



**KP TISSUE INC.**

**UNAUDITED CONDENSED FINANCIAL STATEMENT**

**FOR THE 3-MONTH PERIODS ENDED MARCH 31, 2020 AND MARCH 31, 2019**

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

(tabular amounts are in thousands of Canadian dollars)

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
	<b>\$</b>	<b>\$</b>
<b>Assets</b>		
<b>Current assets</b>		
Distributions receivable	1,739	1,733
Receivable from Partnership	73	247
	<u>1,812</u>	<u>1,980</u>
<b>Non-current assets</b>		
Investment in associate (note 4)	94,628	81,052
	<u>96,440</u>	<u>83,032</u>
<b>Total Assets</b>	<u>96,440</u>	<u>83,032</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Dividend payable (note 6)	1,739	1,733
Current portion of advances from Partnership (note 5)	-	80
Income tax payable	788	944
	<u>2,527</u>	<u>2,757</u>
<b>Non-current liabilities</b>		
Deferred income taxes (note 5)	3,124	3,158
	<u>5,651</u>	<u>5,915</u>
<b>Total liabilities</b>	<u>5,651</u>	<u>5,915</u>
<b>Equity</b>		
Common shares (note 6)	19,337	18,997
Contributed surplus	144,819	144,819
Deficit	(91,445)	(100,696)
Accumulated other comprehensive income	18,078	13,997
	<u>90,789</u>	<u>77,117</u>
<b>Total equity</b>	<u>90,789</u>	<u>77,117</u>
<b>Total liabilities and equity</b>	<u>96,440</u>	<u>83,032</u>
<b>Subsequent events (note 6)</b>		

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

**KP Tissue Inc.**  
**Unaudited Condensed Statement of Comprehensive Income (Loss)**

For the 3-month periods ended March 31, 2020 and March 31, 2019

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

	3-month period ended March 31, 2020 \$	3-month period ended March 31, 2019 \$
Equity loss (note 4)	(125)	(1,949)
Dilution gain (note 6)	220	89
<b>Income (loss) before income taxes</b>	95	(1,860)
<b>Income taxes (note 5)</b>	(1,606)	92
<b>Net income (loss) for the period</b>	1,701	(1,952)
<b>Other comprehensive income (loss) net of tax expense (recovery) (note 7)</b>		
<b>Items that will not be reclassified to net income (loss):</b>		
Remeasurements of pensions	8,692	277
Remeasurements of post-retirement benefits	597	(196)
<b>Items that may be subsequently reclassified to net income (loss):</b>		
Cumulative translation adjustment	4,081	(1,100)
<b>Total other comprehensive income (loss) for the period</b>	13,370	(1,019)
<b>Comprehensive income (loss) for the period</b>	15,071	(2,971)
<b>Basic earnings (loss) per share</b>	<b>0.18</b>	<b>(0.21)</b>
<b>Weighted average number of shares outstanding</b>	<b>9,655,383</b>	<b>9,464,356</b>

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 3-month periods ended March 31, 2020 and March 31, 2019

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

	<b>Common shares</b>		<b>Contributed surplus</b>	<b>Deficit</b>	<b>Accumulated other comprehensive income</b>	<b>Total equity</b>
	<b>#</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<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 6)	65,308	546	-	-	-	546
Dividends payable (note 6)	-	-	-	(1,705)	-	(1,705)
Fair value adjustment	-	47	-	(47)	-	-
Remeasurements of pensions	-	-	-	277	-	277
Remeasurements of post-retirement benefits	-	-	-	(196)	-	(196)
Cumulative translation adjustment	-	-	-	-	(1,100)	(1,100)
Net loss for the period	-	-	-	(1,952)	-	(1,952)
<b>As of March 31, 2019</b>	<b>9,474,515</b>	<b>17,683</b>	<b>144,819</b>	<b>(85,892)</b>	<b>15,277</b>	<b>91,887</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 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
<b>As of March 31, 2020</b>	<b>9,660,698</b>	<b>19,337</b>	<b>144,819</b>	<b>(91,445)</b>	<b>18,078</b>	<b>90,789</b>

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, 2020 and March 31, 2019**

(tabular amounts are in thousands of Canadian dollars)

	<b>3-month period ended March 31, 2020</b>	<b>3-month period ended March 31, 2019</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from (used in) operating activities</b>		
Net income (loss) for the period	1,701	(1,952)
Items not affecting cash		
Equity loss	125	1,949
Dilution gain	(220)	(89)
Income taxes	(1,606)	92
Total items not affecting cash	(1,701)	1,952
Net change in non-cash working capital (note 9)	93	-
Tax payments	(874)	-
Tax Distribution	781	-
<b>Net cash from (used in) operating activities</b>	<b>-</b>	<b>-</b>
<b>Cash flows from investing activities</b>		
Partnership unit distributions received	1,393	1,148
<b>Net cash from investing activities</b>	<b>1,393</b>	<b>1,148</b>
<b>Cash flows used in financing activities (note 10)</b>		
Dividends paid	(1,393)	(1,148)
<b>Net cash used in financing activities</b>	<b>(1,393)</b>	<b>(1,148)</b>
<b>Increase (decrease) in cash and cash equivalents during the period</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents - Beginning of period</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents - End of period</b>	<b>-</b>	<b>-</b>

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

# KP Tissue Inc.

## Notes to Unaudited Condensed Financial Statements

For the 3-month periods ended March 31, 2020 and March 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 March 31, 2020, the Corporation held a 15.0% (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.

The 3-month period ended March 31, 2020 represents the 91 day period from January 1 to March 31, 2020 and the 3-month period ended March 31, 2019 represents the 90 day period from January 1 to March 31, 2019.

These unaudited condensed financial statements were approved by the board of directors on May 7, 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 the 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

**KP Tissue Inc.**  
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**For the 3-month periods ended March 31, 2020 and March 31, 2019**

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

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, 2020. While management concluded that a triggering event did not occur during the 3-month period ended March 31, 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:

	<b>3-month period ended March 31, 2020</b>	<b>3-month period ended March 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Opening balance	81,052	99,421
Investment in associate	340	546
Share of income (loss)	1,263	(503)
Depreciation of fair value increments	(1,388)	(1,446)
Share of other comprehensive income (loss)	15,660	(1,280)
Dilution gain	220	89
Tax Distribution	(780)	-
Partnership unit distributions	(1,739)	(1,705)
Closing balance	<u>94,628</u>	<u>95,122</u>

The equity loss was comprised of the following components:

	<b>3-month period ended March 31, 2020</b>	<b>3-month period ended March 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Share of income (loss)	1,263	(503)
Depreciation of fair value increments	(1,388)	(1,446)
	<u>(125)</u>	<u>(1,949)</u>

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation holds a 15.0% interest as of March 31, 2020 (December 31, 2019 – 15.2%). The financial information was derived from the unaudited condensed consolidated financial statements of KPLP for the 3-month period ended March 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.

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

	<b>March 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	466,481	-	466,481
Non-current assets	1,336,696	422,006	1,758,702
Liabilities to non-unitholders	1,251,040	-	1,251,040
Partnership units liability	140,932	-	140,932
Net assets	411,205		
	<b>3-month period ended March 31, 2020</b>		
	<b>\$</b>		
Revenue	375,146		
Net income	8,388		
Other comprehensive income	99,592		
Total comprehensive income	107,980		

	<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>March 31, 2020</b>	<b>December 31, 2019</b>
	<b>\$</b>	<b>\$</b>
KPLP consolidated equity	411,205	304,802
Add back: Inception value of Partnership units liability	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	<u>(375,250)</u>	<u>(283,700)</u>
Equity pertaining to KPT	154,517	139,664
Investment in associate recorded in KPT	<u>94,628</u>	<u>81,052</u>
Reconciling difference	59,889	58,612
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	44,535	43,147
Currency translation adjustment in fair value increments	(4,033)	(3,362)
Tax Distribution	4,655	3,875
Gain on exercise of over allotment option	(375)	(375)
Dilution gain	(1,783)	(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 income (loss) were as follows:

	<b>3-month period ended March 31, 2020</b>	<b>3-month period ended March 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Current tax expense (recovery)	718	(44)
Deferred tax expense (recovery)	<u>(2,324)</u>	<u>136</u>
	<u>(1,606)</u>	<u>92</u>

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Details of the provision for income taxes were as follows:

	<b>3-month period ended March 31, 2020</b>	<b>3-month period ended March 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Income tax at statutory rate of 26%	25	(484)
Permanent differences and other	104	(8)
Dilution gain	(57)	(23)
Taxed in hands of subsidiaries	(11)	28
Realization of previously unrecognized tax attributes	369	413
Change in basis of investment in associate	(2,036)	166
	<u>(1,606)</u>	<u>92</u>

Components of the deferred income tax liability were as follows:

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Deferred tax liability (asset)		
ROU assets and lease liabilities	(938)	(965)
Pensions	(113)	(366)
Deferred finance fees	16	(1,953)
Property, plant and equipment	6,666	6,818
Other	(2,507)	(376)
	<u>3,124</u>	<u>3,158</u>

The analysis of the deferred tax liability were as follows:

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Deferred tax liabilities to be realized greater than 12 months	3,124	3,158
	<u>3,124</u>	<u>3,158</u>

In addition to the above, the Corporation has a deferred tax asset of \$4.7 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 3-month period ended March 31, 2020.

**KP Tissue Inc.**  
**Notes to Unaudited Condensed Financial Statements**  
**For the 3-month periods ended March 31, 2020 and March 31, 2019**

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

The movement in the deferred tax liability was as follows:

	<b>3-month period ended March 31, 2020</b>	<b>3-month period ended March 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Opening balance	3,158	3,634
Charge to net income (loss)	(2,324)	136
Charge to other comprehensive income (loss)		
- remeasurements of cumulative translation adjustment	610	(164)
Charge to other comprehensive income (loss)		
- remeasurements of post-retirement benefits	382	(138)
Charge to other comprehensive income (loss)		
- remeasurements of pensions	1,298	41
	<u>3,124</u>	<u>3,509</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. 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, 2020 and March 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>3-month period ended March 31, 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	<u>1,733</u>	9.84	<u>34,545</u>	<u>340</u>
	<b>3-month period ended March 31, 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	<u>1,694</u>	8.36	<u>65,308</u>	<u>546</u>

On April 15, 2020, the Corporation paid a dividend of \$1.7 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 34,131 common shares at a price of \$9.92.

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

**KP Tissue Inc.**  
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(tabular amounts are in thousands of Canadian dollars, except share amounts)

As a result of the DRIP and Kruger's reinvestment of its distribution from KPLP in units of KPLP, a dilution gain of \$0.2 million was recorded during the 3-month period ended March 31, 2020 (3-month period ended March 31, 2019 - \$0.1 million).

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

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

	<b>3-month period ended March 31, 2020</b>	<b>3-month period ended March 31, 2019</b>
	<b>\$</b>	<b>\$</b>
<b>Items that will not be reclassified to net income (loss):</b>		
Remeasurements of pensions	9,990	318
Income tax expense	(1,298)	(41)
Net of income tax expense	<u>8,692</u>	<u>277</u>
Remeasurements of post-retirement benefits	979	(334)
Income tax recovery (expense)	(382)	138
Net of income tax recovery (expense)	<u>597</u>	<u>(196)</u>
<b>Items that may be subsequently reclassified to net income (loss):</b>		
Cumulative translation adjustment	4,691	(1,264)
Income tax recovery (expense)	(610)	164
Net of income tax recovery (expense)	<u>4,081</u>	<u>(1,100)</u>
<b>Total other comprehensive income (loss) for the period</b>	<u><u>13,370</u></u>	<u><u>(1,019)</u></u>

**8 Economic dependence**

The Corporation was created to acquire, and its business is limited to holding, a limited partnership interest in the Partnership, which is accounted for as an investment in an associate using the equity method of accounting. As such, the Corporation is economically dependent on the Partnership and exposed to all the risks associated with the business of the Partnership, 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:

	<b>3-month period ended March 31, 2020</b>	<b>3-month period ended March 31, 2019</b>
	<b>\$</b>	<b>\$</b>
Decrease (increase) in receivable from Partnership	93	(44)
Decrease in income taxes	-	44
	<u>93</u>	<u>-</u>

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**For the 3-month periods ended March 31, 2020 and March 31, 2019**

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

**10 Cash flows used in financing activities**

The change in financing activities on the unaudited condensed 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	(1,694)	546	(1,148)
Movements not in financing activities	1,705	47	1,752
<b>As of March 31, 2019</b>	<u>1,705</u>	<u>17,683</u>	<u>19,388</u>
<b>As of January 1, 2020</b>	1,733	18,997	20,730
Dividends paid	(1,733)	340	(1,393)
Movements not in financing activities	1,739	-	1,739
<b>As of March 31, 2020</b>	<u><u>1,739</u></u>	<u><u>19,337</u></u>	<u><u>21,076</u></u>