



KP TISSUE INC.

UNAUDITED CONDENSED FINANCIAL STATEMENT

FOR THE 3-MONTH PERIODS ENDED MARCH 31, 2022 AND MARCH 31, 2021

KP Tissue Inc.

Unaudited Condensed Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	March 31, 2022	December 31, 2021
	\$	\$
Assets		
Current assets		
Distributions receivable	1,788	1,781
Income taxes recoverable	277	208
	<u>2,065</u>	<u>1,989</u>
Non-current assets		
Investment in associate (note 4)	89,923	78,727
Total Assets	<u>91,988</u>	<u>80,716</u>
Liabilities		
Current liabilities		
Dividend payable (note 6)	1,788	1,781
Payable to Partnership	246	246
Current portion of advances from Partnership (note 5)	-	2,014
	<u>2,034</u>	<u>4,041</u>
Non-current liabilities		
Deferred income taxes (note 5)	4,194	806
Total liabilities	<u>6,228</u>	<u>4,847</u>
Equity		
Common shares (note 6)	22,226	21,844
Contributed surplus	144,819	144,819
Deficit	(93,457)	(103,561)
Accumulated other comprehensive income	12,172	12,767
Total equity	<u>85,760</u>	<u>75,869</u>
Total liabilities and equity	<u>91,988</u>	<u>80,716</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, 2022 and March 31, 2021

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

	3-month period ended March 31, 2022	3-month period ended March 31, 2021
	\$	\$
Equity loss (note 4)	(1,108)	(345)
Dilution gain (note 6)	73	80
Loss before income taxes	(1,035)	(265)
Income tax recovery (note 5)	(2,013)	(1,473)
Net income for the period	978	1,208
Other comprehensive income (loss) net of tax expense (recovery) (note 7)		
Items that will not be reclassified to net income:		
Remeasurements of pensions	10,248	11,995
Remeasurements of post-retirement benefits	670	516
Items that may be subsequently reclassified to net income:		
Cumulative translation adjustment	(595)	(545)
Total other comprehensive income for the period	10,323	11,966
Comprehensive income for the period	11,301	13,174
Basic earnings per share	0.10	0.12
Weighted average number of shares outstanding	9,925,825	9,779,571

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, 2022 and March 31, 2021

(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, 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	9,784,692	20,708	144,819	(99,950)	12,516	78,093
As of January 1, 2022	9,895,419	21,844	144,819	(103,561)	12,767	75,869
Issuance of common shares (note 6)	36,007	378	-	-	-	378
Dividends payable (note 6)	-	-	-	(1,788)	-	(1,788)
Fair value adjustment (note 6)	-	4	-	(4)	-	-
Remeasurements of pensions	-	-	-	10,248	-	10,248
Remeasurements of post-retirement benefits	-	-	-	670	-	670
Cumulative translation adjustment	-	-	-	-	(595)	(595)
Net income for the period	-	-	-	978	-	978
As of March 31, 2022	9,931,426	22,226	144,819	(93,457)	12,172	85,760

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, 2022 and March 31, 2021

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended March 31, 2022	3-month period ended March 31, 2021
	\$	\$
Cash flows from (used in) operating activities		
Net income for the period	978	1,208
Items not affecting cash		
Equity loss (note 4)	1,108	345
Dilution gain (note 6)	(73)	(80)
Income tax recovery (note 5)	(2,013)	(1,473)
Total items not affecting cash	(978)	(1,208)
Net change in non-cash working capital (note 9)	-	(3)
Tax payments	(38)	(2,061)
Tax Distribution received, net	38	1,738
Advances received	-	326
Net cash from (used in) operating activities	-	-
Cash flows from investing activities		
Partnership unit distributions received	1,403	1,403
Net cash from investing activities	1,403	1,403
Cash flows used in financing activities (note 10)		
Dividends paid , net	(1,403)	(1,403)
Net cash used in financing activities	(1,403)	(1,403)
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, 2022 and March 31, 2021

(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, 2022, the Corporation held a 14.4% (December 31, 2021 – 14.5%) 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, 2021.

These unaudited condensed financial statements were approved by the board of directors on May 11, 2022.

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, 2021.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 3-month periods ended March 31, 2022 and March 31, 2021

(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, 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>
As of January 1, 2022	78,727
Investment in associate	378
Share of income	207
Depreciation of fair value increments	(1,315)
Share of other comprehensive income	15,693
Dilution gain	73
Tax Distribution	(2,052)
Partnership unit distributions	(1,788)
As of March 31, 2022	<u>89,923</u>

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 3-month periods ended March 31, 2022 and March 31, 2021

(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, 2022	3-month period ended March 31, 2021
	\$	\$
Share of income	207	992
Depreciation of fair value increments	(1,315)	(1,337)
	<u>(1,108)</u>	<u>(345)</u>

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation holds a 14.4% interest as of March 31, 2022 (December 31, 2021 – 14.5%). The financial information was derived from the unaudited condensed consolidated financial statements of KPLP for the 3-month period ended March 31, 2022. 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.

	March 31, 2022		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	483,416	-	483,416
Non-current assets	1,655,168	342,257	1,997,425
Liabilities to non-unitholders	1,459,230	-	1,459,230
Partnership units liability	159,137	-	159,137
Net assets	520,217		
	3-month period ended March 31, 2022		
	\$		
Revenue	398,739		
Net income	1,437		
Other comprehensive income	109,445		
Total comprehensive income	110,882		

KP Tissue Inc.
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For the 3-month periods ended March 31, 2022 and March 31, 2021

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

	December 31, 2021		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	511,547	-	511,547
Non-current assets	1,610,765	351,875	1,962,640
Liabilities to non-unitholders	1,533,016	-	1,533,016
Partnership units liability	173,201	-	173,201
Net assets	416,095		
	3-month period ended March 31, 2021		
	\$		
Revenue	310,379		
Net income	6,759		
Other comprehensive income	99,771		
Total comprehensive income	106,530		

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

	March 31, 2022	December 31, 2021
	\$	\$
KPLP consolidated equity	520,217	416,095
Add back: Inception value of Partnership units liability	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	(473,268)	(383,737)
Equity pertaining to KPT	165,511	150,920
Investment in associate recorded in KPT	89,923	78,727
Reconciling difference	75,588	72,193
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	55,273	53,958
Currency translation adjustment in fair value increments	(2,929)	(3,030)
Tax Distribution	9,320	7,268
Gain on exercise of over-allotment option	(375)	(375)
Dilution gain	(2,591)	(2,518)
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.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
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(tabular amounts are in thousands of Canadian dollars, except share amounts)

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 were as follows:

	3-month period ended March 31, 2022	3-month period ended March 31, 2021
	\$	\$
Current tax expense (recovery)	(31)	654
Deferred tax recovery	(1,982)	(2,127)
	<u>(2,013)</u>	<u>(1,473)</u>

Details of the provision for income taxes were as follows:

	3-month period ended March 31, 2022	3-month period ended March 31, 2021
	\$	\$
Income tax at statutory rate of 26%	(269)	(69)
Permanent differences and other	12	(11)
Dilution gain	(19)	(21)
Taxed in hands of subsidiaries	(123)	76
Realization of previously unrecognized tax attributes	426	439
Change in basis of investment in associate	(2,040)	(1,887)
	<u>(2,013)</u>	<u>(1,473)</u>

Components of the deferred income tax liability were as follows:

	March 31, 2022	December 31, 2021
	\$	\$
Deferred tax liability (asset)		
ROU assets and lease liabilities	(675)	(762)
Pensions	2,517	(807)
Partnership units liability	(3,785)	(3,825)
Property, plant and equipment	6,815	6,960
Other	(678)	(760)
	<u>4,194</u>	<u>806</u>

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

The analysis of the deferred tax liability was as follows:

	March 31, 2022	December 31, 2021
	<u>\$</u>	<u>\$</u>
Deferred tax liabilities to be realized greater than 12 months	<u>4,194</u>	<u>806</u>

In addition to the above, the Corporation has a deferred tax asset of \$5.1 million (December 31, 2021 - \$7.0 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, 2022.

The movement in the deferred tax liability was as follows:

	<u>\$</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
As of March 31, 2021	<u>1,060</u>
As of January 1, 2022	806
Charge to net loss	(1,982)
Charge to other comprehensive loss	
- remeasurements of cumulative translation adjustment	(90)
Charge to other comprehensive income	
- remeasurements of post-retirement benefits	465
Charge to other comprehensive income	
- remeasurements of pensions	4,995
As of March 31, 2022	<u>4,194</u>

Pursuant to the Tax Distribution as defined in the Partnership Agreement, on February 28, 2022, KPT received a Tax Distribution of \$2.1 million from KPLP for purposes of settling its obligation for federal and provincial taxes, for the year ended December 31, 2021. The Tax Distribution was used to settle the outstanding advance to KPT in the amount of \$2.0 million as of December 31, 2021.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 3-month periods ended March 31, 2022 and March 31, 2021

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6 Dividends

During the 3-month periods ended March 31, 2022 and March 31, 2021, 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	3-month period ended March 31, 2022			
	Dividends paid	Share price	Issuance of Common shares	Gross proceeds
	\$	\$	#	\$
January 17, 2022	1,781	10.50	36,007	378

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

On April 15, 2022, 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 4,351 common shares at a price of \$10.81.

Subsequent to March 31, 2022, the Corporation declared a dividend of \$0.18 per common share to shareholders, payable on July 15, 2022.

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, 2022 (3-month period ended March 31, 2021 - \$0.1 million).

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 3-month periods ended March 31, 2022 and March 31, 2021

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

7 Income tax recovery (expense) on other comprehensive income

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

	3-month period ended March 31, 2022	3-month period ended March 31, 2021
	\$	\$
Items that will not be reclassified to net income:		
Remeasurements of pensions	15,243	14,299
Income tax expense	<u>(4,995)</u>	<u>(2,304)</u>
Net of income tax expense	<u>10,248</u>	<u>11,995</u>
Remeasurements of post-retirement benefits	1,135	846
Income tax expense	<u>(465)</u>	<u>(330)</u>
Net of income tax expense	<u>670</u>	<u>516</u>
Items that may be subsequently reclassified to net income:		
Cumulative translation adjustment	(685)	(626)
Income tax recovery	<u>90</u>	<u>81</u>
Net of income tax recovery	<u>(595)</u>	<u>(545)</u>
Total other comprehensive income for the period	<u><u>10,323</u></u>	<u><u>11,966</u></u>

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, 2022 and March 31, 2021

(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, 2022	3-month period ended March 31, 2021
	\$	\$
Increase in receivable from Partnership	-	(3)

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, 2021	Dividends paid, net	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	22,110	(1,403)	1,762	22,469

	As of January 1, 2022	Dividends paid, net	Movements not in financing activities	As of March 31, 2022
	\$	\$	\$	\$
Dividend payable	1,781	(1,781)	1,788	1,788
Common shares	21,844	378	4	22,226
Total	23,625	(1,403)	1,792	24,014