



KRUGER PRODUCTS L.P.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENT

**FOR THE 3-MONTH AND 6-MONTH PERIODS ENDED JUNE 30, 2019
AND JULY 1, 2018**

Kruger Products L.P.

Unaudited Condensed Consolidated Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

| | June 30, 2019 | Restated (note 20) December 31, 2018 | Restated (note 20) January 1, 2018 |
|--|------------------|---|---------------------------------------|
| | \$ | \$ | \$ |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents (note 17) | 125,351 | 169,884 | 8,837 |
| Trade and other receivables | 132,249 | 127,633 | 113,194 |
| Receivables from related parties (note 14) | - | 172 | 85 |
| Current portion of advances to partners (note 12) | 268 | - | 1,928 |
| Inventories | 206,446 | 202,916 | 192,394 |
| Income tax recoverable | 293 | 362 | 522 |
| Prepaid expenses | 12,415 | 4,065 | 5,509 |
| | <u>477,022</u> | <u>505,032</u> | <u>322,469</u> |
| Non-current assets | | | |
| Advances to partners (note 12) | - | 1,704 | 4,489 |
| Property, plant and equipment (note 6) | 807,094 | 786,022 | 761,610 |
| Right-of-use assets (note 7) | 88,579 | 94,247 | 99,174 |
| Other long-term assets | 6,359 | 10 | 6,331 |
| Goodwill | 160,939 | 160,939 | 160,939 |
| Intangible assets | 15,526 | 14,924 | 15,327 |
| Deferred income taxes | 33,283 | 33,440 | 26,092 |
| Total assets | <u>1,588,802</u> | <u>1,596,318</u> | <u>1,396,431</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Bank indebtedness (note 17) | 9,916 | - | 9,051 |
| Trade and other payables | 217,281 | 238,856 | 190,698 |
| Payables to related parties (note 14) | 4,746 | 5,620 | 2,596 |
| Income tax payable | 327 | 80 | 498 |
| Distributions payable (notes 12 and 14) | 11,032 | 10,723 | 10,382 |
| Current portion of provisions (note 9) | 261 | 292 | 333 |
| Current portion of long-term debt (note 10) | 9,255 | 13,939 | 190,947 |
| Current portion of lease liabilities (note 11) | 15,719 | 16,178 | 15,169 |
| | <u>268,537</u> | <u>285,688</u> | <u>419,674</u> |
| Non-current liabilities | | | |
| Long-term debt (note 10) | 596,663 | 563,955 | 225,368 |
| Lease liabilities (note 11) | 93,817 | 98,952 | 104,888 |
| Provisions (note 9) | 5,755 | 5,398 | 5,973 |
| Pensions (note 8) | 155,612 | 104,939 | 119,558 |
| Post-retirement benefits (note 8) | 60,814 | 54,051 | 60,457 |
| Liabilities to non-unitholders | <u>1,181,198</u> | <u>1,112,983</u> | <u>935,918</u> |
| Current portion of Partnership units liability (note 12) | 6,187 | - | 1,928 |
| Long-term portion of Partnership units liability (note 12) | 113,431 | 116,524 | 158,381 |
| Total Partnership units liability | <u>119,618</u> | <u>116,524</u> | <u>160,309</u> |
| Total liabilities | <u>1,300,816</u> | <u>1,229,507</u> | <u>1,096,227</u> |
| Equity | | | |
| Partnership units (note 12) | 391,602 | 376,274 | 356,240 |
| Deficit | (184,142) | (102,502) | (123,123) |
| Accumulated other comprehensive income | 80,526 | 93,039 | 67,087 |
| Total equity | <u>287,986</u> | <u>366,811</u> | <u>300,204</u> |
| Total equity and liabilities | <u>1,588,802</u> | <u>1,596,318</u> | <u>1,396,431</u> |
| Subsequent events (note 12) | | | |

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

Kruger Products L.P.
Unaudited Condensed Consolidated Statement of Comprehensive Income (Loss)
For the 3-month and 6-month periods ended June 30, 2019 and July 1, 2018

(tabular amounts are in thousands of Canadian dollars)

| | 3-month period ended June 30, 2019 \$ | Restated (note 20) 3-month period ended July 1, 2018 \$ | 6-month period ended June 30, 2019 \$ | Restated (note 20) 6-month period ended July 1, 2018 \$ |
|--|--|---|--|---|
| Revenue (note 14) | 365,674 | 338,773 | 716,651 | 662,508 |
| Expenses | | | | |
| Cost of sales (note 14) | 325,723 | 303,605 | 645,831 | 589,657 |
| Selling, general and administrative expenses (note 14) | 25,370 | 20,048 | 47,426 | 42,982 |
| (Gain) loss on sale of non-financial assets | 6 | 7 | 6 | (208) |
| Restructuring costs, net (note 9) | 232 | 1 | 297 | 1 |
| Operating income | 14,343 | 15,112 | 23,091 | 30,076 |
| Interest expense | 11,433 | 13,837 | 22,730 | 26,486 |
| Other (income) expense (note 5) | 864 | (779) | 1,713 | 1,009 |
| Income (loss) before income taxes | 2,046 | 2,054 | (1,352) | 2,581 |
| Income taxes (note 13) | 1,114 | 410 | 928 | (640) |
| Net income (loss) for the period | 932 | 1,644 | (2,280) | 3,221 |
| Other comprehensive income (loss) | | | | |
| Items that will not be reclassified to net income (loss): | | | | |
| Remeasurements of pensions | (52,439) | 865 | (50,412) | 17,671 |
| Remeasurements of post-retirement benefits | (4,201) | (216) | (6,331) | 422 |
| Items that may be subsequently reclassified to net income (loss): | | | | |
| Cumulative translation adjustment | (6,123) | 6,066 | (12,513) | 14,910 |
| Total other comprehensive income (loss) for the period | (62,763) | 6,715 | (69,256) | 33,003 |
| Comprehensive income (loss) for the period | (61,831) | 8,359 | (71,536) | 36,224 |

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

Kruger Products L.P.

Unaudited Condensed Consolidated Statement of Changes in Equity

For the 6-month periods ended June 30, 2019 and July 1, 2018

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

| | Partnership units | | Deficit \$ | Accumulated other comprehensive income \$ | Total equity \$ |
|---|-------------------|----------------|------------------|---|-----------------------|
| | # | \$ | | | |
| As of January 1, 2018 Restated (note 20) | 57,675,039 | 356,240 | (123,123) | 67,087 | 300,204 |
| Change in accounting policy (note 3) | - | - | (6,331) | - | (6,331) |
| Restated total equity as of January 1, 2018 | <u>57,675,039</u> | <u>356,240</u> | <u>(129,454)</u> | <u>67,087</u> | <u>293,873</u> |
| Distributions payable (note 12) | - | - | (10,529) | - | (10,529) |
| Distributions paid (note 12) | - | - | (10,447) | - | (10,447) |
| Fair value adjustment (note 12) | - | 330 | (330) | - | - |
| Change in actuarial gain on pension | - | - | 17,671 | - | 17,671 |
| Change in actuarial gain on post-retirement benefits | - | - | 422 | - | 422 |
| Cumulative translation adjustment | - | - | - | 14,910 | 14,910 |
| Net income for the period | - | - | 3,221 | - | 3,221 |
| Issuance of partnership units (note 12) | 818,962 | 9,774 | - | - | 9,774 |
| As of July 1, 2018 Restated | <u>58,494,001</u> | <u>366,344</u> | <u>(129,446)</u> | <u>81,997</u> | <u>318,895</u> |
| As of December 31, 2018 Restated (note 20) | 59,571,399 | 376,274 | (102,502) | 93,039 | 366,811 |
| Distributions payable (note 12) | - | - | (11,032) | - | (11,032) |
| Distributions paid (note 12) | - | - | (10,880) | - | (10,880) |
| Fair value adjustment (note 12) | - | 705 | (705) | - | - |
| Change in actuarial loss on pension | - | - | (50,412) | - | (50,412) |
| Change in actuarial loss on post-retirement benefits | - | - | (6,331) | - | (6,331) |
| Cumulative translation adjustment | - | - | - | (12,513) | (12,513) |
| Net loss for the period | - | - | (2,280) | - | (2,280) |
| Issuance of partnership units (note 12) | 1,715,074 | 14,623 | - | - | 14,623 |
| As of June 30, 2019 | <u>61,286,473</u> | <u>391,602</u> | <u>(184,142)</u> | <u>80,526</u> | <u>287,986</u> |

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

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Unaudited Condensed Consolidated Statement of Cash Flows

For the 6-month periods ended June 30, 2019 and July 1, 2018

(tabular amounts are in thousands of Canadian dollars)

| | 6-month period ended June 30, 2019 \$ | Restated (note 20) 6-month period ended July 1, 2018 \$ |
|--|--|---|
| Cash flows from (used in) operating activities | | |
| Net income (loss) for the period | (2,280) | 3,221 |
| Items not affecting cash | | |
| Depreciation | 28,896 | 30,246 |
| Amortization | 732 | 733 |
| Loss (gain) on sale of property, plant and equipment | (5) | 434 |
| Change in amortized cost of Partnership units liability (note 5) | 3,094 | 716 |
| Foreign exchange loss (gain) (note 5) | (1,658) | 657 |
| Change in fair value of derivatives (note 5) | 277 | (364) |
| Interest expense | 22,730 | 26,486 |
| Pension and post-retirement benefits (note 8) | 5,201 | 6,919 |
| Provisions (note 9) | 673 | 61 |
| Income taxes | 928 | (640) |
| Loss (gain) on sale of non-financial assets | 6 | (208) |
| Total items not affecting cash | 60,874 | 65,040 |
| Net change in non-cash working capital (note 18) | (44,806) | (40,900) |
| Contributions to pension and post-retirement benefit plans | (7,153) | (8,139) |
| Provisions paid (note 9) | (472) | (247) |
| Income tax payments | (1,597) | (1,349) |
| Net cash from operating activities | 4,566 | 17,626 |
| Cash flows from (used in) investing activities | | |
| Purchases of property, plant and equipment | (12,280) | (28,318) |
| Purchases of property, plant and equipment related to the TAD2 project | (42,208) | - |
| Interest paid on credit facilities related to the TAD2 project | (1,453) | - |
| Government assistance received | - | 11 |
| Purchases of software | (1,334) | (1,025) |
| Proceeds on sale of property, plant and equipment | 5 | 324 |
| Net cash used in investing activities | (57,270) | (29,008) |
| Cash flows from (used in) financing activities (note 19) | | |
| Proceeds from long-term debt | 35,188 | 195,113 |
| Repayment of long-term debt | (7,286) | (127,108) |
| Payment of deferred financing fees | (353) | (3,917) |
| Payment of lease liabilities | (8,266) | (7,538) |
| Interest paid on long-term debt | (13,947) | (16,876) |
| Distributions and advances paid, net (note 12) | (5,544) | (12,765) |
| Net cash from financing activities | (208) | 26,909 |
| Effect of exchange rate changes on cash and cash equivalents held in foreign currency | (1,537) | 479 |
| Increase (decrease) in cash and cash equivalents during the period | (54,449) | 16,006 |
| Cash and cash equivalents - Beginning of period (note 17) | 169,884 | (214) |
| Cash and cash equivalents - End of period (note 17) | 115,435 | 15,792 |

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

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 6-month periods ended June 30, 2019 and July 1, 2018

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

1 General information

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

2 Basis of presentation

These unaudited condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34 - Interim Financial Reporting as issued by the International Accounting Standards Board (IASB), and with interpretations of the International Financial Reporting Committee which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook - Accounting. These unaudited condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Partnership for the year ended December 31, 2018.

The 3-month period ended June 30, 2019 represents the 91 day period from April 1 to June 30, 2019 and the 3-month period ended July 1, 2018 represents the 91 day period from April 2 to July 1, 2018. The 6-month period ended June 30, 2019 represents the 181 day period from January 1 to June 30, 2019 and the 6-month period ended July 1, 2018 represents the 182 day period from January 1 to July 1, 2018.

These unaudited condensed consolidated financial statements were approved by the board of directors of KPGP on August 7, 2019.

3 Summary of significant accounting policies

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

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

- (i) IAS 19, Employee Benefits. In February 2018, the IASB issued an amendment in connection with defined benefit plans and accounting for plan amendments, settlements or curtailments. The mandatory effective date was for annual periods beginning on or after January 1, 2019. The amended standard had no impact on the unaudited condensed consolidated financial statements.
- (ii) IAS 23, Borrowing Costs. In December 2017, the IASB issued Annual Improvements to IFRS Standards 2015-2017 Cycle, which includes an amendment to IAS 23, Borrowing Costs. The amendment clarifies borrowing costs eligible for capitalization. The mandatory effective date was for annual periods beginning on or after January 1, 2019. The amended standard had no impact on the unaudited condensed consolidated financial statements.

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- (iii) IAS 28, Interests in Associates and Joint Ventures. In February 2018, the IASB issued an amendment to clarify that an entity applies IFRS 9, including its impairment requirements, to long term interests in an associate or joint venture to which the equity method is not applied. The mandatory effective date was for annual periods beginning on or after January 1, 2019. The amended standard had no impact on the unaudited condensed consolidated financial statements.
- (iv) Effective January 1, 2019, the Partnership adopted IFRS 16 Leases, using the full retrospective approach. Under this approach all comparative period information has been restated to reflect the adoption of IFRS 16. An opening statement of financial position at the beginning of the earliest comparative period, January 1, 2018, is presented, as is a restated statement of financial position at December 31, 2018. Impacts on the unaudited condensed consolidated statement of financial position, the unaudited condensed consolidated statement of comprehensive income (loss) and the unaudited condensed consolidated statement of cash flows are disclosed in note 20.

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

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

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

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

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

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

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

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

The right-of-use asset is subsequently depreciated to the earlier of the end of their useful life or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Partnership is reasonably certain to exercise that option. Lease terms range from 1 to 25 years for land, buildings, equipment and motor vehicles. In addition, the right-of-use asset 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. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability.

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

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

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

At the inception of the lease, the Partnership records the right-of-use asset based on the corresponding lease liability over the term of the lease. Right-of-use assets of \$94.2 million and lease obligations of \$115.1 million were recorded as of January 1, 2019, adjusted for \$2.8 million of lease payments made at or before January 1, 2019, with a \$23.7 million net impact on the deficit. When measuring lease liabilities, the Partnership discounted lease payments using its incremental borrowing rate at the lease commencement date. The weighted-average rate applied is 4.61% at June 30, 2019.

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

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

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

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

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The Partnership applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2019.

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

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

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

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

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

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

The impact of new standards, amendments to standards and interpretations that have been issued but not yet effective for financial periods beginning on or after January 1, 2020 and have not been early adopted have been discussed in the annual consolidated financial statements for the year ended December 31, 2018, except for the following:

- (i) IAS 1 and IAS 8, Definition of Material. In October 2018, the IASB issued amendments to the definition of material in IAS 1 and IAS 8 and provide guidance to improve consistency in the application of the concept whenever it is used. The mandatory effective date would be annual periods beginning on or after January 1, 2020, with early adoption permitted. The amended standards are not expected to have an impact on the unaudited condensed consolidated financial statements.
- (ii) IFRS 3, Definition of a Business. In October 2018, the IASB issued an amendment that revises the definition of a business. The amendment aims to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The mandatory effective date would be annual periods beginning on or after January 1, 2020, with early adoption permitted. Management is evaluating the standard and has not yet determined the impact on its unaudited condensed consolidated financial statements.

4 Critical accounting estimates and judgments

The preparation of these unaudited condensed consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the unaudited condensed consolidated financial statements and the disclosure of contingencies at the dates of the unaudited condensed consolidated statements of financial position, and the reported amounts of revenues and expenses during the reporting period. On a regular basis and with the information available, management reviews its estimates. Actual results could differ from those estimates. When adjustments become necessary, they are reported in earnings in the period in which they occur. The estimates and judgement applied by management that most significantly affect the unaudited condensed consolidated financial statements are the same as the ones that applied to the annual audited consolidated financial statements for the year ended December 31, 2018 except for new significant judgements and key source of estimation uncertainty related to the application of IFRS 16 which are described in note 3. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the

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

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.

5 Other (income) expense

| | 3-month period ended June 30, 2019 | 3-month period ended July 1, 2018 | 6-month period ended June 30, 2019 | 6-month period ended July 1, 2018 |
|--|--|---|--|---|
| | \$ | \$ | \$ | \$ |
| Foreign exchange (gain) loss | (960) | 898 | (1,658) | 657 |
| Change in amortized cost of Partnership units liability | 1,547 | (1,962) | 3,094 | 716 |
| Change in fair value of derivatives | 277 | 285 | 277 | (364) |
| | <u>864</u> | <u>(779)</u> | <u>1,713</u> | <u>1,009</u> |

6 Property, plant and equipment

| | Land | Buildings | Machinery and equipment | Assets under construction or development | Total |
|---|---------------|----------------|-------------------------------|--|----------------|
| | \$ | \$ | \$ | \$ | \$ |
| As of January 1, 2019 | | | | | |
| Cost | 38,006 | 201,684 | 1,183,635 | 36,751 | 1,460,076 |
| Accumulated depreciation | - | (91,200) | (582,854) | - | (674,054) |
| Net book value as of January 1, 2019 | 38,006 | 110,484 | 600,781 | 36,751 | 786,022 |
| Additions | - | - | - | 56,001 | 56,001 |
| Capitalized interest | - | - | - | 4,144 | 4,144 |
| Transfers | - | 325 | 6,339 | (6,664) | - |
| Depreciation | - | (2,529) | (21,213) | - | (23,742) |
| Exchange differences | (64) | (2,292) | (12,893) | (82) | (15,331) |
| As of June 30, 2019 | <u>37,942</u> | <u>105,988</u> | <u>573,014</u> | <u>90,150</u> | <u>807,094</u> |
| As of June 30, 2019 | | | | | |
| Cost | 37,942 | 199,041 | 1,170,315 | 90,150 | 1,497,448 |
| Accumulated depreciation | - | (93,053) | (597,301) | - | (690,354) |
| Net book value as of June 30, 2019 | <u>37,942</u> | <u>105,988</u> | <u>573,014</u> | <u>90,150</u> | <u>807,094</u> |

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Notes to Unaudited Condensed Consolidated Financial Statements

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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, 2018 | | | | | |
| Cost | 34,852 | 118,236 | 3,974 | 1,742 | 158,804 |
| Accumulated right-of-use depreciation | (20,560) | (36,279) | (2,075) | (716) | (59,630) |
| Net book value | | | | | |
| as of January 1, 2018 | 14,292 | 81,957 | 1,899 | 1,026 | 99,174 |
| Additions | - | 4,171 | 1,047 | 442 | 5,660 |
| Right-of-use depreciation | (1,393) | (7,841) | (877) | (529) | (10,640) |
| Exchange differences | - | 28 | 16 | 9 | 53 |
| As of December 31, 2018 | 12,899 | 78,315 | 2,085 | 948 | 94,247 |
| As of December 31, 2018 | | | | | |
| Cost | 34,852 | 122,435 | 5,062 | 2,202 | 164,551 |
| Accumulated right-of-use depreciation | (21,953) | (44,120) | (2,977) | (1,254) | (70,304) |
| Net book value | | | | | |
| as of December 31, 2018 | 12,899 | 78,315 | 2,085 | 948 | 94,247 |
| Additions | - | - | - | 125 | 125 |
| Right-of-use depreciation | (700) | (4,268) | (530) | (271) | (5,769) |
| Exchange differences | - | (11) | (8) | (5) | (24) |
| As of June 30, 2019 | 12,199 | 74,036 | 1,547 | 797 | 88,579 |
| As of June 30, 2019 | | | | | |
| Cost | 34,852 | 122,423 | 5,037 | 2,317 | 164,629 |
| Accumulated right-of-use depreciation | (22,653) | (48,387) | (3,490) | (1,520) | (76,050) |
| Net book value | | | | | |
| as of June 30, 2019 | 12,199 | 74,036 | 1,547 | 797 | 88,579 |

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 | |
|--|--------------------|------------------------|-------------------------------|------------------------|
| | June 30, 2019 % | December 31, 2018 % | June 30, 2019 % | December 31, 2018 % |
| Assumptions | | | | |
| Discount rate - accrued benefit obligation | 2.92 | 3.65 | 2.92 | 3.65 |
| Rate of compensation increases | 3.25 - 4.00 | 3.25 - 4.00 | | |

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(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 June 30, 2019 \$ | 3-month period ended July 1, 2018 \$ | 3-month period ended June 30, 2019 \$ | 3-month period ended July 1, 2018 \$ |
| Net benefit plan expense | | | | |
| Current service cost | 2,157 | 2,897 | 469 | 518 |
| Interest cost | 5,579 | 5,330 | 447 | 460 |
| Expected return on plan assets | (4,709) | (4,349) | - | - |
| Administrative cost | 130 | 160 | - | - |
| | 3,157 | 4,038 | 916 | 978 |
| | | | | |
| | Pensions | | Post-retirement benefit plans | |
| | 6-month period ended June 30, 2019 \$ | 6-month period ended July 1, 2018 \$ | 6-month period ended June 30, 2019 \$ | 6-month period ended July 1, 2018 \$ |
| Net benefit plan expense | | | | |
| Current service cost | 4,035 | 5,564 | 907 | 1,036 |
| Interest cost | 11,161 | 10,690 | 895 | 921 |
| Expected return on plan assets | (9,411) | (8,713) | - | - |
| Administrative cost | 259 | 319 | - | - |
| | 6,044 | 7,860 | 1,802 | 1,957 |

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9 Provisions

| | Environmental and asset retirement obligations ^(a) | Long-term incentives and DSUs ^(b) | Restructuring | Total |
|-------------------------|--|--|---------------|-------|
| | \$ | \$ | \$ | \$ |
| Provisions as of | | | | |
| January 1, 2019 | 4,831 | 859 | - | 5,690 |
| Current | - | 292 | - | 292 |
| Non-current | 4,831 | 567 | - | 5,398 |
| Provisions as of | | | | |
| January 1, 2019 | 4,831 | 859 | - | 5,690 |
| Additional provisions | - | 376 | 297 | 673 |
| Paid during the period | - | (175) | (297) | (472) |
| Interest accretion | 125 | - | - | 125 |
| Provisions as of | | | | |
| June 30, 2019 | 4,956 | 1,060 | - | 6,016 |
| Current | - | 261 | - | 261 |
| Non-current | 4,956 | 799 | - | 5,755 |

(a) Environmental and asset retirement obligations

The Partnership has made a provision for the potential obligation under a land lease at one of its plant locations to demolish the building and restore the land at the end of the lease to its original condition. The current lease ends in 2028 but an extension is currently being negotiated. The estimated undiscounted amount to settle this obligation would be between \$8.0 million and \$10.5 million. The liability is estimated using a discounted cash flow with a discount rate of 5.135% (December 31, 2018 – 5.135%).

(b) Long-term incentives and DSUs

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

The Partnership has adopted a policy that requires that each director own a minimum of 5,000 common shares and/or share equivalents in the form of deferred share units (DSUs) of KPT. A deferred share unit plan (Plan) has been adopted which allows independent directors to receive all or part of their director retainer fees in the form of DSUs. The Plan allows for the issuance of additional units as dividend equivalents when KPT declares and issues a dividend to shareholders. Upon the individual ceasing to be a director, the DSUs will be paid out in cash. As of June 30, 2019, DSUs of \$0.2 million were recorded (December 31, 2018 – \$0.08 million).

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10 Long-term debt

| | <u>Maturity</u> | <u>June 30, 2019</u> | <u>December 31, 2018</u> |
|---|-----------------|----------------------|--------------------------|
| | | \$ | \$ |
| Senior Credit Facility | 2023 | 135,010 | 109,008 |
| Senior Unsecured Notes | 2025 | 122,119 | 121,887 |
| AgCredit Agreement | 2036 | 188,306 | 190,191 |
| IQ Debenture | 2028 | 89,615 | 86,925 |
| Quebec PM Loan | 2026 | 30,076 | 32,626 |
| Nordea2 Credit Facility | 2029 | 32,936 | 24,832 |
| Nordea Credit Facility | 2019 | 4,317 | 8,960 |
| Ontario Loan | 2026 | 3,539 | 3,465 |
| | | <u>605,918</u> | <u>577,894</u> |
| Less: Current portion of long-term debt | | <u>9,255</u> | <u>13,939</u> |
| | | <u>596,663</u> | <u>563,955</u> |

11 Lease liabilities

The Partnership's leases relate to right-of-use of land, buildings, equipment and motor vehicles. As of June 30, 2019, the contractual undiscounted cash flows for lease liabilities were as follows:

| | <u>June 30, 2019</u> |
|-----------------------|----------------------|
| | \$ |
| Less than 1 year | 15,719 |
| Between 1 and 5 years | 62,843 |
| More than 5 years | 66,472 |
| | <u>145,034</u> |

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

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

| | <u>3-month</u> | <u>3-month</u> | <u>6-month</u> | <u>6-month</u> |
|---|----------------------|---------------------|----------------------|---------------------|
| | <u>period ended</u> | <u>period ended</u> | <u>period ended</u> | <u>period ended</u> |
| | <u>June 30, 2019</u> | <u>July 1, 2018</u> | <u>June 30, 2019</u> | <u>July 1, 2018</u> |
| | \$ | \$ | \$ | \$ |
| Interest expense on lease liabilities | 1,270 | 1,339 | 2,571 | 2,675 |
| Expenses relating to variable payments not included in the measurement of lease liabilities | 1,333 | 1,319 | 2,582 | 2,547 |
| Expenses relating to low-value leases | 72 | 72 | 154 | 154 |
| | <u>2,675</u> | <u>2,730</u> | <u>5,307</u> | <u>5,376</u> |

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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 6-month period ended June 30, 2019, expenses relating to short-term leases were not significant.

12 Distributions and Partnership units liability

| | Partnership units liability |
|--|------------------------------------|
| | \$ |
| As of January 1, 2019 | 116,524 |
| Change in amortized cost of Partnership units liability (note 5) | 3,094 |
| As of June 30, 2019 | <u>119,618</u> |

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

| Distribution Payment Date | 6-month period ended June 30, 2019 | | | |
|----------------------------------|---|-------------------|--------------------------------------|-----------------------|
| | Partnership unit distributions | Unit price | Issuance of Partnership units | Gross proceeds |
| | \$ | \$ | # | \$ |
| January 15, 2019 | 10,723 | 8.36 | 875,273 | 7,317 |
| April 15, 2019 | 10,880 | 8.70 | 839,801 | 7,306 |
| | <u>21,603</u> | | <u>1,715,074</u> | <u>14,623</u> |

| Distribution Payment Date | 6-month period ended July 1, 2018 | | | |
|----------------------------------|--|-------------------|--------------------------------------|-----------------------|
| | Partnership unit distributions | Unit price | Issuance of Partnership units | Gross proceeds |
| | \$ | \$ | # | \$ |
| January 15, 2018 | 10,382 | 13.50 | 361,174 | 4,876 |
| April 16, 2018 | 10,447 | 10.70 | 457,788 | 4,898 |
| | <u>20,829</u> | | <u>818,962</u> | <u>9,774</u> |

On July 15, 2019, the Partnership paid a distribution of \$11.0 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 909,630 Partnership units at a price of \$8.16. During the 6-month period ended June 30, 2019, a fair value adjustment of \$0.7 million was recorded to reflect the market value of the Partnership units issued.

Subsequent to June 30, 2019, the Partnership declared a distribution of \$11.2 million, payable on October 15, 2019.

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

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

| | 6-month period ended June 30, 2019 | | |
|--|------------------------------------|--------------------------------------|-------|
| | Advances received | Partnership unit distributions | Total |
| | \$ | \$ | \$ |
| Paid to (received from) Kruger Inc. ^(a) | (1,436) | 4,551 | 3,115 |
| Paid to KPGP | - | 2 | 2 |
| Paid to KPT ^(b) | - | 2,427 | 2,427 |
| Total paid (received from) | (1,436) | 6,980 | 5,544 |

| | 6-month period ended July 1, 2018 | | |
|------------------------------------|-----------------------------------|--------------------------------------|--------|
| | Advances paid | Partnership unit distributions | Total |
| | \$ | \$ | \$ |
| Paid to Kruger Inc. ^(a) | 1,436 | 8,752 | 10,188 |
| Paid to KPGP | - | 2 | 2 |
| Paid to KPT ^(b) | 274 | 2,301 | 2,575 |
| Total paid | 1,710 | 11,055 | 12,765 |

(a) During the 6-month periods ended June 30, 2019 and July 1, 2018, Partnership unit distributions were paid to Kruger Inc. net of the DRIP reinvestment. During the 6-month period ended June 30, 2019, Kruger Inc.'s DRIP reinvestment was \$13.7 million (6-month period ended July 1, 2018 - \$8.8 million).

(b) During the 6-month periods ended June 30, 2019 and July 1, 2018, Partnership unit distributions were paid to KPT net of the DRIP reinvestment. During the 6-month period ended June 30, 2019, KPT's DRIP reinvestment was \$1.0 million (6-month period ended July 1, 2018 - \$1.0 million).

Tax Distributions

Pursuant to the Tax Distribution as defined in the Partnership Agreement, the Partnership would typically declare a Tax Distribution on February 28, 2019, related to taxes owing resulting from the taxable income of KPT for the year ended December 31, 2018. However, KPT incurred a loss for tax purposes for the year ended December 31, 2018 and as a result no Tax Distribution was declared on February 28, 2019. The excess advances over the Tax Distribution were \$1.7 million. Of that amount, \$0.3 million was used to pay the monthly tax instalment on behalf of KPT and is repayable to KPLP on or before March 31, 2020. The remaining \$1.4 million was repaid to KPLP by Kruger Inc. and KPGP during the 6-month period ended June 30, 2019. The advances are non-interest bearing and non-recourse in nature and will be settled when the Tax Distribution is declared annually.

13 Income taxes

The Partnership is not a tax paying entity for the 6-month periods ended June 30, 2019 and July 1, 2018. The income (loss) from the Partnership flows to the partners, Kruger Inc., KPGP, and KPT. However, the Partnership's subsidiaries KP USA, KTG, TAD Canco Inc., GTM, TAD Luxembourg S.A.R.L, KP TAD Holdco Inc., TAD1 Canco I Inc., TAD1 Canco II Inc., TAD1 GP ULC, TAD2 GP ULC, and KPSI are corporate entities and, therefore, are subject to tax.

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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 6-month period ended June 30, 2019 was (68.6%) (6-month period ended July 1, 2018 – (24.8%)).

The components of income taxes were as follows:

| | 3-month period ended June 30, 2019 | 3-month period ended July 1, 2018 | 6-month period ended June 30, 2019 | 6-month period ended July 1, 2018 |
|-----------------------|--|---|--|---|
| | \$ | \$ | \$ | \$ |
| Current tax expense | 1,243 | 641 | 2,115 | 1,087 |
| Deferred tax recovery | (129) | (231) | (1,187) | (1,727) |
| Income taxes | <u>1,114</u> | <u>410</u> | <u>928</u> | <u>(640)</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.

Sales of goods to Kruger Inc. for the 6-month period ended June 30, 2019 were \$0.1million (6-month period ended July 1, 2018 - \$0.3 million). Sales of goods to subsidiaries of Kruger Inc. for the 6-month period ended June 30, 2019 were \$0.1 million (6-month period ended July 1, 2018 - nil). Goods are sold based on the price lists in force and terms that would be available to third parties.

Purchases of goods and services from Kruger Inc. for 6-month period ended June 30, 2019 were \$3.1 million (6-month period ended July 1, 2018 - \$3.5 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the 6-month period ended June 30, 2019 were \$17.9 million (6-month period ended July 1, 2018 - \$17.3 million). Goods are purchased from Kruger Inc. and related parties under normal commercial terms and conditions. These purchases of goods and services are included within cost of sales and selling, general and administrative expenses in the unaudited condensed consolidated statement of comprehensive income (loss). During the 6-month period ended June 30, 2019, management fees of \$2.2 million (6-month period ended July 1, 2018 - \$2.2 million) were paid to Kruger Inc. for management services provided to the Partnership.

Balances due to and from related parties were as follows:

| | June 30, 2019 | December 31, 2018 |
|--|---------------|-------------------|
| | \$ | \$ |
| Receivables from Kruger Inc. | - | 157 |
| Receivables from subsidiaries of Kruger Inc. | - | 15 |
| | <u>-</u> | <u>172</u> |
| Payables to Kruger Inc. | 2,202 | 2,785 |
| Payables to subsidiaries of Kruger Inc. | 2,232 | 2,566 |
| Payables to KPT | 312 | 269 |
| | <u>4,746</u> | <u>5,620</u> |

The receivables from and payables to related parties are based on commercial terms agreed on between the parties, unsecured and non-interest bearing. There were no provisions related to the receivables from related parties as of June

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30, 2019 and December 31, 2018. There were no loans outstanding with related parties as of June 30, 2019 and December 31, 2018.

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

| | June 30, 2019 | December 31, 2018 |
|-------------------------------------|----------------------|--------------------------|
| | \$ | \$ |
| Distribution payable to Kruger Inc. | 9,317 | 9,028 |
| Distribution payable to KPGP | 1 | 1 |
| Distribution payable to KPT | 1,714 | 1,694 |
| Total distribution payable | <u>11,032</u> | <u>10,723</u> |

15 Segment information

Reportable segments

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

(a) Consumer

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

(b) AFH

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

(c) Other

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

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

Segment operating income is the earnings (loss) for each such segment before (i) interest expense, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) impairment (gain on sale) of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) foreign exchange loss (gain), (viii) costs related to restructuring activities, (ix) changes in amortized cost of Partnership units liability, (x) change in fair value of derivatives, (xi) one-time consulting costs related to operational transformation initiatives, and (xii) M&A related costs. “Consumer Segment Adjusted EBITDA”, “AFH Segment Adjusted EBITDA” and “Other Segment Adjusted EBITDA” means in each case the Segment operating income for the respective reportable segment of KPLP.

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

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| | 3-month period ended June 30, 2019 | | | |
|--|---|------------|--------------|--------------|
| | Consumer | AFH | Other | Total |
| | \$ | \$ | \$ | \$ |
| Revenue from external customers | 299,663 | 66,011 | - | 365,674 |
| Segment Adjusted EBITDA | 35,354 | (3,045) | (820) | 31,489 |
| Depreciation and amortization | | | | 14,886 |
| Interest expense | | | | 11,433 |
| Change in amortized cost of Partnership units liability | | | | 1,547 |
| Change in fair value of derivatives | | | | 277 |
| Loss on sale of non-financial assets | | | | 6 |
| Restructuring costs, net | | | | 232 |
| Foreign exchange gain | | | | (960) |
| One-time consulting costs related to operational transformation initiatives | | | | 1,283 |
| M&A related costs | | | | 739 |
| Income before income taxes | | | | 2,046 |
| Income taxes | | | | 1,114 |
| Net Income | | | | 932 |

| | Restated (note 20) | | | |
|---|--|--------------|--------------|---------|
| | 3-month period ended July 1, 2018 | | | |
| Consumer | AFH | Other | Total | |
| \$ | \$ | \$ | \$ | |
| Revenue from external customers | 279,190 | 59,583 | - | 338,773 |
| Segment Adjusted EBITDA | 34,303 | (2,376) | (1,321) | 30,606 |
| Depreciation and amortization | | | | 15,487 |
| Interest expense | | | | 13,837 |
| Change in amortized cost of Partnership units liability | | | | (1,962) |
| Change in fair value of derivatives | | | | 285 |
| Loss on sale of non-financial assets | | | | 7 |
| Foreign exchange loss | | | | 898 |
| Income before income taxes | | | | 2,054 |
| Income taxes | | | | 410 |
| Net income | | | | 1,644 |

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| | 6-month period ended June 30, 2019 | | | |
|--|---|------------|--------------|--------------|
| | Consumer | AFH | Other | Total |
| | \$ | \$ | \$ | \$ |
| Revenue from external customers | 595,848 | 120,803 | - | 716,651 |
| Segment Adjusted EBITDA | 65,446 | (9,629) | (778) | 55,039 |
| Depreciation and amortization | | | | 29,628 |
| Interest expense | | | | 22,730 |
| Change in amortized cost of Partnership units liability | | | | 3,094 |
| Change in fair value of derivatives | | | | 277 |
| Gain on sale of property, plant and equipment | | | | (5) |
| Loss on sale of non-financial assets | | | | 6 |
| Restructuring costs, net | | | | 297 |
| Foreign exchange gain | | | | (1,658) |
| One-time consulting costs related to operational transformation initiatives | | | | 1,283 |
| M&A related costs | | | | 739 |
| Loss before income taxes | | | | (1,352) |
| Income taxes | | | | 928 |
| Net loss | | | | (2,280) |

| | Restated (note 20) | | | |
|---|--|------------|--------------|--------------|
| | 6-month period ended July 1, 2018 | | | |
| | Consumer | AFH | Other | Total |
| | \$ | \$ | \$ | \$ |
| Revenue from external customers | 549,400 | 113,108 | - | 662,508 |
| Segment Adjusted EBITDA | 65,370 | (2,126) | (1,962) | 61,282 |
| Depreciation and amortization | | | | 30,979 |
| Interest expense | | | | 26,486 |
| Change in amortized cost of Partnership units liability | | | | 716 |
| Change in fair value of derivatives | | | | (364) |
| Loss on sale of property, plant and equipment | | | | 434 |
| Gain on sale of non-financial assets | | | | (208) |
| Restructuring costs, net | | | | 1 |
| Foreign exchange loss | | | | 657 |
| Income before income taxes | | | | 2,581 |
| Income taxes | | | | (640) |
| Net income | | | | 3,221 |

Geographic segments

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

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| | 3-month period ended June 30, 2019 | 3-month period ended July 1, 2018 | 6-month period ended June 30, 2019 | 6-month period ended July 1, 2018 |
|----------------|--|---|--|---|
| Revenue | \$ | \$ | \$ | \$ |
| Canada | 208,163 | 202,884 | 405,579 | 391,537 |
| US | 132,063 | 115,808 | 259,576 | 231,360 |
| Mexico | 25,448 | 20,081 | 51,496 | 39,611 |
| | <u>365,674</u> | <u>338,773</u> | <u>716,651</u> | <u>662,508</u> |

On June 28, 2019, the Partnership entered into a non-binding agreement to sell its share interest in GTM for expected proceeds of \$5.4 million U.S. The transaction is expected to close in the second half of 2019.

| | June 30, 2019 | | | |
|-------------------------------|----------------------|-----------|---------------|--------------|
| | Canada | US | Mexico | Total |
| | \$ | \$ | \$ | \$ |
| Property, plant and equipment | 449,598 | 357,486 | 10 | 807,094 |
| Goodwill | 160,939 | - | - | 160,939 |
| Intangible assets | 15,526 | - | - | 15,526 |

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

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16 Financial instruments

Classification of financial instruments

As of June 30, 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 | 125,351 | 125,351 |
| Trade and other receivables | financial assets at amortized cost | 132,249 | 132,249 |
| Advances to partners | financial assets at amortized cost | 268 | 268 |
| Embedded derivative | embedded derivative at fair value through profit and loss | 10 | 10 |
| Bank indebtedness | financial liabilities at amortized cost | (9,916) | (9,916) |
| Trade payables | financial liabilities at amortized cost | (116,562) | (116,562) |
| Accrued expenses | financial liabilities at amortized cost | (65,391) | (65,391) |
| Contract liabilities | financial liabilities at amortized cost | (34,857) | (34,857) |
| Derivative liabilities | financial liabilities at fair value through profit and loss | (471) | (471) |
| Payables to related parties | financial liabilities at amortized cost | (4,746) | (4,746) |
| Distributions payable | financial liabilities at amortized cost | (11,032) | (11,032) |
| Long-term debt | financial liabilities at amortized cost | (605,918) | (618,202) |
| Lease liabilities | financial liabilities at amortized cost | (109,536) | (109,536) |
| Partnership units liability | financial liabilities at amortized cost | (119,618) | (119,618) |

The following table details the fair value hierarchy of financial instruments by level as of June 30, 2019:

| | Level 1 \$ | Level 2 \$ | Level 3 \$ | Total \$ |
|-----------------------------|---------------|---------------|---------------|-------------|
| Embedded derivative | - | 10 | - | 10 |
| Derivative liabilities | - | (471) | - | (471) |
| Long-term debt | - | (618,202) | - | (618,202) |
| Partnership units liability | - | - | (119,618) | (119,618) |

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

As of December 31, 2018, the classification of the financial instruments, as well as their carrying amounts and fair values, was as follows:

| | Classification | Restated (note 20) Carrying amount \$ | Restated (note 20) Fair value \$ |
|----------------------------------|--|--|---|
| Cash and cash equivalents | financial assets at amortized cost | 169,884 | 169,884 |
| Trade and other receivables | financial assets at amortized cost | 127,633 | 127,633 |
| Receivables from related parties | financial assets at amortized cost | 172 | 172 |
| Advances to partners | financial assets at amortized cost | 1,704 | 1,704 |
| Embedded derivative | embedded derivative at fair value through profit and loss | 10 | 10 |
| Trade payables | financial liabilities at amortized cost | (136,650) | (136,650) |
| Accrued expenses | financial liabilities at amortized cost | (59,207) | (59,207) |
| Contract liabilities | financial liabilities at amortized cost | (42,999) | (42,999) |
| Payables to related parties | financial liabilities at amortized cost | (5,620) | (5,620) |
| Distributions payable | financial liabilities at amortized cost | (10,723) | (10,723) |
| Long-term debt | financial liabilities at amortized cost | (577,894) | (597,220) |
| Lease liabilities | financial liabilities at amortized cost | (115,130) | (115,130) |
| Partnership units liability | financial liabilities at amortized cost | (116,524) | (116,524) |

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

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

Fair value

Cash and cash equivalents, trade and other receivables, receivables from related parties, advances to partners, embedded derivative, bank indebtedness, trade payables, accrued expenses, contract liabilities, payables to related parties and distributions payable are short-term financial instruments whose fair value approximates the carrying amount, given they will mature in the near future. As of June 30, 2019, the fair values of the Senior Credit Facility, the Senior Unsecured Notes, the AgCredit Agreement, the Nordea2 Credit Facility, the Nordea Credit Facility and the Caisse Facility were \$136.2 million, \$125.0 million, \$192.0 million, \$36.5 million, \$4.3 million and nil (December 31, 2018 – \$110.2 million, \$125.0 million, \$200.4 million, \$28.6 million, \$9.0 million and nil), respectively, which approximates the current principal amount outstanding as the interest rate approximates current market interest rates. As of June 30, 2019, the fair values of the IQ Debenture, the Quebec PM Loan and the Ontario Loan were \$90.3 million, \$30.4 million and \$3.5 million (December 31, 2018 – \$87.6 million, \$33.0 million and \$3.4 million), respectively, which are recorded on discounted future cash flows using market rates of 6.0%, 4.4% and 4.4% accordingly, net of the government grant recorded on the below-market rate of interest.

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

The fair value of the derivative liabilities was based on foreign exchange rates and interest rates in the active market. The change in the fair value of the derivative liabilities based on foreign exchange rates was \$0.3 million during the 6-

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month period ended June 30, 2019 (6-month period ended July 1, 2018 – \$0.4 million gain, which was recorded in the unaudited condensed consolidated statement of comprehensive income (loss) in Other (income) 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 \$0.3 million loss during the 6-month period ended June 30, 2019 (6-month period ended July 1, 2018 – \$0.2 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 6-month period ended June 30, 2019.

Currency risk

From time to time, the Partnership uses derivative financial instruments to manage foreign currency risk. Foreign exchange swaps and foreign exchange forwards are used to manage U.S. dollar borrowings. As of June 30, 2019, the Partnership had foreign exchange swaps outstanding of nil (December 31, 2018 – nil) and foreign exchange forwards outstanding of \$16.0 million (December 31, 2018 – nil).

Interest rate risk

The Partnership holds interest rate swaps, contracted to fix the interest rate on a notional amount of \$100.0 million at June 30, 2019 (December 31, 2018 – \$100.0 million). The interest rate swaps are maturing during the 3-month period ended March 2020.

17 Cash and cash equivalents

| | June 30, 2019 | December 31, 2018 |
|---|----------------------|--------------------------|
| | \$ | \$ |
| Cash and cash equivalents | 125,351 | 169,884 |
| Bank indebtedness | (9,916) | - |
| Cash and cash equivalents in the unaudited condensed consolidated statement of cash flows | <u>115,435</u> | <u>169,884</u> |

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18 Non-cash working capital

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

| | 6-month period ended June 30, 2019 | 6-month period ended July 1, 2018 |
|--|--|---|
| | \$ | \$ |
| Increase in trade and other receivables | (11,219) | (23,690) |
| Decrease in receivables from related parties | 172 | 85 |
| Increase in inventories | (6,119) | (19,811) |
| Increase in prepaid expenses | (8,353) | (2,260) |
| Decrease (increase) in income taxes | (193) | 420 |
| Increase (decrease) in trade and other payables | (18,220) | 3,933 |
| Increase (decrease) in payables to related parties | (874) | 423 |
| | <u>(44,806)</u> | <u>(40,900)</u> |

19 Cash flows from (used in) financing activities

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

| | Advances to partners | Prepaid interest | Accrued interest | Distri- butions payable | Long term debt | Partner- ship units | Lease liabilities | Total |
|---------------------------------------|----------------------------|---------------------|---------------------|-------------------------------|----------------------|---------------------------|----------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| As of January 1, 2018 | (6,417) | (623) | 149 | 10,382 | 416,315 | 356,240 | 120,057 | 896,103 |
| Proceeds from long-term debt | - | - | - | - | 195,113 | - | - | 195,113 |
| Repayment of long-term debt | - | - | - | - | (127,108) | - | - | (127,108) |
| Payment of deferred financing fees | - | - | - | - | (3,917) | - | - | (3,917) |
| Payment of lease liabilities | - | - | - | - | - | - | (7,538) | (7,538) |
| Interest paid on long-term debt | - | (3,401) | (13,008) | - | (467) | - | - | (16,876) |
| Distributions and advances paid, net | (1,710) | - | - | (20,829) | - | 9,774 | - | (12,765) |
| Movements not in financing activities | 1,928 | 3,444 | 14,455 | 20,976 | 12,869 | 330 | 5,505 | 59,507 |
| As of July 1, 2018 | <u>(6,199)</u> | <u>(580)</u> | <u>1,596</u> | <u>10,529</u> | <u>492,805</u> | <u>366,344</u> | <u>118,024</u> | <u>982,519</u> |
| As of January 1, 2019 | (1,704) | (404) | 3,230 | 10,723 | 577,894 | 376,274 | 115,130 | 1,081,143 |
| Proceeds from long-term debt | - | - | - | - | 35,188 | - | - | 35,188 |
| Repayment of long-term debt | - | - | - | - | (7,286) | - | - | (7,286) |
| Payment of deferred financing fees | - | - | - | - | (353) | - | - | (353) |
| Payment of lease liabilities | - | - | - | - | - | - | (8,266) | (8,266) |
| Interest paid on long-term debt | - | (3,406) | (10,122) | - | (419) | - | - | (13,947) |
| Distributions and advances paid, net | 1,436 | - | - | (21,603) | - | 14,623 | - | (5,544) |
| Movements not in financing activities | - | 3,384 | 11,989 | 21,912 | 894 | 705 | 2,672 | 41,556 |
| As of June 30, 2019 | <u>(268)</u> | <u>(426)</u> | <u>5,097</u> | <u>11,032</u> | <u>605,918</u> | <u>391,602</u> | <u>109,536</u> | <u>1,122,491</u> |

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20 IFRS 16 Transition reconciliation

The following are reconciliations from the previous lease recognition guidance in IAS 17, to the new standard on leases, IFRS 16, adopted January 1, 2019. Reconciliations are provided for the unaudited condensed consolidated statement of financial position at June 30, 2019, December 31, 2018 and January 1, 2018, the unaudited condensed consolidated statement of comprehensive income (loss) for the 3-month and 6-month periods ended June 30, 2019 and July 1, 2018, the unaudited condensed consolidated statement of cash flows for the 6-month periods ended June 30, 2019 and July 1, 2018 and the Segment Adjusted EBITDA for the 3-month and 6-month periods ended June 30, 2019 and July 1, 2018. Refer to note 3 for additional information.

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

| | June 30, 2019 | | | December 31, 2018 | | |
|--|------------------|-------------------|------------------|-------------------|-------------------|------------------|
| | IAS 17 | Transition effect | IFRS 16 | IAS 17 | Transition effect | IFRS 16 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Assets | | | | | | |
| Current assets | | | | | | |
| Cash and cash equivalents | 125,351 | - | 125,351 | 169,884 | - | 169,884 |
| Trade and other receivables | 132,249 | - | 132,249 | 127,633 | - | 127,633 |
| Receivables from related parties | - | - | - | 172 | - | 172 |
| Current portion of advances to partners | 268 | - | 268 | - | - | - |
| Inventories | 206,446 | - | 206,446 | 202,916 | - | 202,916 |
| Income tax recoverable | 293 | - | 293 | 362 | - | 362 |
| Prepaid expenses | 15,254 | (2,839) | 12,415 | 6,904 | (2,839) | 4,065 |
| | <u>479,861</u> | <u>(2,839)</u> | <u>477,022</u> | <u>507,871</u> | <u>(2,839)</u> | <u>505,032</u> |
| Non-current assets | | | | | | |
| Advances to partners | - | - | - | 1,704 | - | 1,704 |
| Property, plant and equipment | 807,094 | - | 807,094 | 786,022 | - | 786,022 |
| Right-of-use assets | - | 88,579 | 88,579 | - | 94,247 | 94,247 |
| Other long-term assets | 6,359 | - | 6,359 | 10 | - | 10 |
| Goodwill | 160,939 | - | 160,939 | 160,939 | - | 160,939 |
| Intangible assets | 15,526 | - | 15,526 | 14,924 | - | 14,924 |
| Deferred income taxes | 33,283 | - | 33,283 | 33,440 | - | 33,440 |
| Total assets | <u>1,503,062</u> | <u>85,740</u> | <u>1,588,802</u> | <u>1,504,910</u> | <u>91,408</u> | <u>1,596,318</u> |
| Liabilities | | | | | | |
| Current liabilities | | | | | | |
| Bank indebtedness | 9,916 | - | 9,916 | - | - | - |
| Trade and other payables | 217,281 | - | 217,281 | 238,856 | - | 238,856 |
| Payables to related parties | 4,746 | - | 4,746 | 5,620 | - | 5,620 |
| Income tax payable | 327 | - | 327 | 80 | - | 80 |
| Distributions payable | 11,032 | - | 11,032 | 10,723 | - | 10,723 |
| Current portion of provisions | 261 | - | 261 | 292 | - | 292 |
| Current portion of long-term debt | 9,255 | - | 9,255 | 13,939 | - | 13,939 |
| Current portion of lease liabilities | - | 15,719 | 15,719 | - | 16,178 | 16,178 |
| | <u>252,818</u> | <u>15,719</u> | <u>268,537</u> | <u>269,510</u> | <u>16,178</u> | <u>285,688</u> |
| Non-current liabilities | | | | | | |
| Long-term debt | 596,663 | - | 596,663 | 563,955 | - | 563,955 |
| Lease liabilities | - | 93,817 | 93,817 | - | 98,952 | 98,952 |
| Provisions | 5,755 | - | 5,755 | 5,398 | - | 5,398 |
| Pensions | 155,612 | - | 155,612 | 104,939 | - | 104,939 |
| Post-retirement benefits | 60,814 | - | 60,814 | 54,051 | - | 54,051 |
| Liabilities to non-unitholders | <u>1,071,662</u> | <u>109,536</u> | <u>1,181,198</u> | <u>997,853</u> | <u>115,130</u> | <u>1,112,983</u> |
| Current portion of Partnership units liability | 6,187 | - | 6,187 | - | - | - |
| Long-term portion of Partnership units liability | 113,431 | - | 113,431 | 116,524 | - | 116,524 |
| Total Partnership units liability | <u>119,618</u> | <u>-</u> | <u>119,618</u> | <u>116,524</u> | <u>-</u> | <u>116,524</u> |
| Total liabilities | <u>1,191,280</u> | <u>109,536</u> | <u>1,300,816</u> | <u>1,114,377</u> | <u>115,130</u> | <u>1,229,507</u> |
| Equity | | | | | | |
| Partnership units | 391,602 | - | 391,602 | 376,274 | - | 376,274 |
| Deficit | (160,346) | (23,796) | (184,142) | (78,780) | (23,722) | (102,502) |
| Accumulated other comprehensive income | 80,526 | - | 80,526 | 93,039 | - | 93,039 |
| Total equity | <u>311,782</u> | <u>(23,796)</u> | <u>287,986</u> | <u>390,533</u> | <u>(23,722)</u> | <u>366,811</u> |
| Total equity and liabilities | <u>1,503,062</u> | <u>85,740</u> | <u>1,588,802</u> | <u>1,504,910</u> | <u>91,408</u> | <u>1,596,318</u> |

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

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| | 3-month period ended June 30, 2019 | | | 3-month period ended July 1, 2018 | | |
|---|------------------------------------|-------------------|----------|-----------------------------------|-------------------|---------|
| | IAS 17 | Transition effect | IFRS 16 | IAS 17 | Transition effect | IFRS 16 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenue | 365,674 | - | 365,674 | 338,773 | - | 338,773 |
| Expenses | | | | | | |
| Cost of sales | 326,819 | (1,096) | 325,723 | 304,924 | (1,319) | 303,605 |
| Selling, general and administrative expenses | 25,457 | (87) | 25,370 | 20,068 | (20) | 20,048 |
| Loss on sale of non-financial assets | 6 | - | 6 | 7 | - | 7 |
| Restructuring costs, net | 232 | - | 232 | 1 | - | 1 |
| Operating income | 13,160 | 1,183 | 14,343 | 13,773 | 1,339 | 15,112 |
| Interest expense | 10,163 | 1,270 | 11,433 | 12,498 | 1,339 | 13,837 |
| Other (income) expense | 864 | - | 864 | (779) | - | (779) |
| Income before income taxes | 2,133 | (87) | 2,046 | 2,054 | - | 2,054 |
| Income taxes | 1,114 | - | 1,114 | 410 | - | 410 |
| Net income for the period | 1,019 | (87) | 932 | 1,644 | - | 1,644 |
| Other comprehensive income (loss) | | | | | | |
| Items that will not be reclassified to net income: | | | | | | |
| Remeasurements of pensions | (52,439) | | (52,439) | 865 | - | 865 |
| Remeasurements of post-retirement benefits | (4,201) | - | (4,201) | (216) | - | (216) |
| Items that may be subsequently reclassified to net income: | | | | | | |
| Cumulative translation adjustment | (6,123) | - | (6,123) | 6,066 | - | 6,066 |
| Total other comprehensive income (loss) for the period | (62,763) | - | (62,763) | 6,715 | - | 6,715 |
| Comprehensive income (loss) for the period | (61,744) | (87) | (61,831) | 8,359 | - | 8,359 |

| | 6-month period ended June 30, 2019 | | | 6-month period ended July 1, 2018 | | |
|--|------------------------------------|-------------------|----------|-----------------------------------|-------------------|---------|
| | IAS 17 | Transition effect | IFRS 16 | IAS 17 | Transition effect | IFRS 16 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenue | 716,651 | - | 716,651 | 662,508 | - | 662,508 |
| Expenses | | | | | | |
| Cost of sales | 648,148 | (2,317) | 645,831 | 592,293 | (2,636) | 589,657 |
| Selling, general and administrative expenses | 47,606 | (180) | 47,426 | 43,021 | (39) | 42,982 |
| (Gain) loss on sale of non-financial assets | 6 | - | 6 | (208) | - | (208) |
| Restructuring costs, net | 297 | - | 297 | 1 | - | 1 |
| Operating income | 20,594 | 2,497 | 23,091 | 27,401 | 2,675 | 30,076 |
| Interest expense | 20,159 | 2,571 | 22,730 | 23,811 | 2,675 | 26,486 |
| Other expense | 1,713 | - | 1,713 | 1,009 | - | 1,009 |
| Income (loss) before income taxes | (1,278) | (74) | (1,352) | 2,581 | - | 2,581 |
| Income taxes | 928 | - | 928 | (640) | - | (640) |
| Net income (loss) for the period | (2,206) | (74) | (2,280) | 3,221 | - | 3,221 |
| Other comprehensive income (loss) | | | | | | |
| Items that will not be reclassified to net income (loss): | | | | | | |
| Remeasurements of pensions | (50,412) | | (50,412) | 17,671 | - | 17,671 |
| Remeasurements of post-retirement benefits | (6,331) | - | (6,331) | 422 | - | 422 |
| Items that may be subsequently reclassified to net income (loss): | | | | | | |
| Cumulative translation adjustment | (12,513) | - | (12,513) | 14,910 | - | 14,910 |
| Total other comprehensive income (loss) for the period | (69,256) | - | (69,256) | 33,003 | - | 33,003 |
| Comprehensive income (loss) for the period | (71,462) | (74) | (71,536) | 36,224 | - | 36,224 |

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

| | 6-month period ended June 30, 2019 | | | 6-month period ended July 1, 2018 | | |
|--|------------------------------------|-------------------|-----------------|-----------------------------------|-------------------|-----------------|
| | IAS 17 | Transition effect | IFRS 16 | IAS 17 | Transition effect | IFRS 16 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Cash flows from (used in) operating activities | | | | | | |
| Net income (loss) for the period | (2,206) | (74) | (2,280) | 3,221 | - | 3,221 |
| Items not affecting cash | | | | | | |
| Depreciation | 23,127 | 5,769 | 28,896 | 25,383 | 4,863 | 30,246 |
| Amortization | 732 | - | 732 | 733 | - | 733 |
| Loss (gain) on sale of property, plant and equipment | (5) | - | (5) | 434 | - | 434 |
| Change in amortized cost of Partnership units liability | 3,094 | - | 3,094 | 716 | - | 716 |
| Foreign exchange loss (gain) | (1,658) | - | (1,658) | 657 | - | 657 |
| Change in fair value of derivatives | 277 | - | 277 | (364) | - | (364) |
| Interest expense | 20,159 | 2,571 | 22,730 | 23,811 | 2,675 | 26,486 |
| Pension and post-retirement benefits | 5,201 | - | 5,201 | 6,919 | - | 6,919 |
| Provisions | 673 | - | 673 | 61 | - | 61 |
| Income taxes | 928 | - | 928 | (640) | - | (640) |
| Loss (gain) on sale of non-financial assets | 6 | - | 6 | (208) | - | (208) |
| Total items not affecting cash | 52,534 | 8,340 | 60,874 | 57,502 | 7,538 | 65,040 |
| Net change in non-cash working capital | (44,806) | - | (44,806) | (40,900) | - | (40,900) |
| Contributions to pension and post-retirement benefit plans | (7,153) | - | (7,153) | (8,139) | - | (8,139) |
| Provisions paid | (472) | - | (472) | (247) | - | (247) |
| Income tax payments | (1,597) | - | (1,597) | (1,349) | - | (1,349) |
| Net cash from (used in) operating activities | (3,700) | 8,266 | 4,566 | 10,088 | 7,538 | 17,626 |
| Cash flows from (used in) investing activities | | | | | | |
| Purchases of property, plant and equipment | (12,280) | - | (12,280) | (28,318) | - | (28,318) |
| Purchases of property, plant and equipment related to the TAD2 project | (42,208) | - | (42,208) | - | - | - |
| Interest paid on credit facilities related to the TAD2 project | (1,453) | - | (1,453) | - | - | - |
| Government assistance received | - | - | - | 11 | - | 11 |
| Purchases of software | (1,334) | - | (1,334) | (1,025) | - | (1,025) |
| Proceeds on sale of property, plant and equipment | 5 | - | 5 | 324 | - | 324 |
| Net cash used in investing activities | (57,270) | - | (57,270) | (29,008) | - | (29,008) |
| Cash flows from (used in) financing activities | | | | | | |
| Proceeds from long-term debt | 35,188 | - | 35,188 | 195,113 | - | 195,113 |
| Repayment of long-term debt | (7,286) | - | (7,286) | (127,108) | - | (127,108) |
| Payment of deferred financing fees | (353) | - | (353) | (3,917) | - | (3,917) |
| Payment of lease liabilities | - | (8,266) | (8,266) | - | (7,538) | (7,538) |
| Interest paid on long-term debt | (13,947) | - | (13,947) | (16,876) | - | (16,876) |
| Distributions and advances paid, net | (5,544) | - | (5,544) | (12,765) | - | (12,765) |
| Net cash from financing activities | 8,058 | (8,266) | (208) | 34,447 | (7,538) | 26,909 |
| Effect of exchange rate changes on cash and cash equivalents held in foreign currency | (1,537) | - | (1,537) | 479 | - | 479 |
| Increase (decrease) in cash and cash equivalents during the period | (54,449) | - | (54,449) | 16,006 | - | 16,006 |
| Cash and cash equivalents - Beginning of period | 169,884 | - | 169,884 | (214) | - | (214) |
| Cash and cash equivalents - End of period | 115,435 | - | 115,435 | 15,792 | - | 15,792 |

Kruger Products L.P.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 6-month periods ended June 30, 2019 and July 1, 2018

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

| | 3-month period ended June 30, 2019 | | | 3-month period ended July 1, 2018 | | |
|---|------------------------------------|-------------------|----------------|-----------------------------------|-------------------|----------------|
| | IAS 17 | Transition effect | IFRS 16 | IAS 17 | Transition effect | IFRS 16 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Segment revenue | | | | | | |
| Consumer | 299,663 | - | 299,663 | 279,190 | - | 279,190 |
| AFH | 66,011 | - | 66,011 | 59,583 | - | 59,583 |
| Other | - | - | - | - | - | - |
| Total segment revenue | <u>365,674</u> | <u>-</u> | <u>365,674</u> | <u>338,773</u> | <u>-</u> | <u>338,773</u> |
| Segment Adjusted EBITDA | | | | | | |
| Consumer | 32,851 | 2,503 | 35,354 | 31,185 | 3,118 | 34,303 |
| AFH | (4,583) | 1,538 | (3,045) | (3,077) | 701 | (2,376) |
| Other | (820) | - | (820) | (1,321) | - | (1,321) |
| Total Segment Adjusted EBITDA | <u>27,448</u> | <u>4,041</u> | <u>31,489</u> | <u>26,787</u> | <u>3,819</u> | <u>30,606</u> |
| Depreciation and amortization | 12,028 | 2,858 | 14,886 | 13,007 | 2,480 | 15,487 |
| Interest expense | 10,163 | 1,270 | 11,433 | 12,498 | 1,339 | 13,837 |
| Change in amortized cost of | | | | | | |
| Partnership units liability | 1,547 | - | 1,547 | (1,962) | - | (1,962) |
| Change in fair value of derivatives | 277 | - | 277 | 285 | - | 285 |
| Loss on sale of non-financial assets | 6 | - | 6 | 7 | - | 7 |
| Restructuring costs, net | 232 | - | 232 | - | - | - |
| Foreign exchange loss (gain) | (960) | - | (960) | 898 | - | 898 |
| One-time consulting costs related to operational transformation initiatives | 1,283 | - | 1,283 | - | - | - |
| M&A related costs | 739 | - | 739 | - | - | - |
| Income before income taxes | 2,133 | (87) | 2,046 | 2,054 | - | 2,054 |
| Income taxes | 1,114 | - | 1,114 | 410 | - | 410 |
| Net income | <u>1,019</u> | <u>(87)</u> | <u>932</u> | <u>1,644</u> | <u>-</u> | <u>1,644</u> |

| | 6-month period ended June 30, 2019 | | | 6-month period ended July 1, 2018 | | |
|---|------------------------------------|-------------------|----------------|-----------------------------------|-------------------|----------------|
| | IAS 17 | Transition effect | IFRS 16 | IAS 17 | Transition effect | IFRS 16 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Segment revenue | | | | | | |
| Consumer | 595,848 | - | 595,848 | 549,400 | - | 549,400 |
| AFH | 120,803 | - | 120,803 | 113,108 | - | 113,108 |
| Other | - | - | - | - | - | - |
| Total segment revenue | <u>716,651</u> | <u>-</u> | <u>716,651</u> | <u>662,508</u> | <u>-</u> | <u>662,508</u> |
| Segment Adjusted EBITDA | | | | | | |
| Consumer | 60,300 | 5,146 | 65,446 | 59,114 | 6,256 | 65,370 |
| AFH | (12,749) | 3,120 | (9,629) | (3,408) | 1,282 | (2,126) |
| Other | (778) | - | (778) | (1,962) | - | (1,962) |
| Total Segment Adjusted EBITDA | <u>46,773</u> | <u>8,266</u> | <u>55,039</u> | <u>53,744</u> | <u>7,538</u> | <u>61,282</u> |
| Depreciation and amortization | 23,859 | 5,769 | 29,628 | 26,116 | 4,863 | 30,979 |
| Interest expense | 20,159 | 2,571 | 22,730 | 23,811 | 2,675 | 26,486 |
| Change in amortized cost of | | | | | | |
| Partnership units liability | 3,094 | - | 3,094 | 716 | - | 716 |
| Change in fair value of derivatives | 277 | - | 277 | (364) | - | (364) |
| (Gain) loss on sale of property, plant and equipment | (5) | - | (5) | 434 | - | 434 |
| (Gain) loss on sale of non-financial assets | 6 | - | 6 | (208) | - | (208) |
| Restructuring costs, net | 297 | - | 297 | 1 | - | 1 |
| Foreign exchange loss (gain) | (1,658) | - | (1,658) | 657 | - | 657 |
| One-time consulting costs related to operational transformation initiatives | 1,283 | - | 1,283 | - | - | - |
| M&A related costs | 739 | - | 739 | - | - | - |
| Income (loss) before income taxes | (1,278) | (74) | (1,352) | 2,581 | - | 2,581 |
| Income taxes | 928 | - | 928 | (640) | - | (640) |
| Net income (loss) | <u>(2,206)</u> | <u>(74)</u> | <u>(2,280)</u> | <u>3,221</u> | <u>-</u> | <u>3,221</u> |