



KP TISSUE INC.

UNAUDITED CONDENSED FINANCIAL STATEMENT

FOR THE 3-MONTH PERIODS ENDED MARCH 31, 2021 AND MARCH 31, 2020

KP Tissue Inc.

Unaudited Condensed Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	March 31, 2021	December 31, 2020
	\$	\$
Assets		
Current assets		
Distributions receivable	1,761	1,755
Receivable from Partnership	24	21
	<u>1,785</u>	<u>1,776</u>
Non-current assets		
Investment in associate (note 4)	79,770	69,537
	<u>81,555</u>	<u>71,313</u>
Total Assets		
Liabilities		
Current liabilities		
Dividend payable (note 6)	1,761	1,755
Current portion of advances from Partnership (note 5)	326	874
Income tax payable	315	1,722
	<u>2,402</u>	<u>4,351</u>
Non-current liabilities		
Deferred income taxes (note 5)	1,060	634
	<u>3,462</u>	<u>4,985</u>
Total liabilities		
Equity		
Common shares (note 6)	20,708	20,355
Contributed surplus	144,819	144,819
Deficit	(99,950)	(111,907)
Accumulated other comprehensive income	12,516	13,061
	<u>78,093</u>	<u>66,328</u>
Total equity		
Total liabilities and equity	<u>81,555</u>	<u>71,313</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 Income
For the 3-month periods ended March 31, 2021 and March 31, 2020

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

	3-month period ended March 31, 2021	3-month period ended March 31, 2020
	\$	\$
Equity loss (note 4)	(345)	(125)
Dilution gain (note 6)	80	220
Income (loss) before income taxes	(265)	95
Income taxes (note 5)	(1,473)	(1,606)
Net income for the period	1,208	1,701
Other comprehensive income (loss)		
net of tax expense (recovery) (note 7)		
Items that will not be reclassified to net income:		
Remeasurements of pensions	11,995	8,692
Remeasurements of post-retirement benefits	516	597
Items that may be subsequently reclassified to net income:		
Cumulative translation adjustment	(545)	4,081
Total other comprehensive income for the period	11,966	13,370
Comprehensive income for the period	13,174	15,071
Basic earnings per share	0.12	0.18
Weighted average number of shares outstanding	9,779,571	9,655,383

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KP Tissue Inc.
Unaudited Condensed Statement of Changes in Equity
For the 3-month periods ended March 31, 2021 and March 31, 2020

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

	Common shares		Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity
	#	\$	\$	\$	\$	\$
As of January 1, 2020	9,626,153	18,997	144,819	(100,696)	13,997	77,117
Issuance of common shares (note 6)	34,545	340	-	-	-	340
Dividends payable (note 6)	-	-	-	(1,739)	-	(1,739)
Remeasurements of pensions	-	-	-	8,692	-	8,692
Remeasurements of post-retirement benefits	-	-	-	597	-	597
Cumulative translation adjustment	-	-	-	-	4,081	4,081
Net income for the period	-	-	-	1,701	-	1,701
As of March 31, 2020	<u>9,660,698</u>	<u>19,337</u>	<u>144,819</u>	<u>(91,445)</u>	<u>18,078</u>	<u>90,789</u>
As of January 1, 2021	9,751,771	20,355	144,819	(111,907)	13,061	66,328
Issuance of common shares (note 6)	32,921	352	-	-	-	352
Dividends payable (note 6)	-	-	-	(1,761)	-	(1,761)
Fair value adjustment (note 6)	-	1	-	(1)	-	-
Remeasurements of pensions	-	-	-	11,995	-	11,995
Remeasurements of post-retirement benefits	-	-	-	516	-	516
Cumulative translation adjustment	-	-	-	-	(545)	(545)
Net income for the period	-	-	-	1,208	-	1,208
As of March 31, 2021	<u>9,784,692</u>	<u>20,708</u>	<u>144,819</u>	<u>(99,950)</u>	<u>12,516</u>	<u>78,093</u>

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

KP Tissue Inc.
Unaudited Condensed Statement of Cash Flows
For the 3-month periods ended March 31, 2021 and March 31, 2020

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended March 31, 2021	3-month period ended March 31, 2020
	\$	\$
Cash flows from (used in) operating activities		
Net income for the period	1,208	1,701
Items not affecting cash		
Equity loss (note 4)	345	125
Dilution gain (note 6)	(80)	(220)
Income taxes (note 5)	(1,473)	(1,606)
Total items not affecting cash	(1,208)	(1,701)
Net change in non-cash working capital (note 9)	(3)	93
Tax payments	(2,061)	(874)
Tax Distribution received	1,738	781
Advances received	326	-
Net cash from (used in) operating activities	-	-
Cash flows from investing activities		
Partnership unit distributions received	1,403	1,393
Net cash from investing activities	1,403	1,393
Cash flows used in financing activities (note 10)		
Dividends paid	(1,403)	(1,393)
Net cash used in financing activities	(1,403)	(1,393)
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 3-month periods ended March 31, 2021 and March 31, 2020

(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 March 31, 2021, the Corporation held a 14.7% (December 31, 2020 – 14.7%) 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, 2020.

These unaudited condensed financial statements were approved by the board of directors on May 6, 2021.

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, 2020, updated for the following:

COVID-19

During the 3-month period ended March 31, 2021, management considered the impact of COVID-19 on the Corporation's critical accounting estimates and judgments, 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 3-month period ended March 31, 2021. While management concluded that a triggering event did not occur during the 3-month period ended March 31, 2021, the length and severity of the COVID-19 pandemic could result in further impairment charges.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 3-month periods ended March 31, 2021 and March 31, 2020

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

4 Investment in associate

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

	<u>\$</u>
As of January 1, 2020	81,052
Investment in associate	340
Share of income	1,263
Depreciation of fair value increments	(1,388)
Share of other comprehensive income	15,660
Dilution gain	220
Tax Distribution	(780)
Partnership unit distributions	(1,739)
As of March 31, 2020	<u>94,628</u>
As of January 1, 2021	69,537
Investment in associate	352
Share of income	992
Depreciation of fair value increments	(1,337)
Share of other comprehensive income	14,519
Dilution gain	80
Tax Distribution	(2,612)
Partnership unit distributions	(1,761)
As of March 31, 2021	<u>79,770</u>

KP Tissue Inc.
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For the 3-month periods ended March 31, 2021 and March 31, 2020

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

The equity loss was comprised of the following components:

	3-month period ended March 31, 2021	3-month period ended March 31, 2020
	\$	\$
Share of income	992	1,263
Depreciation of fair value increments	(1,337)	(1,388)
	<u>(345)</u>	<u>(125)</u>

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation holds a 14.7% interest as of March 31, 2021 (December 31, 2020 – 14.7%). The financial information was derived from the unaudited condensed consolidated financial statements of KPLP for the 3-month period ended March 31, 2021. 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.

	KPLP basis of accounting	FV increment	March 31, 2021 KPT basis of accounting
	\$	\$	\$
Current assets	423,260	-	423,260
Non-current assets	1,515,360	378,871	1,894,231
Liabilities to non-unitholders	1,378,947	-	1,378,947
Partnership units liability	171,317	-	171,317
Net assets	388,356		
	3-month period ended March 31, 2021		
	\$		
Revenue	310,379		
Net income	6,759		
Other comprehensive income	99,771		
Total comprehensive income	106,530		

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	KPLP basis of accounting	FV increment	December 31, 2020 KPT basis of accounting
	\$	\$	\$
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		
	3-month period ended March 31, 2020		
	\$		
Revenue	375,146		
Net income	8,388		
Other comprehensive income	99,592		
Total comprehensive income	107,980		

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

	March 31, 2021	December 31, 2020
	\$	\$
KPLP consolidated equity	388,356	288,402
Add back: Inception value of Partnership units liability	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	(358,681)	(272,950)
Equity pertaining to KPT	148,237	134,014
Investment in associate recorded in KPT	79,770	69,537
Reconciling difference	68,467	64,477
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	49,970	48,633
Currency translation adjustment in fair value increments	(3,009)	(3,130)
Tax Distribution	7,268	4,656
Gain on exercise of overallotment option	(375)	(375)
Dilution gain	(2,277)	(2,197)
Impairment in investment in associate	28,000	28,000
	-	-

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.

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

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

	3-month period ended March 31, 2021	3-month period ended March 31, 2020
	\$	\$
Current tax expense	654	718
Deferred tax recovery	(2,127)	(2,324)
	<u>(1,473)</u>	<u>(1,606)</u>

Details of the provision for income taxes were as follows:

	3-month period ended March 31, 2021	3-month period ended March 31, 2020
	\$	\$
Income tax at statutory rate of 26%	(69)	25
Permanent differences and other	(11)	104
Dilution gain	(21)	(57)
Taxed in hands of subsidiaries	76	(11)
Realization of previously unrecognized tax attributes	439	369
Change in basis of investment in associate	(1,887)	(2,036)
	<u>(1,473)</u>	<u>(1,606)</u>

Components of the deferred income tax liability were as follows:

	March 31, 2021	December 31, 2020
	\$	\$
Deferred tax liability (asset)		
ROU assets and lease liabilities	(829)	(829)
Pensions	(406)	(1,084)
Partnership units liability	(3,777)	(3,692)
Property, plant and equipment	6,873	7,043
Other	(801)	(804)
	<u>1,060</u>	<u>634</u>

The analysis of the deferred tax liability were as follows:

	March 31, 2021	December 31, 2020
	\$	\$
Deferred tax liabilities to be realized greater than 12 months	<u>1,060</u>	<u>634</u>
	<u>1,060</u>	<u>634</u>

In addition to the above, the Corporation has a deferred tax asset of \$6.8 million (December 31, 2020 - \$8.3 million) related to the Investment in associate which has not been recognized in the unaudited condensed financial statements for the 3-month period ended March 31, 2021.

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The movement in the deferred tax liability was as follows:

	<u>\$</u>
As of January 1, 2020	3,158
Charge to net income	(2,324)
Charge to other comprehensive income	
- remeasurements of cumulative translation adjustment	610
Charge to other comprehensive income	
- remeasurements of post-retirement benefits	382
Charge to other comprehensive income	
- remeasurements of pensions	1,298
	<u>3,124</u>
As of March 31, 2020	<u>3,124</u>
As of January 1, 2021	634
Charge to net loss	(2,127)
Charge to other comprehensive loss	
- remeasurements of cumulative translation adjustment	(81)
Charge to other comprehensive income	
- remeasurements of post-retirement benefits	330
Charge to other comprehensive income	
- remeasurements of pensions	2,304
	<u>1,060</u>
As of March 31, 2021	<u>1,060</u>

Pursuant to the Tax Distribution as defined in the Partnership Agreement, on February 26, 2021, KPT received a Tax Distribution of \$2.6 million from KPLP for purposes of settling its obligation for federal and provincial taxes, for the year ended December 31, 2020. The Tax Distribution was used to settle the outstanding advance to KPT in the amount of \$0.9 million as of December 31, 2020. During the 3-month period ended March 31, 2021, pursuant to the Tax Distribution as defined in the Partnership Agreement, KPT received an advance from KPLP of \$0.3 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 3-month periods ended March 31, 2021 and March 31, 2020, 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:

<u>Dividend Payment Date</u>	<u>3-month period ended March 31, 2021</u>			
	<u>Dividends paid</u>	<u>Share price</u>	<u>Issuance of Common shares</u>	<u>Gross proceeds</u>
	<u>\$</u>	<u>\$</u>	<u>#</u>	<u>\$</u>
January 15, 2021	1,755	10.70	32,921	352

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

<u>Dividend Payment Date</u>	3-month period ended March 31, 2020			
	Dividends paid	Share price	Issuance of Common shares	Gross proceeds
	\$	\$	#	\$
January 15, 2020	1,733	9.84	34,545	340

On April 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 39,046 common shares at a price of \$10.47.

Subsequent to March 31, 2021, the Corporation declared a dividend of \$0.18 per common share to shareholders, payable on July 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 \$0.1 million was recorded during the 3-month period ended March 31, 2021 (3-month period ended March 31, 2020 - \$0.2 million).

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

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

	3-month period ended March 31, 2021	3-month period ended March 31, 2020
	\$	\$
Items that will not be reclassified to net income:		
Remeasurements of pensions	14,299	9,990
Income tax expense	(2,304)	(1,298)
Net of income tax expense	11,995	8,692
Remeasurements of post-retirement benefits	846	979
Income tax expense	(330)	(382)
Net of income tax expense	516	597
Items that may be subsequently reclassified to net income:		
Cumulative translation adjustment	(626)	4,691
Income tax recovery (expense)	81	(610)
Net of income tax recovery (expense)	(545)	4,081
Total other comprehensive income for the period	11,966	13,370

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.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 3-month periods ended March 31, 2021 and March 31, 2020

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

9 Non-cash working capital

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

	3-month period ended March 31, 2021	3-month period ended March 31, 2020
	\$	\$
Decrease (increase) in receivable from Partnership	(3)	93
	<u>(3)</u>	<u>93</u>

10 Cash flows used in financing activities

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

	As of January 1, 2020	Dividends paid	Movements not in financing activities	As of March 31, 2020
	\$	\$	\$	\$
Dividend payable	1,733	(1,733)	1,739	1,739
Common shares	18,997	340	-	19,337
Total	<u>20,730</u>	<u>(1,393)</u>	<u>1,739</u>	<u>21,076</u>

	As of January 1, 2021	Dividends paid	Movements not in financing activities	As of March 31, 2021
	\$	\$	\$	\$
Dividend payable	1,755	(1,755)	1,761	1,761
Common shares	20,355	352	1	20,708
Total	<u>22,110</u>	<u>(1,403)</u>	<u>1,762</u>	<u>22,469</u>