



KP TISSUE INC.

UNAUDITED CONDENSED FINANCIAL STATEMENTS

FOR THE 3-MONTH PERIODS ENDED MARCH 31, 2024 AND MARCH 31, 2023

KP Tissue Inc.
Unaudited Condensed Statements of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	March 31, 2024	December 31, 2023
	\$	\$
Assets		
Current assets		
Dividends receivable	1,794	1,793
Income taxes recoverable	567	652
	<u>2,361</u>	<u>2,445</u>
Non-current assets		
Investment in associate (note 5)	70,659	68,162
Total assets	<u><u>73,020</u></u>	<u><u>70,607</u></u>
Liabilities		
Current liabilities		
Dividend payable (note 7)	1,794	1,793
Payable to investee	511	457
Total liabilities	<u>2,305</u>	<u>2,250</u>
Equity		
Common shares (note 7)	22,601	22,560
Contributed surplus	144,819	144,819
Deficit	(113,464)	(115,027)
Accumulated other comprehensive income	16,759	16,005
Total equity	<u>70,715</u>	<u>68,357</u>
Total liabilities and equity	<u><u>73,020</u></u>	<u><u>70,607</u></u>
Subsequent events (notes 3 and 7)		

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

KP Tissue Inc.**Unaudited Condensed Statements of Income (Loss) and Comprehensive Income (Loss)**

For the 3-month periods ended March 31, 2024 and March 31, 2023

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

	3-month period ended March 31, 2024	3-month period ended March 31, 2023
	\$	\$
Share of income (loss)	1,155	(6,755)
Depreciation of fair value increments	(286)	(304)
Equity income (loss)	869	(7,059)
Dilution gain	262	273
Income (loss) before income taxes	1,131	(6,786)
Deferred tax expense	-	3,892
Net income (loss)	1,131	(10,678)
Other comprehensive income net of income tax expense (recovery) (note 6)		
Items that will not be reclassified to net income (loss):		
Remeasurements of pensions	2,026	4,723
Remeasurements of post-retirement benefits	200	1,941
Items that may be subsequently reclassified to net income (loss):		
Cumulative translation adjustment	754	2,083
Other comprehensive income	2,980	8,747
Total comprehensive income (loss)	4,111	(1,931)
Basic earnings (loss) per share	0.11	(1.07)
Weighted average number of shares outstanding	9,967,627	9,949,878

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

KP Tissue Inc.
Unaudited Condensed Statements of Changes in Equity
For the 3-month periods ended March 31, 2024 and March 31, 2023

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

	Common shares		Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity
	#	\$	\$	\$	\$	\$
As of January 1, 2023	9,945,976	22,379	144,819	(108,008)	14,840	74,030
Issuance of common shares (note 7)	4,682	48	-	-	-	48
Dividends payable (note 7)	-	-	-	(1,791)	-	(1,791)
Remeasurements of pensions	-	-	-	4,723	-	4,723
Remeasurements of post-retirement benefits	-	-	-	1,941	-	1,941
Cumulative translation adjustment	-	-	-	-	2,083	2,083
Net loss	-	-	-	(10,678)	-	(10,678)
As of March 31, 2023	9,950,658	22,427	144,819	(113,813)	16,923	70,356
As of January 1, 2024	9,963,722	22,560	144,819	(115,027)	16,005	68,357
Issuance of common shares (note 7)	4,615	41	-	-	-	41
Dividends payable (note 7)	-	-	-	(1,794)	-	(1,794)
Remeasurements of pensions	-	-	-	2,026	-	2,026
Remeasurements of post-retirement benefits	-	-	-	200	-	200
Cumulative translation adjustment	-	-	-	-	754	754
Net income	-	-	-	1,131	-	1,131
As of March 31, 2024	9,968,337	22,601	144,819	(113,464)	16,759	70,715

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

KP Tissue Inc.
Unaudited Condensed Statements of Cash Flows
For the 3-month periods ended March 31, 2024 and March 31, 2023

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended March 31, 2024	3-month period ended March 31, 2023
	\$	\$
Cash flows from (used in) operating activities		
Net income (loss)	1,131	(10,678)
Items not affecting cash		
Equity loss (income)	(869)	7,059
Dilution gain	(262)	(273)
Deferred tax expense	-	3,892
Total items not affecting cash	(1,131)	10,678
Decrease in payable to investee	(84)	-
Tax refunds, net	84	-
Net cash from (used in) operating activities	-	-
Cash flows from investing activities		
Dividends received, net	1,752	1,742
Net cash from investing activities	1,752	1,742
Cash flows used in financing activities		
Dividends paid, net	(1,752)	(1,742)
Net cash used in financing activities	(1,752)	(1,742)
Increase (decrease) in cash and cash equivalents during the period	-	-
Cash and cash equivalents - Beginning of period	-	-
Cash and cash equivalents - End of period	-	-

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

KP Tissue Inc.

Notes to Unaudited Condensed Financial Statements

For the 3-month periods ended March 31, 2024 and March 31, 2023

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

1 General information

KP Tissue Inc. (KPT or the Corporation) was incorporated by articles of incorporation under the Canadian Business Corporations Act on October 1, 2012. As of March 31, 2024, the Corporation held a 12.9% interest in Kruger Products Inc. (Kruger Products). As of December 31, 2023, the Corporation held a 13.1% interest in Kruger Products.

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

Kruger Products' principal business is to produce, distribute, market and sell a wide range of disposable tissue products, including bathroom tissue, facial tissue, paper towels and napkins for both the consumer and away-from-home markets in North America. The Corporation's headquarters are located in Mississauga, Ontario, Canada.

2 Basis of presentation

These unaudited condensed financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards) applicable to the preparation of interim financial statements, including International Accounting Standards (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 financial statements should be read in conjunction with the annual audited financial statements of the Corporation for the year ended December 31, 2023.

These unaudited condensed financial statements were approved by the board of directors on May 13, 2024.

3 Summary of significant accounting policies

The significant accounting policies used in the preparation of these unaudited condensed financial statements were disclosed in the annual audited financial statements of the Corporation for the year ended December 31, 2023 and have been applied to all periods presented.

Accounting standard issued but not yet implemented:

- (i) IFRS 18, Presentation and Disclosure in Financial Statements. Subsequent to March 31, 2024, the IASB issued IFRS 18 to achieve comparability of the financial performance of similar entities. The standard, which replaces IAS 1, impacts the presentation of primary financial statements and notes, mainly the income statement where companies will be required to present separate categories of income and expense for operating, investing, and financing activities with prescribed subtotals for each new category. IFRS 18 will require management-defined performance measures to be explained and included in a separate note within the consolidated financial statements. The mandatory effective date would be for annual reporting periods beginning on or after January 1, 2027, including interim financial statements, and requires retrospective application. The Corporation is currently assessing the impact of the new standard.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 3-month periods ended March 31, 2024 and March 31, 2023

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

4 Critical accounting estimates and judgments

The preparation of these unaudited condensed financial statements in conformity with IFRS Accounting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the unaudited condensed financial statements and the disclosure of contingencies at the dates of the unaudited condensed statement 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 and judgements, including those related to fair value and the basis of accounting. 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 financial statements are the same as the ones that applied to the annual audited financial statements for the year ended December 31, 2023.

5 Investment in associate

Changes in the carrying amount of the investment were as follows:

	3-month period ended March 31, 2024	3-month period ended March 31, 2023
	\$	\$
Opening balance	68,162	79,338
Increase in investment	41	48
Share of income (loss)	1,155	(6,755)
Depreciation of fair value increments	(286)	(304)
Share of other comprehensive income (loss)	2,980	(863)
Dilution gain	262	273
Dividends	(1,794)	(1,791)
Partnership unit refunds	139	-
Closing balance	70,659	69,946

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 3-month periods ended March 31, 2024 and March 31, 2023

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

The following summarizes financial information about the assets, liabilities, revenue and net income (loss) of Kruger Products, in which the Corporation holds a 12.9% interest as of March 31, 2024. The financial information was derived from the unaudited condensed consolidated financial statements of Kruger Products for the 3-month period ended March 31, 2024. The assets and liabilities disclosed include the fair value adjustments made to the carrying amount of the assets and liabilities of the associate on its acquisition.

	March 31, 2024		
	Kruger Products basis of accounting	Fair value increment	KPT basis of accounting
	\$	\$	\$
Current assets	586,156	-	586,156
Non-current assets	1,834,089	306,494	2,140,583
Liabilities	1,771,034	-	1,771,034
Net assets	649,211		
			3-month period ended March 31, 2024
			\$
Revenue			479,432
Net income attributable to Kruger Products			8,956
Other comprehensive income			22,724
Total comprehensive income attributable to Kruger Products			31,680
			December 31, 2023
	Kruger Products basis of accounting	Fair value increment	KPT basis of accounting
	\$	\$	\$
Current assets	542,854	-	542,854
Non-current assets	1,782,776	307,973	2,090,749
Liabilities	1,712,003	-	1,712,003
Net assets	613,627		
			3-month period ended March 31, 2023
			\$
Revenue			450,992
Net loss attributable to Kruger Products			(49,261)
Other comprehensive loss			(5,414)
Total comprehensive loss attributable to Kruger Products			(54,675)

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 3-month periods ended March 31, 2024 and March 31, 2023

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

The following shows the reconciliation of KPT's portion of Kruger Products equity to the investment recorded in KPT:

	March 31, 2024	December 31, 2023
	\$	\$
Kruger Products consolidated equity	649,211	613,627
Add back: Inception value of Partnership units liability ^(a)	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	<u>(618,371)</u>	<u>(585,120)</u>
Equity pertaining to KPT	149,402	147,069
Investment in associate recorded in KPT	<u>70,659</u>	<u>68,162</u>
Reconciling difference	78,743	78,907
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of fair value increments	60,622	60,336
Currency translation adjustment in fair value increments	(3,011)	(2,962)
Tax Distribution	9,181	9,320
Gain on exercise of over allotment option	(375)	(375)
Dilution gain	(4,564)	(4,302)
Impairment in investment in associate	<u>28,000</u>	<u>28,000</u>
	<u>-</u>	<u>-</u>

(a) As a result of the Kruger Products Reorganization, KPLP's Partnership unit liability was extinguished as KPLP's Partnership Agreement was terminated in accordance with its terms and KPLP's corresponding requirement to make the Tax Distribution was eliminated.

With respect to KPT's investment in Kruger Products, the liability of KPT for the debts, liabilities and other obligations of Kruger Products is limited to KPT's capital contribution to Kruger Products.

6 Income taxes

As a result of the Kruger Products Reorganization (note 1), KPLP's tax status changed from a limited partnership to a corporation. Kruger Products is, therefore, a tax paying entity and will recognize income tax provisions directly. KPT no longer incurs taxable income and therefore the Deferred tax liability of \$5.7 million recorded in KPT's audited statement of financial position as of December 31, 2022 was derecognized through the unaudited condensed statement of comprehensive income (loss) for the 3-month period ended March 31, 2023, as Deferred tax expense of \$3.9 million and through Other comprehensive income (OCI) remeasurement of pension of \$6.9 million Deferred tax recovery, OCI remeasurement of post retirement benefits of \$0.5 million Deferred tax recovery and OCI cumulative translation adjustment of \$2.2 million Deferred tax recovery.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 3-month periods ended March 31, 2024 and March 31, 2023

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

7 Dividends

During the 3-month periods ended March 31, 2024 and March 31, 2023, the Corporation paid a quarterly dividend of \$0.18 per share to shareholders. Pursuant to the Corporation Dividend Reinvestment Plan (DRIP), a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing common shares. The proceeds were used to acquire additional shares of Kruger Products. The dividends paid, the additional common shares issued at the share price, and the gross proceeds were as follows:

Dividend Payment Date	3-month period ended March 31, 2024			
	Dividends paid	Share price	Issuance of	Gross proceeds
	\$	\$	Common shares	\$
			#	
January 15, 2024	1,793	8.99	4,615	41

Dividend Payment Date	3-month period ended March 31, 2023			
	Dividends paid	Share price	Issuance of	Gross proceeds
	\$	\$	Common shares	\$
			#	
January 16, 2023	1,790	10.18	4,682	48

Subsequent to March 31, 2024, on April 15, 2024, the Corporation paid a dividend of \$1.8 million to shareholders at \$0.18 per common share. Pursuant to the Corporation DRIP, a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 5,880 common shares at a price of \$8.52.

Subsequent to March 31, 2024, the Corporation declared a dividend of \$0.18 per common share to shareholders, payable on July 15, 2024.

As a result of the DRIP and Kruger Inc.'s reinvestment of its dividends from Kruger Products in common shares of Kruger Products, a dilution gain of \$0.3 million was recorded during the 3-month period ended March 31, 2024 (3-month period ended March 31, 2023 - \$0.3 million).

8 Economic dependence

The Corporation was created to acquire, and its business is limited to holding, a limited equity interest in Kruger Products, which is accounted for as an investment in an associate using the equity method of accounting. As such, the Corporation is economically dependent on Kruger Products and exposed to all the risks associated with the business of Kruger Products, including, but not limited to, liquidity risk.