



KRUGER PRODUCTS INC.

UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE 3-MONTH AND 9-MONTH PERIODS ENDED SEPTEMBER 30, 2024
AND SEPTEMBER 30, 2023

Kruger Products Inc.

Unaudited Condensed Consolidated Statements of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	September 30, 2024	December 31, 2023
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	111,215	135,728
Restricted cash (note 6)	44,832	12,451
Trade and other receivables	142,468	130,157
Receivables from related parties (note 9)	80	842
Inventories	262,343	254,372
Income tax recoverable	9,384	4,578
Prepaid expenses	13,998	4,726
	<u>584,320</u>	<u>542,854</u>
Non-current assets		
Property, plant and equipment	1,473,638	1,421,650
Right-of-use assets (note 5)	149,445	84,866
Other long-term assets	52	3,808
Pensions (note 6)	89,109	69,839
Goodwill	152,021	152,021
Intangible assets	40,973	26,852
Deferred income taxes	5,679	23,740
	<u>2,495,237</u>	<u>2,325,630</u>
Total assets		
Liabilities		
Current liabilities		
Trade and other payables	353,616	400,385
Payables to related parties (note 9)	14,364	10,973
Income tax payable	40	-
Dividends payable (note 9)	14,173	13,675
Current portion of long-term debt (note 7)	169,918	35,229
Current portion of lease liabilities	39,774	27,154
Current portion of long-term payable to related party (note 9)	5,800	5,800
Current portion of provisions	3,728	3,952
	<u>601,413</u>	<u>497,168</u>
Non-current liabilities		
Long-term debt (note 7)	997,478	1,034,016
Long-term lease liabilities	127,194	71,865
Long-term payable to related party (note 9)	31,411	35,580
Long-term provisions	6,015	5,740
Pensions (note 6)	14,692	18,935
Post-retirement benefits (note 6)	50,038	48,699
	<u>1,828,241</u>	<u>1,712,003</u>
Total liabilities		
Equity		
Share capital	302,328	278,252
Contributed surplus	395,382	395,382
Deficit	(147,962)	(164,029)
Accumulated other comprehensive income	85,640	81,011
	<u>635,388</u>	<u>590,616</u>
Equity attributable to Kruger Products	<u>635,388</u>	<u>590,616</u>
Non-controlling interest (note 7)	<u>31,608</u>	<u>23,011</u>
	<u>666,996</u>	<u>613,627</u>
Total equity	<u>666,996</u>	<u>613,627</u>
Total equity and liabilities	<u>2,495,237</u>	<u>2,325,630</u>
Subsequent events (notes 7 and 9)		

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

Kruger Products Inc.
Unaudited Condensed Consolidated Statements of Income (Loss)
For the 3-month and 9-month periods ended September 30, 2024 and September 30, 2023

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended September 30, 2024 \$	3-month period ended September 30, 2023 \$	9-month period ended September 30, 2024 \$	9-month period ended September 30, 2023 \$
Revenue (note 9)	521,085	473,399	1,510,317	1,390,693
Expenses				
Cost of sales (note 9)	437,202	386,375	1,262,433	1,171,111
Selling, general and administrative expenses (note 9)	46,533	39,973	133,145	116,890
Restructuring costs, net	-	77	219	1,300
Operating income	37,350	46,974	114,520	101,392
Interest expense and other finance costs	17,997	16,677	51,132	51,740
Other expense (income)	(5,266)	8,395	7,152	(870)
Income before income taxes	24,619	21,902	56,236	50,522
Current tax expense	1,768	515	3,149	1,943
Deferred tax expense	3,244	6,553	11,723	68,860
Income tax expense (note 8)	5,012	7,068	14,872	70,803
Net income (loss) including non- controlling interest	19,607	14,834	41,364	(20,281)
Net income attributable to non- controlling interest (note 7)	1,614	1,906	3,823	1,568
Net income (loss) attributable to Kruger Products	17,993	12,928	37,541	(21,849)

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

Kruger Products Inc.
Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)
For the 3-month and 9-month periods ended September 30, 2024 and September 30, 2023

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended September 30, 2024 \$	3-month period ended September 30, 2023 \$	9-month period ended September 30, 2024 \$	9-month period ended September 30, 2023 \$
Net income (loss) including non-controlling interest	19,607	14,834	41,364	(20,281)
Other comprehensive income (loss)				
Items that will not be reclassified to net income (loss):				
Remeasurements of pensions	(5,973)	18,227	20,392	(1,654)
Remeasurements of post-retirement benefits	(1,681)	2,932	133	13,122
Items that may be subsequently reclassified to net income (loss):				
Cumulative translation adjustment	(3,082)	4,611	4,629	(641)
Other comprehensive income (loss)	(10,736)	25,770	25,154	10,827
Total comprehensive income (loss) including non-controlling interest	8,871	40,604	66,518	(9,454)
Total comprehensive income (loss) attributable to non-controlling interest	1,614	1,906	3,823	1,568
Total comprehensive income (loss) attributable to Kruger Products	7,257	38,698	62,695	(11,022)

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

Kruger Products Inc.

Unaudited Condensed Consolidated Statements of Changes in Equity

For the 9-month periods ended September 30, 2024 and September 30, 2023

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

	Share capital		Contributed surplus	Deficit	Accumulated other comprehensive income	Non-controlling interest	Total equity
	#	\$					
	As of January 1, 2023	71,479,389	494,459	-	(87,835)	86,547	-
Redemption of KPSI IQ Debenture by Kruger Inc. (note 6)	-	-	-	-	-	14,611	14,611
Extinguishment of Partnership units liability (note 13)	-	133,551	-	-	-	-	133,551
Dividends payable (note 8)	-	-	-	(13,463)	-	-	(13,463)
Dividends paid	-	-	-	(26,324)	-	-	(26,324)
Fair value adjustment	-	(100)	-	100	-	-	-
Change in actuarial loss on pension	-	-	-	(1,654)	-	-	(1,654)
Change in actuarial gain on post-retirement benefits	-	-	-	13,122	-	-	13,122
Cumulative translation adjustment	-	-	-	-	(641)	-	(641)
Net loss	-	-	-	(21,849)	-	1,568	(20,281)
Issuance of common shares (note 8)	3,313,798	33,946	-	-	-	-	33,946
As of September 30, 2023	74,793,187	661,856	-	(137,903)	85,906	16,179	626,038

	Share capital		Contributed surplus	Deficit	Accumulated other comprehensive income	Non-controlling interest (note 6)	Total equity
	#	\$					
	As of January 1, 2024	75,973,356	278,252	395,382	(164,029)	81,011	23,011
Redemption of KPSI IQ Debenture by Kruger Inc. (note 7)	-	-	-	-	-	4,774	4,774
Dividends payable (note 9)	-	-	-	(14,173)	-	-	(14,173)
Dividends paid	-	-	-	(27,957)	-	-	(27,957)
Fair value adjustment	-	(131)	-	131	-	-	-
Change in actuarial gain on pension	-	-	-	20,392	-	-	20,392
Change in actuarial gain on post-retirement benefits	-	-	-	133	-	-	133
Cumulative translation adjustment	-	-	-	-	4,629	-	4,629
Net income	-	-	-	37,541	-	3,823	41,364
Issuance of common shares (note 9)	2,768,074	24,207	-	-	-	-	24,207
As of September 30, 2024	78,741,430	302,328	395,382	(147,962)	85,640	31,608	666,996

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

Kruger Products Inc.
Unaudited Condensed Consolidated Statements of Cash Flows
For the 9-month periods ended September 30, 2024 and September 30, 2023

(tabular amounts are in thousands of Canadian dollars)

	9-month period ended September 30, 2024 \$	9-month period ended September 30, 2023 \$
Cash flows from (used in) operating activities		
Net income (loss) including non-controlling interest	41,364	(20,281)
Items not affecting cash		
Depreciation	78,688	70,305
Amortization	4,300	3,271
Loss on sale of property, plant and equipment	269	1,098
Gain on disposal of leased assets	-	(488)
Foreign exchange loss (gain)	8,033	(870)
Interest expense and other finance costs	51,132	51,740
Pension and post-retirement benefits (note 6)	8,964	6,456
Provisions	3,415	2,704
Income tax expense	14,872	70,803
Loss on sale of non-financial assets	27	21
Total items not affecting cash	169,700	205,040
Net change in non-cash working capital (note 12)	(52,974)	64,267
Contributions to pension and post-retirement benefit plans	(3,418)	(7,439)
Provisions paid	(3,695)	(3,443)
Income tax payments, net	(3,121)	(2,008)
Net cash from operating activities	147,856	236,136
Cash flows from (used in) investing activities		
Purchases of property, plant and equipment	(15,821)	(14,673)
Purchases of property, plant and equipment and software related to the TAD Sherbrooke Project	-	(1,580)
Purchases of property, plant and equipment related to the Sherbrooke Expansion Project	(116,167)	(89,995)
Interest paid on credit facilities related to the Sherbrooke Expansion Project	(5,136)	(321)
Government assistance received	-	1,250
Purchases of software	(294)	(556)
Proceeds on sale of property, plant and equipment	28	2,465
Net cash used in investing activities	(137,390)	(103,410)
Cash flows from (used in) financing activities (note 13)		
Proceeds from long-term debt	119,197	87,543
Repayment of long-term debt	(33,045)	(69,906)
Payment of deferred financing fees	(1,312)	(405)
Payment of lease liabilities	(26,463)	(20,835)
Change in restricted cash	(32,381)	(3,937)
Interest paid on long-term debt	(38,839)	(34,281)
Payment to related party (note 9)	(5,800)	(5,700)
Dividends paid, net (note 9)	(17,425)	(5,245)
Net cash used in financing activities	(36,068)	(52,766)
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	1,089	(76)
Increase (decrease) in cash and cash equivalents during the period	(24,513)	79,884
Cash and cash equivalents - Beginning of period	135,728	71,261
Cash and cash equivalents - End of period	111,215	151,145

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

Kruger Products Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month and 9-month periods ended September 30, 2024 and September 30, 2023

(tabular amounts are in thousands of Canadian dollars, except share 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, Sherbrooke and Gatineau Quebec; Scarborough and Trenton, Ontario and Memphis, Tennessee. The company's headquarters are located in Mississauga, Ontario, Canada.

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

2 Basis of presentation

These unaudited condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards) applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34 - Interim Financial Reporting as issued by the International Accounting Standards Board (IASB), and with interpretations of the International Financial Reporting Committee which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the CPA Canada Handbook - Accounting. These unaudited condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended December 31, 2023.

These unaudited condensed consolidated financial statements were approved by the board of directors of Kruger Products on November 12, 2024.

3 Summary of significant accounting policies

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

Accounting standard implemented effective January 1, 2024:

- (i) IAS 1, Classification of Liabilities as Current or Non-current. In January 2020, the IASB issued an amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. In October 2022, the IASB issued an amendment to IAS 1, 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 was for annual periods beginning on or after January 1, 2024. The amended standard resulted in additional disclosures in the unaudited condensed consolidated financial statements for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period.

Kruger Products Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month and 9-month periods ended September 30, 2024 and September 30, 2023

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

- (ii) IAS 12, Global Implementation of Pillar Two. In June 2024, the principal components of Canada's Pillar Two global minimum tax rules were enacted into law. The rules are generally effective as of January 1, 2024, and are intended to ensure that multinational enterprises pay a minimum of 15% tax in each jurisdiction in which they operate. In May 2023, the IASB issued amendments to IAS 12 Income Taxes to provide temporary relief from accounting and disclosure for deferred taxes arising from the implementation of Pillar Two rules. The Company retrospectively adopted this amendment during the year ended December 31, 2023 and has applied the exception to recognizing and disclosing information regarding Pillar Two deferred income tax assets and liabilities.

Accounting standard issued but not yet implemented:

- (i) IFRS 18, Presentation and Disclosure in Financial Statements. In April 2024, the IASB issued IFRS 18 to achieve comparability of the financial performance of similar entities. The standard, which replaces IAS 1, impacts the presentation of primary financial statements and notes, mainly the income statement where companies will be required to present separate categories of income and expense for operating, investing, and financing activities with prescribed subtotals for each new category. IFRS 18 will require management-defined performance measures to be explained and included in a separate note within the consolidated financial statements. The mandatory effective date would be for annual reporting periods beginning on or after January 1, 2027, including interim financial statements, and requires retrospective application. The Company is currently assessing the impact of the new standard.
- (ii) Amendments to IFRS 9 and IFRS 7 - Amendments to the Classification and Measurement of Financial Instruments. On May 30, 2024, the IASB issued amendments to IFRS Accounting Standards 9 and IFRS Accounting Standards 7 aimed at improving the classification and measurement of financial instruments. The recent amendments simplify financial reporting by allowing earlier recognition of liabilities settled via electronic payments, clarifying the assessment of cash flows for basic lending arrangements, and refining definitions for non-recourse features and linked instruments. The amendments also introduce more detailed disclosure requirements for fair value changes in equity instruments and mandate reporting of terms that could affect cash flow timings or amounts. The amendment will be effective from January 1, 2026 and entities must apply these amendments retrospectively, with earlier adoption permitted. The Company is currently assessing the impact of the amendments.

4 Critical accounting estimates and judgments

The preparation of these unaudited condensed 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 unaudited condensed consolidated financial statements and the disclosure of contingencies at the dates of the unaudited condensed consolidated statements of financial position, and the reported amounts of revenues and expenses during the reporting period. On a regular basis and with the information available, management reviews its estimates. Actual results could differ from those estimates. When adjustments become necessary, they are reported in earnings in the period in which they occur. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and the future periods if the revision affects both current and future periods. The estimates and judgement applied by management that most significantly affect the unaudited condensed consolidated financial statements are the same as the ones that applied to the audited consolidated financial statements of the Company for the year ended December 31, 2023.

Kruger Products Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
For the 3-month and 9-month periods ended September 30, 2024 and September 30, 2023

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

5 Right-of-use assets

For the nine-months ended September 30, 2024, additions of \$9.1 million, \$72.9 million and \$4.2 million have been recorded in land, buildings and equipment, respectively. The discount rate used to value the leases ranged from 6.3% to 7.2% which is representative of the company's incremental borrowing rate.

6 Pensions and post-retirement benefits

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

	Pensions		Post-retirement benefit plans	
	September 30, 2024	December 31, 2023	September 30, 2024	December 31, 2023
	%	%	%	%
Assumptions				
Discount rate - accrued benefit obligation	4.66	4.65	4.66	4.65
Rate of compensation increases	3.25 - 4.00	3.25 - 4.00		

Kruger Products Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
For the 3-month and 9-month periods ended September 30, 2024 and September 30, 2023

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

The net benefit pension plan expense included the following components:

	Pensions		Post-retirement benefit plans	
	3-month period ended September 30, 2024 \$	3-month period ended September 30, 2023 \$	3-month period ended September 30, 2024 \$	3-month period ended September 30, 2023 \$
Net benefit plan expense				
Current service cost	1,672	1,728	496	427
Past service cost	1,325	-	-	-
Interest cost	6,617	7,056	553	548
Asset ceiling interest cost	108	-	-	-
Expected return on plan assets	(7,259)	(7,838)	-	-
Administrative cost	187	189	-	-
	2,650	1,135	1,049	975

	Pensions		Post-retirement benefit plans	
	9-month period ended September 30, 2024 \$	9-month period ended September 30, 2023 \$	9-month period ended September 30, 2024 \$	9-month period ended September 30, 2023 \$
Net benefit plan expense				
Current service cost	5,589	4,601	1,489	1,287
Past service cost	1,325	-	-	-
Interest cost	20,082	21,405	1,661	1,642
Asset ceiling interest cost	324	-	-	-
Expected return on plan assets	(22,050)	(23,760)	-	-
Administrative cost	561	568	-	-
	5,831	2,814	3,150	2,929

Kruger Products Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
For the 3-month and 9-month periods ended September 30, 2024 and September 30, 2023

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

7 Long-term debt

	Weighted average interest rate as of September 30, 2024	Maturity	September 30, 2024 \$	December 31, 2023 \$
Kruger Products Senior Credit Facility ^(a)	-	2026	(824)	-
Senior Unsecured Notes due April 24, 2025 ^(b)	6.00%	2025	124,689	124,295
Senior Unsecured Notes due April 9, 2029	5.375%	2029	133,136	132,830
AgCredit - Term A Credit Facility	4.82%	2036	186,839	187,459
AgCredit - Term B Credit Facility	5.04%	2037	238,621	233,321
AgCredit - Term D Credit Facility ^(c)	6.07%	2032	109,613	113,924
KPSB Senior Credit Facility	7.86%	2028	134,352	35,052
KPSI IQ Debenture ^(d)	3.00%	2028	64,727	75,671
KPSB IQ Debenture	2.00%	2034	60,540	57,758
IQ Bathroom Tissue Loan	2.00%	2032	38,187	32,354
Nordea2 Credit Facility	3.74%	2029	37,529	44,003
IQ Facial Tissue Loan	2.00%	2033	34,493	26,058
IQ Gatineau Loan ^(e)	6.50%	2034	4,153	-
Ontario Loan	2.40%	2026	950	1,416
Quebec PM Loan	3.50%	2026	391	5,104
			1,167,396	1,069,245
Senior Unsecured Notes due April 24, 2025			125,000	-
AgCredit - Term A Credit Facility			4,522	5,538
AgCredit - Term D Credit Facility			13,707	-
KPSI IQ Debenture			16,689	16,689
Nordea2 Credit Facility			7,736	7,579
IQ Facial Tissue Loan			1,388	-
Ontario Loan			485	485
Quebec PM Loan			391	4,938
Less: Current portion of long-term debt			169,918	35,229
Long-term debt			997,478	1,034,016

Amounts are net of deferred financing fees.

Fair value of Long-term debt and discount rates are disclosed in note 10, Financial instruments, *Fair value*.

Certain of the Company's debt agreements require the Company to comply with financial and restrictive covenants on a quarterly basis. As of September 30, 2024, the Company was in compliance with all of its financial and restrictive covenants under its outstanding debt agreements. As a result, the Company has classified those loan arrangements subject to covenant compliance and due beyond twelve months of the reporting date as non-current liabilities in the unaudited condensed consolidated statement of financial position.

Certain of the Company's debt agreements were amended effective as of January 1, 2023 in connection with the Reorganization (note 13), 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.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month and 9-month periods ended September 30, 2024 and September 30, 2023

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

(a) Kruger Products Senior Credit Agreement

On March 22, 2024, the Company entered into the ninth amended and restated credit agreement to increase the Kruger Products Senior Credit Facility to \$325.0 million from \$200.0 million.

(b) Senior Unsecured Notes

Subsequent to September 30, 2024, on November 1, 2024, the Company issued \$135 million in an aggregate principal amount of 6.625% Senior Unsecured Notes (the “Notes”) due November 1, 2031 through a private placement (the “Offering”). Interest on the Notes is payable semi-annually in arrears on May 1 and November 1 of each year, commencing on May 1, 2025.

Subsequent to September 30, 2024, on November 12, 2024, the Company used the net proceeds of the Offering to fully redeem KPSI’s outstanding 6.00% Senior Unsecured Notes due April 24, 2025.

(c) AgCredit Agreement

During the 9-month period ended September 30, 2024, US\$25.7 million was deposited in the KPSI Dedicated Account, of which US\$5.1 million was used to prepay the Term D Credit Facility.

On June 26, 2024, the borrowers entered into the seventh amendment to the AgCredit Agreement for the implementation of interest rate benchmark transition, including the replacement of CDOR loans with CORRA loans.

(d) KPSI IQ Debenture

Pursuant to the KPSI Repayment Agreement, the Company waived its priority right to make the first three monthly redemption payments in 2024 and the twelve payments in 2023 under the KPSI IQ Debenture and Kruger Inc. notified Investissement Quebec (IQ) that it would instead make the monthly redemption payments. As consideration, Kruger Inc. received non-voting common shares of Kruger Products Sherbrooke Inc. (KPSI) with a value of \$4.8 million during the 3-month period ended March 31, 2024 (3-month period ended March 31, 2023 - \$4.9 million). The next six monthly redemption payments were made by the Company during the 9-month period ended September 30, 2024, in exchange for voting common shares of KPSI with a value of \$9.5 million. As a result, Kruger Inc. held a 13.5% non-controlling interest directly in KPSI as of September 30, 2024. Also as of September 30, 2024, a non-controlling interest of \$31.6 million was recorded in the unaudited condensed consolidated statement of financial position. The unaudited condensed consolidated statement of income (loss) and comprehensive income (loss) for the 9-month period ended September 30, 2024 includes a loss of \$3.8 million directly attributable to Kruger Inc’s share of income in KPSI. The two monthly redemption payments subsequent to September 30, 2024 were made by the Company.

(e) IQ Gatineau Loan Agreement

On March 5, 2024, the Company announced an investment of \$14.5 million to increase its facial tissue production capacity in Gatineau, Quebec, including commissioning a new facial tissue converting line in November 2023. IQ has agreed to invest \$7.3 million in the project by way of a ten year term loan (IQ Gatineau Loan).

8 Income taxes

The estimated effective weighted average annual income tax rate for the 9-month period ended September 30, 2024 was 26.4% (9-month period ended September 30, 2023 – 140.1%). The decrease in the effective tax rate in the current period was primarily attributable to the higher deferred tax expense during the 9-month period ended September 30, 2023 related to the transfer of the assets and liabilities on the Reorganization (note 13).

Kruger Products Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month and 9-month periods ended September 30, 2024 and September 30, 2023

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

9 Related party transactions

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

	3-month period ended September 30, 2024	3-month period ended September 30, 2023	9-month period ended September 30, 2024	9-month period ended September 30, 2023
	\$	\$	\$	\$
Sales of goods to Kruger Inc.	16	17	141	79
Sales of goods to subsidiaries of Kruger Inc.	679	872	3,459	3,034
Purchases of goods from Kruger Inc.	40	142	292	361
Purchases of goods and services from subsidiaries of Kruger Inc.	17,189	11,038	45,951	32,318
Management fee to Kruger Inc.	2,652	2,069	7,956	6,208

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

	September 30, 2024	December 31, 2023
	\$	\$
Receivables from Kruger Inc.	13	385
Receivables from subsidiaries of Kruger Inc.	67	-
Receivables from KPT	-	457
Total receivables from related parties	<u>80</u>	<u>842</u>
Payables to Kruger Inc.	8,437	8,640
Payables to subsidiaries of Kruger Inc.	5,862	2,333
Payables to KPT	65	-
Total payables to related parties	<u>14,364</u>	<u>10,973</u>

Long-term payable to KBLP

As of September 30, 2024, obligations of \$5.8 million and \$31.4 million were recorded in the unaudited condensed consolidated statement of financial position as the Current and Long-term portions of the Long-term payable to related party, respectively (December 31, 2023 - \$5.8 million and \$35.6 million, respectively). During the 9-month period ended September 30, 2024, the Company made its annual payment of \$5.8 million to Kruger Brompton L.P., a subsidiary of Kruger Inc. Also, during the 9-month period ended September 30, 2024, the increase in the obligation due to passage of time was \$1.6 million (9-month period ended September 30, 2023 – \$1.8 million) and was recognized as Interest expense and other finance costs in the unaudited condensed consolidated statements of income (loss).

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

	September 30, 2024	December 31, 2023
	\$	\$
Payable to Kruger Inc.	12,376	11,881
Payable to KPGP	1	1
Payable to KPT	1,796	1,793
Total dividends payable	<u>14,173</u>	<u>13,675</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:

	9-month period ended September 30, 2024			
	Dividends	Share price	Issuance of	Gross proceeds
Dividend Payment Date	\$	\$	common shares	\$
			#	
January 15, 2024	13,675	8.99	1,326,190	11,922
April 15, 2024	13,914	8.52	717,079	6,110
July 15, 2024	14,043	8.52	724,805	6,175
	<u>41,632</u>		<u>2,768,074</u>	<u>24,207</u>

	9-month period ended September 30, 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
	<u>39,190</u>		<u>3,313,798</u>	<u>33,946</u>

During the 9-month period ended September 30, 2024, dividends of \$36.2 million (9-month period ended September 30, 2023 - \$33.8 million) were paid to Kruger Inc. and Kruger Inc. reinvested 100% via the DRIP during the 3-month period ended March 31, 2024 and reinvested 50% during the 6-month period ended September 30, 2024 (9-month period ended September 30, 2023 – reinvested 100% via the DRIP).

During the 9-month period ended September 30, 2024, dividends of \$5.4 million (9-month period ended September 30, 2023 –\$5.4 million) were paid to KPT and KPT reinvested 2.7% via the DRIP (9-month period ended September 30, 2023 – reinvested 2.4% via the DRIP).

Subsequent to September 30, 2024, on October 15, 2024, the Company paid a dividend of \$14.2 million to its shareholders. Pursuant to the Kruger Products DRIP, a total of 44.1% was reinvested by the shareholders, resulting in the Company issuing 749,217 common shares at a price of \$8.34.

Subsequent to September 30, 2024, the Company declared a dividend of \$14.3 million, payable on January 15, 2025.

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10 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 on sale of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) foreign exchange loss (gain), (viii) costs related to restructuring activities and (ix) changes in amortized cost of Partnership units liability. The unaudited condensed 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.

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.

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	3-month period ended September 30, 2024 \$	3-month period ended September 30, 2023 \$	9-month period ended September 30, 2024 \$	9-month period ended September 30, 2023 \$
Segment Revenue				
Consumer	429,196	390,293	1,255,410	1,150,290
AFH	91,889	83,106	254,907	240,403
Revenue from external customers	<u>521,085</u>	<u>473,399</u>	<u>1,510,317</u>	<u>1,390,693</u>
Adjusted EBITDA				
Consumer	62,414	65,925	185,373	170,468
AFH	6,602	8,381	23,941	15,078
Corporate and other costs	(3,351)	(1,924)	(11,291)	(8,159)
Total Adjusted EBITDA	65,665	72,382	198,023	177,387
Reconciliation to net income (loss)				
Depreciation and amortization	28,300	25,337	82,988	73,576
Interest expense and other finance costs	17,997	16,677	51,132	51,740
Loss (gain) on disposal of property, plant and equipment	-	(11)	269	1,098
Loss on sale of non-financial assets	15	5	27	21
Change in amortized cost of Partnership units liability	-	-	(881)	-
Restructuring costs, net	-	77	219	1,300
Foreign exchange loss (gain)	(5,266)	8,395	8,033	(870)
Income before income taxes	24,619	21,902	56,236	50,522
Income tax expense	5,012	7,068	14,872	70,803
Net income (loss) including non-controlling interest	<u>19,607</u>	<u>14,834</u>	<u>41,364</u>	<u>(20,281)</u>

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Geographic segments

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

	3-month period ended September 30, 2024	3-month period ended September 30, 2023	9-month period ended September 30, 2024	9-month period ended September 30, 2023
Revenue	\$	\$	\$	\$
Canada	282,222	267,588	827,363	793,533
US	238,863	205,811	682,954	597,160
	<u>521,085</u>	<u>473,399</u>	<u>1,510,317</u>	<u>1,390,693</u>

	September 30, 2024		
	Canada	US	Total
	\$	\$	\$
Property, plant and equipment	1,167,270	306,368	1,473,638
Goodwill	152,021	-	152,021
Intangible assets	40,973	-	40,973

	December 31, 2023		
	Canada	US	Total
	\$	\$	\$
Property, plant and equipment	1,110,242	311,408	1,421,650
Goodwill	152,021	-	152,021
Intangible assets	26,852	-	26,852

11 Financial instruments

Classification of financial instruments

As of September 30, 2024 and December 31, 2023, the carrying amount of financial assets and liabilities was at amortized cost.

Fair value

Cash and cash equivalents, Restricted cash, Trade and other receivables, Receivables from related parties, Trade payables, Accrued 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.

Contract liabilities (included in accrued liabilities) have decreased \$10.2 million during the 9-month period ended September 30, 2024, to \$106.9 million, including \$27.0 million utilized or released through the unaudited condensed consolidated statement of income (loss) and comprehensive income (loss) primarily as a result of movement in pulp prices.

The Long-term payable to related party is measured at the present value of the future payments required to settle the obligation, discounted using the Company's incremental borrowing rate. The increase in the Long-term payable to related party due to passage of time is recognized as Interest expense and other finance costs in the unaudited condensed

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consolidated statements of income (loss) and comprehensive income (loss). The valuation methodology used is categorized as a Level 2 methodology.

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, the Nordea2 Credit Facility and the IQ Gatineau Loan 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	September 30, 2024	December 31, 2023
		\$	\$
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	-	187,129	187,775
AgCredit - Term B Credit Facility	-	241,944	236,963
AgCredit - Term D Credit Facility	-	110,492	115,066
KPSB Senior Credit Facility	-	135,167	35,835
KPSB IQ Debenture	6.7%	78,048	76,973
KPSI IQ Debenture	6.1%	64,864	75,871
IQ Bathroom Tissue Loan	7.3%	47,854	41,816
IQ Facial Tissue Loan	7.6%	44,066	34,624
Nordea2 Credit Facility	-	38,681	45,478
IQ Gatineau Loan	-	4,344	-
Ontario Loan	4.4%	950	1,416
Quebec PM Loan	4.4%	391	5,222
		<u>1,213,930</u>	<u>1,117,039</u>

Amounts exclude deferred financing fees.

12 Non-cash working capital

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

	9-month period ended September 30, 2024	9-month period ended September 30, 2023
	\$	\$
Increase in trade and other receivables	(12,003)	(4,263)
Decrease in receivables from related parties	620	116
Decrease (increase) in inventories	(9,174)	28,670
Increase in prepaid expenses	(9,271)	(3,186)
Increase in income taxes	(4,763)	(3,793)
Increase (decrease) in trade and other payables	(21,698)	46,900
Increase (decrease) in payables to related parties	3,315	(177)
	<u>(52,974)</u>	<u>64,267</u>

Kruger Products Inc.

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13 Cash flows from (used in) financing activities

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

	9-month period ended September 30, 2024 \$	9-month period ended September 30, 2023 \$
Long-term debt (including current portion)		
Opening balance	1,069,245	1,111,708
Proceeds from long-term debt	119,197	87,543
Repayment of long-term debt	(33,045)	(69,906)
Reclassification of deferred financing fees and other ^(a)	(4,055)	(22,556)
Redemption of KPSI IQ Debenture principal portion by Kruger Inc.	(4,172)	(12,517)
Interest expense and other finance costs	6,785	3,777
Capitalized interest	2,382	3,521
Payment of deferred financing fees	(1,168)	(388)
Foreign exchange loss (gain)	8,033	(706)
Cumulative translation adjustment	4,194	(493)
Closing balance	<u>1,167,396</u>	<u>1,099,983</u>
Lease liabilities (including current portion)		
Opening balance	99,019	98,928
Payment of lease liabilities	(26,463)	(20,835)
Additions	90,868	7,970
Lease terminations	(3,874)	-
Reclassification	1,640	(2,101)
Interest expense	5,614	3,172
Lease depreciation	68	-
Cumulative translation adjustment	96	(21)
Closing balance	<u>166,968</u>	<u>87,113</u>

(a) Includes the reclassification of deferred financing fees from Other long-term assets (9-month period ended September 30, 2024 - \$3.9 million; 9-month period ended September 30, 2023 - \$21.4 million).

14 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).

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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 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.

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.