



**KP TISSUE INC.**

**AUDITED FINANCIAL STATEMENT**

**FOR THE YEARS ENDED DECEMBER 31, 2020 AND DECEMBER 31, 2019**



## Independent auditor's report

To the Shareholders of KP Tissue Inc.

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### Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of KP Tissue Inc. (the Corporation) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

#### What we have audited

The Corporation's financial statements comprise:

- the statements of financial position as at December 31, 2020 and 2019;
- the statements of comprehensive loss for the years then ended;
- the statements of changes in equity for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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## Key audit matter

### Impairment indicator assessment on the equity accounted investment in Kruger Products L.P.

*Refer to note 1 – General information, note 3 – Summary of significant accounting policies, note 4 – Critical accounting estimates and judgments, note 5 – Investment in associate and note 9 – Economic dependence to the financial statements.*

The Corporation was created to acquire, and its business is limited to holding, a limited partnership interest in Kruger Products L.P. (KPLP), which is accounted for as an investment in an associate using the equity method of accounting. As at December 31, 2020, the Corporation held a 14.7% interest in KPLP and the carrying amount of the Corporation's equity accounted investment in KPLP amounted to \$69.5 million.

Management assesses at each reporting period whether there is any objective evidence that indicates an impairment related to the investment in KPLP. Management applies judgment when assessing whether there is any objective evidence that would require an impairment test to be performed, including whether (i) KPLP has recognized impairment losses in its financial results; (ii) the recoverable amounts of KPLP's cash generating units tested for impairment have declined below the carrying amount of the Corporation's basis in KPLP's assets included in the investment in KPLP after taking into account the fair value increment for identifiable assets recorded on acquisition of interests in KPLP; or (iii) there is a significant decline in the market capitalization of the Corporation compared to its net assets. Management did not perform an impairment test as at December 31, 2020, as there was no objective evidence that indicated that an impairment test was required.

## How our audit addressed the key audit matter

Our approach to addressing the matter included the following procedures, among others:

- Evaluated the reasonableness of management's impairment indicator assessment on the equity accounted investment in KPLP, which included the following:
  - Performed an audit of the consolidated financial statements of KPLP as at December 31, 2020. This included:
    - considering the financial performance of KPLP and the impact of recognized impairment losses, if any, in the consolidated financial statements of KPLP on the carrying amount of the Corporation's investment in KPLP;
    - comparing the recoverable amounts of KPLP's cash generating units tested for impairment to the carrying amount of the Corporation's basis in KPLP's assets included in the investment in KPLP after taking into account the fair value increment for identifiable assets recorded on acquisition of interests in KPLP; and
    - evaluating the completeness of management's impairment indicator assessment of whether there was any other objective evidence that indicates an impairment related to the investment in KPLP.
- Recalculated and compared the Corporation's market capitalization to its net assets as at December 31, 2020.



#### Key audit matter

#### How our audit addressed the key audit matter

We considered this a key audit matter due to the significance of the equity accounted investment in KPLP and the judgment applied by management when assessing whether there was any objective evidence that would require an impairment test to be performed. This resulted in a high degree of auditor judgment, subjectivity and effort in performing procedures to evaluate audit evidence relating to management's impairment indicator assessment.

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#### Other information

Management is responsible for the other information. The other information comprises the KP Tissue Inc. and Kruger Products L.P. Management's Discussion and Analysis of Results of Operations and Financial Position, which we obtained prior to the date of this auditor's report and the information, other than the financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.



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## **Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

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## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Aneil Manji.

### **/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario  
March 11, 2021

# KP Tissue Inc.

## Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	December 31, 2020	December 31, 2019
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Distributions receivable	1,755	1,733
Receivable from Partnership	21	247
	<u>1,776</u>	<u>1,980</u>
<b>Non-current assets</b>		
Investment in associate (note 5)	69,537	81,052
<b>Total assets</b>	<u><u>71,313</u></u>	<u><u>83,032</u></u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Dividend payable (note 7)	1,755	1,733
Current portion of advances from Partnership (note 6)	874	80
Income tax payable	1,722	944
	<u>4,351</u>	<u>2,757</u>
<b>Non-current liabilities</b>		
Deferred income taxes (note 6)	634	3,158
<b>Total liabilities</b>	<u>4,985</u>	<u>5,915</u>
<b>Equity</b>		
Common shares (note 7)	20,355	18,997
Contributed surplus	144,819	144,819
Deficit	(111,907)	(100,696)
Accumulated other comprehensive income	13,061	13,997
<b>Total equity</b>	<u>66,328</u>	<u>77,117</u>
<b>Total liabilities and equity</b>	<u><u>71,313</u></u>	<u><u>83,032</u></u>
<b>Subsequent events (notes 6 and 7)</b>		

Approved by the Board of Directors

/s/ James Hardy \_\_\_\_\_

Director

/s/ François Vimard \_\_\_\_\_

Director

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

**KP Tissue Inc.**  
**Statement of Comprehensive Loss**

For the years ended December 31, 2020 and December 31, 2019

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

	2020	2019
	\$	\$
Equity loss (note 5)	(1,428)	(5,375)
Dilution gain (note 7)	634	574
<b>Loss before income taxes</b>	(794)	(4,801)
<b>Income taxes (note 6)</b>	1,159	1,727
<b>Net loss for the year</b>	(1,953)	(6,528)
<b>Other comprehensive loss</b>		
<b>net of tax recovery (note 8)</b>		
<b>Items that will not be reclassified to net loss:</b>		
Remeasurements of pensions	(1,841)	(4,769)
Remeasurements of post-retirement benefits	(442)	(200)
<b>Items that may be subsequently reclassified to net loss:</b>		
Cumulative translation adjustment	(936)	(2,380)
<b>Total other comprehensive loss for the year</b>	(3,219)	(7,349)
<b>Comprehensive loss for the year</b>	(5,172)	(13,877)
<b>Basic loss per share</b>	(0.20)	(0.68)
<b>Weighted average number of shares outstanding</b>	9,703,625	9,542,384

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



**KP Tissue Inc.**  
**Statement of Changes in Equity**

**For the years ended December 31, 2020 and December 31, 2019**

(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, 2019</b>	9,409,207	17,090	144,819	(82,269)	16,377	96,017
Issuance of common shares (note 7)	216,946	1,853	-	-	-	1,853
Dividends payable (note 7)	-	-	-	(1,733)	-	(1,733)
Dividends paid (note 7)	-	-	-	(5,143)	-	(5,143)
Fair value adjustment	-	54	-	(54)	-	-
Remeasurements of pensions	-	-	-	(4,769)	-	(4,769)
Remeasurements of post-retirement benefits	-	-	-	(200)	-	(200)
Cumulative translation adjustment	-	-	-	-	(2,380)	(2,380)
Net loss for the year	-	-	-	(6,528)	-	(6,528)
<b>As of December 31, 2019</b>	<b>9,626,153</b>	<b>18,997</b>	<b>144,819</b>	<b>(100,696)</b>	<b>13,997</b>	<b>77,117</b>
<b>As of January 1, 2020</b>	9,626,153	18,997	144,819	(100,696)	13,997	77,117
Issuance of common shares (note 7)	125,618	1,373	-	-	-	1,373
Dividends payable (note 7)	-	-	-	(1,755)	-	(1,755)
Dividends paid (note 7)	-	-	-	(5,235)	-	(5,235)
Fair value adjustment	-	(15)	-	15	-	-
Remeasurements of pensions	-	-	-	(1,841)	-	(1,841)
Remeasurements of post-retirement benefits	-	-	-	(442)	-	(442)
Cumulative translation adjustment	-	-	-	-	(936)	(936)
Net loss for the year	-	-	-	(1,953)	-	(1,953)
<b>As of December 31, 2020</b>	<b>9,751,771</b>	<b>20,355</b>	<b>144,819</b>	<b>(111,907)</b>	<b>13,061</b>	<b>66,328</b>

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

**KP Tissue Inc.**  
**Statement of Cash Flows**

For the years ended December 31, 2020 and December 31, 2019

(tabular amounts are in thousands of Canadian dollars)

	2020	2019
	\$	\$
<b>Cash flows from (used in) operating activities</b>		
Net loss for the year	(1,953)	(6,528)
Items not affecting cash		
Equity loss	1,428	5,375
Dilution gain	(634)	(574)
Income taxes	1,159	1,727
Total items not affecting cash	1,953	6,528
Net change in non-cash working capital (note 10)	146	189
Tax payments	(1,801)	-
Tax Distribution received	781	-
Advances received (paid)	874	(189)
<b>Net cash from (used in) operating activities</b>	<b>-</b>	<b>-</b>
<b>Cash flows from investing activities</b>		
Partnership unit distributions received	5,595	4,984
<b>Net cash from investing activities</b>	<b>5,595</b>	<b>4,984</b>
<b>Cash flows used in financing activities (note 11)</b>		
Dividends paid, net (note 7)	(5,595)	(4,984)
<b>Net cash used in financing activities</b>	<b>(5,595)</b>	<b>(4,984)</b>
<b>Increase (decrease) in cash and cash equivalents during the year</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents - Beginning of year</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents - End of year</b>	<b>-</b>	<b>-</b>

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

# KP Tissue Inc.

## Notes to Financial Statements

### December 31, 2020 and December 31, 2019

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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 December 31, 2020, the Corporation held a 14.7% (December 31, 2019 – 15.2%) interest in Kruger Products L.P. (KPLP or the Partnership), whose principal business is to produce, distribute, market and sell a wide range of disposable tissue products, including bathroom tissue, facial tissue, paper towels and napkins for both the consumer and away-from-home markets in North America. The Corporation's headquarters are located in Mississauga, Ontario, Canada.

#### 2 Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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. The financial statements have been prepared using the historical cost convention.

The financial statements were approved by the board of directors on March 10, 2021.

#### 3 Summary of significant accounting policies

The significant accounting policies used in the preparation of these financial statements are as follows:

##### (a) Investments in associates

Associates are entities over which the Corporation has significant influence but not control. The Corporation accounts for its investment in associates using the equity method. Under the equity method, the investment is initially recognized at cost and the carrying amount is adjusted for the Corporation's share of profits or losses of associates recognized in the statement of comprehensive income (loss) and its share of other comprehensive income (loss) of associates included in other comprehensive income (loss).

Unrealized gains on transactions between the Corporation and an associate are eliminated to the extent of the Corporation's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the statement of comprehensive income (loss).

The Corporation assesses at each reporting period whether there is any objective evidence that its interests in investments in associates are impaired. If so, the carrying value of the Corporation's share of the underlying assets of associates is written down to its net recoverable amount (being the higher of fair value, less cost to sell and value in use) and the loss is charged to the statement of comprehensive income (loss).

##### (b) Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the statement of comprehensive income (loss) except to the extent that it relates to items recognized directly in other comprehensive income (loss) or directly in equity, in which case the income tax is also recognized directly in other comprehensive income (loss) or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

**KP Tissue Inc.**  
**Notes to Financial Statements**  
**December 31, 2020 and December 31, 2019**

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

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Corporation and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the deferred tax asset is realized or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

Deferred income tax assets and liabilities are presented as non-current.

*(c) Share capital*

Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

*(d) Earnings per share*

Basic earnings per share (EPS) is calculated by dividing the net income (loss) for the period attributable to equity owners of the Corporation by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The Corporation does not currently have any potentially dilutive instruments.

*(e) Accounting standards issued but not yet applied*

- (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. The mandatory effective date would be annual periods beginning on or after January 1, 2023, with early adoption permitted. The amended standard is not expected to have an impact on the financial statements.
- (ii) IFRS 3, Reference to Conceptual Framework. In May 2020, the IASB issued an amendment to IFRS 3 to (i) clarify references to the 2018 Conceptual Framework in order to determine what constitutes an asset or liability in a business combination, (ii) add an exception for certain liabilities and contingent liabilities to refer to IAS 37 or IFRIC 21 and (iii) clarify that an acquirer should not recognize contingent assets at the acquisition date. The mandatory effective date would be annual periods beginning on or after January 1, 2022, with early adoption permitted. The amended standard is not expected to have an impact on the financial statements.

# KP Tissue Inc.

## Notes to Financial Statements

### December 31, 2020 and December 31, 2019

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

#### 4 Critical accounting estimates and judgments

The preparation of these financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and the disclosure of contingencies at the dates of the 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.

##### *Equity method of accounting*

The equity method of accounting is being applied by the Corporation as it relates to its investment in KPLP. The conclusion to account for an investment using the equity method, particularly when the percentage of ownership is below 20%, is based on an assessment of several facts and circumstances and ultimately requires significant judgment in reaching a conclusion. Management has reviewed the agreements and made an assessment of the rights of the Corporation. Based on the Corporation having four of ten seats on the board of directors of KPGP Inc. (KPGP), management has concluded that the Corporation has the ability to exercise significant influence over KPLP.

##### *Impairment test*

The Corporation is required to perform an impairment test on its investment in KPLP if there is objective evidence that indicates that the investment may be impaired. Management applies judgment when assessing whether there is any objective evidence that would require an impairment test to be performed, including whether (i) KPLP has recognized impairment losses in its financial results; or (ii) the recoverable amounts of KPLP's cash generating units tested for impairment have declined below the carrying amount of the Corporation's basis in KPLP's assets included in the investment in KPLP after taking into account the fair value increment for identifiable assets recorded on acquisition of interests in KPLP; or (iii) there is a significant decline in the market capitalization of the Corporation compared to its net assets. During the year ended December 31, 2020, management considered the impact of various events, including COVID-19, on the Corporation's assessment of whether there was objective evidence that its investment in KPLP may be impaired. Management concluded the future forecasts that support the investment value had not changed significantly and as a result no triggering event had occurred requiring an impairment test to be performed. While management concluded that there was no objective evidence to indicate that an impairment test was required as at December 31, 2020, the duration and severity of the COVID-19 pandemic could result in future impairment charges.

##### *Partnership units*

On December 13, 2012, in connection with the issuance of Partnership units to KPT, the Limited Partnership Agreement was amended to require KPLP, subject to compliance with contractual obligations and applicable law, to make distributions to its partners in such amounts as would enable KPT to discharge its obligation to pay federal and provincial income taxes (the Tax Distribution). Each partner is entitled to its share of the Tax Distribution made in respect of any given year.

##### *Income taxes*

The Corporation has not recognized at the date of acquisition the deferred tax assets and liabilities related to the differences between the accounting and tax basis of KPLP's assets and liabilities. Accordingly, the Corporation is tracking temporary differences that are subject to the initial recognition exemption and recognizes newly created temporary differences as they arise. The determination of the temporary differences that are subject to the initial recognition exemption requires significant judgment.

**KP Tissue Inc.**  
**Notes to Financial Statements**  
**December 31, 2020 and December 31, 2019**

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

*COVID-19*

In March 2020, the World Health Organization characterized the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, as a global pandemic. This has resulted in local governments enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses in the United States of America and Canada resulting in an economic slowdown. Equity markets have experienced significant volatility and weakness and the local governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. There is significant uncertainty as to the likely effects of this outbreak. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments to quantify the impact this pandemic may have on the financial results and condition of KPLP in future periods.

Since KPLP sells products that help consumers with their daily hygiene and cleaning needs, the COVID-19 pandemic has not had a negative impact on KPLP’s results. In fact, during the year ended December 31, 2020, KPLP experienced a significant increase in demand and consumption in the Consumer Segment caused in part by changing consumer habits and pantry loading, resulting in increased net sales. In the future, the pandemic may cause reduced demand for KPLP’s products if it results in a global economic recession. It could also lead to volatility in consumer access to KPLP’s products due to government actions impacting KPLP’s ability to produce and ship products or impacting consumers’ movements and access to KPLP’s products. Management believes that over the long term there will continue to be strong demand for KPLP’s products. However, the timing and extent of demand recovery in KPLP’s North American markets, the timing and impact of potential consumer pantry destocking in North American markets, and product demand trends caused by future economic trends are unclear. Accordingly, there may be heightened volatility in net sales and resulting earnings during and subsequent to the duration of the pandemic. KPLP’s retail customers are also being impacted by the pandemic. Their success in addressing the issues and maintaining their operations could impact consumer access to, and as a result, sales of KPLP’s products.

During the year ended December 31, 2020, the pandemic has not materially impacted KPLP’s operations or demand for KPLP’s products and, as a result, has also not negatively impacted KPLP’s liquidity position. KPLP continues to generate operating cash flows to meet KPLP’s short-term liquidity needs. However, uncertainty resulting from the pandemic could result in an unforeseen disruption to KPLP’s supply chain (for example a closure of a key manufacturing or distribution facility or the inability of a key supplier or transportation supplier to source and transport materials) that could impact KPLP’s operations.

**KP Tissue Inc.**  
**Notes to Financial Statements**  
**December 31, 2020 and December 31, 2019**

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

**5 Investment in associate**

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

	<u>\$</u>
<b>As of January 1, 2019</b>	99,421
Investment in associate	1,853
Share of income	325
Depreciation of fair value increments	(5,700)
Share of other comprehensive loss	(8,545)
Dilution gain	574
Partnership unit distributions	(6,876)
<b>As of December 31, 2019</b>	<u>81,052</u>
<b>As of January 1, 2020</b>	81,052
Investment in associate	1,373
Share of income	4,058
Depreciation of fair value increments	(5,486)
Share of other comprehensive loss	(4,323)
Dilution gain	634
Tax Distribution	(781)
Partnership unit distributions	(6,990)
<b>As of December 31, 2020</b>	<u>69,537</u>

The equity loss was comprised of the following components:

	<b>2020</b>	<b>2019</b>
	<u>\$</u>	<u>\$</u>
Share of income	4,058	325
Depreciation of fair value increments	(5,486)	(5,700)
	<u>(1,428)</u>	<u>(5,375)</u>

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation held a 14.7% interest as of December 31, 2020 (December 31, 2019 – 15.2%). The financial information was derived from the consolidated financial statements of KPLP for the year ended December 31, 2020. 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.

**KP Tissue Inc.**  
**Notes to Financial Statements**  
**December 31, 2020 and December 31, 2019**

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

	<b>December 31, 2020</b>		
	<b>KPLP basis of accounting</b>	<b>FV increment</b>	<b>KPT basis of accounting</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Current assets	447,047	-	447,047
Non-current assets	1,504,277	388,562	1,892,839
Liabilities to non-unitholders	1,477,498	-	1,477,498
Partnership units liability	185,424	-	185,424
Net assets	288,402		
<b>Year ended December 31, 2020</b>			
	<b>\$</b>		
Revenue	1,515,983		
Net income	27,306		
Other comprehensive loss	(27,526)		
Total comprehensive loss	(220)		
<b>December 31, 2019</b>			
	<b>KPLP basis of accounting</b>	<b>FV increment</b>	<b>KPT basis of accounting</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Current assets	382,009	-	382,009
Non-current assets	1,241,602	426,181	1,667,783
Liabilities to non-unitholders	1,175,294	-	1,175,294
Partnership units liability	143,515	-	143,515
Net assets	304,802		
<b>Year ended December 31, 2019</b>			
	<b>\$</b>		
Revenue	1,434,113		
Net income	2,098		
Other comprehensive loss	(51,570)		
Total comprehensive loss	(49,472)		



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

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
	\$	\$
KPLP consolidated equity	288,402	304,802
Add back: Inception value of Partnership units liability	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	<u>(272,950)</u>	<u>(283,700)</u>
Equity pertaining to KPT	134,014	139,664
Investment in associate recorded in KPT	<u>69,537</u>	<u>81,052</u>
Reconciling difference	64,477	58,612
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	48,633	43,147
Currency translation adjustment in fair value increments	(3,130)	(3,362)
Tax Distribution	4,656	3,875
Gain on exercise of overallotment option	(375)	(375)
Dilution gain	(2,197)	(1,563)
Impairment in investment in associate	<u>28,000</u>	<u>28,000</u>
	<u>-</u>	<u>-</u>

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

On January 15, 2020, April 15, 2020, July 15, 2020, and October 15, 2020, in connection with the Corporation Distribution Reinvestment Plan (DRIP), a portion of the dividends received by the shareholders was used to acquire an additional 125,618 common shares of the Corporation for proceeds of \$1.4 million (note 7).

**6 Income taxes**

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

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

	<b>2020</b>	<b>2019</b>
	\$	\$
Current tax expense	2,579	1,007
Deferred tax expense (recovery)	<u>(1,420)</u>	<u>720</u>
	<u>1,159</u>	<u>1,727</u>

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Details of the provision for income taxes were as follows:

	<b>2020</b>	<b>2019</b>
	<u>\$</u>	<u>\$</u>
Income tax at statutory rate of 26%	(206)	(1,248)
Permanent differences and other	10	28
Dilution gain	(165)	(149)
Taxed in hands of subsidiaries	(493)	287
Realization of previously unrecognized tax attributes	1,451	1,698
Change in basis of investment in associate	562	1,111
	<u>1,159</u>	<u>1,727</u>

Components of the deferred income tax liability were as follows:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
	<u>\$</u>	<u>\$</u>
Deferred tax liability (asset)		
ROU assets and lease liabilities	(829)	(965)
Pensions	(1,084)	(366)
Partnership units liability	(3,692)	(1,953)
Property, plant and equipment	7,043	6,818
Other	(804)	(376)
	<u>634</u>	<u>3,158</u>

The analysis of the deferred tax liability were as follows:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
	<u>\$</u>	<u>\$</u>
Deferred tax liabilities to be realized greater than 12 months	<u>634</u>	<u>3,158</u>
	<u>634</u>	<u>3,158</u>

In addition to the above, the Corporation has a deferred tax asset of \$8.3 million (December 31, 2019 - \$6.4 million) related to the Investment in associate which has not been recognized in the financial statements for the year ended December 31, 2020.

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The movement in the deferred tax liability was as follows:

	<u>\$</u>
<b>As of January 1, 2019</b>	3,634
Charge to net income	720
Charge to other comprehensive loss	
- remeasurements of cumulative translation adjustment	(355)
Charge to other comprehensive loss	
- remeasurements of post-retirement benefits	(128)
Charge to other comprehensive loss	
- remeasurements of pensions	(713)
<b>As of December 31, 2019</b>	<u>3,158</u>
<b>As of January 1, 2020</b>	3,158
Charge to net loss	(1,420)
Charge to other comprehensive loss	
- remeasurements of cumulative translation adjustment	(140)
Charge to other comprehensive loss	
- remeasurements of post-retirement benefits	(282)
Charge to other comprehensive loss	
- remeasurements of pensions	(682)
<b>As of December 31, 2020</b>	<u><u>634</u></u>

On December 13, 2012, in connection with the issuance of Partnership units to KPT, Limited Partnership Agreement was amended to require KPLP, subject to compliance with contractual obligations and applicable law, to make distributions to its partners in such amounts as would enable KPT to discharge its obligation to pay federal and provincial income taxes (the Tax Distribution). Each partner is entitled to its share of the Tax Distribution made in respect of any given year.

Pursuant to the Tax Distribution as defined in the Partnership Agreement, on February 28, 2020, KPT received a Tax Distribution of \$0.8 million from KPLP for purposes of settling its obligation for federal and provincial taxes, for the year ended December 31, 2019. The Tax Distribution was used to settle the outstanding advance to KPT in the amount of \$0.1 million as of December 31, 2019. During the year ended December 31, 2020, pursuant to the Tax Distribution as defined in the Partnership Agreement, KPT received an advance from KPLP of \$0.9 million to pay the monthly tax instalments. The advances are non-interest bearing and non-recourse in nature and were offset against the Tax Distribution of \$2.6 million declared and paid by KPLP on February 26, 2021.

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**7 Dividends**

During the years ended December 31, 2020 and December 31, 2019, the Corporation paid a quarterly dividend of \$0.18 per common share to shareholders. Pursuant to the Corporation Dividend Reinvestment Plan (DRIP), a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing common shares. The proceeds were used to acquire additional units of KPLP. The dividends paid, the additional common shares issued at the share price, and the gross proceeds were as follows:

	<b>2020</b>			
	<b>Dividends paid</b>	<b>Share price</b>	<b>Issuance of Common shares</b>	<b>Gross proceeds</b>
<b>Dividend Payment Date</b>	<b>\$</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
January 15, 2020	1,733	9.84	34,545	340
April 15, 2020	1,739	9.92	34,131	339
July 15, 2020	1,745	11.16	30,924	345
October 15, 2020	1,751	13.41	26,018	349
	<u>6,968</u>		<u>125,618</u>	<u>1,373</u>
	<b>2019</b>			
	<b>Dividends paid</b>	<b>Share price</b>	<b>Issuance of Common shares</b>	<b>Gross proceeds</b>
<b>Dividend Payment Date</b>	<b>\$</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
January 15, 2019	1,694	8.36	65,308	546
April 15, 2019	1,705	8.70	48,921	426
July 15, 2019	1,714	8.16	53,328	435
October 15, 2019	1,724	9.04	49,389	446
	<u>6,837</u>		<u>216,946</u>	<u>1,853</u>

On January 15, 2021, 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 32,921 common shares at a price of \$10.70.

Subsequent to December 31, 2020, the Corporation declared a dividend of \$0.18 per common share to shareholders, payable on April 15, 2021.

As a result of the DRIP and Kruger's reinvestment of its distribution from KPLP in units of KPLP, a dilution gain of \$0.6 million was recorded during the year ended December 31, 2020 (2019 - \$0.6 million).

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**8 Income tax recovery on other comprehensive loss**

Income tax recovery on other comprehensive loss were as follows:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>Items that will not be reclassified to net loss:</b>		
Remeasurements of pensions	(2,523)	(5,482)
Income tax recovery	682	713
Net of income tax recovery	<u>(1,841)</u>	<u>(4,769)</u>
Remeasurements of post-retirement benefits	(724)	(328)
Income tax recovery	282	128
Net of income tax recovery	<u>(442)</u>	<u>(200)</u>
<b>Items that may be subsequently reclassified to net loss:</b>		
Cumulative translation adjustment	(1,076)	(2,735)
Income tax recovery	140	355
Net of income tax recovery	<u>(936)</u>	<u>(2,380)</u>
<b>Total other comprehensive loss for the year</b>	<u><u>(3,219)</u></u>	<u><u>(7,349)</u></u>

**9 Economic dependence**

The Corporation was created to acquire, and its business is limited to holding, a limited partnership interest in KPLP, which is accounted for as an investment in an associate using the equity method of accounting. As such, the Corporation is economically dependent on KPLP and exposed to all the risks associated with the business of KPLP, including, but not limited to, liquidity risk.

**10 Non-cash working capital**

The change in non-cash working capital on the statement of cash flows comprised the following:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Decrease in receivable from Partnership	146	22
Decrease in income taxes	-	167
	<u>146</u>	<u>189</u>

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**11 Cash flows used in financing activities**

The change in financing activities on the statement of cash flows comprised the following:

	<b>Dividend payable</b>	<b>Common shares</b>	<b>Total</b>
	\$	\$	\$
<b>As of January 1, 2019</b>	1,694	17,090	18,784
Dividends paid	(6,837)	1,853	(4,984)
Movements not in financing activities	6,876	54	6,930
<b>As of December 31, 2019</b>	1,733	18,997	20,730
<b>As of January 1, 2020</b>	1,733	18,997	20,730
Dividends paid	(6,968)	1,373	(5,595)
Movements not in financing activities	6,990	(15)	6,975
<b>As of December 31, 2020</b>	1,755	20,355	22,110