



KRUGER PRODUCTS INC.

**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 3-MONTH PERIODS ENDED MARCH 31, 2023 AND MARCH 31, 2022**

Kruger Products Inc.

Unaudited Condensed Consolidated Statements of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	March 31, 2023	December 31, 2022
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	36,916	71,261
Restricted cash (note 17)	8,370	7,145
Trade and other receivables	129,328	119,681
Receivables from related parties (note 14)	223	223
Inventories	286,030	286,566
Income tax recoverable	3,669	1,306
Prepaid expenses	18,609	5,640
	<u>483,145</u>	<u>491,822</u>
Non-current assets		
Property, plant and equipment (note 6)	1,312,170	1,294,838
Right-of-use assets (note 7)	79,381	81,715
Other long-term assets (note 14)	23,600	27,554
Pensions (note 8)	84,695	83,080
Goodwill	152,021	152,021
Intangible assets	29,033	30,027
Deferred income taxes (note 13)	32,636	95,711
	<u>2,196,681</u>	<u>2,256,768</u>
Total assets		
Liabilities		
Current liabilities		
Trade and other payables	254,847	279,425
Payables to related parties (note 14)	9,102	11,363
Dividends payable (notes 12 and 14)	13,063	-
Distributions payable (notes 12 and 14)	-	12,866
Current portion of long-term debt (note 10)	34,401	34,411
Current portion of lease liabilities (note 11)	28,565	28,349
Current portion of long-term payable to related party (note 14)	5,700	5,800
Current portion of provisions (note 9)	3,277	3,252
	<u>348,955</u>	<u>375,466</u>
Non-current liabilities		
Long-term debt (note 10)	1,096,132	1,077,297
Long-term lease liabilities (note 11)	67,625	70,579
Long-term payable to related party (note 14)	39,660	39,042
Long-term provisions (note 9)	4,300	3,076
Pensions (note 8)	20,685	20,847
Post-retirement benefits (note 8)	45,180	43,739
	<u>1,622,537</u>	<u>1,630,046</u>
Liabilities to non-unitholders		
Long-term portion of Partnership units liability (note 12)	-	133,551
	<u>-</u>	<u>133,551</u>
Total Partnership units liability		
	<u>1,622,537</u>	<u>1,763,597</u>
Total liabilities		
Equity		
Share capital (note 12)	639,078	-
Partnership units (note 12)	-	494,459
Deficit	(155,306)	(87,835)
Accumulated other comprehensive income	86,335	86,547
	<u>570,107</u>	<u>493,171</u>
Equity attributable to Kruger Products		
Non-controlling interest (note 10)	4,037	-
	<u>574,144</u>	<u>493,171</u>
Total equity		
	<u>2,196,681</u>	<u>2,256,768</u>
Total equity and liabilities		
Subsequent events (notes 10 and 12)		

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 periods ended March 31, 2023 and March 31, 2022

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended March 31, 2023	3-month period ended March 31, 2022
	\$	\$
Revenue (note 14)	450,992	398,739
Expenses		
Cost of sales (note 14)	389,024	363,855
Selling, general and administrative expenses (note 14)	36,261	28,855
Loss on sale of non-financial assets	3	5
Restructuring costs, net (note 9)	1,139	516
Operating income	24,565	5,508
Interest expense and other finance costs	16,524	17,534
Other income (note 5)	(416)	(4,315)
Income (loss) before income taxes	8,457	(7,711)
Income tax expense (recovery) (note 13)	58,573	(9,148)
Net income (loss) including non-controlling interest	(50,116)	1,437
Net loss attributable to non-controlling interest (note 10)	(855)	-
Net income (loss) attributable to Kruger Products	(49,261)	1,437
Other comprehensive income (loss)		
Net income (loss) including non-controlling interest	(50,116)	1,437
Items that will not be reclassified to net income (loss):		
Remeasurements of pensions	(15,844)	105,621
Remeasurements of post-retirement benefits	10,642	7,861
Items that may be subsequently reclassified to net income (loss):		
Cumulative translation adjustment	(212)	(4,037)
Total other comprehensive income (loss)	(5,414)	109,445
Comprehensive income (loss) including non-controlling interest	(55,530)	110,882
Comprehensive loss attributable to non-controlling interest (note 10)	(855)	-
Comprehensive income (loss) attributable to Kruger Products	(54,675)	110,882

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 3-month periods ended March 31, 2023 and March 31, 2022

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

	Partnership units		Deficit \$	Accumulated other comprehensive income \$	Non-controlling interest (note 10) \$	Total equity \$
	#	\$				
	As of January 1, 2022	68,333,895				
Distributions payable (note 12)	-	-	(12,397)	-	-	(12,397)
Fair value adjustment (note 12)	-	54	(54)	-	-	-
Change in actuarial gain on pension	-	-	105,621	-	-	105,621
Change in actuarial gain on post-retirement benefits	-	-	7,861	-	-	7,861
Cumulative translation adjustment	-	-	-	(4,037)	-	(4,037)
Net income	-	-	1,437	-	-	1,437
Issuance of partnership units (note 12)	536,871	5,637	-	-	-	5,637
As of March 31, 2022	68,870,766	467,227	(14,655)	67,645	-	520,217

	Share capital		Deficit \$	Accumulated other comprehensive income \$	Non-controlling interest (note 10) \$	Total equity \$
	#	\$				
	As of January 1, 2023	71,479,389				
Redemption of KPSI IQ Debenture by Kruger Inc. (note 10(b))	-	-	-	-	4,892	4,892
Extinguishment of Partnership units liability (note 12)	-	133,551	-	-	-	133,551
Dividends payable (note 12)	-	-	(13,063)	-	-	(13,063)
Fair value adjustment (note 12)	-	(55)	55	-	-	-
Change in actuarial loss on pension	-	-	(15,844)	-	-	(15,844)
Change in actuarial gain on post-retirement benefits	-	-	10,642	-	-	10,642
Cumulative translation adjustment	-	-	-	(212)	-	(212)
Net loss	-	-	(49,261)	-	(855)	(50,116)
Issuance of common shares (note 12)	1,092,623	11,123	-	-	-	11,123
As of March 31, 2023	72,572,012	639,078	(155,306)	86,335	4,037	574,144

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 3-month periods ended March 31, 2023 and March 31, 2022

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended March 31, 2023 \$	3-month period ended March 31, 2022 \$
Cash flows from (used in) operating activities		
Net income (loss) including non-controlling interest	(50,116)	1,437
Items not affecting cash		
Depreciation	23,189	21,982
Amortization	1,065	1,044
Gain on sale of property, plant and equipment	(5)	-
Gain on disposal of leased assets	(488)	-
Foreign exchange gain (note 5)	(416)	(4,315)
Interest expense and other finance costs	16,524	17,534
Pension and post-retirement benefits (note 8)	1,888	3,694
Provisions (note 9)	1,431	(239)
Income tax expense (recovery) (note 13)	58,573	(9,148)
Loss on sale of non-financial assets	3	5
Total items not affecting cash	101,764	30,557
Net change in non-cash working capital (note 18)	(51,449)	(46,490)
Contributions to pension and post-retirement benefit plans	(2,518)	(4,183)
Provisions paid (note 9)	(689)	(182)
Income tax payments, net	163	(320)
Net cash used in operating activities	(2,845)	(19,181)
Cash flows from (used in) investing activities		
Purchases of property, plant and equipment	(4,011)	(499)
Purchases of property, plant and equipment and software related to the TAD Sherbrooke Project	-	(5,331)
Purchases of property, plant and equipment related to the Sherbrooke Expansion Project	(31,662)	(6,044)
Interest paid on credit facilities related to the Sherbrooke Expansion Project	(97)	-
Government assistance received	1,250	-
Purchases of software	(71)	(4,455)
Proceeds on sale of property, plant and equipment	5	-
Net cash used in investing activities	(34,586)	(16,329)
Cash flows from (used in) financing activities (note 19)		
Proceeds from long-term debt	35,501	141,956
Repayment of long-term debt	(8,695)	(118,539)
Payment of deferred financing fees	(246)	(2,135)
Payment of lease liabilities	(6,750)	(6,985)
Change in Restricted cash (note 17)	(1,225)	(1,146)
Interest paid on long-term debt	(13,719)	(8,893)
Dividends paid, net (note 12)	(1,743)	-
Distributions and advances paid, net (note 12)	-	(6,975)
Net cash from (used in) financing activities	3,123	(2,717)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(37)	(266)
Decrease in cash and cash equivalents during the period	(34,345)	(38,493)
Cash and cash equivalents - Beginning of period	71,261	148,519
Cash and cash equivalents - End of period	36,916	110,026

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 3-month periods ended March 31, 2023 and March 31, 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 20.

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.

These are Kruger Products' initial unaudited condensed consolidated financial statements. The comparative period information provided consists of the assets, liabilities and results of operations of the Partnership. Additional information is disclosed in note 20.

These unaudited condensed consolidated financial statements were approved by the board of directors of Kruger Products on May 10, 2023.

3 Summary of significant accounting policies

In addition to the significant accounting policies disclosed and used in the preparation of the annual audited consolidated financial statements of the Partnership for the year ended December 31, 2022, the following existing accounting policy became relevant to the unaudited condensed consolidated financial statements of the Company for the 3-month period ended March 31, 2023:

SIC-25, Income taxes – Change in Tax Status of an Entity

A change in the tax status of an entity does not give rise to increases or decreases in amounts recognized outside profit or loss. The current and deferred tax consequences of a change in tax status shall be included in profit or loss for the period, unless those consequences relate to transactions and events that result, in the same or a different period, in a direct credit or charge to the recognized amount of Equity or in amounts recognized in Other comprehensive income (OCI). Those tax consequences that relate to changes in the recognized amount of Equity, in the same or a different period (not included in profit or loss), shall be charged or credited directly to Equity. Those tax consequences that relate to amounts recognized in OCI shall be recognized in OCI. As a result of the Reorganization (note 20), the Company changed its tax status from a limited partnership to a corporation. The Company is, therefore, a tax paying entity and will recognize income tax provisions directly. Additional information on the impact of the standard on the unaudited condensed consolidated financial statements is disclosed in note 13.

Kruger Products Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2023 and March 31, 2022

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

The significant accounting policies that have been used in the preparation of these unaudited condensed consolidated financial statements are described in the annual audited consolidated financial statements of the Partnership for the year ended December 31, 2022 and have been applied to all periods presented except the following accounting policies, which were adopted effective January 1, 2023:

- (i) IAS 1, Disclosure of Accounting Policies. In February 2021, the IASB issued amendments to IAS 1 to provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The mandatory effective date was for annual periods beginning on or after January 1, 2023. The amended standard had no impact on the unaudited condensed consolidated financial statements.
- (ii) IAS 8, Accounting Policies, Changes to Accounting Estimates and Errors. In February 2021, the IASB issued amendments to IAS 8 to introduce a new definition of accounting estimates to clarify the distinction between changes in accounting policies and changes in accounting estimates and the correction of errors. The mandatory effective date was for annual periods beginning on or after January 1, 2023. The amended standard had no impact on the unaudited condensed consolidated financial statements.
- (iii) IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction. In May 2021, the IASB issued amendments to IAS 12 that require an entity to recognize deferred tax on certain transactions such as leases and decommissioning obligations that give rise to equal amounts of taxable and deductible temporary differences on initial recognition. The mandatory effective date was for annual periods beginning on or after January 1, 2023. The amended standard had no impact on the unaudited condensed consolidated financial statements.

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, 2024 and have not been early adopted have been discussed in the annual audited consolidated financial statements of the Partnership for the year ended December 31, 2022, except for the following:

- (i) IAS 1, Classification of Liabilities as Current or Non-current. In January 2020, the IASB issued an amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. In October 2022, the IASB issued an amendment to IAS1, Non-current Liabilities with Covenants, to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The 2022 amendments also introduce additional disclosure requirements to improve the information an entity provides when its right to defer settlement of a liability is subject to compliance with covenants within twelve months after the reporting period. The 2022 amendments changed the effective date of the 2020 amendments. The mandatory effective date would be annual periods beginning on or after January 1, 2024, with early adoption permitted. The amended standard is expected to result in additional disclosures in the unaudited condensed consolidated financial statements for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period.
- (ii) IFRS 16, Lease Liability in a Sale and Leaseback. In September 2022, the IASB issued amendments to IFRS 16 to clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The mandatory effective date would be annual periods beginning on or after January 1, 2024, with early adoption permitted. The amended standard is not expected to have an 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

Kruger Products Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2023 and March 31, 2022

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

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 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 20.

5 Other income

	3-month period ended March 31, 2023	3-month period ended March 31, 2022
	\$	\$
Foreign exchange gain	(416)	(4,315)

6 Property, plant and equipment

	Land \$	Buildings \$	Machinery and equipment \$	Assets under construction or development \$	Total \$
As of January 1, 2023					
Cost	44,395	400,342	1,613,316	119,547	2,177,600
Accumulated depreciation	-	(120,444)	(762,318)	-	(882,762)
Net book value as of January 1, 2023	44,395	279,898	850,998	119,547	1,294,838
Additions	-	-	-	34,583	34,583
Capitalized interest	-	-	-	914	914
Transfers	-	41	34,443	(34,484)	-
Investment tax credits	-	(1,086)	(164)	1,250	-
Depreciation	-	(2,682)	(15,189)	-	(17,871)
Exchange differences	(1)	(42)	(248)	(3)	(294)
As of March 31, 2023	44,394	276,129	869,840	121,807	1,312,170
As of March 31, 2023					
Cost	44,394	399,235	1,647,094	121,807	2,212,530
Accumulated depreciation	-	(123,106)	(777,254)	-	(900,360)
Net book value as of March 31, 2023	44,394	276,129	869,840	121,807	1,312,170

Kruger Products Inc.
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(tabular amounts are in thousands of Canadian dollars, except share and unit amounts)

7 Right-of-use assets

	Land \$	Buildings \$	Equipment \$	Motor vehicles \$	Total \$
As of January 1, 2023					
Cost	38,256	149,846	18,899	2,981	209,982
Accumulated right-of-use depreciation	(28,590)	(87,813)	(9,706)	(2,158)	(128,267)
Net book value as of January 1, 2023	9,666	62,033	9,193	823	81,715
Additions, net of lease terminations	-	524	2,624	316	3,464
Right-of-use depreciation	(432)	(4,320)	(867)	(172)	(5,791)
Exchange differences	-	(3)	(4)	-	(7)
As of March 31, 2023	9,234	58,234	10,946	967	79,381
As of March 31, 2022					
Cost	38,256	150,364	21,030	3,297	212,947
Accumulated right-of-use depreciation	(29,022)	(92,130)	(10,084)	(2,330)	(133,566)
Net book value as of March 31, 2022	9,234	58,234	10,946	967	79,381

8 Pensions and post-retirement benefits

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

	Pensions		Post-retirement benefit plans	
	March 31, 2023	December 31, 2022	March 31, 2023	December 31, 2022
	%	%	%	%
Assumptions				
Discount rate - accrued benefit obligation	5.02	5.19	5.02	5.19
Rate of compensation increases	3.25 - 4.00	3.25 - 4.00		

Kruger Products Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2023 and March 31, 2022

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

The net benefit pension plan expense included the following components:

	Pensions		Post-retirement benefit plans	
	3-month period ended March 31, 2023	3-month period ended March 31, 2022	3-month period ended March 31, 2023	3-month period ended March 31, 2022
	\$	\$	\$	\$
Net benefit plan expense				
Current service cost	1,268	3,022	430	522
Interest cost	7,218	4,665	547	367
Expected return on plan assets	(8,003)	(4,443)	-	-
Administrative cost	190	150	-	-
	673	3,394	977	889

9 Provisions

	Environmental and asset retirement obligations ^(a)	Long-term incentives, DSUs, PSUs and RSUs ^(b)	Restructuring ^(c)	Total
	\$	\$	\$	\$
Provisions as of				
January 1, 2023	1,878	3,650	800	6,328
Current	-	2,452	800	3,252
Non-current	1,878	1,198	-	3,076
Provisions as of				
January 1, 2023	1,878	3,650	800	6,328
Additional provisions	-	1,431	-	1,431
Reclassification	-	25	485	510
Paid during the period	-	(232)	(457)	(689)
Exchange differences	-	-	(3)	(3)
Provisions as of				
March 31, 2023	1,878	4,874	825	7,577
Current	-	2,452	825	3,277
Non-current	1,878	2,422	-	4,300

(a) Environmental and asset retirement obligations

The Company has made a provision for the potential obligation under a land lease at one of its plant locations to demolish the building and restore the land at the end of the lease to its original condition. The current lease ends in March 2028. During the year ended December 31, 2019, the Company entered into a new lease agreement that commences in March 2028 and permits the Company to secure the site until March 2053. The undiscounted amount to settle this obligation is estimated to be between \$13.1 million and \$17.3 million. The liability is estimated using a discounted cash flow with a discount rate of 6.46% (December 31, 2022 – 6.46%).

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

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

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

The Company has adopted a policy that requires that each director own a minimum of 5,000 common shares and/or share equivalents in the form of deferred share units (DSUs) of KPT. A deferred share unit plan (Plan) has been adopted which allows independent directors to receive all or part of their director retainer fees in the form of DSUs. The Plan allows for the issuance of additional units as dividend equivalents when KPT declares and issues a dividend to shareholders. Upon the individual ceasing to be a director, the DSUs will be paid out in cash. As of March 31, 2023, DSUs of \$0.5 million were recorded (December 31, 2022 – \$0.8 million).

(c) Restructuring

On November 14, 2022, the Company announced that certain older and inefficient production assets would be shut down at its plant in Memphis in January 2023. The plant, operated by the Company's subsidiary KTG, announced the shutdown of production assets including a LDC paper machine and six converting lines. The shutdown of these assets was determined to be in the best interests of operating efficiencies and profitability of the Memphis plant. Total restructuring costs were \$3.7 million, of which \$2.6 million was recorded in the consolidated statement of comprehensive income during the year ended December 31, 2022, with the remaining \$1.1 million recorded in the unaudited condensed consolidated statement of comprehensive income (loss) during the 3-month period ended March 31, 2023.

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

10 Long-term debt

	Maturity	March 31, 2023	December 31, 2022
		\$	\$
Kruger Products Senior Credit Facility ^(a)	2026	109,181	89,780
Senior Unsecured Notes due April 24, 2025	2025	123,908	123,778
Senior Unsecured Notes due April 9, 2029	2029	132,521	132,418
AgCredit Agreement	2026, 2032, 2036, 2037	566,086	568,661
KPSI IQ Debenture ^(b)	2028	86,425	89,970
Nordea2 Credit Facility	2029	48,574	52,377
IQ Bathroom Tissue Loan	2032	24,404	15,759
KPSB IQ Debenture	2034	19,618	19,295
Quebec PM Loan	2026	9,514	12,770
IQ Facial Tissue Loan	2033	8,909	5,032
Ontario Loan	2026	1,393	1,868
		<u>1,130,533</u>	<u>1,111,708</u>
AgCredit Agreement		4,533	4,537
KPSI IQ Debenture ^(b)		16,689	16,689
Nordea2 Credit Facility		7,756	7,762
Quebec PM Loan		4,938	4,938
Ontario Loan		485	485
		<u>34,401</u>	<u>34,411</u>
Less: Current portion of long-term debt		<u>34,401</u>	<u>34,411</u>
Long-term debt		<u><u>1,096,132</u></u>	<u><u>1,077,297</u></u>

Amounts are net of deferred financing fees

Certain of the Company's debt agreements were amended effective as of January 1, 2023 in connection with the Reorganization (note 20), to stipulate that the Company assumed the obligations and liabilities of the Partnership as principal debtor, and the Partnership was released and discharged from its obligations and liabilities under the respective debt agreements.

(a) Kruger Products Senior Credit Agreement

Effective as of January 1, 2023, in connection with the Reorganization (note 20), Restricted Credit Parties under the Kruger Products Senior Credit Agreement means the Company, Kruger Products Real Estate Holdings Inc., Kruger Products (USA) Inc., Kruger Products AFH G.P. Inc., Kruger Products AFH L.P. and their respective subsidiaries involved in the tissue business but excluding the Unrestricted Credit Parties (which include Kruger Products SB Inc., K.T.G. (USA) Inc., K.T.G. US Holdco Inc., 8528365 Canada Inc., Kruger Products Sherbrooke Inc., Kruger Sherbrooke Water Treatment Inc., Community Benefit Partners LLC, TAD2 GP ULC, TAD2 US LP, TAD1 Canco I Inc., TAD1 GP ULC, TAD1 US LP and TAD1 Canco II Inc.) and the Non-Material Credit Parties (as such terms are defined in the Kruger Products Senior Credit Agreement).

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(b) KPSI IQ Debenture

Pursuant to a repayment agreement, as amended effective as of January 1, 2023 to reflect the Reorganization (note 20), Kruger Products waived its priority right to make the first three monthly redemption payments under the KPSI IQ Debenture during the 3-month period ended March 31, 2023. Accordingly, Kruger Inc. notified IQ that it would make the first three monthly redemption payments of \$4.9 million under the KPSI IQ Debenture during the 3-month period ended March 31, 2023, resulting in Kruger Inc. holding a 3.3% non-controlling interest directly in Kruger Products Sherbrooke Inc. (KPSI), a subsidiary of Kruger Products, as of March 31, 2023. As a result, a non-controlling interest of \$4.0 million has been recorded in the unaudited condensed consolidated statement of financial position as of March 31, 2023. Net loss and comprehensive loss in the unaudited condensed consolidated statement of comprehensive income (loss) for the 3-month period ended March 31, 2023 include a gain of \$0.9 million directly attributable to Kruger Inc's share of loss in KPSI.

Subsequent to March 31, 2023, on April 1, 2023 and May 3, 2023, respectively, Kruger Products waived its priority right to make the corresponding monthly redemption payments under the KPSI IQ Debenture. Also on April 1, 2023 and May 3, 2023, respectively, Kruger Inc. notified IQ that it would make the corresponding monthly redemption payments under the KPSI IQ Debenture.

11 Lease liabilities

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

	March 31, 2023
	<u>\$</u>
Less than 1 year	28,565
Between 1 and 5 years	50,367
More than 5 years	47,309
	<u>126,241</u>

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

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

	3-month period ended March 31, 2023	3-month period ended March 31, 2022
	<u>\$</u>	<u>\$</u>
Interest expense on Lease liabilities ^(a)	1,070	1,153
Expenses relating to variable payments not included in the measurement of Lease liabilities ^(b)	1,358	1,628
Expenses relating to low-value leases ^(b)	50	65
Expenses relating to short-term leases ^(c)	120	333
	<u>2,598</u>	<u>3,179</u>

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- (a) Included in Interest expense and other finance costs in the unaudited condensed consolidated statement of comprehensive income (loss).
- (b) Included in Cost of sales and Selling, general and administrative expenses (SG&A) in the unaudited condensed consolidated statement of comprehensive income (loss).
- (c) Included in Cost of sales in the unaudited condensed consolidated statement of comprehensive income (loss).

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The weighted-average rate applied is 4.19 % as of March 31, 2023 (December 31, 2022 – 4.08 %). Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability.

12 Dividends, Distributions and Partnership units liability

Partnership units liability

	Partnership units liability \$
As of December 31, 2022	133,551
Extinguishment of Partnership units liability	(133,551)
As of March 31, 2023	-

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 (note 20).

Dividends and Distributions

The dividends paid, the portion of the dividends reinvested by the shareholders, the additional common shares issued at the share price, and the gross proceeds were as follows:

	3-month period ended March 31, 2023			
	Dividends	Share price	Issuance of Common shares	Gross proceeds
Dividend Payment Date	\$	\$	#	\$
January 16, 2023	12,866	10.18	1,092,623	11,123

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

Distribution Payment Date	3-month period ended March 31, 2022			
	Partnership unit distributions	Unit price	Issuance of Partnership units	Gross proceeds
	\$	\$	#	\$
January 17, 2022	12,300	10.50	536,871	5,637

Additional information is disclosed in note 20.

On April 17, 2023, the Company paid a dividend of \$13.1 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 1,102,616 common shares at a price of \$10.18. During the 3-month period ended March 31, 2023, a decrease of \$0.1 million was recorded as a fair value adjustment to reflect the market value of the common shares issued.

Subsequent to March 31, 2023, the Company declared a dividend of \$13.3 million, payable on July 17, 2023.

The Company paid Dividends as follows:

	3-month period ended March 31, 2023
	Dividends
	\$
Paid to 13582141 Canada Inc. (Kruger Inc.) ^(a)	-
Paid to KPGP	1
Paid to KPT ^(b)	1,742
Total paid	1,743

The Partnership paid Tax Distributions and Partnership unit distributions as follows:

	3-month period ended March 31, 2022		
	Tax Distributions	Partnership unit distributions	Total
	\$	\$	\$
Paid to Kruger Inc. ^(a)	274	5,259	5,533
Paid to KPGP	-	1	1
Paid to KPT ^(b)	38	1,403	1,441
Total paid	312	6,663	6,975

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- (a) During the 3-month period ended March 31, 2023, dividends were paid to 13582141 Canada Inc. net of the DRIP reinvestment of \$11.1 million. During the 3-month period ended March 31, 2022, Partnership unit distributions were paid to Kruger Inc. net of the DRIP reinvestment of \$5.2 million.
- (b) During the 3-month period ended March 31, 2023, dividends were paid to KPT net of the DRIP reinvestment of \$0.05 million. During the 3-month period ended March 31, 2022, Partnership unit distributions were paid to KPT net of the DRIP reinvestment of \$0.4 million.

13 Income taxes

As a result of the Reorganization (note 20), the Company changed its tax status from a limited partnership to a corporation. The Company is, therefore, a tax paying entity and will recognize income tax provisions directly. The Company recorded a \$62 million deferred tax liability in the unaudited condensed consolidated statement of financial position as of March 31, 2023, resulting from the opening temporary differences between the tax value and the carrying value of the Company's assets and liabilities transferred in the Reorganization. This resulted in recording a deferred tax expense of \$57 million and \$16 million deferred tax expense recorded directly to OCI on the remeasurement of pensions in the unaudited condensed consolidated statement of comprehensive income (loss) for the 3-month period ended March 31, 2023 and \$11 million deferred tax recovery recorded directly to OCI on the remeasurement of post-retirement benefits.

Income tax expense (recovery) was recognized based on management's best estimate of the effective weighted average annual income tax rate expected for the full financial year. The estimated effective weighted average annual income tax rate for the 3-month period ended March 31, 2023 was 692.6 % (3-month period ended March 31, 2022 – 118.6%).

The components of income taxes were as follows:

	3-month period ended March 31, 2023	3-month period ended March 31, 2022
	\$	\$
Current tax expense	209	564
Deferred tax expense (recovery)	58,364	(9,712)
	<u>58,573</u>	<u>(9,148)</u>

Components of the deferred tax assets were as follows:

	March 31, 2023	December 31, 2022
	\$	\$
Property, plant and equipment	(222,357)	(163,635)
Net operating losses	241,725	247,233
Long-term debt and deferred financing charges	4,365	5,822
Inventory and accrued liabilities	2,551	809
Pensions	(4,896)	-
Right-of-use assets and lease liabilities	3,963	-
U.S. State tax credits	4,552	4,556
Other	2,733	926
	<u>32,636</u>	<u>95,711</u>

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The analysis of the deferred tax assets was as follows:

	March 31, 2023	December 31, 2022
	\$	\$
Deferred tax asset to be recovered within 12 months	2,551	809
Deferred tax asset to be recovered after 12 months	30,085	94,902
	<u>32,636</u>	<u>95,711</u>

14 Related party transactions

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

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

Sales of goods to Kruger Inc. for the 3-month period ended March 31, 2023 were \$0.02 million (3-month period ended March 31, 2022 - \$0.1 million). Sales of goods to subsidiaries of Kruger Inc. for the 3-month period ended March 31, 2023 were \$1.1 million (3-month period ended March 31, 2022 - \$1.3 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 3-month period ended March 31, 2023 were \$2.1 million (3-month period ended March 31, 2022 - \$2.4 million). Purchases of goods and services from subsidiaries of Kruger Inc. for the 3-month period ended March 31, 2023 were \$11.4 million (3-month period ended March 31, 2022 - \$17.9 million). These purchases of goods and services are included within Cost of sales and SG&A expenses in the unaudited condensed consolidated statement of comprehensive income (loss).

During the 3-month period ended March 31, 2023, management fees of \$2.1 million (3-month period ended March 31, 2022 - \$2.4 million) were paid to Kruger Inc. for management services provided to the Company.

Balances due to and from related parties were as follows:

	March 31, 2023	December 31, 2022
	\$	\$
Receivables from Kruger Inc.	12	12
Receivables from subsidiaries of Kruger Inc.	41	41
Receivables from KPT	170	170
Total receivables from related parties	<u>223</u>	<u>223</u>
Payables to Kruger Inc.	7,508	7,688
Payables to subsidiaries of Kruger Inc.	1,594	3,675
Total payables to related parties	<u>9,102</u>	<u>11,363</u>

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The receivables from and payables to related parties are based on commercial terms agreed on between the parties, unsecured and non-interest bearing. There were no provisions related to the receivables from related parties as of March 31, 2023 and December 31, 2022. There were no loans outstanding with related parties as of March 31, 2023 and December 31, 2022.

Long-term payable to KBLP

As of March 31, 2023, obligations of \$5.7 million and \$39.7 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 3-month period ended March 31, 2023, the increase in the obligation due to passage of time was \$0.6 million and was recognized as Interest expense and other finance costs in the unaudited condensed consolidated statement of comprehensive income (loss).

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

	March 31, 2023
	\$
Dividends payable to 13582141 Canada Inc. (Kruger Inc.)	11,271
Dividends payable to KPGP	1
Dividends payable to KPT	1,791
	<hr/>
Total dividends payable	<u>13,063</u>

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

	December 31, 2022
	\$
Distribution payable to Kruger Inc.	11,075
Distribution payable to KPGP	1
Distribution payable to KPT	1,790
	<hr/>
Total distribution payable	<u>12,866</u>

15 Segment information

Reportable segments

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer who is considered to be the Chief Operating Decision Maker. The 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.

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(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, (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 March 31, 2023			
	Consumer	AFH	Corporate and other costs	Total
	\$	\$	\$	\$
Revenue from external customers	376,520	74,472	-	450,992
Adjusted EBITDA	51,334	884	(2,262)	49,956
Depreciation and amortization				24,254
Interest expense and other finance costs				16,524
Gain on sale of property, plant and equipment				(5)
Loss on sale of non-financial assets				3
Restructuring costs, net				1,139
Foreign exchange gain				(416)
Income before income taxes				8,457
Income tax expense				58,573
Net loss including non-controlling interest				(50,116)

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	3-month period ended March 31, 2022			Total \$
	Consumer \$	AFH \$	Corporate and other costs \$	
Revenue from external customers	342,842	55,897	-	398,739
Adjusted EBITDA	35,383	(3,221)	(3,107)	29,055
Depreciation and amortization				23,026
Interest expense and other finance costs				17,534
Loss on sale of non-financial assets				5
Restructuring costs, net				516
Foreign exchange gain				(4,315)
Loss before income taxes				(7,711)
Income tax recovery				(9,148)
Net income				1,437

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.

Revenue	3-month period ended March 31, 2023	3-month period ended March 31, 2022
	\$	\$
Canada	260,780	242,920
US	190,212	155,819
	450,992	398,739

	March 31, 2023		
	Canada \$	US \$	Total \$
Property, plant and equipment	978,215	333,955	1,312,170
Goodwill	152,021	-	152,021
Intangible assets	29,033	-	29,033

	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

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16 Financial instruments

Classification of financial instruments

As of March 31, 2023, 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	36,916	36,916
Restricted cash	financial assets at amortized cost	8,370	8,370
Trade and other receivables	financial assets at amortized cost	129,328	129,328
Receivables from related parties	financial assets at amortized cost	223	223
Embedded derivative	embedded derivative at fair value through profit and loss	10	10
Trade payables	financial liabilities at amortized cost	(114,798)	(114,798)
Accrued liabilities	financial liabilities at amortized cost	(81,681)	(81,681)
Contract liabilities	financial liabilities at amortized cost	(58,368)	(58,368)
Payables to related parties	financial liabilities at amortized cost	(9,102)	(9,102)
Long-term payables to related party	financial liabilities at amortized cost	(45,360)	(45,360)
Dividends payable	financial liabilities at amortized cost	(13,063)	(13,063)
Long-term debt	financial liabilities at amortized cost	(1,130,533)	(1,163,028)
Lease liabilities	financial liabilities at amortized cost	(96,190)	(96,190)

The following table details the fair value hierarchy of financial instruments by level as of March 31, 2023:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Embedded derivative	-	10	-	10
Long-term payable to related party	-	(45,360)	-	(45,360)
Long-term debt	-	(1,163,028)	-	(1,163,028)

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As of December 31, 2022, 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	71,261	71,261
Restricted cash	financial assets at amortized cost	7,145	7,145
Trade and other receivables	financial assets at amortized cost	119,681	119,681
Receivables from related parties	financial assets at amortized cost	223	223
Embedded derivative	embedded derivative at fair value through profit and loss	10	10
Trade payables	financial liabilities at amortized cost	(139,516)	(139,516)
Accrued liabilities	financial liabilities at amortized cost	(85,487)	(85,487)
Contract liabilities	financial liabilities at amortized cost	(54,422)	(54,422)
Payables to related parties	financial liabilities at amortized cost	(11,363)	(11,363)
Long-term payable to related party	financial liabilities at amortized cost	(44,842)	(44,842)
Distributions payable	financial liabilities at amortized cost	(12,866)	(12,866)
Long-term debt	financial liabilities at amortized cost	(1,111,708)	(1,141,148)
Lease liabilities	financial liabilities at amortized cost	(98,928)	(98,928)
Partnership units liability	financial liabilities at amortized cost	(133,551)	(133,551)

The following table details the fair value hierarchy of financial instruments by level as of December 31, 2022:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Embedded derivative	-	10	-	10
Long-term payable to related party	-	(44,842)	-	(44,842)
Long-term debt	-	(1,141,148)	-	(1,141,148)
Partnership units liability	-	-	(133,551)	(133,551)

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 adjusted consolidated statement of comprehensive income (loss).

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

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

	Discount rate	March 31, 2023	December 31, 2022
		\$	\$
Kruger Products Senior Credit Facility	-	109,800	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	-	571,659	574,369
KPSI IQ Debenture	6.1%	86,669	90,235
Nordea2 Credit Facility	-	50,412	54,334
IQ Bathroom Tissue Loan	7.2%	32,773	21,615
KPSB IQ Debenture	6.6%	28,026	27,888
IQ Facial Tissue Loan	7.6%	12,631	7,593
Quebec PM Loan	4.4%	9,665	12,932
Ontario Loan	4.4%	1,393	1,868
		1,163,028	1,141,148

Amounts exclude deferred financing fees

17 Restricted cash

As of March 31, 2023, the Company recorded Restricted cash of \$8.4 million (December 31, 2022 - \$7.1 million).

Pursuant to the Repayment Agreement in connection with the KPSB IQ Debenture, the Company holds prescribed Rate Discounts, as administered by the Ministère des Finances du Québec, in a dedicated account (the Kruger Products Dedicated Account) to be used only for the purpose of funding the Company's redemption payments to Investissement Québec (IQ). No redemption payments to IQ were funded during the 3-month period ended March 31, 2023. The Kruger Products Dedicated Account is recorded in the unaudited condensed consolidated statement of financial position as Restricted cash.

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18 Non-cash working capital

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

	3-month period ended March 31, 2023	3-month period ended March 31, 2022
	\$	\$
Increase in trade and other receivables	(9,731)	(8,220)
Increase in receivables from related parties	(3)	-
Increase in inventories	(730)	(4,058)
Increase in prepaid expenses	(12,822)	(11,591)
Decrease (increase) in income taxes	(2,733)	263
Decrease in trade and other payables	(22,945)	(23,506)
Increase (decrease) in payables to related parties	(2,485)	622
	<u>(51,449)</u>	<u>(46,490)</u>

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19 Cash flows from (used in) financing activities

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

	As of January 1, 2022	Proceeds from long- term debt	Repayment of long- term debt	Payment of deferred financing fees	Payment of lease liabilities	Change in Restricted cash	Interest paid on long-term debt	Distributions and advances paid, net	Movements not in financing activities	As of March 31, 2022
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Restricted cash	(2,506)	-	-	-	-	(1,146)	-	-	-	(3,652)
Trade and other receivables	(88,802)	-	-	-	-	-	(107)	-	(8,538)	(97,447)
Prepaid expenses	(5,455)	-	-	-	-	-	(20)	-	(11,487)	(16,962)
Other long-term assets	(37,456)	-	-	(1,021)	-	-	-	-	3,853	(34,624)
Accrued liabilities	73,639	-	-	-	-	-	(8,766)	-	248	65,121
Distributions payable	12,300	-	-	-	-	-	-	(12,300)	12,397	12,397
Long-term debt	968,881	141,956	(118,539)	(1,114)	-	-	-	-	(5,678)	985,506
Lease liabilities	112,524	-	-	-	(6,985)	-	-	-	5,288	110,827
Partnership units liability	173,201	-	-	-	-	-	-	(312)	(13,752)	159,137
Partnership units	461,536	-	-	-	-	-	-	5,637	54	467,227
Total	1,667,862	141,956	(118,539)	(2,135)	(6,985)	(1,146)	(8,893)	(6,975)	(17,615)	1,647,530

	As of January 1, 2023	Proceeds from long- term debt	Repayment of long- term debt	Payment of deferred financing fees	Payment of lease liabilities	Change in Restricted cash	Interest paid on long-term debt	Dividends paid, net	Movements not in financing activities	As of March 31, 2023
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Restricted cash	(7,145)	-	-	-	-	(1,225)	-	-	-	(8,370)
Trade and other receivables	(119,681)	-	-	-	-	-	(523)	-	(9,124)	(129,328)
Prepaid expenses	(5,640)	-	-	-	-	-	(2,069)	-	(10,900)	(18,609)
Other long-term assets	(27,554)	-	-	(19)	-	-	-	-	3,973	(23,600)
Accrued liabilities	85,487	-	-	-	-	-	(11,127)	-	7,321	81,681
Dividends payable	-	-	-	-	-	-	-	(12,866)	25,929	13,063
Long-term debt	1,111,708	35,501	(8,695)	(227)	-	-	-	-	(7,754)	1,130,533
Lease liabilities	98,928	-	-	-	(6,750)	-	-	-	4,012	96,190
Share capital	-	-	-	-	-	-	-	11,123	627,955	639,078
Total	1,136,103	35,501	(8,695)	(246)	(6,750)	(1,225)	(13,719)	(1,743)	641,412	1,780,638

20 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 3-month periods ended March 31, 2023 and March 31, 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 March 31, 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 comprehensive income (loss) during the 3-month period ended March 31, 2023. Additional information is disclosed in note 13.

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. (ultimate parent and 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 1 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.