



KP TISSUE INC.

UNAUDITED CONDENSED FINANCIAL STATEMENT

**FOR THE 3-MONTH AND 9-MONTH PERIODS ENDED SEPTEMBER 30, 2020
AND SEPTEMBER 30, 2019**

KP Tissue Inc.
Unaudited Condensed Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	September 30, 2020	December 31, 2019
	\$	\$
Assets		
Current assets		
Distributions receivable	1,751	1,733
Receivable from Partnership	73	247
	<u>1,824</u>	<u>1,980</u>
Non-current assets		
Investment in associate (note 4)	75,391	81,052
Total Assets	<u>77,215</u>	<u>83,032</u>
Liabilities		
Current liabilities		
Dividend payable (note 6)	1,751	1,733
Current portion of advances from Partnership (note 5)	629	80
Income tax payable	1,697	944
	<u>4,077</u>	<u>2,757</u>
Non-current liabilities		
Deferred income taxes (note 5)	1,119	3,158
Total liabilities	<u>5,196</u>	<u>5,915</u>
Equity		
Common shares (note 6)	20,015	18,997
Contributed surplus	144,819	144,819
Deficit	(107,940)	(100,696)
Accumulated other comprehensive income	15,125	13,997
Total equity	<u>72,019</u>	<u>77,117</u>
Total liabilities and equity	<u>77,215</u>	<u>83,032</u>
Subsequent events (note 6)		

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

KP Tissue Inc.**Unaudited Condensed Statement of Comprehensive Loss****For the 3-month and 9-month periods ended September 30, 2020 and September 30, 2019**

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

	3-month period ended September 30, 2020	3-month period ended September 30, 2019	9-month period ended September 30, 2020	9-month period ended September 30, 2019
	\$	\$	\$	\$
Equity income (loss) (note 4)	1,355	215	4,155	(3,022)
Dilution gain (note 6)	77	134	528	365
Income (loss) before income taxes	1,432	349	4,683	(2,657)
Income taxes (note 5)	667	729	2,340	2,258
Net income (loss) for the period	765	(380)	2,343	(4,915)
Other comprehensive income (loss) net of tax expense (recovery) (note 7)				
Items that will not be reclassified to net income (loss):				
Remeasurements of pensions	(355)	(909)	(4,010)	(7,459)
Remeasurements of post-retirement benefits	(39)	(55)	(348)	(641)
Items that may be subsequently reclassified to net income (loss):				
Cumulative translation adjustment	(1,003)	637	1,128	(1,475)
Total other comprehensive loss for the period	(1,397)	(327)	(3,230)	(9,575)
Comprehensive loss for the period	(632)	(707)	(887)	(14,490)
Basic earnings (loss) per share	0.08	(0.04)	0.24	(0.52)
Weighted average number of shares outstanding	9,721,047	9,568,649	9,688,788	9,516,687

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

KP Tissue Inc.
Unaudited Condensed Statement of Changes in Equity
For the 9-month periods ended September 30, 2020 and September 30, 2019

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

	<u>Common shares</u>		<u>Contributed surplus</u>	<u>Deficit</u>	<u>Accumulated other comprehensive income</u>	<u>Total equity</u>
	<u>#</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
As of January 1, 2019	9,409,207	17,090	144,819	(82,269)	16,377	96,017
Issuance of common shares (note 6)	167,557	1,407	-	-	-	1,407
Dividends payable (note 6)	-	-	-	(1,724)	-	(1,724)
Dividends paid	-	-	-	(3,419)	-	(3,419)
Fair value adjustment	-	54	-	(54)	-	-
Remeasurements of pensions	-	-	-	(7,459)	-	(7,459)
Remeasurements of post-retirement benefits	-	-	-	(641)	-	(641)
Cumulative translation adjustment	-	-	-	-	(1,475)	(1,475)
Net loss for the period	-	-	-	(4,915)	-	(4,915)
As of September 30, 2019	9,576,764	18,551	144,819	(100,481)	14,902	77,791
As of January 1, 2020	9,626,153	18,997	144,819	(100,696)	13,997	77,117
Issuance of common shares (note 6)	99,600	1,024	-	-	-	1,024
Dividends payable (note 6)	-	-	-	(1,751)	-	(1,751)
Dividends paid	-	-	-	(3,484)	-	(3,484)
Fair value adjustment	-	(6)	-	6	-	-
Remeasurements of pensions	-	-	-	(4,010)	-	(4,010)
Remeasurements of post-retirement benefits	-	-	-	(348)	-	(348)
Cumulative translation adjustment	-	-	-	-	1,128	1,128
Net income for the period	-	-	-	2,343	-	2,343
As of September 30, 2020	9,725,753	20,015	144,819	(107,940)	15,125	72,019

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

KP Tissue Inc.
Unaudited Condensed Statement of Cash Flows
For the 9-month periods ended September 30, 2020 and September 30, 2019

(tabular amounts are in thousands of Canadian dollars)

	9-month period ended September 30, 2020	9-month period ended September 30, 2019
	\$	\$
Cash flows from (used in) operating activities		
Net income (loss) for the period	2,343	(4,915)
Items not affecting cash		
Equity (income) loss	(4,155)	3,022
Dilution gain	(528)	(365)
Income taxes	2,340	2,258
Total items not affecting cash	(2,343)	4,915
Net change in non-cash working capital (note 9)	94	168
Tax payments	(1,504)	-
Tax Distribution	781	-
Advances received (paid)	629	(168)
Net cash from (used in) operating activities	-	-
Cash flows from investing activities		
Partnership unit distributions received	4,193	3,706
Net cash from investing activities	4,193	3,706
Cash flows used in financing activities (note 10)		
Dividends paid	(4,193)	(3,706)
Net cash used in financing activities	(4,193)	(3,706)
Increase (decrease) in cash and cash equivalents during the period	-	-
Cash and cash equivalents - Beginning of period	-	-
Cash and cash equivalents - End of period	-	-

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

KP Tissue Inc.

Notes to Unaudited Condensed Financial Statements

For the 9-month periods ended September 30, 2020 and September 30, 2019

(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, 2020, the Corporation held a 14.8% (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

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, 2019.

These unaudited condensed financial statements were approved by the board of directors on November 4, 2020.

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, 2019, except for the following:

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 the Partnership in future periods.

During the period, management considered the impact of COVID-19 on the Corporation's critical accounting estimates and judgements, including the Corporation's assessment of triggering events with respect to its impairment analysis for its investment in associate. Management concluded the future forecasts that support the investment value had not changed significantly and therefore no impairment adjustment was made for the 9-month period ended September 30,

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 9-month periods ended September 30, 2020 and September 30, 2019

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

2020. While management concluded that a triggering event did not occur during the 9-month period ended September 30, 2020, the duration and severity of the COVID-19 pandemic could result in future impairment charges.

4 Investment in associate

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

	9-month period ended September 30, 2020	9-month period ended September 30, 2019
	\$	\$
Opening balance	81,052	99,421
Investment in associate	1,024	1,407
Share of income	8,307	1,277
Depreciation of fair value increments	(4,152)	(4,299)
Share of other comprehensive loss	(5,352)	(12,099)
Dilution gain	528	365
Tax Distribution	(781)	-
Partnership unit distributions	(5,235)	(5,143)
Closing balance	<u>75,391</u>	<u>80,929</u>

The equity income (loss) was comprised of the following components:

	3-month period ended September 30, 2020	3-month period ended September 30, 2019	9-month period ended September 30, 2020	9-month period ended September 30, 2019
	\$	\$	\$	\$
Share of income	2,728	1,633	8,307	1,277
Depreciation of fair value increments	(1,373)	(1,418)	(4,152)	(4,299)
	<u>1,355</u>	<u>215</u>	<u>4,155</u>	<u>(3,022)</u>

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation held a 14.8% interest as of September 30, 2020 (December 31, 2019 – 15.2%). The financial information was derived from the unaudited condensed consolidated financial statements of KPLP for the 9-month period ended September 30, 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 Unaudited Condensed Financial Statements**

For the 9-month periods ended September 30, 2020 and September 30, 2019

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

	September 30, 2020		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	432,485	-	432,485
Non-current assets	1,424,388	400,040	1,824,428
Liabilities to non-unitholders	1,393,383	-	1,393,383
Partnership units liability	149,315	-	149,315
Net assets	314,175		
	3-month period ended September 30, 2020	9-month period ended September 30, 2020	
	\$	\$	
Revenue	369,103	1,131,012	
Net income	18,455	55,747	
Other comprehensive loss	(10,901)	(36,717)	
Total comprehensive income	7,554	19,030	

	December 31, 2019		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
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		
	3-month period ended September 30, 2019	9-month period ended September 30, 2019	
	\$	\$	
Revenue	369,358	1,086,009	
Net income	10,487	8,207	
Other comprehensive loss	(6,102)	(75,358)	
Total comprehensive income (loss)	4,385	(67,151)	

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 9-month periods ended September 30, 2020 and September 30, 2019

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

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

	September 30, 2020	December 31, 2019
	\$	\$
KPLP consolidated equity	314,175	304,802
Add back: Inception value of Partnership units liability	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	<u>(294,448)</u>	<u>(283,700)</u>
Equity pertaining to KPT	138,289	139,664
Investment in associate recorded in KPT	<u>75,391</u>	<u>81,052</u>
Reconciling difference	62,898	58,612
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	47,299	43,147
Currency translation adjustment in fair value increments	(3,481)	(3,362)
Tax Distribution	4,656	3,875
Gain on exercise of overallotment option	(375)	(375)
Dilution gain	(2,091)	(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.

5 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 unaudited condensed statement of comprehensive loss as follows:

	3-month period ended September 30, 2020	3-month period ended September 30, 2019	9-month period ended September 30, 2020	9-month period ended September 30, 2019
	\$	\$	\$	\$
Current tax expense	685	207	2,257	168
Deferred tax expense (recovery)	<u>(18)</u>	<u>522</u>	<u>83</u>	<u>2,090</u>
	<u>667</u>	<u>729</u>	<u>2,340</u>	<u>2,258</u>

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 9-month periods ended September 30, 2020 and September 30, 2019

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

Details of the provision for income taxes were as follows:

	3-month period ended September 30, 2020 \$	3-month period ended September 30, 2019 \$	9-month period ended September 30, 2020 \$	9-month period ended September 30, 2019 \$
Income tax at statutory rate of 26%	372	91	1,217	(691)
Permanent differences and other	(22)	(62)	38	(78)
Dilution gain	(20)	(35)	(137)	(95)
Taxed in hands of subsidiaries	(291)	174	(570)	226
Realization of previously unrecognized tax	392	456	1,096	1,323
Change in basis of investment in associate	236	105	696	1,573
	<u>667</u>	<u>729</u>	<u>2,340</u>	<u>2,258</u>

Components of the deferred income tax liability were as follows:

	September 30, 2020 \$	December 31, 2019 \$
Deferred tax liability (asset)		
ROU assets and lease liabilities	(950)	(965)
Pensions	(1,929)	(366)
Deferred finance fees	18	(1,953)
Property, plant and equipment	6,849	6,818
Other	(2,869)	(376)
	<u>1,119</u>	<u>3,158</u>

The analysis of the deferred tax liability were as follows:

	September 30, 2020 \$	December 31, 2019 \$
Deferred tax liabilities to be realized greater than 12 months	<u>1,119</u>	<u>3,158</u>
	<u>1,119</u>	<u>3,158</u>

In addition to the above, the Corporation has a deferred tax asset of \$7.6 million (December 31, 2019 - \$6.4 million) related to the Investment in associate which has not been recognized in the unaudited condensed financial statements for the 9-month period ended September 30, 2020.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 9-month periods ended September 30, 2020 and September 30, 2019

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

The movement in the deferred tax liability was as follows:

	9-month period ended September 30, 2020	9-month period ended September 30, 2019
	\$	\$
Opening balance	3,158	3,634
Charge to net income (loss)	83	2,090
Charge to other comprehensive income (loss)		
- remeasurements of cumulative translation adjustment	169	(220)
Charge to other comprehensive income (loss)		
- remeasurements of post-retirement benefits	(222)	(409)
Charge to other comprehensive income (loss)		
- remeasurements of pensions	(2,069)	(1,895)
	<u>1,119</u>	<u>3,200</u>

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 9-month period ended September 30, 2020, pursuant to the Tax Distribution as defined in the Partnership Agreement, KPT received an advance from KPLP of \$0.6 million to pay the monthly tax instalments. The advances are non-interest bearing and non-recourse in nature and are settled when the Tax Distribution is declared annually.

6 Dividends

During the 9-month periods ended September 30, 2020 and September 30, 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:

Dividend Payment Date	9-month period ended September 30, 2020			
	Dividends paid	Share price	Issuance of Common shares	Gross proceeds
	\$	\$	#	\$
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
	<u>5,217</u>		<u>99,600</u>	<u>1,024</u>

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 9-month periods ended September 30, 2020 and September 30, 2019

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

<u>Dividend Payment Date</u>	<u>9-month period ended September 30, 2019</u>			
	<u>Dividends paid</u>	<u>Share price</u>	<u>Issuance of</u> <u>Common shares</u>	<u>Gross proceeds</u>
	<u>\$</u>	<u>\$</u>	<u>#</u>	<u>\$</u>
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
	<u>5,113</u>		<u>167,557</u>	<u>1,407</u>

On October 15, 2020, 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 26,018 common shares at a price of \$13.41.

Subsequent to September 30, 2020, the Corporation declared a dividend of \$0.18 per common share to shareholders, payable on January 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 \$0.5 million was recorded during the 9-month period ended September 30, 2020 (9-month period ended September 30, 2019 - \$0.4 million).

7 Income tax recovery (expense) on other comprehensive income (loss)

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

	<u>3-month</u> <u>period ended</u> <u>September 30,</u> <u>2020</u> <u>\$</u>	<u>3-month</u> <u>period ended</u> <u>September 30,</u> <u>2019</u> <u>\$</u>	<u>9-month</u> <u>period ended</u> <u>September 30,</u> <u>2020</u> <u>\$</u>	<u>9-month</u> <u>period ended</u> <u>September 30,</u> <u>2019</u> <u>\$</u>
Items that will not be reclassified to net income (loss):				
Remeasurements of pensions	(596)	(1,478)	(6,079)	(9,354)
Income tax recovery	241	569	2,069	1,895
Net of income tax recovery	<u>(355)</u>	<u>(909)</u>	<u>(4,010)</u>	<u>(7,459)</u>
Remeasurements of post-retirement benefits	(63)	(60)	(570)	(1,050)
Income tax recovery	24	5	222	409
Net of income tax recovery	<u>(39)</u>	<u>(55)</u>	<u>(348)</u>	<u>(641)</u>
Items that may be subsequently reclassified to net income (loss):				
Cumulative translation adjustment	(1,152)	733	1,297	(1,695)
Income tax recovery (expense)	149	(96)	(169)	220
Net of income tax recovery (expense)	<u>(1,003)</u>	<u>637</u>	<u>1,128</u>	<u>(1,475)</u>
Total other comprehensive loss for the period	<u>(1,397)</u>	<u>(327)</u>	<u>(3,230)</u>	<u>(9,575)</u>

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 9-month periods ended September 30, 2020 and September 30, 2019

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

8 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.

9 Non-cash working capital

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

	9-month period ended September 30, 2020	9-month period ended September 30, 2019
	\$	\$
Decrease (increase) in receivable from Partnership	94	(218)
Decrease in income taxes	-	386
	<u>94</u>	<u>168</u>

10 Cash flows used in financing activities

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

	Dividend payable	Common shares	Total
	\$	\$	\$
As of January 1, 2019	1,694	17,090	18,784
Dividends paid	(5,113)	1,407	(3,706)
Movements not in financing activities	5,143	54	5,197
As of September 30, 2019	<u>1,724</u>	<u>18,551</u>	<u>20,275</u>
As of January 1, 2020	1,733	18,997	20,730
Dividends paid	(5,217)	1,024	(4,193)
Movements not in financing activities	5,235	(6)	5,229
As of September 30, 2020	<u>1,751</u>	<u>20,015</u>	<u>21,766</u>