



KRUGER PRODUCTS L.P.

**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENT
FOR THE 3-MONTH AND 9-MONTH PERIODS ENDED SEPTEMBER 30, 2020
AND SEPTEMBER 30, 2019**

Kruger Products L.P.

Unaudited Condensed Consolidated Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	September 30, 2020	December 31, 2019
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	117,469	93,141
Trade and other receivables	97,222	89,236
Receivables from related parties (note 14)	643	59
Current portion of advances to partners (note 12)	4,066	80
Inventories	200,480	190,686
Income tax recoverable	587	466
Prepaid expenses	12,018	8,341
	<u>432,485</u>	<u>382,009</u>
Non-current assets		
Property, plant and equipment (note 6)	1,125,759	935,010
Right-of-use assets (note 7)	96,157	97,582
Other long-term assets	10	1,766
Goodwill	160,939	160,939
Intangible assets	15,766	15,317
Deferred income taxes	25,757	30,988
	<u>1,856,873</u>	<u>1,623,611</u>
Total assets		
Liabilities		
Current liabilities		
Trade and other payables	289,547	242,357
Payables to related parties (note 14)	6,588	6,809
Income tax payable	573	325
Distributions payable (notes 12 and 14)	11,847	11,393
Current portion of provisions (note 9)	5,158	759
Current portion of long-term debt (note 10)	4,937	4,937
Current portion of lease liabilities (note 11)	20,813	18,080
	<u>339,463</u>	<u>284,660</u>
Non-current liabilities		
Long-term debt (note 10)	705,036	586,125
Lease liabilities (note 11)	96,944	100,682
Provisions (note 9)	5,935	6,148
Pensions (note 8)	184,280	140,674
Post-retirement benefits (note 8)	61,725	57,005
	<u>1,393,383</u>	<u>1,175,294</u>
Liabilities to non-unitholders		
Current portion of Partnership units liability (note 12)	21,155	5,103
Long-term portion of Partnership units liability (note 12)	128,160	138,412
	<u>149,315</u>	<u>143,515</u>
Total liabilities		
	<u>1,542,698</u>	<u>1,318,809</u>
Equity		
Partnership units (note 12)	434,308	408,978
Deficit	(207,052)	(183,188)
Accumulated other comprehensive income	86,919	79,012
	<u>314,175</u>	<u>304,802</u>
Total equity		
	<u>314,175</u>	<u>304,802</u>
Total equity and liabilities		
	<u>1,856,873</u>	<u>1,623,611</u>
Subsequent events (note 12)		

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

Kruger Products L.P.
Unaudited Condensed Consolidated Statement of Comprehensive Income (Loss)
For the 3-month and 9-month periods ended September 30, 2020 and September 30, 2019

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended September 30, 2020 \$	3-month period ended September 30, 2019 \$	9-month period ended September 30, 2020 \$	9-month period ended September 30, 2019 \$
Revenue (note 14)	369,103	369,358	1,131,012	1,086,009
Expenses				
Cost of sales (note 14)	307,733	317,053	932,255	962,884
Selling, general and administrative expenses (note 14)	31,267	25,751	91,393	73,177
Loss on sale of non-financial assets	-	1	1	7
Restructuring costs, net (note 9)	52	1,549	1,273	1,846
Operating income	30,051	25,004	106,090	48,095
Interest expense	9,746	11,445	31,659	34,175
Other expense (note 5)	2,477	2,344	10,629	4,057
Income before income taxes	17,828	11,215	63,802	9,863
Income taxes (note 13)	(627)	728	8,055	1,656
Net income for the period	18,455	10,487	55,747	8,207
Other comprehensive income (loss)				
Items that will not be reclassified to net income:				
Remeasurements of pensions	(4,142)	(9,718)	(40,797)	(60,130)
Remeasurements of post-retirement benefits	(439)	(421)	(3,827)	(6,752)
Items that may be subsequently reclassified to net income:				
Cumulative translation adjustment	(6,320)	4,037	7,907	(8,476)
Total other comprehensive loss for the period	(10,901)	(6,102)	(36,717)	(75,358)
Comprehensive income (loss) for the period	7,554	4,385	19,030	(67,151)

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

Kruger Products L.P.

Unaudited Condensed Consolidated Statement of Changes in Equity

For the 9-month periods ended September 30, 2020 and September 30, 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 12)	-	-	(11,195)	-	(11,195)
Distributions paid (note 12)	-	-	(21,912)	-	(21,912)
Fair value adjustment (note 12)	-	741	(741)	-	-
Change in actuarial loss on pension	-	-	(60,130)	-	(60,130)
Change in actuarial loss on post-retirement benefits	-	-	(6,752)	-	(6,752)
Cumulative translation adjustment	-	-	-	(8,476)	(8,476)
Net income for the period	-	-	8,207	-	8,207
Issuance of partnership units (note 12)	2,624,704	22,046	-	-	22,046
As of September 30, 2019	<u>62,196,103</u>	<u>399,061</u>	<u>(195,025)</u>	<u>84,563</u>	<u>288,599</u>
As of January 1, 2020	63,293,136	408,978	(183,188)	79,012	304,802
Distributions payable (note 12)	-	-	(11,847)	-	(11,847)
Distributions paid (note 12)	-	-	(23,336)	-	(23,336)
Fair value adjustment (note 12)	-	(196)	196	-	-
Change in actuarial loss on pension	-	-	(40,797)	-	(40,797)
Change in actuarial loss on post-retirement benefits	-	-	(3,827)	-	(3,827)
Cumulative translation adjustment	-	-	-	7,907	7,907
Net income for the period	-	-	55,747	-	55,747
Issuance of partnership units (note 12)	2,521,439	25,526	-	-	25,526
As of September 30, 2020	<u>65,814,575</u>	<u>434,308</u>	<u>(207,052)</u>	<u>86,919</u>	<u>314,175</u>

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

Kruger Products L.P.

Unaudited Condensed Consolidated Statement of Cash Flows

For the 9-month periods ended September 30, 2020 and September 30, 2019

(tabular amounts are in thousands of Canadian dollars)

	9-month period ended September 30, 2020 \$	9-month period ended September 30, 2019 \$
Cash flows from (used in) operating activities		
Net income for the period	55,747	8,207
Items not affecting cash		
Depreciation	48,497	43,533
Amortization	1,184	1,105
(Gain) loss on sale of property, plant and equipment	87	(5)
Change in amortized cost of Partnership units liability (note 5)	10,903	4,641
Loss on sale of shares (note 5)	-	586
Foreign exchange (gain) loss (note 5)	86	(1,170)
Change in fair value of derivatives (note 5)	(360)	-
Interest expense	31,659	34,175
Pension and post-retirement benefits (note 8)	11,121	8,275
Provisions (note 9)	6,137	3,437
Income taxes	8,055	1,656
Loss on sale of non-financial assets	1	7
Total items not affecting cash	117,370	96,240
Net change in non-cash working capital (note 17)	27,086	(32,955)
Contributions to pension and post-retirement benefit plans	(11,793)	(11,641)
Provisions paid (note 9)	(2,054)	(860)
Income tax payments	(1,808)	(2,414)
Net cash from operating activities	184,548	56,577
Cash flows from (used in) investing activities		
Purchases of property, plant and equipment	(12,758)	(19,272)
Purchases of property, plant and equipment related to the TAD Sherbrooke Project	(194,118)	(94,460)
Interest paid on credit facilities related to the TAD Sherbrooke Project	(7,167)	(2,207)
Purchases of software	(1,633)	(1,457)
Proceeds on sale of shares (note 5)	992	3,314
Proceeds on sale of property, plant and equipment	-	5
Net cash used in investing activities	(214,684)	(114,077)
Cash flows from (used in) financing activities (note 18)		
Proceeds from long-term debt	193,538	23,985
Repayment of long-term debt	(84,520)	(9,364)
Payment of deferred financing fees	(500)	(1,280)
Payment of lease liabilities	(14,506)	(12,613)
Interest paid on long-term debt	(21,762)	(20,048)
Distributions and advances paid, net (note 12)	(18,372)	(8,986)
Net cash from (used in) financing activities	53,878	(28,306)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	586	(1,671)
Increase (decrease) in cash and cash equivalents during the period	24,328	(87,477)
Cash and cash equivalents - Beginning of period	93,141	169,884
Cash and cash equivalents - End of period	117,469	82,407

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

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2020 and September 30, 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 unaudited condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34 - Interim Financial Reporting as issued by the International Accounting Standards Board (IASB), and with interpretations of the International Financial Reporting Committee which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook - Accounting. These unaudited condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements of the Partnership for the year ended December 31, 2019.

These unaudited condensed consolidated financial statements were approved by the board of directors of KPGP on November 4, 2020.

3 Summary of significant accounting policies

The significant accounting policies that have been used in the preparation of these unaudited condensed consolidated financial statements are described in the annual audited consolidated financial statements of the Partnership for the year ended December 31, 2019 and have been applied to all periods presented except the following accounting policies, which were adopted 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 unaudited condensed consolidated financial statements.
- (ii) IFRS 3, Definition of a Business. In October 2018, the IASB issued an amendment that revises the definition of a business. The amendment aims to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The mandatory effective date was for annual periods beginning on or after January 1, 2020. The amended standard had no impact on the unaudited condensed 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 unaudited condensed 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 unaudited condensed consolidated financial statements.

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2020 and September 30, 2019

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

The impact of new standards, amendments to standards and interpretations that have been issued but not yet effective for financial periods beginning on or after January 1, 2021 and have not been early adopted have been discussed in the annual audited consolidated financial statements for the year ended December 31, 2019, except for the following:

- (i) IAS 1, Classification of Liabilities as Current or Non-current. In January 2020, the IASB issued an amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. The mandatory effective date would be annual periods beginning on or after January 1, 2023, with early adoption permitted. The amended standard is not expected to have an impact on the unaudited condensed consolidated financial statements.
- (ii) IFRS 3, Reference to Conceptual Framework. In May 2020, the IASB issued an amendment to IFRS 3 to (i) clarify references to the 2018 Conceptual Framework in order to determine what constitutes an asset or liability in a business combination, (ii) add an exception for certain liabilities and contingent liabilities to refer to IAS 37 or IFRIC 21 and (iii) clarify that an acquirer should not recognize contingent assets at the acquisition date. The mandatory effective date would be annual periods beginning on or after January 1, 2022, with early adoption permitted. The amended standard is not expected to have an impact on the unaudited condensed consolidated financial statements.
- (iii) IAS 37, Onerous Contracts – Cost of Fulfilling a Contract. In May 2020, the IASB issued an amendment to IAS 37 to clarify which costs to include in estimating the cost of fulfilling a contract for the purpose of assessing whether that contract is onerous. The mandatory effective date would be annual periods beginning on or after January 1, 2022, with early adoption permitted. The amended standard is not expected to have an impact on the unaudited condensed consolidated financial statements.
- (iv) IAS 16, Proceeds before Intended Use. In May 2020, the IASB issued an amendment to IAS 16 to clarify the accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment into use. The mandatory effective date would be annual periods beginning on or after January 1, 2022, with early adoption permitted. The amended standard is not expected to have an impact on the unaudited condensed 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. Management is evaluating the amended standards and has not yet determined the impact on the unaudited condensed consolidated financial statements.

4 Critical accounting estimates and judgments

The preparation of these unaudited condensed consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the unaudited condensed consolidated financial statements and the disclosure of contingencies at the dates of the unaudited condensed consolidated statements of financial position, and the reported amounts of revenues and expenses during the reporting period. On a regular basis and with the information available, management reviews its estimates. Actual results could differ from those estimates. When adjustments become necessary, they are reported in earnings in the period in which they occur. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and the future periods if the revision affects both current and future periods.

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2020 and September 30, 2019

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

The estimates and judgement applied by management that most significantly affect the unaudited condensed consolidated financial statements are the same as the ones that applied to the annual audited consolidated financial statements for the year ended December 31, 2019, except for the following:

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.

During the period, management considered the impact of COVID-19 on the Partnership's critical accounting estimates and judgments, including the Partnership's assessment of triggering events with respect to its impairment analysis for goodwill and indefinite lived trademarks, 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 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 8. While management has concluded that a triggering event did not occur during the 9-month period ended September 30, 2020 with respect to the Partnership's impairment analysis for goodwill and indefinite lived trademarks, and there was no material change in the assumptions relevant to the valuation of the Partnership units liability or recoverability of deferred tax assets as of September 30, 2020, the duration and severity of the COVID-19 pandemic could result in future impairment charges or material changes to those assumptions. Although the Partnership believes that its exposure to credit risk is generally limited, the risks and uncertainties associated with the COVID-19 pandemic have increased the credit risk associated with trade receivables and such risk is being closely managed.

5 Other expense

	3-month period ended September 30, 2020	3-month period ended September 30, 2019	9-month period ended September 30, 2020	9-month period ended September 30, 2019
	\$	\$	\$	\$
Foreign exchange (gain) loss	(3,386)	488	86	(1,170)
Change in amortized cost of				
Partnership units liability	5,863	1,547	10,903	4,641
Change in fair value of derivatives	-	(277)	(360)	-
Loss on sale of shares	-	586	-	586
	<u>2,477</u>	<u>2,344</u>	<u>10,629</u>	<u>4,057</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 (including proceeds of US\$2.5 million received during the 3-month period ended September 30, 2019). The remainder

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2020 and September 30, 2019

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

of the proceeds were 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 Property, plant and equipment

	Land \$	Buildings \$	Machinery and equipment \$	Assets under construction or development \$	Total \$
As of January 1, 2020					
Cost	37,930	196,126	1,192,419	219,544	1,646,019
Accumulated depreciation	-	(93,651)	(617,358)	-	(711,009)
Net book value as of January 1, 2020	37,930	102,475	575,061	219,544	935,010
Additions	-	-	-	207,177	207,177
Capitalized interest	-	-	-	10,610	10,610
Disposals	-	(38)	(49)	-	(87)
Transfers	-	1,027	12,778	(13,805)	-
Depreciation	-	(3,782)	(32,816)	-	(36,598)
Exchange differences	41	1,462	8,165	(21)	9,647
As of September 30, 2020	37,971	101,144	563,139	423,505	1,125,759
As of September 30, 2020					
Cost	37,971	198,500	1,200,425	423,505	1,860,401
Accumulated depreciation	-	(97,356)	(637,286)	-	(734,642)
Net book value as of September 30, 2020	37,971	101,144	563,139	423,505	1,125,759

7 Right-of-use assets

	Land \$	Buildings \$	Equipment \$	Motor vehicles \$	Total \$
As of January 1, 2020					
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 January 1, 2020	14,558	78,052	3,882	1,090	97,582
Additions, net of lease terminations	-	5,957	2,870	271	9,098
Right-of-use depreciation	(1,248)	(7,443)	(1,582)	(468)	(10,741)
Exchange differences	-	220	(3)	1	218
As of September 30, 2020	13,310	76,786	5,167	894	96,157
As of September 30, 2020					
Cost	38,068	135,806	9,413	2,529	185,816
Accumulated right-of-use depreciation	(24,758)	(59,020)	(4,246)	(1,635)	(89,659)
Net book value as of September 30, 2020	13,310	76,786	5,167	894	96,157

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2020 and September 30, 2019

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

8 Pensions and post-retirement benefits

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

	Pensions		Post-retirement benefit plans	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
	%	%	%	%
Assumptions				
Discount rate - accrued benefit obligation	2.67	3.07	2.67	3.07
Rate of compensation increases	3.25 - 4.00	3.25 - 4.00		

The net benefit pension plan expense included the following components:

	Pensions		Post-retirement benefit plans	
	3-month period ended September 30, 2020	3-month period ended September 30, 2019	3-month period ended September 30, 2020	3-month period ended September 30, 2019
	\$	\$	\$	\$
Net benefit plan expense				
Current service cost	3,017	2,434	503	469
Interest cost	5,166	5,578	400	447
Expected return on plan assets	(4,108)	(4,488)	-	-
Administrative cost	127	171	-	-
	<u>4,202</u>	<u>3,695</u>	<u>903</u>	<u>916</u>

	Pensions		Post-retirement benefit plans	
	9-month period ended September 30, 2020	9-month period ended September 30, 2019	9-month period ended September 30, 2020	9-month period ended September 30, 2019
	\$	\$	\$	\$
Net benefit plan expense				
Current service cost	9,147	6,469	1,540	1,376
Interest cost	15,523	16,739	1,197	1,342
Expected return on plan assets	(12,346)	(13,899)	-	-
Administrative cost	434	430	-	-
	<u>12,758</u>	<u>9,739</u>	<u>2,737</u>	<u>2,718</u>

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2020 and September 30, 2019

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

9 Provisions

	Environmental and asset retirement obligations ^(a)	Long-term incentives, DSUs, PSUs and RSUs ^(b)	Restructuring	Total
	\$	\$	\$	\$
Provisions as of				
January 1, 2020	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	-	4,864	1,273	6,137
Paid during the period	-	(614)	(1,440)	(2,054)
Interest accretion	103	-	-	103
Provisions as of				
September 30, 2020	3,130	7,087	876	11,093
Current	-	4,483	675	5,158
Non-current	3,130	2,604	201	5,935

(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 at 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 4.395% (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 15) 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 been adopted which allows independent directors to receive all or part of their director retainer fees in the form of DSUs. The Plan allows for the issuance of additional units as dividend equivalents when KPT declares and issues a dividend to shareholders. Upon the individual ceasing to be a director, the DSUs will be paid out in cash. As of September 30, 2020, DSUs of \$0.4 million were recorded (December 31, 2019 – \$0.2 million).

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2020 and September 30, 2019

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

10 Long-term debt

	Maturity	September 30, 2020 \$	December 31, 2019 \$
Senior Credit Facility ^(a)	2023	13,834	88,257
Senior Unsecured Notes	2025	122,733	122,369
AgCredit Agreement ^(b)	2023, 2025, 2036, 2037	392,461	206,792
IQ Debenture	2028	96,752	92,421
Nordea2 Credit Facility	2029	55,767	50,784
Quebec PM Loan	2026	24,685	26,823
Ontario Loan	2026	3,741	3,616
		<u>709,973</u>	<u>591,062</u>
Less: Current portion of long-term debt		<u>4,937</u>	<u>4,937</u>
		<u>705,036</u>	<u>586,125</u>

- (a) The Senior Credit Agreement requires the Restricted Credit Parties to comply with certain financial covenants related to its revolving credit facility (the Senior Credit Facility). The financial covenants were amended by a consent letter dated as of May 27, 2020. The financial covenants are calculated on an Adjusted Consolidated Basis (as defined in the Senior Credit Agreement) such that the Unrestricted Credit Parties are accounted for as investments but not consolidated. As such, the Unrestricted Subsidiaries' EBITDA are not included in such calculations.

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 of at least 3.00 to 1.00.

- (b) In response to the uncertainty resulting from the COVID-19 pandemic, certain terms of the AgCredit Agreement were amended to provide greater flexibility related to the TAD Sherbrooke Project. On April 20, 2020, the Partnership entered into the first amendment to the AgCredit agreement (the First Amendment to the AgCredit Agreement), with an effective date of March 23, 2020.

Repayments on the US\$147 million term loan facility commence on June 30, 2022 (extended from March 31, 2022).

Repayments related to amounts drawn on or after March 23, 2020 related to the US\$188 million term loan facility commence on June 30, 2026 (extended from March 31, 2026) and are repayable by March 31, 2037 (extended from December 31, 2036).

Repayments on the \$111 million term loan facility commence on June 30, 2022 (extended from March 31, 2022).

Kruger Products L.P.
Notes to Unaudited Condensed Consolidated Financial Statements
For the 9-month periods ended September 30, 2020 and September 30, 2019

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

11 Lease liabilities

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

	September 30, 2020
	\$
Less than 1 year	20,813
Between 1 and 5 years	70,880
More than 5 years	69,752
	<u>161,445</u>

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

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

	3-month period ended September 30, 2020	3-month period ended September 30, 2019	9-month period ended September 30, 2020	9-month period ended September 30, 2019
	\$	\$	\$	\$
Interest expense on lease liabilities ^(a)	1,368	1,421	4,191	3,992
Expenses relating to variable payments not included in the measurement of lease liabilities ^(b)	1,185	1,347	3,621	3,929
Expenses relating to low-value leases ^(b)	51	75	181	229
	<u>2,604</u>	<u>2,843</u>	<u>7,993</u>	<u>8,150</u>

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

(b) Included in Cost of sales and Selling, general and administrative expenses in the unaudited condensed consolidated statement of comprehensive income (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 9-month period ended September 30, 2020, expenses relating to short-term leases were not significant.

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 4.62% as of September 30, 2020. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability.

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2020 and September 30, 2019

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

12 Distributions and Partnership units liability

	Partnership units liability \$
As of January 1, 2020	143,515
Change in amortized cost of Partnership units liability (note 5)	10,903
Tax Distributions	(5,103)
As of September 30, 2020	<u>149,315</u>

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

Distribution Payment Date	9-month period ended September 30, 2020			
	Partnership unit distributions \$	Unit price \$	Issuance of Partnership units #	Gross proceeds \$
January 15, 2020	11,393	9.84	1,016,179	9,999
April 15, 2020	11,576	9.92	1,025,660	10,175
July 15, 2020	11,760	11.16	479,600	5,352
	<u>34,729</u>		<u>2,521,439</u>	<u>25,526</u>

Distribution Payment Date	9-month period ended September 30, 2019			
	Partnership unit distributions \$	Unit price \$	Issuance of Partnership units #	Gross proceeds \$
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
	<u>32,635</u>		<u>2,624,704</u>	<u>22,046</u>

On October 15, 2020, the Partnership paid a distribution of \$11.8 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 402,424 Partnership units at a price of \$13.41. During the 9-month period ended September 30, 2020, a decrease of \$0.2 million was recorded as a fair value adjustment to reflect the market value of the Partnership units issued.

Subsequent to September 30, 2020, the Partnership declared a distribution of \$11.9 million, payable on January 15, 2021.

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

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

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

	9-month period ended September 30, 2019			
	Advances received \$	Tax Distributions \$	Partnership unit distributions \$	Total \$
Paid to (received from) Kruger Inc. ^(a)	-	(1,436)	6,880	5,444
Paid to KPGP	-	-	3	3
Paid to (received from) KPT ^(b)	(167)	-	3,706	3,539
Total paid (received from)	(1,603)	-	10,589	8,986

(a) During the 9-month periods ended September 30, 2020 and September 30, 2019, Partnership unit distributions were paid to Kruger Inc. net of the DRIP reinvestment. During the 9-month period ended September 30, 2020, Kruger Inc.'s DRIP reinvestment was \$24.5 million (9-month period ended September 30, 2019 - \$20.6 million).

(b) During the 9-month periods ended September 30, 2020 and September 30, 2019, Partnership unit distributions were paid to KPT net of the DRIP reinvestment. During the 9-month period ended September 30, 2020, KPT's DRIP reinvestment was \$1.0 million (9-month period ended September 30, 2019 - \$1.4 million).

Tax Distributions

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, with the balance paid to Kruger Inc., KPGP and KPT. During the 9-month period ended September 30, 2020, pursuant to the Tax Distribution as defined in the Partnership Agreement, the Partnership made advances to its partners of \$4.1 million, of which \$0.6 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.

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2020 and September 30, 2019

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

13 Income taxes

The Partnership is not a tax paying entity for the 9-month periods ended September 30, 2020 and September 30, 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.

Income tax expense (recovery) was recognized based on management's best estimate of the effective weighted average annual income tax rate expected for the full financial year. The estimated effective weighted average annual income tax rate for the 9-month period ended September 30, 2020 was 12.6% (9-month period ended September 30, 2019 – 16.8%).

The components of income taxes were as follows:

	3-month period ended September 30, 2020	3-month period ended September 30, 2019	9-month period ended September 30, 2020	9-month period ended September 30, 2019
	\$	\$	\$	\$
Current tax expense	831	638	1,713	2,753
Deferred tax expense (recovery)	(1,458)	90	6,342	(1,097)
	<u>(627)</u>	<u>728</u>	<u>8,055</u>	<u>1,656</u>

14 Related party transactions

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

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

Sales of goods to Kruger Inc. for the 9-month period ended September 30, 2020 were \$0.2 million (9-month period ended September 30, 2019 - \$0.1 million). Sales of goods to subsidiaries of Kruger Inc. for the 9-month period ended September 30, 2020 were nil (9-month period ended September 30, 2019 - \$0.1 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 9-month period ended September 30, 2020 were \$7.3 million (9-month period ended September 30, 2019 - \$4.3 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the 9-month period ended September 30, 2020 were \$42.3 million (9-month period ended September 30, 2019 - \$31.1 million). Goods are purchased from Kruger Inc. and related parties under normal commercial terms and conditions. These purchases of goods and services are included within cost of sales and selling, general and administrative expenses in the unaudited condensed consolidated statement of comprehensive income (loss).

During the 9-month period ended September 30, 2020, management fees of \$5.5 million (9-month period ended September 30, 2019 - \$3.3 million) were paid to Kruger Inc. for management services provided to the Partnership.

Kruger Products L.P.
Notes to Unaudited Condensed Consolidated Financial Statements
For the 9-month periods ended September 30, 2020 and September 30, 2019

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

Balances due to and from related parties were as follows:

	September 30, 2020	December 31, 2019
	\$	\$
Receivables from Kruger Inc.	626	45
Receivables from subsidiaries of Kruger Inc.	17	14
	<u>643</u>	<u>59</u>
Payables to Kruger Inc.	3,228	2,544
Payables to subsidiaries of Kruger Inc.	3,287	4,018
Payables to KPT	73	247
	<u>6,588</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 September 30, 2020 and December 31, 2019. There were no loans outstanding with related parties as of September 30, 2020 and December 31, 2019.

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

	September 30, 2020	December 31, 2019
	\$	\$
Distribution payable to Kruger Inc.	10,095	9,659
Distribution payable to KPGP	1	1
Distribution payable to KPT	1,751	1,733
	<u>11,847</u>	<u>11,393</u>

15 Segment information

Reportable segments

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

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2020 and September 30, 2019

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

property, plant and equipment, (vii) foreign exchange loss (gain), (viii) costs related to restructuring activities, (ix) changes in amortized cost of Partnership units liability, (x) change in fair value of derivatives, (xi) consulting costs related to operational transformation initiatives, (xii) corporate development related costs and (xiii) loss (gain) on sale of shares. The unaudited condensed consolidated financial statements refer to “Adjusted EBITDA”, a measure which does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other companies. “Consumer Segment Adjusted EBITDA” and “AFH Segment Adjusted EBITDA” means in each case the Segment operating income for the respective reportable segment of the Partnership.

Corporate and other costs

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.

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

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2020 and September 30, 2019

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

	3-month period ended September 30, 2019			Total \$
	Consumer \$	AFH \$	Corporate and other costs \$	
Revenue from external customers	305,033	64,325	-	369,358
Adjusted EBITDA	45,985	(1,919)	(55)	44,011
Depreciation and amortization				15,010
Interest expense				11,445
Change in amortized cost of Partnership units liability				1,547
Change in fair value of derivatives				(277)
Loss on sale of non-financial assets				1
Loss on sale of shares				586
Restructuring costs, net				1,549
Foreign exchange loss				488
Consulting costs				
related to operational transformation initiatives				2,332
Corporate development related costs				115
Income before income taxes				11,215
Income taxes				728
Net income				10,487

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

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2020 and September 30, 2019

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

	9-month period ended September 30, 2019			Total \$
	Consumer \$	AFH \$	Corporate and other costs \$	
Revenue from external customers	900,881	185,128	-	1,086,009
Adjusted EBITDA	111,432	(11,548)	(834)	99,050
Depreciation and amortization				44,638
Interest expense				34,175
Change in amortized cost of Partnership units liability				4,641
Gain on sale of property, plant and equipment				(5)
Loss on sale of non-financial assets				7
Loss on sale of shares				586
Restructuring costs, net				1,846
Foreign exchange gain				(1,170)
Consulting costs related to operational transformation initiatives				3,615
Corporate development related costs				854
Income before income taxes				9,863
Income taxes				1,656
Net income				8,207

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.

	3-month period ended September 30, 2020 \$	3-month period ended September 30, 2019 \$	9-month period ended September 30, 2020 \$	9-month period ended September 30, 2019 \$
Revenue				
Canada	223,272	213,179	671,805	618,758
US	145,831	130,769	459,207	390,345
Mexico (note 5)	-	25,410	-	76,906
	<u>369,103</u>	<u>369,358</u>	<u>1,131,012</u>	<u>1,086,009</u>

	September 30, 2020		
	Canada \$	US \$	Total \$
Property, plant and equipment	780,902	344,857	1,125,759
Goodwill	160,939	-	160,939
Intangible assets	15,766	-	15,766

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2020 and September 30, 2019

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

	December 31, 2019		
	Canada	US	Total
	\$	\$	\$
Property, plant and equipment	585,588	349,422	935,010
Goodwill	160,939	-	160,939
Intangible assets	15,317	-	15,317

16 Financial instruments

Classification of financial instruments

As of September 30, 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	117,469	117,469
Trade and other receivables	financial assets at amortized cost	97,222	97,222
Receivables from related parties	financial assets at amortized cost	643	643
Advances to partners	financial assets at amortized cost	4,066	4,066
Embedded derivative	embedded derivative at fair value through profit and loss	10	10
Trade payables	financial liabilities at amortized cost	(93,202)	(93,202)
Accrued liabilities	financial liabilities at amortized cost	(106,752)	(106,752)
Contract liabilities	financial liabilities at amortized cost	(89,593)	(89,593)
Payables to related parties	financial liabilities at amortized cost	(6,588)	(6,588)
Distributions payable	financial liabilities at amortized cost	(11,847)	(11,847)
Long-term debt	financial liabilities at amortized cost	(709,973)	(727,273)
Lease liabilities	financial liabilities at amortized cost	(117,757)	(117,757)
Partnership units liability	financial liabilities at amortized cost	(149,315)	(149,315)

The following table details the fair value hierarchy of financial instruments by level as of September 30, 2020:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Embedded derivative	-	10	-	10
Long-term debt	-	(727,273)	-	(727,273)
Partnership units liability	-	-	(149,315)	(149,315)

Kruger Products L.P.
Notes to Unaudited Condensed Consolidated Financial Statements
For the 9-month periods ended September 30, 2020 and September 30, 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 discounted future cash flows using market rates of 6.0%, 4.4% and 4.4% accordingly, net of the government grant recorded on the below-market rate of interest.

Kruger Products L.P.
Notes to Unaudited Condensed Consolidated Financial Statements
For the 9-month periods ended September 30, 2020 and September 30, 2019

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

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

	September 30, 2020	December 31, 2019
	\$	\$
Senior Credit Facility	15,000	90,000
Senior Unsecured Notes	125,000	125,000
AgCredit Agreement	402,451	216,691
IQ Debenture	97,231	92,967
Nordea2 Credit Facility	58,910	54,343
Quebec PM Loan	24,940	27,111
Ontario Loan	3,741	3,616
	<u>727,273</u>	<u>609,728</u>

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

The fair value of the derivative liabilities was based on foreign exchange rates and interest rates in the active market. The change in the fair value of the derivative liabilities based on foreign exchange rates was \$0.4 million gain during the 9-month period ended September 30, 2020 (9-month period ended September 30, 2019 – nil), which was recorded in the unaudited condensed consolidated statement of comprehensive income (loss) in Other expense. The valuation methodology used was categorized as a Level 2 methodology. The change in the fair value of the derivative liabilities based on interest rates was \$0.01 million gain during the 9-month period ended September 30, 2020 (9-month period ended September 30, 2019 – \$0.3 million loss), which was recorded in the unaudited condensed consolidated statement of comprehensive income (loss) in Interest expense. The valuation methodology used was categorized as a Level 2 methodology.

Fair value of the Partnership units liability

The Partnership units liability is classified as a financial liability at amortized cost. Management has estimated the fair value of the Partnership units liability using a discounted cash flow model. Significant assumptions include the income tax obligation, discount rate and an industry capitalization rate. There were no significant changes in the assumptions during the 9-month period ended September 30, 2020.

Currency risk

From time to time, the Partnership uses derivative financial instruments to manage foreign currency risk. Foreign exchange swaps and foreign exchange forwards are used to manage U.S. dollar borrowings. As of September 30, 2020, KPLP had no foreign exchange swaps outstanding (December 31, 2019 – nil) and foreign exchange forwards outstanding of nil (December 31, 2019 – \$23.7 million).

Interest rate risk

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 Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2020 and September 30, 2019

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

17 Non-cash working capital

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

	9-month period ended September 30, 2020	9-month period ended September 30, 2019
	\$	\$
Decrease (increase) in trade and other receivables	(5,993)	1,411
Decrease (increase) in receivables from related parties	(504)	172
Decrease (increase) in inventories	(9,616)	2,714
Increase in prepaid expenses	(2,157)	(3,304)
Decrease (increase) in income taxes	249	(91)
Increase (decrease) in trade and other payables	45,328	(35,077)
Increase (decrease) in payables to related parties	(221)	1,220
	<u>27,086</u>	<u>(32,955)</u>

18 Cash flows from (used in) financing activities

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

	Advances to partners	Prepaid interest	Accrued interest	Distri- butions payable	Long- term debt	Partner- ship units	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	-	-	-	-	23,985	-	-	-	23,985
Repayment of long-term debt	-	-	-	-	(9,364)	-	-	-	(9,364)
Payment of deferred financing fees	-	-	-	-	(1,280)	-	-	-	(1,280)
Payment of lease liabilities	-	-	-	-	-	-	-	(12,613)	(12,613)
Interest paid on long-term debt	-	(5,598)	(13,833)	-	(617)	-	-	-	(20,048)
Distributions and advances paid, net	1,603	-	-	(32,635)	-	22,046	-	-	(8,986)
Movements not in financing activities	-	5,133	17,991	33,107	5,753	741	4,641	23,608	90,974
As of September 30, 2019	<u>(101)</u>	<u>(869)</u>	<u>7,388</u>	<u>11,195</u>	<u>596,371</u>	<u>399,061</u>	<u>121,165</u>	<u>126,125</u>	<u>1,260,335</u>
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	-	-	-	-	193,538	-	-	-	193,538
Repayment of long-term debt	-	-	-	-	(84,520)	-	-	-	(84,520)
Payment of deferred financing fees	-	-	-	-	(500)	-	-	-	(500)
Payment of lease liabilities	-	-	-	-	-	-	-	(14,506)	(14,506)
Interest paid on long-term debt	-	(2,048)	(19,203)	-	(511)	-	-	-	(21,762)
Distributions and advances paid, net	(4,066)	-	-	(34,729)	-	25,526	(5,103)	-	(18,372)
Movements not in financing activities	80	2,402	18,384	35,183	10,904	(196)	10,903	13,501	91,161
As of September 30, 2020	<u>(4,066)</u>	<u>(7)</u>	<u>4,351</u>	<u>11,847</u>	<u>709,973</u>	<u>434,308</u>	<u>149,315</u>	<u>117,757</u>	<u>1,423,478</u>