



KP TISSUE INC.

UNAUDITED CONDENSED FINANCIAL STATEMENTS

**FOR THE 3-MONTH AND 9-MONTH PERIODS ENDED SEPTEMBER 30, 2022
AND SEPTEMBER 30, 2021**

KP Tissue Inc.
Unaudited Condensed Statements of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	September 30, 2022	December 31, 2021
	\$	\$
Assets		
Current assets		
Distributions receivable	1,789	1,781
Income tax recoverable	618	208
	<u>2,407</u>	<u>1,989</u>
Non-current assets		
Investment in associate (note 4)	90,720	78,727
	<u>93,127</u>	<u>80,716</u>
Liabilities		
Current liabilities		
Dividend payable (note 6)	1,789	1,781
Payable to Partnership	170	246
Current portion of advances from Partnership (note 5)	-	2,014
	<u>1,959</u>	<u>4,041</u>
Non-current liabilities		
Deferred income taxes (note 5)	7,368	806
	<u>9,327</u>	<u>4,847</u>
Equity		
Common shares (note 6)	22,319	21,844
Contributed surplus	144,819	144,819
Deficit	(99,086)	(103,561)
Accumulated other comprehensive income	15,748	12,767
	<u>83,800</u>	<u>75,869</u>
Total liabilities and equity	<u>93,127</u>	<u>80,716</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 Comprehensive Income (Loss)

For the 3-month and 9-month periods ended September 30, 2022 and September 30, 2021

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

	3-month period ended September 30, 2022 \$	3-month period ended September 30, 2021 \$	9-month period ended September 30, 2022 \$	9-month period ended September 30, 2021 \$
Equity loss (note 4)	(6,836)	(2,686)	(14,367)	(4,033)
Dilution gain (note 6)	283	81	483	243
Loss before income taxes	(6,553)	(2,605)	(13,884)	(3,790)
Income tax recovery (note 5)	(264)	(382)	(4,625)	(1,542)
Net loss for the period	(6,289)	(2,223)	(9,259)	(2,248)
Other comprehensive income (loss) net of tax expense (recovery) (note 7)				
Items that will not be reclassified to net loss:				
Remeasurements of pensions	(383)	5,600	17,749	17,152
Remeasurements of post-retirement benefits	(45)	147	1,354	536
Items that may be subsequently reclassified to net loss:				
Cumulative translation adjustment	2,390	1,092	2,981	(42)
Total other comprehensive income for the period	1,962	6,839	22,084	17,646
Comprehensive income (loss) for the period	(4,327)	4,616	12,825	15,398
Basic loss per share	(0.63)	(0.23)	(0.93)	(0.23)
Weighted average number of shares outstanding	9,939,529	9,853,722	9,933,537	9,817,280

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 9-month periods ended September 30, 2022 and September 30, 2021

(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, 2021	9,751,771	20,355	144,819	(111,907)	13,061	66,328
Issuance of common shares (note 6)	107,333	1,126	-	-	-	1,126
Dividends payable (note 6)	-	-	-	(1,774)	-	(1,774)
Dividends paid (note 6)	-	-	-	(3,529)	-	(3,529)
Fair value adjustment (note 6)	-	(10)	-	10	-	-
Remeasurements of pensions	-	-	-	17,152	-	17,152
Remeasurements of post-retirement benefits	-	-	-	536	-	536
Cumulative translation adjustment	-	-	-	-	(42)	(42)
Net loss for the period	-	-	-	(2,248)	-	(2,248)
As of September 30, 2021	9,859,104	21,471	144,819	(101,760)	13,019	77,549
As of January 1, 2022	9,895,419	21,844	144,819	(103,561)	12,767	75,869
Issuance of common shares (note 6)	44,784	471	-	-	-	471
Dividends payable (note 6)	-	-	-	(1,789)	-	(1,789)
Dividends paid (note 6)	-	-	-	(3,576)	-	(3,576)
Fair value adjustment (note 6)	-	4	-	(4)	-	-
Remeasurements of pensions	-	-	-	17,749	-	17,749
Remeasurements of post-retirement benefits	-	-	-	1,354	-	1,354
Cumulative translation adjustment	-	-	-	-	2,981	2,981
Net loss for the period	-	-	-	(9,259)	-	(9,259)
As of September 30, 2022	9,940,203	22,319	144,819	(99,086)	15,748	83,800

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

KP Tissue Inc.
Unaudited Condensed Statements of Cash Flows
For the 9-month periods ended September 30, 2022 and September 30, 2021

(tabular amounts are in thousands of Canadian dollars)

	9-month period ended September 30, 2022 \$	9-month period ended September 30, 2021 \$
Cash flows from (used in) operating activities		
Net loss for the period	(9,259)	(2,248)
Items not affecting cash		
Equity loss (note 4)	14,367	4,033
Dilution gain (note 6)	(483)	(243)
Income tax recovery (note 5)	(4,625)	(1,542)
Total items not affecting cash	9,259	2,248
Net change in non-cash working capital (note 9)	(76)	95
Tax refunds (payments)	38	(3,311)
Tax Distribution received, net	38	1,738
Advances received	-	1,478
Net cash from (used in) operating activities	-	-
Cash flows from investing activities		
Partnership unit distributions received	4,886	4,158
Net cash from investing activities	4,886	4,158
Cash flows used in financing activities (note 10)		
Dividends paid, net	(4,886)	(4,158)
Net cash used in financing activities	(4,886)	(4,158)
Increase (decrease) in cash and cash equivalents during the period	-	-
Cash and cash equivalents - Beginning of period	-	-
Cash and cash equivalents - End of period	-	-

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

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 9-month periods ended September 30, 2022 and September 30, 2021

(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 September 30, 2022, the Corporation held a 14.1% (December 31, 2021 – 14.5%) interest in Kruger Products L.P. (KPLP or the Partnership), whose 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, 2021.

These unaudited condensed financial statements were approved by the board of directors on November 8, 2022.

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, 2021.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 9-month periods ended September 30, 2022 and September 30, 2021

(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, 2021	69,537
Investment in associate	1,126
Share of loss	(36)
Depreciation of fair value increments	(3,997)
Share of other comprehensive income	21,059
Dilution gain	243
Tax Distribution	(2,612)
Partnership unit distributions	(5,303)
As of September 30, 2021	<u>80,017</u>
As of January 1, 2022	78,727
Investment in associate	471
Share of loss	(10,425)
Depreciation of fair value increments	(3,942)
Share of other comprehensive income	32,823
Dilution gain	483
Tax Distribution	(2,052)
Partnership unit distributions	(5,365)
As of September 30, 2022	<u>90,720</u>

The equity loss was comprised of the following components:

	3-month period ended September 30, 2022	3-month period ended September 30, 2021	9-month period ended September 30, 2022	9-month period ended September 30, 2021
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Share of loss	(5,523)	(1,355)	(10,425)	(36)
Depreciation of fair value increments	(1,313)	(1,331)	(3,942)	(3,997)
	<u>(6,836)</u>	<u>(2,686)</u>	<u>(14,367)</u>	<u>(4,033)</u>

KP Tissue Inc.

Notes to Unaudited Condensed Financial Statements

For the 9-month periods ended September 30, 2022 and September 30, 2021

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

The following summarizes financial information about the assets, liabilities, revenue and net loss of KPLP, in which the Corporation holds a 14.1% interest as of September 30, 2022 (December 31, 2021 – 14.5%). The financial information was derived from the unaudited condensed consolidated financial statements of KPLP for the 9-month period ended September 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.

	September 30, 2022		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	517,842	-	517,842
Non-current assets	1,816,468	327,293	2,143,761
Liabilities to non-unitholders	1,620,788	-	1,620,788
Partnership units liability	159,137	-	159,137
Net assets	554,385		
	3-month period ended September 30, 2022	9-month period ended September 30, 2022	
	\$	\$	
Revenue	427,026	1,223,264	
Net loss	(38,802)	(72,878)	
Other comprehensive income	13,633	226,994	
Total comprehensive income (loss)	(25,169)	154,116	
			December 31, 2021
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	511,547	-	511,547
Non-current assets	1,610,765	351,875	1,962,640
Liabilities to non-unitholders	1,533,016	-	1,533,016
Partnership units liability	173,201	-	173,201
Net assets	416,095		
	3-month period ended September 30, 2021	9-month period ended September 30, 2021	
	\$	\$	
Revenue	391,392	1,041,132	
Net loss	(9,258)	(252)	
Other comprehensive income	53,488	144,506	
Total comprehensive income	44,230	144,254	

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 9-month periods ended September 30, 2022 and September 30, 2021

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

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

	September 30, 2022	December 31, 2021
	\$	\$
KPLP consolidated equity	554,385	416,095
Add back: Inception value of Partnership units liability	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	(504,874)	(383,737)
Equity pertaining to KPT	168,073	150,920
Investment in associate recorded in KPT	90,720	78,727
Reconciling difference	77,353	72,193
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	57,900	53,958
Currency translation adjustment in fair value increments	(3,381)	(3,030)
Tax Distribution	9,320	7,268
Gain on exercise of over allotment option	(375)	(375)
Dilution gain	(3,001)	(2,518)
Impairment in investment in associate	28,000	28,000
	<u>-</u>	<u>-</u>

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

5 Income taxes

The Corporation is required to pay income tax on its share of the taxable income of KPLP. The Corporation has not recognized at the date of acquisition the deferred tax assets and liabilities related to the differences between the accounting and tax basis of KPLP's assets and liabilities. Accordingly, the Corporation is tracking the temporary differences that were subject to the initial recognition exemption and recognizes newly created temporary differences as they arise.

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

	3-month period ended September 30, 2022	3-month period ended September 30, 2021	9-month period ended September 30, 2022	9-month period ended September 30, 2021
	\$	\$	\$	\$
Current tax expense (recovery)	4	709	(448)	1,483
Deferred tax recovery	(268)	(1,091)	(4,177)	(3,025)
	<u>(264)</u>	<u>(382)</u>	<u>(4,625)</u>	<u>(1,542)</u>

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 9-month periods ended September 30, 2022 and September 30, 2021

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Details of the provision for income taxes were as follows:

	3-month period ended September 30, 2022	3-month period ended September 30, 2021	9-month period ended September 30, 2022	9-month period ended September 30, 2021
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Income tax at statutory rate of 26%	(1,704)	(677)	(3,610)	(985)
Permanent differences and other	89	65	158	40
Dilution gain	(73)	(21)	(125)	(63)
Taxed in hands of subsidiaries	1,295	809	2,030	845
Realization of previously unrecognized tax attributes	401	476	1,190	1,359
Change in basis of investment in associate	<u>(272)</u>	<u>(1,034)</u>	<u>(4,268)</u>	<u>(2,738)</u>
	<u>(264)</u>	<u>(382)</u>	<u>(4,625)</u>	<u>(1,542)</u>

Components of the deferred income tax liability were as follows:

	September 30, 2022	December 31, 2021
	<u>\$</u>	<u>\$</u>
Deferred tax liability (asset)		
ROU assets and lease liabilities	(592)	(762)
Pensions	5,659	(807)
Partnership units liability	(3,752)	(3,825)
Property, plant and equipment	6,752	6,960
Other	<u>(699)</u>	<u>(760)</u>
	<u>7,368</u>	<u>806</u>

The analysis of the deferred tax liability were as follows:

	September 30, 2022	December 31, 2021
	<u>\$</u>	<u>\$</u>
Deferred tax liabilities to be realized greater than 12 months	<u>7,368</u>	<u>806</u>

In addition to the above, the Corporation has a deferred tax asset of \$4.4 million (December 31, 2021 - \$7.0 million) related to the Investment in associate which has not been recognized in the unaudited condensed financial statements for the 9-month period ended September 30, 2022.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 9-month periods ended September 30, 2022 and September 30, 2021

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

The movement in the deferred tax liability was as follows:

	<u>\$</u>
As of January 1, 2021	634
Charge to net loss	(3,025)
Charge to other comprehensive loss	
- remeasurements of cumulative translation adjustment	(6)
Charge to other comprehensive income	
- remeasurements of post-retirement benefits	343
Charge to other comprehensive income	
- remeasurements of pensions	3,076
	<u>1,022</u>
As of September 30, 2021	<u>1,022</u>
As of January 1, 2022	806
Charge to net loss	(4,177)
Charge to other comprehensive income	
- remeasurements of cumulative translation adjustment	445
Charge to other comprehensive income	
- remeasurements of post-retirement benefits	614
Charge to other comprehensive income	
- remeasurements of pensions	9,680
	<u>9,680</u>
As of September 30, 2022	<u>7,368</u>

Pursuant to the Tax Distribution as defined in the Partnership Agreement, on February 28, 2022, KPT received a Tax Distribution of \$2.1 million from KPLP for purposes of settling its obligation for federal and provincial taxes, for the year ended December 31, 2021. The Tax Distribution was used to settle the outstanding advance to KPT in the amount of \$2.0 million as of December 31, 2021.

6 Dividends

During the 9-month periods ended September 30, 2022 and September 30, 2021, 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. 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	9-month period ended September 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
July 15, 2022	1,788	10.26	4,426	46
	<u>5,357</u>		<u>44,784</u>	<u>471</u>

KP Tissue Inc.

Notes to Unaudited Condensed Financial Statements

For the 9-month periods ended September 30, 2022 and September 30, 2021

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

Dividend Payment Date	9-month period ended September 30, 2021			
	Dividends paid \$	Share price \$	Issuance of Common shares #	Gross proceeds \$
January 15, 2021	1,755	10.70	32,921	352
April 15, 2021	1,761	10.47	39,046	409
July 15, 2021	1,768	10.32	35,366	365
	<u>5,284</u>		<u>107,333</u>	<u>1,126</u>

On October 17, 2022, 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 5,773 common shares at a price of \$10.26.

Subsequent to September 30, 2022, the Corporation declared a dividend of \$0.18 per common share to shareholders, payable on January 16, 2023.

As a result of the DRIP and Kruger's reinvestment of its distribution from KPLP in units of KPLP, a dilution gain of \$0.5 million was recorded during the 9-month period ended September 30, 2022 (9-month period ended September 30, 2021 - \$0.2 million).

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 September 30, 2022 \$	3-month period ended September 30, 2021 \$	9-month period ended September 30, 2022 \$	9-month period ended September 30, 2021 \$
Items that will not be reclassified to net loss:				
Remeasurements of pensions	(610)	6,456	27,429	20,228
Income tax recovery (expense)	227	(856)	(9,680)	(3,076)
Net of income tax recovery (expense)	<u>(383)</u>	<u>5,600</u>	<u>17,749</u>	<u>17,152</u>
Remeasurements of post-retirement	(54)	242	1,968	879
Income tax recovery (expense)	9	(95)	(614)	(343)
Net of income tax recovery (expense)	<u>(45)</u>	<u>147</u>	<u>1,354</u>	<u>536</u>
Items that may be subsequently reclassified to net loss:				
Cumulative translation adjustment	2,747	1,255	3,426	(48)
Income tax recovery (expense)	(357)	(163)	(445)	6
Net of income tax recovery (expense)	<u>2,390</u>	<u>1,092</u>	<u>2,981</u>	<u>(42)</u>
Total other comprehensive income for the period	<u>1,962</u>	<u>6,839</u>	<u>22,084</u>	<u>17,646</u>

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 9-month periods ended September 30, 2022 and September 30, 2021

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

8 Economic dependence

The Corporation was created to acquire, and its business is limited to holding, a limited partnership interest in KPLP, which is accounted for as an investment in an associate using the equity method of accounting. As such, the Corporation is economically dependent on KPLP and exposed to all the risks associated with the business of KPLP, 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:

	9-month period ended September 30, 2022	9-month period ended September 30, 2021
	\$	\$
Decrease in receivable from Partnership	-	21
Increase (decrease) in payable to Partnership	(76)	74
	<u>(76)</u>	<u>95</u>

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, 2021	Dividends paid, net	Movements not in financing activities	As of September 30, 2021
	\$	\$	\$	\$
Dividend payable	1,755	(5,284)	5,303	1,774
Common shares	20,355	1,126	(10)	21,471
Total	<u>22,110</u>	<u>(4,158)</u>	<u>5,293</u>	<u>23,245</u>

	As of January 1, 2022	Dividends paid, net	Movements not in financing activities	As of September 30, 2022
	\$	\$	\$	\$
Dividend payable	1,781	(5,357)	5,365	1,789
Common shares	21,844	471	4	22,319
Total	<u>23,625</u>	<u>(4,886)</u>	<u>5,369</u>	<u>24,108</u>