



KRUGER PRODUCTS INC.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2023 AND DECEMBER 31, 2022



Independent auditor's report

To the Board of Directors of Kruger Products Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Kruger Products Inc. and its subsidiaries (together, the Company) as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2023 and 2022;
- the consolidated statements of loss for the years then ended;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 7, 2024

Kruger Products Inc.

Consolidated Statements of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	December 31, 2023	December 31, 2022
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	135,728	71,261
Restricted cash (note 13)	12,451	7,145
Trade and other receivables (note 6)	130,157	119,681
Receivables from related parties (note 17)	842	223
Inventories (note 7)	254,372	286,566
Income tax recoverable (note 16)	4,578	1,306
Prepaid expenses	4,726	5,640
	<u>542,854</u>	<u>491,822</u>
Non-current assets		
Property, plant and equipment (note 8)	1,421,650	1,294,838
Right-of-use assets (note 9)	84,866	81,715
Other long-term assets (note 17)	3,808	27,554
Pensions (note 11)	69,839	83,080
Goodwill (note 10)	152,021	152,021
Intangible assets (note 10)	26,852	30,027
Deferred income taxes (note 16)	23,740	95,711
	<u>2,325,630</u>	<u>2,256,768</u>
Total assets		
Liabilities		
Current liabilities		
Trade and other payables (note 12)	400,385	279,425
Payables to related parties (note 17)	10,973	11,363
Dividends payable (note 17)	13,675	-
Distributions payable (note 17)	-	12,866
Current portion of long-term debt (note 13)	35,229	34,411
Current portion of lease liabilities (notes 15 and 22)	27,154	28,349
Current portion of long-term payable to related party (note 17)	5,800	5,800
Current portion of provisions	3,952	3,252
	<u>497,168</u>	<u>375,466</u>
Non-current liabilities		
Long-term debt (note 13)	1,034,016	1,077,297
Long-term lease liabilities (notes 15 and 22)	71,865	70,579
Long-term payable to related party (note 17)	35,580	39,042
Long-term provisions	5,740	3,076
Pensions (note 11)	18,935	20,847
Post-retirement benefits (note 11)	48,699	43,739
	<u>1,712,003</u>	<u>1,630,046</u>
Liabilities to non-equityholders	1,712,003	1,630,046
Long-term portion of Partnership units liability (note 28)	-	133,551
	<u>1,712,003</u>	<u>1,763,597</u>
Total liabilities		
Equity		
Share capital (note 17)	278,252	-
Partnership units (note 17)	-	494,459
Contributed surplus (note 28)	395,382	-
Deficit	(164,029)	(87,835)
Accumulated other comprehensive income	81,011	86,547
	<u>590,616</u>	<u>493,171</u>
Equity attributable to Kruger Products	590,616	493,171
Non-controlling interest (note 13)	23,011	-
	<u>613,627</u>	<u>493,171</u>
Total equity		
Total equity and liabilities		
	<u>2,325,630</u>	<u>2,256,768</u>
Commitments and contingencies (note 18)		
Subsequent events (notes 13 and 17)		

Approved by the Board of Directors

/s/ James Hardy
Director

/s/ David Angel
Director

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

Kruger Products Inc.

Consolidated Statements of Loss

For the years ended December 31, 2023 and December 31, 2022

(tabular amounts are in thousands of Canadian dollars)

	2023	2022
	\$	\$
Revenue (notes 17 and 25)	1,872,962	1,681,403
Expenses		
Cost of sales (notes 17 and 19)	1,571,587	1,547,318
Selling, general and administrative expenses (notes 17 and 19)	167,209	124,648
Restructuring costs, net	1,574	4,550
Operating income	132,592	4,887
Interest expense and other finance costs (note 14)	70,255	74,468
Other expense (income) (note 5)	(9,352)	3,373
Income (loss) before income taxes	71,689	(72,954)
Current tax expense	2,632	1,288
Deferred tax expense (recovery)	70,776	(17,360)
Income tax expense (recovery) (note 16)	73,408	(16,072)
Net loss including non-controlling interest	(1,719)	(56,882)
Net income attributable to non-controlling interest (note 13)	3,594	-
Net loss attributable to Kruger Products	(5,313)	(56,882)

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

Kruger Products Inc.
Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2023 and December 31, 2022

(tabular amounts are in thousands of Canadian dollars)

	2023	2022
	\$	\$
Net loss including non-controlling interest	(1,719)	(56,882)
Other comprehensive income (loss)		
Items that will not be reclassified to net income (loss):		
Remeasurements of pensions	(26,366)	122,075
Remeasurements of post-retirement benefits	8,906	14,767
Items that may be subsequently reclassified to net income (loss):		
Cumulative translation adjustment	(5,536)	14,865
Other comprehensive income (loss)	(22,996)	151,707
Total comprehensive income (loss) including non-controlling interest	(24,715)	94,825
Total comprehensive income attributable to non-controlling interest	3,594	-
Total comprehensive income (loss) attributable to Kruger Products	(28,309)	94,825

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

Kruger Products Inc.
Consolidated Statements of Changes in Equity
For the years ended December 31, 2023 and December 31, 2022

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

	Partnership units		Contributed surplus	Deficit	Accumulated other comprehensive income	Non-controlling interest	Total equity
	#	\$					
		\$	\$	\$	\$	\$	\$
As of January 1, 2022	68,333,895	461,536	-	(117,123)	71,682	-	416,095
Distributions payable (note 17)	-	-	-	(12,866)	-	-	(12,866)
Distributions paid (note 17)	-	-	-	(37,557)	-	-	(37,557)
Fair value adjustment	-	249	-	(249)	-	-	-
Change in actuarial gain on pension	-	-	-	122,075	-	-	122,075
Change in actuarial gain on post-retirement benefits	-	-	-	14,767	-	-	14,767
Cumulative translation adjustment	-	-	-	-	14,865	-	14,865
Net loss	-	-	-	(56,882)	-	-	(56,882)
Issuance of partnership units (note 17)	3,145,494	32,674	-	-	-	-	32,674
As of December 31, 2022	71,479,389	494,459	-	(87,835)	86,547	-	493,171

	Share capital		Contributed surplus	Deficit	Accumulated other comprehensive income	Non-controlling interest (note 13(c))	Total equity
	#	\$					
		\$	\$	\$	\$	\$	\$
As of January 1, 2023	71,479,389	494,459	-	(87,835)	86,547	-	493,171
Redemption of KPSI IQ Debenture by Kruger Inc. (note 13(c))	-	-	-	-	-	19,417	19,417
Corporate reorganization (note 28)	-	(261,831)	395,382	-	-	-	133,551
Dividends payable (note 17)	-	-	-	(13,675)	-	-	(13,675)
Dividends paid (note 17)	-	-	-	(39,787)	-	-	(39,787)
Fair value adjustment	-	(41)	-	41	-	-	-
Change in actuarial loss on pension	-	-	-	(26,366)	-	-	(26,366)
Change in actuarial gain on post-retirement benefits	-	-	-	8,906	-	-	8,906
Cumulative translation adjustment	-	-	-	-	(5,536)	-	(5,536)
Net income (loss)	-	-	-	(5,313)	-	3,594	(1,719)
Issuance of common shares (note 17)	4,493,967	45,665	-	-	-	-	45,665
As of December 31, 2023	75,973,356	278,252	395,382	(164,029)	81,011	23,011	613,627

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

Kruger Products Inc.
Consolidated Statements of Cash Flows
For the years ended December 31, 2023 and December 31, 2022

(tabular amounts are in thousands of Canadian dollars)

	2023 \$	2022 \$
Cash flows from (used in) operating activities		
Net loss including non-controlling interest	(1,719)	(56,882)
Items not affecting cash		
Depreciation	96,996	98,452
Amortization	4,377	4,419
Loss on sale of property, plant and equipment	3,043	121
Gain on disposal of leased assets	(488)	-
Change in amortized cost of Partnership units liability (note 5)	-	(25,586)
Foreign exchange loss (gain) (note 5)	(9,352)	28,911
Interest expense and other finance costs (note 14)	70,255	74,468
Pension and post-retirement benefits (note 11)	8,656	14,632
Provisions	3,702	2,640
Income tax expense (recovery) (note 16)	73,408	(16,072)
Loss on sale of non-financial assets	24	12
Total items not affecting cash	250,621	181,997
Net change in non-cash working capital (note 26)	110,162	(65,241)
Contributions to pension and post-retirement benefit plans (note 11)	(8,537)	(15,192)
Provisions paid	(4,305)	(4,153)
Income tax payments, net	(1,834)	(1,806)
Net cash from operating activities	344,388	38,723
Cash flows from (used in) investing activities		
Purchases of property, plant and equipment	(34,653)	(37,660)
Purchases of property, plant and equipment and software related to the TAD Sherbrooke Project	(2,435)	(20,702)
Purchases of property, plant and equipment related to the Sherbrooke Expansion Project	(147,938)	(53,118)
Interest paid on credit facilities related to the Sherbrooke Expansion Project	(454)	(238)
Government assistance received	1,250	1,023
Purchases of software (note 10)	(1,202)	(4,946)
Proceeds on sale of property, plant and equipment	2,586	1
Net cash used in investing activities	(182,846)	(115,640)
Cash flows from (used in) financing activities (note 27)		
Proceeds from long-term debt	130,954	244,255
Repayment of long-term debt	(127,780)	(141,519)
Payment of deferred financing fees	(899)	(3,036)
Payment of lease liabilities	(30,819)	(28,113)
Change in Restricted cash	(5,306)	(4,639)
Interest paid on long-term debt	(49,390)	(51,948)
Payment to related party (note 17)	(5,700)	-
Dividends paid, net (note 17)	(6,988)	-
Distributions paid, net (note 17)	-	(17,495)
Net cash used in financing activities	(95,928)	(2,495)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	(1,147)	2,154
Increase (decrease) in cash and cash equivalents during the year	64,467	(77,258)
Cash and cash equivalents - Beginning of year	71,261	148,519
Cash and cash equivalents - End of year	135,728	71,261

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

Kruger Products Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2023 and December 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 28.

2 Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards), 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 consolidated financial statements were approved by the board of directors of Kruger Products on March 6, 2024.

The comparative period information provided consists of the assets, liabilities, and results of operations of the Partnership. Additional information is disclosed in note 28.

The Company consolidates all subsidiaries that it controls. The principal subsidiaries have been identified as those where the Company has power over the investees, is exposed or has rights to variable returns from its involvement with the investees and has the ability to affect these returns through its power over the investees. The principal subsidiaries of the Company that have been consolidated are as follows:

Kruger Products Inc. (Kruger Products). Additional information is disclosed below.

Kruger Products (USA) Inc. (KP USA)

Kruger Products AFH GP. Inc.

Kruger Products AFH L.P.

Kruger Products Real Estate Holdings Inc. (KPREH)

Kruger Products SB Inc. (KPSB)

Kruger Products Sherbrooke Inc. (KPSI)

K.T.G. (USA) Inc. (KTG)

K.T.G. US Holdco Inc. (formerly TAD Luxembourg S.A.R.L.). Additional information is disclosed below.

TAD1 Canco I Inc.

TAD1 Canco II Inc.

TAD1 GP ULC

TAD2 GP ULC

TAD1 US LP

TAD2 US LP

The Company's participation in joint arrangements classified as joint operations is accounted for in the consolidated financial statements by reflecting, line by line, the Company's share of the assets held jointly, liabilities incurred jointly,

Kruger Products Inc.

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For the years ended December 31, 2023 and December 31, 2022

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and revenue and expenses arising from the joint operations. The principal joint operation of the Company that has been consolidated is Kruger Sherbrooke Water Treatment Inc.

On January 1, 2022, 13571998 Canada Inc. (a wholly-owned subsidiary of the Partnership) amalgamated with KP TAD Holdco Inc. (a principal subsidiary of the Partnership) and TAD Canco Inc. (a principal subsidiary of the Partnership) to form a company named 13571998 Canada Inc. (the Amalgamation). On October 21, 2022, the name of the company was changed from 13571998 Canada Inc. to Kruger Products Inc.

Effective December 15, 2022, TAD Luxembourg S.A.R.L. filed a certificate of conversion to continue out of a Luxembourg limited liability company to a Delaware corporation. On December 15, 2022, the name of the company was changed from TAD Luxembourg S.A.R.L. to K.T.G. US Holdco Inc.

3 Summary of significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements were as follows:

(a) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention, except for embedded derivatives and derivative liabilities, which are measured at fair value through profit or loss and accounting for pensions (note 3(m)). The preparation of consolidated financial statements in conformity with IFRS Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant are disclosed in note 4.

(b) Foreign currency translation

(i) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The Company has determined that its foreign operations located in the United States (KTG and KP USA) and K.T.G. US Holdco Inc., TAD1 GP ULC, TAD1 US LP and TAD1 Canco II Inc. have a functional currency of U.S. dollars. Net unrealized gains and losses arising from the translation of these foreign operations are included as part of the currency translation adjustment in Other comprehensive income (loss).

(ii) Transactions and balances

Foreign exchange gains and losses arising from translating monetary foreign currency balances are included in Selling, general and administrative (SG&A) expenses or Other expense (income).

(c) Cash, cash equivalents and restricted cash

The Company considers all highly liquid investments with a maturity of three months or less to be cash equivalents. Restricted cash is cash and cash equivalents whose withdrawal or usage is restricted for certain purposes.

(d) Inventories

Inventories of raw materials and spare parts are valued at the lower of weighted average cost and net realizable value. Finished products and work-in-process are valued at the lower of standard cost and net realizable value and include the cost of raw materials, direct labour and manufacturing overhead expenses. Net realizable value is the

Kruger Products Inc.
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estimated selling prices less applicable selling expenses and costs to complete. If the carrying value exceeds the net realizable value, a write-down is recognized.

(e) Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are recorded as Capitalized interest and added to the cost of these assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as Interest expense and other finance costs in the consolidated statement of loss in the period in which they are incurred.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation, investment tax credits, U.S. State tax credits, government assistance and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset and an estimate of the asset retirement obligation. The Company allocates the amount initially recognized to an item of property, plant and equipment to its segregated parts and depreciates each of these segregated parts separately.

Depreciation of property, plant and equipment is generally calculated using the straight-line method to allocate their costs less their residual value over their estimated useful lives as follows:

Buildings	20 to 40 years
Machinery and equipment	5 to 40 years

Assets under construction or development are depreciated from the date the asset is ready for productive use. Land is not depreciated.

(g) Right-of-use assets

Right-of-use assets are initially measured based on the initial amount of the Lease liabilities adjusted for any lease payments made at or before the commencement date.

Right-of-use assets are subsequently depreciated to the earlier of the end of their useful life or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits as follows:

Land	25 years
Buildings	1 to 34 years
Equipment	1 to 10 years
Motor vehicles	1 to 4 years

Right-of-use assets may be periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the Lease liabilities.

(h) Goodwill

Goodwill has an indefinite useful life and is carried at cost less any accumulated impairment losses.

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Notes to Consolidated Financial Statements
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(tabular amounts are in thousands of Canadian dollars, except share and unit amounts)

(i) *Intangible assets*

(i) Trademarks

Separately acquired trademarks have indefinite useful lives and are carried at cost less any accumulated impairment losses. The trademarks have indefinite useful lives as the trademarks can be renewed infinitely without substantial cost.

(ii) Software and licences

Costs to purchase non-integral software and licences are capitalized and included as part of Intangible assets in the consolidated statements of financial position. Costs associated with maintaining software programs are expensed as incurred in the consolidated statements of loss.

Software and licence costs recognized as assets are amortized over their estimated useful lives, which represent management's view of the expected period over which the Company will receive benefits from the software and licences. The useful life of software and licences is five years.

(j) *Impairment tests*

(i) Goodwill

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the Company at which the goodwill is monitored for internal management purposes. The carrying value of the CGU is compared to the recoverable amount, which is the higher of the value in use and the fair value less costs to sell. Additional assumptions include estimates of the discount rate, growth rates and selling price to customer. Any goodwill impairment is recognized immediately as an expense and is not subsequently reversed. Management completed the annual impairment test for goodwill related to the Consumer Canada CGU, utilizing future forecasts, and concluded that the recoverable amount exceeded the carrying amount as of December 31, 2023, and no impairment was recorded.

(ii) Trademarks

Impairment reviews for indefinite lived trademarks are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. For the purpose of impairment testing, recoverable amounts related to indefinite lived trademarks are determined based on management's best estimate using a relief from royalty model. The estimates of relief from royalty are based on the royalties that would have to be paid based on market royalty rates and projected sales volumes. Additional assumptions include estimates of the discount rate, growth rates, selling price to customer and foreign exchange rates. Management completed the annual impairment test for indefinite lived trademarks and concluded that current and projected sales volumes support the recoverable amount of the indefinite lived trademarks as of December 31, 2023, and no impairment was recorded.

(iii) Other non-financial assets

The carrying values of non-financial assets with finite lives, such as property, plant and equipment and intangible assets with finite useful lives are assessed for impairment whenever events or changes in circumstances indicate their carrying amounts may not be recoverable. Where indicators of impairment are identified, an impairment test is performed to determine the recoverable amount. The recoverable amount is

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the higher of an asset's fair value less costs to sell and its value in use (which is the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date. As of December 31, 2023, there were no indicators of impairment and as a result no need to perform impairment testing.

(k) Revenue recognition

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

Revenue is measured based on the price specified in the sales contract and is net of discounts, rebates and allowances. Reductions to revenue for expected and actual payments to customers for rebates and allowances are based on actual expenses incurred during the period, on estimates of what is due to customers for estimated credits earned during the period and any adjustments for credits based on actual activity. As all of the Company's sales contracts have a term of less than one year, the Company has elected to use the practical expedient and therefore not capitalize closing contract costs or disclose unfulfilled performance obligations.

(l) Cost of sales and SG&A expenses

Cost of sales includes cost of finished goods sold, freight, warehousing, handling costs, and inventory write-downs. Marketing, selling, and general and administrative expenses are included in SG&A expenses.

(m) Pensions and post-retirement benefits

The Company accrues its obligation under employee benefit plans and the related costs, net of plan assets. Pension assets are valued at fair value.

Past-service costs from plan amendments are recognized immediately to the extent the benefits are vested in net income (loss) and are otherwise amortized on a straight-line basis over the average period until the benefits become vested.

Actuarial gains or losses are recognized in full in the period in which they occur in Other comprehensive income (loss).

Pension expense includes current service costs and past-service costs (recorded in Cost of sales and SG&A expenses) and interest costs on the benefit obligation offset by the expected return on plan assets (recorded in Interest expense and other finance costs).

(n) Income taxes

As a result of the Reorganization (note 28), the Company's tax status changed from a limited partnership to a corporation. The Company is, as of January 1, 2023 therefore, a tax paying entity and recognizes income tax provisions directly on the basis of amounts expected to be paid to tax authorities. Tax is recognized in Net income (loss), except to the extent that it relates to items recognized in Other comprehensive income (loss) or directly in Equity. In this case, the tax is also recognized in Other comprehensive income (loss) or directly in Equity, respectively.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

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Current tax is the expected tax payable on the taxable income for the year at closing tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, or from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the consolidated statement of financial position dates and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

The Company operates in multiple jurisdictions. The U.S. entities, KP USA, KTG and K.T.G. US Holdco Inc. are subject to tax on the basis of the tax laws enacted in the U.S. where the entities operate and generate taxable income. The remaining entities, TAD1 Canco I Inc., TAD1 Canco II Inc., TAD1 GP ULC, TAD2 GP ULC, KPSI, KPSB, KPREH and Kruger Products are subject to tax on the basis of the laws enacted in Canada. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(o) Dividend reinvestment plan

Pursuant to the Dividend Re-investment Plan (DRIP), the Company is required to issue shares in lieu of cash dividends at the option of the shareholders. Upon settlement of the DRIP, the difference between the dividends declared and the fair value of the shares issued is charged to Retained earnings (deficit).

(p) Accounting standard implemented effective January 1, 2023

- (i) IAS 1, Disclosure of Accounting Policies. In February 2021, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgments. The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures. The adoption of these amendments did not have a material impact on the Company's financial statements.
- (ii) IAS 12, Global Implementation of Pillar Two. In May 2023, the IASB issued narrow-scope amendments to IAS 12 that provide a temporary exception from recognizing and disclosing deferred taxes arising from the implementation of the Pillar Two model rules and introduce targeted disclosure requirements for affected entities. The amendments are effective immediately and retrospectively, including the requirement to disclose that the exception has been applied. The ultimate parent of the Company is resident in Canada and in August 2023, Canada released draft legislation in respect of certain aspects of Pillar Two for public consultation. Although it is intended for Canada's principal Pillar Two rules to take effect on January 1, 2024, Canada has yet to release any revised or further draft legislation. Accordingly, Canada does not yet have any enacted or substantially enacted legislation in respect of Pillar Two. The Company adopted the amendment to IAS 12 International Tax Reform—Pillar Two Model Rules during the year ended December 31, 2023. This exception has been applied retrospectively but no adjustments to previously reported figures were required.

(q) Accounting standard issued but not yet implemented

- (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

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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 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.

4 Critical accounting estimates and judgements

The preparation of these consolidated 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 consolidated financial statements and the disclosure of contingencies at the dates of the consolidated statements of financial position, and the reported amounts of revenues and expenses during the reporting periods. On a regular basis and with the information available, management reviews its estimates, including those related to pensions and post-retirement benefits obligations, the Partnership units liability, impairment tests, income taxes and leases. 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 following are the estimates and judgments applied by management that most significantly affect the Company's consolidated financial statements:

Pensions and post-retirement benefits obligations

The present value of pensions under defined benefit plans and post-retirement benefits was actuarially determined using a discount rate, the projected unit credit method and management's best estimate of expected plan investment performance for funded plans, salary escalation, retirement ages of employees and expected health-care costs. The discount rate was based on the yield of high quality Canadian corporate fixed income investments with cash flows that match expected benefit payments. Additional information is disclosed in note 11.

Partnership units liability

The Partnership units liability was management's best estimate of the Partnership's expected future distributions to its partners in such amounts as would enable KPT to discharge its obligation to pay federal and provincial income taxes (the Tax Distribution), as required by the Partnership Agreement.

As of December 31, 2022, \$133.6 million was recorded as a liability in respect of this obligation, based on using a discounted cash flow model. The valuation utilized a discount rate and terminal growth rate of 9.75% and 2.0%, respectively. The discount rate reflected the risks associated with the business, which operates primarily in Canada. As a result of the reassessment performed as of December 31, 2022, a gain of \$25.6 million related to the Change in amortized cost of Partnership units liability was recorded to Other income in the consolidated statement of loss during the year ended December 31, 2022.

As a result of the Reorganization, the Partnership unit liability was extinguished as the Partnership Agreement was dissolved and the corresponding requirement to make the Tax Distribution was eliminated. Additional information is disclosed in note 28.

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Impairment tests

The Company performs an annual impairment test for goodwill and indefinite lived trademarks, which includes a number of assumptions. Additional information is disclosed in note 3(j).

Income taxes

The Company computes its income taxes in each jurisdiction in which its subsidiaries operate. Estimation of income taxes includes evaluating the recoverability of the deferred tax assets and the income taxes recoverable based on an assessment of the ability to use the underlying tax deductions and credits against future taxable income. The assessment requires an estimate of future taxable income compared to the net operating loss carry-forwards and U.S. State tax credits. To the extent estimates differ from the final tax return, earnings would be affected in a subsequent period. Management exercises judgment to determine the extent to which realization of future taxable benefits is probable, considering factors such as the number of years to include in the forecast period and the history of taxable profits. During the year ended December 31, 2023, the Company assessed the ability to utilize its U.S. State tax credits, net operating loss carry-forwards and additional Quebec net operating loss carry-forwards. Additional information is disclosed in note 16.

Leases

The application of IFRS Accounting Standards 16 requires a number of critical judgements, including identifying whether a contract (or part of a contract) includes a lease, determining whether it is reasonably certain that an extension or termination option will be exercised, determining whether variable payments are in-substance fixed, establishing whether there are multiple leases in an arrangement, and determining the stand-alone selling price of lease and non-lease components. The application of IFRS Accounting Standards 16 also involves a number of key estimates, including estimating the lease term, determining the appropriate rate to discount lease payments, and assessing whether a Right-of-use asset is impaired. Additional information is disclosed in note 15.

5 Other expense (income)

	2023	2022
	\$	\$
Foreign exchange loss (gain)	(9,352)	28,911
Change in amortized cost of Partnership units liability (note 4)	-	(25,586)
Other expense	-	48
	<u>(9,352)</u>	<u>3,373</u>

6 Trade and other receivables

	December 31, 2023	December 31, 2022
	\$	\$
Trade receivables	111,683	112,284
Other receivables	18,922	7,438
Less: Allowance for expected credit losses	(448)	(41)
	<u>130,157</u>	<u>119,681</u>

The Company applies the simplified approach for Trade receivables permitted by IFRS Accounting Standards 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

The Company sells eligible trade receivables owing by certain key customers through a factoring arrangement with the Bank of Nova Scotia, with a facility limit of \$50 million. As eligible trade receivables are sold, the Company removes

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the factored receivables from the consolidated statement of financial position, recognizes the proceeds received as consideration for the transfer and records a loss on factoring, which is included in Interest expense and other finance costs in the consolidated statements of loss. Cash flows from the factoring arrangement are presented as operating activities in the consolidated statement of cash flows. Additional information is disclosed in note 22.

7 Inventories

	December 31, 2023	December 31, 2022
	\$	\$
Finished products	103,626	118,141
Work-in-process	39,424	47,622
Raw materials and supplies	59,982	67,880
Spare parts	51,340	52,923
	<u>254,372</u>	<u>286,566</u>

During the year ended December 31, 2023, total inventories recognized as Cost of sales were \$1,334.6 million (2022 – \$1,295.2 million). The Company wrote-off inventories during the year ended December 31, 2023 totalling \$8.6 million (2022 - \$9.8 million). Inventory provisions as of December 31, 2023 were \$16.4 million (December 31, 2022 - \$12.2 million).

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8 Property, plant and equipment

	Land	Buildings	Machinery and equipment	Assets under construction or development	Total
	\$	\$	\$	\$	\$
As of January 1, 2022					
Cost	38,754	383,304	1,543,688	61,569	2,027,315
Accumulated depreciation and impairment	-	(108,153)	(694,464)	-	(802,617)
Net book value as of January 1, 2022	38,754	275,151	849,224	61,569	1,224,698
Additions	-	-	-	125,496	125,496
Capitalized interest	-	-	-	2,022	2,022
Disposals	-	-	(122)	-	(122)
Transfers	5,541	12,164	52,774	(70,479)	-
Investment tax credits	-	-	(1,023)	-	(1,023)
Depreciation	-	(10,803)	(67,618)	-	(78,421)
Exchange differences	100	3,386	17,763	939	22,188
As of December 31, 2022	44,395	279,898	850,998	119,547	1,294,838
As of December 31, 2022					
Cost	44,395	400,342	1,613,316	119,547	2,177,600
Accumulated depreciation and impairment	-	(120,444)	(762,318)	-	(882,762)
Net book value as of December 31, 2022	44,395	279,898	850,998	119,547	1,294,838
Additions	-	-	-	208,056	208,056
Capitalized interest	-	-	-	3,752	3,752
Disposals	-	-	(5,629)	-	(5,629)
Transfers	97	5,462	73,407	(78,966)	-
Investment tax credits	-	(1,086)	(3,134)	4,220	-
Depreciation	-	(10,787)	(61,025)	-	(71,812)
Exchange differences	(38)	(1,212)	(6,131)	(174)	(7,555)
As of December 31, 2023	44,454	272,275	848,486	256,435	1,421,650
As of December 31, 2023					
Cost	44,454	402,827	1,627,926	256,435	2,331,642
Accumulated depreciation and impairment	-	(130,552)	(779,440)	-	(909,992)
Net book value as of December 31, 2023	44,454	272,275	848,486	256,435	1,421,650

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9 Right-of-use assets

	Land ^(a) \$	Buildings \$	Equipment \$	Motor vehicles \$	Total \$
As of January 1, 2022					
Cost	38,256	146,209	14,325	2,700	201,490
Accumulated right-of-use depreciation	(26,876)	(74,438)	(6,666)	(1,884)	(109,864)
Net book value as of January 1, 2022	11,380	71,771	7,659	816	91,626
Additions, net of lease terminations	-	5,258	4,661	609	10,528
Right-of-use depreciation	(1,714)	(15,239)	(3,316)	(612)	(20,881)
Exchange differences	-	243	189	10	442
As of December 31, 2022	9,666	62,033	9,193	823	81,715
As of December 31, 2022					
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 December 31, 2022	9,666	62,033	9,193	823	81,715
Additions, net of lease terminations	-	16,430	10,948	953	28,331
Right-of-use depreciation	(1,715)	(17,861)	(4,864)	(642)	(25,082)
Exchange differences	-	(47)	(49)	(2)	(98)
As of December 31, 2023	7,951	60,555	15,228	1,132	84,866
As of December 31, 2023					
Cost	38,256	164,827	28,026	3,555	234,664
Accumulated right-of-use depreciation	(30,305)	(104,272)	(12,798)	(2,423)	(149,798)
Net book value as of December 31, 2023	7,951	60,555	15,228	1,132	84,866

- (a) The Company has a land lease at one of its plant locations, with the current lease ending 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.

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10 Goodwill and intangible assets

	Trademarks	Software and licences ^(a)	Total
	\$	\$	\$
As of January 1, 2022			
Cost	16,363	25,591	41,954
Accumulated amortization	-	(12,732)	(12,732)
Net book value as of January 1, 2022	16,363	12,859	29,222
Additions	-	5,224	5,224
Amortization	-	(4,419)	(4,419)
Net book value as of December 31, 2022	16,363	13,664	30,027
As of December 31, 2022			
Cost	16,363	30,815	47,178
Accumulated amortization	-	(17,151)	(17,151)
Net book value as of December 31, 2022	16,363	13,664	30,027
Additions	-	1,202	1,202
Amortization	-	(4,377)	(4,377)
Net book value as of December 31, 2023	16,363	10,489	26,852
As of December 31, 2023			
Cost	16,363	32,017	48,380
Accumulated amortization	-	(21,528)	(21,528)
Net book value as of December 31, 2023	16,363	10,489	26,852

- (a) During the year ended December 31, 2022, software additions of \$0.3 million were included in Purchases of property, plant and equipment and software related to the TAD Sherbrooke Project in the consolidated statement of cashflows.

The Company performs an annual impairment test for goodwill and indefinite lived trademarks. Additional information is disclosed in note 3(j).

The carrying value of the Canada Consumer CGU's goodwill as of December 31, 2023 was \$152.0 million (December 31, 2022 - \$152.0 million).

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11 Pensions and post-retirement benefits

The Company sponsors a number of defined benefit and defined contribution pension plans, with participation available to substantially all of its employees. Length of service and individual earnings determine the pension and post-retirement benefits for all members of the Company plans.

The Company has five registered defined benefit pension plans with a final average salary component, four of which are registered in the province of Quebec and one of which is registered in the province of Ontario. The pension asset for these five plans of \$69.8 million as of December 31, 2023 (December 31, 2022 – asset of \$83.1 million) is included in Pension assets in the consolidated statements of financial position.

The Company has a Supplementary Retirement Plan (SRP) for designated employees. The accrued benefit liability, net of plan assets related to the SRP of \$14.9 million as of December 31, 2023 (December 31, 2022 - \$15.0 million) is included in Pension liabilities in the consolidated statements of financial position and is supported by irrevocable letters of credit in the amount of \$9.6 million (December 31, 2022 - \$12.9 million).

The Company also sponsors a Term Annuity Arrangement for the Western Manufacturing Division, which provides hourly employees with a bridging supplement commencing at age 61 and payable up to but not including age 65. The Term Annuity Arrangement is unfunded and the pension obligation of \$4.2 million as of December 31, 2023 (December 31, 2022 - \$5.9 million) is included in Pensions in the consolidated statement of financial position.

The Company's hourly employees at the Western Manufacturing Division are members of an industry multi-employer pension plan to which the Company contributes monies. During the year ended December 31, 2023, the Company contributed and expensed \$2.8 million (2022 - \$2.6 million) related to this defined benefit plan.

The Company sponsors defined contribution plans which cover substantially all of its salary and hourly employees. During the year ended December 31, 2023 the Company recorded an expense of \$9.3 million (2022 - \$7.8 million) related to these plans.

The Company provides certain health and other similar benefits for qualifying retirees (post-retirement benefit plans). These plans are not funded.

The measurement date of the pensions and post-retirement benefits plans is December 31 of each year.

By design, the defined benefit pension plans and the post-retirement benefits plan expose the Company to the typical risks faced by such plans such as investment performance (pension plans only), changes to the discount rate used to value the obligations, longevity of plan members and future inflation. Pension and benefit risk is managed by regular monitoring of the plans, applicable regulations and other factors that could impact the expenses and cash flows of the Company. As of December 31, 2022, the aggregate solvency surplus of the defined benefit plans was \$78.6 million (December 31, 2021 - \$0.5 million). The actuarial valuation dates of the plans vary, ranging from December 31, 2021 to December 31, 2022. The funding obligations are dependent on a number of factors, including the assumptions used in the most recent actuarial valuation. Actual contributions that are determined on the basis of future valuation reports may vary significantly from the predictions.

The cumulative actuarial (gains) losses recognized in the deficit were as follows:

	December 31, 2023	December 31, 2022
	\$	\$
Pensions	(44,064)	(70,430)
Post-retirement benefits	(10,812)	(1,906)
Total	<u>(54,876)</u>	<u>(72,336)</u>

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Information about the Company's defined benefit pension plans and post-retirement benefit plans was as follows:

	Pensions		Post-retirement benefit plans	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
	\$	\$	\$	\$
Change in defined benefit obligation:				
As of January 1	557,244	739,083	43,739	57,331
Current service cost	6,179	11,944	1,719	2,087
Interest cost	27,872	19,162	2,189	1,466
Employee contributions	3,972	3,867	-	-
Benefits paid	(37,295)	(38,902)	(2,281)	(2,378)
Remeasurements:				
Losses (gains) from changes in experience	(720)	798	-	7,844
Gains from changes in economic assumptions	34,392	(178,708)	3,333	(22,611)
As of December 31	591,644	557,244	48,699	43,739
Change in plan assets at fair value:				
As of January 1	628,819	686,316	-	-
Expected return on plan assets	31,472	17,533	-	-
Remeasurements:				
Gains (losses) on plan assets	19,274	(52,208)	-	-
Administrative costs	(758)	(601)	-	-
Employer contributions	6,256	12,814	2,281	2,378
Employee contributions	3,972	3,867	-	-
Benefits paid	(37,295)	(38,902)	(2,281)	(2,378)
As of December 31	651,740	628,819	-	-
Accrued benefit liability (asset)				
Funded status - deficit	(60,096)	(71,575)	48,699	43,739
Impact of asset ceiling	9,192	9,342	-	-
Accrued benefit liability (asset)	(50,904)	(62,233)	48,699	43,739

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Plan assets, which fund the Company's defined benefit plans, were comprised of the following:

	December 31, 2023	December 31, 2022
	%	%
Fixed income	23.7	24.6
Public equities	26.4	16.4
Hedge funds	14.8	34.4
Private equity	21.2	13.1
Real assets	13.9	11.5
Total	100.0	100.0
Quoted on an active market	50.1	41.0
Unquoted	49.9	59.0
	100.0	100.0

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

	Pensions		Post-retirement benefit plans	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
Assumptions	%	%	%	%
Discount rate - accrued benefit obligation	4.65	5.19	4.65	5.19
Rate of compensation increases	3.25 - 4.00	3.25 - 4.00		

Pensions

Expected fees payable by the plan were deducted from the expected rate of return of plan assets.

The effect of a 1% reduction in the discount rate, a 1% increase in the rate of compensation and one-year change in the life expectancy rate were:

	Discount rate		Rate of compensation		Life expectancy	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
	\$	\$	\$	\$	\$	\$
Increase in Pension obligation	78,314	71,167	4,147	5,628	13,512	12,626

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Post-retirement benefit plan

For measurement purposes, the trend factor for all health-care expenses, excluding medication, was assumed to be 2.5% to age 84 and 1.5% thereafter. The trend factor for medication was assumed to be 4.69% for the first year (2023), decreasing to 4.05% after 17 years.

The sensitivity analysis presented was performed by changing each assumption individually. If an actual change were to occur, it is likely that certain of these assumptions would correlate, which would create a combined impact.

The effect of a 1% increase in the health care cost trend rate, a 1% reduction in the discount rate and a one-year change in the life expectancy rate were:

	Health care		Discount rate		Life expectancy	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
	\$	\$	\$	\$	\$	\$
Increase in Post-retirement benefit obligation	6,211	5,034	7,227	6,264	1,300	975

Contributions to the defined benefit pension plans for the year ending December 31, 2024 are expected to be \$4.6 million.

The net benefit pension plan expense included the following components:

	Pensions		Post-retirement benefit plans	
	December 31, 2023	December 31, 2022	December 31, 2023	December 31, 2022
	\$	\$	\$	\$
Net benefit plan expense				
Current service cost	6,179	11,944	1,719	2,087
Interest cost	27,872	19,162	2,189	1,466
Asset ceiling interest cost	489	-	-	-
Expected return on plan assets	(31,472)	(17,533)	-	-
Administrative cost	758	601	-	-
	<u>3,826</u>	<u>14,174</u>	<u>3,908</u>	<u>3,553</u>

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The following amounts were recognized in Other comprehensive income (loss):

	Pensions		Post-retirement benefit plans	
	2023	2022	2023	2022
	\$	\$	\$	\$
Gains (losses) from changes in experience	720	(798)	-	(7,844)
Gains from changes in economic assumptions	(34,392)	178,708	(3,333)	22,611
Gains (losses) on plan assets	19,274	(52,208)	-	-
Impact of asset ceiling	635	(3,627)	-	-
Deferred tax expense	(12,603)	-	12,239	-
	<u>(26,366)</u>	<u>122,075</u>	<u>8,906</u>	<u>14,767</u>

12 Trade and other payables

	December 31, 2023	December 31, 2022
	\$	\$
Trade payables	147,028	139,516
Accrued liabilities	136,252	85,487
Contract liabilities ^(a)	117,105	54,422
	<u>400,385</u>	<u>279,425</u>

- (a) A contract liability is recognized for expected discounts, rebates and allowances payable in relation to sales made in the reporting period. Contract liabilities increased as of December 31, 2023 primarily due to an increase in sales volume in the Consumer segment.

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13 Long-term debt

	Weighted average interest rate as of December 31, 2023	Maturity	December 31, 2023 \$	December 31, 2022 \$
Kruger Products Senior Credit Facility	-	2026	-	89,780
Senior Unsecured Notes due April 24, 2025	6.00%	2025	124,295	123,778
Senior Unsecured Notes due April 9, 2029	5.375%	2029	132,830	132,418
AgCredit - Term A Credit Facility ^(a)	4.82%	2036	187,459	196,464
AgCredit - Term B Credit Facility ^(a)	5.04%	2037	233,321	238,498
AgCredit - Term D Credit Facility ^(a)	6.07%	2032	113,924	116,556
AgCredit - Revolving loans ^(a)	-	2026	-	17,143
KPSI IQ Debenture ^(b)	3.00%	2028	75,671	89,970
KPSB IQ Debenture ^(c)	2.00%	2034	57,758	19,295
Nordea2 Credit Facility	3.74%	2029	44,003	52,377
KPSB Senior Credit Facility ^(d)	8.61%	2028	35,052	-
IQ Bathroom Tissue Loan	2.00%	2032	32,354	15,759
IQ Facial Tissue Loan	2.00%	2033	26,058	5,032
Quebec PM Loan	3.50%	2026	5,104	12,770
Ontario Loan	2.40%	2026	1,416	1,868
			1,069,245	1,111,708
AgCredit - Term A Credit Facility			5,538	4,537
KPSI IQ Debenture			16,689	16,689
Nordea2 Credit Facility			7,579	7,762
Quebec PM Loan			4,938	4,938
Ontario Loan			485	485
Less: Current portion of long-term debt			35,229	34,411
Long-term debt			1,034,016	1,077,297

Amounts are net of deferred financing fees.

Fair value of Long-term debt and discount rates are disclosed in note 22, *Fair value*.

Certain of the Company's debt agreements require the Company to comply with financial and restrictive covenants. As of December 31, 2023, the Company was in compliance with all of its financial and restrictive covenants under its outstanding debt agreements.

Certain of the Company's debt agreements were amended effective as of January 1, 2023 in connection with the Reorganization (note 28), 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.

Kruger Products Inc.

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(a) AgCredit Agreement

On March 30, 2022, the borrowers entered into the fourth amendment to the AgCredit Agreement (the Fourth Amendment) to make available through the TAD Sherbrooke Project Facility a new US\$87 million term loan facility (the Term D Credit Facility) for the purpose of refinancing the borrowings outstanding under the \$111 million term loan facility (the Term C Credit Facility) and to extend the maturity dates of the revolving loans of US\$10 million and \$12.5 million from December 31, 2023 to December 31, 2026. The Term D Credit Facility was drawn in full on March 30, 2022 and was used to repay in full the \$107.0 million of principal, accrued interest and fees outstanding under the Term C Credit Facility on March 30, 2022. The prepayment of the Term C Credit Facility was accounted for as a debt extinguishment and resulted in a Loss on extinguishment of debt of \$1.5 million (including \$1.3 million for the unamortized portion of transaction costs originally deducted from the Term C Credit Facility), recorded in Interest expense and other finance costs in the consolidated statement of loss during the year ended December 31, 2022.

Pursuant to the Fourth Amendment, within 120 days after the end of each fiscal year, commencing with the fiscal year ending on or about December 31, 2022 through and including the fiscal year ending on or about December 31, 2025, KPSI agreed to deposit an aggregate amount equal to 75% of the Canadian Borrower Excess Cash Flow (as defined in the Fourth Amendment) for such fiscal year in a designated bank account (the KPSI Dedicated Account) to be used only for the purpose of prepaying the Term D Credit Facility, subject to certain conditions specified in the Fourth Amendment. No amounts were deposited in the KPSI Dedicated Account during the years ended December 31, 2023 and December 31, 2022.

On September 15, 2022, the borrowers entered into the fifth amendment to the AgCredit Agreement (the Fifth Amendment) to amend the definition of the Combined Fixed Charge Coverage Ratio (as defined in the AgCredit Agreement). The Fifth Amendment also changed the starting date of the Combined Fixed Charge Coverage Ratio from the fiscal quarter ending September 30, 2022 to the fiscal quarter ending December 31, 2022.

(b) KPSI IQ Debenture

The KPSI IQ Debenture repayment agreement was amended effective as of November 15, 2023 to reflect the authorization of a new class of KPSI non-voting common shares on October 13, 2023. The amendment stipulates that the party that makes the redemption payment (the Payor) will receive either voting or non-voting common shares of KPSI (at the discretion of the Payor) as consideration of such payment.

The first twelve monthly redemption payments under the KPSI IQ Debenture were made by the Partnership during the year ended December 31, 2022, in exchange for voting common shares of KPSI. The next twelve monthly redemption payments under the KPSI IQ Debenture were made by Kruger Inc. during the year ended December 31, 2023. Kruger Inc. received a combination of voting and non-voting common shares of KPSI with a value of \$19.4 million as consideration, resulting in Kruger Inc. holding an 11.8% non-controlling interest directly in KPSI as of December 31, 2023. As a result, a non-controlling interest of \$23.0 million has been recorded in the consolidated statement of financial position as of December 31, 2023. The consolidated statement of loss for the year ended December 31, 2023 includes a loss of \$3.6 million directly attributable to Kruger Inc.'s share of income in KPSI. Two monthly redemption payments by Kruger Inc. occurred subsequent to December 31, 2023.

(c) KPSB IQ Debenture

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 IQ. No redemption payments to IQ were funded during the years ended December 31, 2023 and December 31, 2022. The Kruger Products Dedicated Account is recorded in the consolidated statements of financial position as Restricted cash.

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As of December 31, 2023, unamortized deferred financing fees were \$19.2 million relating to the KPSB IQ Debenture (December 31, 2022 - \$2.8 million).

(d) KPSB Senior Credit Agreement

On June 5, 2023, KPSB entered into the third supplemental credit agreement to the KPSB Senior Credit Agreement to amend certain provisions of the KPSB Senior Credit Agreement for the purpose of making the KPSB Revolving Facility available as of June 5, 2023. The amended provisions also include the implementation of interest rate benchmark transition, including the replacement of Libor loans with SOFR loans.

On November 9, 2023, KPSB entered into the fourth supplemental credit agreement to the KPSB Senior Credit Agreement to increase the KPSB Construction Facility to \$158.2 million from \$150 million. The amended provisions also include the implementation of interest rate benchmark transition, including the replacement of CORRA loans with CDOR loans.

14 Interest expense and other finance costs

Interest expense and other finance costs included in the consolidated statements of loss were as follows:

	2023	2022
	\$	\$
Interest expense on Long-term debt	59,392	60,721
Interest expense on Lease liabilities	5,064	4,470
Receivables factoring arrangement	4,262	2,124
Interest accreted on Long-term payable to related party	2,338	2,388
Interest accreted on provisions	121	153
Pension and post-retirement benefits, net	(922)	3,095
Loss on extinguishment of debt	-	1,517
	<u>70,255</u>	<u>74,468</u>

15 Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate. The weighted-average rate applied is 5.03% as of December 31, 2023 (December 31, 2022 – 4.08%). Renewal options have been included in the measurement of Lease liabilities when it is reasonably certain that the Company will exercise the renewal option. The Company's leases relate to right-of-use of land, buildings, equipment and motor vehicles.

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:

	2023	2022
	\$	\$
Expenses relating to variable payments not included in the measurement of Lease liabilities ^{(a)(b)}	6,042	5,616
Expenses relating to low-value leases ^(b)	196	223
Expenses relating to short-term leases ^(c)	510	806
	<u>6,748</u>	<u>6,645</u>

Kruger Products Inc.

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- (a) Includes variable lease payments for operating costs, property taxes and insurance.
- (b) Included in Cost of sales and SG&A expenses in the consolidated statements of comprehensive loss.
- (c) Included in Cost of sales in the consolidated statements of comprehensive loss.

16 Income taxes

As a result of the Reorganization (note 28), the Company's tax status changed from a limited partnership to a corporation. The Company is, as of January 1, 2023 therefore, a tax paying entity and recognizes income tax provisions directly. The Company recorded a \$62 million deferred tax liability in the consolidated statement of financial position as of January 1, 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.

The consolidated income tax expense for the Company of \$73.4 million for the year ended December 31, 2023 (2022 - income tax recovery of \$16.1 million) related to Kruger Products, KP USA, KTG, KPSB and KPSI.

Details of the provision for income taxes and the reconciliation of the consolidated Canadian federal and provincial statutory income tax rates to the effective tax rate on earnings were as follows:

	2023		2022	
	\$	%	\$	%
Combined federal and provincial income tax rates after manufacturing and processing credits	18,639	26.0	(18,968)	26.0
Income tax in partners' hands	-	-	(1,160)	1.6
Difference in statutory income tax rate of foreign operations	760	1.1	4,430	(6.1)
Conversion from limited partnership to corporation	56,553	78.9	-	-
US State operating losses drawdown	-	-	6,905	(9.5)
Canadian provincial incentives for capital expenditures	-	-	(8,575)	11.8
U.S. interest deduction limitation	-	-	1,364	(1.9)
Change in U.S. State apportionment	(857)	(1.2)	(427)	0.6
Withholding tax	734	1.0	-	-
Permanent and other	(2,421)	(3.4)	359	(0.5)
	<u>73,408</u>	<u>102.4</u>	<u>(16,072)</u>	<u>22.0</u>

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Components of the deferred tax assets were as follows:

	December 31, 2023	December 31, 2022
	\$	\$
Property, plant and equipment	(206,354)	(163,635)
Net operating losses and SR&ED pool	212,416	247,233
Long-term debt and deferred financing charges	5,520	5,822
Inventory and accrued liabilities	2,960	809
Pensions	(573)	-
Right-of-use assets and lease liabilities	3,743	-
U.S. State tax credits	4,621	4,556
Other	1,407	926
	<u>23,740</u>	<u>95,711</u>

The analysis of the deferred tax assets was as follows:

	December 31, 2023	December 31, 2022
	\$	\$
Deferred tax asset to be recovered within 12 months	2,960	809
Deferred tax asset to be recovered after 12 months	20,780	94,902
	<u>23,740</u>	<u>95,711</u>

In addition to the above, the Company has deferred tax assets of \$16.7 million related to net operating loss carry-forwards and \$14.6 million related to U.S. State tax credits which have not been recognized in the consolidated financial statements.

The movement in the deferred tax liability (asset) was as follows:

	2023	2022
	\$	\$
Opening balance	95,711	75,742
Recovery (charge) to net loss	(70,776)	17,360
Recovery to other comprehensive loss		
-remeasurements of post-retirement benefits	12,239	-
Charge to other comprehensive loss		
-remeasurements of pensions	(12,603)	-
Other	(831)	2,609
Closing balance	<u>23,740</u>	<u>95,711</u>

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The Company had the following net operating loss carry-forwards available:

	December 31, 2023					
	U.S. Federal	Expiry	U.S. State	Expiry	Canada	Expiry
	\$	date	\$	date	\$	date
2004-2023	384,069	2024-Indefinite	297,253	2024-2043	455,089	2035-2043

	December 31, 2022					
	U.S. Federal	Expiry	U.S. State	Expiry	Canada	Expiry
	\$	date	\$	date	\$	date
2004-2022	402,323	2024-Indefinite	159,298	2023-2042	586,475	2034-2042

The Company had the following additional Quebec net operating loss carry-forwards available as of December 31, 2023:

	December 31, 2023	
	Quebec, Canada	Expiry
	\$	date
2020-2022	102,494	2040-2042

The Company has a Scientific Research and Experimental Development (SR&ED) expenditures pool to be carried forward indefinitely to future years of \$11.9 million and investment tax credit carryovers of \$0.8 million (expiry 2042) as of December 31, 2023.

The Company had the following U.S. State tax credits available for carry-forward:

	December 31, 2023	
	U.S. State	Expiry
	\$	date
2013-2022	19,907	2028-2037

	December 31, 2022	
	U.S. State	Expiry
	\$	date
2013-2021	20,205	2028-2036

These credits are available to reduce future Tennessee excise tax and franchise tax otherwise payable by its subsidiary, KTG.

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17 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 Products and Kruger Inc. are parties to a Third Amended and Restated Management Services Agreement dated as of November 15, 2019 with effect as of January 1, 2020 (Management Services Agreement) pursuant to which Kruger Inc. provides certain management and support services to Kruger Products in exchange for a management fee, including corporate management support and administrative support services; accounting and tax support; corporate financing and treasury support; benefits and human resources support services; corporate insurance; corporate procurement services complementary to Kruger Products procurement; project development and management services, corporate development support, environmental support and corporate engineering support services.

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.

Related party transactions included in the consolidated statements of loss were as follows:

	2023	2022
	\$	\$
Sales of goods to Kruger Inc.	131	298
Sales of goods to subsidiaries of Kruger Inc.	4,311	4,083
Purchases of goods from Kruger Inc.	506	587
Purchases of goods and services from subsidiaries of Kruger Inc.	42,894	57,908
Management fee to Kruger Inc.	8,277	7,787

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

	December 31, 2023	December 31, 2022
	\$	\$
Receivables from Kruger Inc.	385	12
Receivables from subsidiaries of Kruger Inc.	-	41
Receivables from KPT	457	170
Total receivables from related parties	842	223
Payables to Kruger Inc.	8,640	7,688
Payables to subsidiaries of Kruger Inc.	2,333	3,675
Total payables to related parties	10,973	11,363

Long-term payable to KBLP

As part of the commitment of the IQ financing for the Sherbrooke Expansion Project (note 13), the Company entered into a contribution undertaking agreement with Kruger Brompton L.P. (KBLP), a subsidiary of Kruger Inc., dated as of May 21, 2021, as amended effective as of January 1, 2023 to reflect the Reorganization (the Kruger Products Contribution Undertaking Agreement) pursuant to which the Company will be required to make payments to KBLP in an aggregate amount of \$58 million over a period of ten years (the Contribution). The Contribution is payable by the

Kruger Products Inc.

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Company in ten annual equal and consecutive payments of \$5.8 million each, the first payment paid by the Company on May 21, 2023 and subsequent payments payable by the Company on May 21 of each year thereafter until May 21, 2032. Notwithstanding the foregoing, the first payment of the Contribution was reduced by \$0.1 million, equal to the purchase price payable by KPSB to KBLP for the sale of immovable property under the deed of sale dated May 21, 2021.

As of December 31, 2023, obligations of \$5.8 million and \$35.6 million were recorded in the consolidated statements of financial position as the Current and Long-term portions of the payable to related party, respectively (December 31, 2022 - \$5.8 and \$39.0 million, respectively). During the year ended December 31, 2023, the increase in the obligation due to passage of time was \$2.3 million and was recognized as Interest expense and other finance costs in the consolidated statement of loss (2022 - \$2.4 million).

As of December 31, 2023, a deferred financing fee related to the KPSB IQ Debenture of \$18.6 million was netted against Long-term debt in the consolidated statement of financial position, based on the KPSB IQ Debenture being fully issued as of period end. As of December 31, 2023, a deferred financing fee related to the IQ Bathroom Tissue Loan of \$11.7 million was recorded in the consolidated statement of financial position, \$1.5 million as Other long-term assets and \$10.2 million netted against Long-term debt, based on the pro rata portion of the IQ Bathroom Tissue Loan drawn as of period end. Also as of December 31, 2023, a deferred financing fee related to the IQ Facial Tissue Loan of \$10.7 million was recorded in the consolidated statement of financial position, \$2.2 million as Other long-term assets and \$8.5 million netted against Long-term debt, based on the pro rata portion of the IQ Facial Tissue Loan drawn as of period end.

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

	Dividends payable December 31, 2023	Distributions payable December 31, 2022
	\$	\$
Payable to Kruger Inc.	11,881	11,075
Payable to KPGP	1	1
Payable to KPT	1,793	1,790
Total payable	<u>13,675</u>	<u>12,866</u>

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:

	2023			
	Dividends	Share price	Issuance of	Gross proceeds
Dividend Payment Date	\$	\$	Common shares	\$
			#	
January 16, 2023	12,866	10.18	1,092,623	11,123
April 17, 2023	13,063	10.25	1,102,616	11,302
July 17, 2023	13,261	10.30	1,118,559	11,521
October 16, 2023	13,463	9.93	1,180,169	11,719
	<u>52,653</u>		<u>4,493,967</u>	<u>45,665</u>

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Prior to the Reorganization (note 28), 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	2022			
	Partnership unit distributions \$	Unit price \$	Issuance of Partnership units #	Gross proceeds \$
January 17, 2022	12,300	10.50	536,871	5,637
April 15, 2022	12,397	10.81	495,022	5,351
July 15, 2022	12,486	10.26	1,046,982	10,743
October 17, 2022	12,674	10.26	1,066,619	10,943
	<u>49,857</u>		<u>3,145,494</u>	<u>32,674</u>

During the year ended December 31, 2023, dividends of \$45.5 million (2022 – distributions of \$42.7 million) were paid to Kruger Inc. and Kruger Inc. reinvested \$45.5 million (100%) via the DRIP (2022 - \$32.1 million (75.3%)).

During the year ended December 31, 2023, dividends of \$7.2 million (2022 – distributions of \$7.2 million) were paid to KPT and KPT reinvested \$0.2 million (2.5%) via the DRIP (2022 - \$0.6 million (7.4%)).

Subsequent to December 31, 2023, the Company declared a dividend of \$13.9 million, payable on April 15, 2024.

Prior to the Reorganization, on February 28, 2022, pursuant to the Tax Distribution as defined in the Partnership Agreement, the Partnership declared a Tax Distribution of \$14.1 million, of which the advances of \$13.8 million were offset and the remaining \$0.3 million was paid on February 28, 2022. There was no Tax Distribution declared on February 28, 2023 and the Tax Distribution is not required in future periods as a result of the Reorganization (note 28).

18 Commitments and contingencies

As of December 31, 2023, the Company had commitments under service contracts of \$13.3 million for 2024, \$3.8 million for 2025, and \$19.6 million for 2026 and beyond. Service contracts include those related to mud services, logistics, water treatment and sludge management.

As of December 31, 2023, the Company had \$50.1 million (December 31, 2022 – \$121.7 million) of commitments related to the Sherbrooke Expansion Project.

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. The Company has no reason to believe the disposition of any such current matter could reasonably be expected to have a material adverse impact on the Company's financial position, results of operations or its ability to carry on any of its business activities.

As of December 31, 2023, the Company had irrevocable letters of credit outstanding of \$24.2 million (December 31, 2022 - \$27.7 million), which included letters of credit for the pension plans disclosed in note 11.

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19 Expense by nature

Classified in the consolidated statements of loss were the following:

	2023	2022
	\$	\$
Materials and production costs	855,867	818,341
Labour and related employee benefits	306,484	286,081
Energy costs	73,235	90,237
Depreciation and amortization	101,373	102,871
Freight and warehousing	236,964	252,138
Marketing, selling and administrative expenses	164,873	122,298
	<u>1,738,796</u>	<u>1,671,966</u>

	2023	2022
	\$	\$
Cost of sales	1,571,587	1,547,318
SG&A expenses	167,209	124,648
	<u>1,738,796</u>	<u>1,671,966</u>

20 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) loss (gain) on disposal of property, plant and equipment, (vi) foreign exchange loss (gain), (vii) costs related to restructuring activities, (viii) changes in amortized cost of Partnership units liability, (ix) consulting costs related to operational transformation initiatives and (x) corporate development related costs. The consolidated financial statements refer to “Adjusted EBITDA”, a measure which does not have a standardized meaning prescribed by IFRS Accounting Standards 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.

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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.

	2023	2022
	<u>\$</u>	<u>\$</u>
Segment Revenue		
Consumer	1,551,157	1,394,052
AFH	321,805	287,351
Revenue from external customers	<u>1,872,962</u>	<u>1,681,403</u>
Adjusted EBITDA		
Consumer	230,310	117,428
AFH	20,792	7,375
Corporate and other costs	<u>(12,496)</u>	<u>(8,812)</u>
Total Adjusted EBITDA	238,606	115,991
Reconciliation to net loss		
Depreciation and amortization	101,373	102,871
Interest expense and other finance costs	70,255	74,468
Change in amortized cost of Partnership units liability	-	(25,586)
Loss on sale of property, plant and equipment	3,043	121
Loss on sale of non-financial assets	24	12
Other expense	-	48
Restructuring costs, net	1,574	4,550
Foreign exchange loss (gain)	(9,352)	28,911
Consulting costs related to operational transformation initiatives	<u>-</u>	<u>3,550</u>
Income (loss) before income taxes	71,689	(72,954)
Income tax expense (recovery)	<u>73,408</u>	<u>(16,072)</u>
Net loss including non-controlling interest	<u>(1,719)</u>	<u>(56,882)</u>

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Geographic segments

The Company 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.

			2023
	Canada	US	Total
	\$	\$	\$
Revenue	1,068,376	804,586	1,872,962
Property, plant and equipment	1,110,242	311,408	1,421,650
Goodwill	152,021	-	152,021
Intangible assets	26,852	-	26,852
			2022
	Canada	US	Total
	\$	\$	\$
Revenue	994,368	687,035	1,681,403
Property, plant and equipment	957,883	336,955	1,294,838
Goodwill	152,021	-	152,021
Intangible assets	30,027	-	30,027

21 Compensation of key management

	2023	2022
	\$	\$
Compensation awarded to key management included:		
Salaries and other employee benefits	11,474	7,418
Post-employment benefits	997	676
	<u>12,471</u>	<u>8,094</u>

Key management includes the Company's senior executives.

22 Financial instruments

Classification of financial instruments

As of December 31, 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.

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 consolidated statements of 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 and the KPSB Senior Credit Facility approximate the current principal amount outstanding as the interest rate approximates current market interest rates. The interest rates on the Senior Unsecured Notes due April 24, 2025, the Senior Unsecured Notes due April 9, 2029, the AgCredit facilities and the Nordea2 Credit Facility are fixed and approximate 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	December 31, 2023	December 31, 2022
		\$	\$
Kruger Products Senior Credit Facility	-	-	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 - Term A Credit Facility	-	187,775	196,829
AgCredit - Term B Credit Facility	-	236,963	242,563
AgCredit - Term D Credit Facility	-	115,066	117,833
AgCredit - Revolving loans	-	-	17,144
KPSI IQ Debenture	6.1%	75,871	90,235
Nordea2 Credit Facility	-	45,478	54,334
KPSB IQ Debenture	6.6%	76,973	27,888
IQ Bathroom Tissue Loan	7.3%	41,816	21,615
KPSB Senior Credit Facility	-	35,835	-
IQ Facial Tissue Loan	7.6%	34,624	7,593
Quebec PM Loan	4.4%	5,222	12,932
Ontario Loan	4.4%	1,416	1,868
		<u>1,117,039</u>	<u>1,141,148</u>

Amounts exclude deferred financing fees.

Fair value of the Partnership units liability

The Partnership units liability is classified as a financial liability at amortized cost. As a result of the Reorganization, the Partnership unit liability was extinguished as the Partnership Agreement was dissolved and the corresponding requirement to make the Tax Distribution was eliminated. Additional information is disclosed in note 28.

Objectives and policies relating to financial risk management

The Company's activities result in exposure to a variety of financial risks, including risks related to credit, currency, liquidity and interest rate risks.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments exposed to credit risk include Cash and cash equivalents, Restricted cash, Trade and other receivables and Receivables from related parties. The Company places its Cash and cash equivalents and Restricted cash with financial institutions of high creditworthiness.

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The Company sells its products to a variety of customers under certain credit terms and therefore is exposed to credit risks. Normal trade receivables are due within 30 days from the invoice date and amounts in excess of 90 days past the invoice date are considered delinquent. The Company routinely assesses the financial strength of its customers and mitigates against identified exposure primarily by lowering credit limits with high-risk accounts. The customers of the Company are well established companies and accordingly, the Company has experienced limited financial loss with respect to credit risk. As a result, the Company believes that its exposure to credit risk is limited.

The Company is party to a factoring arrangement, whereby the Company sells to the Bank of Nova Scotia, on a non-recourse basis, eligible trade receivables owing by certain key customers with a facility limit of \$50 million. The factoring arrangement bears interest at a floating interest rate based on CDOR plus applicable margin. Either party may terminate the arrangement at any time subject to a notice period. During the year ended December 31, 2023, the factored receivables sold to the Bank of Nova Scotia were \$777.2 million (2022 - \$674.3 million). The Company sold 95% of these trade receivables, net of a dilution factor, for \$773.0 million (2022 - \$672.4 million). As of December 31, 2023, the trade receivables sold were \$39.5 million (December 31, 2022 - \$42.3 million).

	December 31, 2023	December 31, 2022
	\$	\$
Trade receivables	111,683	112,284
Less: Expected credit losses	(448)	(41)
Trade receivables, net	<u>111,235</u>	<u>112,243</u>
Trade receivables, net		
0 to 60 days	110,769	111,230
61 to 90 days	168	544
Over 90 days	746	510
Less: Allowance for expected credit losses	(448)	(41)
	<u>111,235</u>	<u>112,243</u>

Currency risk

Currency risk is the risk the Company's earnings may fluctuate due to changes in Canadian to U.S. dollar exchange rates. The Company sells certain of its products in U.S. dollars at prevailing U.S. dollar prices. The currency exposure is more than offset by U.S. dollar costs and expenses and the U.S. dollar denominated debt.

As of December 31, 2023, the Company had net liabilities denominated in U.S. dollars of \$402.3 million (December 31, 2022 - \$421.2 million). Assuming the Canadian dollar strengthened (weakened) by 5% against the U.S. dollar, with all other variables held constant, the hypothetical result on income before income taxes for the year ended December 31, 2023 would have been an increase/decrease of \$20.1 million (2022 - \$21.1 million).

Liquidity risk

The purpose of liquidity risk management is to maintain sufficient cash and cash equivalents and to ensure the Company has sufficient authorized credit facilities to maintain liquidity and meet its future obligations as they come due.

The Company had unused lines of credit available of \$205.9 million as of December 31, 2023 (December 31, 2022 - \$95.9 million). The Company prepares projections to ensure it has sufficient funds to fulfill its obligations. The Company monitors the covenants on its credit facilities in the normal course of business. As of December 31, 2023, the Company was in compliance with all of its financial covenants under all of its outstanding credit facilities. Refinancing risks are minimized by ensuring the Company's lines of credit will not mature for at least two years.

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The ability to pay its obligations relies on the Company collecting its trade receivables in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs. The Company's Trade and other payables of \$386.6 million (December 31, 2022 - \$279.4 million) are all due for payment within twelve months of the dates of the consolidated statements of financial position.

The Company's contractual obligations in respect of its financial instruments due within the next five years and thereafter were as follows:

	December 31, 2023		
	2024	2025 - 2028	Thereafter
	\$	\$	\$
Long-term debt, principal repayments	35,229	436,739	649,235
Interest on Long-term debt ^(a)	50,383	152,872	93,507
Lease liabilities ^(b)	27,154	50,859	48,929
Trade and other payables	400,385	-	-
Payables to related parties	10,973	-	-
Long-term payable to related party	5,800	23,200	23,200
Dividends payable	13,675	-	-

	December 31, 2022		
	2023	2024 - 2027	Thereafter
	\$	\$	\$
Long-term debt, principal repayments	34,411	452,497	661,570
Interest on Long-term debt ^(a)	58,283	195,942	129,090
Lease liabilities ^(b)	28,349	46,331	54,929
Trade and other payables	279,425	-	-
Payables to related parties	11,363	-	-
Long-term payable to related party	5,800	23,200	29,000
Distributions payable	12,866	-	-

(a) Estimate based on current interest rates.

(b) Contractual undiscounted cash flows.

Interest rate risk

The Company's interest rate risk arises from its variable rate debt related to the Kruger Products Senior Credit Facility, certain credit facilities made available as part of the TAD Sherbrooke Project Facility and the KPSB Senior Credit Facility, which bear interest at floating interest rates plus an applicable margin as determined by specific financial ratios in accordance with its credit agreements. As of December 31, 2023, the Company had variable rate debts, excluding deferred financing fees, of \$35.8 million (December 31, 2022 – \$107.5 million). A 1% increase/decrease in the market rate of interest would result in a decrease/increase in income before income taxes of \$0.4 million for the year ended December 31, 2023 (2022 - \$1.1 million).

23 Capital management

The Company's policy is to maintain a sufficient capital base in order to maintain a strong statement of financial position and otherwise meet financial tests for the credit facilities.

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Capital comprises net debt (Long-term debt less Cash and cash equivalents and Restricted cash) and Equity. The Company monitors externally imposed debt covenants as established pursuant to its credit facility agreements. The requirements include a quarterly Senior Secured Net Funded Debt to EBITDA Ratio and Interest Coverage Ratio (as defined in the Kruger Products Senior Credit Agreement), and a quarterly Combined Leverage Ratio and Combined Fixed Charge Coverage Ratio (as defined in the AgCredit Agreement).

24 Environmental costs

The Company is subject to extensive regulation by various federal, provincial and state agencies concerning compliance with environmental control statutes and regulations. These regulations impose limitations on the discharge of materials into the environment and require the Company to operate in compliance with the conditions of permits and other governmental authorizations. Future environmental expenditures will depend on the emergence of new regulations and technological developments.

25 Economic dependence

The Company manufactures, distributes and sells a wide range of disposable tissue paper and related products primarily in Canada and the U.S. As of December 31, 2023, the Company had two major customers which represented 33.7% (2022 – 32.7%) of total revenues, and of these customers, one represented 19.1% (2022 – 17.6%) of the total revenues.

A portion of the trade receivables for these two customers are subject to a factoring arrangement with the Bank of Nova Scotia (note 22). The Company sells eligible accounts receivable owing by certain key customers through the factoring arrangement up to a facility limit of \$50 million. As a result, credit risk is partially mitigated.

26 Non-cash working capital

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

	2023	2022
	\$	\$
Increase in trade and other receivables	(11,203)	(29,908)
Decrease (increase) in receivables from related parties	(643)	334
Decrease (increase) in inventories	27,187	(31,246)
Decrease in prepaid expenses	602	210
Decrease (increase) in income taxes	(3,602)	570
Increase (decrease) in trade and other payables	98,940	(4,582)
Decrease in payables to related parties	(1,119)	(619)
	<u>110,162</u>	<u>(65,241)</u>

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27 Cash flows from (used in) financing activities

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

	2023	2022
	\$	\$
Long-term debt (including current portion)		
Opening balance	1,111,708	968,881
Proceeds from long-term debt	130,954	244,255
Repayment of long-term debt	(127,780)	(141,519)
Reclassification of deferred financing fees and other ^(a)	(24,106)	(10,005)
Redemption of KPSI IQ Debenture principal portion by Kruger Inc.	(16,689)	-
Interest expense and other finance costs	6,076	9,200
Capitalized interest	3,706	1,783
Payment of deferred financing fees	(498)	(2,649)
Foreign exchange loss (gain)	(9,541)	28,192
Cumulative translation adjustment	(4,585)	13,570
Closing balance	<u>1,069,245</u>	<u>1,111,708</u>
Lease liabilities (including current portion)		
Opening balance	98,928	112,524
Payment of lease liabilities	(30,819)	(28,113)
Additions	28,329	10,547
Reclassification	(2,375)	(977)
Interest expense	5,064	4,470
Cumulative translation adjustment	(108)	477
Closing balance	<u>99,019</u>	<u>98,928</u>

(a) Includes the reclassification of deferred financing fees from Other long-term assets (2023 - \$24.1 million; 2022 - \$10.0 million).

28 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

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in the consolidated statement of financial position as of December 31, 2023. The Reorganization resulted in an increase to Contributed surplus of \$395.4 million in the consolidated statement of financial position as of December 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 consolidated statement of loss during the year ended December 31, 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)	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 (note 17).

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.