \$111 million term loan facility, which were the final amounts drawn on the TAD Sherbrooke Project Facility, in connection with the financing of the TAD Sherbrooke Project.

#### b) Trust Indenture - Senior Unsecured Notes due April 9, 2029

On April 8, 2021, the Partnership issued \$135 million aggregate principal amount of 5.375% senior unsecured notes due April 9, 2029 (the Senior Unsecured Notes due April 9, 2029 or the 2029 Notes) by way of private placement in Canada in accordance with applicable Canadian prospectus and registration exemptions. The 2029 Notes were issued pursuant to a trust indenture entered into as of April 8, 2021 between the Partnership, the Guarantors and Computershare Trust Company of Canada (the 2029 Indenture). Interest on the 2029 Notes accrues at 5.375% per year and is payable semi-annually on April 9 and October 9 of each year.

Under the 2029 Notes, "Restricted Subsidiaries" means any subsidiary of the Partnership that is not an Unrestricted Subsidiary as defined in the 2029 Indenture (which Unrestricted Subsidiaries include TAD Canco Inc., TAD Luxembourg S.A.R.L., K.T.G. (USA) Inc. (KTG), Kruger Products Sherbrooke Inc. (KPSI), KP TAD Holdco Inc., TAD2 GP ULC, TAD2 US LP, TAD1 Canco I Inc., TAD1 GP ULC, TAD1 US LP, TAD1 Canco II Inc., 1061021

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## Notes to Unaudited Condensed Consolidated Financial Statements

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Delaware Inc., 8528365 Canada Inc., Kruger Products SB Inc. (KPSB) and Non-Material Subsidiaries as defined in the 2029 Indenture).

The 2029 Notes are senior unsecured obligations of the Partnership. The 2029 Notes rank senior in right of payment to all existing and future subordinated indebtedness of the Partnership and equal in right of payment to all indebtedness of the Partnership that is not subordinated in right of payment to the 2029 Notes other than any indebtedness that ranks senior to the 2029 Notes by operation of law. The 2029 Notes will be effectively subordinated to all existing and future secured indebtedness of the Partnership, to the extent of the assets securing such indebtedness.

The 2029 Notes are unconditionally guaranteed, jointly and severally, by all existing and future Restricted Subsidiaries (the Guarantors). The guarantees are senior unsecured obligations of each of the Guarantors and will rank senior in right of payment to all existing and future subordinated indebtedness of the Guarantors and equal in right of payment to all indebtedness of such Guarantor that is not subordinated in right of payment to their guarantee, other than indebtedness that ranks senior to the guarantees by operation of law.

At any time prior to April 9, 2024, the Partnership may redeem up to 40.0% of the aggregate principal amount of the 2029 Notes at a redemption price of 105.375% of the principal amount of the 2029 Notes to be redeemed, plus accrued and unpaid interest to the date of redemption, with the net proceeds received by the Partnership from certain equity offerings after the issue date.

At any time prior to April 9, 2024, the Partnership may redeem the 2029 Notes, at a redemption price equal to the greater of (a) the Applicable Premium (as defined in the 2029 Indenture) and (b) 101% of the aggregate principal amount of the 2029 Notes redeemed, plus, in each case, accrued and unpaid interest, if any, to the applicable redemption date.

On or after April 9, 2024, the Partnership may redeem all or part of the 2029 Notes at the following redemption prices, plus accrued and unpaid interest to the applicable redemption date, if redeemed during the 12-month period commencing April 9 of the year set forth below:

<u>Year</u>	<u>Percentage</u>
2024	102.688%
2025	101.344%
2026 and thereafter	100.000%

Upon the occurrence of a Change of Control of the Partnership (as defined in the 2029 Indenture), the Partnership will be required to offer to repurchase all or any part of each holder's 2029 Notes for a payment in cash equal to 101% of the aggregate principal amount of 2029 Notes repurchased, plus accrued and unpaid interest thereon to the purchase date.

The 2029 Indenture contains certain restrictive covenants of the Partnership, including, but not limited to, limitations on making certain restricted payments by the Partnership or its Restricted Subsidiaries, restrictions on incurring certain indebtedness by the Partnership or its Restricted Subsidiaries, restrictions on incurring certain liens by the Partnership or its Restricted Subsidiaries, certain restrictions on transactions with affiliates, limitations on engaging in any line of business other than the businesses in which the Partnership and the Restricted Subsidiaries were engaged on the date of issuance of the 2029 Notes, and any business reasonably related, incidental, complementary or ancillary thereto, limitations on creating any contractual restrictions on the ability of the Partnership or its Restricted Subsidiaries to take certain actions, such as the payment of dividends or making of distributions, restrictions on consolidating, amalgamating or merging into any other person and restrictions on selling, transferring,

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assigning, leasing, conveying or otherwise disposing of all or substantially all of the property of the Partnership and the Restricted Subsidiaries taken as a whole.

The 2029 Indenture contains customary events of default such as non-payment, liquidation of assets, change of control, non-payment or acceleration of any indebtedness in an aggregate amount exceeding \$25 million, insolvency and enforcement proceedings.

c) KPLP Senior Credit Agreement

On May 21, 2021, the Partnership entered into the seventh amended and restated credit agreement (the KPLP Senior Credit Agreement) related to its revolving credit facility (the KPLP Senior Credit Facility), to amend negative covenants and other provisions of the KPLP Senior Credit Agreement to allow for implementation of the Sherbrooke Expansion Project. In conjunction with the issuance of the 2029 Notes on April 8, 2021, capacity under the KPLP Senior Credit Facility was reduced from \$250 million to \$200 million. The borrowings under the KPLP Senior Credit Facility bear interest at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates, LIBOR or the applicable benchmark replacement rate, plus a margin varying between 0.20% and 3.50% depending on the ratio of total net funded debt to EBITDA (as defined in the KPLP Senior Credit Agreement) and the type of advance. The KPLP Senior Credit Agreement is for a five year period, maturing on May 21, 2026. The KPLP Senior Credit Agreement provides for certain restrictive undertakings and covenants to be complied with by the Partnership.

The KPLP Senior Credit Agreement is guaranteed by KPLP, KPGP, Kruger Products Real Estate Holdings Inc., Kruger Products (USA) Inc., Kruger Products AFH G.P. Inc. and Kruger Products AFH L.P. and their respective subsidiaries (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 KPLP Senior Credit Agreement including a pledge of 100% of the stock or ownership interest in all subsidiaries owned by the Partnership and the Restricted Subsidiaries.

d) Nordea2 Credit Agreement

On May 21, 2021, the Partnership entered into an amended credit agreement (the Nordea2 Credit Agreement) related to its Nordea2 Credit Facility, in connection with amendments to the KPLP Senior Credit Facility. No significant changes were made to the Nordea2 Credit Facility.

e) KPSB IQ Debenture

On May 21, 2021, KPSB entered into an agreement to issue a 10-year convertible debenture in favour of Investissement Québec (IQ) in the maximum principal amount of \$75 million (the KPSB IQ Debenture). The purpose of the KPSB IQ Debenture is to partially finance the implementation of a light dry crepe tissue machine (the LDC Machine) in a new facility adjacent to the Sherbrooke TAD facility, as part of the Sherbrooke Expansion Project. The KPSB IQ Debenture matures ten years from the earlier of (i) the date on which commercial operation of the LDC Machine begins (the LDC Machine Commissioning Date) or (ii) September 1, 2024.

Borrowings under the KPSB IQ Debenture bear interest at a fixed capitalized interest rate of 2.0% per annum (the Fixed Rate), calculated monthly, starting on the disbursement date of each payment in respect of the amount disbursed. In the event the Partnership is in default (the KPLP Default) under the KPLP Contribution Undertaking Agreement (note 14), the Fixed Rate would increase from the date of the KPLP Default (the KPLP Default Date) to 6.0% per annum (the Fixed Default Rate), until the KPLP Default is remedied to IQ's satisfaction within twelve months of the KPLP Default Date, failing which the Fixed Default Rate would continue to apply permanently. Interest is capitalized to the loan principal from the date of the first loan disbursement until the LDC Machine Commissioning Date. As of the LDC Machine Commissioning Date, interest will cease to be capitalized and is due and payable monthly.

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

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The KPSB IQ Debenture is redeemable on a monthly basis commencing 24 months from the earlier of: (i) the LDC Machine Commissioning Date or (ii) September 1, 2024, which payments KPSB undertakes to cause the Partnership to make, failing which IQ will have a conversion right on terms of conversion that would provide IQ with a 100% equity interest in KPSB if the entirety of the debenture was so converted.

Pursuant to a repayment agreement entered into by the Partnership, KPSB and IQ on May 21, 2021 (the Repayment Agreement), the Partnership will make required monthly redemption payments to IQ. As consideration of such payment, the Partnership will receive shares of KPSB of a class reserved exclusively for IQ and which must include pari passu rights with the common shares held by the Partnership. Pursuant to the Repayment Agreement, after the Partnership makes all of the redemption payments, it will hold a 100% equity interest in KPSB. KPSB may redeem or cause to be redeemed, early the KPSB IQ Debenture, in whole or in part, at any time and without penalty.

The Partnership's redemption payments to IQ will be funded by rate discounts attributable to the Partnership, KPSB and KPSI for their plants under the rate discounts program applicable to consumers billed at rate "L", as administered by the Ministère des Finances du Québec (Rate Discounts). The Rate Discounts are held by the Partnership in a designated bank account to be used only for the purpose of funding the Partnership's redemption payments to IQ (the Dedicated Account). The Partnership has granted a first movable hypothec on the Dedicated Account in favour of IQ. The Partnership and IQ have entered into an account control agreement with respect to this hypothec and the Dedicated Account. The Dedicated Account is recorded in the unaudited condensed consolidated statement of financial position as Restricted cash (note 17).

The KPSB IQ Debenture contains covenants including, but not limited to, the delivery of financial statements and other information.

The KPSB IQ Debenture contains customary events of default such as failure to convert, misrepresentation and breach of covenants.

The Partnership has guaranteed, jointly and severally, to a maximum of \$90 million: (i) KPSI's IQ Bathroom Tissue Loan, (ii) KPSB's IQ Facial Tissue Loan and (iii) the KPSB IQ Debenture.

As of September 30, 2021, \$27 million of the KPSB IQ Debenture was issued.

#### f) IQ Bathroom Tissue Credit Agreement

KPSI is party to a loan agreement dated as of May 21, 2021 entered into by KPSI, as borrower, and IQ as lender (the IQ Bathroom Tissue Credit Agreement) pursuant to which a secured non-revolving subordinated loan in a maximum amount of \$47 million (the IQ Bathroom Tissue Loan) is made available to KPSI. The purpose of the IQ Bathroom Tissue Loan is to finance the implementation of a bathroom tissue converting line (the BT Line) in the existing Sherbrooke TAD facility, as part of the Sherbrooke Expansion Project. The IQ Bathroom Tissue Loan matures ten years from the earlier of (i) the date on which commercial operation of the BT Line begins (the BT Line Commissioning Date) or (ii) November 1, 2022.

Borrowings under the IQ Bathroom Tissue Loan bear interest at a fixed interest rate of 2.0% per annum (the Fixed Rate), calculated monthly, starting on the disbursement date of each payment in respect of the amount disbursed. In the event the Partnership is in default (the KPLP Default) under the KPLP Contribution Undertaking Agreement (note 14), the Fixed Rate would increase from the date of the KPLP Default (the KPLP Default Date) to 6.0% per annum (the Fixed Default Rate), until the KPLP Default is remedied to IQ's satisfaction within twelve months of the KPLP Default Date, failing which the Fixed Default Rate would continue to apply permanently. Interest is capitalized to the loan principal from the date of the first loan disbursement until the BT Line Commissioning Date. As of the BT Line Commissioning Date, interest will cease to be capitalized and is due and payable monthly.

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The IQ Bathroom Tissue Loan has a moratorium on repayment of the principal, ending no later than 36 months from November 1, 2022, after which the principal is to be repaid in 84 equal monthly consecutive payments. KPSI may prepay all or part of the IQ Bathroom Tissue Loan at any time and without penalty.

The IQ Bathroom Tissue Credit Agreement contains covenants including, but not limited to, delivery of financial and other information to IQ, the preservation of existence, maintenance of insurance and maintenance of operations. The IQ Bathroom Tissue Credit Agreement also contains restrictions on the disposition of assets, incurrence of indebtedness and granting of liens, change of control and changes in the Sherbrooke Expansion Project.

The IQ Bathroom Tissue Credit Agreement contains customary events of default such as non-performance, non-payment, misrepresentation, breach of covenants, cross-default to any other agreement entered into with IQ or any of KPSI's senior lenders, insolvency and enforcement proceedings.

The Partnership has guaranteed, jointly and severally, to a maximum of \$90 million: (i) KPSI's IQ Bathroom Tissue Loan, (ii) KPSB's IQ Facial Tissue Loan and (iii) the KPSB IQ Debenture.

The IQ Bathroom Tissue Loan is secured by the BT Line. The security is second ranking immediately after the security granted in favour of KPSI's senior lenders.

No amounts have been drawn on the IQ Bathroom Tissue Loan as of September 30, 2021.

#### g) IQ Facial Tissue Credit Agreement

KPSB is party to a loan agreement dated as of May 21, 2021 entered into by KPSB, as borrower, and IQ as lender (the IQ Facial Tissue Credit Agreement) pursuant to which a secured non-revolving subordinated loan in a maximum amount of \$43 million (the IQ Facial Tissue Loan) is made available to KPSB. The purpose of the IQ Facial Tissue Loan is to finance the implementation a facial tissue converting line (the FT Line) in a new facility adjacent to the Sherbrooke TAD facility, as part of the Sherbrooke Expansion Project. The IQ Facial Tissue Loan matures ten years from the earlier of (i) the date on which commercial operation of the FT Line begins (the FT Line Commissioning Date) or (ii) July 1, 2023.

Borrowings under the IQ Facial Tissue Loan bear interest at a fixed interest rate of 2.0% per annum (the Fixed Rate), calculated monthly, starting on the disbursement date of each payment in respect of the amount disbursed. In the event the Partnership is in default (the KPLP Default) under the KPLP Contribution Undertaking Agreement (note 14), the Fixed Rate would increase from the date of the KPLP Default (the KPLP Default Date) to 6.0% per annum (the Fixed Default Rate), until the KPLP Default is remedied to IQ's satisfaction within twelve months of the KPLP Default Date, failing which the Fixed Default Rate would continue to apply permanently. Interest is capitalized to the loan principal from the date of the first loan disbursement until the FT Line Commissioning Date. As of the FT Line Commissioning Date, interest will cease to be capitalized and is due and payable monthly.

The IQ Facial Tissue Loan has a moratorium on repayment of the principal, ending no later than 24 months from July 1, 2023, after which the principal is to be repaid in 96 equal monthly consecutive payments. KPSB may prepay all or part of the IQ Facial Tissue Loan at any time and without penalty.

The IQ Facial Tissue Credit Agreement contains covenants including, but not limited to, delivery of financial and other information to IQ, the preservation of existence, maintenance of insurance and maintenance of operations. The IQ Facial Tissue Credit Agreement also contains restrictions on the disposition of assets, incurrence of indebtedness and granting of liens, change of control and changes in the Sherbrooke Expansion Project.

The IQ Facial Tissue Credit Agreement contains customary events of default such as non-performance, non-payment, misrepresentation, breach of covenants, cross-default to any other agreements entered into with IQ or any of KPSB's senior lenders, insolvency and enforcement proceedings.



# Kruger Products L.P.

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The Partnership has guaranteed, jointly and severally, to a maximum of \$90 million: (i) KPSI's IQ Bathroom Tissue Loan, (ii) KPSB's IQ Facial Tissue Loan and (iii) the KPSB IQ Debenture.

The IQ Facial Tissue Loan is secured by the FT Line. The security is second ranking immediately after the security granted in favour of KPSB's senior lenders.

No amounts have been drawn on the IQ Facial Tissue Loan as of September 30, 2021.

#### h) KPSB Senior Credit Agreement

KPSB is a party to a credit agreement dated as of May 21, 2021 entered into by KPSB, as borrower, the lenders party thereto and National Bank of Canada, as administrative agent (the KPSB Senior Credit Agreement). Pursuant to the KPSB Senior Credit Agreement, a \$70 million construction loan repayable by May 21, 2028 (the KPSB Construction Facility) and a revolving loan of \$10 million with a maturity date of May 21, 2026 with the option to extend the maturity date on an annual basis by one additional year (the KPSB Revolving Facility) were made available as part of the KPSB Senior Credit Facility.

The purpose of the KPSB Construction Facility is to partially finance the implementation of the LDC Machine in a new facility adjacent to the Sherbrooke TAD facility, as part of the Sherbrooke Expansion Project, subject to KPSB having first used the full amount of the KPSB IQ Debenture. The purpose of the KPSB Revolving Facility is to finance general corporate purposes and the ongoing working capital requirements of KPSB.

Borrowings under the KPSB Construction Facility bear interest at a base rate of Canadian Prime Rate, U.S. Base Rate, LIBOR, Banker's Acceptance Stamping Fees or LC Fees, plus a margin varying between 0.15% and 3.25% depending on the Total Leverage Ratio (as defined in the KPSB Senior Credit Agreement) and the type of advance. Borrowings under the KPSB Revolving Facility bear interest at a base rate of Canadian Prime Rate or U.S. Base Rate, depending on the type of advance. Stand-by fees are also payable on the available portion of the KPSB Senior Credit Facility at a rate varying between 0.50% and 0.75% depending on the Total Leverage Ratio (as defined in the KPSB Senior Credit Agreement).

The KPSB Construction Facility is available for multiple draws on a non-revolving basis, until the achievement of Term Conversion, which occurs on the earlier of (i) substantial completion of the LDC Machine installation (the LDC Machine Substantial Completion Date) or (ii) December 31, 2025 (the Final Acceptance Date). After the achievement of Term Conversion, the principal is to be repaid in quarterly instalments equal to 1.875% of the aggregate principal amount of the outstanding KPSB Construction Facility, annual Excess Cash Flow Sweeps (as defined in the KPSB Senior Credit Agreement) and repayments by an amount equal to the receipt of insurance proceeds by KPSB and any subsidiaries of KPSB, proceeds from the issue of capital stock by KPSB and proceeds from the sale or disposition of tangible and intangible assets of KPSB and any subsidiaries of KPSB. KPSB may at any time voluntarily repay the outstanding KPSB Construction Facility, in whole or in part, without premiums or penalty.

At any time during the six-month period prior to April 30, 2025 (the Scheduled Substantial Completion Date), KPSB may request to reduce the undrawn amount of the KPSB Construction Facility and increase the KPSB Revolving Facility by the same amount. The Scheduled Substantial Completion Date may be extended if it is determined that the LDC Machine Substantial Completion Date is not expected to occur by the Scheduled Substantial Completion Date.

The KPSB Senior Credit Agreement contains customary affirmative covenants, including, but not limited to, delivery of financial and other information to the administrative agent, delivery of notice to the administrative agent upon the occurrence of certain material events, preservation of existence and authorizations, maintenance of insurance, compliance with laws, payment of taxes and other claims, limitation of transactions with affiliates and maintenance of security.

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

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The KPSB Senior Credit Agreement requires KPSB to comply with certain financial covenants. At all times, starting on the first day of the fourth fiscal quarter following the quarter during which Term Conversion is achieved, KPSB shall maintain on a quarterly financial basis:

Senior Leverage Ratio not greater than:

- (i) 4.75x up to and including the end of the 7<sup>th</sup> fiscal quarter;
- (ii) 3.75x from the 8<sup>th</sup> fiscal quarter up to and including the 11<sup>th</sup> fiscal quarter; and
- (iii) 3.25x from the 12<sup>th</sup> fiscal quarter and thereafter

Total Leverage Ratio not greater than:

- (i) 7.00x up to and including the end of the 7<sup>th</sup> fiscal quarter;
- (ii) 5.25x from the 8<sup>th</sup> fiscal quarter up to and including the 11<sup>th</sup> fiscal quarter; and
- (iii) 4.50x from the 12<sup>th</sup> fiscal quarter and thereafter

Fixed Charge Coverage Ratio not less than:

- (i) 1.10x up to and including the end of the 7<sup>th</sup> fiscal quarter; and
- (ii) 1.25x from the 8<sup>th</sup> fiscal quarter and thereafter

The KPSB Senior Credit Agreement contains customary negative covenants of KPSB, including, but not limited to, restrictions on the ability of KPSB to, subject to certain exceptions, grant liens, incur indebtedness, merge or consolidate, make investments and loans, grant guarantees, pay management fees, make acquisitions, declare, set apart and pay distributions, reduce capital, sell or otherwise dispose of assets, incur capital expenditures or materially change their business.

The KPSB Senior Credit Agreement contains customary events of default, including, but not limited to, non-payment, misrepresentation, breach of covenants, cross-default and cross-acceleration to other debt above a certain threshold, cross defaults to the KPSB IQ Debenture, the IQ Facial Tissue Credit Agreement and the KPLP Senior Credit Agreement, insolvency, change of control of KPSB or the Partnership and enforcement proceedings.

To secure the obligations under the KPSB Senior Credit Facility, KPSB shall (i) grant first ranking liens (subject to permitted liens) on all its current and future tangible and intangible assets, including a pledge of all capital stock or ownership interest in all subsidiaries, and liens on the LDC Machine and the FT Line, in favour of the administrative agent under the KPSB Senior Credit Agreement, (ii) cause every wholly-owned subsidiary of KPSB to solidarily guarantee the obligations under the KPSB Senior Credit Facility (Future Guarantors) and grant first ranking liens (subject to permitted liens) on all of its current and future tangible and intangible assets, including a pledge of all capital stock or ownership interest in all subsidiaries, in favour of the administrative agent under the KPSB Senior Credit Agreement (there are no Future Guarantors as of September 30, 2021) and (iii) cause the Partnership to pledge on a limited recourse basis all of its capital stock in KPSB.

No amounts have been drawn on the KPSB Senior Credit Facility as of September 30, 2021.

#### i) Citizens Credit Agreement

Subsequent to September 30, 2021, on October 29, 2021, KTG entered into an agreement with Citizens Bank, N.A. (the Citizens Credit Agreement) to finance all costs associated with the implementation of a facial tissue converting line (the KTG FT Line) at the Memphis facility (the Citizens Loan). The Citizens Loan is not to exceed the lesser of (i) US\$21.8 million or (ii) 100% of the fair market value of the KTG FT Line. The loan is to be available as one single draw following the implementation of the KTG FT Line, which is expected to occur in 2022. The Citizens Loan has a seven year term.

**Kruger Products L.P.**  
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**11 Lease liabilities**

The Partnership's leases relate to right-of-use of land, buildings, equipment and motor vehicles. The contractual undiscounted cash flows for Lease liabilities were as follows:

	<b>September 30, 2021</b>
	<b>\$</b>
Less than 1 year	30,175
Between 1 and 5 years	77,186
More than 5 years	61,084
	<u>168,445</u>

Renewal options have been included in the measurement of Lease liabilities when it is reasonably certain that the Partnership will exercise the renewal option.

Interest expense on Lease liabilities, expenses relating to variable payments not included in the measurement of Lease liabilities, expenses relating to low-value leases and expenses relating to short-term leases were as follows:

	<b>3-month period ended September 30, 2021</b>	<b>3-month period ended September 30, 2020</b>	<b>9-month period ended September 30, 2021</b>	<b>9-month period ended September 30, 2020</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Interest expense on Lease liabilities <sup>(a)</sup>	1,357	1,368	4,341	4,191
Expenses relating to variable payments not included in the measurement of Lease liabilities <sup>(b)</sup>	1,445	1,185	4,203	3,621
Expenses relating to low-value leases <sup>(b)</sup>	69	51	198	181
Expenses relating to short-term leases <sup>(c)</sup>	1,208	-	2,406	-
	<u>4,079</u>	<u>2,604</u>	<u>11,148</u>	<u>7,993</u>

(a) Included in Interest expense in the unaudited condensed consolidated statement of comprehensive income.

(b) Included in Cost of sales and Selling, general and administrative expenses in the unaudited condensed consolidated statement of comprehensive income.

(c) Included in Cost of sales in the unaudited condensed consolidated statement of comprehensive income.

Expenses relating to variable payments not included in the measurement of Lease liabilities include variable lease payments for operating costs, property taxes and insurance.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Partnership's incremental borrowing rate. Generally, the Partnership uses its incremental borrowing rate as the discount rate. The weighted-average rate applied is 3.86% as of September 30, 2021 (December 31, 2020 – 4.33%). Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability.

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

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### 12 Distributions and Partnership units liability

	<b>Partnership units liability</b>
	<b>\$</b>
As of January 1, 2021	185,424
Change in amortized cost of Partnership units liability (note 5)	10,283
Tax Distributions	(17,535)
As of September 30, 2021	<u>178,172</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>Distribution Payment Date</b>	<b>9-month period ended September 30, 2021</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, 2021	11,919	10.70	507,826	5,434
April 15, 2021	12,010	10.47	528,465	5,533
July 15, 2021	12,106	10.32	536,167	5,533
	<u>36,035</u>		<u>1,572,458</u>	<u>16,500</u>

  

<b>Distribution Payment Date</b>	<b>9-month period ended September 30, 2020</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, 2020	11,393	9.84	1,016,179	9,999
April 15, 2020	11,576	9.92	1,025,660	10,175
July 15, 2020	11,760	11.16	479,600	5,352
	<u>34,729</u>		<u>2,521,439</u>	<u>25,526</u>

On October 15, 2021, the Partnership paid a distribution of \$12.2 million to the 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 544,438 Partnership units at a price of \$10.26. During the 9-month period ended September 30, 2021, a decrease of \$0.1 million was recorded as a fair value adjustment to reflect the market value of the Partnership units issued.

Subsequent to September 30, 2021, the Partnership declared a distribution of \$12.3 million, payable on January 17, 2022.

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

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

	9-month period ended September 30, 2021			
	Advances paid \$	Tax Distributions \$	Partnership unit distributions \$	Total \$
Paid to Kruger Inc. <sup>(a)</sup>	8,458	10,149	15,374	33,981
Paid to KPGP	1	1	3	5
Paid to KPT <sup>(b)</sup>	1,478	1,738	4,158	7,374
Total paid	9,937	11,888	19,535	41,360

  

	9-month period ended September 30, 2020			
	Advances paid \$	Tax Distributions \$	Partnership unit distributions \$	Total \$
Paid to Kruger Inc. <sup>(a)</sup>	3,437	4,322	5,007	12,766
Paid to KPGP	-	-	3	3
Paid to KPT <sup>(b)</sup>	629	781	4,193	5,603
Total paid	4,066	5,103	9,203	18,372

(a) During the 9-month periods ended September 30, 2021 and September 30, 2020, Partnership unit distributions were paid to Kruger Inc. net of the DRIP reinvestment. During the 9-month period ended September 30, 2021, Kruger Inc.'s DRIP reinvestment was \$15.4 million (9-month period ended September 30, 2020 - \$24.5 million).

(b) During the 9-month periods ended September 30, 2021 and September 30, 2020, Partnership unit distributions were paid to KPT net of the DRIP reinvestment. During the 9-month period ended September 30, 2021, KPT's DRIP reinvestment was \$1.1 million (9-month period ended September 30, 2020 - \$1.0 million).

### Tax Distributions

On February 26, 2021, pursuant to the Tax Distribution as defined in the Partnership Agreement, the Partnership declared a Tax Distribution of \$17.5 million, of which the advances of \$5.6 million were offset and the remaining \$11.9 million was paid on February 26, 2021. During the 9-month period ended September 30, 2021, pursuant to the Tax Distribution as defined in the Partnership Agreement, the Partnership made advances to its partners of \$9.9 million, of which \$1.5 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 in nature and are settled when the Tax Distribution is declared annually.

### 13 Income taxes

The Partnership is not a tax paying entity for the 9-month periods ended September 30, 2021 and September 30, 2020. 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., TAD Luxembourg S.A.R.L, KP TAD Holdco Inc., TAD1 Canco I Inc., TAD1 Canco II Inc., TAD1 GP ULC, TAD2 GP ULC, KPSI and KPSB are corporate entities and, therefore, are subject to tax.

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Income tax expense (recovery) was recognized based on management's best estimate of the effective weighted average annual income tax rate expected for the full financial year. The estimated effective weighted average annual income tax rate for the 9-month period ended September 30, 2021 was 96.9% (9-month period ended September 30, 2020 – 12.6%).

The components of income taxes were as follows:

	3-month period ended September 30, 2021	3-month period ended September 30, 2020	9-month period ended September 30, 2021	9-month period ended September 30, 2020
	\$	\$	\$	\$
Current tax expense	499	831	1,338	1,713
Deferred tax expense (recovery)	(5,117)	(1,458)	(9,161)	6,342
	<u>(4,618)</u>	<u>(627)</u>	<u>(7,823)</u>	<u>8,055</u>

### 14 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.

Kruger Inc. is also providing certain management and support services related to the TAD Sherbrooke Project including project management services, and engineering, construction, accounting and corporate finance support services.

Sales of goods and services to Kruger Inc. for the 9-month period ended September 30, 2021 were \$1.2 million (9-month period ended September 30, 2020 - \$0.2 million). Sales of goods and services to subsidiaries of Kruger Inc. for the 9-month period ended September 30, 2021 were \$1.5 million (9-month period ended September 30, 2020 - nil). 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 9-month period ended September 30, 2021 were \$6.2 million (9-month period ended September 30, 2020 - \$7.3 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the 9-month period ended September 30, 2021 were \$40.4 million (9-month period ended September 30, 2020 - \$42.3 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 unaudited condensed consolidated statement of comprehensive income.

During the 9-month period ended September 30, 2021, management fees of \$5.6 million (9-month period ended September 30, 2020 - \$5.5 million) were paid to Kruger Inc. for management services provided to the Partnership.

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Balances due to and from related parties were as follows:

	September 30, 2021	December 31, 2020
	\$	\$
Receivables from Kruger Inc.	1,002	-
Receivables from subsidiaries of Kruger Inc.	-	13
Receivables from KPT	74	-
Total receivables from related parties	<u>1,076</u>	<u>13</u>
Payables to Kruger Inc.	2,574	5,726
Payables to subsidiaries of Kruger Inc.	4,855	3,350
Payables to KPT	-	21
Total payables to related parties	<u>7,429</u>	<u>9,097</u>
Long-term payable to KBLP	<u>41,777</u>	-
Total long-term payable to related party	<u>41,777</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 September 30, 2021 and December 31, 2020. There were no loans outstanding with related parties as of September 30, 2021 and December 31, 2020.

### *Long-term payable to KBLP*

As part of the commitment of the IQ financing for the Sherbrooke Expansion Project (note 10), the Partnership entered into a contribution undertaking agreement with a subsidiary of the Partnership's majority partner, Kruger Brompton L.P. (KBLP), dated as of May 21, 2021 (the KPLP Contribution Undertaking Agreement) pursuant to which the Partnership will be required to make payments to KBLP in an aggregate amount of \$58 million over a period of ten years (the Contribution). The Contribution will be payable by the Partnership in ten annual equal and consecutive payments of \$5.8 million each, the first payment being payable by the Partnership on May 21, 2023 and subsequent payments being payable by the Partnership on May 21 of each year thereafter until May 21, 2032. Notwithstanding the foregoing, the first payment of the Contribution will be reduced by \$0.1 million, which is equal to the purchase price paid by KPSB to KBLP for the sale of immovable property under the deed of sale dated May 21, 2021. The Partnership has agreed to pay the Contribution in exchange for access to shared infrastructure and services, the transfer of properties to complete the Sherbrooke Expansion Project and KBLP's facilitation of the capital and financing structure for the Sherbrooke Expansion Project. The liability to KBLP was estimated using a discounted cash flow with a discount rate of 5.375%. As of September 30, 2021, an obligation of \$41.8 million was recorded in the unaudited condensed consolidated statement of financial position as Long-term payable to related party. The increase in the obligation due to passage of time is recognized as Interest expense (9-month period ended September 30, 2021 - \$0.8 million). The KPSB IQ Debenture (note 10(e)), the IQ Bathroom Tissue Loan (note 10(f)) and the IQ Facial Tissue Loan (note 10(g)) were arranged with IQ by the Partnership's majority partner. It was determined that the difference between the fair value of the debt at a market rate of interest and the prescribed rate in the agreement represents a government grant. However, as a result of KBLP's facilitation of the capital and financing structure for the Sherbrooke Expansion Project, it was determined that the government grant is not for the benefit of the Partnership and will be repaid via the KPLP Contribution Undertaking Agreement. Therefore, the fair value of the loans was estimated by discounting the cash flows using a market rate of interest of 5.375% and accordingly a deferred financing fee recorded. As of September 30, 2021, a deferred financing fee related to the KPSB IQ Debenture of \$18.6 million was recorded in the unaudited condensed consolidated statement of financial position, \$11.9 million as Other long-term assets and \$6.7 million netted against Long-term debt, based on the pro rata portion of the KPSB IQ Debenture issued as of period end. Also, as of September

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30, 2021, deferred financing fees related to the IQ Bathroom Tissue Loan and the IQ Facial Tissue Loan of \$11.7 million and \$10.7 million, respectively, were recorded in the unaudited condensed consolidated statement of financial position as Other long-term assets.

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

	September 30, 2021	December 31, 2020
	\$	\$
Distribution payable to Kruger Inc.	10,427	10,163
Distribution payable to KPGP	1	1
Distribution payable to KPT	1,774	1,755
Total distributions payable	<u>12,202</u>	<u>11,919</u>

### 15 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 two industry segments: Consumer and Away-From-Home (AFH).

(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.

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, (xi) consulting costs related to operational transformation initiatives, (xii) corporate development related costs and (xiii) loss (gain) on sale of shares. The unaudited condensed consolidated financial statements refer to "Adjusted EBITDA", a measure which does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other companies. "Consumer Segment Adjusted EBITDA" and "AFH Segment Adjusted EBITDA" means in each case the Segment operating income for the respective reportable segment of the Partnership.

#### Corporate and other costs

Beginning during the 3-month period ended March 31, 2021, timing adjustments for certain manufacturing costs included in inventory that were previously included in Corporate and other costs are now allocated to the Consumer and AFH segments. Corporate and other costs now includes only certain management overhead costs not directly attributable to the business segments.



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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 and AFH segments. Accordingly, assets cannot be allocated to these segments.

	3-month period ended September 30, 2021			Total \$
	Consumer \$	AFH \$	Corporate and other costs \$	
Revenue from external customers	332,416	58,976	-	391,392
Adjusted EBITDA	39,092	2,162	(941)	40,313
Depreciation and amortization				23,464
Interest expense				18,740
Change in amortized cost of Partnership units liability				3,427
Loss on sale of property, plant and equipment				62
Loss on sale of non-financial assets				2
Restructuring costs, net				166
Foreign exchange loss				8,301
Corporate development related costs				27
Loss before income taxes				(13,876)
Income taxes				(4,618)
Net loss				(9,258)

	3-month period ended September 30, 2020			Total \$
	Consumer \$	AFH \$	Corporate and other costs \$	
Revenue from external customers	319,869	49,234	-	369,103
Adjusted EBITDA	55,264	(3,466)	(5,550)	46,248
Depreciation and amortization				15,948
Interest expense				9,746
Change in amortized cost of Partnership units liability				5,863
Loss on sale of property, plant and equipment				38
Restructuring costs, net				52
Foreign exchange gain				(3,386)
Corporate development related costs				159
Income before income taxes				17,828
Income taxes				(627)
Net income				18,455

**Kruger Products L.P.**  
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	<b>9-month period ended September 30, 2021</b>			<b>Total</b>
	<b>Consumer</b>	<b>AFH</b>	<b>Corporate and other costs</b>	
	\$	\$	\$	\$
Revenue from external customers	896,144	144,988	-	1,041,132
Adjusted EBITDA	123,563	(3,174)	(5,296)	115,093
Depreciation and amortization				63,831
Interest expense				47,925
Change in amortized cost of Partnership units liability				10,283
Loss on sale of property, plant and equipment				326
Loss on sale of non-financial assets				5
Restructuring costs, net				207
Foreign exchange loss				498
Corporate development related costs				93
Loss before income taxes				(8,075)
Income taxes				(7,823)
Net loss				(252)

	<b>9-month period ended September 30, 2020</b>			<b>Total</b>
	<b>Consumer</b>	<b>AFH</b>	<b>Corporate and other costs</b>	
	\$	\$	\$	\$
Revenue from external customers	971,400	159,612	-	1,131,012
Adjusted EBITDA	179,193	(6,632)	(10,939)	161,622
Depreciation and amortization				49,681
Interest expense				31,659
Change in amortized cost of Partnership units liability				10,903
Change in fair value of derivatives				(360)
Loss on sale of property, plant and equipment				87
Loss on sale of non-financial assets				1
Restructuring costs, net				1,273
Foreign exchange loss				86
Consulting costs				
related to operational transformation initiatives				4,331
Corporate development related costs				159
Income before income taxes				63,802
Income taxes				8,055
Net income				55,747

# Kruger Products L.P.

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### Geographic segments

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

	3-month period ended September 30, 2021	3-month period ended September 30, 2020	9-month period ended September 30, 2021	9-month period ended September 30, 2020
<b>Revenue</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Canada	233,529	223,272	647,516	671,805
US	157,863	145,831	393,616	459,207
	<u>391,392</u>	<u>369,103</u>	<u>1,041,132</u>	<u>1,131,012</u>

	<b>September 30, 2021</b>		
	<b>Canada</b>	<b>US</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Property, plant and equipment	885,448	322,092	1,207,540
Goodwill	152,021	-	152,021
Intangible assets	30,084	-	30,084

	<b>December 31, 2020</b>		
	<b>Canada</b>	<b>US</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Property, plant and equipment	865,247	328,944	1,194,191
Goodwill	152,021	-	152,021
Intangible assets	26,205	-	26,205

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## Notes to Unaudited Condensed Consolidated Financial Statements

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### 16 Financial instruments

#### *Classification of financial instruments*

As of September 30, 2021, the classification of the financial instruments, as well as their carrying amounts and fair values, was as follows:

	Classification	Carrying amount \$	Fair value \$
Cash, cash equivalents and restricted cash	financial assets at amortized cost	118,639	118,639
Trade and other receivables	financial assets at amortized cost	98,827	98,827
Receivables from related parties	financial assets at amortized cost	1,076	1,076
Advances to partners	financial assets at amortized cost	9,937	9,937
Embedded derivative	embedded derivative at fair value through profit and loss	10	10
Trade payables	financial liabilities at amortized cost	(90,603)	(90,603)
Accrued liabilities	financial liabilities at amortized cost	(64,066)	(64,066)
Contract liabilities	financial liabilities at amortized cost	(77,235)	(77,235)
Payables to related parties	financial liabilities at amortized cost	(7,429)	(7,429)
Long-term payable to related party	financial liabilities at amortized cost	(41,777)	(41,777)
Distributions payable	financial liabilities at amortized cost	(12,202)	(12,202)
Long-term debt	financial liabilities at amortized cost	(954,347)	(977,810)
Lease liabilities	financial liabilities at amortized cost	(129,974)	(129,974)
Partnership units liability	financial liabilities at amortized cost	(178,172)	(178,172)

The following table details the fair value hierarchy of financial instruments by level as of September 30, 2021:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Embedded derivative	-	10	-	10
Long-term debt	-	(977,810)	-	(977,810)
Partnership units liability	-	-	(178,172)	(178,172)

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As of December 31, 2020, the classification of the financial instruments, as well as their carrying amounts and fair values, was as follows:

	Classification	Carrying amount \$	Fair value \$
Cash and cash equivalents	financial assets at amortized cost	128,739	128,739
Trade and other receivables	financial assets at amortized cost	88,041	88,041
Receivables from related parties	financial assets at amortized cost	13	13
Advances to partners	financial assets at amortized cost	5,647	5,647
Embedded derivative	embedded derivative at fair value through profit and loss	10	10
Trade payables	financial liabilities at amortized cost	(109,593)	(109,593)
Accrued liabilities	financial liabilities at amortized cost	(114,776)	(114,776)
Contract liabilities	financial liabilities at amortized cost	(107,703)	(107,703)
Payables to related parties	financial liabilities at amortized cost	(9,097)	(9,097)
Distributions payable	financial liabilities at amortized cost	(11,919)	(11,919)
Long-term debt	financial liabilities at amortized cost	(753,473)	(769,984)
Lease liabilities	financial liabilities at amortized cost	(130,975)	(130,975)
Partnership units liability	financial liabilities at amortized cost	(185,424)	(185,424)

The following table details the fair value hierarchy of financial instruments by level as of December 31, 2020:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Embedded derivative	-	10	-	10
Long-term debt	-	(769,984)	-	(769,984)
Partnership units liability	-	-	(185,424)	(185,424)

*Fair value*

Cash, cash equivalents and restricted cash, Trade and other receivables, Receivables from related parties, Advances to partners, Embedded derivative, Trade payables, Accrued liabilities, Contract liabilities, 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.

The fair values of the KPLP Senior Credit Facility, the Senior Unsecured Notes due April 24, 2025, the Senior Unsecured Notes due April 9, 2029, the AgCredit Agreement and the Nordea2 Credit Facility approximate the current principal amount outstanding as the interest rate approximates current market interest rates. The fair values of the KPSI IQ Debenture, the Quebec PM Loan and the Ontario Loan are recorded on future cash flows discounted using market rates, net of the government grant recorded on the below-market rate of interest. The fair value of the KPSB IQ Debenture is recorded on future cash flows discounted using a market rate of interest.

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The fair values of Long-term debt and discount rates were as follows:

	Discount rate	September 30, 2021	December 31, 2020
		\$	\$
KPLP Senior Credit Facility	-	-	10,000
Senior Unsecured Notes due April 24, 2025	-	125,000	125,000
Senior Unsecured Notes due April 9, 2029	-	135,000	-
AgCredit Agreement	-	507,338	454,527
KPSI IQ Debenture	6.0%	103,234	98,707
KPSB IQ Debenture	5.4%	27,183	-
Nordea2 Credit Facility	-	58,414	56,229
Quebec PM Loan	4.4%	19,343	23,269
Ontario Loan	4.4%	2,298	2,252
		<u>977,810</u>	<u>769,984</u>

Amounts exclude deferred financing fees

Management has estimated the fair value of the Embedded derivative using a probability-weighted interest rate pricing method. The valuation methodology used is categorized as a Level 2 methodology.

The fair value of the derivative liabilities was based on foreign exchange rates and interest rates in the active market. The change in the fair value of the derivative liabilities based on foreign exchange rates was nil during the 9-month period ended September 30, 2021 (9-month period ended September 30, 2020 – \$0.4 million gain, which was recorded in the unaudited condensed consolidated statement of comprehensive income 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. There were no significant changes in the assumptions during the 9-month period ended September 30, 2021.

*Currency risk*

From time to time, 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 September 30, 2021, the Partnership had no foreign exchange swaps and no foreign exchange forwards outstanding.

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### 17 Cash, cash equivalents and restricted cash

	September 30, 2021	December 31, 2020
	\$	\$
Cash and cash equivalents	117,201	128,739
Restricted cash	1,438	-
Cash, cash equivalents and restricted cash	<u>118,639</u>	<u>128,739</u>

Pursuant to the Repayment Agreement in connection with the KPSB IQ Debenture, the Partnership holds prescribed Rate Discounts, as administered by the Ministère des Finances du Québec, in a Dedicated Account to be used only for the purpose of funding the Partnership's redemption payments to IQ. The Dedicated Account is recorded in the unaudited condensed consolidated statement of financial position as Restricted cash. Additional information is disclosed in note 10(e).

### 18 Non-cash working capital

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

	9-month period ended September 30, 2021	9-month period ended September 30, 2020
	\$	\$
Increase in trade and other receivables	(10,423)	(5,993)
Increase in receivables from related parties	(1,068)	(504)
Increase in inventories	(41,038)	(9,616)
Decrease (increase) in prepaid expenses	38	(2,157)
Decrease in income taxes	322	249
Increase (decrease) in trade and other payables	(66,906)	45,328
Decrease in payables to related parties	(1,668)	(221)
	<u>(120,743)</u>	<u>27,086</u>

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

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

	As of January 1, 2020	Proceeds from long- term debt	Repayment of long- term debt	Payment of deferred financing fees	Payment of lease liabilities	Interest paid on long-term debt	Distributions and advances paid, net	Movements not in financing activities	As of September 30, 2020
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Advances to partners	(80)	-	-	-	-	-	(4,066)	80	(4,066)
Prepaid expenses	(8,341)	-	-	-	-	(2,048)	-	(1,629)	(12,018)
Accrued liabilities	99,829	-	-	-	-	(19,203)	-	26,126	106,752
Distributions payable	11,393	-	-	-	-	-	(34,729)	35,183	11,847
Long-term debt	591,062	193,538	(84,520)	(500)	-	(511)	-	10,904	709,973
Lease liabilities	118,762	-	-	-	(14,506)	-	-	13,501	117,757
Partnership units liability	143,515	-	-	-	-	-	(5,103)	10,903	149,315
Partnership units	408,978	-	-	-	-	-	25,526	(196)	434,308
<b>Total</b>	<b>1,365,118</b>	<b>193,538</b>	<b>(84,520)</b>	<b>(500)</b>	<b>(14,506)</b>	<b>(21,762)</b>	<b>(18,372)</b>	<b>94,872</b>	<b>1,513,868</b>

	As of January 1, 2021	Proceeds from long- term debt	Repayment of long- term debt	Payment of deferred financing fees	Payment of lease liabilities	Interest paid on long-term debt	Distributions and advances paid, net	Movements not in financing activities	As of September 30, 2021
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Accounts receivable	(88,041)	-	-	-	-	(156)	-	(10,630)	(98,827)
Advances to partners	(5,647)	-	-	-	-	-	(9,937)	5,647	(9,937)
Prepaid expenses	(8,315)	-	-	-	-	(319)	-	391	(8,243)
Other long-term assets	(10)	-	-	(4,438)	-	-	-	(35,916)	(40,364)
Accrued liabilities	114,776	-	-	-	-	(24,278)	-	(26,432)	64,066
Distributions payable	11,919	-	-	-	-	-	(36,035)	36,318	12,202
Long-term debt	753,473	225,197	(21,913)	(4,497)	-	-	-	2,087	954,347
Lease liabilities	130,975	-	-	-	(18,954)	-	-	17,953	129,974
Partnership units liability	185,424	-	-	-	-	-	(11,888)	4,636	178,172
Partnership units	439,571	-	-	-	-	-	16,500	(132)	455,939
<b>Total</b>	<b>1,534,125</b>	<b>225,197</b>	<b>(21,913)</b>	<b>(8,935)</b>	<b>(18,954)</b>	<b>(24,753)</b>	<b>(41,360)</b>	<b>(6,078)</b>	<b>1,637,329</b>