



KP TISSUE INC.

UNAUDITED CONDENSED FINANCIAL STATEMENT

FOR THE 3-MONTH PERIODS ENDED MARCH 26, 2017 AND MARCH 27, 2016

KP Tissue Inc.
Unaudited Condensed Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	March 26, 2017	December 31, 2016
	\$	\$
Assets		
Current assets		
Distributions receivable	1,642	1,636
Receivable from Partnership	-	426
Income taxes recoverable	303	-
	<u>1,945</u>	<u>2,062</u>
Non-current assets		
Investment in associate (note 5)	113,706	117,349
Total Assets	<u><u>115,651</u></u>	<u><u>119,411</u></u>
Liabilities		
Current liabilities		
Dividend payable (note 7)	1,642	1,636
Payable to Partnership	271	-
Current portion of advances from Partnership (note 6)	71	914
Income tax payable	-	884
	<u>1,984</u>	<u>3,434</u>
Non-current liabilities		
Deferred income taxes (note 6)	944	893
Total liabilities	<u>2,928</u>	<u>4,327</u>
Equity		
Common shares (note 7)	13,647	13,176
Contributed surplus	144,819	144,819
Deficit	(61,389)	(58,729)
Accumulated other comprehensive income	15,646	15,818
Total equity	<u>112,723</u>	<u>115,084</u>
Total liabilities and equity	<u><u>115,651</u></u>	<u><u>119,411</u></u>
Subsequent events (note 7)		

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 periods ended March 26, 2017 and March 27, 2016

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

	3-month period ended March 26, 2017 \$	3-month period ended March 27, 2016 \$
Equity loss (note 5)	(363)	(378)
Dilution gain (loss) (note 7)	50	(171)
Loss before income taxes	(313)	(549)
Income taxes (note 6)	248	929
Net loss for the period	(561)	(1,478)
Other comprehensive income (loss) net of tax expense (recovery) (note 8)		
Items that will not be reclassified to net loss:		
Remeasurements of pensions	(359)	(2,380)
Remeasurements of post-retirement benefits	(87)	12
Items that may be subsequently reclassified to net loss:		
Available-for-sale investment	-	(41)
Cumulative translation adjustment	(172)	(2,531)
Total other comprehensive loss for the period	(618)	(4,940)
Comprehensive loss for the period	(1,179)	(6,418)
Basic loss per share	(0.06)	(0.16)
Weighted average number of shares outstanding	9,116,437	8,993,554

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 26, 2017 and March 27, 2016

(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, 2016	8,958,589	11,577	144,819	(49,291)	18,110	125,215
Issuance of common shares (note 7)	41,671	429	-	-	-	429
Dividends payable	-	-	-	(1,620)	-	(1,620)
Fair value adjustment (note 7)	-	(14)	-	14	-	-
Remeasurements of pensions	-	-	-	(2,380)	-	(2,380)
Remeasurements of post-retirement benefits	-	-	-	12	-	12
Available-for-sale investment	-	-	-	-	(41)	(41)
Cumulative translation adjustment	-	-	-	-	(2,531)	(2,531)
Net loss for the period	-	-	-	(1,478)	-	(1,478)
As of March 27, 2016	<u>9,000,260</u>	<u>11,992</u>	<u>144,819</u>	<u>(54,743)</u>	<u>15,538</u>	<u>117,606</u>
As of January 1, 2017	9,091,598	13,176	144,819	(58,729)	15,818	115,084
Issuance of common shares (note 7)	30,162	460	-	-	-	460
Dividends payable	-	-	-	(1,642)	-	(1,642)
Fair value adjustment (note 7)	-	11	-	(11)	-	-
Remeasurements of pensions	-	-	-	(359)	-	(359)
Remeasurements of post-retirement benefits	-	-	-	(87)	-	(87)
Cumulative translation adjustment	-	-	-	-	(172)	(172)
Net loss for the period	-	-	-	(561)	-	(561)
As of March 26, 2017	<u>9,121,760</u>	<u>13,647</u>	<u>144,819</u>	<u>(61,389)</u>	<u>15,646</u>	<u>112,723</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 26, 2017 and March 27, 2016

(tabular amounts are in thousands of Canadian dollars)

	3-month period ended March 26, 2017	3-month period ended March 27, 2016
	\$	\$
Cash flows from (used in) operating activities		
Net loss for the period	(561)	(1,478)
Items not affecting cash		
Equity loss	363	378
Dilution (gain) loss	(50)	171
Income taxes	248	929
Total items not affecting cash	561	1,478
Net change in non-cash working capital (note 10)	697	-
Tax payments	(1,249)	(205)
Tax Distribution received	481	-
Advances received	71	205
Net cash from (used in) operating activities	-	-
Cash flows from investing activities		
Partnership unit distributions received	1,176	1,613
Net cash from investing activities	1,176	1,613
Cash flows used in financing activities		
Dividends paid	(1,176)	(1,613)
Net cash used in financing activities	(1,176)	(1,613)
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 26, 2017 and March 27, 2016

(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 26, 2017, the Corporation held a 16.1% (December 31, 2016 – 16.1%) 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 financial statements of the Corporation for the year ended December 31, 2016.

The 3-month period for 2017 is from January 1 to March 26, 2017 (85 days) and the 3-month period for 2016 is from January 1 to March 27, 2016 (87 days).

These unaudited condensed financial statements were approved by the board of directors on May 3, 2017.

3 Summary of significant accounting policies

The significant accounting policies that have been used in the preparation of these unaudited condensed financial statements are described in the annual financial statements of the Corporation for the year ended December 31, 2016 and have been applied to all periods presented except the following accounting policies, which were adopted effective January 1, 2017:

- (i) IAS 12, Income Taxes – Deferred Tax. In February 2016, the IASB issued an amendment to clarify the requirements for recognizing deferred tax assets on unrealized losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Certain other aspects of accounting for deferred tax assets are also clarified. The adoption of this standard had no impact on the unaudited condensed financial statements.
- (ii) In December 2016, the IASB issued an amendment clarifying the scope of IFRS 12, Disclosure of Interests in Other Entities. The amendment clarified that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale, except for summarized financial information. The adoption of this standard had no impact on the unaudited condensed financial statements.

The impact of new standards, amendments to standards and interpretations that have been issued but not yet effective for financial periods beginning on or after January 1, 2018 and have not been early adopted have been discussed in the annual financial statements for the year ended December 31, 2016.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements

For the 3-month periods ended March 26, 2017 and March 27, 2016

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

4 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 statements of financial position, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. 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 audited financial statements for the year ended December 31, 2016.

5 Investment in associate

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

	3-month period ended March 26, 2017	Year ended December 31, 2016
	\$	\$
Opening balance	117,349	126,643
Investment in associate	460	1,580
Share of income	1,119	5,750
Depreciation of fair value increments	(1,482)	(5,874)
Share of other comprehensive loss	(753)	(3,998)
Dilution gain	50	191
Tax Distribution	(1,395)	(432)
Partnership unit distributions	(1,642)	(6,511)
Closing balance	<u>113,706</u>	<u>117,349</u>

The equity loss was comprised of the following components:

	3-month period ended March 26, 2017	3-month period ended March 27, 2016
	\$	\$
Share of income	1,119	1,041
Depreciation of fair value increments	(1,482)	(1,419)
	<u>(363)</u>	<u>(378)</u>

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements

For the 3-month periods ended March 26, 2017 and March 27, 2016

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

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation holds a 16.1% interest as of March 26, 2017 (December 31, 2016 – 16.1%). The financial information was derived from the unaudited condensed consolidated financial statements of KPLP for the 3-month period ended March 27, 2016. 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 26, 2017		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	343,881	-	343,881
Non-current assets	988,688	529,332	1,518,020
Liabilities to non-unitholders	812,866	-	812,866
Partnership units liability	139,825	-	139,825
Net assets	379,878		
	3-month period ended March 26, 2017		
	\$		
Revenue	289,271		
Net income	6,949		
Other comprehensive loss	(4,216)		
Total comprehensive income	2,733		
	December 31, 2016		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	352,508	-	352,508
Non-current assets	984,467	538,840	1,523,307
Liabilities to non-unitholders	808,435	-	808,435
Partnership units liability	145,907	-	145,907
Net assets	382,633		
	3-month period ended March 27, 2016		
	\$		
Revenue	279,690		
Net income	6,390		
Other comprehensive loss	(30,919)		
Total comprehensive loss	(24,529)		

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

	March 26, 2017	December 31, 2016
	\$	\$
KPLP consolidated equity	379,878	382,633
Add back: Inception value of Partnership units liability	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	<u>(341,922)</u>	<u>(343,935)</u>
Equity pertaining to KPT	156,518	157,260
Investment in associate recorded in KPT	<u>113,706</u>	<u>117,349</u>
Reconciling difference	42,812	39,911
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	27,223	25,741
Currency translation adjustment in fair value increments	(3,839)	(3,913)
Tax Distribution	3,566	2,171
Gain on exercise of overallotment option	(375)	(375)
Dilution gain	(653)	(603)
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.

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 unaudited condensed statement of comprehensive loss were as follows:

	3-month period ended March 26, 2017	3-month period ended March 27, 2016
	\$	\$
Current tax expense	62	50
Deferred tax expense	186	879
	<u>248</u>	<u>929</u>

KP Tissue Inc.
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Details of the provision for income taxes were as follows:

	3-month period ended March 26, 2017	3-month period ended March 27, 2016
	\$	\$
Income tax at statutory rate of 26%	(81)	(143)
Permanent differences and other	6	(25)
Dilution (gain) loss	(13)	45
Taxed in hands of subsidiaries	(182)	(4)
Realization of previously unrecognized tax attributes	420	319
Change in basis of investment in associate	98	737
	<u>248</u>	<u>929</u>

Components of the deferred income tax liability were as follows:

	March 26, 2017	December 31, 2016
	\$	\$
Deferred tax liability (asset)		
Pensions	(459)	(417)
Deferred finance fees	(49)	(50)
Property, plant and equipment	3,695	3,546
Other	(2,243)	(2,186)
	<u>944</u>	<u>893</u>

The analysis of the deferred tax liability was as follows:

	March 26, 2017	December 31, 2016
	\$	\$
Deferred tax liabilities to be realized greater than 12 months	<u>944</u>	<u>893</u>
	<u>944</u>	<u>893</u>

In addition to the above, the Corporation has a deferred tax asset of \$3.5 million (December 31, 2016 - \$3.4 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 26, 2017.

KP Tissue Inc.
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For the 3-month periods ended March 26, 2017 and March 27, 2016

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

The movement in the deferred tax liability was as follows:

	3-month period ended March 26, 2017	Year ended December 31, 2016
	\$	\$
Opening balance	893	1,007
Charge to net loss	186	406
Charge to other comprehensive loss		
- remeasurements of cumulative translation adjustment	(26)	(337)
Charge to other comprehensive loss		
- remeasurements of post-retirement benefits	(55)	6
Charge to other comprehensive loss		
- remeasurements of pensions	(54)	(183)
Charge to other comprehensive loss		
- mark-to-market on Available-for-sale investment	-	(6)
	<u>944</u>	<u>893</u>

On February 28, 2017, KPT received a Tax Distribution of \$1.4 million from KPLP for purposes of settling its obligation for federal and provincial taxes.

During the 3-month period ended March 26, 2017, pursuant to the Tax Distribution as defined in the Partnership Agreement, KPT received an advance from KPLP of \$0.07 million to pay the monthly tax instalments. The advance is non-interest bearing and non-recourse and will be settled when the Tax Distribution is declared annually.

7 Dividends

During the 3-month periods ended March 26, 2017 and March 27, 2016, the Corporation paid a quarterly dividend of \$0.18 per common share to shareholders. Pursuant to the Corporation's 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:

	3-month period ended March 26, 2017			
	Dividends paid	Share price	Issuance of Common shares	Gross proceeds
Dividend Payment Date	\$	\$	#	\$
January 16, 2017	<u>1,636</u>	15.25	<u>30,162</u>	<u>460</u>

	3-month period ended March 27, 2016			
	Dividends paid	Share price	Issuance of Common shares	Gross proceeds
Dividend Payment Date	\$	\$	#	\$
January 15, 2016	<u>1,613</u>	10.29	<u>41,671</u>	<u>429</u>

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

On April 17, 2017, the Corporation paid a dividend of \$1.6 million to shareholders at \$0.18 per common share. Pursuant to the Corporation's DRIP, a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 29,419 common shares at a price of \$15.30.

Subsequent to March 26, 2017, the Corporation declared a dividend of \$0.18 per common share to shareholders, payable on July 17, 2017.

As a result of the DRIP and Kruger's reinvestment of its distribution from KPLP in units of KPLP, a dilution gain of \$0.05 million was recorded during the 3-month period ended March 26, 2017 (3-month period ended March 27, 2016 - loss of \$0.2 million).

8 Income tax recovery (expense) on other comprehensive loss

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

	3-month period ended March 26, 2017	3-month period ended March 27, 2016
	\$	\$
Items that will not be reclassified to net loss:		
Remeasurements of pensions	(413)	(2,736)
Income tax recovery	54	356
Net of income tax recovery	<u>(359)</u>	<u>(2,380)</u>
Remeasurements of post-retirement benefits	(142)	20
Income tax recovery (expense)	55	(8)
Net of income tax recovery (expense)	<u>(87)</u>	<u>12</u>
Items that may be subsequently reclassified to net loss:		
Available-for-sale investment	-	(47)
Income tax recovery	-	6
Net of income tax recovery	<u>-</u>	<u>(41)</u>
Cumulative translation adjustment	(198)	(2,909)
Income tax recovery	26	378
Net of income tax recovery	<u>(172)</u>	<u>(2,531)</u>
Total other comprehensive loss for the period	<u><u>(618)</u></u>	<u><u>(4,940)</u></u>

9 Economic dependence

The Corporation is economically dependent upon the Partnership.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 3-month periods ended March 26, 2017 and March 27, 2016

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

10 Non-cash working capital

	3-month period ended March 26, 2017	3-month period ended March 27, 2016
	\$	\$
Decrease in receivable from Partnership	426	-
Increase in payable to Partnership	271	-
	<u>697</u>	<u>-</u>