



KRUGER PRODUCTS L.P.

AUDITED CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEARS ENDED DECEMBER 31, 2020 AND DECEMBER 31, 2019



Independent auditor's report

To the Unitholders of Kruger Products L.P.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Kruger Products L.P. and its subsidiaries (together, the Partnership) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Partnership's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Partnership in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the KP Tissue Inc. and Kruger Products L.P. Management's Discussion and Analysis of Results of Operations and Financial Position, which we obtained prior to the date of this auditor's report and the information, other than the

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215



financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Partnership's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Partnership or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Partnership's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Partnership's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Partnership to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Partnership to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 11, 2021

Kruger Products L.P.

Consolidated Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	December 31, 2020	December 31, 2019
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	128,739	93,141
Trade and other receivables (note 6)	88,041	89,236
Receivables from related parties (note 18)	13	59
Current portion of advances to partners (note 16)	5,647	80
Inventories (note 7)	215,934	190,686
Income tax recoverable (note 17)	358	466
Prepaid expenses	8,315	8,341
	<u>447,047</u>	<u>382,009</u>
Non-current assets		
Property, plant and equipment (note 8)	1,194,191	935,010
Right-of-use assets (note 9)	107,633	97,582
Other long-term assets	10	1,766
Goodwill (note 10)	152,021	160,939
Intangible assets (note 10)	26,205	15,317
Deferred income taxes (note 17)	24,217	30,988
	<u>1,951,324</u>	<u>1,623,611</u>
Total assets		
	<u>1,951,324</u>	<u>1,623,611</u>
Liabilities		
Current liabilities		
Trade and other payables (note 12)	332,072	242,357
Payables to related parties (note 18)	9,097	6,809
Income tax payable (note 17)	554	325
Distributions payable (notes 16 and 18)	11,919	11,393
Current portion of provisions (note 13)	4,913	759
Current portion of long-term debt (note 14)	9,495	4,937
Current portion of lease liabilities (note 15)	25,341	18,080
	<u>393,391</u>	<u>284,660</u>
Non-current liabilities		
Long-term debt (note 14)	743,978	586,125
Lease liabilities (note 15)	105,634	100,682
Provisions (note 13)	9,549	6,148
Other long-term liabilities	575	-
Pensions (note 11)	161,333	140,674
Post-retirement benefits (note 11)	63,038	57,005
	<u>1,477,498</u>	<u>1,175,294</u>
Liabilities to non-unitholders		
Current portion of Partnership units liability (note 16)	31,244	5,103
Long-term portion of Partnership units liability (note 16)	154,180	138,412
	<u>185,424</u>	<u>143,515</u>
Total Partnership units liability		
	<u>185,424</u>	<u>143,515</u>
Total liabilities	<u>1,662,922</u>	<u>1,318,809</u>
Equity		
Partnership units (note 16)	439,571	408,978
Deficit	(224,503)	(183,188)
Accumulated other comprehensive income	73,334	79,012
	<u>288,402</u>	<u>304,802</u>
Total equity	<u>288,402</u>	<u>304,802</u>
Total equity and liabilities	<u>1,951,324</u>	<u>1,623,611</u>

Commitments and contingencies (note 19)

Subsequent events (notes 14 and 16)

Approved by the Board of Directors

/s/ James Hardy
Director

/s/ David Angel
Director

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

Kruger Products L.P.

Consolidated Statement of Comprehensive Loss

For the years ended December 31, 2020 and December 31, 2019

(tabular amounts are in thousands of Canadian dollars)

	2020	2019
	\$	\$
Revenue (notes 18 and 26)	1,515,983	1,434,113
Expenses		
Cost of sales (notes 18 and 20)	1,264,448	1,256,979
Selling, general and administrative expenses (notes 18 and 20)	128,062	99,603
Loss on sale of non-financial assets	1	13
Impairment charge (note 10)	8,918	-
Restructuring costs, net (note 13)	1,275	1,904
Operating income	113,279	75,614
Interest expense (note 14)	40,965	45,071
Other expense (note 5)	36,353	25,951
Income before income taxes	35,961	4,592
Income taxes (note 17)	8,655	2,494
Net income for the year	27,306	2,098
Other comprehensive loss		
Items that will not be reclassified to net income:		
Remeasurements of pensions	(16,977)	(35,422)
Remeasurements of post-retirement benefits	(4,871)	(2,121)
Items that may be subsequently reclassified to net income:		
Cumulative translation adjustment	(5,678)	(14,027)
Total other comprehensive loss for the year	(27,526)	(51,570)
Comprehensive loss for the year	(220)	(49,472)

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

Kruger Products L.P.

Consolidated Statement of Changes in Equity

For the years ended December 31, 2020 and December 31, 2019

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

	Partnership units		Deficit \$	Accumulated other comprehensive income \$	Total equity \$
	#	\$			
As of January 1, 2019	59,571,399	376,274	(102,502)	93,039	366,811
Distributions payable (note 16)	-	-	(11,393)	-	(11,393)
Distributions paid (note 16)	-	-	(33,107)	-	(33,107)
Fair value adjustment (note 16)	-	741	(741)	-	-
Change in actuarial loss on pension	-	-	(35,422)	-	(35,422)
Change in actuarial loss on post-retirement benefits	-	-	(2,121)	-	(2,121)
Cumulative translation adjustment	-	-	-	(14,027)	(14,027)
Net income for the year	-	-	2,098	-	2,098
Issuance of partnership units (note 16)	3,721,737	31,963	-	-	31,963
As of December 31, 2019	63,293,136	408,978	(183,188)	79,012	304,802
As of January 1, 2020	63,293,136	408,978	(183,188)	79,012	304,802
Distributions payable (note 16)	-	-	(11,919)	-	(11,919)
Distributions paid (note 16)	-	-	(35,183)	-	(35,183)
Fair value adjustment (note 16)	-	(329)	329	-	-
Change in actuarial loss on pension	-	-	(16,977)	-	(16,977)
Change in actuarial loss on post-retirement benefits	-	-	(4,871)	-	(4,871)
Cumulative translation adjustment	-	-	-	(5,678)	(5,678)
Net income for the year	-	-	27,306	-	27,306
Issuance of partnership units (note 16)	2,923,863	30,922	-	-	30,922
As of December 31, 2020	66,216,999	439,571	(224,503)	73,334	288,402

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

Kruger Products L.P.
Consolidated Statement of Cash Flows
For the years ended December 31, 2020 and December 31, 2019

(tabular amounts are in thousands of Canadian dollars)

	2020	2019
	\$	\$
Cash flows from (used in) operating activities		
Net income for the year	27,306	2,098
Items not affecting cash		
Depreciation	67,129	59,113
Amortization	1,657	1,542
(Gain) loss on sale of property, plant and equipment	909	(18)
Change in amortized cost of Partnership units liability (notes 4 and 5)	47,012	26,991
Loss on sale of shares (note 5)	-	586
Foreign exchange gain (note 5)	(10,299)	(1,986)
Change in fair value of derivatives (note 5)	(360)	360
Interest expense	40,965	45,071
Pension and post-retirement benefits (note 11)	14,635	11,064
Provisions (note 13)	6,231	4,058
Income taxes	8,655	2,494
Loss on sale of non-financial assets	1	13
Impairment charge (note 10)	8,918	-
Total items not affecting cash	185,453	149,288
Net change in non-cash working capital (note 27)	60,328	1,487
Contributions to pension and post-retirement benefit plans (note 11)	(15,622)	(15,475)
Provisions paid (note 13)	(2,194)	(1,037)
Income tax payments	(1,738)	(2,741)
Net cash from operating activities	253,533	133,620
Cash flows from (used in) investing activities		
Purchases of property, plant and equipment	(31,581)	(29,942)
Purchases of property, plant and equipment and software related to the TAD Sherbrooke Project	(263,348)	(139,587)
Interest paid on credit facilities related to the TAD Sherbrooke Project	(10,676)	(3,546)
Government assistance received	398	325
Purchases of software (note 10)	(4,974)	(1,935)
Purchases of trademarks (note 10)	(4,538)	-
Proceeds on sale of shares (note 5)	992	5,724
Proceeds on sale of property, plant and equipment	-	18
Net cash used in investing activities	(313,727)	(168,943)
Cash flows from (used in) financing activities (note 28)		
Proceeds from long-term debt	262,673	53,933
Repayment of long-term debt	(92,714)	(35,382)
Payment of deferred financing fees	(509)	(1,383)
Payment of lease liabilities	(19,283)	(16,978)
Interest paid on long-term debt	(25,706)	(29,526)
Distributions and advances paid, net (note 16)	(26,404)	(10,243)
Net cash from (used in) financing activities	98,057	(39,579)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(2,265)	(1,841)
Increase (decrease) in cash and cash equivalents during the year	35,598	(76,743)
Cash and cash equivalents - Beginning of year	93,141	169,884
Cash and cash equivalents - End of year	128,739	93,141

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

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

1 General information

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

2 Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and with interpretations of the International Financial Reporting Committee which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook - Accounting. These consolidated financial statements were approved by the board of directors of KPGP Inc. on March 10, 2021.

The Partnership consolidates all entities that it controls. In addition, the Partnership's participation in joint arrangements classified as joint operations is accounted for in the consolidated financial statements by reflecting, line by line, the Partnership's share of the assets held jointly, liabilities incurred jointly, and revenue and expenses arising from the joint operations.

The principal subsidiaries of the Partnership that have been consolidated are as follows:

K.T.G. (USA) Inc. (KTG)
Kruger Products (USA) Inc. (KP USA)
Grupo Tissue de Mexico S de RL de CV (GTM) (note 5)
TAD Luxembourg S.A.R.L
TAD Canco Inc.
Kruger Products Real Estate Holdings Inc.
Kruger Products AFH GP. Inc.
Kruger Products AFH L.P.
Kruger Products Sherbrooke Inc. (KPSI)
Kruger Products SB Inc. (KPSB)
KP TAD Holdco Inc.
TAD1 Canco I Inc.
TAD1 Canco II Inc.
TAD1 GP ULC
TAD2 GP ULC
TAD2 US LP
TAD1 US LP

The principal joint operations of the Partnership that have been consolidated are as follows:

Kruger Sherbrooke Water Treatment Inc.

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

3 Summary of significant accounting policies

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

(a) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the embedded derivative and the derivative liabilities, which are measured at fair value through profit or loss and accounting for pensions (note 3(s)). The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Partnership's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant are disclosed in note 4.

(b) Consolidation

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

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

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

The Partnership has determined that its foreign operations located in the United States (KTG and KP USA) and TAD Canco Inc., TAD Luxembourg S.A.R.L., TAD1 Canco I Inc., TAD1 GP ULC, TAD1 US LP and TAD1 Canco II Inc. have a functional currency of U.S. dollars. Mexico (GTM) had a functional currency of the Mexican peso (note 5). Consequently, revenue and expenses of these foreign operations are recorded using the rate of exchange in effect at the dates of the transactions and the translation of assets and liabilities use the rates of exchange in effect at the period-end date, with the resulting net unrealized gains and losses arising from the translation of these foreign operations included as part of the currency translation adjustment in Other comprehensive income (loss).

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

(ii) Transactions and balances

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

(e) *Cash and cash equivalents*

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

(f) *Trade receivables*

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

(g) *Inventories*

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

(h) *Borrowing costs*

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

(i) *Property, plant and equipment*

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

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

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

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

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

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

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

(j) *Goodwill*

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

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

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

(k) *Intangible assets*

(i) Trademarks

Separately acquired trademarks have indefinite useful lives and are carried at cost. The trademarks have indefinite useful lives as the trademarks can be renewed infinitely without substantial cost.

(ii) Software and licences

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

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

(l) *Impairment of non-financial assets*

The carrying values of non-financial assets with finite lives, such as property, plant and equipment and intangible assets with finite useful lives are assessed for impairment whenever events or changes in circumstances indicate

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

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

(m) Related party transactions

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

(n) Leases

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 as follows:

Land	25 years
Buildings	1 to 34 years
Equipment	1 to 10 years
Motor vehicles	1 to 4 years

The lease term includes periods covered by an option to extend if the Partnership is reasonably certain to exercise that option.

In addition, the Right-of-use asset may be 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. The weighted-average rate applied is 4.33% at December 31, 2020. 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.

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

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 consolidated statement of financial position.

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.

(o) Provisions

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

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

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

(p) Government assistance, investment tax credits and U.S. State tax credits

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

(q) Revenue recognition

The Partnership recognizes revenue when control of the products has transferred, being when the products are delivered to, and accepted by, the customer (based on shipping terms).

Revenue is measured based on the price specified in the sales contract and is net of discounts, rebates and allowances. Reductions to revenue for expected and actual payments to customers for rebates and allowances are based on actual expenses incurred during the period, on estimates of what is due to customers for estimated credits earned during the period and any adjustments for credits based on actual activity. Revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. As all of the Partnership's sales contracts have a term of less than one year, the Partnership has elected to use the practical expedient and therefore not capitalize closing contract costs or disclose unfulfilled performance obligations. A contract liability is recognized for expected discounts, rebates and allowances payable to customers in relation to sales made in the reporting period. The contract liability is included in Trade and other payables.

(r) Cost of sales and SG&A expenses

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

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

(s) *Pensions and post-retirement benefits*

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

- The costs of pensions under defined benefit plans and post-retirement benefits are actuarially determined using the projected unit credit method and management's best estimate of expected plan investment performance for funded plans, salary escalation, retirement ages of employees and expected health-care costs. Actuarial valuations for defined benefit plans and post-retirement benefits are completed annually. The discount rate applied in arriving at the present value of the pension liability represents the yield on high quality corporate bonds denominated in the currency in which the benefits are to be paid and having terms to maturity approximating the terms of the related pension liability.
- Pension assets are valued at fair value.
- Past-service costs from plan amendments are recognized immediately to the extent the benefits are vested in net income (loss) and are otherwise amortized on a straight-line basis over the average period until the benefits become vested.
- The actuarial gains or losses are recognized in full in the period in which they occur in Other comprehensive income (loss) without recycling to the income statement in subsequent periods. Amounts recognized in Other comprehensive income (loss) are recognized immediately in Retained earnings (Deficit).
- The pension expense is split into two components: (i) current service costs and past-service costs have been recognized in Cost of sales and SG&A expenses; and (ii) the interest cost on the benefit obligation offset by the expected return on plan assets is recorded within Interest expense on the consolidated statement of comprehensive income (loss).
- The Partnership also participates in a multi-employer pension plan and defined contribution pension plans. The costs of the multi-employer pension plan and defined contribution pension plans are charged to expense as the contributions become payable.

(t) *Income taxes*

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

The Partnership is not a tax paying entity. The income from the Partnership flows to the partners, Kruger Inc., KPGP and KPT. Accordingly no provision for income taxes has been made for the Partnership's income. The U.S. entities, KP USA and KTG are subject to tax on the basis of the tax laws enacted in the U.S. where the entities operate and generate taxable income. The remaining entities, TAD Canco Inc., GTM (note 5), 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 subject to tax on the basis of the laws enacted in Canada, Mexico and Luxembourg.

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

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

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred income tax assets and liabilities are presented as non-current in the consolidated statement of financial position.

(u) *Financial instruments*

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

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

(i) *Investments and other financial assets*

The Partnership accounted for its investments and other financial assets as follows:

Classification

The Partnership classifies its financial assets in the following measurement categories, as disclosed in note 23:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI), or through profit or loss), and
- those to be measured at amortized cost

The classification depends on the Partnership's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Partnership has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Partnership reclassifies debt investments only when its business model for managing those assets changes.

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

Measurement

At initial recognition, the Partnership measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Partnership's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Partnership classifies its debt instruments:

- *Amortized cost:* Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in Interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss. Impairment losses are included in SG&A expenses.
- *FVOCI:* Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from deficit to profit or loss and recognized in Other (income) expense. Interest income from these financial assets is included in Interest income using the effective interest rate method. Foreign exchange gains and losses are presented in SG&A expenses in the consolidated statement of comprehensive income (loss).
- *FVPL:* Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within Other (income) expense in the period in which it arises.

Equity instruments

The Partnership subsequently measures all equity investments at fair value. Where the Partnership's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Partnership's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in Other (income) expense in the consolidated statement of comprehensive income (loss) as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

The Partnership assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Partnership applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

(ii) *Financial liabilities at amortized cost*

Financial liabilities at amortized cost include trade payables, accrued liabilities, contract liabilities, payables to related parties, distributions payable, long-term debt, lease liabilities and the Partnership units liability. Payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables, accrued liabilities, contract liabilities, payables to related parties and distributions payable are measured at amortized cost using the effective interest method. Long-term debt is recognized initially at fair value, net of any transaction costs incurred and subsequently at amortized cost using the effective interest method. Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date and subsequently at amortized cost using the effective interest method. The Partnership units liability is recognized initially at fair value and subsequently at amortized cost. Amortized cost is estimated based on the expected tax distributions to be paid as required by the partnership agreement using a discount rate that reflects current market assessments of the time value of money and the rates specific to the obligation, and a terminal value as the obligation will continue indefinitely.

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

(v) *Fair value hierarchy*

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

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

(w) *Derivative financial instruments*

From time to time the Partnership uses derivative financial instruments to manage foreign currency risk and interest rate risk. Foreign exchange swaps and foreign exchange forwards are used from time to time to manage U.S. dollar borrowings. Interest rate swaps are used to fix the interest rate under certain long-term debt obligations. As these derivatives do not qualify for hedge accounting, the changes in their fair value are recorded in the consolidated statement of comprehensive income (loss) in Other (income) expense. The derivative liabilities are recorded in the consolidated statement of financial position in Trade and other payables.

(x) *Dividend reinvestment plan*

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

(y) *Joint arrangements*

In accordance with IFRS 11, "Joint Arrangements", a joint arrangement is a contractual arrangement wherein two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement when the strategic financial and operating decisions relating to the arrangement require the unanimous consent of

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

the parties sharing control. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each party.

The parties to a joint operation have rights to the assets, and obligations for the liabilities, relating to the arrangement whereas joint ventures have rights to the net assets of the arrangement. In accordance with IFRS 11, the Partnership accounts for joint operations by recognizing its share of any assets held jointly and any liabilities incurred jointly, along with its share of the revenue from the sale of the output by the joint operation, and its expenses, including its share of any expenses incurred jointly.

Transactions with joint operations

Where the Partnership contributes or sells assets to a joint operation, the Partnership recognizes only that portion of the gain or loss that is attributable to the interests of the other parties.

Where the Partnership purchases assets from a joint operation, the Partnership does not recognize its share of the profit or loss of the joint operation from the transaction until it resells the assets to an independent party.

The Partnership adjusts joint operation financial statement amounts, if required, to reflect consistent accounting policies.

(z) Accounting standards implemented effective January 1, 2020

- (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 was for annual periods beginning on or after January 1, 2020. The amended standards had no impact on the 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 was for annual periods beginning on or after January 1, 2020. The amended standard had no impact on the consolidated financial statements.
- (iii) IFRS 9/IAS 39 and IFRS 7, Interest Rate Benchmark Reform (Phase 1). In September 2019, the IASB issued amendments that provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform and require certain related disclosures. The mandatory effective date was for annual periods beginning on or after January 1, 2020. The amended standards had no impact on the consolidated financial statements.
- (iv) 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. The mandatory effective date was for annual periods beginning on or after June 1, 2020. The amended standard had no impact on the consolidated financial statements.

(aa) Accounting standards issued but not yet applied

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2021, with earlier application permitted where indicated. Management continues to assess the impact of these standards and amendments and have determined that the standards and amendments will not be early adopted.

- (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

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

after January 1, 2023, with early adoption permitted. The amended standard is not expected to have an impact on the consolidated financial statements.

- (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 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 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 an impact on the consolidated financial statements.
- (v) 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 would be annual periods beginning on or after January 1, 2021, with early adoption permitted. The amended standards are not expected to have a significant impact on the consolidated financial statements.

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

4 Critical accounting estimates and judgements

The preparation of these consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the consolidated financial statements and the disclosure of contingencies at the dates of the consolidated statements of financial position, and the reported amounts of revenues and expenses during the reporting periods. On a regular basis and with the information available, management reviews its estimates, including those related to pensions and post-retirement benefits obligations, the Partnership units liability, impairment tests, income taxes, leases and COVID-19. 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. The following are the estimates and judgments applied by management that most significantly affect the Partnership's consolidated financial statements.

Pensions and post-retirement benefits obligations

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

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 11.

Partnership units liability

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

The liability is based on management's best estimate of the net present value of expected future Tax Distributions, which are made on a pro rata basis based on taxes payable by KPT, which results from KPT's taxable income from its partnership interest in KPLP. KPLP updates the net present value of the liability annually and records any resulting change in Other (income) expense. The net present value of the liability is based on a number of assumptions including estimates of taxable income and tax rates, as well as discount rates, growth rates, forecasted Adjusted EBITDA, future commodity prices and foreign exchange rates. Taxable income can differ significantly from accounting income as a result of both timing and permanent tax differences based on enacted tax legislation and therefore changes in the Partnership units obligation are not necessarily indicative of a change in the expected future profitability of KPLP.

As of December 31, 2020, \$185.4 million was recorded as a liability in respect of this obligation (December 31, 2019 - \$143.5 million). As of December 31, 2020, the valuation utilized a discount rate and terminal growth rate of 9.0% and 2.0% (December 31, 2019 - 9.75% and 2.0%), respectively. An increase/decrease in the discount rate by 0.5% would result in a decrease/increase in the Partnership units liability of approximately \$12.0 million and \$13.9 million, respectively. The discount rate reflects the risks associated with the business, which operates primarily in Canada.

The Partnership units liability was adjusted during the year ended December 31, 2020 to reflect the current year advances of \$5.6 million made to the partners required to allow KPT to make tax installment payments. The loss of \$47.0 million

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

recorded during the year ended December 31, 2020 (2019 – loss of \$27.0 million) related to the change in amortized cost of Partnership units liability represents the adjustments made to estimate the current year Tax Distribution and the results of the reassessment performed as of December 31, 2020. The Partnership units liability increased by \$41.9 million due to the change in the discount rate of \$17.3 million, the 2020 Tax Distribution of \$17.5 million less the final 2019 Tax Distribution of \$5.1 million and the changes in other assumptions of \$12.2 million.

Impairment tests

The Partnership performs annual impairment tests for goodwill, as it relates to each of the Consumer Canada and AFH CGU's, and indefinite lived trademarks.

Management completed the annual impairment test for goodwill related to the Consumer Canada CGU, utilizing future forecasts, including consideration of the impact of COVID-19, and concluded that the recoverable amount exceeded the carrying amount as of December 31, 2020 and no impairment was recorded. As of December 31, 2020, the carrying value of the Canada Consumer CGU's goodwill was \$152.0 million.

Management also completed the annual impairment test for goodwill related to the AFH CGU. With respect to the AFH business, travel restrictions and remote working conditions resulting from COVID-19 are having a significant short-term impact on AFH product sales. Although management believes it has implemented a number of strategies to mitigate these uncertainties and recover from the impacts of COVID-19 in the longer-term, the recent historical losses and expected near-term future losses and uncertainties associated with the pandemic have triggered a decline in the value of the AFH CGU's goodwill, resulting in an impairment charge of \$8.9 million. As of December 31, 2020, the carrying value of the AFH CGU's goodwill was nil.

The Partnership completed the annual impairment test for indefinite lived trademarks, including consideration of the impact of COVID-19. Recoverable amounts related to indefinite lived trademarks are determined based on management's best estimate using a relief from royalty model. The estimates of relief from royalty are based on the royalties that would have to be paid based on market royalty rates and projected sales volumes. Additional assumptions include estimates of the discount rate, growth rates, selling price to customer and foreign exchange rates. Management has concluded that current and projected sales volumes support the recoverable amount of the indefinite lived trademarks. As of December 31, 2020, the value of indefinite lived trademarks was \$16.0 million.

Additional information is disclosed in note 10.

Income taxes

The Partnership computes its income taxes in each jurisdiction in which its subsidiaries operate. Estimation of income taxes includes evaluating the recoverability of the deferred tax assets and the income taxes recoverable based on an assessment of the ability to use the underlying tax deductions and credits against future taxable income. The assessment requires an estimate of future taxable income compared to the net operating loss carry forwards and U.S. State tax credits. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period. During the year ended December 31, 2020, the Partnership assessed its ability to utilize the U.S. State tax credits. There were no reversals recorded as a result of this assessment (December 31, 2019 - \$5.1 million).

Leases

A number of critical judgements are required in the application of IFRS 16. These judgements include 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.

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

Key estimates in the application of IFRS 16 include estimating the lease term, determining the appropriate rate to discount lease payments, and assessing whether a Right-of-use asset is impaired.

COVID-19

In March 2020, the World Health Organization characterized the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, as a global pandemic. This has resulted in local governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses in the United States of America and Canada resulting in an economic slowdown. Equity markets have experienced significant volatility and weakness and the local governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. There is significant uncertainty as to the likely effects of this outbreak. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments to quantify the impact this pandemic may have on the financial results and condition of the Partnership in future periods.

Since the Partnership sells products that help consumers with their daily hygiene and cleaning needs, the COVID-19 pandemic has not had a negative impact on the Partnership’s results. In fact, during the year ended December 31, 2020, the Partnership experienced a significant increase in demand and consumption in the Consumer Segment caused in part by changing consumer habits and pantry loading, resulting in increased net sales. In the future, the pandemic may cause reduced demand for the Partnership’s products if it results in a global economic recession. It could also lead to volatility in consumer access to the Partnership’s products due to government actions impacting the Partnership’s ability to produce and ship products or impacting consumers’ movements and access to the Partnership’s products. Management believes that over the long term there will continue to be strong demand for the Partnership’s products. However, the timing and extent of demand recovery in the Partnership’s North American markets, the timing and impact of potential consumer pantry destocking in North American markets, and product demand trends caused by future economic trends are unclear. Accordingly, there may be heightened volatility in net sales and resulting earnings during and subsequent to the duration of the pandemic. The Partnership’s retail customers are also being impacted by the pandemic. Their success in addressing the issues and maintaining their operations could impact consumer access to, and as a result, sales of the Partnership’s products.

During the year ended December 31, 2020, the pandemic has not materially impacted the Partnership’s operations or demand for the Partnership’s products and, as a result, has also not negatively impacted the Partnership’s liquidity position. The Partnership continues to generate operating cash flows to meet the Partnership’s short-term liquidity needs. However, uncertainty resulting from the pandemic could result in an unforeseen disruption to the Partnership’s supply chain (for example a closure of a key manufacturing or distribution facility or the inability of a key supplier or transportation supplier to source and transport materials) that could impact the Partnership’s operations.

During the year ended December 31, 2020, 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. The change in the discount rate relevant to the Partnership’s valuation of its pension liability is disclosed in note 11.

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 December 31, 2020 and that during the year ended December 31, 2020, no triggering event had occurred requiring an impairment test to be performed with respect to property, plant and equipment, the duration and severity of the COVID-19 pandemic could result in future material changes to those assumptions or future impairment charges. Although the Partnership believes that its exposure to credit risk and liquidity risk is generally limited, the risks and uncertainties associated with the COVID-19 pandemic have

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

increased the credit risk and liquidity risk associated with trade receivables and such risks are being closely managed. There was an increase in the provision for expected credit losses to \$1.5 million as of December 31, 2020 (December 31, 2019 - \$0.1 million) due primarily to the impact of COVID-19 on the AFH business.

5 Other expense

	2020	2019
	\$	\$
Foreign exchange gain	(10,299)	(1,986)
Change in amortized cost of		
Partnership units liability (note 4)	47,012	26,991
Change in fair value of derivatives	(360)	360
Loss on sale of shares	-	586
	<u>36,353</u>	<u>25,951</u>

On September 20, 2019, the Partnership sold its share interest in Grupo Tissue de Mexico (GTM) for proceeds of US\$5.1 million. The Partnership received partial proceeds of US\$4.4 million during the year ended December 31, 2019, and the remainder was received in January 2020. The sale resulted in a loss of \$0.6 million, which included a reclassification of cumulative translation adjustment from Accumulated other comprehensive income to Other expense during the year ended December 31, 2019.

6 Trade and other receivables

	December 31, 2020	December 31, 2019
	\$	\$
Trade receivables	85,162	80,838
Other receivables	4,350	8,429
Employee loans	52	21
Less: Allowance for expected credit losses	(1,523)	(52)
	<u>88,041</u>	<u>89,236</u>

The Partnership sells eligible trade receivables owing by certain key customers through a factoring arrangement with the Bank of Nova Scotia, with a facility limit of \$50 million. As eligible trade receivables are sold, the Partnership removes the factored receivables from the consolidated statement of financial position, recognizes the proceeds received as consideration for the transfer and records a loss on factoring, which is included in Interest expense in the consolidated statement of comprehensive loss. Cash flows from the factoring arrangement are presented as operating activities in the consolidated statement of cash flows. Additional information is disclosed in note 23.

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

7 Inventories

	December 31, 2020	December 31, 2019
	\$	\$
Finished products	65,546	76,302
Work-in-process	30,739	32,319
Raw materials and supplies	77,415	42,354
Spare parts	42,234	39,711
	<u>215,934</u>	<u>190,686</u>

Total inventories recognized as Cost of sales during the year ended December 31, 2020 were \$1,073.3 million (2019 – \$1,075.5 million). The Partnership wrote-off inventories during the year ended December 31, 2020 totalling \$4.1 million (2019 - \$3.1 million). Inventory provisions as of December 31, 2020 were \$8.2 million (December 31, 2019 - \$7.2 million).

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

8 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 and impairment	-	(91,200)	(582,854)	-	(674,054)
Net book value as of January 1, 2019	<u>38,006</u>	<u>110,484</u>	<u>600,781</u>	<u>36,751</u>	<u>786,022</u>
Additions	-	-	-	208,257	208,257
Capitalized interest	-	-	-	8,984	8,984
Disposals	-	-	(5)	-	(5)
Remeasurement adjustment (note 13(a))	-	(2,265)	-	-	(2,265)
Government assistance	-	-	(325)	-	(325)
Transfers	-	2,003	32,105	(34,108)	-
Depreciation	-	(5,034)	(42,606)	-	(47,640)
Exchange differences	(76)	(2,713)	(14,889)	(340)	(18,018)
As of December 31, 2019	<u>37,930</u>	<u>102,475</u>	<u>575,061</u>	<u>219,544</u>	<u>935,010</u>
As of December 31, 2019					
Cost	37,930	196,126	1,192,419	219,544	1,646,019
Accumulated depreciation and impairment	-	(93,651)	(617,358)	-	(711,009)
Net book value as of December 31, 2019	<u>37,930</u>	<u>102,475</u>	<u>575,061</u>	<u>219,544</u>	<u>935,010</u>
Additions	-	-	-	301,247	301,247
Capitalized interest	-	-	-	15,740	15,740
Disposals	-	(39)	(870)	-	(909)
Government assistance	-	-	(398)	-	(398)
Transfers	303	125,157	125,449	(250,909)	-
Depreciation	-	(5,580)	(44,931)	-	(50,511)
Exchange differences	(30)	(1,008)	(4,852)	(98)	(5,988)
As of December 31, 2020	<u>38,203</u>	<u>221,005</u>	<u>649,459</u>	<u>285,524</u>	<u>1,194,191</u>
As of December 31, 2020					
Cost	38,203	319,272	1,288,832	285,524	1,931,831
Accumulated depreciation and impairment	-	(98,267)	(639,373)	-	(737,640)
Net book value as of December 31, 2020	<u>38,203</u>	<u>221,005</u>	<u>649,459</u>	<u>285,524</u>	<u>1,194,191</u>

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

9 Right-of-use assets

	Land \$	Buildings \$	Equipment \$	Motor vehicles \$	Total \$
As of January 1, 2019					
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 January 1, 2019	12,899	78,315	2,085	948	94,247
Additions	3,216	8,455	3,006	745	15,422
Right-of-use depreciation	(1,557)	(8,562)	(1,201)	(598)	(11,918)
Exchange differences	-	(156)	(8)	(5)	(169)
As of December 31, 2019	14,558	78,052	3,882	1,090	97,582
As of December 31, 2019					
Cost	38,068	130,522	7,827	2,838	179,255
Accumulated right-of-use depreciation	(23,510)	(52,470)	(3,945)	(1,748)	(81,673)
Net book value as of December 31, 2019	14,558	78,052	3,882	1,090	97,582
Additions	-	20,749	4,401	720	25,870
Right-of-use depreciation	(1,664)	(11,268)	(2,160)	(640)	(15,732)
Exchange differences	-	(63)	(17)	(7)	(87)
As of December 31, 2020	12,894	87,470	6,106	1,163	107,633
As of December 31, 2020					
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)
Net book value as of December 31, 2020	12,894	87,470	6,106	1,163	107,633

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

10 Goodwill and intangible assets

	Trademarks \$	Software \$	Total \$
As of January 1, 2019			
Cost	11,825	10,125	21,950
Accumulated amortization	-	(7,026)	(7,026)
Net book value as of January 1, 2019	11,825	3,099	14,924
Additions	-	1,935	1,935
Amortization	-	(1,542)	(1,542)
Net book value as of December 31, 2019	11,825	3,492	15,317
As of December 31, 2019			
Cost	11,825	12,060	23,885
Accumulated amortization	-	(8,568)	(8,568)
Net book value as of December 31, 2019	11,825	3,492	15,317
Additions	4,538	8,007	12,545
Amortization	-	(1,657)	(1,657)
Net book value as of December 31, 2020	16,363	9,842	26,205
As of December 31, 2020			
Cost	16,363	18,936	35,299
Accumulated amortization	-	(9,094)	(9,094)
Net book value as of December 31, 2020	16,363	9,842	26,205

The carrying value of goodwill as of December 31, 2020 was \$152.0 million (December 31, 2019 - \$160.9 million).

The Partnership performs an annual impairment test for goodwill and indefinite lived trademarks. Additional information is disclosed in note 4.

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

11 Pensions and post-retirement benefits

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

The Partnership has five registered defined benefit pension plans with a final average salary component, four of which are registered in the province of Quebec and one of which is registered in the province of Ontario. The pension obligation, net of plan assets for these five plans of \$136.1 million as of December 31, 2020 (December 31, 2019 - \$118.9 million) is included in Pensions on the consolidated statement of financial position. The solvency deficiency of the defined benefit plan for the Crabtree members is supported by a letter of credit in the amount of \$3.6 million (December 31, 2019 - \$3.6 million).

The Partnership has a Supplementary Retirement Plan (SRP) for designated employees. The accrued benefit liability, net of plan assets related to the SRP of \$18.3 million as of December 31, 2020 (December 31, 2019 - \$14.9 million) is included in Pensions on the consolidated statement of financial position, and is supported by irrevocable letters of credit in the amount of \$15.7 million (December 31, 2019 - \$16.0 million).

The Partnership also sponsors a Term Annuity Arrangement for the Western Manufacturing Division, which provides hourly employees with a bridging supplement commencing at age 61 and payable up to but not including age 65. The Term Annuity Arrangement is unfunded and the pension obligation of \$7.0 million as of December 31, 2020 (December 31, 2019 - \$6.9 million) is included in Pensions on the consolidated statement of financial position.

The Partnership's hourly employees at the Western Manufacturing Division are members of an industry multi-employer pension plan to which the Partnership contributes monies. During the year ended December 31, 2020, the Partnership contributed and expensed \$2.8 million (2019 - \$2.9 million) related to this defined benefit plan. Sufficient information regarding the Partnership's share of the defined benefit obligation is not available and accordingly the Partnership accounts for the multi-employer plan as a defined contribution plan.

The Partnership sponsors a defined contribution plan which covers substantially all of its salaried employees. During the year ended December 31, 2020, the Partnership recorded an expense of \$3.2 million (2019 - \$2.8 million) related to this plan.

KTG sponsors a defined contribution plan that covers substantially all of its employees. During the year ended December 31, 2020, the Partnership recorded an expense of \$1.6 million (2019 - \$0.9 million) related to this plan.

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

The measurement date of the pensions and post-retirement benefits plans is December 31 of each year.

By their design, the defined benefit pension plans and the post-retirement benefits plan expose the Partnership to the typical risks faced by such plans such as investment performance (pension plans only), changes to the discount rate used to value the obligations, longevity of plan members and future inflation. Pension and benefit risk is managed by regular monitoring of the plans, applicable regulations and other factors that could impact the expenses and cash flows of the Partnership. As of December 31, 2019, the aggregate solvency deficit of the defined benefit plans was \$106.7 million (December 31, 2018 - \$89.6 million). The actuarial valuation dates of the plans vary, ranging from December 31, 2020 to December 31, 2021. The funding obligations are dependent on a number of factors, including the assumptions used in the most recent actuarial valuation. Actual contributions that are determined on the basis of future valuation reports may vary significantly from the predictions.

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

The cumulative actuarial losses recognized in the deficit as of December 31, 2020 and December 31, 2019 were as follows:

	December 31, 2020	December 31, 2019
	\$	\$
Pensions	158,613	141,636
Post-retirement benefits	19,771	14,900
Total	<u>178,384</u>	<u>156,536</u>

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

	Pensions		Post-retirement benefit plans	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
	\$	\$	\$	\$
Change in defined benefit obligation:				
As of January 1	734,499	668,465	57,005	54,051
Current service cost	12,014	8,617	2,043	1,846
Interest cost	20,683	22,301	1,596	1,790
Employee contributions	3,865	3,862	-	-
Benefits paid	(36,407)	(36,203)	(2,477)	(2,803)
Remeasurements:				
Losses (gains) from changes in experience	-	(2,149)	-	575
Losses from changes in economic assumptions	60,168	69,338	4,871	1,131
Losses from changes in demographic assumptions	-	268	-	415
As of December 31	<u>794,822</u>	<u>734,499</u>	<u>63,038</u>	<u>57,005</u>
Change in plan assets at fair value:				
As of January 1	593,825	563,526	-	-
Expected return on plan assets	16,448	18,534	-	-
Remeasurements:				
Gains on plan assets	43,191	32,035	-	-
Administrative costs	(578)	(601)	-	-
Employer contributions	13,145	12,672	2,477	2,803
Employee contributions	3,865	3,862	-	-
Benefits paid	(36,407)	(36,203)	(2,477)	(2,803)
As of December 31	<u>633,489</u>	<u>593,825</u>	<u>-</u>	<u>-</u>
Accrued benefit liability				
Funded status - deficit	<u>161,333</u>	<u>140,674</u>	<u>63,038</u>	<u>57,005</u>

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

Plan assets, which fund the Partnership's defined benefit plans, were comprised as follows:

	December 31, 2020	December 31, 2019
	%	%
Fixed income	36.3	35.0
Public equities	28.4	30.6
Hedge funds	20.1	20.5
Private equity	7.2	6.6
Real assets	8.0	7.3
Total	<u>100.0</u>	<u>100.0</u>
Quoted on an active market	64.7	65.6
Unquoted	35.3	34.4
	<u>100.0</u>	<u>100.0</u>

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

	Pensions		Post-retirement benefit plans	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
	%	%	%	%
Assumptions				
Discount rate - accrued benefit obligation	2.57	3.07	2.57	3.07
Rate of compensation increases	3.25 - 4.00	3.25 - 4.00		

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

Pensions

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

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

	Discount rate		Rate of compensation		Life expectancy	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
	\$	\$	\$	\$	\$	\$
Increase in Pension obligation	142,016	123,555	9,042	8,481	22,535	19,280

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

Post-retirement benefit plan

For measurement purposes, the trend factor for all health-care expenses, excluding medication, was assumed to be 3%. The trend factor for medication was assumed to be 4.8% for the first year (2020), decreasing to 4.0% after 20 years.

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

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

	Health care		Discount rate		Life expectancy	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
	\$	\$	\$	\$	\$	\$
Increase in Post-retirement benefit obligation	8,854	7,411	11,387	10,560	1,753	1,459

Contributions to the defined benefit pension plans for the year ending December 31, 2021 are expected to be \$13.6 million.

The net benefit pension plan expense included the following components:

	Pensions		Post-retirement benefit plans	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
	\$	\$	\$	\$
Net benefit plan expense				
Current service cost	12,014	8,617	2,043	1,846
Interest cost	20,683	22,301	1,596	1,790
Expected return on plan assets	(16,448)	(18,534)	-	-
Administrative cost	578	601	-	-
	<u>16,827</u>	<u>12,985</u>	<u>3,639</u>	<u>3,636</u>

Kruger Products L.P.
Notes to Consolidated Financial Statements
December 31, 2020 and December 31, 2019

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

The following amounts are recognized in Other comprehensive loss:

	Pensions		Post-retirement benefit plans	
	2020	2019	2020	2019
	\$	\$	\$	\$
Gains (losses) from changes in experience	-	2,149	-	(575)
Losses from changes in economic assumptions	(60,168)	(69,338)	(4,871)	(1,131)
Losses from changes in demographic assumptions	-	(268)	-	(415)
Gains on plan assets	43,191	32,035	-	-
	<u>(16,977)</u>	<u>(35,422)</u>	<u>(4,871)</u>	<u>(2,121)</u>

12 Trade and other payables

	December 31, 2020	December 31, 2019
	\$	\$
Trade payables	109,593	102,102
Accrued liabilities	114,776	99,829
Contract liabilities ^(a)	107,703	40,020
Derivative liabilities	-	406
	<u>332,072</u>	<u>242,357</u>

(a) A contract liability is recognized for expected discounts, rebates and allowances payable in relation to sales made in the reporting period. Contract liabilities increased as of December 31, 2020 primarily due to an increase in sales volume in the Consumer segment.

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

13 Provisions

	Environmental and asset retirement obligations ^(a)	Long-term incentives, DSUs, PSUs and RSUs ^(b)	Restructuring	Total
	\$	\$	\$	\$
Provisions as of				
January 1, 2019	4,831	859	-	5,690
Additional provisions	246	2,154	1,904	4,304
Remeasurement adjustment (note 8)	(2,265)	-	-	(2,265)
Paid during the year	-	(176)	(861)	(1,037)
Interest accretion	215	-	-	215
Provisions as of				
December 31, 2019	3,027	2,837	1,043	6,907
Current	-	259	500	759
Non-current	3,027	2,578	543	6,148
Provisions as of				
January 1, 2020	3,027	2,837	1,043	6,907
Additional provisions	3,382	4,956	1,275	9,613
Paid during the year	-	(614)	(1,580)	(2,194)
Interest accretion	136	-	-	136
Provisions as of				
December 31, 2020	6,545	7,179	738	14,462
Current	-	4,309	604	4,913
Non-current	6,545	2,870	134	9,549

(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. During the year ended December 31, 2019, the Partnership entered into a new lease agreement that commences in March 2028 and permits the Partnership to secure the site until March 2053. As a result, the Partnership recorded a decrease in the original obligation of \$2.3 million in the consolidated statement of financial position as of December 31, 2019, due to changes in the expected timing of settlement. 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, 2019 – 4.395%).

(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 21) return on capital employed using a three year average, along with other components. The PSUs are paid in cash in May 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 May.

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

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

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 December 31, 2020, DSUs of \$0.4 million were recorded (December 31, 2019 – \$0.2 million).

14 Long-term debt

	Maturity	December 31, 2020 \$	December 31, 2019 \$
Senior Credit Facility ^(a)	2023	8,941	88,257
Senior Unsecured Notes ^(b)	2025	122,847	122,369
AgCredit Agreement ^(c)	2023, 2025, 2036, 2037	444,933	206,792
IQ Debenture ^(d)	2028	98,251	92,421
Nordea2 Credit Facility ^(e)	2029	53,225	50,784
Quebec PM Loan ^(f)	2026	23,024	26,823
Ontario Loan ^(g)	2026	2,252	3,616
		753,473	591,062
Less: Current portion of long-term debt		9,495	4,937
		743,978	586,125

Amounts are net of deferred financing fees

a) Senior Credit Agreement

The Partnership is a party to a sixth amended and restated credit agreement dated as of April 24, 2018 entered into by the Partnership, as borrower, the lenders party thereto and National Bank of Canada, as administrative agent, as amended by a first supplemental credit agreement dated November 19, 2018 and a second supplemental credit agreement dated September 19, 2019 (the Senior Credit Agreement) pursuant to which a senior secured revolving credit facility in a maximum amount of \$250 million (increased from \$200 million) with a \$75 million accordion feature (the Senior Credit Facility) is made available to the Partnership. The financial covenants were amended by a consent letter dated as of May 27, 2020. The maturity date of the Senior Credit Facility is September 19, 2023. The Senior Credit Facility is to be used by the Partnership to finance general corporate purposes and the ongoing working capital requirements of the Restricted Credit Parties (as defined below), and to finance the cash portion of any permitted acquisition or any investment by any such Restricted Credit Party (as defined below).

The Senior Credit Agreement is guaranteed by each Restricted Credit Party. Under the Senior Credit Agreement, “Restricted Credit Parties” means the Partnership, KPGP, Kruger Products Real Estate Holdings Inc., KP USA, Kruger Products AFH G.P. Inc. and Kruger Products AFH L.P. and their respective subsidiaries involved in the tissue business but excluding the Unrestricted Credit Parties (which include TAD Canco Inc., TAD Luxembourg S.A.R.L., KTG, KPSI, KP TAD Holdco Inc., TAD2 GP ULC, TAD2 US LP, TAD1 Canco I Inc., TAD1 GP ULC, TAD1 US LP and TAD1 Canco II Inc.) and the Non-Material Credit Parties (as such terms are defined in the Senior Credit Agreement). All Restricted Credit Parties granted first ranking security interests and hypothecs over all of their assets, present and future, movable and immovable, corporeal and incorporeal, to secure the obligations under the Senior Credit Agreement including a pledge of 100% of the stock or ownership interest in all credit parties owned by the Partnership and the Restricted Credit Parties.

Borrowings under the Senior Credit 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 0.20% and 3.50%

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

depending on the Ratio of Total Net Funded Debt to EBITDA (as defined in the Senior Credit Agreement) and the type of advance. Stand-by fees are also payable on the available portion of the Senior Credit Facility at a rate varying between 0.24% and 0.70% depending on the Restricted Credit Parties' Ratio of Total Net Funded Debt to EBITDA (as defined in the Senior Credit Agreement).

The Partnership may voluntarily cancel or reduce the Senior Credit Facility, in whole or in part, subject to minimum amounts and notice period, with customary restrictions on prepayment of Banker's Acceptances, Libor Loans and liabilities under Letters of Credit (in each case, as defined in the Senior Credit Agreement).

The 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.

The Senior Credit Agreement requires the Restricted Credit Parties to comply with certain financial covenants. 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, indebtedness under the AgCredit Agreement, IQ Debenture and the Unrestricted Subsidiaries' EBITDA are not included in such calculations. Pursuant to the second supplemental credit agreement dated September 19, 2019, the Partnership is no longer required to maintain the Ratio of Total Net Funded Debt to EBITDA (as defined in the Senior Credit Agreement) and the requirement for the Ratio of Senior Secured Net Funded Debt to EBITDA (as defined in the Senior Credit Agreement) was updated. Pursuant to a consent letter dated May 27, 2020, the requirement for the Ratio of Senior Secured Net Funded Debt to EBITDA was again updated.

The Partnership shall maintain on an Adjusted Consolidated Basis and quarterly financial basis:

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 March 31, 2019;
- (iii) 3.75 to 1.00 from April 1, 2019 to September 30, 2019;
- (iv) 3.50 to 1.00 from October 1, 2019 to March 31, 2020; and
- (v) 3.00 to 1.00 thereafter

Interest Coverage Ratio (as defined in the Senior Credit Agreement) of at least 3.00 to 1.00.

The Senior Credit Agreement contains customary negative covenants of the Partnership, including, but not limited to, (i) restrictions on the ability of the Partnership and the Restricted Credit Parties to, subject to certain exceptions, grant liens, incur indebtedness, merge or consolidate, amend, restate or otherwise modify the Limited Partnership Agreement, make investments and loans, grant guarantees, make acquisitions, declare, set apart and pay distributions (which does not apply to the Tax Distribution (as defined below) to KPT), reduce capital, sell or otherwise dispose of assets, incur capital expenditures or materially change their business, and (ii) restrictions on the indebtedness of TAD Canco Inc., TAD Luxembourg S.A.R.L and KTG and the amendment of the TAD financing documents.

The 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 Nordea Credit Agreement (matured December 30, 2019) and the Nordea2 Credit Agreement (as defined below), insolvency, change of control of the Partnership or Kruger and enforcement proceedings.

The Senior Credit Facility is guaranteed by each Restricted Credit Party. The Partnership and each Restricted Credit Party granted first ranking security interests and hypothecs over their current and future tangible and intangible

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

assets (subject to permitted liens) to secure the obligations under the Senior Credit Facility, including a pledge of all capital stock or ownership interest in all subsidiaries owned by the Partnership and the Restricted Credit Parties. The guarantees and security are granted on a pari passu basis in favour of the lenders and the administrative agent under the Senior Credit Agreement and the lenders and the administrative agent under the Nordea Credit Agreement (matured December 30, 2019) and the Nordea2 Credit Agreement (as defined below).

b) Senior Unsecured Notes Indenture

On April 24, 2018, the Partnership issued \$125 million aggregate principal amount of 6.0% senior unsecured notes due April 24, 2025 (the Notes) by way of private placement in Canada in accordance with applicable Canadian prospectus and registration exemptions. The Notes were issued pursuant to a trust indenture entered into as of April 24, 2018 between the Partnership, the Guarantors and Computershare Trust Company of Canada (the Indenture). Interest on the Notes accrues at 6.0% per year and is payable semi-annually on April 24 and October 24 of each year.

Under the Notes, “Restricted Subsidiaries” means any subsidiary of the Partnership that is not an Unrestricted Subsidiary as defined in the Indenture (which Unrestricted Subsidiaries include TAD Canco, TAD Luxembourg, KTG and Non-Material Subsidiaries as defined in the Indenture).

The Notes are senior unsecured obligations of the Partnership. The 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 Notes other than any indebtedness that ranks senior to the Notes by operation of law. The Notes will be effectively subordinated to all existing and future secured indebtedness of the issuer, to the extent of the assets securing such indebtedness.

The 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 24, 2021, the Partnership may redeem up to 35.0% of the aggregate principal amount of the Notes at a redemption price of 106% of the principal amount of the 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 24, 2021, the Partnership may redeem the Notes, at a redemption price equal to the greater of (a) the Applicable Premium (as defined in the Indenture) and (b) 101% of the aggregate principal amount of the Notes redeemed, plus, in each case, accrued and unpaid interest, if any, to the applicable redemption date.

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

On or after April 24, 2021, the Partnership may redeem all or part of the 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 24 of the year set forth below:

<u>Year</u>	<u>Percentage</u>
2021	104.5%
2022	103.0%
2023	101.5%
2024 and thereafter	100.0%

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

The 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 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, 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 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) AgCredit Agreement

Subsidiaries of the Partnership are party to a credit agreement dated as of November 19, 2018 entered into by, among others, KTG, TAD1 US LP, TAD2 US LP and KPSI, as borrowers, each guarantor from time to time party thereto, as guarantors, each lender from time to time party thereto, as lenders, American AgCredit, FLCA, as administrative agent and National Bank of Canada, as Canadian administrative agent, as amended by the first amendment to the credit agreement executed as of April 20, 2020, dated and effective as of March 23, 2020 (AgCredit Agreement). Pursuant to the AgCredit Agreement, the following credit facilities were made available: (i) US\$188 million term loan facility repayable by March 31, 2037 (extended from December 31, 2036) related to amounts drawn on or after March 23, 2020 by quarterly principal instalment payments commencing on June 30, 2026 (extended from March 31, 2026) related to amounts drawn on or after March 23, 2020 and bearing interest at a fixed rate based on the farm credit system cost of funds plus an applicable margin set at the time of each tranche draw, (ii) \$111 million term loan repayable by December 31, 2025 by quarterly principal instalment payments commencing on June 30, 2022 (extended from March 31, 2022) and bearing interest at a floating interest rate based on CDOR plus an applicable margin, (iii) revolving loans of US\$10 million and \$12.5 million with a maturity date of December 31, 2023 with floating interest rates and a renewal option (the facility detailed in items (i) to (iii), collectively the TAD Sherbrooke Project Facility), and (iv) US\$147 million term loan repayable by December 31, 2036 by quarterly principal instalment payments commencing on June 30, 2022 (extended from March 31, 2022) and bearing interest at a 7.3% maximum fixed interest rate and repayable after a three-year lock-out period (the KTG Facility).

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

The purpose of the TAD Sherbrooke Project Facility is to partially finance the TAD Sherbrooke Project. The purpose of the KTG Facility was to repay existing indebtedness of KTG and TAD Canco Inc.

The TAD Sherbrooke Project Facility and KTG Facility are each guaranteed by the borrowers and guarantors. The borrowers and guarantors (as such terms are defined in the AgCredit Agreement) granted first ranking security interests over all of their assets, present and future, movable and immovable, corporeal and incorporeal, to secure the obligations under the AgCredit Agreement. The TAD Sherbrooke Project Facility and the KTG Facility are both non-recourse to the Partnership.

The borrowers may voluntarily cancel or reduce the revolving loans, in whole or in part, without premiums or penalty. The borrowers shall have the right at any time to voluntarily prepay the entire amount or any amount outstanding of the term loans subject to minimum amounts and notice period. Prepayment shall be accompanied by the payment of all accrued and unpaid interest with respect to fixed rate advances. If all or any portion of the outstanding balance of a term loan is prepaid, prepayment premiums may apply.

The AgCredit Agreement requires the borrowers to comply with certain financial covenants. The financial covenants are calculated on a Combined Basis (as defined in the AgCredit Agreement). Pursuant to the first amendment to the credit agreement dated March 23, 2020:

On a Combined Basis and quarterly financial basis, the Borrowers shall not:

Permit the Combined Leverage Ratio (as defined in the AgCredit Agreement) as of the end of any fiscal quarter of the borrowers to exceed 60%;

Permit the Combined Fixed Charge Coverage Ratio (as defined in the AgCredit Agreement) as of the end of any fiscal quarter of the borrowers, beginning with the fiscal quarter ending September 30, 2022 (extended from June 30, 2022), to be less than:

- (i) 1.10 to 1.00 with respect to the fiscal quarter ending September 30, 2022 (extended from June 30, 2022) through and including the fiscal quarter ending September 30, 2023 (extended from June 30, 2023); and
- (ii) 1.25 to 1.00 with respect to the fiscal quarter ending December 31, 2023 (extended from September 30, 2023) and each fiscal quarter thereafter.

The first amendment to the credit agreement also extended the Substantial Completion Date (as defined in the AgCredit Agreement) to June 30, 2022 (extended from March 31, 2022).

The AgCredit 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.

The AgCredit Agreement contains customary events of default such as non-payment, misrepresentation, breach of covenants and change of control.

As of December 31, 2020, the following amounts were drawn on the TAD Sherbrooke Project Facility:

- (i) US\$144.9 million on the US\$188 million term loan facility (December 31, 2019 – US\$10.3 million);
- (ii) \$85.5 million on the \$111 million term loan facility (December 31, 2019 – \$6.1 million); and
- (iii) nil on the \$12.5 million revolving loan facility (December 31, 2019 – \$7.0 million).

As of December 31, 2020, the following amount was drawn on the KTG Facility:

- (i) US\$147.0 million on the US\$147 million term loan facility (December 31, 2019 – US\$147.0 million).

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

As of December 31, 2020, unamortized deferred financing fees were \$9.6 million (December 31, 2019 – \$9.9 million).

Subsequent to December 31, 2020, the following additional amounts were drawn on the TAD Sherbrooke Project Facility:

- (i) US\$14.4 million on the US\$188 million term loan facility; and
- (ii) \$8.5 million on the \$111 million term loan facility.

d) IQ Debenture

On November 19, 2018, KPSI issued a 10-year convertible debenture in favour of Investissement Québec (IQ) in the principal amount of \$105 million (the IQ Debenture). The IQ Debenture is being used to partially finance the TAD Sherbrooke Project.

Borrowings under the IQ Debenture bear interest at a fixed capitalized interest rate of 3%.

The IQ Debenture is redeemable on a monthly basis commencing 36 months from the date of issuance, which payments KPSI undertakes to cause the Partnership or Kruger Inc. to make, failing which IQ will have a conversion right on terms of conversion that would provide IQ with a 48% equity interest in KPSI if the entirety of the debenture was so converted.

Pursuant to a repayment agreement (the Repayment Agreement) between Kruger Inc., the Partnership, KPSI, and IQ, the Partnership has at its discretion, a priority right to make any required monthly redemption payment to IQ. The party that makes the redemption payment will receive common shares of KPSI as consideration of such payment. Pursuant to the Repayment Agreement, if Kruger Inc. makes all of the redemption payments, it will hold approximately 48% of KPSI.

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

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

The Partnership has recorded the IQ Debenture at its fair value of \$87.6 million at the date of issuance. The fair value was estimated by discounting the cash flows using a discount rate of 6.0%. The difference between the proceeds received of \$105.0 million and the fair value has been recorded as government assistance and netted against the purchases of the property, plant and equipment for the TAD Sherbrooke Project.

As of December 31, 2020, unamortized deferred financing fees were \$0.5 million (December 31, 2019 – \$0.5 million).

e) Nordea2 Credit Agreement

The Partnership is party to a credit agreement dated as of November 2, 2018 entered into by the Partnership, as borrower, the lender party thereto and Nordea Bank Abp Filial I Sverige, as administrative agent, as amended by an amendment letter dated November 19, 2018 and an amendment letter dated September 19, 2019 (the Nordea2 Credit Agreement) pursuant to which a senior secured non-revolving loan facility in a maximum amount of US\$48.8 million (the Nordea2 Credit Facility) was made available to the Partnership. The Nordea2 Credit Facility is to be used to partially finance the TAD Sherbrooke Project and the fees of the Swedish Export Credits Guarantee Board (EKN) in connection with its guarantee of the Nordea2 Credit Facility. The Nordea2 Credit Facility matures on August 31, 2029.

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

Borrowings under the Nordea2 Credit Facility bear interest at a fixed interest rate of 3.74% per annum, comprised of a Swedish state reported interest rate, risk premium and administrative margin.

The Nordea2 Credit Facility is repayable in 17 equal consecutive semi-annual installments of principal together with interest commencing on August 28, 2021. Prepayments are allowed subject to a make-whole payment on account of interest losses.

The covenants, financial covenants and negative covenants provided by the Partnership under the Senior Credit Agreement are incorporated and made part of the Nordea2 Credit Agreement. See Senior Credit Agreement above. The Nordea2 Credit Agreement contains restrictions on amendments to the Senior Credit Agreement and related security and other documents.

The Nordea2 Credit Agreement contains customary events of default such as non-payment, misrepresentation and breach of covenants and also provides for a cross-default to the Senior Credit Agreement and a default related to the termination or loss of the EKN guarantee.

The Nordea2 Credit Agreement provides for pari passu security and guarantees on the assets and undertaking of the Partnership and each Restricted Credit Party, the relationship between the lender and administrative agent under the Nordea Credit Agreement (matured December 30, 2019), the Nordea2 Credit Agreement and the administrative agent and the lenders under the Senior Credit Agreement being governed by a collateral agency and security sharing agreement.

As of December 31, 2020, unamortized deferred financing fees were \$3.0 million (December 31, 2019 – \$3.6 million).

f) Quebec PM Loan Agreement

The Partnership is a party to a loan agreement dated as of August 9, 2016 entered into by the Partnership, as borrower, and IQ as lender (the Quebec PM Loan Agreement) pursuant to which a secured non-revolving loan in a maximum amount of \$39.5 million (the Quebec PM Loan) is made available to the Partnership. The Quebec PM Loan is being used to partially finance the acquisition and relocation of a paper machine to be installed at the Crabtree facility (the PM Project). The Quebec PM Loan Agreement matures ten years after the first loan disbursement, which occurred on September 6, 2016.

Borrowings under the Quebec PM Loan bear interest at a fixed interest rate of 2.5% per annum for a period of seven years from the date of the first loan disbursement. The interest rate thereafter increases to a fixed rate of 3.5% per annum until the eighth anniversary of the first loan disbursement, a fixed rate of 4.5% per annum until the ninth anniversary of the first loan disbursement, and a fixed rate of 5.5% per annum thereafter. Monthly interest payments commence the month following the first loan disbursement.

The Quebec PM Loan had a moratorium on repayment of the principal for the initial 24 months following the date of the first loan disbursement, after which the principal is to be repaid in 96 monthly consecutive payments. The monthly repayments are reduced, in the reverse order of maturity, by repayments to IQ corresponding to the Partnership's receipt of Government of Quebec electricity tariff rebates.

The Quebec PM Loan 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 Quebec PM Loan Agreement also contains restrictions on the disposition of assets, incurrence of indebtedness and granting of liens, change of control and changes in the PM Project.

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

The Quebec PM Loan Agreement contains customary events of default such as non-performance, non-payment, misrepresentation, breach of covenants, cross-default to the Nordea Credit Facility (as defined below) and the Senior Credit Facility, insolvency and enforcement proceedings.

The Quebec PM Loan is secured by the acquired paper machine and the portion of the property on which the paper machine is installed. The security is second ranking immediately after the security granted in favour of the Senior Credit Facility.

g) Ontario Loan Agreement

The Partnership is a party to a conditional loan agreement dated as of July 1, 2015 entered into by the Partnership, as borrower, and the Government of Ontario as lender (the Ontario Loan Agreement) pursuant to which a secured non-revolving loan in a maximum amount of \$10.0 million (the Ontario Loan) is made available to the Partnership. The Ontario Loan is being used to partially finance the expansion project at the Trenton facility. The Ontario Loan Agreement matures ten years after the first loan disbursement, which occurred on February 24, 2016.

Borrowings under the Ontario Loan bear interest at a fixed interest rate of 2.4% per annum for a period of five years from March 1, 2021. Annual interest payments commence February 28, 2022.

The Ontario Loan had a moratorium on repayment of the principal for the initial five years following the date of the first loan disbursement. Principal is to be repaid in five equal annual payments together with interest commencing February 28, 2022. A portion of the loan principal was forgivable, subject to prescribed conditions, up to a maximum forgivable portion of \$5.0 million. As of December 31, 2020, loan principal of \$4.4 million was forgiven.

The Ontario Loan Agreement contains covenants including, but not limited to, delivery of financial and other information to the Government of Ontario, the preservation of existence, maintenance of insurance, compliance with laws, payment of taxes, completion of project and limitations on project procurement. The Ontario Loan Agreement also contains restrictions on the disposition of assets and changing the nature of the business and an undertaking to comply with the negative covenants in the Senior Credit Agreement.

The Ontario Loan Agreement contains customary events of default such as non-performance, non-payment, misrepresentation, breach of covenants and abandonment of the project and also provides for a cross-default to the Senior Credit Agreement.

The Ontario Loan is secured by the assets acquired for the expansion project at the Trenton facility.

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

h) Sherbrooke Expansion Project

On February 26, 2021, the Partnership announced a further investment of \$240 million to expand the Sherbrooke operation with a new paper machine and two production lines as well as the construction of a new tissue manufacturing facility (the Sherbrooke Expansion Project) over the next three years.

The \$240 million project is expected to be financed 100% with debt. IQ has signed a letter of intent to invest \$165 million in the project as follows: (i) \$118 million, by way of a \$75 million convertible debenture and a \$43 million subordinated loan to Kruger Products SB Inc. (KPSB), a newly created wholly owned subsidiary of the Partnership which will operate the new facility, and (ii) \$47 million by way of a subordinated loan to KPSI, which operates the TAD Sherbrooke facility. The debenture and loans are expected to have a ten year term.

As part of the commitment of the IQ financing, the Partnership will be required to make annual payments of \$5.8 million to Kruger Brompton L.P. (KBLP) over a 10 year period in exchange for access to shared infrastructure and services, the transfer of properties to complete the project and KBLP's facilitation of the capital and financing structure for the project.

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

	<u>\$</u>
Less than 1 year	9,495
Between 1 and 5 years	392,312
More than 5 years	<u>382,367</u>
	<u>784,174</u>

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

	2020	2019
	<u>\$</u>	<u>\$</u>
Interest expense on long-term debt	28,060	32,460
Pension and post-retirement benefits, net	5,831	5,557
Interest expense on lease liabilities	5,732	5,363
Receivables factoring arrangement	1,206	1,476
Interest accreted on provisions	<u>136</u>	<u>215</u>
	<u>40,965</u>	<u>45,071</u>

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

15 Lease liabilities

The Partnership's leases relate to right-of-use of land, buildings, equipment and motor vehicles. As of December 31, 2020, the contractual undiscounted cash flows for Lease liabilities were as follows:

	December 31, 2020
	\$
Less than 1 year	25,341
Between 1 and 5 years	80,105
More than 5 years	67,002
	<u>172,448</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:

	2020	2019
	\$	\$
Interest expense on Lease liabilities ^(a)	5,732	5,363
Expenses relating to variable payments not included in the measurement of Lease liabilities ^(b)	4,934	5,272
Expenses relating to low-value leases ^(b)	254	303
	<u>10,920</u>	<u>10,938</u>

(a) Included in Interest expense in the consolidated statement of comprehensive loss.

(b) Included in Cost of sales and SG&A expenses in the consolidated statement of comprehensive loss.

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 year ended December 31, 2020, expenses relating to short-term leases were not significant.

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

16 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)	26,991
As of December 31, 2019	<u>143,515</u>
As of January 1, 2020	143,515
Change in amortized cost of Partnership units liability (note 5)	47,012
Tax Distributions	(5,103)
As of December 31, 2020	<u>185,424</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:

	2020			
	Partnership unit distributions	Unit price	Issuance of Partnership units	Gross proceeds
Distribution Payment Date	\$	\$	#	\$
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
October 15, 2020	11,847	13.41	402,424	5,396
	<u>46,576</u>		<u>2,923,863</u>	<u>30,922</u>
	2019			
	Partnership unit distributions	Unit price	Issuance of Partnership units	Gross proceeds
Distribution Payment Date	\$	\$	#	\$
January 15, 2019	10,723	8.36	875,273	7,317
April 15, 2019	10,880	8.70	839,801	7,306
July 15, 2019	11,032	8.16	909,630	7,423
October 15, 2019	11,195	9.04	1,097,033	9,917
	<u>43,830</u>		<u>3,721,737</u>	<u>31,963</u>

On January 15, 2021, the Partnership paid a distribution of \$11.9 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 507,826 Partnership units at a price of \$10.70. During the year ended December 31, 2020, a decrease of \$0.3 million was recorded as a fair value adjustment to reflect the market value of the Partnership units issued.

Subsequent to December 31, 2020, the Partnership declared a distribution of \$12.0 million, payable on April 15, 2021.

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

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

	2020			
	Advances paid \$	Tax Distributions \$	Partnership unit distributions \$	Total \$
Paid to Kruger Inc. ^(a)	4,773	4,322	10,056	19,151
Paid to KPGP	-	-	3	3
Paid to KPT ^(b)	874	781	5,595	7,250
Total paid	5,647	5,103	15,654	26,404

	2019			
	Advances received \$	Partnership unit distributions \$	Total \$	
Paid to (received from) Kruger Inc. ^(a)	(1,435)	6,880	5,445	
Paid to KPGP	-	3	3	
Paid to (received from) KPT ^(b)	(189)	4,984	4,795	
Total paid (received from)	(1,624)	11,867	10,243	

(a) During the years ended December 31, 2020 and December 31, 2019, Partnership unit distributions were paid to Kruger Inc. net of the DRIP reinvestment. During the year ended December 31, 2020, Kruger Inc.'s DRIP reinvestment was \$29.6 million (2019 - \$30.1 million).

(b) During the years ended December 31, 2020 and December 31, 2019, Partnership unit distributions were paid to KPT net of the DRIP reinvestment. During the year ended December 31, 2020, KPT's DRIP reinvestment was \$1.4 million (2019 - \$1.9 million).

Tax Distribution

Pursuant to the Tax Distribution as defined in the Partnership Agreement, on February 28, 2020, the Partnership declared a Tax Distribution of \$5.1 million, of which \$0.1 million was used to settle the outstanding advance to KPT as of December 31, 2019.

During the year ended December 31, 2020, pursuant to the Tax Distribution as defined in the Partnership Agreement, the Partnership made advances to its partners of \$5.6 million, of which \$0.9 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. The Partnership declared a Tax Distribution of \$17.5 million on February 26, 2021, of which the advances of \$5.6 million were offset and the remaining \$11.9 million was paid on February 26, 2021.

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

17 Income taxes

The Partnership is not a tax paying entity for the years ended December 31, 2020 and December 31, 2019. 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, and KPSI are corporate entities and, therefore, are subject to tax.

The consolidated income tax expense for the Partnership of \$8.7 million for the year ended December 31, 2020 (2019 - \$2.5 million) related to KP USA, KTG, TAD Luxembourg S.A.R.L, KPSI and GTM (note 5).

The components of income taxes were as follows:

	2020	2019
	\$	\$
Current tax expense	2,387	2,998
Deferred tax expense (recovery)	6,268	(504)
	<u>8,655</u>	<u>2,494</u>

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

	2020		2019	
	\$	%	\$	%
Combined federal and provincial income tax rates after manufacturing and processing credits	9,386	26.1	1,208	26.3
Income tax in partners' hands	(3,800)	(10.6)	(2,427)	(52.9)
Difference in statutory income tax rate of foreign operations	(710)	(2.0)	614	13.4
U.S. State tax credits not recognized	-	-	5,095	111.0
U.S. interest deduction limitation	3,246	9.0	-	-
Change in State apportionment	-	-	(3,908)	(85.1)
Withholding tax	336	0.9	393	8.6
Consolidation entries	(826)	(2.3)	435	9.5
Permanent and other	1,023	3.0	1,084	23.6
	<u>8,655</u>	<u>24.1</u>	<u>2,494</u>	<u>54.4</u>

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

Components of the deferred tax assets were as follows:

	December 31, 2020	December 31, 2019
	\$	\$
Property, plant and equipment	(84,426)	(61,813)
Net operating losses	101,912	71,631
Long term debt and deferred financing charges	(379)	12,504
Inventory and accrued liabilities	1,757	2,618
U.S. State tax credits	4,430	5,065
Other	923	983
	<u>24,217</u>	<u>30,988</u>

The analysis of the deferred tax assets was as follows:

	December 31, 2020	December 31, 2019
	\$	\$
Deferred tax asset to be recovered within 12 months	1,757	2,618
Deferred tax asset to be recovered after 12 months	22,460	28,370
	<u>24,217</u>	<u>30,988</u>

In addition to the above, the Partnership has deferred tax assets of \$47.9 million related to net operating loss carry-forwards and \$14.0 million related to U.S. State tax credits which have not been recognized in the consolidated financial statements.

The Partnership had the following net operating loss carry-forwards available as of December 31, 2020:

	U.S. Federal		U.S. State		Canada	
	\$	Expiry date	\$	Expiry date	\$	Expiry date
	-		5,344	2021	-	
	-		134	2022	-	
	-		553	2023	-	
	-		547	2024	-	
	-		56	2026	-	
2004	2,213	2024	5,257	2027	-	
2005	26	2025	58,213	2028	-	
2006	5,644	2026	61,721	2029	-	
2009	1,552	2029	36,733	2030	-	
2011	609	2031	29,942	2031	1,151	2031
2012	2,696	2032	13,612	2032	10,849	2032
2013	56,830	2033	13,041	2033	22,405	2033
2014	62,505	2034	13,028	2034	23,544	2034
2015	36,279	2035	1,062	2035	22,769	2035
2016	29,371	2036	845	2036	24,487	2036
2017	15,875	2037	388	2037	24,221	2037
2018	39,068		1,700	2038	25,542	2038
2019	36,168		3,745	2039	19,955	2039
2020	-		-	2040	146,739	2040
	<u>288,836</u>		<u>245,921</u>		<u>321,662</u>	

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

The Partnership had the following U.S. State tax credits available for carry-forward as of December 31, 2020:

	U.S. State	
	\$	Expiry date
2012	29	2027
2013	13,229	2028
2014	1,727	2029
2015	1,610	2030
2016	1,838	2031
	18,433	

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

18 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.

The Partnership and Kruger Inc. are parties to a Third Amended and Restated Management Services Agreement dated as of November 15, 2019 with effect as of January 1, 2020 (Management Services Agreement) pursuant to which Kruger Inc. provides certain management and support services to the Partnership, including corporate management support and administrative support services; accounting and tax support; corporate financing and treasury support; benefits and human resources support services; corporate insurance; corporate procurement services complementary to KPLP procurement; project development and management services (including in connection with the TAD Sherbrooke Project), corporate development support, environmental support and corporate engineering support services. During the year ended December 31, 2020, management fees of \$7.4 million (2019 - \$4.4 million) were paid to Kruger Inc. for management services provided to the Partnership.

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 to Kruger Inc. for the year ended December 31, 2020 were \$0.2 million (2019 - \$0.1 million). Sales of goods to subsidiaries of Kruger Inc. for the year ended December 31, 2020 were \$0.1 million (2019 - \$0.2 million). Goods are sold based on the price lists in force and terms that would be available to third parties.

Purchases of goods and services from Kruger Inc. for the year ended December 31, 2020 were \$9.4 million (2019 - \$5.8 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the year ended December 31, 2020 were \$53.8 million (2019 - \$42.8 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 SG&A expenses in the consolidated statement of comprehensive loss.

Kruger Products L.P.
Notes to Consolidated Financial Statements
December 31, 2020 and December 31, 2019

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

Balances due to and from related parties were as follows:

	December 31, 2020	December 31, 2019
	\$	\$
Receivables from Kruger Inc.	-	45
Receivables from subsidiaries of Kruger Inc.	13	14
	<u>13</u>	<u>59</u>
Payables to Kruger Inc.	5,726	2,544
Payables to subsidiaries of Kruger Inc.	3,350	4,018
Payables to KPT	21	247
	<u>9,097</u>	<u>6,809</u>

The receivables from and payables to related parties are based on commercial terms agreed on between the parties, unsecured and non-interest bearing. There were no provisions related to the receivables from related parties as of December 31, 2020 and December 31, 2019. There were no loans outstanding with related parties as of December 31, 2020 and December 31, 2019.

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

	December 31, 2020	December 31, 2019
	\$	\$
Distribution payable to Kruger Inc.	10,163	9,659
Distribution payable to KPGP	1	1
Distribution payable to KPT	1,755	1,733
Total distribution payable	<u>11,919</u>	<u>11,393</u>

19 Commitments and contingencies

As of December 31, 2020, the Partnership had commitments under service contracts of \$5.0 million for 2021, \$2.7 million for 2022, and \$0.4 million for 2023 and beyond.

As of December 31, 2020, the Partnership had \$23.5 million (December 31, 2019 – \$151.1 million) commitments related to the TAD Sherbrooke Project.

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

As of December 31, 2020, the Partnership had irrevocable letters of credit outstanding of \$28.7 million (December 31, 2019 - \$23.9 million), which included letters of credit for the pension plans disclosed in note 11.

As of December 31, 2020, the Partnership had foreign exchange forwards outstanding of nil (December 31, 2019 – \$23.7 million).

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

20 Expense by nature

	2020	2019
	\$	\$
Materials and production costs	677,735	720,932
Labour and related employee benefits	273,851	235,805
Energy costs	54,642	59,477
Depreciation and amortization	68,786	60,655
Freight and warehousing	191,109	181,520
Marketing, selling and administrative expenses	126,387	98,193
	<u>1,392,510</u>	<u>1,356,582</u>

Salaries are included in the expense to which they relate.

Classified in the consolidated statement of comprehensive loss were:

	2020	2019
	\$	\$
Cost of sales	1,264,448	1,256,979
SG&A expenses	128,062	99,603
	<u>1,392,510</u>	<u>1,356,582</u>

21 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 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 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

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

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

Corporate and other costs includes certain overhead costs, timing adjustments for certain manufacturing costs included in inventory not allocated to the Consumer and AFH segments and start-up costs related to the TAD Sherbrooke Project.

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.

				2020
	Consumer	AFH	Corporate and other costs	Total
	\$	\$	\$	\$
Revenue from external customers	1,304,599	211,384	-	1,515,983
Adjusted EBITDA	223,391	(8,990)	(16,566)	197,835
Depreciation and amortization				68,786
Interest expense				40,965
Change in amortized cost of Partnership units liability				47,012
Change in fair value of derivatives				(360)
Loss on sale of property, plant and equipment				909
Loss on sale of non-financial assets				1
Impairment charge (note 10)				8,918
Restructuring costs, net				1,275
Foreign exchange gain				(10,299)
Consulting costs related to operational transformation initiatives				4,331
Corporate development related costs				336
Income before income taxes				35,961
Income taxes				8,655
Net income				27,306

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

	2019			
	Consumer	AFH	Corporate and other costs	Total
	\$	\$	\$	\$
Revenue from external customers	1,186,461	247,652	-	1,434,113
Adjusted EBITDA	158,869	(12,690)	(1,142)	145,037
Depreciation and amortization				60,655
Interest expense				45,071
Change in amortized cost of Partnership units liability				26,991
Change in fair value of derivatives				360
Gain on sale of property, plant and equipment				(18)
Loss on sale of non-financial assets				13
Loss on sale of shares				586
Restructuring costs, net				1,904
Foreign exchange gain				(1,986)
Consulting costs related to operational transformation initiatives				6,015
Corporate development related costs				854
Income before income taxes				4,592
Income taxes				2,494
Net income				2,098

Geographic segments

The Partnership has generated revenue in Canada, the United States and Mexico (note 5). Revenue and assets were allocated to geographic segment based on the location of the customer and long-term assets, respectively.

	2020			
	Canada	US	Total	
	\$	\$	\$	\$
Revenue	915,898	600,085	1,515,983	
Property, plant and equipment	865,247	328,944	1,194,191	
Goodwill	152,021	-	152,021	
Intangible assets	26,205	-	26,205	

	2019			
	Canada	US	Mexico (note 5)	Total
	\$	\$	\$	\$
Revenue	840,902	516,305	76,906	1,434,113
Property, plant and equipment	585,588	349,422	-	935,010
Goodwill	160,939	-	-	160,939
Intangible assets	15,317	-	-	15,317

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

22 Compensation of key management

	2020	2019
	\$	\$
Compensation awarded to key management included:		
Salaries and other employee benefits	11,920	8,734
Post-employment benefits	777	863
	<u>12,697</u>	<u>9,597</u>

Key management includes the Partnership's senior executives.

23 Financial instruments

Classification of financial instruments

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)

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

As of December 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	93,141	93,141
Trade and other receivables	financial assets at amortized cost	89,236	89,236
Receivables from related parties	financial assets at amortized cost	59	59
Advances to partners	financial assets at amortized cost	80	80
Embedded derivative	embedded derivative at fair value through profit and loss	10	10
Trade payables	financial liabilities at amortized cost	(102,102)	(102,102)
Accrued liabilities	financial liabilities at amortized cost	(99,829)	(99,829)
Contract liabilities	financial liabilities at amortized cost	(40,020)	(40,020)
Derivative liabilities	financial liabilities at fair value through profit and loss	(406)	(406)
Payables to related parties	financial liabilities at amortized cost	(6,809)	(6,809)
Distributions payable	financial liabilities at amortized cost	(11,393)	(11,393)
Long-term debt	financial liabilities at amortized cost	(591,062)	(609,728)
Lease liabilities	financial liabilities at amortized cost	(118,762)	(118,762)
Partnership units liability	financial liabilities at amortized cost	(143,515)	(143,515)

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

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Embedded derivative	-	10	-	10
Derivative liabilities	-	(406)	-	(406)
Long-term debt	-	(609,728)	-	(609,728)
Partnership units liability	-	-	(143,515)	(143,515)

Fair value

Cash and cash equivalents, 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 Senior Credit Facility, the Senior Unsecured Notes, 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 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.

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

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

	Discount rate	December 31, 2020	December 31, 2019
		\$	\$
Senior Credit Facility	-	10,000	90,000
Senior Unsecured Notes	-	125,000	125,000
AgCredit Agreement	-	454,527	216,691
IQ Debenture	6.0%	98,707	92,967
Nordea2 Credit Facility	-	56,229	54,343
Quebec PM Loan	4.4%	23,269	27,111
Ontario Loan	4.4%	2,252	3,616
		769,984	609,728

Amounts are not net of 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 in the active market. The change in the fair value of the Derivative liabilities based on foreign exchange rates was \$0.4 million gain during the year ended December 31, 2020 (2019 – \$0.4 million loss), which was recorded in the consolidated statement of comprehensive loss in Other expense. The valuation methodology used was categorized as a Level 2 methodology.

Fair value of the Partnership units liability

The Partnership units liability is classified as a financial liability at amortized cost. Management has estimated the fair value of the Partnership units liability using a discounted cash flow model. Significant assumptions include the income tax obligation, discount rate and an industry capitalization rate. Additional information is disclosed in note 4.

Objectives and policies relating to financial risk management

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

Credit risk

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

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

On November 16, 2018, the Partnership entered into a factoring arrangement with the Bank of Nova Scotia, pursuant to a Receivables Purchase Agreement, as amended by an amendment agreement dated November 12, 2020. As a result, the Partnership sells to the Bank of Nova Scotia eligible trade receivables owing by certain key customers with a facility limit of \$50 million. Eligible trade receivables are sold on a non-recourse basis. The Partnership receives 95% of

Kruger Products L.P.
Notes to Consolidated Financial Statements
December 31, 2020 and December 31, 2019

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

customer invoices sold net of a dilution factor. The dilution factor is an estimate of rebates accrued for each customer in respect of the customer invoice. The Partnership is restricted from selling or pledging these trade receivables. The factoring arrangement bears interest at a floating interest rate based on CDOR plus applicable margin. The Partnership was committed to a two year term, renewable for additional one year periods. On November 12, 2020, the term was renewed for an additional one year period, maturing November 15, 2021. As eligible trade receivables are sold, the Partnership removes the factored receivables from the consolidated statement of financial position, recognizes the proceeds received as consideration for the transfer and records a loss on factoring, which is included in Interest expense in the consolidated statement of comprehensive loss. Cash flows from the factoring arrangement are presented as operating activities in the consolidated statement of cash flows. During the year ended December 31, 2020, the factored receivables sold to the Bank of Nova Scotia were \$672.9 million (2019 - \$509.9 million). The Partnership sold 95% of these trade receivables, net of a dilution factor, for \$671.9 million (2019 - \$508.6 million). As of December 31, 2020, the trade receivables sold were \$38.9 million (December 31, 2019 - \$31.4 million).

	December 31, 2020	December 31, 2019
	\$	\$
Trade receivables	85,162	80,838
Less: Expected credit losses	(1,523)	(52)
Total trade receivables, net	<u>83,639</u>	<u>80,786</u>
Trade receivables, net		
0 to 60 days	83,788	78,254
61 to 90 days	854	1,333
Over 90 days	520	1,251
Less: Allowance for expected credit losses	(1,523)	(52)
	<u>83,639</u>	<u>80,786</u>

Currency risk

Currency risk is the risk the Partnership's earnings may fluctuate due to changes in Canadian to U.S. dollar exchange rates. The Partnership sells certain of its products in U.S. dollars at prevailing U.S. dollar prices. The currency exposure is more than offset by U.S. dollar costs and expenses and the U.S. dollar denominated debt.

As of December 31, 2020, the Partnership had net liabilities denominated in U.S. dollars of \$223.8 million (December 31, 2019 - \$59.7 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the hypothetical result on income before income taxes for the year ended December 31, 2020 would have been an increase/decrease of \$11.2 million (2019 - \$3.0 million).

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 December 31, 2020, the Partnership had no foreign exchange swaps outstanding (December 31, 2019 – nil) and foreign exchange forwards outstanding of nil (December 31, 2019 – \$23.7 million).

Liquidity risk

The purpose of liquidity risk management is to maintain sufficient cash and cash equivalents and to ensure the Partnership has sufficient authorized credit facilities to maintain liquidity and meet its future obligations as they come due.

The Partnership had unused lines of credit available of \$220.4 million as of December 31, 2020 (December 31, 2019 - \$140.0 million). The Partnership prepares projections to ensure it has sufficient funds to fulfill its obligations. The Partnership monitors the covenants on its credit facilities in the normal course of business. As of December 31, 2020,

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

the Partnership was in compliance with all of its financial covenants under all of its outstanding credit facilities. Refinancing risks are minimized by ensuring the Senior Credit Facility will not mature for two years.

The ability to pay its obligations relies on the Partnership collecting its trade receivables in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs. The Partnership's Trade and other payables of \$332.1 million (December 31, 2019 - \$242.4 million) are all due for payment within twelve months of the dates of the consolidated statements of financial position.

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

	December 31, 2020		
	Less than 1 year	1 to 5 years	Greater than 5 years
	\$	\$	\$
Long-term debt ^(a)	47,639	554,340	492,415
Trade and other payables	332,072		
Payables to related parties	9,097		
Distributions payable	11,919		
	December 31, 2019		
	Less than 1 year	1 to 5 years	Greater than 5 years
	\$	\$	\$
Long-term debt ^(a)	43,026	494,149	344,336
Trade and other payables	242,357		
Payables to related parties	6,809		
Distributions payable	11,393		

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

The above table excludes the Partnership units liability. Payments on the Partnership units liability are made upon the declaration of the Tax Distribution, which for 2020 was \$17.5 million (2019 - \$5.1 million), of which the advances of \$5.6 million were offset and the remaining \$11.9 million was paid on February 26, 2021. The Partnership units liability is estimated based on expected future Tax Distributions and is an obligation that will continue into perpetuity (note 4).

Interest rate risk

As of December 31, 2020, the Partnership had variable rate debts of \$92.3 million related to the Senior Credit Facility and certain credit facilities made available as part of the TAD Sherbrooke Project Facility (December 31, 2019 - \$99.4 million). The Senior Credit Facility bears interest at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates or LIBOR plus the applicable margins. The applicable margin on the loans ranges between 0.20% and 3.50%. The \$111 million term loan made available as part of the TAD Sherbrooke Project Facility bears interest at a floating interest rate based on CDOR plus an applicable margin. The revolving loans of US\$10 million and \$12.5 million made available as part of the TAD Sherbrooke Project Facility also bear interest at floating interest rates.

A 1% increase/decrease in the market rate of interest would result in a decrease/increase in income before income taxes of \$0.9 million for the year ended December 31, 2020 (2019 - \$1.0 million).

As of December 31, 2019, the Partnership held interest rate swaps, contracted to fix the interest rate on a notional amount of \$100.0 million. The interest rate swaps matured during the 3-month period ended March 31, 2020.

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

24 Capital management

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

Capital comprises net debt (Long-term debt less Cash and cash equivalents) and Equity (including the Partnership units classified as a liability). The Partnership monitors externally imposed debt covenants as established pursuant to its credit facility agreements. The requirements include a quarterly Senior Secured Net Funded Debt to EBITDA Ratio and Interest Coverage Ratio (as defined in the Senior Credit Agreement), and a quarterly Combined Leverage Ratio and Combined Fixed Charge Coverage Ratio (as defined in the AgCredit Agreement).

25 Environmental costs

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

26 Economic dependence

The Partnership manufactures, distributes and sells a wide range of disposable tissue paper and related products primarily in Canada and the U.S.. As of December 31, 2020, the Partnership had two major customers which represented 31.6% (2019 – 32.0%) of total revenues.

A portion of the trade receivables for these two customers are subject to a factoring arrangement with the Bank of Nova Scotia (note 23). The Partnership sells eligible accounts receivable owing by certain key customers through the factoring arrangement up to a facility limit of \$50.0 million. As a result, credit risk is partially mitigated.

27 Non-cash working capital

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

	2020	2019
	\$	\$
Decrease (increase) in trade and other receivables	(1,951)	16,001
Decrease in receivables from related parties	126	113
Decrease (increase) in inventories	(29,119)	6,446
Decrease (increase) in prepaid expenses	1,388	(6,229)
Decrease in income taxes	291	418
Increase (decrease) in trade and other payables	87,305	(16,451)
Increase in payables to related parties	2,288	1,189
	<u>60,328</u>	<u>1,487</u>

Kruger Products L.P.

Notes to Consolidated Financial Statements

December 31, 2020 and December 31, 2019

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

28 Cash flows from (used in) financing activities

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

	Advances to partners	Prepaid interest	Accrued interest	Distri- butions payable	Long- term debt	Partner- ship units	Partner- ship units liability	Lease liabilities	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
As of January 1, 2019	(1,704)	(404)	3,230	10,723	577,894	376,274	116,524	115,130	1,197,667
Proceeds from long-term debt	-	-	-	-	53,933	-	-	-	53,933
Repayment of long-term debt	-	-	-	-	(35,382)	-	-	-	(35,382)
Payment of deferred financing fees	-	-	-	-	(1,383)	-	-	-	(1,383)
Payment of lease liabilities	-	-	-	-	-	-	-	(16,978)	(16,978)
Interest paid on long-term debt	-	(6,561)	(22,161)	-	(804)	-	-	-	(29,526)
Distributions and advances paid, net	1,624	-	-	(43,830)	-	31,963	-	-	(10,243)
Movements not in financing activities	-	6,604	24,101	44,500	(3,196)	741	26,991	20,610	120,351
As of December 31, 2019	(80)	(361)	5,170	11,393	591,062	408,978	143,515	118,762	1,278,439
As of January 1, 2020	(80)	(361)	5,170	11,393	591,062	408,978	143,515	118,762	1,278,439
Proceeds from long-term debt	-	-	-	-	262,673	-	-	-	262,673
Repayment of long-term debt	-	-	-	-	(92,714)	-	-	-	(92,714)
Payment of deferred financing fees	-	-	-	-	(509)	-	-	-	(509)
Payment of lease liabilities	-	-	-	-	-	-	-	(19,283)	(19,283)
Interest paid on long-term debt	-	(2,154)	(22,881)	-	(671)	-	-	-	(25,706)
Distributions and advances paid, net	(5,647)	-	-	(46,576)	-	30,922	(5,103)	-	(26,404)
Movements not in financing activities	80	2,504	19,713	47,102	(6,368)	(329)	47,012	31,496	141,210
As of December 31, 2020	(5,647)	(11)	2,002	11,919	753,473	439,571	185,424	130,975	1,517,706