



**KRUGER PRODUCTS L.P.**

**AUDITED CONSOLIDATED FINANCIAL STATEMENT**

**FOR THE YEARS ENDED DECEMBER 31, 2021 AND DECEMBER 31, 2020**



## Independent auditor's report

To the Unitholders of Kruger Products L.P.

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### 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, 2021 and 2020, 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, 2021 and 2020;
- the consolidated statements of comprehensive income (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.

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### 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.

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### 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 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 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 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 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.

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### **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.

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### **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 10, 2022

# Kruger Products L.P.

## Consolidated Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	December 31, 2021	December 31, 2020
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash, cash equivalents and restricted cash (note 27)	151,025	128,739
Trade and other receivables (note 6)	88,802	88,041
Receivables from related parties (note 18)	271	13
Advances to partners (note 16)	13,752	5,647
Inventories (note 7)	251,071	215,934
Income tax recoverable (note 17)	1,171	358
Prepaid expenses	5,455	8,315
	<u>511,547</u>	<u>447,047</u>
<b>Non-current assets</b>		
Property, plant and equipment (note 8)	1,224,698	1,194,191
Right-of-use assets (note 9)	91,626	107,633
Other long-term assets (note 18)	37,456	10
Goodwill (note 10)	152,021	152,021
Intangible assets (note 10)	29,222	26,205
Deferred income taxes (note 17)	75,742	24,217
	<u>2,122,312</u>	<u>1,951,324</u>
<b>Total assets</b>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables (note 12)	258,626	332,072
Payables to related parties (note 18)	11,485	9,097
Income tax payable (note 17)	300	554
Distributions payable (notes 16 and 18)	12,300	11,919
Current portion of provisions (note 13)	3,705	4,913
Current portion of long-term debt (note 14)	48,550	9,495
Current portion of lease liabilities (note 15)	30,170	25,341
	<u>365,136</u>	<u>393,391</u>
<b>Non-current liabilities</b>		
Long-term debt (note 14)	920,331	743,978
Long-term lease liabilities (note 15)	82,354	105,634
Long-term payable to related party (note 18)	42,454	-
Long-term provisions (note 13)	6,929	9,549
Other long-term liabilities	-	575
Pensions (note 11)	58,481	161,333
Post-retirement benefits (note 11)	57,331	63,038
	<u>1,533,016</u>	<u>1,477,498</u>
<b>Liabilities to non-unitholders</b>		
Current portion of Partnership units liability (note 16)	14,064	31,244
Long-term portion of Partnership units liability (note 16)	159,137	154,180
	<u>173,201</u>	<u>185,424</u>
<b>Total Partnership units liability</b>		
	<u>1,706,217</u>	<u>1,662,922</u>
<b>Total liabilities</b>		
<b>Equity</b>		
Partnership units (note 16)	461,536	439,571
Deficit	(117,123)	(224,503)
Accumulated other comprehensive income	71,682	73,334
	<u>416,095</u>	<u>288,402</u>
<b>Total equity</b>		
	<u>2,122,312</u>	<u>1,951,324</u>
<b>Total equity and liabilities</b>		
<b>Commitments and contingencies (note 19)</b>		
<b>Subsequent events (notes 14 and 16)</b>		

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 Income (Loss)

For the years ended December 31, 2021 and December 31, 2020

(tabular amounts are in thousands of Canadian dollars)

	2021	2020
	\$	\$
<b>Revenue (notes 18 and 26)</b>	1,465,161	1,515,983
<b>Expenses</b>		
Cost of sales (notes 18 and 20)	1,279,851	1,264,448
Selling, general and administrative expenses (notes 18 and 20)	118,072	128,062
Loss on sale of non-financial assets	9	1
Impairment charge (note 10)	-	8,918
Restructuring costs, net (note 13)	584	1,275
<b>Operating income</b>	66,645	113,279
Interest expense and other finance costs (note 14)	70,710	40,965
Other expense (note 5)	4,943	36,353
<b>Income (loss) before income taxes</b>	(9,008)	35,961
<b>Income tax expense (recovery) (note 17)</b>	(51,007)	8,655
<b>Net income for the year</b>	41,999	27,306
<b>Other comprehensive income (loss)</b>		
<b>Items that will not be reclassified to net income:</b>		
Remeasurements of pensions	106,968	(16,977)
Remeasurements of post-retirement benefits	6,910	(4,871)
<b>Items that may be subsequently reclassified to net income:</b>		
Cumulative translation adjustment	(1,652)	(5,678)
<b>Total other comprehensive income (loss) for the year</b>	112,226	(27,526)
<b>Comprehensive income (loss) for the year</b>	154,225	(220)

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, 2021 and December 31, 2020

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

	Partnership units		Deficit \$	Accumulated other comprehensive income \$	Total equity \$
	#	\$			
<b>As of January 1, 2020</b>	63,293,136	408,978	(183,188)	79,012	304,802
Distributions payable (note 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
<b>As of December 31, 2020</b>	<b>66,216,999</b>	<b>439,571</b>	<b>(224,503)</b>	<b>73,334</b>	<b>288,402</b>
<b>As of January 1, 2021</b>	66,216,999	439,571	(224,503)	73,334	288,402
Distributions payable (note 16)	-	-	(12,300)	-	(12,300)
Distributions paid (note 16)	-	-	(36,318)	-	(36,318)
Fair value adjustment (note 16)	-	(121)	121	-	-
Change in actuarial gain on pension	-	-	106,968	-	106,968
Change in actuarial gain on pension on post-retirement benefits	-	-	6,910	-	6,910
Cumulative translation adjustment	-	-	-	(1,652)	(1,652)
Net income for the year	-	-	41,999	-	41,999
Issuance of partnership units (note 16)	2,116,896	22,086	-	-	22,086
<b>As of December 31, 2021</b>	<b>68,333,895</b>	<b>461,536</b>	<b>(117,123)</b>	<b>71,682</b>	<b>416,095</b>

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

**Kruger Products L.P.**  
**Consolidated Statement of Cash Flows**  
**For the years ended December 31, 2021 and December 31, 2020**

(tabular amounts are in thousands of Canadian dollars)

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from (used in) operating activities</b>		
Net income for the year	41,999	27,306
Items not affecting cash		
Depreciation	82,081	67,129
Amortization	3,638	1,657
Loss on sale of property, plant and equipment	381	909
Change in amortized cost of Partnership units liability (notes 4 and 5)	5,312	47,012
Foreign exchange gain (note 5)	(760)	(10,299)
Change in fair value of derivatives (note 5)	-	(360)
Interest expense and other finance costs (note 14)	70,710	40,965
Pension and post-retirement benefits (note 11)	16,186	14,635
Provisions (note 13)	1,945	6,231
Income tax expense (recovery) (note 17)	(51,007)	8,655
Loss on sale of non-financial assets	9	1
Impairment charge (note 10)	-	8,918
Total items not affecting cash	128,495	185,453
Net change in non-cash working capital (note 28)	(66,769)	60,328
Contributions to pension and post-retirement benefit plans (note 11)	(15,522)	(15,622)
Provisions paid (note 13)	(4,273)	(2,194)
Income tax payments	(2,552)	(1,738)
<b>Net cash from operating activities</b>	<b>81,378</b>	<b>253,533</b>
<b>Cash flows from (used in) investing activities</b>		
Purchases of property, plant and equipment	(46,131)	(31,581)
Purchases of property, plant and equipment and software related to the TAD Sherbrooke Project and the Sherbrooke Expansion Project	(99,060)	(263,348)
Interest paid on credit facilities related to the TAD Sherbrooke Project	(608)	(10,676)
Government assistance received	931	398
Purchases of software (note 10)	(824)	(4,974)
Purchases of trademarks (note 10)	-	(4,538)
Proceeds on sale of shares	-	992
Proceeds on sale of property, plant and equipment	13	-
<b>Net cash used in investing activities</b>	<b>(145,679)</b>	<b>(313,727)</b>
<b>Cash flows from (used in) financing activities (note 29)</b>		
Proceeds from long-term debt	239,282	262,673
Repayment of long-term debt	(23,943)	(92,714)
Payment of deferred financing fees	(9,545)	(509)
Payment of lease liabilities	(24,600)	(19,283)
Interest paid on long-term debt	(41,981)	(25,706)
Distributions and advances paid, net (note 16)	(51,826)	(26,404)
<b>Net cash from financing activities</b>	<b>87,387</b>	<b>98,057</b>
<b>Effect of exchange rate changes on cash and cash equivalents held in foreign currency</b>	<b>(800)</b>	<b>(2,265)</b>
<b>Increase in cash, cash equivalents and restricted cash during the year</b>	<b>22,286</b>	<b>35,598</b>
<b>Cash, cash equivalents and restricted cash - Beginning of year (note 27)</b>	<b>128,739</b>	<b>93,141</b>
<b>Cash, cash equivalents and restricted cash - End of year (note 27)</b>	<b>151,025</b>	<b>128,739</b>

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



# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

### 1 General information

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

### 2 Basis of presentation

These 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 9, 2022.

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)
- 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, 2021 and December 31, 2020

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(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. 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, 2021 and December 31, 2020

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(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 income (expense).

(e) *Cash, cash equivalents and restricted cash*

The Partnership considers all highly liquid investments with a maturity of three months or less to be cash equivalents. Restricted cash is cash and cash equivalents whose withdrawal or usage is restricted for certain purposes.

(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 and other finance costs 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, 2021 and December 31, 2020

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(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, 2021 and December 31, 2020

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(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 4.10% at December 31, 2021. 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, 2021 and December 31, 2020

---

(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, DSUs, PSUs, RSUs 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 and other finance costs in the consolidated statement of comprehensive income (loss).

#### *(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 in the consolidated statement of financial position.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

---

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

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

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

(s) *Pensions and post-retirement benefits*

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

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

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

---

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

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

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

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

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

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



# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

---

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

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.

### *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.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

---

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

### *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.

### (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 may use derivative financial instruments to manage foreign currency risk and interest rate risk. Foreign exchange swaps and foreign exchange forwards may be used from time to time to manage U.S. dollar borrowings. Interest rate swaps may be 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.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

---

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

(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 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) *Debt modifications*

In accordance with IFRS 9, “Financial Instruments”, accounting for a debt modification is dependent on whether the terms of the original debt agreement have been substantially modified. The standard prescribes a qualitative and a quantitative test to determine whether a debt modification is ‘substantial’ or ‘non-substantial’. The qualitative test assesses whether a significant change has occurred in the debt terms and conditions, such that immediate derecognition is required with no additional quantitative analysis. The quantitative test examines whether the net present value of the cash flows under the new debt terms discounted at the original effective interest rate are at least 10% different from the carrying amount of the original debt.

If a debt modification is determined to be substantial, a debt extinguishment is recorded. The original debt is derecognized and the new debt is recorded at fair value. The difference between the carrying amount of the original debt and the consideration paid to extinguish it is recognized in profit or loss. The unamortized portion of any transaction costs deducted from the original loan are included in the determination of the gain or loss on extinguishment. Costs and fees incurred in the modification are also included in the gain or loss on extinguishment.

If a debt modification is determined to be non-substantial, a debt modification is recorded and the original debt is not derecognized. The carrying amount of the debt is adjusted to the net present value of the revised cash flows discounted using the original effective interest rate. The adjustment to the carrying amount of the debt is recognized

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

### December 31, 2021 and December 31, 2020

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

in profit or loss. The carrying amount of the debt is adjusted for costs and fees incurred in the modification and amortized over its remaining term.

#### *(aa) Cloud computing arrangements*

Configuration and customization costs incurred in a Software as a service (SaaS) cloud computing arrangement are assessed to determine whether they meet the definition of an intangible asset. The assessment examines whether the configuration or customization activities create a resource controlled by the Partnership that is separate from the software and whether the Partnership obtains economic benefit from the configuration or customization activities that can be restricted from access by others.

If the configuration or customization costs meet the definition of an intangible asset, the costs are capitalized to Intangible assets and amortized to profit or loss over the term of the SaaS arrangement. If the configuration or customization costs do not meet the definition of an intangible asset, the costs are recognized in profit or loss as the configuration or customization services are received.

#### *(bb) Accounting standards implemented effective January 1, 2021*

- (i) IFRS 9/IAS 39, IFRS 7, IFRS 4 and IFRS 16, Interest Rate Benchmark Reform (Phase 2). In August 2020, the IASB issued amendments that address issues arising from the implementation of interest rate benchmark reform, including the replacement of one benchmark with an alternative one. The mandatory effective date was for annual periods beginning on or after January 1, 2021. The Partnership has certain borrowings which are subject to the replacement of one interest rate benchmark with an alternative one (note 14). As of December 31, 2021, these borrowings have not yet transitioned to an alternative interest rate benchmark. The amended standard had no impact on the consolidated financial statements as of December 31, 2021 and is not expected to have a material impact on the consolidated financial statements at the time of transition.
- (ii) IFRS 16, COVID-19-Related Rent Concessions. In May 2020, the IASB issued an amendment to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification for any reduction in lease payments originally due on or before June 30, 2021. In March 2021, the IASB issued an amendment to extend the practical expedient to any reduction in lease payments originally due on or before June 30, 2022. The mandatory effective date was for annual periods beginning on or after April 1, 2021, with early adoption permitted. The amended standard had no impact on the consolidated financial statements.

#### *(cc) Accounting standards issued but not yet applied*

The following revised standards and amendments are effective for annual periods beginning on or after January 1, 2022, 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 after January 1, 2023, with early adoption permitted. Management is evaluating the amended standard and has not yet determined the 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

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

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) IAS 1, Disclosure of Accounting Policies. In February 2021, the IASB issued amendments to IAS 1 to provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The mandatory effective date would be annual periods beginning on or after January 1, 2023, with early adoption permitted. The amended standard is not expected to have an impact on the consolidated financial statements.
- (vi) IAS 8, Accounting Policies, Changes to Accounting Estimates and Errors. In February 2021, the IASB issued amendments to IAS 8 to introduce a new definition of accounting estimates to clarify the distinction between changes in accounting policies and changes in accounting estimates and the correction of errors. The mandatory effective date would be annual periods beginning on or after January 1, 2023, with early adoption permitted. The amended standard is not expected to have an impact on the consolidated financial statements.
- (vii) IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction. In May 2021, the IASB issued amendments to IAS 12 that require an entity to recognize deferred tax on certain transactions such as leases and decommissioning obligations that give rise to equal amounts of taxable and deductible temporary differences on initial recognition. The mandatory effective date would be annual periods beginning on or after January 1, 2023, with early adoption permitted. The amended standard is not expected to have an impact on the consolidated financial statements.

#### 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

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

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, 2021, \$173.2 million was recorded as a liability in respect of this obligation (December 31, 2020 - \$185.4 million). As of December 31, 2021, the valuation utilized a discount rate and terminal growth rate of 8.75% and 2.0% (December 31, 2020 - 9.0% 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 \$15.3 million and \$17.9 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, 2021 to reflect the current year advances of \$13.8 million made to the partners required to allow KPT to make tax installment payments. The loss of \$5.3 million recorded during the year ended December 31, 2021 (2020 - loss of \$47.0 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, 2021. The Partnership units liability decreased by \$12.2 million due to the change in the discount rate causing an increase of \$7.9 million, the 2021 Tax Distribution of \$14.1 million less the final 2020 Tax Distribution of \$17.5 million and the changes in other assumptions causing a decrease of \$16.7 million.

### *Impairment tests*

The Partnership performs an annual impairment test for goodwill, as it relates to the Consumer Canada CGU 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, 2021 and no impairment was recorded. As of December 31, 2021, the carrying value of the Canada Consumer CGU's goodwill was \$152.0 million.

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

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

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, 2021, the value of indefinite lived trademarks was \$16.0 million.

### *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, 2021, the Partnership assessed its ability to utilize the U.S. State tax credits and its ability to utilize net operating loss carry forwards. The Partnership recognized loss carry forwards previously unrecognized and recorded an additional \$40.3 million deferred tax asset for the year ended December 31, 2021.

### *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.

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*

During the year ended December 31, 2021, management considered the impact of COVID-19 on the Partnership's critical accounting estimates and judgments, including the Partnership's assessment of the assumptions and estimates made in its valuation of the Partnership units liability and pension liability, the assumptions utilized in its assessment of the recoverability of deferred tax assets, the assessment of triggering events with respect to its impairment analysis for non-current assets and the impact on credit risk and liquidity risk. 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, 2021 and that during the year ended December 31, 2021, no triggering event had occurred requiring an impairment test to be performed with respect to non-current assets, the length and severity of the COVID-19 pandemic could result in future material changes to those assumptions or future impairment charges. As away-from-home activities re-opened, demand in the AFH Segment began to improve in the second half of the year. The Partnership determined that its exposure to credit risk and liquidity risk associated with its trade receivables was reduced and released a COVID-19 related AFH accounts receivable provision of \$1.3 million recorded in 2020. Management will continue to assess the expected credit losses associated with its trade receivables.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

### 5 Other expense

	2021	2020
	\$	\$
Foreign exchange gain	(760)	(10,299)
Change in amortized cost of Partnership units liability (note 4)	5,312	47,012
Change in fair value of derivatives	-	(360)
Other expense	391	-
	<u>4,943</u>	<u>36,353</u>

### 6 Trade and other receivables

	December 31, 2021	December 31, 2020
	\$	\$
Trade receivables	84,660	85,162
Other receivables	4,183	4,402
Less: Allowance for expected credit losses	(41)	(1,523)
	<u>88,802</u>	<u>88,041</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 and other finance costs in the consolidated statement of comprehensive income (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.

### 7 Inventories

	December 31, 2021	December 31, 2020
	\$	\$
Finished products	98,888	65,546
Work-in-process	42,700	30,739
Raw materials and supplies	63,281	77,415
Spare parts	46,202	42,234
	<u>251,071</u>	<u>215,934</u>

During the year ended December 31, 2021, total inventories recognized as Cost of sales were \$1,074.3 million (2020 – \$1,073.3 million). The Partnership wrote-off inventories during the year ended December 31, 2021 totalling \$3.1 million (2020 - \$4.1 million). Inventory provisions as of December 31, 2021 were \$8.4 million (December 31, 2020 - \$8.2 million).



# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

(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
	\$	\$	\$	\$	\$
<b>As of January 1, 2020</b>					
Cost	37,930	196,126	1,192,419	219,544	1,646,019
Accumulated depreciation and impairment	-	(93,651)	(617,358)	-	(711,009)
<b>Net book value as of January 1, 2020</b>	<b>37,930</b>	<b>102,475</b>	<b>575,061</b>	<b>219,544</b>	<b>935,010</b>
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)
<b>As of December 31, 2020</b>	<b>38,203</b>	<b>221,005</b>	<b>649,459</b>	<b>285,524</b>	<b>1,194,191</b>
<b>As of December 31, 2020</b>					
Cost	38,203	319,272	1,288,832	285,524	1,931,831
Accumulated depreciation and impairment	-	(98,267)	(639,373)	-	(737,640)
<b>Net book value as of December 31, 2020</b>	<b>38,203</b>	<b>221,005</b>	<b>649,459</b>	<b>285,524</b>	<b>1,194,191</b>
Additions	-	-	-	97,764	97,764
Capitalized interest	-	-	-	1,830	1,830
Disposals	(4)	-	(390)	-	(394)
Government assistance	-	-	(931)	-	(931)
Transfers	561	64,356	258,678	(323,595)	-
Depreciation	-	(9,976)	(56,236)	-	(66,212)
Exchange differences	(6)	(234)	(1,356)	46	(1,550)
<b>As of December 31, 2021</b>	<b>38,754</b>	<b>275,151</b>	<b>849,224</b>	<b>61,569</b>	<b>1,224,698</b>
<b>As of December 31, 2021</b>					
Cost	38,754	383,304	1,543,688	61,569	2,027,315
Accumulated depreciation and impairment	-	(108,153)	(694,464)	-	(802,617)
<b>Net book value as of December 31, 2021</b>	<b>38,754</b>	<b>275,151</b>	<b>849,224</b>	<b>61,569</b>	<b>1,224,698</b>

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

### 9 Right-of-use assets

	Land \$	Buildings \$	Equipment \$	Motor vehicles \$	Total \$
<b>As of January 1, 2020</b>					
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)
<b>Net book value as of January 1, 2020</b>	14,558	78,052	3,882	1,090	97,582
Additions, net of lease terminations	-	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)
<b>As of December 31, 2020</b>	12,894	87,470	6,106	1,163	107,633
<b>As of December 31, 2020</b>					
Cost	38,068	150,149	9,641	2,631	200,489
Accumulated right-of-use depreciation	(25,174)	(62,679)	(3,535)	(1,468)	(92,856)
<b>Net book value as of December 31, 2020</b>	12,894	87,470	6,106	1,163	107,633
Additions, net of lease terminations	188	(3,827)	4,727	255	1,343
Right-of-use depreciation	(1,702)	(11,825)	(3,172)	(600)	(17,299)
Exchange differences	-	(47)	(2)	(2)	(51)
<b>As of December 31, 2021</b>	11,380	71,771	7,659	816	91,626
<b>As of December 31, 2021</b>					
Cost	38,256	146,219	14,325	2,700	201,500
Accumulated right-of-use depreciation	(26,876)	(74,448)	(6,666)	(1,884)	(109,874)
<b>Net book value as of December 31, 2021</b>	11,380	71,771	7,659	816	91,626

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

### 10 Goodwill and intangible assets

	Trade marks \$	Software \$	Total \$
<b>As of January 1, 2020</b>			
Cost	11,825	12,060	23,885
Accumulated amortization	-	(8,568)	(8,568)
<b>Net book value as of January 1, 2020</b>	11,825	3,492	15,317
Additions <sup>(a)</sup>	4,538	8,007	12,545
Amortization	-	(1,657)	(1,657)
<b>Net book value as of December 31, 2020</b>	<u>16,363</u>	<u>9,842</u>	<u>26,205</u>
<b>As of December 31, 2020</b>			
Cost	16,363	18,936	35,299
Accumulated amortization	-	(9,094)	(9,094)
<b>Net book value as of December 31, 2020</b>	16,363	9,842	26,205
Additions <sup>(a)</sup>	-	6,655	6,655
Amortization	-	(3,638)	(3,638)
<b>Net book value as of December 31, 2021</b>	<u>16,363</u>	<u>12,859</u>	<u>29,222</u>
<b>As of December 31, 2021</b>			
Cost	16,363	25,591	41,954
Accumulated amortization	-	(12,732)	(12,732)
<b>Net book value as of December 31, 2021</b>	<u>16,363</u>	<u>12,859</u>	<u>29,222</u>

The carrying value of goodwill as of December 31, 2021 was \$152.0 million (December 31, 2020 - \$152.0 million).

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

- (a) During the year ended December 31, 2021, software additions of \$5.8 million were included in Purchases of property, plant and equipment and software related to the TAD Sherbrooke Project on the consolidated statement of cashflows (2020 - \$3.0 million).

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

### December 31, 2021 and December 31, 2020

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(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 \$34.9 million as of December 31, 2021 (December 31, 2020 - \$136.1 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, 2020 - \$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 \$17.2 million as of December 31, 2021 (December 31, 2020 - \$18.3 million) is included in Pensions on the consolidated statement of financial position, and is supported by irrevocable letters of credit in the amount of \$15.1 million (December 31, 2020 - \$15.7 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 \$6.4 million as of December 31, 2021 (December 31, 2020 - \$7.0 million) is included in Pensions on the consolidated statement of financial position.

The Partnership's hourly employees at the Western Manufacturing Division are members of an industry multi-employer pension plan to which the Partnership contributes monies. During the year ended December 31, 2021, the Partnership contributed and expensed \$2.8 million (2020 - \$2.8 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, 2021, the Partnership recorded an expense of \$3.3 million (2020 - \$3.2 million) related to this plan.

KTG sponsors a defined contribution plan that covers substantially all of its employees. During the year ended December 31, 2021, the Partnership recorded an expense of \$1.7 million (2020 - \$1.6 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 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, 2020, the aggregate solvency deficit of the defined benefit plans was \$103.8 million (December 31, 2019 - \$106.7 million). The actuarial valuation dates of the plans vary, ranging from December 31, 2021 to December 31, 2022. 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, 2021 and December 31, 2020

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

The cumulative actuarial losses recognized in the deficit as of December 31, 2021 and December 31, 2020 were as follows:

	December 31, 2021	December 31, 2020
	\$	\$
Pensions	51,645	158,613
Post-retirement benefits	12,861	19,771
Total	<u>64,506</u>	<u>178,384</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, 2021	December 31, 2020	December 31, 2021	December 31, 2020
	\$	\$	\$	\$
<b>Change in defined benefit obligation:</b>				
<b>As of January 1</b>	794,822	734,499	63,038	57,005
Current service cost	13,387	12,014	2,210	2,043
Interest cost	15,984	20,683	1,261	1,596
Employee contributions	3,875	3,865	-	-
Benefits paid	(37,029)	(36,407)	(2,268)	(2,477)
Remeasurements:				
Losses (gains) from changes in experience	47	-	(2,861)	-
Losses (gains) from changes in economic assumptions	(52,003)	60,168	(4,049)	4,871
<b>As of December 31</b>	<u>739,083</u>	<u>794,822</u>	<u>57,331</u>	<u>63,038</u>
<b>Change in plan assets at fair value:</b>				
<b>As of January 1</b>	633,489	593,825	-	-
Expected return on plan assets	12,590	16,448	-	-
Remeasurements:				
Gains on plan assets	60,726	43,191	-	-
Administrative costs	(589)	(578)	-	-
Employer contributions	13,254	13,145	2,268	2,477
Employee contributions	3,875	3,865	-	-
Benefits paid	(37,029)	(36,407)	(2,268)	(2,477)
<b>As of December 31</b>	<u>686,316</u>	<u>633,489</u>	<u>-</u>	<u>-</u>
<b>Accrued benefit liability</b>				
Funded status - deficit	52,767	161,333	57,331	63,038
Impact of asset ceiling	5,714	-	-	-
Accrued benefit liability	<u>58,481</u>	<u>161,333</u>	<u>57,331</u>	<u>63,038</u>

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

(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, 2021	December 31, 2020
	%	%
Fixed income	36.0	36.3
Public equities	28.3	28.4
Hedge funds	20.5	20.1
Private equity	8.3	7.2
Real assets	6.9	8.0
Total	<u>100.0</u>	<u>100.0</u>
Quoted on an active market	51.0	64.7
Unquoted	49.0	35.3
	<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, 2021	December 31, 2020	December 31, 2021	December 31, 2020
	%	%	%	%
Assumptions				
Discount rate - accrued benefit obligation	3.02	2.57	3.02	2.57
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, 2021	December 31, 2020	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
	\$	\$	\$	\$	\$	\$
Increase in Pension obligation	123,723	142,016	8,741	9,042	20,144	22,535

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

(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 (2021), 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, 2021	December 31, 2020	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
	\$	\$	\$	\$	\$	\$
Increase in Post-retirement benefit obligation	8,400	8,854	9,455	11,387	1,618	1,753

Contributions to the defined benefit pension plans for the year ending December 31, 2022 are expected to be \$14.1 million.

The net benefit pension plan expense included the following components:

	Pensions		Post-retirement benefit plans	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
	\$	\$	\$	\$
<b>Net benefit plan expense</b>				
Current service cost	13,387	12,014	2,210	2,043
Interest cost	15,984	20,683	1,261	1,596
Expected return on plan assets	(12,590)	(16,448)	-	-
Administrative cost	589	578	-	-
	17,370	16,827	3,471	3,639

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

The following amounts are recognized in Other comprehensive income (loss):

	Pensions		Post-retirement benefit plans	
	2021	2020	2021	2020
	\$	\$	\$	\$
Gains (losses) from changes in experience	(47)	-	2,861	-
Gains (losses) from changes in economic assumptions	52,003	(60,168)	4,049	(4,871)
Gains on plan assets	60,726	43,191	-	-
Impact of asset ceiling	(5,714)	-	-	-
	<u>106,968</u>	<u>(16,977)</u>	<u>6,910</u>	<u>(4,871)</u>

### 12 Trade and other payables

	December 31, 2021	December 31, 2020
	\$	\$
Trade payables	118,116	109,593
Accrued liabilities	73,639	114,776
Contract liabilities <sup>(a)</sup>	66,871	107,703
	<u>258,626</u>	<u>332,072</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 declined as of December 31, 2021 due to more normalized Consumer segment sales levels compared to the high COVID-19 buying activity in 2020.



# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

### 13 Provisions

	<b>Environmental and asset retirement obligations <sup>(a)</sup></b>	<b>Long-term incentives, DSUs, PSUs and RSUs <sup>(b)</sup></b>	<b>Restructuring</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Provisions as of</b>				
<b>January 1, 2020</b>	3,027	2,837	1,043	6,907
Additional provisions	-	4,956	1,275	6,231
Remeasurement adjustment	3,382	-	-	3,382
Paid during the year	-	(614)	(1,580)	(2,194)
Interest accretion	136	-	-	136
<b>Provisions as of</b>				
<b>December 31, 2020</b>	6,545	7,179	738	14,462
<b>Current</b>	-	4,309	604	4,913
<b>Non-current</b>	6,545	2,870	134	9,549
<b>Provisions as of</b>				
<b>January 1, 2021</b>	6,545	7,179	738	14,462
Additional provisions	-	1,629	316	1,945
Remeasurement adjustment	(1,836)	-	-	(1,836)
Reclassification	-	197	-	197
Paid during the year	-	(3,691)	(582)	(4,273)
Interest accretion	139	-	-	139
<b>Provisions as of</b>				
<b>December 31, 2021</b>	4,848	5,314	472	10,634
<b>Current</b>	-	3,256	449	3,705
<b>Non-current</b>	4,848	2,058	23	6,929

(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. 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 3.15% (December 31, 2020 – 2.12%). The impact of fluctuations in the discount rate are included in the Remeasurement adjustment above.

(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 June of the year following the three-year period they are earned. The PSU expense is recognized over the same three-year period. The RSUs are expensed and vest one-third each year and are paid in cash each June.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

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 December 31, 2021, DSUs of \$0.6 million were recorded (December 31, 2020 – \$0.4 million).

### 14 Long-term debt

	Maturity	December 31, 2021 \$	December 31, 2020 \$
KPLP Senior Credit Facility <sup>(a)</sup>	2026	-	8,941
Senior Unsecured Notes due April 24, 2025 <sup>(b)</sup>	2025	123,272	122,847
Senior Unsecured Notes due April 9, 2029 <sup>(c)</sup>	2029	132,008	-
AgCredit Agreement <sup>(d)</sup>	2023, 2025, 2036, 2037	515,994	444,933
KPSI IQ Debenture <sup>(e)</sup>	2028	103,894	98,251
Nordea2 Credit Facility <sup>(f)</sup>	2029	55,762	53,225
KPSB IQ Debenture <sup>(g)</sup>	2034	18,278	-
Quebec PM Loan <sup>(h)</sup>	2026	17,363	23,024
Ontario Loan <sup>(i)</sup>	2026	2,310	2,252
		968,881	753,473
AgCredit Agreement <sup>(d)</sup>		19,172	-
KPSI IQ Debenture <sup>(e)</sup>		16,689	1,250
Nordea2 Credit Facility <sup>(f)</sup>		7,266	3,307
Quebec PM Loan <sup>(h)</sup>		4,938	4,938
Ontario Loan <sup>(i)</sup>		485	-
<b>Less: Current portion of long-term debt</b>		48,550	9,495
<b>Long-term debt</b>		920,331	743,978

Amounts are net of deferred financing fees

#### a) KPLP Senior Credit Agreement

On May 21, 2021, the Partnership entered into the seventh amended and restated credit agreement (the KPLP Senior Credit Agreement) related to its revolving credit facility (the KPLP Senior Credit Facility), to amend negative covenants and other provisions of the KPLP Senior Credit Agreement to allow for implementation of the Sherbrooke Expansion Project. In conjunction with the issuance of the 2029 Notes on April 8, 2021, capacity under the KPLP Senior Credit Facility was reduced from \$250 million to \$200 million. The KPLP Senior Credit Agreement is for a five year period, maturing on May 21, 2026. The KPLP Senior Credit Facility is 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 permitted investment by the Restricted Credit Parties (as defined below).

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

Under the KPLP Senior Credit Agreement, “Restricted Credit Parties” means KPLP, KPGP, Kruger Products Real Estate Holdings Inc., KP USA, Kruger Products AFH G.P. Inc., Kruger Products AFH L.P. and 13571998 Canada Inc. and their respective subsidiaries involved in the tissue business but excluding the Unrestricted Credit Parties (which include KPSB, 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 KPLP Senior Credit Agreement).

The borrowings under the KPLP Senior Credit Facility bear interest at a base rate of Canadian prime rate, U.S. base rate, banker’s acceptance rates, LIBOR or the applicable benchmark replacement rate, plus a margin varying between 0.20% and 3.50% depending on the Ratio of Total Net Funded Debt to EBITDA (as defined in the KPLP Senior Credit Agreement) and the type of advance. Stand-by fees are also payable on the available portion of the KPLP Senior Credit Facility at a rate varying between 0.24% and 0.70% depending on the Ratio of Total Net Funded Debt to EBITDA (as defined in the KPLP Senior Credit Agreement).

The Partnership may voluntarily cancel or reduce the KPLP Senior Credit Facility, in whole or in part, subject to minimum amounts and notice period, with restrictions on prepayment of banker’s acceptances, LIBOR Loans (as defined in the KPLP Senior Credit Agreement) and liabilities under letters of credit.

The KPLP 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 KPLP Senior Credit Agreement) such that the Unrestricted Credit Parties are accounted for as investments but not consolidated. As such, indebtedness under the AgCredit Agreement, the KPSI IQ Debenture, the KPSB IQ Debenture, the IQ Bathroom Tissue Credit Agreement, the IQ Facial Tissue Credit Agreement, the KPSB Senior Credit Agreement, the Citizens Credit Agreement and the Unrestricted Credit Parties’ 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 (as defined in the KPLP Senior Credit Agreement) not greater than 3.00 to 1.00.

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

The KPLP Senior Credit Agreement is guaranteed by the Restricted Credit Parties. The Restricted Credit Parties provide first ranking security interests and hypothecs over their current and future tangible and intangible assets (subject to permitted liens) to secure the obligations under the KPLP Senior Credit Agreement including a pledge of 100% of the stock or ownership interest in all subsidiaries owned by the 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 KPLP Senior Credit Agreement and the lenders and the administrative agent under the Nordea2 Credit Agreement (as defined below).

b) Trust Indenture – Senior Unsecured Notes due April 24, 2025

On April 24, 2018, the Partnership issued \$125 million aggregate principal amount of 6.0% senior unsecured notes due April 24, 2025 (the Senior Unsecured Notes due April 24, 2025 or the 2025 Notes) by way of private placement in Canada in accordance with applicable Canadian prospectus and registration exemptions. The 2025 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 2025 Indenture). Interest on the 2025 Notes accrues at 6.0% per year and is payable semi-annually on April 24 and October 24 of each year.

Under the 2025 Notes, “Restricted Subsidiaries” means any subsidiary of the Partnership that is not an Unrestricted Subsidiary as defined in the 2025 Indenture (which Unrestricted Subsidiaries include TAD Canco Inc., TAD

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

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, TAD1 Canco II Inc., 1061021 Delaware Inc., 8528365 Canada Inc., KPSB and the Non-Material Subsidiaries as defined in the 2025 Indenture).

The 2025 Notes are senior unsecured obligations of the Partnership. The 2025 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 2025 Notes other than any indebtedness that ranks senior to the 2025 Notes by operation of law. The 2025 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 2025 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.

On or after April 24, 2021, the Partnership may redeem all or part of the 2025 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 2025 Indenture), the Partnership will be required to offer to repurchase all or any part of each holder's 2025 Notes for a payment in cash equal to 101% of the aggregate principal amount of the 2025 Notes repurchased, plus accrued and unpaid interest thereon to the purchase date.

The 2025 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 2025 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.

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

On April 8, 2021, the Partnership issued \$135 million aggregate principal amount of 5.375% senior unsecured notes due April 9, 2029 (the Senior Unsecured Notes due April 9, 2029 or the 2029 Notes) by way of private placement in Canada in accordance with applicable Canadian prospectus and registration exemptions. The 2029 Notes were issued pursuant to a trust indenture entered into as of April 8, 2021 between the Partnership, the Guarantors and

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

### December 31, 2021 and December 31, 2020

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

Computershare Trust Company of Canada (the 2029 Indenture). Interest on the 2029 Notes accrues at 5.375% per year and is payable semi-annually on April 9 and October 9 of each year.

Under the 2029 Notes, “Restricted Subsidiaries” means any subsidiary of the Partnership that is not an Unrestricted Subsidiary as defined in the 2029 Indenture (which Unrestricted Subsidiaries include TAD Canco Inc., TAD Luxembourg S.A.R.L., KTG, KPSI, KP TAD Holdco Inc., TAD2 GP ULC, TAD2 US LP, TAD1 Canco I Inc., TAD1 GP ULC, TAD1 US LP, TAD1 Canco II Inc., 1061021 Delaware Inc., 8528365 Canada Inc., KPSB and Non-Material Subsidiaries as defined in the 2029 Indenture).

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

The 2029 Notes are unconditionally guaranteed, jointly and severally, by all existing and future Restricted Subsidiaries (the Guarantors). The guarantees are senior unsecured obligations of each of the Guarantors and will rank senior in right of payment to all existing and future subordinated indebtedness.

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

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

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

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

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

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

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

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.

### d) 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, the second amendment to the credit agreement dated March 19, 2021 and the third amendment to the credit agreement dated November 19, 2021 (the 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 related to amounts drawn on or after March 23, 2020 by quarterly principal instalment payments commencing on June 30, 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 and bearing interest at a floating interest rate based on CDOR or the Canadian prime rate 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 based on U.S. base rate, Canadian prime rate or CDOR plus an applicable margin 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 and bearing interest at a 4.82% fixed interest rate effective November 19, 2021 (repriced from a 7.3% fixed interest rate) and repayable after a three-year lock-out period (the KTG Facility). The repricing of the fixed interest rate on the KTG Facility was accounted for as a debt extinguishment and resulted in a Loss on extinguishment of debt of \$5.4 million, recorded in Interest expense and other finance costs in the consolidated statement of comprehensive income (loss). The unamortized portion of transaction costs originally deducted from the KTG Facility of \$3.5 million were included in the determination of the Loss on extinguishment of debt.

The purpose of the TAD Sherbrooke Project Facility was to partially finance the TAD Sherbrooke Project. On November 1, 2021, the borrowers executed the final draws on the TAD Sherbrooke Project Facility, in connection with the financing of 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).

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

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

---

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

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, to be less than:

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

As of December 31, 2021, the following amounts were drawn on the TAD Sherbrooke Project Facility:

- (i) US\$180.5 million cash drawn on the US\$188 million term loan facility (December 31, 2020 – US\$144.9 million cash drawn);
- (ii) \$106.6 million cash drawn on the \$111 million term loan facility (December 31, 2020 – \$85.5 million cash drawn); and
- (iii) \$2.0 million cash drawn and \$7.3 million letters of credit drawn on the \$12.5 million revolving loan facility (December 31, 2020 – \$9.0 million letters of credit drawn).

As of December 31, 2021, the following amount was drawn on the KTG Facility:

- (i) US\$147.0 million on the US\$147 million term loan facility (December 31, 2020 – US\$147.0 million).

As of December 31, 2021, unamortized deferred financing fees were \$5.5 million relating to the TAD Sherbrooke Project Facility (December 31, 2020 – \$6.3 million) and nil relating to the KTG Facility (December 31, 2020 – \$3.3 million).

### e) KPSI 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 KPSI IQ Debenture). The KPSI IQ Debenture was used to partially finance the TAD Sherbrooke Project.

Borrowings under the KPSI IQ Debenture bear interest at a fixed capitalized interest rate of 3.0% per annum, calculated monthly.

The KPSI 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 50% equity interest in KPSI if the entirety of the debenture was so converted.

Pursuant to a repayment agreement (the KPSI 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 KPSI Repayment Agreement, if Kruger Inc. makes all of the redemption payments, it will hold approximately 50% of KPSI.

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

The Partnership has recorded the KPSI 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.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

As of December 31, 2021, unamortized deferred financing fees were \$0.4 million (December 31, 2020 – \$0.5 million).

f) 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, an amendment letter dated September 19, 2019, an amendment letter dated May 21, 2021 and a request for consent dated November 1, 2021 and accepted by the administrative agent on December 16, 2021 (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 was 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.

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 KPLP Senior Credit Agreement are incorporated and made part of the Nordea2 Credit Agreement. See KPLP Senior Credit Agreement above. The Nordea2 Credit Agreement contains restrictions on amendments to the KPLP Senior Credit Agreement and related security and other documents.

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 Nordea2 Credit Agreement and the administrative agent and the lenders under the KPLP Senior Credit Agreement being governed by a collateral agency and security sharing agreement.

As of December 31, 2021, unamortized deferred financing fees were \$2.4 million (December 31, 2020 – \$3.0 million).

g) KPSB IQ Debenture

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

Borrowings under the KPSB IQ Debenture bear interest at a fixed capitalized interest rate of 2.0% per annum (the Fixed Rate), calculated monthly, starting on the disbursement date of each payment in respect of the amount disbursed. In the event the Partnership is in default (the KPLP Default) under the KPLP Contribution Undertaking Agreement (note 18), the Fixed Rate would increase from the date of the KPLP Default (the KPLP Default Date) to 6.0% per annum (the Fixed Default Rate), until the KPLP Default is remedied to IQ's satisfaction within twelve months of the KPLP Default Date, failing which the Fixed Default Rate would continue to apply permanently. Interest is capitalized to the loan principal from the date of the first loan disbursement until the LDC Machine Commissioning Date. As of the LDC Machine Commissioning Date, interest will cease to be capitalized and is due



# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

---

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

and payable monthly. KPSB may redeem, or cause to be redeemed, the KPSB IQ Debenture, in whole or in part, at any time and without penalty.

The KPSB IQ Debenture is redeemable on a monthly basis (proportionately based on the number of months remaining until maturity) commencing 24 months following the earlier of: (i) the LDC Machine Commissioning Date or (ii) September 1, 2024, which payments KPSB undertakes to cause the Partnership to make, failing which, and to the extent such amounts cannot be realized from the Dedicated Account (as defined below), IQ will have a conversion right on terms of conversion that would provide IQ with a 100% equity interest in KPSB if the entirety of the debenture was so converted.

Pursuant to a repayment agreement entered into by the Partnership, KPSB and IQ on May 21, 2021, the Partnership agreed to make the required monthly redemption payments to IQ. The Partnership's redemption payments to IQ will effectively be funded by rate discounts on electricity usage attributable to the Partnership, KPSB and KPSI for their plants under the rate discounts program applicable to consumers billed at rate "L", as administered by the Ministère des Finances du Québec (the Rate Discounts). The Rate Discounts are held by the Partnership in a designated bank account to be used only for the purpose of funding the Partnership's redemption payments to IQ (the Dedicated Account). The Partnership has granted a first movable hypothec on the Dedicated Account in favour of IQ. The Dedicated Account is recorded in the consolidated statement of financial position as Restricted cash (note 27).

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

As of December 31, 2021, \$27.0 million of the KPSB IQ Debenture was issued.

As of December 31, 2021, unamortized deferred financing fees were \$2.7 million (December 31, 2020 – nil).

### h) 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 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 KPLP Senior Credit Facility.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

i) 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 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 million. As of December 31, 2020, loan principal of \$4.4 million was forgiven.

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

j) IQ Bathroom Tissue Credit Agreement

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

Borrowings under the IQ Bathroom Tissue Loan bear interest at a fixed interest rate of 2.0% per annum (the Fixed Rate), calculated monthly, starting on the disbursement date of each payment in respect of the amount disbursed. In the event the Partnership is in default (the KPLP Default) under the KPLP Contribution Undertaking Agreement (note 18), the Fixed Rate would increase from the date of the KPLP Default (the KPLP Default Date) to 6.0% per annum (the Fixed Default Rate), until the KPLP Default is remedied to IQ's satisfaction within twelve months of the KPLP Default Date, failing which the Fixed Default Rate would continue to apply permanently. Interest is capitalized to the loan principal from the date of the first loan disbursement until the BT Line Commissioning Date. As of the BT Line Commissioning Date, interest will cease to be capitalized and is due and payable monthly.

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

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

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

No amounts have been drawn on the IQ Bathroom Tissue Loan as of December 31, 2021.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

### December 31, 2021 and December 31, 2020

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

#### k) IQ Facial Tissue Credit Agreement

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

Borrowings under the IQ Facial Tissue Loan bear interest at a fixed interest rate of 2.0% per annum (the Fixed Rate), calculated monthly, starting on the disbursement date of each payment in respect of the amount disbursed. In the event the Partnership is in default (the KPLP Default) under the KPLP Contribution Undertaking Agreement (note 18), the Fixed Rate would increase from the date of the KPLP Default (the KPLP Default Date) to 6.0% per annum (the Fixed Default Rate), until the KPLP Default is remedied to IQ's satisfaction within twelve months of the KPLP Default Date, failing which the Fixed Default Rate would continue to apply permanently. Interest is capitalized to the loan principal from the date of the first loan disbursement until the FT Line Commissioning Date. As of the FT Line Commissioning Date, interest will cease to be capitalized and is due and payable monthly.

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

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

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

No amounts have been drawn on the IQ Facial Tissue Loan as of December 31, 2021.

#### l) KPSB Senior Credit Agreement

KPSB is a party to a credit agreement dated as of May 21, 2021 entered into by KPSB, as borrower, the lenders party thereto and National Bank of Canada, as administrative agent as amended by a first supplemental credit agreement dated December 17, 2021 (the KPSB Senior Credit Agreement). Pursuant to the KPSB Senior Credit Agreement, credit facilities were made available to KPSB consisting of (a) a \$150 million construction loan of which \$75 million was reserved on May 21, 2021 and made fully available on December 17, 2021 concurrently with the execution of the first supplemental credit agreement to the KPSB Senior Credit Agreement to finance increased investment in the Sherbrooke Expansion Project) with a seven year term maturing on May 21, 2028 (the KPSB Construction Facility) and (b) a revolving loan of \$5 million (reduced from \$10 million on December 17, 2021 concurrently with the first supplemental credit agreement to the KPSB Senior Credit Agreement) with a maturity date of May 21, 2026 with the option to extend the maturity date on an annual basis by one additional year (the KPSB Revolving Facility and, collectively with the KPSB Construction Facility, the KPSB Senior Credit Facilities).

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

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

---

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

Borrowings under the KPSB Construction Facility bear interest at a base rate of Canadian prime rate, US base rate, LIBOR or the applicable benchmark replacement rate, or banker's acceptance stamping fees plus a margin varying between 1.50% and 3.25% depending on the Total Leverage Ratio (as defined in the KPSB Senior Credit Agreement) and the type of advance. Borrowings under the KPSB Revolving Facility bear interest at a base rate of Canadian prime rate or US base rate or letter of credit fees, depending on the type of advance. Stand-by fees are also payable on the available portion of the KPSB Senior Credit Facilities at a rate varying between 0.50% and 0.75% depending on the Total Leverage Ratio (as defined in the KPSB Senior Credit Agreement).

The KPSB Construction Facility is available for multiple draws on a non-revolving basis, until the achievement of Term Conversion (as defined in the KPSB Senior Credit Agreement), which occurs on the earlier of (i) substantial completion of the LDC Machine installation or (ii) December 31, 2025, and subject to satisfaction of certain conditions set out in the KPSB Senior Credit Agreement. After the achievement of Term Conversion, the principal is to be repaid in quarterly instalments equal to 1.875% of the aggregate principal amount of the outstanding KPSB Construction Facility, plus once-annual prepayments in the amount equal to 50% of KPSB's annual Excess Cash Flow (as defined in the KPSB Senior Credit Agreement) calculated and paid within 120 days at the end of each fiscal year of KPSB.

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

Senior Leverage Ratio not greater than:

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

Total Leverage Ratio not greater than:

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

Fixed Charge Coverage Ratio not less than:

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

To secure the obligations under the KPSB Senior Credit Facilities, KPSB shall (i) grant first ranking liens (subject to permitted liens) on all its current and future tangible and intangible assets, including a pledge of all capital stock or ownership interest in all subsidiaries, and liens on the LDC Machine and the FT Line, in favour of the administrative agent under the KPSB Senior Credit Agreement, (ii) cause every wholly-owned subsidiary of KPSB to solidarily guarantee the obligations under the KPSB Senior Credit Facilities (the Future Guarantors) and grant first ranking liens (subject to permitted liens) on all of its current and future tangible and intangible assets, including a pledge of all capital stock or ownership interest in all subsidiaries, in favour of the administrative agent under the KPSB Senior Credit Agreement (there are no Future Guarantors as of December 31, 2021) and (iii) cause the Partnership to pledge on a limited recourse basis all of its capital stock in KPSB.

No amounts have been drawn on the KPSB Senior Credit Facilities as of December 31, 2021.

### m) Citizens Credit Agreement

KTG is a party to a loan agreement dated as of October 29, 2021 entered into by KTG, as borrower, and Citizens Asset Finance, a Division of Citizens Bank, N.A. as lender (the Citizens Credit Agreement) pursuant to which a secured non-revolving loan in a maximum amount of US\$21.8 million (the Citizens Loan) was made available to

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

---

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

KTG. The purpose of the Citizens Loan is to finance all costs associated with the implementation of the KTG FT Line at the Memphis facility. The Citizens Loan is to be available as one single draw following the implementation of the KTG FT Line, which is expected to occur in 2022. The Citizens Loan has a seven year term from the date of initial loan disbursement.

Borrowings under the Citizens Loan bear interest at a fixed interest rate of 2.34% per annum for a period of seven years from the date of loan disbursement. The interest rate is subject to adjustment at the time of loan disbursement, with a minimum fixed interest rate of 2.25%.

The Citizens Loan is repayable based on a mortgage-style amortization over the loan term in equal consecutive monthly installments of principal together with interest, plus a final balloon payment equal to all principal outstanding on the last payment date. After the first twelve months, KTG shall have the right to voluntarily prepay the loan in full subject to a notice period. If all or any portion of the outstanding loan balance is prepaid, prepayment premiums may apply.

The Citizens Credit Agreement requires KTG to comply with certain financial covenants on a KTG standalone basis.

KTG shall maintain on a standalone and quarterly financial basis:

Leverage Ratio (as defined in the Citizens Credit Agreement) not greater than 50%.

Fixed Charge Coverage Ratio (as defined in the Citizens Credit Agreement) of at least:

- (i) 1.10 to 1.00 from fiscal quarter ending September 30, 2022 to fiscal quarter ending September 30, 2023; and
- (ii) 1.25 to 1.00 from fiscal quarter ending December 31, 2023 and thereafter

No amounts have been drawn on the Citizens Loan as of December 31, 2021.

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

	<u>\$</u>
Less than 1 year	48,550
Between 1 and 5 years	421,034
More than 5 years	<u>524,812</u>
	<u>994,396</u>

**Kruger Products L.P.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2021 and December 31, 2020**

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

Interest expense and other finance costs reflected on the consolidated statement of comprehensive income (loss) were as follows:

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Interest expense on Long-term debt	52,954	29,169
Loss on extinguishment of debt	5,396	-
Interest expense on Lease liabilities	5,315	5,732
Pension and post-retirement benefits, net	4,655	5,831
Interest accreted on Long-term payable to related party	1,395	-
Receivables factoring arrangement	856	97
Interest accreted on provisions	139	136
	<u>70,710</u>	<u>40,965</u>

**15 Lease liabilities**

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

	<b>December 31, 2021</b>
	<b>\$</b>
Less than 1 year	30,170
Between 1 and 5 years	62,389
More than 5 years	54,809
	<u>147,368</u>

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

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

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Interest expense on Lease liabilities <sup>(a)</sup>	5,315	5,732
Expenses relating to variable payments not included in the measurement of Lease liabilities <sup>(b)</sup>	5,752	4,934
Expenses relating to low-value leases <sup>(b)</sup>	256	254
Expenses relating to short-term leases <sup>(c)</sup>	2,936	-
	<u>14,259</u>	<u>10,920</u>

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

- (a) Included in Interest expense and other finance costs in the consolidated statement of comprehensive income (loss).
- (b) Included in Cost of sales and SG&A expenses in the consolidated statement of comprehensive income (loss).
- (c) Included in Cost of sales in the 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.

### 16 Distributions and Partnership units liability

	<b>Partnership units liability</b>
	<b>\$</b>
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>
As of January 1, 2021	185,424
Change in amortized cost of Partnership units liability (note 5)	5,312
Tax Distributions	(17,535)
As of December 31, 2021	<u>173,201</u>

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

	<b>2021</b>			
<b>Distribution Payment Date</b>	<b>Partnership unit distributions</b>	<b>Unit price</b>	<b>Issuance of Partnership units</b>	<b>Gross proceeds</b>
	<b>\$</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
January 15, 2021	11,919	10.70	507,826	5,434
April 15, 2021	12,010	10.47	528,465	5,533
July 15, 2021	12,106	10.32	536,167	5,533
October 15, 2021	12,202	10.26	544,438	5,586
	<u>48,237</u>		<u>2,116,896</u>	<u>22,086</u>

  

	<b>2020</b>			
<b>Distribution Payment Date</b>	<b>Partnership unit distributions</b>	<b>Unit price</b>	<b>Issuance of Partnership units</b>	<b>Gross proceeds</b>
	<b>\$</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
January 15, 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>

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

On January 17, 2022, the Partnership paid a distribution of \$12.3 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 536,871 Partnership units at a price of \$10.50. During the year ended December 31, 2021, a decrease of \$0.1 million was recorded as a fair value adjustment to reflect the market value of the Partnership units issued.

Subsequent to December 31, 2021, the Partnership declared a distribution of \$12.4 million, payable on April 15, 2022.

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

	<b>2021</b>			
	<b>Advances paid</b>	<b>Tax Distributions</b>	<b>Partnership unit distributions</b>	<b>Total</b>
	\$	\$	\$	\$
Paid to Kruger Inc. <sup>(a)</sup>	11,737	10,149	20,588	42,474
Paid to KPGP	1	1	3	5
Paid to KPT <sup>(b)</sup>	2,049	1,738	5,560	9,347
Total paid	<u>13,787</u>	<u>11,888</u>	<u>26,151</u>	<u>51,826</u>
				<b>2020</b>
	<b>Advances paid</b>	<b>Tax Distributions</b>	<b>Partnership unit distributions</b>	<b>Total</b>
	\$	\$	\$	\$
Paid to Kruger Inc. <sup>(a)</sup>	4,773	4,322	10,056	19,151
Paid to KPGP	-	-	3	3
Paid to KPT <sup>(b)</sup>	874	781	5,595	7,250
Total paid	<u>5,647</u>	<u>5,103</u>	<u>15,654</u>	<u>26,404</u>

(a) During the years ended December 31, 2021 and December 31, 2020, Partnership unit distributions were paid to Kruger Inc. net of the DRIP reinvestment. During the year ended December 31, 2021, Kruger Inc.'s DRIP reinvestment was \$20.6 million (2020 - \$29.5 million).

(b) During the years ended December 31, 2021 and December 31, 2020, Partnership unit distributions were paid to KPT net of the DRIP reinvestment. During the year ended December 31, 2021, KPT's DRIP reinvestment was \$1.5 million (2020 - \$1.4 million).

### *Tax Distribution*

Pursuant to the Tax Distribution as defined in the Partnership Agreement, on February 26, 2021, the Partnership declared a Tax Distribution of \$17.5 million, of which \$5.6 million was used to settle the outstanding advances to Kruger Inc. and KPT as of December 31, 2020.

During the year ended December 31, 2021, pursuant to the Tax Distribution as defined in the Partnership Agreement, the Partnership made advances to its partners of \$13.8 million, of which \$2.0 million was used to pay the monthly tax instalment on behalf of KPT and the remaining was advanced to Kruger Inc. and KPGP. The advances are non-interest bearing and non-recourse in nature and are settled when the Tax Distribution is declared annually. The Partnership declared a Tax Distribution of \$14.1 million on February 28, 2022, of which the advances of \$13.8 million were offset and the remaining \$0.3 million was paid on February 28, 2022.



# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

(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, 2021 and December 31, 2020. The income (loss) from the Partnership flows to the partners, Kruger Inc., KPGP, and KPT. However, the Partnership's subsidiaries KP USA, KTG, TAD Canco Inc., TAD Luxembourg S.A.R.L, KP TAD Holdco Inc., TAD1 Canco I Inc., TAD1 Canco II Inc., TAD1 GP ULC, TAD2 GP ULC, KPSI and KPSB are corporate entities and, therefore, are subject to tax.

The consolidated income tax recovery for the Partnership of \$51.0 million for the year ended December 31, 2021 (2020 - \$8.7 million expense) related to KP USA, KTG, TAD Canco Inc., TAD Luxembourg S.A.R.L, KPSI and KPSB.

The components of income taxes were as follows:

	2021	2020
	\$	\$
Current tax expense	1,401	2,387
Deferred tax expense (recovery)	(52,408)	6,268
	<u>(51,007)</u>	<u>8,655</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:

	2021		2020	
	\$	%	\$	%
Combined federal and provincial income tax rates after manufacturing and processing credits	(2,333)	25.9	9,386	26.1
Income tax in partners' hands	(11,107)	123.3	(3,800)	(10.6)
Difference in statutory income tax rate of foreign operations	1,598	(17.7)	(710)	(2.0)
Recognition of operating losses previously unrecognized	(40,644)	451.2	-	-
Canadian provincial incentives for capital expenditures	(3,153)	35.0	-	-
U.S. interest deduction limitation	2,690	(29.9)	3,246	9.0
Change in U.S. State apportionment	1,324	(14.7)	-	-
Withholding tax	-	-	336	0.9
Consolidation entries	(69)	0.8	(826)	(2.3)
Permanent and other	687	(7.6)	1,023	3.0
	<u>(51,007)</u>	<u>566.3</u>	<u>8,655</u>	<u>24.1</u>

**Kruger Products L.P.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2021 and December 31, 2020**

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

Components of the deferred tax assets were as follows:

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
	<u>\$</u>	<u>\$</u>
Property, plant and equipment	(156,278)	(84,426)
Net operating losses	225,857	101,912
Long term debt and deferred financing charges	571	(379)
Inventory and accrued liabilities	667	1,757
U.S. State tax credits	3,978	4,430
Other	947	923
	<u>75,742</u>	<u>24,217</u>

The analysis of the deferred tax assets was as follows:

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
	<u>\$</u>	<u>\$</u>
Deferred tax asset to be recovered within 12 months	667	1,757
Deferred tax asset to be recovered after 12 months	75,075	22,460
	<u>75,742</u>	<u>24,217</u>

In addition to the above, the Partnership has deferred tax assets of \$11.2 million related to net operating loss carry-forwards and \$14.6 million related to U.S. State tax credits which have not been recognized in the consolidated financial statements.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

The Partnership had the following net operating loss carry-forwards available as of December 31, 2021:

	U.S. Federal		U.S. State		Canada	
	\$	Expiry date	\$	Expiry date	\$	Expiry date
	-				-	
	-		133	2022	-	
	-		551	2023	-	
2004	3,071	2024	544	2024	-	
2005	26	2025	-	2025	-	
2006	5,620	2026	-	2026	-	
2007	-	2027	1,485	2027		
2008	-	2028	57,967	2028		
2009	1,546	2029	61,460	2029	-	
2010	-	2030	36,578	2030		
2011	606	2031	29,918	2031	1,146	2031
2012	2,685	2032	13,565	2032	10,803	2032
2013	56,589	2033	12,986	2033	22,310	2033
2014	62,240	2034	12,973	2034	23,444	2034
2015	36,125	2035	1,058	2035	22,673	2035
2016	29,247	2036	3,126	2036	24,383	2036
2017	15,807	2037	386	2037	24,119	2037
2018	38,903		1,047	2038	25,436	2038
2019	36,015		3,785	2039	19,896	2039
2020	-		-	2040	146,547	2040
2021	3,981		1,364	2041	283,318	2041
	<u>292,461</u>		<u>238,926</u>		<u>604,075</u>	

The Partnership had the following U.S. State tax credits available for carry-forward as of December 31, 2021:

	U.S. State	
	\$	Expiry date
2013	12,783	2028
2014	1,719	2029
2015	1,603	2030
2016	1,991	2031
2017	268	2032
2018	166	2033
2019	74	2034
2020	21	2035
	<u>18,625</u>	

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

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

### 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, corporate development support, environmental support and corporate engineering support services. During the year ended December 31, 2021, management fees of \$7.4 million (2020 - \$7.4 million) were paid to Kruger Inc. for management services provided to the Partnership.

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

Sales of goods and services to Kruger Inc. for the year ended December 31, 2021 were \$1.3 million (2020 - \$0.2 million). Sales of goods to subsidiaries of Kruger Inc. for the year ended December 31, 2021 were \$4.1 million (2020 - \$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 year ended December 31, 2021 were \$7.5 million (2020 - \$9.4 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the year ended December 31, 2021 were \$52.5 million (2020 - \$53.8 million). These purchases of goods and services are included within Cost of sales and SG&A expenses in the consolidated statement of comprehensive income (loss).

Balances due to and from related parties were as follows:

	December 31, 2021	December 31, 2020
	\$	\$
Receivables from Kruger Inc.	12	-
Receivables from subsidiaries of Kruger Inc.	13	13
Receivables from KPT	246	-
Total receivables from related parties	<u>271</u>	<u>13</u>
Payables to Kruger Inc.	7,396	5,726
Payables to subsidiaries of Kruger Inc.	4,089	3,350
Payables to KPT	-	21
Total payables to related parties	<u>11,485</u>	<u>9,097</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, 2021 and December 31, 2020. There were no loans outstanding with related parties as of December 31, 2021 and December 31, 2020.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

### *Long-term payable to KBLP*

As part of the commitment of the IQ financing for the Sherbrooke Expansion Project (note 14), the Partnership entered into a contribution undertaking agreement with Kruger Brompton L.P. (KBLP), a subsidiary of Kruger Inc., dated as of May 21, 2021 (the KPLP Contribution Undertaking Agreement) pursuant to which the Partnership will be required to make payments to KBLP in an aggregate amount of \$58 million over a period of ten years (the Contribution). The Contribution will be payable by the Partnership in ten annual equal and consecutive payments of \$5.8 million each, the first payment being payable by the Partnership on May 21, 2023 and subsequent payments being payable by the Partnership on May 21 of each year thereafter until May 21, 2032. Notwithstanding the foregoing, the first payment of the Contribution will be reduced by \$0.1 million, which is equal to the purchase price paid by KPSB to KBLP for the sale of immovable property under the deed of sale dated May 21, 2021. The Partnership has agreed to pay the Contribution in exchange for access to shared infrastructure and services, the transfer of properties to complete the Sherbrooke Expansion Project and KBLP's facilitation of the capital and financing structure for the Sherbrooke Expansion Project. The liability to KBLP was estimated using a discounted cash flow with a discount rate of 5.375%. As of December 31, 2021, an obligation of \$42.5 million was recorded in the consolidated statement of financial position as Long-term payable to related party. During the year ended December 31, 2021, the increase in the obligation due to passage of time was \$1.5 million and is recognized as Interest expense and other finance costs in the consolidated statement of comprehensive income (loss). The KPSB IQ Debenture (note 14(g)), the IQ Bathroom Tissue Loan (note 14(j)) and the IQ Facial Tissue Loan (note 14(k)) were arranged with IQ by the Partnership's majority partner. It was determined that the difference between the fair value of the debt at a market rate of interest and the prescribed rate in the agreement represents a government grant. However, as a result of KBLP's facilitation of the capital and financing structure for the Sherbrooke Expansion Project, it was determined that the government grant is not for the benefit of the Partnership and will be repaid via the KPLP Contribution Undertaking Agreement. Therefore, the fair value of the loans was estimated by discounting the cash flows using a market rate of interest of 5.375% and accordingly a deferred financing fee was recorded. As of December 31, 2021, a deferred financing fee related to the KPSB IQ Debenture of \$18.6 million was recorded in the consolidated statement of financial position, \$11.9 million as Other long-term assets and \$6.7 million netted against Long-term debt, based on the pro rata portion of the KPSB IQ Debenture issued as of period end. Also, as of December 31, 2021, deferred financing fees related to the IQ Bathroom Tissue Loan and the IQ Facial Tissue Loan of \$11.7 million and \$10.7 million, respectively, were recorded in the consolidated statement of financial position as Other long-term assets.

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

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
	<b>\$</b>	<b>\$</b>
Distribution payable to Kruger Inc.	10,518	10,163
Distribution payable to KPGP	1	1
Distribution payable to KPT	1,781	1,755
Total distributions payable	<u>12,300</u>	<u>11,919</u>

## 19 Commitments and contingencies

As of December 31, 2021, the Partnership had commitments under service contracts of \$10.6 million for 2022, \$5.6 million for 2023, and \$5.2 million for 2024 and beyond.

As of December 31, 2021, the Partnership had \$9.4 million (December 31, 2020 – \$23.5 million) of commitments related to the TAD Sherbrooke Project.

As of December 31, 2021, the Partnership had \$20.6 million (December 31, 2020 – nil) of commitments related to the Sherbrooke Expansion Project.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

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, 2021, the Partnership had irrevocable letters of credit outstanding of \$26.4 million (December 31, 2020 - \$28.7 million), which included letters of credit for the pension plans disclosed in note 11.

### 20 Expense by nature

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

	2021	2020
	\$	\$
Materials and production costs	659,688	677,735
Labour and related employee benefits	264,259	273,851
Energy costs	66,640	54,642
Depreciation and amortization	85,719	68,786
Freight and warehousing	205,570	191,109
Marketing, selling and administrative expenses	116,047	126,387
	<u>1,397,923</u>	<u>1,392,510</u>
	2021	2020
	\$	\$
Cost of sales	1,279,851	1,264,448
SG&A expenses	118,072	128,062
	<u>1,397,923</u>	<u>1,392,510</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.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

Segment operating income is the earnings (loss) for each such segment before (i) interest expense and other finance costs, (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 by other companies. “Consumer Segment Adjusted EBITDA” and “AFH Segment Adjusted EBITDA” means in each case the Segment operating income for the respective reportable segment of the Partnership.

### Corporate and other costs

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

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.

				2021
	Consumer	AFH	Corporate and other costs	Total
	\$	\$	\$	\$
Revenue from external customers	1,260,103	205,058	-	1,465,161
Adjusted EBITDA	167,289	(4,907)	(8,951)	153,431
Depreciation and amortization				85,719
Interest expense and other finance costs				70,710
Change in amortized cost of Partnership units liability				5,312
Other expense				391
Loss on sale of property, plant and equipment				381
Loss on sale of non-financial assets				9
Restructuring costs, net				584
Foreign exchange gain				(760)
Corporate development related costs				93
Loss before income taxes				(9,008)
Income tax recovery				(51,007)
Net income				41,999

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

				<b>2020</b>
	<b>Consumer</b>	<b>AFH</b>	<b>Corporate and other costs</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
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 and other finance costs				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 tax expense				8,655
Net income				27,306

### Geographic information

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

			<b>2021</b>
	<b>Canada</b>	<b>US</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	892,658	572,503	1,465,161
Property, plant and equipment	895,355	329,343	1,224,698
Goodwill	152,021	-	152,021
Intangible assets	29,222	-	29,222

			<b>2020</b>
	<b>Canada</b>	<b>US</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
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



# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

### 22 Compensation of key management

	2021	2020
	\$	\$
Compensation awarded to key management included:		
Salaries and other employee benefits	7,679	11,920
Post-employment benefits	808	777
	<u>8,487</u>	<u>12,697</u>

Key management includes the Partnership's senior executives.

### 23 Financial instruments

#### *Classification of financial instruments*

As of December 31, 2021, the classification of the financial instruments, as well as their carrying amounts and fair values, was as follows:

	Classification	Carrying amount	Fair value
		\$	\$
Cash, cash equivalents and restricted cash	financial assets at amortized cost	151,025	151,025
Trade and other receivables	financial assets at amortized cost	88,802	88,802
Receivables from related parties	financial assets at amortized cost	271	271
Advances to partners	financial assets at amortized cost	13,752	13,752
Embedded derivative	embedded derivative at fair value through profit and loss	10	10
Trade payables	financial liabilities at amortized cost	(118,116)	(118,116)
Accrued liabilities	financial liabilities at amortized cost	(73,639)	(73,639)
Contract liabilities	financial liabilities at amortized cost	(66,871)	(66,871)
Payables to related parties	financial liabilities at amortized cost	(11,485)	(11,485)
Long-term payable to related party	financial liabilities at amortized cost	(42,454)	(42,454)
Distributions payable	financial liabilities at amortized cost	(12,300)	(12,300)
Long-term debt	financial liabilities at amortized cost	(968,881)	(991,072)
Lease liabilities	financial liabilities at amortized cost	(112,524)	(112,524)
Partnership units liability	financial liabilities at amortized cost	(173,201)	(173,201)

The following table details the fair value hierarchy of financial instruments by level as of December 31, 2021:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Embedded derivative	-	10	-	10
Long-term debt	-	(991,072)	-	(991,072)
Partnership units liability	-	-	(173,201)	(173,201)

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

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

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

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

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

### *Fair value*

Cash, cash equivalents and restricted cash, Trade and other receivables, Receivables from related parties, Advances to partners, Embedded derivative, Trade payables, Accrued liabilities, Contract liabilities, Payables to related parties and Distributions payable are short-term financial instruments whose fair value approximates the carrying amount, given they will mature in the near future.

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

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

(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, 2021	December 31, 2020
		\$	\$
KPLP Senior Credit Facility	-	-	10,000
Senior Unsecured Notes due April 24, 2025	-	125,000	125,000
Senior Unsecured Notes due April 9, 2029	-	135,000	-
AgCredit Agreement	-	521,481	454,527
KPSI IQ Debenture	6.0%	104,253	98,707
KPSB IQ Debenture	5.4%	27,336	-
Nordea2 Credit Facility	-	58,126	56,229
Quebec PM Loan	4.4%	17,566	23,269
Ontario Loan	4.4%	2,310	2,252
		991,072	769,984

Amounts exclude deferred financing fees

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

The fair value of the derivative liabilities was based on foreign exchange rates in the active market. The change in the fair value of derivative liabilities based on foreign exchange rates was nil during the year ended December 31, 2021 (2020 – \$0.4 million gain), which was recorded in the consolidated statement of comprehensive income (loss) in Other expense. The valuation methodology used was categorized as a Level 2 methodology.

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

The Partnership units liability is classified as a financial liability at amortized cost. Management has estimated the fair value of the Partnership units liability using a discounted cash flow model. Significant assumptions include the income tax obligation, discount rate and an industry capitalization rate. 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, cash equivalents and restricted cash, Trade and other receivables, Receivables from related parties and Advances to partners. The Partnership places its Cash, cash equivalents and restricted cash 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.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

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 a first amendment agreement dated November 12, 2020 and a second amendment agreement dated November 8, 2021. 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 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 8, 2021, the term was renewed for an additional one year period, maturing November 15, 2022. Cash flows from the factoring arrangement are presented as operating activities in the consolidated statement of cash flows. During the year ended December 31, 2021, the factored receivables sold to the Bank of Nova Scotia were \$608.1 million (2020 - \$672.9 million). The Partnership sold 95% of these trade receivables, net of a dilution factor, for \$607.3 million (2020 - \$671.9 million). As of December 31, 2021, the trade receivables sold were \$33.5 million (December 31, 2020 - \$38.9 million).

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
	\$	\$
Trade receivables	84,660	85,162
Less: Expected credit losses	(41)	(1,523)
Total trade receivables, net	<u>84,619</u>	<u>83,639</u>
Trade receivables, net		
0 to 60 days	82,978	83,788
61 to 90 days	1,042	854
Over 90 days	640	520
Less: Allowance for expected credit losses	(41)	(1,523)
	<u>84,619</u>	<u>83,639</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, 2021, the Partnership had net liabilities denominated in U.S. dollars of \$254.9 million (December 31, 2020 - \$222.7 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, 2021 would have been an increase/decrease of \$12.7 million (2020 - \$11.1 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 \$201.8 million as of December 31, 2021 (December 31, 2020 - \$220.4 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, 2021, 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 Partnership's lines of credit will not mature for two years.

**Kruger Products L.P.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2021 and December 31, 2020**

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

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 \$258.6 million (December 31, 2020 - \$332.1 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:

	<b>December 31, 2021</b>		
	<b>Less than 1 year</b>	<b>1 to 5 years</b>	<b>Greater than 5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Long-term debt <sup>(a)</sup>	93,204	596,478	619,747
Trade and other payables	258,626		
Payables to related parties	11,485		
Long-term payable to related party		28,900	29,000
Distributions payable	12,300		
			<b>December 31, 2020</b>
	<b>Less than 1 year</b>	<b>1 to 5 years</b>	<b>Greater than 5 years</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Long-term debt <sup>(a)</sup>	47,639	554,340	492,415
Trade and other payables	332,072		
Payables to related parties	9,097		
Distributions payable	11,919		

(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 2021 was \$14.1 million (2020 - \$17.5 million), of which the advances of \$13.8 million were offset and the remaining \$0.3 million was paid on February 28, 2022. 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*

The Partnership's interest rate risk arises from its variable rate debt related to the KPLP Senior Credit Facility, certain credit facilities made available as part of the TAD Sherbrooke Project Facility and the KPSB Senior Credit Facility. As of December 31, 2021, the Partnership had variable rate debts of \$106.7 million (December 31, 2020 - \$92.3 million). The KPLP Senior Credit Facility bears interest at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates, LIBOR or the applicable benchmark replacement rate, plus an applicable margin ranging 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 or the Canadian prime rate plus an applicable margin ranging between 1.35% and 3.25%. The revolving loans of US\$10 million and \$12.5 million made available as part of the TAD Sherbrooke Project Facility bear interest at a floating interest rate of U.S. base rate, Canadian prime rate or CDOR plus an applicable margin ranging between 1.35% and 3.25%. The KPSB Senior Credit Facility bears interest at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates, LIBOR or the applicable benchmark replacement rate, plus an applicable margin ranging between 1.50% and 3.25%.

A 1% increase/decrease in the market rate of interest would result in a decrease/increase in income before income taxes of \$1.1 million for the year ended December 31, 2021 (2020 - \$0.9 million).

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

(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, cash equivalents and restricted cash) 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 KPLP 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, 2021, the Partnership had two major customers which represented 34.5% (2020 – 31.6%) of total revenues, and of these customers, one represented 19.0% (2020 – 15.9%) of the 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 Cash, cash equivalents and restricted cash

	December 31, 2021	December 31, 2020
	\$	\$
Cash and cash equivalents	148,519	128,739
Restricted cash	2,506	-
Cash, cash equivalents and restricted cash	<u>151,025</u>	<u>128,739</u>

Pursuant to the Repayment Agreement in connection with the KPSB IQ Debenture, the Partnership holds prescribed Rate Discounts, as administered by the Ministère des Finances du Québec, in a Dedicated Account to be used only for the purpose of funding the Partnership's redemption payments to IQ. The Dedicated Account is recorded in the consolidated statement of financial position as Restricted cash. Additional information is disclosed in note 14.

# Kruger Products L.P.

## Notes to Consolidated Financial Statements

December 31, 2021 and December 31, 2020

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

### 28 Non-cash working capital

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

	2021	2020
	\$	\$
Increase in trade and other receivables	(965)	(1,951)
Decrease (increase) in receivables from related parties	(232)	126
Increase in inventories	(34,740)	(29,119)
Decrease in prepaid expenses	2,821	1,388
Decrease in income taxes	523	291
Increase (decrease) in trade and other payables	(36,564)	87,305
Increase in payables to related parties	2,388	2,288
	<u>(66,769)</u>	<u>60,328</u>

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

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

	As of January 1, 2020	Proceeds from long- term debt	Repayment of long- term debt	Payment of deferred financing fees	Payment of lease liabilities	Interest paid on long-term debt	Distributions and advances paid, net	Movements not in financing activities	As of December 31, 2020
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Accounts receivable	(89,236)	-	-	-	-	(75)	-	1,270	(88,041)
Advances to partners	(80)	-	-	-	-	-	(5,647)	80	(5,647)
Prepaid expenses	(8,341)	-	-	-	-	(2,154)	-	2,180	(8,315)
Accrued liabilities	99,829	-	-	-	-	(23,477)	-	38,424	114,776
Distributions payable	11,393	-	-	-	-	-	(46,576)	47,102	11,919
Long-term debt	591,062	262,673	(92,714)	(509)	-	-	-	(7,039)	753,473
Lease liabilities	118,762	-	-	-	(19,283)	-	-	31,496	130,975
Partnership units liability	143,515	-	-	-	-	-	(5,103)	47,012	185,424
Partnership units	408,978	-	-	-	-	-	30,922	(329)	439,571
<b>Total</b>	<u>1,275,882</u>	<u>262,673</u>	<u>(92,714)</u>	<u>(509)</u>	<u>(19,283)</u>	<u>(25,706)</u>	<u>(26,404)</u>	<u>160,196</u>	<u>1,534,135</u>

  

	As of January 1, 2021	Proceeds from long- term debt	Repayment of long- term debt	Payment of deferred financing fees	Payment of lease liabilities	Interest paid on long-term debt	Distributions and advances paid, net	Movements not in financing activities	As of December 31, 2021
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Accounts receivable	(88,041)	-	-	-	-	(46)	-	(715)	(88,802)
Advances to partners	(5,647)	-	-	-	-	-	(13,787)	5,682	(13,752)
Prepaid expenses	(8,315)	-	-	-	-	(347)	-	3,207	(5,455)
Other long-term assets	(10)	-	-	(4,455)	-	-	-	(32,991)	(37,456)
Accrued liabilities	114,776	-	-	-	-	(41,588)	-	451	73,639
Distributions payable	11,919	-	-	-	-	-	(48,237)	48,618	12,300
Long-term debt	753,473	239,282	(23,943)	(5,090)	-	-	-	5,159	968,881
Lease liabilities	130,975	-	-	-	(24,600)	-	-	6,149	112,524
Partnership units liability	185,424	-	-	-	-	-	(11,888)	(335)	173,201
Partnership units	439,571	-	-	-	-	-	22,086	(121)	461,536
<b>Total</b>	<u>1,534,125</u>	<u>239,282</u>	<u>(23,943)</u>	<u>(9,545)</u>	<u>(24,600)</u>	<u>(41,981)</u>	<u>(51,826)</u>	<u>35,104</u>	<u>1,656,616</u>