



KP TISSUE INC.

UNAUDITED CONDENSED FINANCIAL STATEMENTS

**FOR THE 3-MONTH AND 6-MONTH PERIODS ENDED JUNE 30, 2023
AND JUNE 30, 2022**

KP Tissue Inc.
Unaudited Condensed Statements of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	June 30, 2023	December 31, 2022
	\$	\$
Assets		
Current assets		
Dividends receivable	1,791	-
Distributions receivable	-	1,790
Income taxes recoverable	580	580
	<u>2,371</u>	<u>2,370</u>
Non-current assets		
Investment in associate (note 4)	68,785	79,338
	<u>68,785</u>	<u>79,338</u>
Total assets	<u>71,156</u>	<u>81,708</u>
Liabilities		
Current liabilities		
Dividend payable (note 6)	1,791	1,790
Payable to investee	170	-
Payable to Partnership	-	170
	<u>1,961</u>	<u>1,960</u>
Non-current liabilities		
Deferred income taxes (note 5)	-	5,718
	<u>-</u>	<u>5,718</u>
Total liabilities	<u>1,961</u>	<u>7,678</u>
Equity		
Common shares (note 6)	22,458	22,379
Contributed surplus	144,819	144,819
Deficit	(114,188)	(108,008)
Accumulated other comprehensive income	16,106	14,840
	<u>69,195</u>	<u>74,030</u>
Total equity	<u>69,195</u>	<u>74,030</u>
Total liabilities and equity	<u>71,156</u>	<u>81,708</u>
Subsequent events (note 6)		

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

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

For the 6-month periods ended June 30, 2023 and June 30, 2022

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

	3-month period ended June 30, 2023	3-month period ended June 30, 2022	6-month period ended June 30, 2023	6-month period ended June 30, 2022
	\$	\$	\$	\$
Equity income (loss) (note 4)	1,761	(6,423)	(5,298)	(7,531)
Dilution gain (note 6)	252	127	525	200
Income (loss) before income taxes	2,013	(6,296)	(4,773)	(7,331)
Income tax expense (recovery) (note 5)	-	(2,348)	3,892	(4,361)
Net income (loss)	2,013	(3,948)	(8,665)	(2,970)
Other comprehensive income (loss) net of tax expense (recovery) (note 7)				
Items that will not be reclassified to net income (loss):				
Remeasurements of pensions	(514)	7,884	4,209	18,132
Remeasurements of post-retirement benefits	(82)	729	1,859	1,399
Items that may be subsequently reclassified to net income (loss):				
Cumulative translation adjustment	(817)	1,186	1,266	591
Other comprehensive income (loss)	(1,413)	9,799	7,334	20,122
Total comprehensive income (loss)	600	5,851	(1,331)	17,152
Basic earnings (loss) per share	0.20	(0.40)	(0.87)	(0.30)
Weighted average number of shares outstanding	9,953,131	9,935,108	9,951,513	9,930,492

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

KP Tissue Inc.
Unaudited Condensed Statements of Changes in Equity
For the 6-month periods ended June 30, 2023 and June 30, 2022

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

	Common shares		Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity
	#	\$	\$	\$	\$	\$
As of January 1, 2022	9,895,419	21,844	144,819	(103,561)	12,767	75,869
Issuance of common shares (note 6)	40,358	425	-	-	-	425
Dividends payable (note 6)	-	-	-	(1,788)	-	(1,788)
Dividends paid (note 6)	-	-	-	(1,788)	-	(1,788)
Fair value adjustment	-	5	-	(5)	-	-
Remeasurements of pensions	-	-	-	18,132	-	18,132
Remeasurements of post-retirement benefits	-	-	-	1,399	-	1,399
Cumulative translation adjustment	-	-	-	-	591	591
Net loss	-	-	-	(2,970)	-	(2,970)
As of June 30, 2022	9,935,777	22,274	144,819	(90,581)	13,358	89,870
As of January 1, 2023	9,945,976	22,379	144,819	(108,008)	14,840	74,030
Issuance of common shares (note 6)	7,682	78	-	-	-	78
Dividends payable (note 6)	-	-	-	(1,791)	-	(1,791)
Dividends paid (note 6)	-	-	-	(1,791)	-	(1,791)
Fair value adjustment	-	1	-	(1)	-	-
Remeasurements of pensions	-	-	-	4,209	-	4,209
Remeasurements of post-retirement benefits	-	-	-	1,859	-	1,859
Cumulative translation adjustment	-	-	-	-	1,266	1,266
Net loss	-	-	-	(8,665)	-	(8,665)
As of June 30, 2023	9,953,658	22,458	144,819	(114,188)	16,106	69,195

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

KP Tissue Inc.
Unaudited Condensed Statements of Cash Flows
For the 6-month periods ended June 30, 2023 and June 30, 2022

(tabular amounts are in thousands of Canadian dollars)

	6-month period ended June 30, 2023	6-month period ended June 30, 2022
	\$	\$
Cash flows from (used in) operating activities		
Net loss	(8,665)	(2,970)
Items not affecting cash		
Equity loss (note 4)	5,298	7,531
Dilution gain (note 6)	(525)	(200)
Income tax expense (recovery) (note 5)	3,892	(4,361)
Total items not affecting cash	<u>8,665</u>	<u>2,970</u>
Net change in non-cash working capital (note 9)	-	(169)
Tax payments	-	131
Tax Distribution received, net	-	38
Net cash from (used in) operating activities	<u>-</u>	<u>-</u>
Cash flows from investing activities		
Dividends received	3,503	-
Partnership unit distributions received	-	3,144
Net cash from investing activities	<u>3,503</u>	<u>3,144</u>
Cash flows used in financing activities (note 10)		
Dividends paid , net (note 6)	(3,503)	(3,144)
Net cash used in financing activities	<u>(3,503)</u>	<u>(3,144)</u>
Increase (decrease) in cash and cash equivalents during the period	<u>-</u>	<u>-</u>
Cash and cash equivalents - Beginning of period	<u>-</u>	<u>-</u>
Cash and cash equivalents - End of period	<u><u>-</u></u>	<u><u>-</u></u>

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

KP Tissue Inc.

Notes to Unaudited Condensed Financial Statements

For the 6-month periods ended June 30, 2023 and June 30, 2022

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

1 General information

KP Tissue Inc. (KPT or the Corporation) was incorporated by articles of incorporation under the Canadian Business Corporations Act on October 1, 2012. As of June 30, 2023, the Corporation held a 13.5% interest in Kruger Products Inc. (Kruger Products). As of December 31, 2022, the Corporation held a 13.9% interest in Kruger Products L.P. (KPLP or the Partnership).

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

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

2 Basis of presentation

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

These unaudited condensed financial statements were approved by the board of directors on August 9, 2023.

3 Critical accounting estimates and judgments

The preparation of these unaudited condensed financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the unaudited condensed financial statements and the disclosure of contingencies at the dates of the unaudited condensed statement of financial position, and the reported amounts of revenues and expenses during the reporting period. On a regular basis and with the information available, management reviews its estimates and judgements, including those related to fair value and the basis of accounting. Actual results could differ from those estimates. When adjustments become necessary, they are reported in earnings in the period in which they occur.

The estimates and judgement applied by management that most significantly affect the unaudited condensed financial statements are the same as the ones that applied to the annual audited financial statements for the year ended December 31, 2022, except for those related to Partnership units, as KPLP's requirement to make the Tax Distribution was eliminated as a result of the Kruger Products Reorganization (note 1).

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 6-month periods ended June 30, 2023 and June 30, 2022

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

4 Investment in associate

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

	<u>\$</u>
As of January 1, 2022	78,727
Investment in associate	425
Share of loss	(4,902)
Depreciation of fair value increments	(2,629)
Share of other comprehensive income	30,740
Dilution gain	200
Tax Distribution	(2,052)
Partnership unit distributions	(3,576)
As of June 30, 2022	<u>96,933</u>
As of January 1, 2023	79,338
Investment in associate	78
Share of loss	(4,698)
Depreciation of fair value increments	(600)
Share of other comprehensive loss	(2,276)
Dilution gain	525
Dividends	(3,582)
As of June 30, 2023	<u>68,785</u>

The equity loss was comprised of the following components:

	3-month period ended June 30, 2023	3-month period ended June 30, 2022	6-month period ended June 30, 2023	6-month period ended June 30, 2022
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Share of income (loss)	2,057	(5,109)	(4,698)	(4,902)
Depreciation of fair value increments	(296)	(1,314)	(600)	(2,629)
	<u>1,761</u>	<u>(6,423)</u>	<u>(5,298)</u>	<u>(7,531)</u>

KP Tissue Inc.

Notes to Unaudited Condensed Financial Statements

For the 6-month periods ended June 30, 2023 and June 30, 2022

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

The following summarizes financial information about the assets, liabilities, revenue and net income (loss) of Kruger Products, in which the Corporation holds a 13.5% interest as of June 30, 2023. The financial information was derived from the unaudited condensed consolidated financial statements of Kruger Products for the 6-month period ended June 30, 2023. The assets and liabilities disclosed include the fair value adjustments made to the carrying amount of the assets and liabilities of the associate on its acquisition.

			June 30, 2023
	Kruger Products basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	497,898	-	497,898
Non-current assets	1,703,301	312,416	2,015,717
Liabilities to non-equity holders	1,618,666	-	1,618,666
Net assets	582,533		
	3-month period ended June 30, 2023	6-month period ended June 30, 2023	
	\$	\$	
Revenue	466,302	917,294	
Net income (loss) attributable to Kruger Products	14,484	(34,777)	
Other comprehensive loss	(9,529)	(14,943)	
Total comprehensive income (loss) attributable to Kruger Products	4,955	(49,720)	

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation held a 13.9% interest as of December 31, 2022. The financial information was derived from the unaudited condensed consolidated financial statements of KPLP for the 6-month period ended June 30, 2022. The assets and liabilities disclosed include the fair value adjustments made to the carrying amount of the assets and liabilities of the associate on its acquisition.

			December 31, 2022
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	491,822	-	491,822
Non-current assets	1,764,946	317,605	2,082,551
Liabilities to non-unitholders	1,630,046	-	1,630,046
Partnership units liability	133,551	-	133,551
Net assets	493,171		
	3-month period ended June 30, 2022	6-month period ended June 30, 2022	
	\$	\$	
Revenue	397,499	796,238	
Net loss	(35,513)	(34,076)	
Other comprehensive income	103,916	213,361	
Total comprehensive income	68,403	179,285	

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 6-month periods ended June 30, 2023 and June 30, 2022

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

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

	June 30, 2023
	\$
Kruger Products consolidated equity	582,533
Add back: Inception value of Partnership units liability ^(a)	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	(553,544)
Equity pertaining to KPT	147,551
Investment in associate recorded in KPT	68,785
Reconciling difference	78,766
Reconciling items since inception:	
Equity issuance costs	(11,110)
Depreciation of FV increments	59,771
Currency translation adjustment in fair value increments	(3,045)
Tax Distribution	9,320
Gain on exercise of over-allotment option	(375)
Dilution gain	(3,795)
Impairment in investment in associate	28,000
	-

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

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

	December 31, 2022
	\$
KPLP consolidated equity	493,171
Add back: Inception value of Partnership units liability	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	(453,961)
Equity pertaining to KPT	157,772
Investment in associate recorded in KPT	79,338
Reconciling difference	78,434
Reconciling items since inception:	
Equity issuance costs	(11,110)
Depreciation of FV increments	59,171
Currency translation adjustment in fair value increments	(3,302)
Tax Distribution	9,320
Gain on exercise of over-allotment option	(375)
Dilution gain	(3,270)
Impairment in investment in associate	28,000
	-

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 6-month periods ended June 30, 2023 and June 30, 2022

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

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

5 Income taxes

As a result of the Kruger Products Reorganization (note 1), KPLP changed its tax status from a limited partnership to a corporation. Kruger Products is, therefore, a tax paying entity and will recognize income tax provisions directly. KPT no longer incurs taxable income and therefore the Deferred tax liability of \$5.7 million recorded in KPT's audited statement of financial position as of December 31, 2022 has been derecognized through the unaudited condensed statements of income (loss) and comprehensive income (loss) for the 6-month period ended June 30, 2023, as Deferred tax expense of \$3.9 million and through Other comprehensive income (OCI) remeasurement of pension of \$6.9 million Deferred tax recovery, OCI remeasurement of post retirement benefits of \$0.5 million Deferred tax recovery and OCI cumulative translation adjustment of \$2.2 million Deferred tax recovery.

The major components of income taxes recognized in the unaudited condensed statements of income (loss) and comprehensive income (loss) were as follows:

	3-month period ended June 30, 2023	3-month period ended June 30, 2022	6-month period ended June 30, 2023	6-month period ended June 30, 2022
	\$	\$	\$	\$
Current tax recovery	-	(421)	-	(452)
Deferred tax expense (recovery)	-	(1,927)	3,892	(3,909)
	<u>-</u>	<u>(2,348)</u>	<u>3,892</u>	<u>(4,361)</u>

Details of the provision for income taxes were as follows:

	3-month period ended June 30, 2023	3-month period ended June 30, 2022	6-month period ended June 30, 2023	6-month period ended June 30, 2022
	\$	\$	\$	\$
Income tax at statutory rate of 26%	523	(1,637)	(1,241)	(1,906)
Derecognition of opening deferred tax	-	-	3,892	-
Equity pickup	(534)	-	1,222	-
Permanent differences and other	-	57	-	69
Dilution gain	(66)	(33)	(137)	(52)
Taxed in hands of subsidiaries	-	858	-	735
Realization of previously unrecognized tax attributes	77	363	156	789
Change in basis of investment in associate	-	(1,956)	-	(3,996)
	<u>-</u>	<u>(2,348)</u>	<u>3,892</u>	<u>(4,361)</u>

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 6-month periods ended June 30, 2023 and June 30, 2022

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

Components of the deferred income tax liability were as follows:

	June 30, 2023	December 31, 2022
	\$	\$
Deferred tax liability (asset)		
ROU assets and lease liabilities	-	(592)
Pensions	-	3,078
Partnership units liability	-	(2,782)
Property, plant and equipment	-	6,737
Other	-	(723)
	<u>-</u>	<u>5,718</u>

The analysis of the deferred tax liability was as follows:

	June 30, 2023	December 31, 2022
	\$	\$
Deferred tax liabilities to be realized greater than 12 months	<u>-</u>	<u>5,718</u>

The movement in the deferred tax liability was as follows:

	<u>\$</u>
As of January 1, 2022	806
Charge to net loss	(3,909)
Charge to other comprehensive income	
- remeasurements of cumulative translation adjustment	88
Charge to other comprehensive income	
- remeasurements of post-retirement benefits	623
Charge to other comprehensive income	
- remeasurements of pensions	9,907
As of June 30, 2022	<u>7,515</u>
As of January 1, 2023	5,718
Charge to net income	3,892
Charge to other comprehensive loss	
- remeasurements of cumulative translation adjustment	(2,232)
Charge to other comprehensive loss	
- remeasurements of post-retirement benefits	(482)
Charge to other comprehensive loss	
- remeasurements of pensions	(6,896)
As of June 30, 2023	<u>-</u>

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements

For the 6-month periods ended June 30, 2023 and June 30, 2022

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

6 Dividends

During the 6-month periods ended June 30, 2023 and June 30, 2022, the Corporation paid a quarterly dividend of \$0.18 per common share to shareholders. Pursuant to the Corporation Dividend Reinvestment Plan (DRIP), a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing common shares. During the 6-month period ended June 30, 2023, the proceeds were used to acquire additional shares of Kruger Products (during the 6-month period ended June 30, 2022, the proceeds were used to acquire additional units of KPLP). The dividends paid, the additional common shares issued at the share price, and the gross proceeds were as follows:

Dividend Payment Date	6-month period ended June 30, 2023			
	Dividends paid	Share price	Issuance of Common shares	Gross proceeds
	\$	\$	#	\$
January 16, 2023	1,790	10.18	4,682	48
April 17, 2023	1,791	10.25	3,000	30
	<u>3,581</u>		<u>7,682</u>	<u>78</u>
Dividend Payment Date	6-month period ended June 30, 2022			
	Dividends paid	Share price	Issuance of Common shares	Gross proceeds
	\$	\$	#	\$
January 17, 2022	1,781	10.50	36,007	378
April 15, 2022	1,788	10.81	4,351	47
	<u>3,569</u>		<u>40,358</u>	<u>425</u>

On July 17, 2023, the Corporation paid a dividend of \$1.8 million to shareholders at \$0.18 per common share. Pursuant to the Corporation DRIP, a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 5,064 common shares at a price of \$10.30.

Subsequent to June 30, 2023, the Corporation declared a dividend of \$0.18 per common share to shareholders, payable on October 16, 2023.

As a result of the DRIP and Kruger Inc.'s reinvestment of its dividends from Kruger Products in common shares of Kruger Products, a dilution gain of \$0.5 million was recorded during the 6-month period ended June 30, 2023 (6-month period ended June 30, 2022 - \$0.2 million).

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 6-month periods ended June 30, 2023 and June 30, 2022

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

7 Income tax recovery (expense) on other comprehensive income (loss)

Income tax recovery (expense) on other comprehensive income (loss) were as follows:

	3-month period ended June 30, 2023 \$	3-month period ended June 30, 2022 \$	6-month period ended June 30, 2023 \$	6-month period ended June 30, 2022 \$
Items that will not be reclassified to net income (loss):				
Remeasurements of pensions	(514)	12,796	(2,687)	28,039
Income tax recovery (expense)	-	(4,912)	6,896	(9,907)
Net of income tax recovery (expense)	(514)	7,884	4,209	18,132
Remeasurements of post-retirement benefits	(82)	887	1,377	2,022
Income tax recovery (expense)	-	(158)	482	(623)
Net of income tax recovery (expense)	(82)	729	1,859	1,399
Items that may be subsequently reclassified to net income (loss):				
Cumulative translation adjustment	(817)	1,364	(966)	679
Income tax recovery (expense)	-	(178)	2,232	(88)
Net of income tax recovery (expense)	(817)	1,186	1,266	591
Other comprehensive income (loss)	(1,413)	9,799	7,334	20,122

8 Economic dependence

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

9 Non-cash working capital

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

	6-month period ended June 30, 2023 \$	6-month period ended June 30, 2022 \$
Decrease in payable to Partnership	-	(169)

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 6-month periods ended June 30, 2023 and June 30, 2022

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

10 Cash flows used in financing activities

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

	As of January 1, 2022	Dividends paid, net	Movements not in financing activities	As of June 30, 2022
	\$	\$	\$	\$
Dividend payable	1,781	(3,569)	3,576	1,788
Common shares	21,844	425	5	22,274
Total	<u>23,625</u>	<u>(3,144)</u>	<u>3,581</u>	<u>24,062</u>
	As of January 1, 2023	Dividends paid, net	Movements not in financing activities	As of June 30, 2023
	\$	\$	\$	\$
Dividend payable	1,790	(3,581)	3,582	1,791
Common shares	22,379	78	1	22,458
Total	<u>24,169</u>	<u>(3,503)</u>	<u>3,583</u>	<u>24,249</u>