



**KP TISSUE INC.**

**UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**FOR THE 3-MONTH AND 9-MONTH PERIODS ENDED SEPTEMBER 30, 2023  
AND SEPTEMBER 30, 2022**

**KP Tissue Inc.**  
**Unaudited Condensed Statements of Financial Position**

(tabular amounts are in thousands of Canadian dollars)

	September 30, 2023	December 31, 2022
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Dividends receivable	1,793	-
Distributions receivable	-	1,790
Income taxes recoverable	443	580
	<u>2,236</u>	<u>2,370</u>
<b>Non-current assets</b>		
Investment in associate (note 4)	72,318	79,338
<b>Total assets</b>	<u>74,554</u>	<u>81,708</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Dividend payable (note 6)	1,793	1,790
Payable to investee	33	-
Payable to Partnership	-	170
	<u>1,826</u>	<u>1,960</u>
<b>Non-current liabilities</b>		
Deferred income taxes (note 5)	-	5,718
<b>Total liabilities</b>	<u>1,826</u>	<u>7,678</u>
<b>Equity</b>		
Common shares (note 6)	22,509	22,379
Contributed surplus	144,819	144,819
Deficit	(111,378)	(108,008)
Accumulated other comprehensive income	16,778	14,840
<b>Total equity</b>	<u>72,728</u>	<u>74,030</u>
<b>Total liabilities and equity</b>	<u>74,554</u>	<u>81,708</u>
<b>Subsequent event (note 6)</b>		

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, 2023 and September 30, 2022

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

	3-month period ended September 30, 2023	3-month period ended September 30, 2022	9-month period ended September 30, 2023	9-month period ended September 30, 2022
	\$	\$	\$	\$
Share of income (loss)	1,789	(5,523)	(2,909)	(10,425)
Depreciation of fair value increments	(286)	(1,313)	(886)	(3,942)
<b>Equity income (loss)</b>	<b>1,503</b>	<b>(6,836)</b>	<b>(3,795)</b>	<b>(14,367)</b>
Dilution gain (note 6)	262	283	787	483
<b>Income (loss) before income taxes</b>	<b>1,765</b>	<b>(6,553)</b>	<b>(3,008)</b>	<b>(13,884)</b>
Current tax expense (recovery)	-	4	-	(448)
Deferred tax expense (recovery)	-	(268)	3,892	(4,177)
<b>Income tax expense (recovery) (note 5)</b>	<b>-</b>	<b>(264)</b>	<b>3,892</b>	<b>(4,625)</b>
<b>Net income (loss)</b>	<b>1,765</b>	<b>(6,289)</b>	<b>(6,900)</b>	<b>(9,259)</b>
<b>Other comprehensive income (loss) net of tax expense (recovery)</b>				
<b>Items that will not be reclassified to net income (loss):</b>				
Remeasurements of pensions	2,466	(383)	6,675	17,749
Remeasurements of post-retirement benefits	370	(45)	2,229	1,354
<b>Items that may be subsequently reclassified to net income (loss):</b>				
Cumulative translation adjustment	672	2,390	1,938	2,981
<b>Other comprehensive income</b>	<b>3,508</b>	<b>1,962</b>	<b>10,842</b>	<b>22,084</b>
<b>Total comprehensive income (loss)</b>	<b>5,273</b>	<b>(4,327)</b>	<b>3,942</b>	<b>12,825</b>
<b>Basic earnings (loss) per share</b>	<b>0.18</b>	<b>(0.63)</b>	<b>(0.69)</b>	<b>(0.93)</b>
<b>Weighted average number of shares outstanding</b>	<b>9,957,841</b>	<b>9,939,529</b>	<b>9,953,646</b>	<b>9,933,537</b>

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, 2023 and September 30, 2022**

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

	Common shares		Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity
	#	\$	\$	\$	\$	\$
<b>As of January 1, 2022</b>	9,895,419	21,844	144,819	(103,561)	12,767	75,869
Issuance of common shares	44,784	471	-	-	-	471
Dividends payable	-	-	-	(1,789)	-	(1,789)
Dividends paid	-	-	-	(3,576)	-	(3,576)
Fair value adjustment	-	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	-	-	-	(9,259)	-	(9,259)
<b>As of September 30, 2022</b>	<b>9,940,203</b>	<b>22,319</b>	<b>144,819</b>	<b>(99,086)</b>	<b>15,748</b>	<b>83,800</b>
<b>As of January 1, 2023</b>	9,945,976	22,379	144,819	(108,008)	14,840	74,030
Issuance of common shares (note 6)	12,746	131	-	-	-	131
Dividends payable (note 6)	-	-	-	(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)
<b>As of September 30, 2023</b>	<b>9,958,722</b>	<b>22,509</b>	<b>144,819</b>	<b>(111,378)</b>	<b>16,778</b>	<b>72,728</b>

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, 2023 and September 30, 2022**

(tabular amounts are in thousands of Canadian dollars)

	9-month period ended September 30, 2023 \$	9-month period ended September 30, 2022 \$
<b>Cash flows from (used in) operating activities</b>		
Net loss	(6,900)	(9,259)
Items not affecting cash		
Equity loss	3,795	14,367
Dilution gain (note 6)	(787)	(483)
Income tax expense (recovery) (note 5)	3,892	(4,625)
Total items not affecting cash	6,900	9,259
Net change in non-cash working capital (note 8)	(137)	(76)
Tax refunds received, net	137	38
Tax Distribution received, net	-	38
<b>Net cash from (used in) operating activities</b>	-	-
<b>Cash flows from investing activities</b>		
Dividends received, net	5,242	-
Partnership unit distributions received, net	-	4,886
<b>Net cash from investing activities</b>	5,242	4,886
<b>Cash flows used in financing activities</b>		
Dividends paid, net	(5,242)	(4,886)
<b>Net cash used in financing activities</b>	(5,242)	(4,886)
<b>Increase (decrease) in cash and cash equivalents during the period</b>	-	-
<b>Cash and cash equivalents - Beginning of period</b>	-	-
<b>Cash and cash equivalents - End of period</b>	-	-

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, 2023 and September 30, 2022**

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(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, 2023, the Corporation held a 13.3% 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 November 7, 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 9-month periods ended September 30, 2023 and September 30, 2022**

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

**4 Investment in associate**

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

	<b>9-month period ended September 30, 2023</b>	<b>9-month period ended September 30, 2022</b>
	<b>\$</b>	<b>\$</b>
<b>Investment in associate</b>	79,338	78,727
Increase in investment	131	471
Share of loss	(2,909)	(10,425)
Depreciation of fair value increments	(886)	(3,942)
Share of other comprehensive income	1,232	32,823
Dilution gain	787	483
Tax Distribution	-	(2,052)
Dividends	(5,375)	-
Partnership unit distributions	-	(5,365)
	<u>72,318</u>	<u>90,720</u>

The following summarizes financial information about the assets, liabilities, revenue and net income (loss) of Kruger Products, in which the Corporation holds a 13.3% interest as of September 30, 2023. The financial information was derived from the unaudited condensed consolidated financial statements of Kruger Products for the 9-month period ended September 30, 2023. The assets and liabilities disclosed include the fair value adjustments made to the carrying amount of the assets and liabilities of the associate on its acquisition.

	<b>September 30, 2023</b>		
	<b>Kruger Products basis of accounting</b>	<b>FV increment</b>	<b>KPT basis of accounting</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Current assets	555,448	-	555,448
Non-current assets	1,742,443	310,873	2,053,316
Liabilities to non-equity holders	1,671,853	-	1,671,853
Net assets	626,038		
	<b>3-month period ended September 30, 2023</b>	<b>9-month period ended September 30, 2023</b>	
	<b>\$</b>	<b>\$</b>	
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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**Notes to Unaudited Condensed Financial Statements**  
**For the 9-month periods ended September 30, 2023 and September 30, 2022**

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

The following summarizes financial information about the assets, liabilities, revenue and net income 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 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.

	<b>KPLP basis of accounting</b>	<b>FV increment</b>	<b>December 31, 2022 KPT basis of accounting</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
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		
	<b>3-month period ended September 30, 2022</b>	<b>9-month period ended September 30, 2022</b>	
	<b>\$</b>	<b>\$</b>	
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	

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

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
	<b>\$</b>	<b>\$</b>
Consolidated equity	626,038	493,171
Add back: Inception value of Partnership units liability <sup>(a)</sup>	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	(593,539)	(453,961)
Equity pertaining to KPT	151,061	157,772
Investment in associate recorded in KPT	72,318	79,338
Reconciling difference	78,743	78,434
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	60,057	59,171
Currency translation adjustment in fair value increments	(3,092)	(3,302)
Tax Distribution	9,320	9,320
Gain on exercise of over-allotment option	(375)	(375)
Dilution gain	(4,057)	(3,270)
Impairment in investment in associate	28,000	28,000
	-	-



**KP Tissue Inc.**  
**Notes to Unaudited Condensed Financial Statements**  
**For the 9-month periods ended September 30, 2023 and September 30, 2022**

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

- (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.

**5 Income taxes**

As a result of the Kruger Products Reorganization (note 1), KPLP changed its tax status from a limited partnership to a corporation. Kruger Products is, therefore, a tax paying entity and will recognize income tax provisions directly. KPT no longer incurs taxable income and therefore the Deferred tax liability of \$5.7 million recorded in KPT's audited statement of financial position as of December 31, 2022 has been derecognized through the unaudited condensed statements of income (loss) and comprehensive income (loss) for the 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.

**6 Dividends**

During the 9-month period ended September 30, 2023, dividends of \$5.4 million (9-month period ended September 30, 2022 – dividends of \$5.4 million) were paid to shareholders and shareholders reinvested 2.4% via the DRIP (9-month period ended September 30, 2022 – reinvested 8.8% via the DRIP).

Subsequent to September 30, 2023, on October 16, 2023, the Corporation paid a dividend of \$1.8 million to shareholders at \$0.18 per common share. Pursuant to the Corporation DRIP, a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 5,000 common shares at a price of \$9.93.

Subsequent to September 30, 2023, the Corporation declared a dividend of \$0.18 per common share to shareholders, payable on January 15, 2024.

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 \$0.8 million was recorded during the 9-month period ended September 30, 2023 (9-month period ended September 30, 2022 - \$0.5 million).

**7 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 9-month periods ended September 30, 2023 and September 30, 2022**

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

**8 Non-cash working capital**

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

	<b>9-month period ended September 30, 2023</b>	<b>9-month period ended September 30, 2022</b>
	<b>\$</b>	<b>\$</b>
Decrease in payable to investee	(137)	-
Decrease in payable to Partnership	-	(76)
	<u>(137)</u>	<u>(76)</u>