



KRUGER PRODUCTS L.P.

**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENT
FOR THE 3-MONTH PERIODS ENDED MARCH 31, 2019 AND APRIL 1, 2018**

Kruger Products L.P.

Unaudited Condensed Consolidated Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	March 31, 2019	Restated (note 20) December 31, 2018	Restated (note 20) January 1, 2018
	\$	\$	\$
Assets			
Current assets			
Cash and cash equivalents (note 17)	142,143	169,884	8,837
Trade and other receivables	136,879	127,633	113,194
Receivables from related parties (note 14)	177	172	85
Current portion of advances to partners (note 12)	268	-	1,928
Inventories	206,631	202,916	192,394
Income tax recoverable	-	362	522
Prepaid expenses	11,024	4,065	5,509
	<u>497,122</u>	<u>505,032</u>	<u>322,469</u>
Non-current assets			
Advances to partners (note 12)	-	1,704	4,489
Property, plant and equipment (note 6)	782,842	786,022	761,610
Right-of-use assets (note 7)	91,322	94,247	99,174
Other long-term assets	6,359	10	6,331
Goodwill	160,939	160,939	160,939
Intangible assets	15,780	14,924	15,327
Deferred income taxes	33,835	33,440	26,092
Total assets	<u>1,588,199</u>	<u>1,596,318</u>	<u>1,396,431</u>
Liabilities			
Current liabilities			
Bank indebtedness (note 17)	7,138	-	9,051
Trade and other payables	208,788	238,856	190,698
Payables to related parties (note 14)	6,787	5,620	2,596
Income tax payable	608	80	498
Distributions payable (notes 12 and 14)	10,880	10,723	10,382
Current portion of provisions (note 9)	238	292	333
Current portion of long-term debt (note 10)	13,755	13,939	190,947
Current portion of lease liabilities (note 11)	15,974	16,178	15,169
	<u>264,168</u>	<u>285,688</u>	<u>419,674</u>
Non-current liabilities			
Long-term debt (note 10)	590,811	563,955	225,368
Lease liabilities (note 11)	96,232	98,952	104,888
Provisions (note 9)	5,620	5,398	5,973
Pensions (note 8)	103,376	104,939	119,558
Post-retirement benefits (note 8)	56,378	54,051	60,457
Liabilities to non-unitholders	<u>1,116,585</u>	<u>1,112,983</u>	<u>935,918</u>
Current portion of Partnership units liability (note 12)	6,187	-	1,928
Long-term portion of Partnership units liability (note 12)	111,884	116,524	158,381
Total Partnership units liability	<u>118,071</u>	<u>116,524</u>	<u>160,309</u>
Total liabilities	<u>1,234,656</u>	<u>1,229,507</u>	<u>1,096,227</u>
Equity			
Partnership units (note 12)	384,204	376,274	356,240
Deficit	(117,310)	(102,502)	(123,123)
Accumulated other comprehensive income	86,649	93,039	67,087
Total equity	<u>353,543</u>	<u>366,811</u>	<u>300,204</u>
Total equity and liabilities	<u>1,588,199</u>	<u>1,596,318</u>	<u>1,396,431</u>
Subsequent events (note 12)			

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

Kruger Products L.P.
Unaudited Condensed Consolidated Statement of Comprehensive Income (Loss)
For the 3-month periods ended March 31, 2019 and April 1, 2018

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended March 31, 2019	Restated (note 20) 3-month period ended April 1, 2018
	\$	\$
Revenue (note 14)	350,977	323,735
Expenses		
Cost of sales (note 14)	320,108	286,052
Selling, general and administrative expenses (note 14)	22,056	22,934
Gain on sale of non-financial assets	-	(215)
Restructuring costs, net (note 9)	65	-
Operating income	<u>8,748</u>	<u>14,964</u>
Interest expense	11,297	12,649
Other expense (note 5)	849	1,788
Income (loss) before income taxes	<u>(3,398)</u>	<u>527</u>
Income taxes (note 13)	<u>(186)</u>	<u>(1,050)</u>
Net income (loss) for the period	<u>(3,212)</u>	<u>1,577</u>
Other comprehensive income (loss)		
Items that will not be reclassified to net income (loss):		
Remeasurements of pensions	2,027	16,806
Remeasurements of post-retirement benefits	(2,130)	638
Items that may be subsequently reclassified to net income (loss):		
Cumulative translation adjustment	(6,390)	8,844
Total other comprehensive income (loss) for the period	<u>(6,493)</u>	<u>26,288</u>
Comprehensive income (loss) for the period	<u>(9,705)</u>	<u>27,865</u>

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

Kruger Products L.P.

Unaudited Condensed Consolidated Statement of Changes in Equity

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

	Partnership units		Deficit \$	Accumulated other comprehensive income \$	Total equity \$
	#	\$			
As of January 1, 2018 Restated (note 20)	57,675,039	356,240	(123,123)	67,087	300,204
Change in accounting policy (note 3)	-	-	(6,331)	-	(6,331)
Restated total equity as of January 1, 2018	<u>57,675,039</u>	<u>356,240</u>	<u>(129,454)</u>	<u>67,087</u>	<u>293,873</u>
Distributions payable (note 12)	-	-	(10,447)	-	(10,447)
Fair value adjustment (note 12)	-	184	(184)	-	-
Change in actuarial gain on pension	-	-	16,806	-	16,806
Change in actuarial gain on post-retirement benefits	-	-	638	-	638
Cumulative translation adjustment	-	-	-	8,844	8,844
Net income for the period	-	-	1,577	-	1,577
Issuance of partnership units (note 12)	361,174	4,876	-	-	4,876
As of April 1, 2018 Restated	<u>58,036,213</u>	<u>361,300</u>	<u>(121,064)</u>	<u>75,931</u>	<u>316,167</u>
As of December 31, 2018 Restated (note 20)	59,571,399	376,274	(102,502)	93,039	366,811
Distributions payable (note 12)	-	-	(10,880)	-	(10,880)
Fair value adjustment (note 12)	-	613	(613)	-	-
Change in actuarial gain on pension	-	-	2,027	-	2,027
Change in actuarial loss on post-retirement benefits	-	-	(2,130)	-	(2,130)
Cumulative translation adjustment	-	-	-	(6,390)	(6,390)
Net loss for the period	-	-	(3,212)	-	(3,212)
Issuance of partnership units (note 12)	875,273	7,317	-	-	7,317
As of March 31, 2019	<u>60,446,672</u>	<u>384,204</u>	<u>(117,310)</u>	<u>86,649</u>	<u>353,543</u>

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

Kruger Products L.P.

Unaudited Condensed Consolidated Statement of Cash Flows

For the 3-month periods ended March 31, 2019 and April 1, 2018

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended March 31, 2019 \$	Restated (note 20) 3-month period ended April 1, 2018 \$
Cash flows from (used in) operating activities		
Net income (loss) for the period	(3,212)	1,577
Items not affecting cash		
Depreciation	14,380	15,198
Amortization	362	295
Loss (gain) on sale of property, plant and equipment	(5)	434
Change in amortized cost of Partnership units liability (note 5)	1,547	2,678
Foreign exchange gain (note 5)	(698)	(241)
Change in fair value of derivatives (note 5)	-	(649)
Interest expense	11,297	12,649
Pension and post-retirement benefits (note 8)	2,445	3,344
Provisions (note 9)	170	48
Income taxes	(186)	(1,050)
Gain on sale of non-financial assets	-	(215)
Total items not affecting cash	29,312	32,491
Net change in non-cash working capital (note 18)	(52,625)	(36,621)
Contributions to pension and post-retirement benefit plans	(3,112)	(3,987)
Provisions paid (note 9)	(65)	(41)
Income tax payments	(259)	(352)
Net cash used in operating activities	(29,961)	(6,933)
Cash flows from (used in) investing activities		
Purchases of property, plant and equipment	(5,521)	(15,718)
Purchases of property, plant and equipment related to the TAD2 project	(11,116)	-
Interest paid on credit facilities related to the TAD2 project	(684)	-
Purchases of software	(1,218)	-
Proceeds on sale of property, plant and equipment	5	331
Net cash used in investing activities	(18,534)	(15,387)
Cash flows from (used in) financing activities (note 19)		
Proceeds from long-term debt	24,777	38,050
Repayment of long-term debt	(1,254)	(285)
Payment of deferred financing fees	(286)	(232)
Payment of lease liabilities	(4,225)	(3,719)
Interest paid on long-term debt	(2,588)	(3,240)
Distributions and advances paid, net (note 12)	(1,970)	(7,025)
Net cash from financing activities	14,454	23,549
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(838)	322
Increase (decrease) in cash and cash equivalents during the period	(34,879)	1,551
Cash and cash equivalents - Beginning of period (note 17)	169,884	(214)
Cash and cash equivalents - End of period (note 17)	135,005	1,337

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 3-month periods ended March 31, 2019 and April 1, 2018

(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 consolidated financial statements of the Partnership for the year ended December 31, 2018.

The 3-month period ended March 31, 2019 represents the 90 day period from January 1 to March 31, 2019 and the 3-month period ended April 1, 2018 represents the 91 day period from January 1 to April 1, 2018.

These unaudited condensed consolidated financial statements were approved by the board of directors of KPGP on May 9, 2019.

3 Summary of significant accounting policies

The Partnership adopted IFRS 15, Revenue from Contracts with Customers on January 1, 2018 using the modified retrospective approach. The adoption of this standard had no significant impact on the unaudited condensed consolidated financial statements of the Partnership. The application of IFRS 15 resulted in a change in the Partnership's revenue recognition related to dispensers and related revenue. The Partnership recorded a transitional adjustment of \$6.3 million in the deficit, to reduce the balance related to the dispensers recorded in Other long term assets at December 31, 2017.

The significant accounting policies that have been used in the preparation of these unaudited condensed consolidated financial statements are described in the annual consolidated financial statements of the Partnership for the year ended December 31, 2018 and have been applied to all periods presented except the following accounting policies, which were adopted effective January 1, 2019.

- (i) IAS 19, Employee Benefits. In February 2018, the IASB issued an amendment in connection with defined benefit plans and accounting for plan amendments, settlements or curtailments. The mandatory effective date was for annual periods beginning on or after January 1, 2019. The amended standard had no impact on the unaudited condensed consolidated financial statements.
- (ii) IAS 23, Borrowing Costs. In December 2017, the IASB issued Annual Improvements to IFRS Standards 2015-2017 Cycle, which includes an amendment to IAS 23, Borrowing Costs. The amendment clarifies borrowing costs eligible for capitalization. The mandatory effective date was for annual periods beginning on or after January 1, 2019. The amended standard had no impact on the unaudited condensed consolidated financial statements.
- (iii) IAS 28, Interests in Associates and Joint Ventures. In February 2018, the IASB issued an amendment to clarify that an entity applies IFRS 9, including its impairment requirements, to long term interests in an associate or joint venture to which the equity method is not applied. The mandatory effective date was for annual periods beginning

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

on or after January 1, 2019. The amended standard had no impact on the unaudited condensed consolidated financial statements.

- (iv) Effective January 1, 2019, the Partnership adopted IFRS 16 Leases, using the full retrospective approach. Under this approach all comparative period information has been restated to reflect the adoption of IFRS 16. An opening statement of financial position at the beginning of the earliest comparative period, January 1, 2018, is presented, as is a restated statement of financial position at December 31, 2018. Impacts on the unaudited condensed consolidated statement of financial position, the unaudited condensed consolidated statement of comprehensive income (loss) and the unaudited condensed consolidated statement of cash flows are disclosed in note 20.

IFRS 16 establishes principles on how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all major leases. IFRS 16 superseded the current lease recognition guidance, including IAS 17 Leases and the related interpretations, when it became effective.

The primary changes to lease accounting as a result of adopting IFRS 16 include the following:

- The definition of a lease has changed under the new standard. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Previously, the Partnership determined at contract inception whether an arrangement is or contains a lease under IFRIC 4;
- Under IFRS 16, the lessee recognizes a right-of-use asset and a lease liability upon lease commencement for leases with a lease term of greater than one year. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Subsequent measurement is determined based on the nature of the underlying asset. The lease liability is initially measured at the present value of the lease payments payable over the lease term and discounted at the implied lease rate. If the implied lease rate cannot be readily determined, the lessee uses its incremental borrowing rate. Subsequent re-measurement is required under specific circumstances.

Previously, the Partnership classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Partnership;

- IFRS 16 provides detailed guidance on determining the lease term when the Partnership has an option to extend the lease; and
- The new standard includes extensive disclosure requirements that differ from previous requirements.

At inception of a contract, the Partnership assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Partnership recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated to the earlier of the end of their useful life or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Partnership is reasonably

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

certain to exercise that option. Lease terms range from 1 to 25 years for land, buildings, equipment and motor vehicles. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Partnership's estimate of the amount expected to be payable under a residual value guarantee, or if the Partnership changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Partnership has elected to present right-of-use assets separately from property, plant and equipment and lease liabilities are presented under current and non-current liabilities in the unaudited condensed consolidated statement of financial position.

At the inception of the lease, the Partnership records the right-of-use asset based on the corresponding lease liability over the term of the lease. Right-of-use assets of \$94.2 million and lease obligations of \$115.1 million were recorded as of January 1, 2019, adjusted for \$2.8 million of lease payments made at or before January 1, 2019, with a \$23.7 million net impact on the deficit. When measuring lease liabilities, the Partnership discounted lease payments using its incremental borrowing rate at the lease commencement date. The weighted-average rate applied is 4.61% at March 31, 2019.

The Partnership has elected not to recognize right-of-use assets and lease liabilities for short-term leases of property, plant and equipment that have a lease term of 12 months or less, and leases of low-value assets, such as certain office equipment. The Partnership recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term in the unaudited condensed consolidated statement of comprehensive income (loss).

Payments to suppliers includes payments for leases of low-value assets, payments for short-term leases and variable lease payments not included in the measurement of lease liabilities. Interest paid includes cash payments for the interest portion of lease liabilities.

In applying IFRS 16 upon initial adoption, the Partnership has used the following practical expedients permitted by the standard:

- The Partnership adopted the recognition exemptions permitted for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.
- The Partnership has applied the practical expedient whereby the Partnership is not required to reassess which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. The Partnership applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019.

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

- The Partnership has applied the practical expedient whereby certain classes of underlying assets are not required to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components within the contract as a single lease component.

The application of IFRS 16 Leases requires significant judgements and certain key estimations to be made.

Critical judgements required in the application of IFRS 16 include the following:

- Identifying whether a contract (or part of a contract) includes a lease;
- Determining whether it is reasonably certain that an extension or termination option will be exercised;
- Determining whether variable payments are in-substance fixed;
- Establishing whether there are multiple leases in an arrangement; and
- Determining the stand-alone selling price of lease and non-lease components.

Key sources of estimation uncertainty in the application of IFRS 16 includes the following:

- Estimating the lease term;
- Determining the appropriate rate to discount lease payments; and
- Assessing whether a right-of-use asset is impaired.

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, 2020 and have not been early adopted have been discussed in the annual consolidated financial statements for the year ended December 31, 2018, except for the following:

- (i) IAS 1 and IAS 8, Definition of Material. In October 2018, the IASB issued amendments to the definition of material in IAS 1 and IAS 8 and provide guidance to improve consistency in the application of the concept whenever it is used. The mandatory effective date would be annual periods beginning on or after January 1, 2020, with early adoption permitted. The amended standards are not expected to have an impact on the unaudited condensed consolidated financial statements.
- (ii) IFRS 3, Definition of a Business. In October 2018, the IASB issued an amendment that revises the definition of a business. The amendment aims to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The mandatory effective date would be annual periods beginning on or after January 1, 2020, with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on its 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 judgement applied by management that most significantly affect the unaudited condensed consolidated financial statements are the same as the ones that applied to the audited consolidated financial statements for the year ended December 31, 2018 except for new significant judgements and key source of estimation uncertainty related to the application of IFRS 16 which are described in note 3. 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 3-month periods ended March 31, 2019 and April 1, 2018

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

5 Other expense

	3-month period ended March 31, 2019 \$	3-month period ended April 1, 2018 \$
Foreign exchange gain	(698)	(241)
Change in amortized cost of Partnership units liability	1,547	2,678
Change in fair value of derivatives	-	(649)
	<u>849</u>	<u>1,788</u>

6 Property, plant and equipment

	Land \$	Buildings \$	Machinery and equipment \$	Assets under construction or development \$	Total \$
As of January 1, 2019					
Cost	38,006	201,684	1,183,635	36,751	1,460,076
Accumulated depreciation	-	(91,200)	(582,854)	-	(674,054)
Net book value as of January 1, 2019	38,006	110,484	600,781	36,751	786,022
Additions	-	-	-	14,451	14,451
Capitalized interest	-	-	-	2,019	2,019
Transfers	-	62	1,882	(1,944)	-
Depreciation	-	(1,261)	(10,590)	-	(11,851)
Exchange differences	(32)	(1,165)	(6,570)	(32)	(7,799)
As of March 31, 2019	<u>37,974</u>	<u>108,120</u>	<u>585,503</u>	<u>51,245</u>	<u>782,842</u>
As of March 31, 2019					
Cost	37,974	200,253	1,175,708	51,245	1,465,180
Accumulated depreciation	-	(92,133)	(590,205)	-	(682,338)
Net book value as of March 31, 2019	<u>37,974</u>	<u>108,120</u>	<u>585,503</u>	<u>51,245</u>	<u>782,842</u>

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

7 Right-of-use assets

	Land \$	Buildings \$	Equipment \$	Motor vehicles \$	Total \$
As of January 1, 2018					
Cost	34,852	118,236	3,974	1,742	158,804
Accumulated right-of-use depreciation	(20,560)	(36,279)	(2,075)	(716)	(59,630)
Net book value					
as of January 1, 2018	14,292	81,957	1,899	1,026	99,174
Additions	-	4,171	1,047	442	5,660
Right-of-use depreciation	(1,393)	(7,841)	(877)	(529)	(10,640)
Exchange differences	-	28	16	9	53
As of December 31, 2018	12,899	78,315	2,085	948	94,247
As of December 31, 2018					
Cost	34,852	122,435	5,062	2,202	164,551
Accumulated right-of-use depreciation	(21,953)	(44,120)	(2,977)	(1,254)	(70,304)
Net book value					
as of December 31, 2018	12,899	78,315	2,085	948	94,247
Right-of-use depreciation	(352)	(2,134)	(295)	(130)	(2,911)
Exchange differences	-	(6)	(5)	(3)	(14)
As of March 31, 2019	12,547	76,175	1,785	815	91,322
As of March 31, 2019					
Cost	34,852	122,427	5,050	2,197	164,526
Accumulated right-of-use depreciation	(22,305)	(46,252)	(3,265)	(1,382)	(73,204)
Net book value					
as of March 31, 2019	12,547	76,175	1,785	815	91,322

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	
	March 31, 2019 %	December 31, 2018 %	March 31, 2019 %	December 31, 2018 %
Assumptions				
Discount rate - accrued benefit obligation	3.39	3.65	3.39	3.65
Rate of compensation increases	3.25 - 4.00	3.25 - 4.00		

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

The net benefit pension plan expense included the following components:

	Pensions		Post-retirement benefit plans	
	3-month period ended March 31, 2019 \$	3-month period ended April 1, 2018 \$	3-month period ended March 31, 2019 \$	3-month period ended April 1, 2018 \$
Net benefit plan expense				
Current service cost	1,878	2,667	438	518
Interest cost	5,582	5,360	448	461
Expected return on plan assets	(4,702)	(4,364)	-	-
Administrative cost	129	159	-	-
	<u>2,887</u>	<u>3,822</u>	<u>886</u>	<u>979</u>

9 Provisions

	Environmental and asset retirement obligations ^(a) \$	Long-term incentives and DSUs ^(b) \$	Restructuring \$	Total \$
Provisions as of				
January 1, 2019	4,831	859	-	5,690
Current	-	292	-	292
Non-current	<u>4,831</u>	<u>567</u>	<u>-</u>	<u>5,398</u>
Provisions as of				
January 1, 2019	4,831	859	-	5,690
Additional provisions	-	105	65	170
Paid during the period	-	-	(65)	(65)
Interest accretion	63	-	-	63
Provisions as of				
March 31, 2019	4,894	964	-	5,858
Current	-	238	-	238
Non-current	<u>4,894</u>	<u>726</u>	<u>-</u>	<u>5,620</u>

(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 \$8.0 million and \$10.5 million. The liability is estimated using a discounted cash flow with a discount rate of 5.135% (December 31, 2018 – 5.135%).

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

(b) Long-term incentives and DSUs

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 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.

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 March 31, 2019, DSUs of \$0.03 million were recorded (December 31, 2018 – \$0.08 million).

10 Long-term debt

	Maturity	March 31, 2019 \$	December 31, 2018 \$
Senior Credit Facility ^(a)	2023	133,682	109,008
Notes	2025	122,000	121,887
AgCredit Agreement	2036	192,304	190,191
IQ Debenture	2028	88,259	86,925
Quebec PM Loan	2026	31,640	32,626
Nordea2 Credit Facility	2029	24,382	24,832
Nordea Credit Facility	2019	8,797	8,960
Ontario Loan	2026	3,502	3,465
		604,566	577,894
Less: Current portion of long-term debt		13,755	13,939
		590,811	563,955

a) Senior Credit Agreement

The Senior Credit Agreement requires the Restricted Credit Parties to comply with certain financial covenants, including, but not limited to, the maintenance of (i) a ratio of total net funded debt to EBITDA (ii) a ratio of senior secured net funded debt to EBITDA and (iii) an interest coverage ratio. The financial covenants are calculated on an Adjusted Consolidated Basis (as defined in the Senior Credit Agreement) such that the Unrestricted Credit Parties are accounted for as investments but not consolidated. As such, the Unrestricted Subsidiaries' EBITDA are not included in such calculations.

On March 15, 2019, due to significant changes in business conditions since the entering into of the Senior Credit Agreement in April 2018, the Partnership received the unanimous consent of the lenders to make changes to the ratio of total net funded debt to EBITDA covenant and to the ratio of senior secured net funded debt to EBITDA covenant contained in the Senior Credit Agreement as follows:

The Partnership shall maintain on an adjusted consolidated basis and quarterly financial basis:

Ratio of total net funded debt to EBITDA not greater than:

- (i) 4.25 to 1.00 until December 31, 2018, inclusively;
- (ii) 4.75 to 1.00 from January 1, 2019 to September 30, 2019, inclusively;

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

- (iii) 4.50 to 1.00 from October 1, 2019 to December 31, 2019, inclusively; and
- (iv) 4.25 to 1.00 thereafter;

Ratio of senior secured net funded debt to EBITDA not greater than:

- (i) 3.00 to 1.00 until December 31, 2018, inclusively;
- (ii) 3.25 to 1.00 from January 1, 2019 to December 31, 2019, inclusively; and
- (iii) 3.00 to 1.00 thereafter;

Interest coverage ratio of at least 3.00 to 1.00.

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:

	March 31, 2019
	<u>\$</u>
Less than 1 year	15,974
Between 1 and 5 years	64,160
More than 5 years	68,827
	<u>148,961</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 and expenses relating to low-value leases were as follows:

	3-month period ended March 31, 2019	Restated (note 20) 3-month period ended April 1, 2018
	<u>\$</u>	<u>\$</u>
Interest expense on lease liabilities	1,301	1,336
Expenses relating to variable payments not included in the measurement of lease liabilities	1,249	1,228
Expenses relating to low-value leases	82	82
	<u>2,632</u>	<u>2,646</u>

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

For the 3-month period ended March 31, 2019, expenses relating to short-term leases were not significant.

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

12 Distributions and Partnership units liability

	Partnership units liability
	\$
As of January 1, 2019	116,524
Change in amortized cost of Partnership units liability (note 5)	1,547
As of March 31, 2019	<u>118,071</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:

Distribution Payment Date	3-month period ended March 31, 2019			
	Partnership unit distributions	Unit price	Issuance of Partnership units	Gross proceeds
	\$	\$	#	\$
January 15, 2019	10,723	8.36	875,273	7,317
	<u>10,723</u>		<u>875,273</u>	<u>7,317</u>

Distribution Payment Date	3-month period ended April 1, 2018			
	Partnership unit distributions	Unit price	Issuance of Partnership units	Gross proceeds
	\$	\$	#	\$
January 15, 2018	10,382	13.50	361,174	4,876
	<u>10,382</u>		<u>361,174</u>	<u>4,876</u>

On April 15, 2019, the Partnership paid a distribution of \$10.9 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 839,801 Partnership units at a price of \$8.70. During the 3-month period ended March 31, 2019, a fair value adjustment of \$0.6 million was recorded to reflect the market value of the Partnership units issued.

Subsequent to March 31, 2019, the Partnership declared a distribution of \$11.0 million, payable on July 15, 2019.

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

	3-month period ended March 31, 2019		
	Advances received	Partnership unit distributions	Total
	\$	\$	\$
Paid to (received from) Kruger Inc. ^(a)	(1,436)	2,257	821
Paid to KPGP	-	1	1
Paid to KPT ^(b)	-	1,148	1,148
Total paid (received from)	<u>(1,436)</u>	<u>3,406</u>	<u>1,970</u>

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

	3-month period ended April 1, 2018		
	Advances paid \$	Partnership unit distributions \$	Total \$
Paid to Kruger Inc. ^(a)	1,275	4,361	5,636
Paid to KPGP	-	1	1
Paid to KPT ^(b)	244	1,144	1,388
Total paid	<u>1,519</u>	<u>5,506</u>	<u>7,025</u>

(a) During the 3-month periods ended March 31, 2019 and April 1, 2018, Partnership unit distributions were paid to Kruger Inc. net of the DRIP reinvestment. During the 3-month period ended March 31, 2019, Kruger Inc.'s DRIP reinvestment was \$6.8 million (3-month period ended April 1, 2018 - \$4.4 million).

(b) During the 3-month periods ended March 31, 2019 and April 1, 2018, Partnership unit distributions were paid to KPT net of the DRIP reinvestment. During the 3-month period ended March 31, 2019, KPT's DRIP reinvestment was \$0.5 million (3-month period ended April 1, 2018 - \$0.5 million).

Tax Distributions

Pursuant to the Tax Distribution as defined in the Partnership Agreement, the Partnership would typically declare a Tax Distribution on February 28, 2019, related to taxes owing resulting from the taxable income of KPT for the year ended December 31, 2018. However, KPT incurred a loss for tax purposes for the year ended December 31, 2018 and as a result no Tax Distribution was declared on February 28, 2019. The excess advances over the Tax Distribution were \$1.7 million. Of that amount, \$0.3 million was used to pay the monthly tax instalment on behalf of KPT and is repayable to KPLP on or before March 31, 2020. The remaining \$1.4 million was repaid to KPLP by Kruger Inc. and KPGP during the 3-month period ended March 31, 2019. The advances are non-interest bearing and non-recourse in nature and will be settled when the Tax Distribution is declared annually.

13 Income taxes

The Partnership is not a tax paying entity for the 3-month periods ended March 31, 2019 and April 1, 2018. 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, TAD Luxembourg S.A.R.L, KP TAD Holdco Inc., TAD1 Canco I Inc., TAD1 Canco II Inc., TAD1 GP ULC, TAD2 GP ULC, and KPSI are corporate entities and, therefore, are subject to tax.

Income tax expense (recovery) was recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated weighted average annual income tax rate for the 3-month period ended March 31, 2019 was 5.5% (3-month period ended April 1, 2018 - (199.2%)).

The components of income taxes were as follows:

	3-month period ended March 31, 2019 \$	3-month period ended April 1, 2018 \$
Current tax expense	872	446
Deferred tax recovery	(1,058)	(1,496)
	<u>(186)</u>	<u>(1,050)</u>

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

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.

Sales of goods to Kruger Inc. for the 3-month period ended March 31, 2019 were \$0.06 million (3-month period ended April 1, 2018 - \$0.1 million). Sales of goods to subsidiaries of Kruger Inc. for the 3-month period ended March 31, 2019 were \$0.2 million (3-month period ended April 1, 2018 - 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 3-month period ended March 31, 2019 were \$1.9 million (3-month period ended April 1, 2018 - \$1.7 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the 3-month period ended March 31, 2019 were \$9.2 million (3-month period ended April 1, 2018 - \$8.8 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 (loss). During the 3-month period ended March 31, 2019, management fees of \$1.1 million (3-month period ended April 1, 2018 - \$1.1 million) were paid to Kruger Inc. for management services provided to the Partnership.

Balances due to and from related parties were as follows:

	March 31, 2019	December 31, 2018
	\$	\$
Receivables from Kruger Inc.	-	157
Receivables from subsidiaries of Kruger Inc.	177	15
	<u>177</u>	<u>172</u>
Payables to Kruger Inc.	4,985	2,785
Payables to subsidiaries of Kruger Inc.	1,491	2,566
Payables to KPT	311	269
	<u>6,787</u>	<u>5,620</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 March 31, 2019 and December 31, 2018. There were no loans outstanding with related parties as of March 31, 2019 and December 31, 2018.

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

	March 31, 2019	December 31, 2018
	\$	\$
Distribution payable to Kruger Inc.	9,174	9,028
Distribution payable to KPGP	1	1
Distribution payable to KPT	1,705	1,694
	<u>10,880</u>	<u>10,723</u>

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

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 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 certain corporate costs of the Partnership and timing adjustments for certain manufacturing costs included in inventory.

The Partnership previously included the profit or loss associated with the sales of parent rolls to other tissue manufacturing companies, primarily in the United States, and sales of recycled fibre, primarily to its parent company in Canada. These profits or losses are now included in Consumer or AFH as appropriate.

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 consulting costs related to operational transformation initiatives. "Consumer Segment Adjusted EBITDA", "AFH Segment Adjusted 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.

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

	3-month period ended March 31, 2019			
	Consumer	AFH	Other	Total
	\$	\$	\$	\$
Revenue from external customers	296,184	54,793	-	350,977
Segment Adjusted EBITDA	30,092	(6,584)	42	23,550
Depreciation and amortization				14,742
Interest expense				11,297
Change in amortized cost of Partnership units liability				1,547
Gain on sale of property, plant and equipment				(5)
Restructuring costs, net				65
Foreign exchange gain				(698)
Loss before income taxes				(3,398)
Income taxes				(186)
Net loss				(3,212)

	Restated (note 20)			
	3-month period ended April 1, 2018			
	Consumer	AFH	Other	Total
	\$	\$	\$	\$
Revenue from external customers	270,210	53,525	-	323,735
Segment Adjusted EBITDA	31,067	250	(641)	30,676
Depreciation and amortization				15,493
Interest expense				12,649
Change in amortized cost of Partnership units liability				2,678
Change in fair value of derivatives				(649)
Loss on sale of property, plant and equipment				434
Gain on sale of non-financial assets				(215)
Foreign exchange gain				(241)
Income before income taxes				527
Income taxes				(1,050)
Net income				1,577

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.

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

Revenue	3-month period ended March 31, 2019	3-month period ended April 1, 2018
	\$	\$
Canada	197,417	188,653
US	127,512	115,552
Mexico	26,048	19,530
	<u>350,977</u>	<u>323,735</u>

	March 31, 2019			
	Canada	US	Mexico	Total
	\$	\$	\$	\$
Property, plant and equipment	414,475	368,351	16	782,842
Goodwill	160,939	-	-	160,939
Intangible assets	15,780	-	-	15,780

	December 31, 2018			
	Canada	US	Mexico	Total
	\$	\$	\$	\$
Property, plant and equipment	405,741	380,258	23	786,022
Goodwill	160,939	-	-	160,939
Intangible assets	14,924	-	-	14,924

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

16 Financial instruments

Classification of financial instruments

As of March 31, 2019, 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	142,143	142,143
Trade and other receivables	financial assets at amortized cost	136,879	136,879
Receivables from related parties	financial assets at amortized cost	177	177
Advances to partners	financial assets at amortized cost	268	268
Embedded derivative	embedded derivative at fair value through profit and loss	10	10
Bank indebtedness	financial liabilities at amortized cost	(7,138)	(7,138)
Trade payables	financial liabilities at amortized cost	(113,745)	(113,745)
Accrued expenses	financial liabilities at amortized cost	(59,464)	(59,464)
Contract liabilities	financial liabilities at amortized cost	(35,362)	(35,362)
Derivative liabilities	financial liabilities at fair value through profit and loss	(217)	(217)
Payables to related parties	financial liabilities at amortized cost	(6,787)	(6,787)
Distributions payable	financial liabilities at amortized cost	(10,880)	(10,880)
Long-term debt	financial liabilities at amortized cost	(604,566)	(617,300)
Partnership units liability	financial liabilities at amortized cost	(118,071)	(118,071)

The following table details the fair value hierarchy of financial instruments by level as of March 31, 2019:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Embedded derivative	-	10	-	10
Derivative liabilities	-	(217)	-	(217)
Long-term debt	-	(617,300)	-	(617,300)
Partnership units liability	-	-	(118,071)	(118,071)

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

As of December 31, 2018, 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	169,884	169,884
Trade and other receivables	financial assets at amortized cost	127,633	127,633
Receivables from related parties	financial assets at amortized cost	172	172
Advances to partners	financial assets at amortized cost	1,704	1,704
Embedded derivative	embedded derivative at fair value through profit and loss	10	10
Trade payables	financial liabilities at amortized cost	(136,650)	(136,650)
Accrued expenses	financial liabilities at amortized cost	(59,207)	(59,207)
Contract liabilities	financial liabilities at amortized cost	(42,999)	(42,999)
Payables to related parties	financial liabilities at amortized cost	(5,620)	(5,620)
Distributions payable	financial liabilities at amortized cost	(10,723)	(10,723)
Long-term debt	financial liabilities at amortized cost	(577,894)	(597,220)
Partnership units liability	financial liabilities at amortized cost	(116,524)	(116,524)

The following table details the fair value hierarchy of financial instruments by level as of December 31, 2018:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Embedded derivative	-	10	-	10
Long-term debt	-	(597,220)	-	(597,220)
Partnership units liability	-	-	(116,524)	(116,524)

Fair value

Cash and cash equivalents, trade and other receivables, receivables from related parties, advances to partners, bank indebtedness, trade payables, accrued expenses, 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. As of March 31, 2019, the fair values of the Senior Credit Facility, the Notes, the AgCredit Agreement, the Nordea2 Credit Facility, the Nordea Credit Facility and the Caisse Facility were \$135.0 million, \$125.0 million, \$196.2 million, \$28.0 million, \$8.8 million and nil (December 31, 2018 – \$110.2 million, \$125.0 million, \$200.4 million, \$28.6 million, \$9.0 million and nil), respectively, which approximates the current principal amount outstanding as the interest rate approximates current market interest rates. As of March 31, 2019, the fair values of the IQ Debenture, the Quebec PM Loan and the Ontario Loan were \$88.9 million, \$31.9 million and \$3.5 million (December 31, 2018 – \$87.6 million, \$33.0 million and \$3.4 million), respectively, which are recorded on discounted future cash flows using market rates of 6.0%, 4.4% and 4.4% accordingly, net of the government grant recorded on the below-market rate of interest.

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 3-month period ended March 31, 2019 (3-month period ended April 1, 2018 – \$0.6 million gain, which was recorded in the unaudited condensed consolidated statement of comprehensive income (loss) in Other expense). The valuation

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

methodology used was categorized as a Level 2 methodology. The change in the fair value of the derivative liabilities based on interest rates was \$0.3 million loss during the 3-month period ended March 31, 2019 (3-month period ended April 1, 2018 – loss of \$0.04 million), which was recorded in the unaudited condensed consolidated statement of comprehensive income (loss) in Interest 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 3-month period ended March 31, 2019.

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 March 31, 2019, the Partnership had foreign exchange swaps outstanding of nil (December 31, 2018 – nil) and foreign exchange forwards outstanding of nil (December 31, 2018 – nil).

Liquidity risk

The Partnership is required to operate within certain quarterly financial covenants. On March 15, 2019, due to significant changes in business conditions since the entering into of the Senior Credit Agreement in April 2018, the Partnership received the unanimous consent of the lenders to make changes to the ratio of total net funded debt to EBITDA covenant and to the ratio of senior secured net funded debt to EBITDA covenant contained in the Senior Credit Agreement. Refer to note 10 for additional information.

Interest rate risk

The Partnership holds interest rate swaps, contracted to fix the interest rate on a notional amount of \$100.0 million at March 31, 2019 (December 31, 2018 – \$100.0 million). The interest rate swaps are maturing during the 3-month period ended March 2020.

17 Cash and cash equivalents

	March 31, 2019	December 31, 2018
	\$	\$
Cash and cash equivalents	142,143	169,884
Bank indebtedness	(7,138)	-
Cash and cash equivalents in the unaudited condensed consolidated statement of cash flows	<u>135,005</u>	<u>169,884</u>

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

18 Non-cash working capital

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

	3-month period ended March 31, 2019 \$	3-month period ended April 1, 2018 \$
Increase in trade and other receivables	(15,041)	(19,807)
Decrease (increase) in receivables from related parties	(5)	31
Increase in inventories	(4,817)	(18,245)
Increase in prepaid expenses	(3,498)	(6,702)
Increase in other long-term assets	(2,394)	-
Decrease in income taxes	266	292
Increase (decrease) in trade and other payables	(28,303)	2,119
Increase in payables to related parties	1,167	5,691
	<u>(52,625)</u>	<u>(36,621)</u>

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:

	Advances to partners \$	Prepaid interest \$	Accrued interest \$	Distri- butions payable \$	Long term debt \$	Partner- ship units \$	Lease liabilities \$	Total \$
As of January 1, 2018	(6,417)	(623)	149	10,382	416,315	356,240	120,057	896,103
Proceeds from long-term debt	-	-	-	-	38,050	-	-	38,050
Repayment of long-term debt	-	-	-	-	(285)	-	-	(285)
Payment of deferred financing fees	-	-	-	-	(232)	-	-	(232)
Payment of lease liabilities	-	-	-	-	-	-	(3,719)	(3,719)
Interest paid on long-term debt	-	(2,853)	(154)	-	(233)	-	-	(3,240)
Distributions and advances paid, net	(1,519)	-	-	(10,382)	-	4,876	-	(7,025)
Items not in financing activities	1,928	2,066	6,405	10,447	6,905	184	2,751	30,686
As of April 1, 2018	<u>(6,008)</u>	<u>(1,410)</u>	<u>6,400</u>	<u>10,447</u>	<u>460,520</u>	<u>361,300</u>	<u>119,089</u>	<u>950,338</u>
As of January 1, 2019	(1,704)	(408)	3,230	10,723	577,894	376,274	115,130	1,081,139
Proceeds from long-term debt	-	-	-	-	24,777	-	-	24,777
Repayment of long-term debt	-	-	-	-	(1,254)	-	-	(1,254)
Payment of deferred financing fees	-	-	-	-	(286)	-	-	(286)
Payment of lease liabilities	-	-	-	-	-	-	(4,225)	(4,225)
Interest paid on long-term debt	-	(2,285)	(162)	-	(141)	-	-	(2,588)
Distributions and advances paid, net	1,436	-	-	(10,723)	-	7,317	-	(1,970)
Items not in financing activities	-	1,666	4,168	10,880	3,576	613	1,301	22,204
As of March 31, 2019	<u>(268)</u>	<u>(1,027)</u>	<u>7,236</u>	<u>10,880</u>	<u>604,566</u>	<u>384,204</u>	<u>112,206</u>	<u>1,117,797</u>

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

20 Transition reconciliation

The following are reconciliations from the previous lease recognition guidance in IAS 17, to the new standard on leases, IFRS 16, adopted January 1, 2019. Reconciliations are provided for the unaudited condensed consolidated statement of financial position at March 31, 2019, December 31, 2018 and January 1, 2018, the unaudited condensed consolidated statement of comprehensive income (loss) for the 3-month periods ended March 31, 2019 and April 1, 2018, the unaudited condensed consolidated statement of cash flows for the 3-month periods ended March 31, 2019 and April 1, 2018 and the Segment Adjusted EBITDA for the 3-month periods ended March 31, 2019 and April 1, 2018. Refer to note 3 for additional information.

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

	March 31, 2019			December 31, 2018		
	IAS 17	Transition effect	IFRS 16	IAS 17	Transition effect	IFRS 16
	\$	\$	\$	\$	\$	\$
Assets						
Current assets						
Cash and cash equivalents	142,143	-	142,143	169,884	-	169,884
Trade and other receivables	136,879	-	136,879	127,633	-	127,633
Receivables from related parties	177	-	177	172	-	172
Current portion of advances to partners	268	-	268	-	-	-
Inventories	206,631	-	206,631	202,916	-	202,916
Income tax recoverable	-	-	-	362	-	362
Prepaid expenses	13,863	(2,839)	11,024	6,904	(2,839)	4,065
	499,961	(2,839)	497,122	507,871	(2,839)	505,032
Non-current assets						
Advances to partners	-	-	-	1,704	-	1,704
Property, plant and equipment	782,842	-	782,842	786,022	-	786,022
Right-of-use assets	-	91,322	91,322	-	94,247	94,247
Other long-term assets	6,359	-	6,359	10	-	10
Goodwill	160,939	-	160,939	160,939	-	160,939
Intangible assets	15,780	-	15,780	14,924	-	14,924
Deferred income taxes	33,835	-	33,835	33,440	-	33,440
Total assets	1,499,716	88,483	1,588,199	1,504,910	91,408	1,596,318
Liabilities						
Current liabilities						
Bank indebtedness	7,138	-	7,138	-	-	-
Trade and other payables	208,788	-	208,788	238,856	-	238,856
Payables to related parties	6,787	-	6,787	5,620	-	5,620
Income tax payable	608	-	608	80	-	80
Distributions payable	10,880	-	10,880	10,723	-	10,723
Current portion of provisions	238	-	238	292	-	292
Current portion of long-term debt	13,755	-	13,755	13,939	-	13,939
Current portion of lease liabilities	-	15,974	15,974	-	16,178	16,178
	248,194	15,974	264,168	269,510	16,178	285,688
Non-current liabilities						
Long-term debt	590,811	-	590,811	563,955	-	563,955
Lease liabilities	-	96,232	96,232	-	98,952	98,952
Provisions	5,620	-	5,620	5,398	-	5,398
Pensions	103,376	-	103,376	104,939	-	104,939
Post-retirement benefits	56,378	-	56,378	54,051	-	54,051
Liabilities to non-unitholders	1,004,379	112,206	1,116,585	997,853	115,130	1,112,983
Current portion of Partnership units liability	6,187	-	6,187	-	-	-
Long-term portion of Partnership units liability	111,884	-	111,884	116,524	-	116,524
Total Partnership units liability	118,071	-	118,071	116,524	-	116,524
Total liabilities	1,122,450	112,206	1,234,656	1,114,377	115,130	1,229,507
Equity						
Partnership units	384,204	-	384,204	376,274	-	376,274
Deficit	(93,587)	(23,723)	(117,310)	(78,780)	(23,722)	(102,502)
Accumulated other comprehensive income	86,649	-	86,649	93,039	-	93,039
Total equity	377,266	(23,723)	353,543	390,533	(23,722)	366,811
Total equity and liabilities	1,499,716	88,483	1,588,199	1,504,910	91,408	1,596,318

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

	January 1, 2018		
	IAS 17	Transition effect	IFRS 16
	\$	\$	\$
Assets			
Current assets			
Cash and cash equivalents	8,837	-	8,837
Trade and other receivables	113,194	-	113,194
Receivables from related parties	85	-	85
Current portion of advances to partners	1,928	-	1,928
Inventories	192,394	-	192,394
Income tax reoverable	522	-	522
Prepaid expenses	8,007	(2,498)	5,509
	<u>324,967</u>	<u>(2,498)</u>	<u>322,469</u>
Non-current assets			
Advances to partners	4,489	-	4,489
Property, plant and equipment	761,610	-	761,610
Right-of-use assets	-	99,174	99,174
Other long-term assets	6,331	-	6,331
Goodwill	160,939	-	160,939
Intangible assets	15,327	-	15,327
Deferred income taxes	26,092	-	26,092
Total assets	<u><u>1,299,755</u></u>	<u><u>96,676</u></u>	<u><u>1,396,431</u></u>
Liabilities			
Current liabilities			
Bank indebtedness	9,051	-	9,051
Trade and other payables	190,698	-	190,698
Payables to related parties	2,596	-	2,596
Income tax payable	498	-	498
Distributions payable	10,382	-	10,382
Current portion of provisions	333	-	333
Current portion of long-term debt	190,947	-	190,947
Current portion of lease liabilities	-	15,169	15,169
	<u>404,505</u>	<u>15,169</u>	<u>419,674</u>
Non-current liabilities			
Long-term debt	225,368	-	225,368
Lease liabilities	-	104,888	104,888
Provisions	5,973	-	5,973
Pensions	119,558	-	119,558
Post-retirement benefits	60,457	-	60,457
Liabilities to non-unitholders	<u>815,861</u>	<u>120,057</u>	<u>935,918</u>
Current portion of Partnership units liability	1,928	-	1,928
Long-term portion of Partnership units liability	158,381	-	158,381
Total Partnership units liability	<u>160,309</u>	<u>-</u>	<u>160,309</u>
Total liabilities	<u>976,170</u>	<u>120,057</u>	<u>1,096,227</u>
Equity			
Partnership units	356,240	-	356,240
Deficit	(99,742)	(23,381)	(123,123)
Accumulated other comprehensive income	67,087	-	67,087
Total equity	<u>323,585</u>	<u>(23,381)</u>	<u>300,204</u>
Total equity and liabilities	<u><u>1,299,755</u></u>	<u><u>96,676</u></u>	<u><u>1,396,431</u></u>

Kruger Products L.P.
Notes to Unaudited Condensed Consolidated Financial Statements
For the 3-month periods ended March 31, 2019 and April 1, 2018

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

	3-month period ended March 31, 2019			3-month period ended April 1, 2018		
	IAS 17	Transition effect	IFRS 16	IAS 17	Transition effect	IFRS 16
	\$	\$	\$	\$	\$	\$
Revenue	350,977	-	350,977	323,735	-	323,735
Expenses						
Cost of sales	320,930	(822)	320,108	287,369	(1,317)	286,052
Selling, general and administrative expenses	22,548	(492)	22,056	22,953	(19)	22,934
Gain on sale of non-financial assets	-	-	-	(215)	-	(215)
Restructuring costs, net	65	-	65	-	-	-
Operating income	7,434	1,314	8,748	13,628	1,336	14,964
Interest expense	9,996	1,301	11,297	11,313	1,336	12,649
Other expense	849	-	849	1,788	-	1,788
Income (loss) before income taxes	(3,411)	13	(3,398)	527	-	527
Income taxes	(186)	-	(186)	(1,050)	-	(1,050)
Net income (loss) for the period	(3,225)	13	(3,212)	1,577	-	1,577
Other comprehensive income (loss)						
Items that will not be reclassified to net income (loss):						
Remeasurements of pensions	2,027	-	2,027	16,806	-	16,806
Remeasurements of post-retirement benefits	(2,130)	-	(2,130)	638	-	638
Items that will not be reclassified to net income (loss):						
Cumulative translation adjustment	(6,390)	-	(6,390)	8,844	-	8,844
Total other comprehensive income (loss) for the period	(6,493)	-	(6,493)	26,288	-	26,288
Comprehensive income (loss) for the period	(9,718)	13	(9,705)	27,865	-	27,865

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2019 and April 1, 2018

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

	3-month period ended March 31, 2019			3-month period ended April 1, 2018		
	IAS 17	Transition effect	IFRS 16	IAS 17	Transition effect	IFRS 16
	\$	\$	\$	\$	\$	\$
Cash flows from (used in) operating activities						
Net income (loss) for the period	(3,225)	13	(3,212)	1,577	-	1,577
Items not affecting cash						
Depreciation	11,469	2,911	14,380	12,815	2,383	15,198
Amortization	362	-	362	295	-	295
Gain (loss) on sale of property, plant and equipment	(5)	-	(5)	434	-	434
Change in amortized cost of Partnership units liability	1,547	-	1,547	2,678	-	2,678
Foreign exchange gain	(698)	-	(698)	(241)	-	(241)
Change in fair value of derivatives	-	-	-	(649)	-	(649)
Interest expense	9,996	1,301	11,297	11,313	1,336	12,649
Pension and post-retirement benefits	2,445	-	2,445	3,344	-	3,344
Provisions	170	-	170	48	-	48
Income taxes	(186)	-	(186)	(1,050)	-	(1,050)
Gain on sale of non-financial assets	-	-	-	(215)	-	(215)
Total items not affecting cash	25,100	4,212	29,312	28,772	3,719	32,491
Net change in non-cash working capital	(52,612)	(13)	(52,625)	(36,621)	-	(36,621)
Contributions to pension and post-retirement benefit plans	(3,112)	-	(3,112)	(3,987)	-	(3,987)
Provisions paid	(65)	-	(65)	(41)	-	(41)
Income tax payments	(259)	-	(259)	(352)	-	(352)
Net cash used in operating activities	(34,173)	4,212	(29,961)	(10,652)	3,719	(6,933)
Cash flows from (used in) investing activities						
Purchases of property, plant and equipment	(5,521)	-	(5,521)	(15,718)	-	(15,718)
Purchases of property, plant and equipment related to the TAD2 project	(11,116)	-	(11,116)	-	-	-
Interest paid on credit facilities related to the TAD2 project	(684)	-	(684)	-	-	-
Purchases of software	(1,218)	-	(1,218)	-	-	-
Proceeds on sale of property, plant and equipment	5	-	5	331	-	331
Net cash used in investing activities	(18,534)	-	(18,534)	(15,387)	-	(15,387)
Cash flows from (used in) financing activities						
Proceeds from long-term debt	24,777	-	24,777	38,050	-	38,050
Repayment of long-term debt	(1,254)	-	(1,254)	(285)	-	(285)
Payment of deferred financing fees	(286)	-	(286)	(232)	-	(232)
Payment of lease liabilities	-	(4,225)	(4,225)	-	(3,719)	(3,719)
Interest paid on long-term debt	(2,588)	-	(2,588)	(3,240)	-	(3,240)
Distributions and advances paid, net	(1,970)	-	(1,970)	(7,025)	-	(7,025)
Net cash from financing activities	18,679	(4,225)	14,454	27,268	(3,719)	23,549
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(838)	-	(838)	322	-	322
Increase (decrease) in cash and cash equivalents during the period	(34,866)	(13)	(34,879)	1,551	-	1,551
Cash and cash equivalents - Beginning of period	169,884	-	169,884	(214)	-	(214)
Cash and cash equivalents - End of period	135,018	(13)	135,005	1,337	-	1,337

Kruger Products L.P.
Notes to Unaudited Condensed Consolidated Financial Statements
For the 3-month periods ended March 31, 2019 and April 1, 2018

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

	3-month period ended March 31, 2019			3-month period ended April 1, 2018		
	IAS 17	Transition effect	IFRS 16	IAS 17	Transition effect	IFRS 16
	\$	\$	\$	\$	\$	\$
Segment revenue						
Consumer	296,184	-	296,184	270,210	-	270,210
AFH	54,793	-	54,793	53,525	-	53,525
Other	-	-	-	-	-	-
Total segment revenue	<u>350,977</u>	<u>-</u>	<u>350,977</u>	<u>323,735</u>	<u>-</u>	<u>323,735</u>
Segment Adjusted EBITDA						
Consumer	27,449	2,643	30,092	27,929	3,138	31,067
AFH	(8,166)	1,582	(6,584)	(331)	581	250
Other	42	-	42	(641)	-	(641)
Total Segment Adjusted EBITDA	<u>19,325</u>	<u>4,225</u>	<u>23,550</u>	<u>26,957</u>	<u>3,719</u>	<u>30,676</u>
Depreciation and amortization	11,831	2,911	14,742	13,110	2,383	15,493
Interest expense	9,996	1,301	11,297	11,313	1,336	12,649
Change in amortized cost of Partnership units liability	1,547	-	1,547	2,678	-	2,678
Change in fair value of derivatives	-	-	-	(649)	-	(649)
(Gain) Loss on sale of property, plant and equipment	(5)	-	(5)	434	-	434
Gain on sale of non-financial assets	-	-	-	(215)	-	(215)
Restructuring costs, net	65	-	65	-	-	-
Foreign exchange gain	(698)	-	(698)	(241)	-	(241)
Income (loss) before income taxes	<u>(3,411)</u>	<u>13</u>	<u>(3,398)</u>	<u>527</u>	<u>-</u>	<u>527</u>
Income taxes	<u>(186)</u>	<u>-</u>	<u>(186)</u>	<u>(1,050)</u>	<u>-</u>	<u>(1,050)</u>
Net income (loss)	<u>(3,225)</u>	<u>13</u>	<u>(3,212)</u>	<u>1,577</u>	<u>-</u>	<u>1,577</u>