



**KRUGER PRODUCTS L.P.**

**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENT**

**FOR THE 3-MONTH AND 6-MONTH PERIODS ENDED JULY 1, 2018  
AND JUNE 25, 2017**

# Kruger Products L.P.

## Unaudited Condensed Consolidated Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	July 1, 2018	December 31, 2017
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 15)	20,007	8,837
Trade and other receivables	142,896	113,194
Receivables from related parties (note 12)	170	85
Current portion of advances to partners (note 10)	6,199	1,928
Inventories	212,152	192,394
Income tax recoverable	513	522
Prepaid expenses	10,300	8,007
	<u>392,237</u>	<u>324,967</u>
<b>Non-current assets</b>		
Advances to partners (note 10)	-	4,489
Property, plant and equipment (note 6)	777,368	761,610
Other long-term assets	10	6,331
Goodwill	160,939	160,939
Intangible assets	15,619	15,327
Deferred income taxes	29,182	26,092
	<u>1,375,355</u>	<u>1,299,755</u>
<b>Total assets</b>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 15)	4,215	9,051
Trade and other payables	192,755	190,698
Payables to related parties (note 12)	3,189	2,596
Income tax payable	661	498
Distributions payable (notes 10 and 12)	10,529	10,382
Current portion of provisions (note 8)	630	333
Current portion of long-term debt (notes 9 and 14)	204,523	190,947
	<u>416,502</u>	<u>404,505</u>
<b>Non-current liabilities</b>		
Long-term debt (notes 9 and 14)	288,282	225,368
Provisions (note 8)	5,598	5,973
Pensions (note 7)	103,002	119,558
Post-retirement benefits (note 7)	60,598	60,457
	<u>873,982</u>	<u>815,861</u>
<b>Liabilities to non-unitholders</b>		
Current portion of Partnership units liability (note 10)	1,928	1,928
Long-term portion of Partnership units liability (note 10)	157,169	158,381
	<u>159,097</u>	<u>160,309</u>
<b>Total Partnership units liability</b>		
	<u>1,033,079</u>	<u>976,170</u>
<b>Total liabilities</b>		
<b>Equity</b>		
Partnership units (note 10)	366,344	356,240
Deficit	(106,065)	(99,742)
Accumulated other comprehensive income	81,997	67,087
	<u>342,276</u>	<u>323,585</u>
<b>Total equity</b>		
<b>Total equity and liabilities</b>		
	<u>1,375,355</u>	<u>1,299,755</u>
<b>Subsequent events (notes 9 and 10)</b>		

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 July 1, 2018 and June 25, 2017**

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended July 1, 2018 \$	3-month period ended June 25, 2017 \$	6-month period ended July 1, 2018 \$	6-month period ended June 25, 2017 \$
<b>Revenue (note 12)</b>	338,773	314,388	662,508	603,659
<b>Expenses</b>				
Cost of sales (note 12)	304,924	267,077	592,293	511,331
Selling, general and administrative expenses (note 12)	20,068	22,520	43,021	45,741
(Gain) loss on sale of non-financial assets	7	(81)	(208)	(68)
Restructuring costs, net (note 8)	1	-	1	11
<b>Operating income</b>	13,773	24,872	27,401	46,644
Interest expense	12,498	10,757	23,811	21,021
Other (income) expense (note 5)	(779)	2,018	1,009	3,963
<b>Income before income taxes</b>	2,054	12,097	2,581	21,660
<b>Income taxes (note 11)</b>	410	2,150	(640)	4,764
<b>Net income for the period</b>	1,644	9,947	3,221	16,896
<b>Other comprehensive income (loss)</b>				
<b>Items that will not be reclassified to net income:</b>				
Remeasurements of pensions	865	(12,656)	17,671	(15,223)
Remeasurements of post-retirement benefits	(216)	(2,317)	422	(3,201)
<b>Items that may be subsequently reclassified to net income:</b>				
Cumulative translation adjustment	6,066	(2,580)	14,910	(3,345)
<b>Total other comprehensive income (loss) for the period</b>	6,715	(17,553)	33,003	(21,769)
<b>Comprehensive income (loss) for the period</b>	8,359	(7,606)	36,224	(4,873)

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 6-month periods ended July 1, 2018 and June 25, 2017

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

	Partnership units		Deficit \$	Accumulated other comprehensive income \$	Total equity \$
	#	\$			
<b>As of January 1, 2017</b>	56,376,788	336,576	(42,792)	88,849	382,633
Distributions payable (note 10)	-	-	(10,259)	-	(10,259)
Distributions paid (note 10)	-	-	(10,203)	-	(10,203)
Fair value adjustment (note 10)	-	312	(312)	-	-
Change in actuarial loss on pension	-	-	(15,223)	-	(15,223)
Change in actuarial loss on post-retirement benefits	-	-	(3,201)	-	(3,201)
Cumulative translation adjustment	-	-	-	(3,345)	(3,345)
Net income for the period	-	-	16,896	-	16,896
Issuance of partnership units (note 10)	618,379	9,446	-	-	9,446
<b>As of June 25, 2017</b>	<b>56,995,167</b>	<b>346,334</b>	<b>(65,094)</b>	<b>85,504</b>	<b>366,744</b>
<b>As of January 1, 2018</b>	57,675,039	356,240	(99,742)	67,087	323,585
Change in accounting policy (note 3(i))	-	-	(6,331)	-	(6,331)
<b>Restated total equity as of January 1, 2018</b>	<b>57,675,039</b>	<b>356,240</b>	<b>(106,073)</b>	<b>67,087</b>	<b>317,254</b>
Distributions payable (note 10)	-	-	(10,529)	-	(10,529)
Distributions paid (note 10)	-	-	(10,447)	-	(10,447)
Fair value adjustment (note 10)	-	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 10)	818,962	9,774	-	-	9,774
<b>As of July 1, 2018</b>	<b>58,494,001</b>	<b>366,344</b>	<b>(106,065)</b>	<b>81,997</b>	<b>342,276</b>

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

# Kruger Products L.P.

## Unaudited Condensed Consolidated Statement of Cash Flows

For the 6-month periods ended July 1, 2018 and June 25, 2017

(tabular amounts are in thousands of Canadian dollars)

	6-month period ended July 1, 2018 \$	6-month period ended June 25, 2017 \$
<b>Cash flows from (used in) operating activities</b>		
Net income for the period	3,221	16,896
Items not affecting cash		
Depreciation	25,383	24,064
Amortization	733	489
Loss (gain) on sale of property, plant and equipment	434	(2)
Change in amortized cost of Partnership units liability (note 5)	716	5,060
Foreign exchange loss (gain) (note 5)	657	(1,097)
Change in fair value of derivatives (note 5)	(364)	-
Interest expense	23,811	21,021
Pension and post-retirement benefits (note 7)	6,919	5,026
Provisions (note 8)	61	338
Income taxes	(640)	4,764
Gain on sale of non-financial assets	(208)	(68)
Total items not affecting cash	57,502	59,595
Net change in non-cash working capital (note 16)	(40,900)	(31,089)
Contributions to pension and post-retirement benefit plans	(8,139)	(7,671)
Provisions paid (note 8)	(247)	(450)
Income tax payments	(1,349)	(3,054)
<b>Net cash from operating activities</b>	<b>10,088</b>	<b>34,227</b>
<b>Cash flows from (used in) investing activities</b>		
Purchases of property, plant and equipment	(28,318)	(38,245)
Capitalized interest paid	-	(381)
Government assistance received	11	2,949
Purchases of software	(1,025)	-
Proceeds on sale of property, plant and equipment	324	1,170
<b>Net cash used in investing activities</b>	<b>(29,008)</b>	<b>(34,507)</b>
<b>Cash flows from (used in) financing activities (note 17)</b>		
Proceeds from long-term debt	195,113	26,770
Repayment of long-term debt	(127,108)	(501)
Payment of deferred financing fees	(3,917)	(12)
Interest paid on long-term debt	(16,876)	(11,111)
Distributions and advances paid, net (note 10)	(12,765)	(17,729)
<b>Net cash from (used in) financing activities</b>	<b>34,447</b>	<b>(2,583)</b>
<b>Effect of exchange rate changes on cash and cash equivalents held in foreign currency</b>	<b>479</b>	<b>(87)</b>
<b>Increase (decrease) in cash and cash equivalents during the period</b>	<b>16,006</b>	<b>(2,950)</b>
<b>Cash and cash equivalents - Beginning of period (note 15)</b>	<b>(214)</b>	<b>27,504</b>
<b>Cash and cash equivalents - End of period (note 15)</b>	<b>15,792</b>	<b>24,554</b>

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 July 1, 2018 and June 25, 2017**

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

### **1 General information**

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

### **2 Basis of presentation**

These 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, 2017.

The 3-month period ended July 1, 2018 represents the 91 day period from April 2 to July 1, 2018 and the 3-month period ended June 25, 2017 represents the 91 day period from March 27 to June 25, 2017. The 6-month period ended July 1, 2018 represents the 182 day period from January 1 to July 1, 2018 and the 6-month period ended June 25, 2017 represents the 176 day period from January 1 to June 25, 2017.

These unaudited condensed consolidated financial statements were approved by the board of directors of KPGP on August 8, 2018.

### **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 consolidated financial statements of the Partnership for the year ended December 31, 2017 and have been applied to all periods presented except the following accounting policies, which were adopted effective January 1, 2018.

- (i) IFRS 15, Revenue from Contracts with Customers, specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with some informative, relevant disclosures. The Partnership adopted the standard 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. The application of IFRS 15 resulted in a change in the revenue recognition related to dispensers and related revenue. A transitional adjustment of \$6.3 million, to reduce the balance related to the dispensers recorded in Other long-term assets at December 31, 2017, was recognized in the deficit on the date of initial application, January 1, 2018. Refer to the unaudited condensed consolidated statement of changes in equity for the restated total equity as of January 1, 2018.

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

Revenue is measured based on the price specified in the sales contract and is net of discounts, rebates and allowances. Reductions to revenue for expected and actual payments to customers for rebates and allowances are based on actual expenses incurred during the period, on estimates of what is due to customers for estimated credits earned during the period and any adjustments for credits based on actual activity. Revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A contract liability is recognized for

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

### For the 6-month periods ended July 1, 2018 and June 25, 2017

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

expected discounts, rebates and allowances payable to customers in relation to sales made in the reporting period. The contract liability is included in trade and other payables.

- (ii) IFRS 9, Financial Instruments. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard had no significant impact on the unaudited condensed consolidated financial statements.

#### *(i) Investments and other financial assets*

##### *Classification*

Beginning January 1, 2018, the Partnership classifies its financial assets in the following measurement categories, as disclosed in note 14:

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

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

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

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

##### *Measurement*

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

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

##### *Debt instruments*

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

- *Amortized cost:* Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other income (expense), together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the unaudited condensed consolidated statement of comprehensive income (loss).

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 6-month periods ended July 1, 2018 and June 25, 2017

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

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

### *Equity instruments*

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

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

### *Impairment*

Beginning January 1, 2018, the Partnership assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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

- (iii) IFRS 2, Share-based Payments. In June 2016, the IASB issued an amendment to address (i) certain issues related to the accounting for cash settled awards, and (ii) the accounting for equity settled awards that include a "net settlement" feature in respect of employee withholding taxes. The adoption of this standard had no impact on the unaudited condensed consolidated financial statements.
- (iv) IFRIC 22, Foreign Currency Transactions and Advance Consideration. In November 2016, the IFRS Interpretation Committee issued an interpretation on how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The adoption of this standard had no significant impact on the unaudited condensed consolidated financial statements.
- (v) IAS 40, Investment Property. In December 2016, the IASB issued an amendment to clarify when assets are transferred to, or from, investment properties. The amendment clarified that to transfer to, or from, investment properties there must be a change in use. This change must be supported by evidence. A change in intention, in isolation, is not enough to support a transfer. The adoption of this standard had no impact on the unaudited condensed consolidated financial statements.



# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

### For the 6-month periods ended July 1, 2018 and June 25, 2017

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(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, 2019 and have not been early adopted have been discussed in the annual consolidated financial statements for the year ended December 31, 2017, except for the following:

- (i) IFRS 16, Leases. In January 2016, the IASB issued IFRS 16, Leases which replaces the current guidance in IAS 17, Leases. IFRS 16 requires lessees to recognize a right-of-use asset and a lease liability reflecting future lease payments for virtually all lease contracts. IFRS 16 must be applied to an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2019, with early adoption permitted. Management can elect to adopt IFRS 16 using either the full retrospective approach or the modified retrospective approach.

Management has performed a preliminary assessment of IFRS 16 adoption and expects a significant impact on the consolidated financial statements. The right-of-use asset and lease liability are expected to be material to the consolidated statement of financial position. There is expected to be a change in presentation on the consolidated statement of comprehensive income (loss) and an increase in Adjusted EBITDA, while there is not expected to be any material impact on net income or cash flow.

Management continues to evaluate the potential implications on data systems, internal controls over financial reporting, information technology, business processes, and financing and compensation arrangements. Management is also evaluating the transition approach it will apply and whether it will use the optional exemptions or practical expedients under the standard. Additional details, including the practical expedients elected and estimated quantitative impact on the consolidated financial statements are expected to be disclosed before the adoption of IFRS 16.

- (ii) 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 would be annual periods beginning on or after January 1, 2019, with early adoption permitted. Management is evaluating the amended standard and has not yet determined the impact on the unaudited condensed consolidated financial statements.
- (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 would be annual periods beginning on or after January 1, 2019, 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 judgement applied by management that most significantly affect the unaudited condensed consolidated financial statements are the same as the ones that applied to the audited consolidated financial statements for the year ended December 31, 2017.

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 6-month periods ended July 1, 2018 and June 25, 2017

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

### 5 Other (income) expense

	3-month period ended July 1, 2018	3-month period ended June 25, 2017	6-month period ended July 1, 2018	6-month period ended June 25, 2017
	\$	\$	\$	\$
Foreign exchange (gain) loss	898	(513)	657	(1,097)
Change in amortized cost of Partnership units liability	(1,962)	2,531	716	5,060
Change in fair value of derivatives	285	-	(364)	-
	<u>(779)</u>	<u>2,018</u>	<u>1,009</u>	<u>3,963</u>

### 6 Property, plant and equipment

	Land \$	Buildings \$	Machinery and equipment \$	Assets under construction or development \$	Total \$
<b>As of January 1, 2018</b>					
Cost	37,968	195,832	1,127,282	19,269	1,380,351
Accumulated depreciation and impairments	-	(84,897)	(533,844)	-	(618,741)
<b>Net book value as of January 1, 2018</b>	37,968	110,935	593,438	19,269	761,610
Additions	-	-	-	21,448	21,448
Disposals	(116)	-	(434)	-	(550)
Government assistance	-	-	(11)	-	(11)
Transfers	28	369	13,477	(13,874)	-
Depreciation	-	(2,516)	(20,463)	-	(22,979)
Exchange differences	71	2,650	15,045	84	17,850
<b>As of July 1, 2018</b>	<u>37,951</u>	<u>111,438</u>	<u>601,052</u>	<u>26,927</u>	<u>777,368</u>
<b>As of July 1, 2018</b>					
Cost	37,951	199,528	1,160,034	26,927	1,424,440
Accumulated depreciation and impairment	-	(88,090)	(558,982)	-	(647,072)
<b>Net book value as of July 1, 2018</b>	<u>37,951</u>	<u>111,438</u>	<u>601,052</u>	<u>26,927</u>	<u>777,368</u>

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## Notes to Unaudited Condensed Consolidated Financial Statements

For the 6-month periods ended July 1, 2018 and June 25, 2017

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

### 7 Pensions and post-retirement benefits

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

Assumptions	Pensions		Post-retirement benefit plans	
	July 1, 2018	December 31, 2017	July 1, 2018	December 31, 2017
	%	%	%	%
Discount rate - accrued benefit obligation	3.41	3.36	3.41	3.36
Rate of compensation increases	3.25 - 4.00	3.25 - 4.00		

The net benefit pension plan expense included the following components:

Net benefit plan expense	Pensions		Post-retirement benefit plans	
	3-month period ended July 1, 2018	3-month period ended June 25, 2017	3-month period ended July 1, 2018	3-month period ended June 25, 2017
	\$	\$	\$	\$
Current service cost	2,897	1,955	518	433
Interest cost	5,330	5,130	460	444
Expected return on plan assets	(4,349)	(4,347)	-	-
Administrative cost	160	125	-	-
	<u>4,038</u>	<u>2,863</u>	<u>978</u>	<u>877</u>

Net benefit plan expense	Pensions		Post-retirement benefit plans	
	6-month period ended July 1, 2018	6-month period ended June 25, 2017	6-month period ended July 1, 2018	6-month period ended June 25, 2017
	\$	\$	\$	\$
Current service cost	5,564	3,911	1,036	866
Interest cost	10,690	10,257	921	888
Expected return on plan assets	(8,713)	(8,692)	-	-
Administrative cost	319	249	-	-
	<u>7,860</u>	<u>5,725</u>	<u>1,957</u>	<u>1,754</u>

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## Notes to Unaudited Condensed Consolidated Financial Statements

For the 6-month periods ended July 1, 2018 and June 25, 2017

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

### 8 Provisions

	<b>Environmental and asset retirement obligations</b>	<b>Long-term incentives and DSUs</b>	<b>Restructuring</b>	<b>Total</b>
	\$	\$	\$	\$
	(a)	(b)		
<b>Provisions as of January 1, 2018</b>	5,191	1,062	53	6,306
<b>Current</b>	-	280	53	333
<b>Non-current</b>	5,191	782	-	5,973
<b>Provisions as of January 1, 2018</b>	5,191	1,062	53	6,306
Additional provisions	-	60	1	61
Paid during the period	-	(193)	(54)	(247)
Interest accretion	108	-	-	108
<b>Provisions as of July 1, 2018</b>	5,299	929	-	6,228
<b>Current</b>	-	630	-	630
<b>Non-current</b>	5,299	299	-	5,598

#### (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 \$8.1 million and \$10.7 million. The liability is estimated using a discounted cash flow with a discount rate of 4.165% (December 31, 2017 – 4.165%).

#### (b) Long-term incentives

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 July 1, 2018, DSUs of \$0.02 million were recorded (December 31, 2017 – nil).

### 9 Long-term debt

#### a) Senior Unsecured Notes

On April 24, 2018, the Partnership issued \$125 million in an aggregate principal amount of 6.0% senior unsecured notes due April 24, 2025 (the Senior Unsecured Notes) through a private placement. Interest on the

# 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)

Senior Unsecured Notes is payable in equal instalments on April 24 and October 24 of each year, commencing October 24, 2018. The Partnership may, at its option, redeem all or part of the Senior Unsecured Notes at any time prior to April 24, 2021 at an applicable redemption premium and on or after April 24, 2021 at fixed redemption prices plus, in each case, accrued and unpaid interest, if any, to the applicable redemption date. If the Partnership undergoes a change in control, it will be required to offer to purchase the Senior Unsecured Notes.

The Senior Unsecured Notes include an early repayment option. The Partnership has determined that the early repayment option is an embedded derivative that is not closely related to the Senior Unsecured Notes. Accordingly, the embedded derivative has been bifurcated from the Senior Unsecured Notes. The embedded derivative is recorded at its fair value with changes in fair value included in interest expense in the unaudited condensed consolidated statement of comprehensive income (loss). An asset of \$0.01 million has been recorded in Other long-term assets in the unaudited condensed consolidated statement of financial position as of July 1, 2018 to record the embedded derivative at its fair value.

The Senior Unsecured Notes are senior unsecured obligations of the Partnership. The Senior Unsecured Notes rank senior in right of payment to all existing and future subordinated indebtedness of the Partnership and equal in right of payment to all indebtedness of the Partnership that is not subordinated in right of payment to the Senior Unsecured Notes other than any indebtedness of the Partnership, including the Senior Credit Facility and the Nordea Credit Facility, to the extent of the assets securing such indebtedness. The Senior Unsecured Notes are unconditionally guaranteed, jointly and severally, by the Restricted Subsidiaries.

The net proceeds from the offering were approximately \$122 million after deducting fees payable to the underwriters and related expenses. The Partnership used the net proceeds of the offering to reduce the outstanding balance under the Senior Credit Facility.

### b) Senior Credit Facility

On April 24, 2018, the Partnership entered into the sixth amended and restated credit agreement (the Senior Credit Agreement) related to its revolving credit facility (the Senior Credit Facility). The Senior Credit Facility was reduced to \$200.0 million from \$300.0 million. The borrowings under the Senior Credit Facility bear interest at a base rate of Canadian prime rate, U.S. base rate, banker's acceptance rates or LIBOR, plus a margin varying between 0.20% and 2.875% depending on the ratio of total net funded debt to EBITDA (as defined in the Credit Agreement) and the type of advance. The Senior Credit Agreement is for a five year period, maturing on April 24, 2023. The Senior Credit Agreement provides for certain restrictive undertakings and covenants to be complied with by the Partnership.

The Senior Credit Agreement is guaranteed by KPLP, KPGP, Kruger Products Real Estate Holdings Inc., Grupo Tissue De Mexico S de RL de CV, Kruger Products (USA) Inc., Kruger Products AFH G.P. Inc. and Kruger Products AFH L.P. and their respective subsidiaries (the Restricted Subsidiaries). The Partnership and the Restricted Subsidiaries provide first ranking security interests and hypothecs over their current and future tangible assets to secure the obligations under the Senior Credit Agreement including a pledge of 100% of the stock or ownership interest in all subsidiaries owned by the Partnership and the Restricted Subsidiaries.

### c) Nordea Credit Facility

On April 24, 2018, the Partnership entered into the fourth amended credit agreement (the Nordea Credit Agreement) related to its Nordea facility (the Nordea Credit Facility), in connection with amendments to the Senior Credit Facility. No significant changes were made to the Nordea Credit Facility.

# Kruger Products L.P.

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### d) Caisse Facility

As of July 1, 2018, the Caisse Facility, which matures on August 16, 2018, has been classified as short-term debt, resulting in a working capital deficit. Subsequent to July 1, 2018, the Partnership has received an extension to September 17, 2018 to repay the Caisse Facility under the same terms and conditions. Management fully expects to refinance the indebtedness prior to the maturity date, unless further extended with approval of the lender. The Partnership is in the final stages of obtaining refinancing of the Caisse Facility with a new lender. Subject to refinancing being obtained, the Partnership believes its cash flows generated from operations combined with its available cash and credit facilities provide sufficient funding to meet its obligations. There can be no assurance that refinancing can be obtained.

### 10 Distributions and Partnership units liability

	<b>Partnership units liability</b>
	<b>\$</b>
As of January 1, 2018	160,309
Change in amortized cost of Partnership units liability (note 5)	716
Tax Distributions	(1,928)
As of July 1, 2018	<u>159,097</u>

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

<b>Distribution Payment Date</b>	<b>6-month period ended July 1, 2018</b>			
	<b>Partnership unit distributions</b>	<b>Unit price</b>	<b>Issuance of Partnership units</b>	<b>Gross proceeds</b>
	<b>\$</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
January 15, 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>

  

<b>Distribution Payment Date</b>	<b>6-month period ended June 25, 2017</b>			
	<b>Partnership unit distributions</b>	<b>Unit price</b>	<b>Issuance of Partnership units</b>	<b>Gross proceeds</b>
	<b>\$</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
January 16, 2017	10,148	15.25	309,196	4,715
April 17, 2017	10,203	15.30	309,183	4,731
	<u>20,351</u>		<u>618,379</u>	<u>9,446</u>

On July 16, 2018, the Partnership paid a distribution of \$10.5 million to 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 506,143 Partnership units at a price of \$9.72. During the 6-month period ended July 1, 2018, a fair value adjustment of \$0.3 million was recorded to reflect the market value of the Partnership units issued.

Subsequent to July 1, 2018, the Partnership declared a distribution of \$10.6 million, payable on October 15, 2018.

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

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

	<b>6-month period ended June 25, 2017</b>			
	<b>Tax Distributions</b>	<b>Advances paid</b>	<b>Partnership unit distributions</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Paid to Kruger Inc. <sup>(a)</sup>	2,665	3,082	8,535	14,282
Paid to KPGP	-	-	2	2
Paid to KPT <sup>(b)</sup>	481	596	2,368	3,445
<b>Total paid</b>	<b>3,146</b>	<b>3,678</b>	<b>10,905</b>	<b>17,729</b>

(a) During the 6-month periods ended July 1, 2018 and June 25, 2017, Partnership unit distributions were paid to Kruger Inc. net of the DRIP reinvestment. During the 6-month period ended July 1, 2018, Kruger Inc.'s DRIP reinvestment was \$8.8 million (6-month period ended June 25, 2017 - \$8.5 million).

(b) During the 6-month periods ended July 1, 2018 and June 25, 2017, Partnership unit distributions were paid to KPT net of the DRIP reinvestment. During the 6-month period ended July 1, 2018, KPT's DRIP reinvestment was \$1.0 million (6-month period ended June 25, 2017 - \$0.9 million).

### *Tax Distributions*

On February 28, 2018, the Partnership declared a Tax Distribution of \$1.9 million, of which \$0.3 million was used to partially settle the advance to KPT recorded during the year ended December 31, 2017, and \$1.6 million was used to partially settle the advances to Kruger Inc. and KPGP recorded during the year ended December 31, 2017. The excess advances over the Tax Distributions in the amount of \$4.5 million, of which \$0.7 million are repayable by KPT and \$3.8 million are repayable by Kruger Inc. and KPGP, are due to the Partnership by March 31, 2019.

During the 6-month period ended July 1, 2018, pursuant to the Tax Distribution as defined in the Partnership Agreement, the Partnership made advances to its partners of \$1.7 million, of which \$0.3 million was used to pay the monthly tax instalment on behalf of KPT and the remaining was advanced to Kruger Inc. and KPGP. The advances are non-interest bearing and non-recourse in nature and will be settled when the Tax Distribution is declared annually.

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## Notes to Unaudited Condensed Consolidated Financial Statements

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### 11 Income taxes

The Partnership is not a tax paying entity for the 6-month periods ended July 1, 2018 and June 25, 2017. The income from the Partnership flows to the partners, Kruger Inc., KPGP, and KPT. However, the Partnership's subsidiaries Kruger Products (USA) Inc., K.T.G. (USA) Inc., TAD Canco Inc., Grupo Tissue de Mexico S de RL de CV and TAD Luxembourg S.A.R.L. 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 6-month period ended July 1, 2018 was (24.8)% (6-month period ended June 25, 2017 – 22.0%).

The components of income taxes were as follows:

	<b>3-month period ended July 1, 2018</b>	<b>3-month period ended June 25, 2017</b>	<b>6-month period ended July 1, 2018</b>	<b>6-month period ended June 25, 2017</b>
	\$	\$	\$	\$
Current tax expense	641	735	1,087	1,320
Deferred tax expense (recovery)	(231)	1,415	(1,727)	3,444
	<u>410</u>	<u>2,150</u>	<u>(640)</u>	<u>4,764</u>

### 12 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 July 1, 2018 were \$0.3 million (6-month period ended June 25, 2017 - \$0.7 million). Goods are sold based on the price lists in force and terms that would be available to third parties.

Purchases of goods and services from Kruger Inc. for the 6-month period ended July 1, 2018 were \$3.5 million (6-month period ended June 25, 2017 - \$3.7 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the 6-month period ended July 1, 2018 were \$17.3 million (6-month period ended June 25, 2017 - \$18.3 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 July 1, 2018, management fees of \$2.2 million (6-month period ended June 25, 2017 - \$2.1 million) were paid to Kruger Inc. for management services provided to the Partnership.



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Balances due to and from related parties were as follows:

	July 1, 2018 \$	December 31, 2017 \$
Receivables from Kruger Inc.	53	33
Receivables from subsidiaries of Kruger Inc.	117	-
Receivables from KPT	-	52
	<u>170</u>	<u>85</u>
	July 1, 2018 \$	December 31, 2017 \$
Payables to Kruger Inc.	1,621	999
Payables to subsidiaries of Kruger Inc.	1,474	1,597
Payables to KPT	94	-
	<u>3,189</u>	<u>2,596</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 July 1, 2018 and December 31, 2017. There were no loans outstanding with related parties as of July 1, 2018 and December 31, 2017.

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

	July 1, 2018 \$	December 31, 2017 \$
Distribution payable to Kruger Inc.	8,854	8,723
Distribution payable to KPGP	1	1
Distribution payable to KPT	1,674	1,658
	<u>10,529</u>	<u>10,382</u>

### 13 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.

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For the 6-month periods ended July 1, 2018 and June 25, 2017

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

- (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 sales of parent rolls by the Partnership to other tissue manufacturing companies primarily in the United States and also in Canada and sales of recycled fibre primarily to its parent company. It also includes certain corporate costs.

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, and (xi) one-time costs due to pension revaluations related to past service. "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.

	<b>3-month period ended July 1, 2018</b>			
	<b>Consumer</b>	<b>AFH</b>	<b>Other</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue from external customers	277,495	59,584	1,694	338,773
Segment Adjusted EBITDA	32,203	(3,102)	(2,314)	26,787
Depreciation and amortization				13,007
Interest expense				12,498
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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For the 6-month periods ended July 1, 2018 and June 25, 2017

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	<b>3-month period ended June 25, 2017</b>			
	<b>Consumer</b>	<b>AFH</b>	<b>Other</b>	<b>Total</b>
	\$	\$	\$	\$
Revenue from external customers	252,152	59,919	2,317	314,388
Segment Adjusted EBITDA	34,902	2,333	121	37,356
Depreciation and amortization				12,565
Interest expense				10,757
Change in amortized cost of Partnership units liability				2,531
Gain on sale of non-financial assets				(81)
Foreign exchange gain				(513)
Income before income taxes				12,097
Income taxes				2,150
Net income				9,947

	<b>6-month period ended July 1, 2018</b>			
	<b>Consumer</b>	<b>AFH</b>	<b>Other</b>	<b>Total</b>
	\$	\$	\$	\$
Revenue from external customers	545,191	113,109	4,208	662,508
Segment Adjusted EBITDA	62,074	(3,433)	(4,897)	53,744
Depreciation and amortization				26,116
Interest expense				23,811
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

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	<b>6-month period ended June 25, 2017</b>			
	<b>Consumer</b>	<b>AFH</b>	<b>Other</b>	<b>Total</b>
	\$	\$	\$	\$
Revenue from external customers	491,079	108,593	3,987	603,659
Segment Adjusted EBITDA	67,874	2,988	276	71,138
Depreciation and amortization				24,553
Interest expense				21,021
Change in amortized cost of Partnership units liability				5,060
Gain on sale of property, plant and equipment				(2)
Gain on sale of non-financial assets				(68)
Restructuring costs, net				11
Foreign exchange gain				(1,097)
Income before income taxes				21,660
Income taxes				4,764
Net income				16,896

### 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.

	<b>3-month period ended July 1, 2018</b>	<b>3-month period ended June 25, 2017</b>	<b>6-month period ended July 1, 2018</b>	<b>6-month period ended June 25, 2017</b>
	\$	\$	\$	\$
Revenue				
Canada	202,340	187,783	390,993	361,660
US	116,352	114,904	231,904	219,553
Mexico	20,081	11,701	39,611	22,446
	<u>338,773</u>	<u>314,388</u>	<u>662,508</u>	<u>603,659</u>

	<b>July 1, 2018</b>			
	<b>Canada</b>	<b>US</b>	<b>Mexico</b>	<b>Total</b>
	\$	\$	\$	\$
Property, plant and equipment	402,642	374,693	33	777,368
Goodwill	160,939	-	-	160,939
Intangible assets	15,619	-	-	15,619

	<b>December 31, 2017</b>			
	<b>Canada</b>	<b>US</b>	<b>Mexico</b>	<b>Total</b>
	\$	\$	\$	\$
Property, plant and equipment	397,133	364,435	42	761,610
Goodwill	160,939	-	-	160,939
Intangible assets	15,327	-	-	15,327

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## Notes to Unaudited Condensed Consolidated Financial Statements

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### 14 Financial instruments

#### *Classification of financial instruments*

As of July 1, 2018, the classification of the financial instruments, as well as their carrying amounts and fair values, was as follows:

	<b>Classification</b>	<b>Carrying amount \$</b>	<b>Fair Value \$</b>
Cash and cash equivalents	financial assets at amortized cost	20,007	20,007
Trade and other receivables	financial assets at amortized cost	142,896	142,896
Receivables from related parties	financial assets at amortized cost	170	170
Advances to partners	financial assets at amortized cost	6,199	6,199
Embedded derivative	embedded derivative at fair value through profit and loss	10	10
Bank indebtedness	financial liabilities at amortized cost	(4,215)	(4,215)
Trade payables	financial liabilities at amortized cost	(94,636)	(94,636)
Accrued expenses	financial liabilities at amortized cost	(56,401)	(56,401)
Contract liabilities	financial liabilities at amortized cost	(41,678)	(41,678)
Derivative liabilities	financial liabilities at fair value through profit and loss	(40)	(40)
Payables to related parties	financial liabilities at amortized cost	(3,189)	(3,189)
Distributions payable	financial liabilities at amortized cost	(10,529)	(10,529)
Long-term debt	financial liabilities at amortized cost	(492,805)	(498,343)
Partnership units liability	financial liabilities at amortized cost	(159,097)	(159,097)

The following table details the fair value hierarchy of financial instruments by level as of July 1, 2018:

	<b>Level 1 \$</b>	<b>Level 2 \$</b>	<b>Level 3 \$</b>	<b>Total \$</b>
Embedded derivative	-	10	-	10
Derivative liabilities	-	(40)	-	(40)
Long-term debt	(125,000)	(373,343)	-	(498,343)
Partnership units liability	-	-	(159,097)	(159,097)

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As of December 31, 2017, 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	8,837	8,837
Trade and other receivables	financial assets at amortized cost	113,194	113,194
Receivables from related parties	financial assets at amortized cost	85	85
Advances to partners	financial assets at amortized cost	6,417	6,417
Bank indebtedness	financial liabilities at amortized cost	(9,051)	(9,051)
Trade payables	financial liabilities at amortized cost	(104,558)	(104,558)
Accrued expenses	financial liabilities at amortized cost	(47,283)	(47,283)
Contract liabilities	financial liabilities at amortized cost	(38,493)	(38,493)
Derivative liabilities	financial liabilities at fair value through profit and loss	(364)	(364)
Payables to related parties	financial liabilities at amortized cost	(2,596)	(2,596)
Distributions payable	financial liabilities at amortized cost	(10,382)	(10,382)
Long-term debt	financial liabilities at amortized cost	(416,315)	(419,940)
Partnership units liability	financial liabilities at amortized cost	(160,309)	(160,309)

The following table details the fair value hierarchy of financial instruments by level as of December 31, 2017:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Derivative liabilities	-	(364)	-	(364)
Long-term debt	-	(419,940)	-	(419,940)
Partnership units liability	-	-	(160,309)	(160,309)

### Fair value

Cash and cash equivalents, trade and other receivables, receivables from related parties, advances to partners, 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 July 1, 2018, the fair values of the Notes, the Credit Facility, the Nordea Facility and the Caisse Facility were \$125.0 million, \$130.0 million, \$13.0 million and \$193.0 million (December 31, 2017 – nil, \$182.0 million, \$16.6 million and \$183.9 million), respectively, which approximates the current principal amount outstanding as the interest rate approximates current market interest rates. As of July 1, 2018, the fair values of the Quebec PM Loan and the Ontario Loan were \$34.7 million and \$2.6 million (December 31, 2017 – \$34.9 million and \$2.5 million), respectively, which are recorded on discounted future cash flows using a market rate of 4.4%, 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 \$0.4 million gain during the 6-month period ended July 1, 2018 (6-month period ended June 25, 2017 – nil), 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 \$0.2 million loss during the 6-month period ended July 1, 2018 (6-month period

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ended June 25, 2017 – nil), 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 July 1, 2018.

### *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 July 1, 2018, the Partnership had foreign exchange swaps outstanding of nil (December 31, 2017 – \$31.5 million) and foreign exchange forwards outstanding of nil (December 31, 2017 – \$19.0 million).

### *Liquidity risk*

As of July 1, 2018, the Caisse Facility, which matures on August 16, 2018, has been classified as short-term debt, resulting in a working capital deficit. Subsequent to July 1, 2018, the Partnership has received an extension to September 17, 2018 to repay the Caisse Facility under the same terms and conditions. Management fully expects to refinance the indebtedness prior to the maturity date, unless further extended with approval of the lender. The Partnership is in the final stages of obtaining refinancing of the Caisse Facility with a new lender. Subject to refinancing being obtained, the Partnership believes its cash flows generated from operations combined with its available cash and credit facilities provide sufficient funding to meet its obligations. There can be no assurance that refinancing can be obtained.

### *Interest rate risk*

The Partnership holds interest rate swaps, contracted to fix the interest rate on a notional amount of \$100.0 million at July 1, 2018 (December 31, 2017 – nil). The interest rate swaps are maturing during the 3-month period ended March 2020.

## 15 Cash and cash equivalents

	<b>July 1, 2018</b>	<b>December 31, 2017</b>
	<u>\$</u>	<u>\$</u>
Cash and cash equivalents	20,007	8,837
Bank indebtedness	<u>(4,215)</u>	<u>(9,051)</u>
Cash and cash equivalents in the unaudited condensed consolidated statement of cash flows	<u>15,792</u>	<u>(214)</u>

# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 6-month periods ended July 1, 2018 and June 25, 2017

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

### 16 Non-cash working capital

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

	<b>6-month period ended July 1, 2018</b>	<b>6-month period ended June 25, 2017</b>
	<b>\$</b>	<b>\$</b>
Decrease (increase) in trade and other receivables	(23,690)	14,761
Decrease (increase) in receivables from related parties	85	(88)
Increase in inventories	(19,811)	(11,126)
Increase in prepaid expenses	(2,260)	(3,683)
Decrease in other long-term assets	-	175
Decrease in income taxes	420	805
Increase (decrease) in trade and other payables	3,933	(32,083)
Increase in payables to related parties	423	150
	<u>(40,900)</u>	<u>(31,089)</u>



# Kruger Products L.P.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 6-month periods ended July 1, 2018 and June 25, 2017

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

### 17 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	Distributions payable	Long-term debt	Partnership units	Total
	\$	\$	\$	\$	\$	\$	\$
<b>As of January 1, 2017</b>	(5,465)	(1,149)	755	10,148	424,238	336,576	765,103
Proceeds from long-term debt	-	-	-	-	26,770	-	26,770
Repayment of long-term debt	-	-	-	-	(501)	-	(501)
Payment of deferred financing fees	-	-	-	-	(12)	-	(12)
Interest paid on long-term debt	-	(4,164)	(6,947)	-	-	-	(11,111)
Distributions and advances paid, net	(6,824)	-	-	(20,351)	-	9,446	(17,729)
Interest expense on long-term debt	-	3,444	13,057	-	1,965	-	18,466
Foreign exchange	-	-	113	-	(2,457)	-	(2,344)
Distributions declared	-	-	-	20,462	-	-	20,462
Tax Distributions declared	8,611	-	-	-	-	-	8,611
Fair value adjustment	-	-	-	-	-	312	312
<b>As of June 25, 2017</b>	<b>(3,678)</b>	<b>(1,869)</b>	<b>6,978</b>	<b>10,259</b>	<b>450,003</b>	<b>346,334</b>	<b>808,027</b>
<b>As of January 1, 2018</b>	<b>(6,417)</b>	<b>(623)</b>	<b>811</b>	<b>10,382</b>	<b>416,315</b>	<b>356,240</b>	<b>776,708</b>
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)
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)
Interest expense on long-term debt	-	3,444	14,390	-	2,982	-	20,816
Foreign exchange	-	-	311	-	9,887	-	10,198
Distributions declared	-	-	-	20,976	-	-	20,976
Tax Distributions declared	1,928	-	-	-	-	-	1,928
Fair value adjustment	-	-	-	-	-	330	330
<b>As of July 1, 2018</b>	<b>(6,199)</b>	<b>(580)</b>	<b>2,504</b>	<b>10,529</b>	<b>492,805</b>	<b>366,344</b>	<b>865,403</b>