



KRUGER PRODUCTS L.P.

**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENT
FOR THE 3-MONTH PERIODS ENDED MARCH 31, 2020 AND MARCH 31, 2019**

Kruger Products L.P.

Unaudited Condensed Consolidated Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	March 31, 2020	December 31, 2019
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	144,639	93,141
Trade and other receivables	124,623	89,236
Receivables from related parties (note 14)	14	59
Current portion of advances to partners (note 12)	-	80
Inventories	179,883	190,686
Income tax recoverable	-	466
Prepaid expenses	17,322	8,341
	<u>466,481</u>	<u>382,009</u>
Non-current assets		
Property, plant and equipment (note 6)	1,030,114	935,010
Right-of-use assets (note 7)	95,230	97,582
Other long-term assets	10	1,766
Goodwill	160,939	160,939
Intangible assets	15,988	15,317
Deferred income taxes	34,415	30,988
	<u>1,803,177</u>	<u>1,623,611</u>
Total assets		
Liabilities		
Current liabilities		
Trade and other payables	254,446	242,357
Payables to related parties (note 14)	9,655	6,809
Income tax payable	629	325
Distributions payable (notes 12 and 14)	11,576	11,393
Current portion of provisions (note 9)	1,805	759
Current portion of long-term debt (note 10)	4,937	11,937
Current portion of lease liabilities (note 11)	19,142	18,080
	<u>302,190</u>	<u>291,660</u>
Non-current liabilities		
Long-term debt (note 10)	718,518	579,125
Lease liabilities (note 11)	97,702	100,682
Provisions (note 9)	6,683	6,148
Pensions (note 8)	75,135	140,674
Post-retirement benefits (note 8)	50,812	57,005
	<u>1,251,040</u>	<u>1,175,294</u>
Liabilities to non-unitholders		
Current portion of Partnership units liability (note 12)	12,599	5,103
Long-term portion of Partnership units liability (note 12)	128,333	138,412
	<u>140,932</u>	<u>143,515</u>
Total Partnership units liability		
	<u>1,391,972</u>	<u>1,318,809</u>
Total liabilities		
Equity		
Partnership units (note 12)	418,987	408,978
Deficit	(113,501)	(183,188)
Accumulated other comprehensive income	105,719	79,012
	<u>411,205</u>	<u>304,802</u>
Total equity		
	<u>1,803,177</u>	<u>1,623,611</u>
Total equity and liabilities		
	<u>1,803,177</u>	<u>1,623,611</u>
Subsequent events (note 12)		

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

Kruger Products L.P.
Unaudited Condensed Consolidated Statement of Comprehensive Income (Loss)
For the 3-month periods ended March 31, 2020 and March 31, 2019

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended March 31, 2020	3-month period ended March 31, 2019
	\$	\$
Revenue (note 14)	375,146	350,977
Expenses		
Cost of sales (note 14)	314,513	320,108
Selling, general and administrative expenses (note 14)	29,634	22,056
Loss on sale of non-financial assets	1	-
Restructuring costs, net (note 9)	738	65
Operating income	30,260	8,748
Interest expense	10,580	11,297
Other expense (note 5)	11,421	849
Income (loss) before income taxes	8,259	(3,398)
Income taxes (note 13)	(129)	(186)
Net income (loss) for the period	8,388	(3,212)
Other comprehensive income (loss)		
Items that will not be reclassified to net income (loss):		
Remeasurements of pensions	66,377	2,027
Remeasurements of post-retirement benefits	6,508	(2,130)
Items that may be subsequently reclassified to net income (loss):		
Cumulative translation adjustment	26,707	(6,390)
Total other comprehensive income (loss) for the period	99,592	(6,493)
Comprehensive income (loss) for the period	107,980	(9,705)

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

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Unaudited Condensed Consolidated Statement of Changes in Equity

For the 3-month periods ended March 31, 2020 and March 31, 2019

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

	Partnership units		Deficit \$	Accumulated other comprehensive income \$	Total equity \$
	#	\$			
As of January 1, 2019	59,571,399	376,274	(102,502)	93,039	366,811
Distributions payable (note 12)	-	-	(10,880)	-	(10,880)
Fair value adjustment (note 12)	-	613	(613)	-	-
Change in actuarial gain on pension	-	-	2,027	-	2,027
Change in actuarial loss on post-retirement benefits	-	-	(2,130)	-	(2,130)
Cumulative translation adjustment	-	-	-	(6,390)	(6,390)
Net loss for the period	-	-	(3,212)	-	(3,212)
Issuance of partnership units (note 12)	875,273	7,317	-	-	7,317
As of March 31, 2019	60,446,672	384,204	(117,310)	86,649	353,543
As of December 31, 2019	63,293,136	408,978	(183,188)	79,012	304,802
Distributions payable (note 12)	-	-	(11,576)	-	(11,576)
Fair value adjustment (note 12)	-	10	(10)	-	-
Change in actuarial gain on pension	-	-	66,377	-	66,377
Change in actuarial gain on post-retirement benefits	-	-	6,508	-	6,508
Cumulative translation adjustment	-	-	-	26,707	26,707
Net income for the period	-	-	8,388	-	8,388
Issuance of partnership units (note 12)	1,016,179	9,999	-	-	9,999
As of March 31, 2020	64,309,315	418,987	(113,501)	105,719	411,205

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Unaudited Condensed Consolidated Statement of Cash Flows

For the 3-month periods ended March 31, 2020 and March 31, 2019

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended March 31, 2020 \$	3-month period ended March 31, 2019 \$
Cash flows from (used in) operating activities		
Net income (loss) for the period	8,388	(3,212)
Items not affecting cash		
Depreciation	16,445	14,380
Amortization	374	362
Gain on sale of property, plant and equipment	-	(5)
Change in amortized cost of Partnership units liability (note 5)	2,520	1,547
Foreign exchange (gain) loss (note 5)	9,261	(698)
Change in fair value of derivatives (note 5)	(360)	-
Interest expense	10,580	11,297
Pension and post-retirement benefits (note 8)	3,780	2,445
Provisions (note 9)	1,755	170
Income taxes	(129)	(186)
Loss on sale of non-financial assets	1	-
Total items not affecting cash	44,227	29,312
Net change in non-cash working capital (note 17)	(21,505)	(52,625)
Contributions to pension and post-retirement benefit plans	(4,085)	(3,112)
Provisions paid (note 9)	(208)	(65)
Income tax payments	-	(259)
Net cash from (used in) operating activities	26,817	(29,961)
Cash flows from (used in) investing activities		
Purchases of property, plant and equipment	(4,046)	(5,521)
Purchases of property, plant and equipment related to the TAD Sherbrooke Project	(64,693)	(11,116)
Interest paid on credit facilities related to the TAD Sherbrooke Project	(2,150)	(684)
Purchases of software	(1,045)	(1,218)
Proceeds on sale of shares (note 5)	992	-
Proceeds on sale of property, plant and equipment	-	5
Net cash used in investing activities	(70,942)	(18,534)
Cash flows from (used in) financing activities (note 18)		
Proceeds from long-term debt	105,573	24,777
Repayment of long-term debt	(1,267)	(1,254)
Payment of deferred financing fees	(5)	(286)
Payment of lease liabilities	(4,491)	(4,225)
Interest paid on long-term debt	(1,920)	(2,588)
Distributions and advances paid, net (note 12)	(6,497)	(1,970)
Net cash from financing activities	91,393	14,454
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	4,230	(838)
Increase (decrease) in cash and cash equivalents during the period	51,498	(34,879)
Cash and cash equivalents - Beginning of period	93,141	169,884
Cash and cash equivalents - End of period	144,639	135,005

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

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Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2020 and March 31, 2019

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

1 General information

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

2 Basis of presentation

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

The 3-month period ended March 31, 2020 represents the 91 day period from January 1 to March 31, 2020 and the 3-month period ended March 31, 2019 represents the 90 day period from January 1 to March 31, 2019.

These unaudited condensed consolidated financial statements were approved by the board of directors of KPGP on May 7, 2020.

3 Summary of significant accounting policies

The significant accounting policies that have been used in the preparation of these unaudited condensed consolidated financial statements are described in the annual audited consolidated financial statements of the Partnership for the year ended December 31, 2019 and have been applied to all periods presented except the following accounting policies, which were adopted effective January 1, 2020.

- (i) IAS 1 and IAS 8, Definition of Material. In October 2018, the IASB issued amendments to the definition of material in IAS 1 and IAS 8 and provide guidance to improve consistency in the application of the concept whenever it is used. The mandatory effective date was for annual periods beginning on or after January 1, 2020. The amended standards had no impact on the unaudited condensed consolidated financial statements.
- (ii) IFRS 3, Definition of a Business. In October 2018, the IASB issued an amendment that revises the definition of a business. The amendment aims to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The mandatory effective date was for annual periods beginning on or after January 1, 2020. The amended standard had no impact on the unaudited condensed consolidated financial statements.
- (iii) IFRS 9/IAS 39 and IFRS 7, Interest Rate Benchmark Reform (Phase 1). In September 2019, the IASB issued amendments that provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform and require certain related disclosures. The mandatory effective date was for annual periods beginning on or after January 1, 2020. The amended standards had no impact on the unaudited condensed consolidated financial statements.

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For the 3-month periods ended March 31, 2020 and March 31, 2019

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

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

- (i) IAS 1, Classification of Liabilities as Current or Non-current. In January 2020, the IASB issued an amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. The mandatory effective date would be annual periods beginning on or after January 1, 2022, with early adoption permitted. Management is evaluating the amended standard and has not yet determined the impact on the unaudited condensed consolidated financial statements.

4 Critical accounting estimates and judgments

The preparation of these unaudited condensed consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the unaudited condensed consolidated financial statements and the disclosure of contingencies at the dates of the unaudited condensed consolidated statements of financial position, and the reported amounts of revenues and expenses during the reporting period. On a regular basis and with the information available, management reviews its estimates. Actual results could differ from those estimates. When adjustments become necessary, they are reported in earnings in the period in which they occur. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and the future periods if the revision affects both current and future periods. The estimates and judgement applied by management that most significantly affect the unaudited condensed consolidated financial statements are the same as the ones that applied to the annual audited consolidated financial statements for the year ended December 31, 2019, except for the following:

COVID-19

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

During the period, management considered the impact of COVID-19 on the Partnership's critical accounting estimates and judgments, including the Partnership's assessment of triggering events with respect to its impairment analysis for goodwill and indefinite lived trademarks, the assumptions and estimates made in its valuation of the Partnership units liability and pension liability, the assumptions utilized in its assessment of the recoverability of deferred tax assets and the impact on credit risk and liquidity risk. The change in the discount rate relevant to the Partnership's valuation of its pension liability is disclosed in note 8. While management has concluded that a triggering event did not occur during the 3-month period ended March 31, 2020 with respect to the Partnership's impairment analysis for goodwill and indefinite lived trademarks, and there was no material change in the assumptions relevant to the valuation of the Partnership units liability or recoverability of deferred tax assets as of March 31, 2020, the duration and severity of the COVID-19 pandemic could result in future impairment charges or material changes to those assumptions. Although the Partnership believes that its exposure to credit risk is generally limited, the risks and uncertainties associated with

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the COVID-19 pandemic have increased the credit risk associated with trade receivables and such risk is being closely managed.

5 Other expense

	3-month period ended March 31, 2020 \$	3-month period ended March 31, 2019 \$
Foreign exchange (gain) loss	9,261	(698)
Change in amortized cost of Partnership units liability	2,520	1,547
Change in fair value of derivatives	(360)	-
	<u>11,421</u>	<u>849</u>

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

6 Property, plant and equipment

	Land \$	Buildings \$	Machinery and equipment \$	Assets under construction or development \$	Total \$
As of January 1, 2020					
Cost	37,930	196,126	1,192,419	219,544	1,646,019
Accumulated depreciation	-	(93,651)	(617,358)	-	(711,009)
Net book value as of January 1, 2020	37,930	102,475	575,061	219,544	935,010
Additions	-	-	-	71,811	71,811
Capitalized interest	-	-	-	3,374	3,374
Transfers	-	415	6,465	(6,880)	-
Depreciation	-	(1,247)	(10,817)	-	(12,064)
Exchange differences	139	4,914	26,896	34	31,983
As of March 31, 2020	<u>38,069</u>	<u>106,557</u>	<u>597,605</u>	<u>287,883</u>	<u>1,030,114</u>
As of March 31, 2020					
Cost	38,069	203,080	1,241,771	287,883	1,770,803
Accumulated depreciation	-	(96,523)	(644,166)	-	(740,689)
Net book value as of March 31, 2020	<u>38,069</u>	<u>106,557</u>	<u>597,605</u>	<u>287,883</u>	<u>1,030,114</u>

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

7 Right-of-use assets

	Land \$	Buildings \$	Equipment \$	Motor vehicles \$	Total \$
As of January 1, 2020					
Cost	38,068	130,522	7,827	2,838	179,255
Accumulated right-of-use depreciation	(23,510)	(52,470)	(3,945)	(1,748)	(81,673)
Net book value as of January 1, 2020	14,558	78,052	3,882	1,090	97,582
Additions	-	-	408	47	455
Right-of-use depreciation	(416)	(2,508)	(404)	(154)	(3,482)
Exchange differences	-	661	9	5	675
As of March 31, 2020	14,142	76,205	3,895	988	95,230
As of March 31, 2020					
Cost	38,068	131,205	8,281	2,908	180,462
Accumulated right-of-use depreciation	(23,926)	(55,000)	(4,386)	(1,920)	(85,232)
Net book value as of March 31, 2020	14,142	76,205	3,895	988	95,230

8 Pensions and post-retirement benefits

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

	Pensions		Post-retirement benefit plans	
	March 31, 2020	December 31, 2019	March 31, 2020	December 31, 2019
	%	%	%	%
Assumptions				
Discount rate - accrued benefit obligation	3.89	3.07	3.89	3.07
Rate of compensation increases	3.25 - 4.00	3.25 - 4.00		

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Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2020 and March 31, 2019

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

The net benefit pension plan expense included the following components:

	Pensions		Post-retirement benefit plans	
	3-month period ended March 31, 2020 \$	3-month period ended March 31, 2019 \$	3-month period ended March 31, 2020 \$	3-month period ended March 31, 2019 \$
Net benefit plan expense				
Current service cost	3,124	1,878	503	438
Interest cost	5,180	5,582	399	448
Expected return on plan assets	(4,121)	(4,702)	-	-
Administrative cost	153	129	-	-
	<u>4,336</u>	<u>2,887</u>	<u>902</u>	<u>886</u>

9 Provisions

	Environmental and asset retirement obligations ^(a) \$	Long-term incentives, DSUs, PSUs and RSUs ^(b) \$	Restructuring \$	Total \$
Provisions as of January 1, 2020	3,027	2,837	1,043	6,907
Current	-	259	500	759
Non-current	<u>3,027</u>	<u>2,578</u>	<u>543</u>	<u>6,148</u>
Provisions as of January 1, 2020	3,027	2,837	1,043	6,907
Additional provisions	-	1,017	738	1,755
Reclassification	-	(243)	243	-
Paid during the period	-	-	(208)	(208)
Interest accretion	34	-	-	34
Provisions as of March 31, 2020	3,061	3,611	1,816	8,488
Current	-	259	1,546	1,805
Non-current	<u>3,061</u>	<u>3,352</u>	<u>270</u>	<u>6,683</u>

(a) Environmental and asset retirement obligations

The Partnership has made a provision for the potential obligation under a land lease at one of its plant locations to demolish the building and restore the land at the end of the lease to its original condition. The current lease ends in March 2028. During the year ended December 31, 2019, the Partnership entered into a new lease agreement that commences in March 2028 and permits the Partnership to secure the site until March 2053. As a result, the Partnership recorded a decrease in the original obligation of \$2.3 million in the consolidated statement of financial position at December 31, 2019, due to changes in the expected timing of settlement. The undiscounted amount to settle this obligation is estimated to be between \$13.1 million and \$17.3 million. The

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Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2020 and March 31, 2019

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

liability is estimated using a discounted cash flow with a discount rate of 4.395% (December 31, 2019 – 4.395%).

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

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

The Partnership has adopted a policy that requires that each director own a minimum of 5,000 common shares and/or share equivalents in the form of deferred share units (DSUs) of KPT. A deferred share unit plan (Plan) has been adopted which allows independent directors to receive all or part of their director retainer fees in the form of DSUs. The Plan allows for the issuance of additional units as dividend equivalents when KPT declares and issues a dividend to shareholders. Upon the individual ceasing to be a director, the DSUs will be paid out in cash. As of March 31, 2020, DSUs of \$0.2 million were recorded (December 31, 2019 – \$0.2 million).

10 Long-term debt

	Maturity	March 31, 2020 \$	December 31, 2019 \$
Senior Credit Facility	2023	113,229	88,257
Senior Unsecured Notes	2025	122,492	122,369
AgCredit Agreement	2023, 2025, 2036	308,681	206,792
IQ Debenture	2028	93,838	92,421
Nordea2 Credit Facility	2029	55,940	50,784
Quebec PM Loan	2026	25,615	26,823
Ontario Loan	2026	3,660	3,616
		<u>723,455</u>	<u>591,062</u>
Less: Current portion of long-term debt		4,937	11,937
		<u><u>718,518</u></u>	<u><u>579,125</u></u>

11 Lease liabilities

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

	March 31, 2020 \$
Less than 1 year	19,142
Between 1 and 5 years	73,101
More than 5 years	68,544
	<u><u>160,787</u></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.

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For the 3-month periods ended March 31, 2020 and March 31, 2019

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

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

	3-month period ended March 31, 2020	3-month period ended March 31, 2019
	\$	\$
Interest expense on lease liabilities ^(a)	1,427	1,301
Expenses relating to variable payments not included in the measurement of lease liabilities ^(b)	1,291	1,249
Expenses relating to low-value leases ^(b)	68	82
	<u>2,786</u>	<u>2,632</u>

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

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

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

For the 3-month period ended March 31, 2020, expenses relating to short-term leases were not significant.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Partnership's incremental borrowing rate. Generally, the Partnership uses its incremental borrowing rate as the discount rate. The weighted-average rate applied is 4.64% as of March 31, 2020. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability.

12 Distributions and Partnership units liability

	Partnership units liability \$
As of January 1, 2020	143,515
Change in amortized cost of Partnership units liability (note 5)	2,520
Tax Distributions	(5,103)
As of March 31, 2020	<u>140,932</u>

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

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

Distribution Payment Date	3-month period ended March 31, 2020			
	Partnership unit distributions	Unit price	Issuance of Partnership units	Gross proceeds
	\$	\$	#	\$
January 15, 2020	11,393	9.84	1,016,179	9,999
	11,393		1,016,179	9,999
Distribution Payment Date	3-month period ended March 31, 2019			
	Partnership unit distributions	Unit price	Issuance of Partnership units	Gross proceeds
	\$	\$	#	\$
January 15, 2019	10,723	8.36	875,273	7,317
	10,723		875,273	7,317

On April 15, 2020, the Partnership paid a distribution of \$11.6 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 1,025,660 Partnership units at a price of \$9.92. During the 3-month period ended March 31, 2020, a fair value adjustment of \$0.01 million was recorded to reflect the market value of the Partnership units issued.

Subsequent to March 31, 2020, the Partnership declared a distribution of \$11.8 million, payable on July 15, 2020.

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

	3-month period ended March 31, 2020		
	Tax Distributions	Partnership unit distributions	Total
	\$	\$	\$
Paid to (received from) Kruger Inc. ^(a)	4,322	-	4,322
Paid to KPGP	-	1	1
Paid to KPT ^(b)	781	1,393	2,174
Total paid (received from)	5,103	1,394	6,497
	3-month period ended March 31, 2019		
	Advances received	Partnership unit distributions	Total
	\$	\$	\$
Paid to (received from) Kruger Inc. ^(a)	(1,436)	2,257	821
Paid to KPGP	-	1	1
Paid to KPT ^(b)	-	1,148	1,148
Total paid (received from)	(1,436)	3,406	1,970

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2020 and March 31, 2019

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

- (a) During the 3-month periods ended March 31, 2020 and March 31, 2019, Partnership unit distributions were paid to Kruger Inc. net of the DRIP reinvestment. During the 3-month period ended March 31, 2020, Kruger Inc.'s DRIP reinvestment was \$9.7 million (3-month period ended March 31, 2019 - \$6.8 million).
- (b) During the 3-month periods ended March 31, 2020 and March 31, 2019, Partnership unit distributions were paid to KPT net of the DRIP reinvestment. During the 3-month period ended March 31, 2020, KPT's DRIP reinvestment was \$0.3 million (3-month period ended March 31, 2019 - \$0.5 million).

Tax Distributions

Pursuant to the Tax Distribution as defined in the Partnership Agreement, on February 28, 2020, the Partnership declared a Tax Distribution of \$5.1 million, of which \$0.1 million was used to settle the outstanding advance to KPT as of December 31, 2019, with the balance paid to Kruger Inc., KPGP and KPT. The advances are non-interest bearing and non-recourse in nature and are settled when the Tax Distribution is declared annually.

13 Income taxes

The Partnership is not a tax paying entity for the 3-month periods ended March 31, 2020 and March 31, 2019. The income (loss) from the Partnership flows to the partners, Kruger Inc., KPGP and KPT. However, the Partnership's subsidiaries KP USA, KTG, TAD Canco Inc., TAD Luxembourg S.A.R.L, KP TAD Holdco Inc., TAD1 Canco I Inc., TAD1 Canco II Inc., TAD1 GP ULC, TAD2 GP ULC and KPSI are corporate entities and, therefore, are subject to tax.

Income tax expense (recovery) was recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated weighted average annual income tax rate for the 3-month period ended March 31, 2020 was (1.5%) (3-month period ended March 31, 2019 – 5.5%).

The components of income taxes were as follows:

	3-month period ended March 31, 2020	3-month period ended March 31, 2019
	\$	\$
Current tax expense	480	872
Deferred tax recovery	(609)	(1,058)
	<u>(129)</u>	<u>(186)</u>

14 Related party transactions

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

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

Sales of goods to Kruger Inc. for the 3-month period ended March 31, 2020 were \$0.02 million (3-month period ended March 31, 2019 - \$0.06 million). Sales of goods to subsidiaries of Kruger Inc. for the 3-month period ended March 31, 2020 were nil (3-month period ended March 31, 2019 - \$0.2 million). Goods are sold based on the price lists in force and terms that would be available to third parties.

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

Purchases of goods and services from Kruger Inc. for the 3-month period ended March 31, 2020 were \$2.3 million (3-month period ended March 31, 2019 - \$1.9 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the 3-month period ended March 31, 2020 were \$15.9 million (3-month period ended March 31, 2019 - \$9.2 million). Goods are purchased from Kruger Inc. and related parties under normal commercial terms and conditions. These purchases of goods and services are included within cost of sales and selling, general and administrative expenses in the unaudited condensed consolidated statement of comprehensive income (loss).

The Partnership and Kruger Inc. are parties to a Third Amended and Restated Management Services Agreement dated as of November 15, 2019 with effect as of January 1, 2020 (Management Services Agreement) pursuant to which Kruger Inc. provides certain management and support services to the Partnership, including corporate management support and administrative support services; accounting and tax support; corporate financing and treasury support; benefits and human resources support services; corporate insurance; corporate procurement services complementary to KPLP procurement; project development and management services (including in connection with the TAD Sherbrooke Project), corporate development support, environmental support and corporate engineering support services. During the 3-month period ended March 31, 2020, management fees of \$1.8 million (3-month period ended March 31, 2019 - \$1.1 million) were paid to Kruger Inc. for management services provided to the Partnership.

Balances due to and from related parties were as follows:

	March 31, 2020	December 31, 2019
	\$	\$
Receivables from Kruger Inc.	-	45
Receivables from subsidiaries of Kruger Inc.	14	14
	<u>14</u>	<u>59</u>
Payables to Kruger Inc.	5,630	2,544
Payables to subsidiaries of Kruger Inc.	3,952	4,018
Payables to KPT	73	247
	<u>9,655</u>	<u>6,809</u>

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

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

	March 31, 2020	December 31, 2019
	\$	\$
Distribution payable to Kruger Inc.	9,836	9,659
Distribution payable to KPGP	1	1
Distribution payable to KPT	1,739	1,733
	<u>11,576</u>	<u>11,393</u>

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2020 and March 31, 2019

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

15 Segment information

Reportable segments

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

(a) Consumer

This segment operates using the Partnership's manufacturing facilities in Canada (New Westminster, British Columbia; Crabtree, Quebec; Sherbrooke, Quebec; Gatineau, Quebec) and in the United States (Memphis, Tennessee). The Consumer segment includes sales of branded tissue products such as Cashmere™, Purex™, White Swan™, Scotties™, Sponge Towels™ and White Cloud™ and private label tissue products.

(b) AFH

This segment operates using the Partnership's manufacturing facilities in Canada. The AFH business sells tissue products primarily through distributors to businesses involved in property management, health care, food service, manufacturing and lodging and also to public facilities.

Segment operating income is the earnings (loss) for each such segment before (i) interest expense, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) impairment (gain on sale) of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) foreign exchange loss (gain), (viii) costs related to restructuring activities, (ix) changes in amortized cost of Partnership units liability, (x) change in fair value of derivatives, (xi) consulting costs related to operational transformation initiatives, (xii) corporate development related costs and (xiii) loss (gain) on sale of shares. The unaudited condensed consolidated financial statements refer to "Adjusted EBITDA", a measure which does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other companies. "Consumer Segment Adjusted EBITDA" and "AFH Segment Adjusted EBITDA" means in each case the Segment operating income for the respective reportable segment of the Partnership.

Corporate and other costs

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

The Partnership's assets, operations and employees are located primarily in Canada and the United States. The same long-term assets of the Partnership are used for the Consumer and AFH segments. Accordingly, assets cannot be allocated to these segments.

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2020 and March 31, 2019

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

	3-month period ended March 31, 2020			Total \$
	Consumer \$	AFH \$	Corporate and other costs \$	
Revenue from external customers	313,289	61,857	-	375,146
Adjusted EBITDA	54,349	(1,021)	(2,377)	50,951
Depreciation and amortization				16,819
Interest expense				10,580
Change in amortized cost of Partnership units liability				2,520
Change in fair value of derivatives				(360)
Loss on sale of non-financial assets				1
Restructuring costs, net				738
Foreign exchange loss				9,261
Consulting costs related to operational transformation initiatives				3,133
Income before income taxes				8,259
Income taxes				(129)
Net income				8,388

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

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2020 and March 31, 2019

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

Geographic segments

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

Revenue	3-month period ended March 31, 2020	3-month period ended March 31, 2019
	\$	\$
Canada	230,095	197,417
US	145,051	127,512
Mexico (note 5)	-	26,048
	<u>375,146</u>	<u>350,977</u>

	March 31, 2020		
	Canada	US	Total
	\$	\$	\$
Property, plant and equipment	653,013	377,101	1,030,114
Goodwill	160,939	-	160,939
Intangible assets	15,988	-	15,988

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

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

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

16 Financial instruments

Classification of financial instruments

As of March 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	144,639	144,639
Trade and other receivables	financial assets at amortized cost	124,623	124,623
Receivables from related parties	financial assets at amortized cost	14	14
Embedded derivative	embedded derivative at fair value through profit and loss	10	10
Trade payables	financial liabilities at amortized cost	(88,456)	(88,456)
Accrued liabilities	financial liabilities at amortized cost	(110,420)	(110,420)
Contract liabilities	financial liabilities at amortized cost	(55,570)	(55,570)
Payables to related parties	financial liabilities at amortized cost	(9,655)	(9,655)
Distributions payable	financial liabilities at amortized cost	(11,576)	(11,576)
Long-term debt	financial liabilities at amortized cost	(723,455)	(741,845)
Lease liabilities	financial liabilities at amortized cost	(116,844)	(116,844)
Partnership units liability	financial liabilities at amortized cost	(140,932)	(140,932)

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

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Embedded derivative	-	10	-	10
Long-term debt	-	(741,845)	-	(741,845)
Partnership units liability	-	-	(140,932)	(140,932)

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2020 and March 31, 2019

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

As of December 31, 2019, the classification of the financial instruments, as well as their carrying amounts and fair values, was as follows:

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

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

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

Fair value

Cash and cash equivalents, Trade and other receivables, Receivables from related parties, Advances to partners, Embedded derivative, Trade payables, Accrued liabilities, Contract liabilities, Payables to related parties and Distributions payable are short-term financial instruments whose fair value approximates the carrying amount, given they will mature in the near future. As of March 31, 2020, the fair values of the Senior Credit Facility, the Senior Unsecured Notes, the AgCredit Agreement and the Nordea2 Credit Facility were \$114.8 million, \$125.0 million, \$318.7 million and \$59.3 million (December 31, 2019 – \$90.0 million, \$125.0 million, \$216.7 million and \$54.3 million), respectively, which approximates the current principal amount outstanding as the interest rate approximates current market interest rates. As of March 31, 2020, the fair values of the IQ Debenture, the Quebec PM Loan and the Ontario Loan were \$94.4 million, \$25.9 million and \$3.7 million (December 31, 2019 – \$93.0 million, \$27.1 million and \$3.6 million), respectively, which are recorded on discounted future cash flows using market rates of 6.0%, 4.4% and 4.4% accordingly, net of the government grant recorded on the below-market rate of interest.

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

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For the 3-month periods ended March 31, 2020 and March 31, 2019

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

The fair value of the Derivative liabilities was based on foreign exchange rates and interest rates in the active market. The change in the fair value of the Derivative liabilities based on foreign exchange rates was \$0.4 million gain during the 3-month period ended March 31, 2020 (3-month period ended March 31, 2019 – nil), which was recorded in the unaudited condensed consolidated statement of comprehensive income (loss) in Other expense. The valuation methodology used was categorized as a Level 2 methodology. The change in the fair value of the Derivative liabilities based on interest rates was \$0.01 million gain during the 3-month period ended March 31, 2020 (3-month period ended March 31, 2019 – \$0.3 million loss), which was recorded in the unaudited condensed consolidated statement of comprehensive income (loss) in Interest expense. The valuation methodology used was categorized as a Level 2 methodology.

Fair value of the Partnership units liability

The Partnership units liability is classified as a financial liability at amortized cost. Management has estimated the fair value of the Partnership units liability using a discounted cash flow model. Significant assumptions include the income tax obligation, discount rate and an industry capitalization rate. There were no significant changes in the assumptions during the 3-month period ended March 31, 2020.

Currency risk

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

Interest rate risk

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

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17 Non-cash working capital

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

	3-month period ended March 31, 2020	3-month period ended March 31, 2019
	\$	\$
Increase in trade and other receivables	(26,565)	(15,041)
Decrease (increase) in receivables from related parties	125	(5)
Decrease (increase) in inventories	14,485	(4,817)
Increase in prepaid expenses	-	(3,498)
Increase in other long-term assets	-	(2,394)
Decrease in income taxes	309	266
Decrease in trade and other payables	(12,705)	(28,303)
Increase in payables to related parties	2,846	1,167
	<u>(21,505)</u>	<u>(52,625)</u>

18 Cash flows from (used in) financing activities

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

	Advances to partners	Prepaid interest	Accrued interest	Distri- butions payable	Long term debt	Partner- ship units	Partner- ship units liability	Lease liabilities	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
As of January 1, 2019	(1,704)	(408)	3,230	10,723	577,894	376,274	116,524	115,130	1,197,663
Proceeds from long-term debt	-	-	-	-	24,777	-	-	-	24,777
Repayment of long-term debt	-	-	-	-	(1,254)	-	-	-	(1,254)
Payment of deferred financing fees	-	-	-	-	(286)	-	-	-	(286)
Payment of lease liabilities	-	-	-	-	-	-	-	(4,225)	(4,225)
Interest paid on long-term debt	-	(2,285)	(162)	-	(141)	-	-	-	(2,588)
Distributions and advances paid, net	1,436	-	-	(10,723)	-	7,317	-	-	(1,970)
Movements not in financing activities	-	1,666	4,168	10,880	3,576	613	1,547	1,301	23,751
As of March 31, 2019	<u>(268)</u>	<u>(1,027)</u>	<u>7,236</u>	<u>10,880</u>	<u>604,566</u>	<u>384,204</u>	<u>118,071</u>	<u>112,206</u>	<u>1,235,868</u>
As of January 1, 2020	(80)	(361)	5,170	11,393	591,062	408,978	143,515	118,762	1,278,439
Proceeds from long-term debt	-	-	-	-	105,573	-	-	-	105,573
Repayment of long-term debt	-	-	-	-	(1,267)	-	-	-	(1,267)
Payment of deferred financing fees	-	-	-	-	(5)	-	-	-	(5)
Payment of lease liabilities	-	-	-	-	-	-	-	(4,491)	(4,491)
Interest paid on long-term debt	-	(1,441)	(304)	-	(175)	-	-	-	(1,920)
Distributions and advances paid, net	-	-	-	(11,393)	-	9,999	(5,103)	-	(6,497)
Movements not in financing activities	80	1,212	3,769	11,576	28,267	10	2,520	2,573	50,007
As of March 31, 2020	<u>-</u>	<u>(590)</u>	<u>8,635</u>	<u>11,576</u>	<u>723,455</u>	<u>418,987</u>	<u>140,932</u>	<u>116,844</u>	<u>1,419,839</u>