



KP TISSUE INC.

UNAUDITED CONDENSED FINANCIAL STATEMENTS

FOR THE 3-MONTH PERIODS ENDED MARCH 31, 2023 AND MARCH 31, 2022

KP Tissue Inc.

Unaudited Condensed Statements of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	March 31, 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)	69,946	79,338
	<u>69,946</u>	<u>79,338</u>
Total assets	<u>72,317</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)	22,427	22,379
Contributed surplus	144,819	144,819
Deficit	(113,813)	(108,008)
Accumulated other comprehensive income	16,923	14,840
	<u>70,356</u>	<u>74,030</u>
Total equity	<u>70,356</u>	<u>74,030</u>
Total liabilities and equity	<u>72,317</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 Comprehensive Income (Loss)**

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

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

	3-month period ended March 31, 2023 \$	3-month period ended March 31, 2022 \$
Equity loss (note 4)	(7,059)	(1,108)
Dilution gain (note 6)	273	73
Loss before income taxes	(6,786)	(1,035)
Income tax expense (recovery) (note 5)	3,892	(2,013)
Net income (loss)	(10,678)	978
Other comprehensive income (loss) net of tax expense (recovery) (note 7)		
Items that will not be reclassified to net income (loss):		
Remeasurements of pensions	4,723	10,248
Remeasurements of post-retirement benefits	1,941	670
Items that may be subsequently reclassified to net income (loss):		
Cumulative translation adjustment	2,083	(595)
Total other comprehensive income	8,747	10,323
Comprehensive income (loss)	(1,931)	11,301
Basic earnings (loss) per share	(1.07)	0.10
Weighted average number of shares outstanding	9,949,878	9,925,825

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 3-month periods ended March 31, 2023 and March 31, 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)	36,007	378	-	-	-	378
Dividends payable (note 6)	-	-	-	(1,788)	-	(1,788)
Fair value adjustment (note 6)	-	4	-	(4)	-	-
Remeasurements of pensions	-	-	-	10,248	-	10,248
Remeasurements of post-retirement benefits	-	-	-	670	-	670
Cumulative translation adjustment	-	-	-	-	(595)	(595)
Net income	-	-	-	978	-	978
As of March 31, 2022	9,931,426	22,226	144,819	(93,457)	12,172	85,760
As of January 1, 2023	9,945,976	22,379	144,819	(108,008)	14,840	74,030
Issuance of common shares (note 6)	4,682	48	-	-	-	48
Dividends payable (note 6)	-	-	-	(1,791)	-	(1,791)
Remeasurements of pensions	-	-	-	4,723	-	4,723
Remeasurements of post-retirement benefits	-	-	-	1,941	-	1,941
Cumulative translation adjustment	-	-	-	-	2,083	2,083
Net loss	-	-	-	(10,678)	-	(10,678)
As of March 31, 2023	9,950,658	22,427	144,819	(113,813)	16,923	70,356

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

KP Tissue Inc.
Unaudited Condensed Statements of Cash Flows
For the 3-month periods ended March 31, 2023 and March 31, 2022

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended March 31, 2023	3-month period ended March 31, 2022
	\$	\$
Cash flows from (used in) operating activities		
Net income (loss)	(10,678)	978
Items not affecting cash		
Equity loss (note 4)	7,059	1,108
Dilution gain (note 6)	(273)	(73)
Income tax expense (recovery) (note 5)	3,892	(2,013)
Total items not affecting cash	10,678	(978)
Tax payments	-	(38)
Tax Distribution received, net	-	38
Net cash from (used in) operating activities	-	-
Cash flows from investing activities		
Dividends received	1,742	-
Partnership unit distributions received	-	1,403
Net cash from investing activities	1,742	1,403
Cash flows used in financing activities (note 9)		
Dividends paid , net	(1,742)	(1,403)
Net cash used in financing activities	(1,742)	(1,403)
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 3-month periods ended March 31, 2023 and March 31, 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 March 31, 2023, the Corporation held a 13.7% 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 May 10, 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 3-month periods ended March 31, 2023 and March 31, 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	378
Share of income	207
Depreciation of fair value increments	(1,315)
Share of other comprehensive income	15,693
Dilution gain	73
Tax Distribution	(2,052)
Partnership unit distributions	(1,788)
As of March 31, 2022	<u>89,923</u>
As of January 1, 2023	79,338
Investment in associate	48
Share of loss	(6,755)
Depreciation of fair value increments	(304)
Share of other comprehensive loss	(863)
Dilution gain	273
Dividends	(1,791)
As of March 31, 2023	<u>69,946</u>

The equity loss was comprised of the following components:

	3-month period ended March 31, 2023	3-month period ended March 31, 2022
	<u>\$</u>	<u>\$</u>
Share of income (loss)	(6,755)	207
Depreciation of fair value increments	(304)	(1,315)
	<u>(7,059)</u>	<u>(1,108)</u>

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 3-month periods ended March 31, 2023 and March 31, 2022

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

The following summarizes financial information about the assets, liabilities, revenue and net loss of Kruger Products, in which the Corporation holds a 13.7% interest as of March 31, 2023. The financial information was derived from the unaudited condensed consolidated financial statements of Kruger Products for the 3-month period ended March 31, 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.

	March 31, 2023		
	Kruger Products basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	483,145	-	483,145
Non-current assets	1,713,536	315,352	2,028,888
Liabilities	1,622,537	-	1,622,537
Net assets	574,144		
	3-month period ended March 31, 2023		
	\$		
Revenue	450,992		
Net loss attributable to Kruger Products	(49,261)		
Other comprehensive loss	(5,414)		
Total comprehensive loss attributable to Kruger Products	(54,675)		

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 3-month period ended March 31, 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 March 31, 2022		
	\$		
Revenue	398,739		
Net income	1,437		
Other comprehensive income	109,445		
Total comprehensive income	110,882		

KP Tissue Inc.
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For the 3-month periods ended March 31, 2023 and March 31, 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:

	March 31, 2023
	\$
Kruger Products consolidated equity	574,144
Add back: Inception value of Partnership units liability ^(a)	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	(544,179)
Equity pertaining to KPT	148,527
Investment in associate recorded in KPT	69,946
Reconciling difference	78,581
Reconciling items since inception:	
Equity issuance costs	(11,110)
Depreciation of FV increments	59,475
Currency translation adjustment in fair value increments	(3,186)
Tax Distribution	9,320
Gain on exercise of over allotment option	(375)
Dilution gain	(3,543)
Impairment in investment in associate	28,000
	<u>-</u>

- (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
	<u>-</u>

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.

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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 statement of comprehensive income (loss) for the 3-month period ended March 31, 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 statement of comprehensive income (loss) were as follows:

	3-month period ended March 31, 2023	3-month period ended March 31, 2022
	\$	\$
Current tax recovery	-	(31)
Deferred tax expense (recovery)	3,892	(1,982)
	<u>3,892</u>	<u>(2,013)</u>

Details of the provision for income taxes were as follows:

	3-month period ended March 31, 2023	3-month period ended March 31, 2022
	\$	\$
Income tax at statutory rate of 26%	(1,764)	(269)
Derecognition of opening deferred tax	3,892	-
Equity pickup	1,756	-
Permanent differences and other	-	12
Dilution gain	(71)	(19)
Taxed in hands of subsidiaries	-	(123)
Realization of previously unrecognized tax attributes	79	426
Change in basis of investment in associate	-	(2,040)
	<u>3,892</u>	<u>(2,013)</u>

KP Tissue Inc.
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For the 3-month periods ended March 31, 2023 and March 31, 2022

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Components of the deferred income tax liability were as follows:

	March 31, 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>
	<u>-</u>	<u>5,718</u>

The analysis of the deferred tax liability was as follows:

	March 31, 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	(1,982)
Charge to other comprehensive loss	
- remeasurements of cumulative translation adjustment	(90)
Charge to other comprehensive income	
- remeasurements of post-retirement benefits	465
Charge to other comprehensive income	
- remeasurements of pensions	4,995
As of March 31, 2022	<u>4,194</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 March 31, 2023	<u>-</u>

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements

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

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

6 Dividends

During the 3-month periods ended March 31, 2023 and March 31, 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 3-month period ended March 31, 2023, the proceeds were used to acquire additional shares of Kruger Products (during the 3-month period ended March 31, 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	3-month period ended March 31, 2023			
	Dividends paid	Share price	Issuance of Common shares	Gross proceeds
	\$	\$	#	\$
January 16, 2023	1,790	10.18	4,682	48

Dividend Payment Date	3-month period ended March 31, 2022			
	Dividends paid	Share price	Issuance of Common shares	Gross proceeds
	\$	\$	#	\$
January 17, 2022	1,781	10.50	36,007	378

As a result of the Kruger Products Reorganization, the Corporation received a dividend of \$1.8 million from Kruger Products on January 16, 2023, such that the Corporation received the same amount in the form of a dividend as the Corporation would have received had the January 16, 2023 distribution been paid by KPLP.

On April 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 3,000 common shares at a price of \$10.18.

Subsequent to March 31, 2023, the Corporation declared a dividend of \$0.18 per common share to shareholders, payable on July 17, 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 \$0.3 million was recorded during the 3-month period ended March 31, 2023 (3-month period ended March 31, 2022 - \$0.1 million).

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 3-month periods ended March 31, 2023 and March 31, 2022

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

7 Income tax recovery (expense) on other comprehensive income

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

	3-month period ended March 31, 2023	3-month period ended March 31, 2022
	\$	\$
Items that will not be reclassified to net income (loss):		
Remeasurements of pensions	(2,173)	15,243
Income tax recovery (expense)	6,896	(4,995)
Net of income tax recovery (expense)	<u>4,723</u>	<u>10,248</u>
Remeasurements of post-retirement benefits	1,459	1,135
Income tax recovery (expense)	482	(465)
Net of income tax recovery (expense)	<u>1,941</u>	<u>670</u>
Items that may be subsequently reclassified to net income (loss):		
Cumulative translation adjustment	(149)	(685)
Income tax recovery	2,232	90
Net of income tax recovery	<u>2,083</u>	<u>(595)</u>
Total other comprehensive income	<u><u>8,747</u></u>	<u><u>10,323</u></u>

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.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 3-month periods ended March 31, 2023 and March 31, 2022

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

9 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 March 31, 2022
	\$	\$	\$	\$
Dividend payable	1,781	(1,781)	1,788	1,788
Common shares	21,844	378	4	22,226
Total	23,625	(1,403)	1,792	24,014

	As of January 1, 2023	Dividends paid, net	Movements not in financing activities	As of March 31, 2023
	\$	\$	\$	\$
Dividend payable	1,790	(1,790)	1,791	1,791
Common shares	22,379	48	-	22,427
Total	24,169	(1,742)	1,791	24,218