



**KRUGER PRODUCTS INC.**

**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE 3-MONTH PERIODS ENDED MARCH 31, 2024 AND MARCH 31, 2023**

# Kruger Products Inc.

## Unaudited Condensed Consolidated Statements of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	March 31, 2024	December 31, 2023
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	117,120	135,728
Restricted cash	13,863	12,451
Trade and other receivables	156,356	130,157
Receivables from related parties (note 8)	596	842
Inventories	271,830	254,372
Income tax recoverable	4,102	4,578
Prepaid expenses	22,289	4,726
	<u>586,156</u>	<u>542,854</u>
<b>Non-current assets</b>		
Property, plant and equipment	1,454,590	1,421,650
Right-of-use assets	98,354	84,866
Other long-term assets	423	3,808
Pensions (note 5)	89,617	69,839
Goodwill	152,021	152,021
Intangible assets	25,834	26,852
Deferred income taxes	13,250	23,740
	<u>1,937,139</u>	<u>1,882,766</u>
<b>Total assets</b>	<u><u>2,420,245</u></u>	<u><u>2,325,630</u></u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	367,405	400,385
Payables to related parties (note 8)	12,142	10,973
Income tax payable	181	-
Dividends payable (note 8)	13,914	13,675
Current portion of long-term debt (note 6)	41,109	35,229
Current portion of lease liabilities	30,956	27,154
Current portion of long-term payable to related party (note 8)	5,800	5,800
Current portion of provisions	3,619	3,952
	<u>475,126</u>	<u>497,168</u>
<b>Non-current liabilities</b>		
Long-term debt (note 6)	1,104,962	1,034,016
Long-term lease liabilities	82,498	71,865
Long-term payable to related party (note 8)	36,151	35,580
Long-term provisions	6,786	5,740
Pensions (note 5)	18,394	18,935
Post-retirement benefits (note 5)	47,117	48,699
	<u>1,336,913</u>	<u>1,258,835</u>
<b>Total liabilities</b>	<u>1,771,034</u>	<u>1,712,003</u>
<b>Equity</b>		
Share capital	290,187	278,252
Contributed surplus	395,382	395,382
Deficit	(151,748)	(164,029)
Accumulated other comprehensive income	86,483	81,011
	<u>620,304</u>	<u>590,616</u>
<b>Equity attributable to Kruger Products</b>	<u>620,304</u>	<u>590,616</u>
<b>Non-controlling interest (note 6)</b>	<u>28,907</u>	<u>23,011</u>
<b>Total equity</b>	<u>649,211</u>	<u>613,627</u>
<b>Total equity and liabilities</b>	<u><u>2,420,245</u></u>	<u><u>2,325,630</u></u>
<b>Subsequent events (notes 3, 6 and 8)</b>		

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 periods ended March 31, 2024 and March 31, 2023**

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended March 31, 2024	3-month period ended March 31, 2023
	\$	\$
<b>Revenue (note 8)</b>	479,432	450,992
<b>Expenses</b>		
Cost of sales (note 8)	394,003	389,024
Selling, general and administrative expenses (note 8)	44,142	36,264
Restructuring costs, net	216	1,139
<b>Operating income</b>	41,071	24,565
Interest expense and other finance costs	16,280	16,524
Other expense (income)	8,473	(416)
<b>Income before income taxes</b>	16,318	8,457
Current tax expense	769	209
Deferred tax expense	5,471	58,364
<b>Income tax expense (note 7)</b>	6,240	58,573
<b>Net income (loss) including non-controlling interest</b>	10,078	(50,116)
<b>Net income (loss) attributable to non-controlling interest (note 6)</b>	1,122	(855)
<b>Net income (loss) attributable to Kruger Products</b>	8,956	(49,261)

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 periods ended March 31, 2024 and March 31, 2023**

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended March 31, 2024 \$	3-month period ended March 31, 2023 \$
<b>Net income (loss) including non-controlling interest</b>	10,078	(50,116)
<b>Other comprehensive income (loss)</b>		
<b>Items that will not be reclassified to net income (loss):</b>		
Remeasurements of pensions	15,707	(15,844)
Remeasurements of post-retirement benefits	1,545	10,642
<b>Items that may be subsequently reclassified to net income (loss):</b>		
Cumulative translation adjustment	5,472	(212)
<b>Other comprehensive income (loss)</b>	22,724	(5,414)
<b>Total comprehensive income (loss) including non-controlling interest</b>	32,802	(55,530)
<b>Total comprehensive income (loss) attributable to non-controlling interest</b>	1,122	(855)
<b>Total comprehensive income (loss) attributable to Kruger Products</b>	31,680	(54,675)

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 3-month periods ended March 31, 2024 and March 31, 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
	#	\$					
	#	\$	\$	\$	\$	\$	\$
<b>As of January 1, 2023</b>	71,479,389	494,459	-	(87,835)	86,547	-	493,171
Redemption of KPSI IQ Debenture by Kruger Inc. (note 6)	-	-	-	-	-	4,892	4,892
Extinguishment of Partnership units liability (note 13)	-	133,551	-	-	-	-	133,551
Dividends payable (note 8)	-	-	-	(13,063)	-	-	(13,063)
Fair value adjustment	-	(55)	-	55	-	-	-
Change in actuarial loss on pension	-	-	-	(15,844)	-	-	(15,844)
Change in actuarial gain on post-retirement benefits	-	-	-	10,642	-	-	10,642
Cumulative translation adjustment	-	-	-	-	(212)	-	(212)
Net loss	-	-	-	(49,261)	-	(855)	(50,116)
Issuance of common shares (note 8)	1,092,623	11,123	-	-	-	-	11,123
<b>As of March 31, 2023</b>	<b>72,572,012</b>	<b>639,078</b>	<b>-</b>	<b>(155,306)</b>	<b>86,335</b>	<b>4,037</b>	<b>574,144</b>
	Share capital		Contributed surplus	Deficit	Accumulated other comprehensive income	Non-controlling interest (note 6)	Total equity
	#	\$					
	#	\$	\$	\$	\$	\$	\$
<b>As of January 1, 2024</b>	75,973,356	278,252	395,382	(164,029)	81,011	23,011	613,627
Redemption of KPSI IQ Debenture by Kruger Inc. (note 6)	-	-	-	-	-	4,774	4,774
Dividends payable (note 8)	-	-	-	(13,914)	-	-	(13,914)
Fair value adjustment	-	13	-	(13)	-	-	-
Change in actuarial gain on pension	-	-	-	15,707	-	-	15,707
Change in actuarial gain on post-retirement benefits	-	-	-	1,545	-	-	1,545
Cumulative translation adjustment	-	-	-	-	5,472	-	5,472
Net income	-	-	-	8,956	-	1,122	10,078
Issuance of common shares (note 8)	1,326,190	11,922	-	-	-	-	11,922
<b>As of March 31, 2024</b>	<b>77,299,546</b>	<b>290,187</b>	<b>395,382</b>	<b>(151,748)</b>	<b>86,483</b>	<b>28,907</b>	<b>649,211</b>

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 3-month periods ended March 31, 2024 and March 31, 2023**

(tabular amounts are in thousands of Canadian dollars)

	<b>3-month period ended March 31, 2024</b>	<b>3 month period ended March 31, 2023</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from (used in) operating activities</b>		
Net income (loss) including non-controlling interest	10,078	(50,116)
Items not affecting cash		
Depreciation	24,451	23,189
Amortization	1,065	1,065
Loss (gain) on sale of property, plant and equipment	271	(5)
Loss (gain) on disposal of leased assets	632	(488)
Foreign exchange loss (gain)	9,355	(416)
Interest expense and other finance costs	16,280	16,524
Pension and post-retirement benefits (note 5)	2,576	1,888
Provisions	1,073	1,431
Income tax expense	6,240	58,573
Loss on sale of non-financial assets	12	3
Total items not affecting cash	61,955	101,764
Net change in non-cash working capital (note 11)	(86,070)	(51,449)
Contributions to pension and post-retirement benefit plans	(1,153)	(2,518)
Provisions paid	(470)	(689)
Income tax payments, net	(340)	163
<b>Net cash used in operating activities</b>	<b>(16,000)</b>	<b>(2,845)</b>
<b>Cash flows from (used in) investing activities</b>		
Purchases of property, plant and equipment	(4,041)	(4,011)
Purchases of property, plant and equipment related to the Sherbrooke Expansion Project	(45,873)	(31,662)
Interest paid on credit facilities related to the Sherbrooke Expansion Project	(116)	(97)
Government assistance received	-	1,250
Purchases of software	(47)	(71)
Proceeds on sale of property, plant and equipment	(4)	5
<b>Net cash used in investing activities</b>	<b>(50,081)</b>	<b>(34,586)</b>
<b>Cash flows from (used in) financing activities (note 12)</b>		
Proceeds from long-term debt	74,864	35,501
Repayment of long-term debt	(7,147)	(8,695)
Payment of deferred financing fees	(864)	(246)
Payment of lease liabilities	(8,650)	(6,750)
Change in Restricted cash	(1,412)	(1,225)
Interest paid on long-term debt	(8,863)	(13,719)
Dividends paid, net (note 8)	(1,753)	(1,743)
<b>Net cash from financing activities</b>	<b>46,175</b>	<b>3,123</b>
<b>Effect of exchange rate changes on cash and cash equivalents held in foreign currency</b>	<b>1,298</b>	<b>(37)</b>
<b>Decrease in cash and cash equivalents during the period</b>	<b>(18,608)</b>	<b>(34,345)</b>
<b>Cash and cash equivalents - Beginning of period</b>	<b>135,728</b>	<b>71,261</b>
<b>Cash and cash equivalents - End of period</b>	<b>117,120</b>	<b>36,916</b>

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 periods ended March 31, 2024 and March 31, 2023

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(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, Quebec; Sherbrooke, Quebec; 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 May 13, 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 IAS1, 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 periods ended March 31, 2024 and March 31, 2023**

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

*Accounting standard issued but not yet implemented:*

- (i) IFRS 18, Presentation and Disclosure in Financial Statements. Subsequent to March 31, 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.

**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.

**5 Pensions and post-retirement benefits**

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

	<u>Pensions</u>		<u>Post-retirement benefit plans</u>	
	<u>March 31, 2024</u>	<u>December 31, 2023</u>	<u>March 31, 2024</u>	<u>December 31, 2023</u>
	%	%	%	%
Assumptions				
Discount rate - accrued benefit obligation	4.95	4.65	4.95	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 periods ended March 31, 2024 and March 31, 2023**

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

The net benefit pension plan expense included the following components:

	<b>Pensions</b>		<b>Post-retirement benefit plans</b>	
	<b>3-month period ended March 31, 2024</b>	<b>3-month period ended March 31, 2023</b>	<b>3-month period ended March 31, 2024</b>	<b>3-month period ended March 31, 2023</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Net benefit plan expense</b>				
Current service cost	1,892	1,268	497	430
Interest cost	6,766	7,218	554	547
Asset ceiling interest cost	108	-	-	-
Expected return on plan assets	(7,438)	(8,003)	-	-
Administrative cost	187	190	-	-
	1,515	673	1,051	977

# Kruger Products Inc.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2024 and March 31, 2023

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

### 6 Long-term debt

	Weighted average	Maturity	March 31, 2024	December 31, 2023
	interest rate as of		\$	\$
	March 31, 2024			
Kruger Products Senior Credit Facility <sup>(a)</sup>	8.08%	2026	21,122	-
Senior Unsecured Notes due April 24, 2025	6.00%	2025	124,428	124,295
Senior Unsecured Notes due April 9, 2029	5.375%	2029	132,933	132,830
AgCredit - Term A Credit Facility	4.82%	2036	190,925	187,459
AgCredit - Term B Credit Facility	5.04%	2037	239,263	233,321
AgCredit - Term D Credit Facility <sup>(b)</sup>	6.07%	2032	116,918	113,924
KPSB Senior Credit Facility	8.71%	2028	74,080	35,052
KPSI IQ Debenture <sup>(c)</sup>	3.00%	2028	72,052	75,671
KPSB IQ Debenture	2.00%	2034	58,711	57,758
Nordea2 Credit Facility	3.74%	2029	41,335	44,003
IQ Bathroom Tissue Loan	2.00%	2032	37,287	32,354
IQ Facial Tissue Loan	2.00%	2033	32,532	26,058
Quebec PM Loan	3.50%	2026	3,546	5,104
Ontario Loan	2.40%	2026	939	1,416
			<u>1,146,071</u>	<u>1,069,245</u>
AgCredit - Term A Credit Facility			5,674	5,538
AgCredit - Term D Credit Facility			6,926	-
KPSI IQ Debenture			16,689	16,689
Nordea2 Credit Facility			7,765	7,579
Quebec PM Loan			3,570	4,938
Ontario Loan			485	485
<b>Less: Current portion of long-term debt</b>			<u>41,109</u>	<u>35,229</u>
<b>Long-term debt</b>			<u><u>1,104,962</u></u>	<u><u>1,034,016</u></u>

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 March 31, 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 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 periods ended March 31, 2024 and March 31, 2023

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

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. Investissement Quebec (IQ) has agreed to invest \$7.3 million in the project by way of a ten year term loan.

(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) AgCredit Agreement

During the 3-month period ended March 31, 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.

(c) 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 IQ that it would instead make the monthly redemption payments. Kruger Inc. received common shares of Kruger Products Sherbrooke Inc. (KPSI) with a value of \$4.8 million as consideration during the three-month period ended March 31, 2024 (2023 - \$19.4 million) resulting in Kruger Inc. holding a 14.3% non-controlling interest directly in KPSI as of March 31, 2024. As a result, a non-controlling interest of \$28.9 million has been recorded in the unaudited condensed consolidated statement of financial position as of March 31, 2024. The unaudited condensed consolidated statement of income (loss) and comprehensive income (loss) for the 3-month period ended March 31, 2024 includes a loss of \$1.1 million directly attributable to Kruger Inc's share of income in KPSI. The two monthly redemption payments subsequent to March 31, 2024 were made by Kruger Products.

### 7 Income taxes

The estimated effective weighted average annual income tax rate for the 3-month period ended March 31, 2024 was 38.2% (3-month period ended March 31, 2023 – 692.6%). The decrease in the effective tax rate in the current period was primarily attributable to the higher deferred tax expense during the 3-month period ended March 31, 2023 related to the transfer of the assets and liabilities on the Reorganization (note 13).

### 8 Related party transactions

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

	<b>3-month period ended March 31, 2024</b>	<b>3-month period ended March 31, 2023</b>
	<b>\$</b>	<b>\$</b>
Sales of goods to Kruger Inc.	59	17
Sales of goods to subsidiaries of Kruger Inc.	1,021	1,131
Purchases of goods from Kruger Inc.	151	33
Purchases of goods and services from subsidiaries of Kruger Inc.	14,944	11,429
Management fee to Kruger Inc.	2,652	2,069

# Kruger Products Inc.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2024 and March 31, 2023

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

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

	March 31, 2024	December 31, 2023
	\$	\$
Receivables from Kruger Inc.	13	385
Receivables from subsidiaries of Kruger Inc.	72	-
Receivables from KPT	511	457
Total receivables from related parties	<u>596</u>	<u>842</u>
Payables to Kruger Inc.	8,896	8,640
Payables to subsidiaries of Kruger Inc.	3,246	2,333
Total payables to related parties	<u>12,142</u>	<u>10,973</u>

### Long-term payable to KBLP

As of March 31, 2024, obligations of \$5.8 million and \$36.2 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). During the 3-month period ended March 31, 2024, the increase in the obligation due to passage of time was \$0.6 million and was recognized as Interest expense and other finance costs in the unaudited condensed consolidated statements of income (loss).

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

	March 31, 2024	December 31, 2023
	\$	\$
Payable to Kruger Inc.	12,119	11,881
Payable to KPGP	1	1
Payable to KPT	1,794	1,793
Total dividends payable	<u>13,914</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:

Dividend Payment Date	3-month period ended March 31, 2024			
	Dividends	Share price	Issuance of	
			Common shares	Gross proceeds
	\$	\$	#	\$
January 15, 2024	13,675	8.99	1,326,190	11,922

  

Dividend Payment Date	3-month period ended March 31, 2023			
	Dividends	Share price	Issuance of	
			Common shares	Gross proceeds
	\$	\$	#	\$
January 16, 2023	12,866	10.18	1,092,623	11,123

# Kruger Products Inc.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2024 and March 31, 2023

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

During the 3-month period ended March 31, 2024, dividends of \$11.9 million (3-month period ended March 31 2023, \$11.1 million) were paid to Kruger Inc. and Kruger Inc. reinvested 100% via the DRIP (3-month period ended March 31, 2023 – reinvested 100% via the DRIP).

During the 3-month period ended March 31, 2024, dividends of \$1.8 million (3-month period ended March 31, 2023 – \$1.8 million) were paid to KPT and KPT reinvested 2.3% via the DRIP (3-month period ended March 31, 2023 – reinvested 2.7% via the DRIP).

Subsequent to March 31, 2024, on April 15, 2024, the Company paid a dividend of \$13.9 million to its shareholders. Pursuant to the Kruger Products DRIP, a significant portion of the dividend was reinvested by the shareholders, resulting in the Company issuing 717,079 common shares at a price of \$8.52.

Subsequent to March 31, 2024, the Company declared a dividend of \$14.0 million, payable on July 15, 2024.

### 9 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.

# Kruger Products Inc.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2024 and March 31, 2023

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

	3-month period ended March 31, 2024 \$	3-month period ended March 31, 2023 \$
<b>Segment Revenue</b>		
Consumer	404,289	376,520
AFH	75,143	74,472
Revenue from external customers	<u>479,432</u>	<u>450,992</u>
<b>Adjusted EBITDA</b>		
Consumer	62,662	51,334
AFH	7,770	884
Corporate and other costs	<u>(3,345)</u>	<u>(2,262)</u>
Total Adjusted EBITDA	67,087	49,956
<b>Reconciliation to net income (loss)</b>		
Depreciation and amortization	25,516	24,254
Interest expense and other finance costs	16,280	16,524
Loss (gain) on sale of property, plant and equipment	271	(5)
Loss on sale of non-financial assets	12	3
Change in amortized cost of Partnership unit liability	(881)	-
Restructuring costs, net	216	1,139
Foreign exchange loss (gain)	<u>9,355</u>	<u>(416)</u>
Income before income taxes	16,318	8,457
Income tax expense	<u>6,240</u>	<u>58,573</u>
Net income (loss) including non-controlling interest	<u>10,078</u>	<u>(50,116)</u>

### 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 March 31, 2024 \$	3-month period ended March 31, 2023 \$
<b>Revenue</b>		
Canada	266,172	260,780
US	213,260	190,212
	<u>479,432</u>	<u>450,992</u>

# Kruger Products Inc.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2024 and March 31, 2023

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

	<b>March 31, 2024</b>		
	<b>Canada</b>	<b>US</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Property, plant and equipment	1,139,881	314,709	1,454,590
Goodwill	152,021	-	152,021
Intangible assets	25,834	-	25,834

  

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

### 10 Financial instruments

#### *Classification of financial instruments*

As of March 31, 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, Contract 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 have increased \$10.4 million during the 3-month period ended March 31, 2024, to \$127.5 million, including \$3.0 million released back through the unaudited condensed consolidated statement of income (loss) and comprehensive income (loss).

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 consolidated statements of 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 and the Nordea2 Credit Facility 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.

**Kruger Products Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**For the 3-month periods ended March 31, 2024 and March 31, 2023**

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

The fair values of Long-term debt and discount rates were as follows:

	Discount rate	March 31, 2024	December 31, 2023
		\$	\$
Kruger Products Senior Credit Facility	-	22,000	-
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	-	191,241	187,775
AgCredit - Term B Credit Facility	-	242,796	236,963
AgCredit - Term D Credit Facility	-	117,885	115,066
KPSB IQ Debenture	6.6%	77,356	76,973
KPSB Senior Credit Facility	-	74,890	35,835
KPSI IQ Debenture	6.1%	72,223	75,871
IQ Bathroom Tissue Loan	7.3%	47,854	41,816
IQ Facial Tissue Loan	7.6%	42,718	34,624
Nordea2 Credit Facility	-	42,710	45,478
Quebec PM Loan	4.4%	3,570	5,222
Ontario Loan	4.4%	939	1,416
		<u>1,196,182</u>	<u>1,117,039</u>

Amounts exclude deferred financing fees.

**11 Non-cash working capital**

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

	3-month period ended March 31, 2024	3-month period ended March 31, 2023
	\$	\$
Increase in trade and other receivables	(25,875)	(9,731)
Decrease (increase) in receivables from related parties	208	(3)
Increase in inventories	(15,557)	(730)
Increase in prepaid expenses	(17,518)	(12,822)
Decrease (increase) in income taxes	247	(2,733)
Decrease in trade and other payables	(28,720)	(22,945)
Increase (decrease) in payables to related parties	1,145	(2,485)
	<u>(86,070)</u>	<u>(51,449)</u>



# Kruger Products Inc.

## Notes to Unaudited Condensed Consolidated Financial Statements

For the 3-month periods ended March 31, 2024 and March 31, 2023

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

### 12 Cash flows from (used in) financing activities

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

	3-month period ended March 31, 2024	3-month period ended March 31, 2023
	\$	\$
<b>Long-term debt (including current portion)</b>		
<b>Opening balance</b>	1,069,245	1,111,708
Proceeds from long-term debt	74,864	35,501
Repayment of long-term debt	(7,147)	(8,695)
Reclassification of deferred financing fees and other <sup>(a)</sup>	(3,652)	(5,187)
Redemption of KPSI IQ Debenture principal portion by Kruger Inc.	(4,172)	(4,172)
Interest expense and other finance costs	2,106	1,289
Capitalized interest	1,293	817
Payment of deferred financing fees	(774)	(227)
Foreign exchange loss (gain)	9,743	(315)
Cumulative translation adjustment	4,565	(186)
<b>Closing balance</b>	<u>1,146,071</u>	<u>1,130,533</u>
<b>Lease liabilities (including current portion)</b>		
<b>Opening balance</b>	99,019	98,928
Payment of lease liabilities	(8,650)	(6,750)
Additions	21,513	2,976
Reclassification	(18)	(25)
Interest expense	1,494	1,070
Cumulative translation adjustment	96	(9)
<b>Closing balance</b>	<u>113,454</u>	<u>96,190</u>

(a) Includes the reclassification of deferred financing fees from Other long-term assets (3-month period ended March 31, 2024 - \$3.5 million; 3-month period ended March 31, 2023 - \$4.0 million).

### 13 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).

**Kruger Products Inc.**  
**Notes to Unaudited Condensed Consolidated Financial Statements**  
**For the 3-month periods ended March 31, 2024 and March 31, 2023**

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

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:

	<b>Class B common shares</b>
	<b>#</b>
13582141 Canada Inc. (Kruger)	61,529,113
KPT	9,945,975
KPGP	4,301
<b>As of January 1, 2023</b>	<b>71,479,389</b>

*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.