



KRUGER PRODUCTS INC.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 3-MONTH AND 9-MONTH PERIODS ENDED SEPTEMBER 30, 2023
AND SEPTEMBER 30, 2022

Kruger Products Inc.

Unaudited Condensed Consolidated Statements of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	September 30, 2023	December 31, 2022
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	151,145	71,261
Restricted cash	11,082	7,145
Trade and other receivables	123,545	119,681
Receivables from related parties (note 8)	118	223
Inventories	255,835	286,566
Income tax recoverable	5,159	1,306
Prepaid expenses	8,564	5,640
	<u>555,448</u>	<u>491,822</u>
Non-current assets		
Property, plant and equipment	1,363,521	1,294,838
Right-of-use assets	72,996	81,715
Other long-term assets	6,213	27,554
Pensions (note 5)	104,124	83,080
Goodwill	152,021	152,021
Intangible assets	27,312	30,027
Deferred income taxes	16,256	95,711
Total assets	<u><u>2,297,891</u></u>	<u><u>2,256,768</u></u>
Liabilities		
Current liabilities		
Trade and other payables	350,401	279,425
Payables to related parties (note 8)	11,888	11,363
Dividends payable (note 8)	13,463	-
Distributions payable (note 8)	-	12,866
Current portion of long-term debt (note 6)	34,389	34,411
Current portion of lease liabilities	25,807	28,349
Current portion of long-term payable to related party (note 8)	5,800	5,800
Current portion of provisions	3,199	3,252
	<u>444,947</u>	<u>375,466</u>
Non-current liabilities		
Long-term debt (note 6)	1,065,594	1,077,297
Long-term lease liabilities	61,306	70,579
Long-term payable to related party (note 8)	35,016	39,042
Long-term provisions	3,053	3,076
Pensions (note 5)	19,395	20,847
Post-retirement benefits (note 5)	42,542	43,739
Liabilities to non-equityholders	<u>1,671,853</u>	<u>1,630,046</u>
Long-term portion of Partnership units liability (note 13)	<u>-</u>	<u>133,551</u>
Total liabilities	<u><u>1,671,853</u></u>	<u><u>1,763,597</u></u>
Equity		
Share capital (note 13)	661,856	-
Partnership units (note 13)	-	494,459
Deficit	(137,903)	(87,835)
Accumulated other comprehensive income	85,906	86,547
Equity attributable to Kruger Products	<u>609,859</u>	<u>493,171</u>
Non-controlling interest (note 6)	<u>16,179</u>	<u>-</u>
Total equity	<u><u>626,038</u></u>	<u><u>493,171</u></u>
Total equity and liabilities	<u><u>2,297,891</u></u>	<u><u>2,256,768</u></u>
Subsequent events (notes 6 and 8)		

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

Kruger Products Inc.
Unaudited Condensed Consolidated Statements of Income (Loss)
For the 3-month and 9-month periods ended September 30, 2023 and September 30, 2022

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended September 30, 2023	3-month period ended September 30, 2022	9-month period ended September 30, 2023	9-month period ended September 30, 2022
	\$	\$	\$	\$
Revenue (note 8)	473,399	427,026	1,390,693	1,223,264
Expenses				
Cost of sales (note 8)	386,375	394,596	1,171,111	1,130,940
Selling, general and administrative expenses (note 8)	39,973	30,060	116,890	94,036
Restructuring costs, net	77	139	1,300	1,007
Operating income (loss)	46,974	2,231	101,392	(2,719)
Interest expense and other finance costs	16,677	18,907	51,740	53,810
Foreign exchange loss (gain)	8,395	26,045	(870)	34,329
Income (loss) before income taxes	21,902	(42,721)	50,522	(90,858)
Current tax expense	515	547	1,943	1,385
Deferred tax expense (recovery)	6,553	(4,466)	68,860	(19,365)
Income tax expense (recovery) (note 7)	7,068	(3,919)	70,803	(17,980)
Net income (loss) including non- controlling interest	14,834	(38,802)	(20,281)	(72,878)
Net income attributable to non- controlling interest (note 6)	1,906	-	1,568	-
Net income (loss) attributable to Kruger Products	12,928	(38,802)	(21,849)	(72,878)

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

Kruger Products Inc.
Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)
For the 3-month and 9-month periods ended September 30, 2023 and September 30, 2022

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended September 30, 2023 \$	3-month period ended September 30, 2022 \$	9-month period ended September 30, 2023 \$	9-month period ended September 30, 2022 \$
Net income (loss) including non-controlling interest	14,834	(38,802)	(20,281)	(72,878)
Other comprehensive income (loss)				
Items that will not be reclassified to net income (loss):				
Remeasurements of pensions	18,227	(3,184)	(1,654)	191,741
Remeasurements of post-retirement benefits	2,932	(293)	13,122	13,758
Items that may be subsequently reclassified to net income (loss):				
Cumulative translation adjustment	4,611	17,110	(641)	21,495
Other comprehensive income	25,770	13,633	10,827	226,994
Total comprehensive income (loss) including non-controlling interest	40,604	(25,169)	(9,454)	154,116
Total comprehensive income attributable to non-controlling interest	1,906	-	1,568	-
Total comprehensive income (loss) attributable to Kruger Products	38,698	(25,169)	(11,022)	154,116

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

Kruger Products Inc.

Unaudited Condensed Consolidated Statements of Changes in Equity

For the 9-month periods ended September 30, 2023 and September 30, 2022

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

	Partnership units		Deficit \$	Accumulated other comprehensive income \$	Non-controlling interest \$	Total equity \$
	#	\$				
	As of January 1, 2022	68,333,895				
Distributions payable (note 8)	-	-	(12,674)	-	-	(12,674)
Distributions paid (note 8)	-	-	(24,883)	-	-	(24,883)
Fair value adjustment	-	25	(25)	-	-	-
Change in actuarial gain on pension	-	-	191,741	-	-	191,741
Change in actuarial gain on post-retirement benefits	-	-	13,758	-	-	13,758
Cumulative translation adjustment	-	-	-	21,495	-	21,495
Net loss	-	-	(72,878)	-	-	(72,878)
Issuance of partnership units (note 8)	2,078,875	21,731	-	-	-	21,731
As of September 30, 2022	<u>70,412,770</u>	<u>483,292</u>	<u>(22,084)</u>	<u>93,177</u>	<u>-</u>	<u>554,385</u>

	Share capital		Deficit \$	Accumulated other comprehensive income \$	Non-controlling interest (note 6) \$	Total equity \$
	#	\$				
	As of January 1, 2023	71,479,389				
Redemption of KPSI IQ Debenture by Kruger Inc. (note 6(a))	-	-	-	-	14,611	14,611
Extinguishment of Partnership units liability (note 13)	-	133,551	-	-	-	133,551
Dividends payable (note 8)	-	-	(13,463)	-	-	(13,463)
Dividends paid (note 8)	-	-	(26,324)	-	-	(26,324)
Fair value adjustment	-	(100)	100	-	-	-
Change in actuarial loss on pension	-	-	(1,654)	-	-	(1,654)
Change in actuarial gain on post-retirement benefits	-	-	13,122	-	-	13,122
Cumulative translation adjustment	-	-	-	(641)	-	(641)
Net loss	-	-	(21,849)	-	1,568	(20,281)
Issuance of common shares (note 8)	3,313,798	33,946	-	-	-	33,946
As of September 30, 2023	<u>74,793,187</u>	<u>661,856</u>	<u>(137,903)</u>	<u>85,906</u>	<u>16,179</u>	<u>626,038</u>

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

Kruger Products Inc.

Unaudited Condensed Consolidated Statements of Cash Flows

For the 9-month periods ended September 30, 2023 and September 30, 2022

(tabular amounts are in thousands of Canadian dollars)

	9-month period ended September 30, 2023	9-month period ended September 30, 2022
	\$	\$
Cash flows from (used in) operating activities		
Net loss including non-controlling interest	(20,281)	(72,878)
Items not affecting cash		
Depreciation	70,305	66,444
Amortization	3,271	3,277
Loss on sale of property, plant and equipment	1,098	18
Gain on disposal of leased assets	(488)	-
Foreign exchange loss (gain)	(870)	34,329
Interest expense and other finance costs	51,740	53,810
Pension and post-retirement benefits (note 5)	6,456	10,976
Provisions	2,704	1,267
Income tax expense (recovery) (note 7)	70,803	(17,980)
Loss on sale of non-financial assets	21	11
Total items not affecting cash	205,040	152,152
Net change in non-cash working capital (note 11)	64,267	(85,245)
Contributions to pension and post-retirement benefit plans	(7,439)	(12,554)
Provisions paid	(3,443)	(4,003)
Income tax payments, net	(2,008)	(1,757)
Net cash from (used in) operating activities	236,136	(24,285)
Cash flows from (used in) investing activities		
Purchases of property, plant and equipment	(14,673)	(27,311)
Purchases of property, plant and equipment and software related to the TAD Sherbrooke Project	(1,580)	(15,185)
Purchases of property, plant and equipment and software related to the Sherbrooke Expansion Project	(89,995)	(29,944)
Interest paid on credit facilities related to the Sherbrooke Expansion Project	(321)	(289)
Government assistance received	1,250	1,023
Purchases of software	(556)	(4,939)
Proceeds on sale of property, plant and equipment	2,465	1
Net cash used in investing activities	(103,410)	(76,644)
Cash flows from (used in) financing activities (note 12)		
Proceeds from long-term debt	87,543	248,326
Repayment of long-term debt	(69,906)	(135,718)
Payment of deferred financing fees	(405)	(2,818)
Payment of lease liabilities	(20,835)	(21,263)
Change in Restricted cash	(3,937)	(3,472)
Interest paid on long-term debt	(34,281)	(36,198)
Payment to related party (note 8)	(5,700)	-
Dividends paid, net (note 8)	(5,245)	-
Distributions and advances paid, net (note 8)	-	(15,764)
Net cash from (used in) financing activities	(52,766)	33,093
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(76)	1,440
Increase (decrease) in cash and cash equivalents during the period	79,884	(66,396)
Cash and cash equivalents - Beginning of period	71,261	148,519
Cash and cash equivalents - End of period	151,145	82,123

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

Kruger Products Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2023 and September 30, 2022

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

1 General information

Kruger Products Inc. (Kruger Products or the Company) operates as a corporation registered in the Province of Quebec, Canada whose shareholders are 13582141 Canada Inc. (ultimate parent and a wholly-owned subsidiary of Kruger Inc., through which it holds Kruger Products shares), KPGP Inc. (KPGP) and KP Tissue Inc. (KPT). Kruger Products manufactures, sells and distributes tissue products for household, industrial and commercial use. The company has plants in New Westminster, British Columbia; Crabtree, Quebec; Sherbrooke, Quebec; Gatineau, Quebec; Scarborough and Trenton, Ontario and Memphis, Tennessee. The company's headquarters are located in Mississauga, Ontario, Canada.

On January 1, 2023, Kruger Products L.P. (KPLP or the Partnership) undertook a corporate reorganization (the Reorganization) pursuant to which the Partnership sold and assigned to its wholly-owned subsidiary, Kruger Products, and Kruger Products purchased and assumed from the Partnership, in exchange for common shares, all of the properties, operations, assets and liabilities of the Partnership, and the Partnership was subsequently dissolved and wound-up into its partners. As a result of the Reorganization, Kruger Products, as the successor corporate entity to the Partnership, now operates the business previously operated by the Partnership. Additional information is disclosed in note 13.

2 Basis of presentation

These unaudited condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34 - Interim Financial Reporting as issued by the International Accounting Standards Board (IASB), and with interpretations of the International Financial Reporting Committee which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook - Accounting. These unaudited condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements of the Partnership for the year ended December 31, 2022.

The comparative period information provided consists of the assets, liabilities and results of operations of the Partnership. Additional information is disclosed in note 13.

These unaudited condensed consolidated financial statements were approved by the board of directors of Kruger Products on November 7, 2023.

3 Summary of significant accounting policies

The significant accounting policies used in the preparation of these unaudited condensed consolidated financial statements were disclosed in the annual audited consolidated financial statements of the Partnership for the year ended December 31, 2022 and the unaudited condensed consolidated financial statements of the Company for the 3-month and 6-month periods ended June 30, 2023 and June 30, 2022 and have been applied to all periods presented.

4 Critical accounting estimates and judgments

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

Kruger Products Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2023 and September 30, 2022

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

the year ended December 31, 2022, except for those related to the Partnership units liability which was extinguished as a result of the Reorganization. Additional information is disclosed in note 13.

5 Pensions and post-retirement benefits

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

	Pensions		Post-retirement benefit plans	
	September 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
	%	%	%	%
Assumptions				
Discount rate - accrued benefit obligation	5.62	5.19	5.62	5.19
Rate of compensation increases	3.25 - 4.00	3.25 - 4.00		

The net benefit pension plan expense included the following components:

	Pensions		Post-retirement benefit plans	
	3-month period ended September 30, 2023	3-month period ended September 30, 2022	3-month period ended September 30, 2023	3-month period ended September 30, 2022
	\$	\$	\$	\$
Net benefit plan expense				
Current service cost	1,728	3,035	427	521
Interest cost	7,056	4,762	548	367
Expected return on plan assets	(7,838)	(4,370)	-	-
Administrative cost	189	150	-	-
	<u>1,135</u>	<u>3,577</u>	<u>975</u>	<u>888</u>

	Pensions		Post-retirement benefit plans	
	9-month period ended September 30, 2023	9-month period ended September 30, 2022	9-month period ended September 30, 2023	9-month period ended September 30, 2022
	\$	\$	\$	\$
Net benefit plan expense				
Current service cost	4,601	8,960	1,287	1,565
Interest cost	21,405	14,344	1,642	1,100
Expected return on plan assets	(23,760)	(13,219)	-	-
Administrative cost	568	451	-	-
	<u>2,814</u>	<u>10,536</u>	<u>2,929</u>	<u>2,665</u>

Kruger Products Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
For the 9-month periods ended September 30, 2023 and September 30, 2022

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

6 Long-term debt

		September 30, 2023	December 31, 2022
	Maturity	\$	\$
Kruger Products Senior Credit Facility	2026	49,455	89,780
Senior Unsecured Notes due April 24, 2025	2025	124,159	123,778
Senior Unsecured Notes due April 9, 2029	2029	132,727	132,418
AgCredit Agreement	2026, 2032, 2036, 2037	551,665	568,661
KPSI IQ Debenture ^(a)	2028	79,287	89,970
KPSB IQ Debenture	2034	56,812	19,295
Nordea2 Credit Facility	2029	44,918	52,377
IQ Bathroom Tissue Loan	2032	31,024	15,759
IQ Facial Tissue Loan	2033	20,352	5,032
Quebec PM Loan	2026	6,676	12,770
KPSB Senior Credit Facility ^(b)	2026	1,500	-
Ontario Loan	2026	1,408	1,868
		1,099,983	1,111,708
AgCredit Agreement		4,529	4,537
KPSI IQ Debenture ^(a)		16,689	16,689
Nordea2 Credit Facility		7,748	7,762
Quebec PM Loan		4,938	4,938
Ontario Loan		485	485
		34,389	34,411
Less: Current portion of long-term debt		34,389	34,411
Long-term debt		1,065,594	1,077,297

Amounts are net of deferred financing fees.

(a) KPSI IQ Debenture

Pursuant to the KPSI Repayment Agreement, the Company waived its priority right to make the nine monthly redemption payments in 2023 under the KPSI IQ Debenture and Kruger Inc. notified Investissement Québec that it would instead make the monthly redemption payments. Kruger Inc. received common shares of Kruger Products Sherbrooke Inc. (KPSI) with a value of \$14.6 million as consideration, resulting in Kruger Inc. holding a 9.2% non-controlling interest directly in KPSI as of September 30, 2023. As a result, a non-controlling interest of \$16.2 million has been recorded in the unaudited condensed consolidated statement of financial position as of September 30, 2023. Net loss and comprehensive loss in the unaudited condensed consolidated statements of income (loss) and comprehensive income (loss) for the 9-month period ended September 30, 2023 include a loss of \$1.6 million directly attributable to Kruger Inc's share of loss in KPSI. Two monthly redemption payments by Kruger Inc. occurred subsequent to September 30, 2023.

Kruger Products Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
For the 9-month periods ended September 30, 2023 and September 30, 2022

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

(b) KPSB Senior Credit Agreement

Subsequent to September 30, 2023, KPSB and the Company received consent to increase the KPSB Construction Facility to \$158.2 million from \$150 million.

7 Income taxes

The estimated effective weighted average annual income tax rate for the 9-month period ended September 30, 2023 was 140.1% (9-month period ended September 30, 2022 – 19.8%). The increase in the effective tax rate from the comparative period was primarily attributable to the deferred tax expense related to the transfer of the assets and liabilities on the corporate reorganization.

8 Related party transactions

Related party transactions included in the unaudited condensed consolidated statements of income (loss) were as follows:

	3-month period ended September 30, 2023 \$	3-month period ended September 30, 2022 \$	9-month period ended September 30, 2023 \$	9-month period ended September 30, 2022 \$
Sales of goods to Kruger Inc.	17	59	79	251
Sale of goods to subsidiaries of Kruger Inc	872	745	3,034	2,987
Purchases of goods from Kruger Inc.	142	115	361	401
Purchases of goods and services from subsidiaries of Kruger Inc.	11,038	15,010	32,318	45,179
Management fees to Kruger Inc.	2,069	947	6,208	5,840

Balances due to and from related parties included in the unaudited condensed consolidated statements of financial position were as follows:

	September 30, 2023 \$	December 31, 2022 \$
Receivables from Kruger Inc.	21	12
Receivables from subsidiaries of Kruger Inc.	64	41
Receivables from KPT	33	170
Total receivables from related parties	<u>118</u>	<u>223</u>
Payables to Kruger Inc.	9,023	7,688
Payables to subsidiaries of Kruger Inc.	2,865	3,675
Total payables to related parties	<u>11,888</u>	<u>11,363</u>

Long-term payable to KBLP

As of September 30, 2023, obligations of \$5.8 million and \$35.0 million were recorded in the unaudited condensed consolidated statement of financial position as the Current and Long-term portions of the Long-term payable to related party, respectively (December 31, 2022 - \$5.8 million and \$39.0 million). During the 9-month period ended September 30, 2023, the Company made its annual payment of \$5.8 million to Kruger Brompton L.P., a subsidiary of Kruger Inc. Also during the 9-month period ended September 30, 2023, the increase in the obligation due to passage of time was

Kruger Products Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
For the 9-month periods ended September 30, 2023 and September 30, 2022

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

\$1.8 million and was recognized as Interest expense and other finance costs in the unaudited condensed consolidated statements of income (loss).

The Company declared dividends and distributions which were payable to its related parties as follows:

	Dividends payable	Distributions payable
	September 30, 2023	December 31, 2022
	\$	\$
Payable to Kruger Inc.	11,669	11,075
Payable to KPGP	1	1
Payable to KPT	1,793	1,790
Total payable	<u>13,463</u>	<u>12,866</u>

During the 9-month period ended September 30, 2023, dividends of \$33.8 million (9-month period ended September 30, 2022 – distributions of \$31.8 million) were paid to Kruger Inc. and Kruger Inc. reinvested 100% via the DRIP (9-month period ended September 30, 2022 – reinvested 66.8% via the DRIP).

During the 9-month period ended September 30, 2023, dividends of \$5.4 million (9-month period ended September 30, 2022 – distributions of \$5.4 million) were paid to KPT and KPT reinvested 2.4% via the DRIP (9-month period ended September 30, 2022 – reinvested 8.8% via the DRIP).

Subsequent to September 30, 2023, on October 16, 2023, the Company paid a dividend of \$13.5 million to its shareholders. Pursuant to the Kruger Products DRIP, a significant portion of the dividend was reinvested by the shareholders, resulting in the Company issuing 1,180,169 common shares at a price of \$9.93.

Subsequent to September 30, 2023, the Company declared a dividend of \$13.7 million, payable on January 15, 2024.

9 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 Company operates in two industry segments: Consumer and Away-From-Home (AFH).

(a) Consumer

This segment operates using the Company’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®, Sponge Towels®, Scotties®, White Swan®, Bonterra™ and White Cloud® and private label tissue products.

(b) AFH

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

Segment operating income is the earnings (loss) for each such segment before (i) interest expense and other finance costs, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) impairment (gain on sale) of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) foreign exchange loss (gain), (viii) costs related to restructuring activities, (ix) changes in amortized cost of Partnership units liability, (x) change in fair value of derivatives,

Kruger Products Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2023 and September 30, 2022

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

(xi) consulting costs related to operational transformation initiatives, (xii) corporate development related costs and (xiii) loss (gain) on sale of shares. The unaudited condensed consolidated financial statements refer to “Adjusted EBITDA”, a measure which does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other companies. “Consumer Segment Adjusted EBITDA” and “AFH Segment Adjusted EBITDA” means in each case the Segment operating income for the respective reportable segment of the Company.

Corporate and other costs

Corporate and other costs include certain management overhead costs not directly attributable to the business segments.

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

	3-month period ended September 30, 2023	3-month period ended September 30, 2022	9-month period ended September 30, 2023	9-month period ended September 30, 2022
Segment Revenue				
Consumer	390,293	346,063	1,150,290	1,015,238
AFH	83,106	80,963	240,403	208,026
Revenue from external customers	<u>473,399</u>	<u>427,026</u>	<u>1,390,693</u>	<u>1,223,264</u>
Adjusted EBITDA				
Consumer	65,925	25,038	170,468	74,719
AFH	8,381	5,357	15,078	1,685
Corporate and other costs	(1,924)	315	(8,159)	(4,819)
Total Adjusted EBITDA	<u>72,382</u>	<u>30,710</u>	<u>177,387</u>	<u>71,585</u>
Reconciliation to net income (loss):				
Depreciation and amortization	25,337	24,792	73,576	69,721
Interest expense and other finance costs	16,677	18,907	51,740	53,810
Loss (gain) on sale of property, plant and equipment	(11)	-	1,098	18
Loss on sale of non-financial assets	5	1	21	11
Restructuring costs, net	77	139	1,300	1,007
Foreign exchange loss (gain)	8,395	26,045	(870)	34,329
Consulting costs related to operational transformation initiatives	-	3,547	-	3,547
Income (loss) before income taxes	21,902	(42,721)	50,522	(90,858)
Income tax expense (recovery)	7,068	(3,919)	70,803	(17,980)
Net income (loss) including non-controlling interest	<u>14,834</u>	<u>(38,802)</u>	<u>(20,281)</u>	<u>(72,878)</u>

Kruger Products Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2023 and September 30, 2022

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

Geographic segments

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

	3-month period ended September 30, 2023	3-month period ended September 30, 2022	9-month period ended September 30, 2023	9-month period ended September 30, 2022
Revenue	\$	\$	\$	\$
Canada	267,588	249,827	793,533	732,033
US	205,811	177,199	597,160	491,231
	473,399	427,026	1,390,693	1,223,264

	September 30, 2023		
	Canada	US	Total
	\$	\$	\$
Property, plant and equipment	1,041,343	322,178	1,363,521
Goodwill	152,021	-	152,021
Intangible assets	27,312	-	27,312

	December 31, 2022		
	Canada	US	Total
	\$	\$	\$
Property, plant and equipment	957,883	336,955	1,294,838
Goodwill	152,021	-	152,021
Intangible assets	30,027	-	30,027

10 Financial instruments

Classification of financial instruments

As of September 30, 2023 and December 31, 2022, the carrying amount of financial assets and liabilities was at amortized cost and the carrying amount of the Embedded derivative was at fair value through profit and loss.

Fair value

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

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 Long-term payable to related party is measured at the present value of the future payments required to settle the obligation, discounted using the Company's incremental borrowing rate. The increase in the Long-term payable to related party due to passage of time is recognized as Interest expense and other finance costs in the unaudited condensed consolidated statements of income (loss). The valuation methodology used is categorized as a Level 2 methodology.

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The fair values of the Kruger Products Senior Credit Facility, the Senior Unsecured Notes due April 24, 2025, the Senior Unsecured Notes due April 9, 2029, the AgCredit Agreement and the Nordea2 Credit Facility approximate the current principal amount outstanding as the interest rate approximates current market interest rates. The fair values of the KPSI IQ Debenture, the Quebec PM Loan and the Ontario Loan are recorded on future cash flows discounted using market rates, net of the government grant recorded on the below-market rate of interest. The fair values of the KPSB IQ Debenture, the IQ Bathroom Tissue Loan and the IQ Facial Tissue Loan are recorded on future cash flows discounted using a market rate of interest. The valuation methodology used is categorized as a Level 2 methodology.

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

	Discount rate	September 30, 2023	December 31, 2022
		\$	\$
Kruger Products Senior Credit Facility	-	50,000	90,314
Senior Unsecured Notes due April 24, 2025	-	125,000	125,000
Senior Unsecured Notes due April 9, 2029	-	135,000	135,000
AgCredit Agreement	-	556,934	574,369
KPSI IQ Debenture	6.1%	79,491	90,235
KPSB IQ Debenture	6.6%	76,586	27,888
Nordea2 Credit Facility	-	46,490	54,334
IQ Bathroom Tissue Loan	7.3%	40,607	21,615
IQ Facial Tissue Loan	7.7%	27,399	7,593
Quebec PM Loan	4.4%	6,805	12,932
KPSB Senior Credit Facility	-	1,500	-
Ontario Loan	4.4%	1,408	1,868
		1,147,220	1,141,148

Amounts exclude deferred financing fees.

11 Non-cash working capital

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

	9-month period ended September 30, 2023	9-month period ended September 30, 2022
	\$	\$
Increase in trade and other receivables	(4,263)	(31,781)
Decrease in receivables from related parties	116	213
Decrease (increase) in inventories	28,670	(38,084)
Increase in prepaid expenses	(3,186)	(4,529)
Decrease (increase) in income taxes	(3,793)	305
Increase (decrease) in trade and other payables	46,900	(8,180)
Decrease in payables to related parties	(177)	(3,189)
	64,267	(85,245)

Kruger Products Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2023 and September 30, 2022

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

12 Cash flows from (used in) financing activities

The change in financing activities on the unaudited condensed consolidated statements of cash flows included the following:

	9-month period ended September 30, 2023 \$	9-month period ended September 30, 2022 \$
Long-term debt (including current portion)		
Opening balance	1,111,708	968,881
Proceeds from long-term debt	87,543	248,326
Repayment of long-term debt	(69,906)	(135,718)
Reclassification of deferred financing fees and other ^(a)	(22,556)	(7,281)
Redemption of KPSI IQ Debenture principal portion by Kruger Inc.	(12,517)	-
Interest expense and other finance costs	3,777	7,472
Capitalized interest	3,521	1,133
Payment of deferred financing fees	(388)	(2,488)
Foreign exchange loss (gain)	(706)	33,183
Cumulative translation adjustment	(493)	16,098
Closing Balance	<u>1,099,983</u>	<u>1,129,606</u>
Lease liabilities (including current portion)		
Opening balance	98,928	112,524
Payment of lease liabilities	(20,835)	(21,263)
Additions	7,970	9,663
Reclassification	(2,101)	(901)
Interest expense	3,172	3,394
Cumulative translation adjustment	(21)	557
Closing Balance	<u>87,113</u>	<u>103,974</u>

(a) Includes the reclassification of deferred financing fees from Other long-term assets (9-month period ended September 30, 2023 - \$21.4 million; 9-month period ended September 30, 2022 - \$7.2 million).

13 Corporate reorganization

General

Pursuant to an asset purchase agreement dated as of January 1, 2023 entered into by the Partnership and Kruger Products (the Asset Purchase Agreement), the Partnership sold and assigned to Kruger Products and Kruger Products purchased and assumed, all of the Partnership's properties, operations, assets and liabilities with a net carrying value of \$493.2 million (the Partnership Assets), in consideration for which Kruger Products issued to the Partnership 71,479,389 class B common shares in the capital of Kruger Products. (Additional information is disclosed below in *Share capital*). Also on January 1, 2023, following the Reorganization, the Partnership was dissolved and wound-up into its partners (the Dissolution).

As a result of the Reorganization, the Partnership unit liability was extinguished as the Partnership Agreement was terminated in accordance with its terms and the corresponding requirement to make the Tax Distribution was eliminated. The extinguishment of the Partnership units liability resulted in a corresponding increase to equity of Kruger Products

Kruger Products Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 9-month periods ended September 30, 2023 and September 30, 2022

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

in the unaudited condensed consolidated statement of financial position as of September 30, 2023. In addition, certain tax assets and liabilities as well as current and deferred income tax expense were recognized directly by Kruger Products as it has an obligation to pay income taxes as a result of the Reorganization. The impact of recognizing tax assets and liabilities resulted in a corresponding amount being recognized in the statement of income (loss) during the 9-month period ended September 30, 2023.

Share capital

Kruger Products is authorized to issue an unlimited number of common shares and an unlimited number of class B common shares.

On January 1, 2023, Kruger Products purchased for cancellation from the Partnership 620,039,997 common shares of Kruger Products and, in consideration for the Partnership Assets, issued 71,479,389 class B common shares to the Partnership, pursuant to the Asset Purchase Agreement. Following the Dissolution, Kruger Products distributed the assets of the Partnership, including the 71,479,389 class B common shares of Kruger Products held by the Partnership, to its former Partners: 13582141 Canada Inc. (a wholly-owned subsidiary of Kruger Inc., through which it holds Kruger Products shares), KPT and KPGP.

Following the Dissolution, the issued and outstanding shares of Kruger Products were beneficially owned by its shareholders as follows:

	Class B common shares
	#
13582141 Canada Inc. (Kruger Inc.)	61,529,113
KPT	9,945,975
KPGP	4,301
As of January 1, 2023	71,479,389

Dividends

The holders of the issued and outstanding class B common shares of Kruger Products are entitled to receive dividends if, as and when declared by the board of directors of Kruger Products.

As a condition of the Reorganization, Kruger Products committed to declaring and paying a dividend to its shareholders on January 16, 2023 in the same amount, in the aggregate, as the distribution declared by the Partnership on November 9, 2022, payable on January 16, 2023, such that each of the shareholders of Kruger Products received the same amount in the form of a dividend as each of the partners of the Partnership would have received had the January 16, 2023 distribution been paid by the Partnership. Accordingly, on January 16, 2023, Kruger Products paid a dividend of \$12.9 million to its shareholders. Pursuant to the Kruger Products DRIP, as disclosed below, a portion of the dividend was reinvested by the shareholders, resulting in Kruger Products issuing 1,092,623 common shares at a price of \$10.18.

Dividend reinvestment plan

Kruger Products adopted a dividend reinvestment plan (the Kruger Products DRIP), which permits shareholders that elect to participate in the Kruger Products DRIP to automatically reinvest all cash dividends in additional common shares at a price per common share equal to 100% of the five-day weighted average trading price of the common shares prior to the date of payment of the dividend.