



KP TISSUE INC.

UNAUDITED CONDENSED FINANCIAL STATEMENTS

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

KP Tissue Inc.

Unaudited Condensed Statements of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	September 30, 2024	December 31, 2023
	\$	\$
Assets		
Current assets		
Dividends receivable	1,796	1,793
Income taxes recoverable	367	652
Receivable from Investee	65	-
	<u>2,228</u>	<u>2,445</u>
Non-current assets		
Investment in associate (note 5)	70,647	68,162
Total assets	<u>72,875</u>	<u>70,607</u>
Liabilities		
Current liabilities		
Dividend payable (note 7)	1,796	1,793
Payable to investee	-	457
Income taxes payable	376	-
Total liabilities	<u>2,172</u>	<u>2,250</u>
Equity		
Common shares (note 7)	22,702	22,560
Contributed surplus	144,819	144,819
Deficit	(113,398)	(115,027)
Accumulated other comprehensive income	16,580	16,005
Total equity	<u>70,703</u>	<u>68,357</u>
Total liabilities and equity	<u>72,875</u>	<u>70,607</u>
Subsequent events (note 7)		

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

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

	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
	\$	\$	\$	\$
Share of income (loss)	2,259	1,789	4,758	(2,909)
Depreciation of fair value increments	(278)	(286)	(847)	(886)
Equity income (loss)	1,981	1,503	3,911	(3,795)
Dilution gain	107	262	500	787
Income (loss) before income taxes	2,088	1,765	4,411	(3,008)
Deferred tax expense	-	-	-	3,892
Net income (loss)	2,088	1,765	4,411	(6,900)
Other comprehensive income (loss)				
net of income tax expense (recovery) (note 6)				
Items that will not be reclassified to net income (loss):				
Remeasurements of pensions	(786)	2,466	2,585	6,675
Remeasurements of post-retirement benefits	(215)	370	17	2,229
Items that may be subsequently reclassified to net income (loss):				
Cumulative translation adjustment	(474)	672	575	1,938
Other comprehensive income (loss)	(1,475)	3,508	3,177	10,842
Total comprehensive income (loss)	613	5,273	7,588	3,942
Basic earnings (loss) per share	0.21	0.18	0.44	(0.69)
Weighted average number of shares outstanding	9,979,383	9,957,841	9,973,463	9,953,646

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

(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, 2023	9,945,976	22,379	144,819	(108,008)	14,840	74,030
Issuance of common shares (note 7)	12,746	131	-	-	-	131
Dividends payable (note 7)	-	-	-	(1,793)	-	(1,793)
Dividends paid	-	-	-	(3,582)	-	(3,582)
Fair value adjustment	-	(1)	-	1	-	-
Remeasurements of pensions	-	-	-	6,675	-	6,675
Remeasurements of post-retirement benefits	-	-	-	2,229	-	2,229
Cumulative translation adjustment	-	-	-	-	1,938	1,938
Net loss	-	-	-	(6,900)	-	(6,900)
As of September 30, 2023	9,958,722	22,509	144,819	(111,378)	16,778	72,728

	Common shares		Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity
	#	\$				
			\$	\$	\$	\$
As of January 1, 2024	9,963,722	22,560	144,819	(115,027)	16,005	68,357
Issuance of common shares (note 7)	16,588	143	-	-	-	143
Dividends payable (note 7)	-	-	-	(1,796)	-	(1,796)
Dividends paid	-	-	-	(3,589)	-	(3,589)
Fair value adjustment	-	(1)	-	1	-	-
Remeasurements of pensions	-	-	-	2,585	-	2,585
Remeasurements of post-retirement benefits	-	-	-	17	-	17
Cumulative translation adjustment	-	-	-	-	575	575
Net income	-	-	-	4,411	-	4,411
As of September 30, 2024	9,980,310	22,702	144,819	(113,398)	16,580	70,703

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, 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)	4,411	(6,900)
Items not affecting cash		
Equity loss (income)	(3,911)	3,795
Dilution gain	(500)	(787)
Deferred tax expense	-	3,892
Total items not affecting cash	(4,411)	6,900
Decrease in payable to investee	(660)	(137)
Tax refunds, net	660	137
Net cash from (used in) operating activities	-	-
Cash flows from investing activities		
Dividends received, net	5,239	5,242
Net cash from investing activities	5,239	5,242
Cash flows used in financing activities		
Dividends paid, net	(5,239)	(5,242)
Net cash used in financing activities	(5,239)	(5,242)
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, 2024 and September 30, 2023

(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, 2024, the Corporation held a 12.7% interest in Kruger Products Inc. (Kruger Products). As of December 31, 2023, the Corporation held a 13.1% interest in Kruger Products.

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 as issued by the International Accounting Standards Board (IFRS Accounting Standards) 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, 2023.

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

3 Summary of significant accounting policies

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

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.

KP Tissue Inc.
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For the 9-month periods ended September 30, 2024 and September 30, 2023

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

(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 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 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, 2023.

5 Investment in associate

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

	9-month period ended September 30, 2024	9-month period ended September 30, 2023
	\$	\$
Opening balance	68,162	79,338
Increase in investment	143	131
Share of income (loss)	4,758	(2,909)
Depreciation of fair value increments	(847)	(886)
Share of other comprehensive income (loss)	3,177	1,232
Dilution gain	500	787
Dividends	(5,385)	(5,375)
Partnership unit refunds	139	-
Closing balance	<u>70,647</u>	<u>72,318</u>

KP Tissue Inc.

Notes to Unaudited Condensed Financial Statements

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

(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 12.7% interest as of September 30, 2024. The financial information was derived from the unaudited condensed consolidated financial statements of Kruger Products for the 9-month period ended September 30, 2024. 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, 2024		
	Kruger Products basis of accounting	Fair value increment	KPT basis of accounting
	\$	\$	\$
Current assets	584,320	-	584,320
Non-current assets	1,910,917	301,936	2,212,853
Liabilities	1,828,241	-	1,828,241
Net assets	666,996		
		3-month period ended September 30, 2024	9-month period ended September 30, 2024
		\$	\$
Revenue		521,085	1,510,317
Net income attributable to Kruger Products		17,993	37,541
Other comprehensive income (loss)		(10,736)	25,154
Total comprehensive income attributable to Kruger Products		7,257	62,695
		December 31, 2023	
	Kruger Products basis of accounting	Fair value increment	KPT basis of accounting
	\$	\$	\$
Current assets	542,854	-	542,854
Non-current assets	1,782,776	307,973	2,090,749
Liabilities	1,712,003	-	1,712,003
Net assets	613,627		
		3-month period ended September 30, 2023	9-month period ended September 30, 2023
		\$	\$
Revenue		473,399	1,390,693
Net income (loss) attributable to Kruger Products		12,928	(21,849)
Other comprehensive income		25,770	10,827
Total comprehensive income (loss) attributable to Kruger Products		38,698	(11,022)

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

(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:

	September 30, 2024	December 31, 2023
	\$	\$
Kruger Products consolidated equity	666,996	613,627
Add back: Inception value of Partnership units liability ^(a)	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	(635,784)	(585,120)
Equity pertaining to KPT	149,774	147,069
Investment in associate recorded in KPT	70,647	68,162
Reconciling difference	79,127	78,907
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of fair value increments	61,183	60,336
Currency translation adjustment in fair value increments	(2,950)	(2,962)
Tax Distribution	9,181	9,320
Gain on exercise of overallocation option	(375)	(375)
Dilution gain	(4,802)	(4,302)
Impairment in investment in associate	28,000	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.

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.

6 Income taxes

As a result of the Kruger Products Reorganization (note 1), KPLP's tax status changed 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 was derecognized through the unaudited condensed statement of comprehensive income (loss) for the 9-month period ended September 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.

KP Tissue Inc.
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For the 9-month periods ended September 30, 2024 and September 30, 2023

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

7 Dividends

During the 9-month periods ended September 30, 2024 and September 30, 2023, the Corporation paid a quarterly dividend of \$0.18 per 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 shares of Kruger Products. 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, 2024			
	Dividends paid	Share price	Issuance of	Gross proceeds
	\$	\$	Common shares	\$
			#	
January 15, 2024	1,793	8.99	4,615	41
April 15, 2024	1,794	8.52	5,880	50
July 15, 2024	1,795	8.52	6,093	52
	<u>5,382</u>		<u>16,588</u>	<u>143</u>

Dividend Payment Date	9-month period ended September 30, 2023			
	Dividends paid	Share price	Issuance of	Gross proceeds
	\$	\$	Common shares	\$
			#	
January 16, 2023	1,790	10.18	4,682	48
April 17, 2023	1,791	10.25	3,000	30
July 17, 2023	1,791	10.30	5,064	53
	<u>5,372</u>		<u>12,746</u>	<u>131</u>

Subsequent to September 30, 2024, on October 15, 2024, 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 7,237 common shares at a price of \$8.34.

Subsequent to September 30, 2024, the Corporation declared a dividend of \$0.18 per common share to shareholders, payable on January 15, 2025.

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 9-month period ended September 30, 2024 (9-month period ended September 30, 2023 - \$0.8 million).

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.