



KP TISSUE INC.

UNAUDITED CONDENSED FINANCIAL STATEMENT

**FOR THE 13-WEEK AND 39-WEEK PERIODS ENDED SEPTEMBER 25, 2016
AND SEPTEMBER 27, 2015**

KP Tissue Inc.
Unaudited Condensed Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	September 25, 2016	December 31, 2015
	\$	\$
Assets		
Current assets		
Distributions receivable	1,631	1,613
Income taxes recoverable	-	828
	<u>1,631</u>	<u>2,441</u>
Non-current assets		
Investment in associate (note 5)	109,527	126,643
Total Assets	<u><u>111,158</u></u>	<u><u>129,084</u></u>
Liabilities		
Current liabilities		
Dividend payable (note 7)	1,631	1,613
Payable to Partnership	222	108
Current portion of advances from Partnership (note 6)	343	432
Income tax payable	696	-
	<u>2,892</u>	<u>2,153</u>
Non-current liabilities		
Advances from Partnership (note 6)	-	709
Deferred income taxes (note 6)	1,128	1,007
Total liabilities	<u>4,020</u>	<u>3,869</u>
Equity		
Common shares (note 7)	12,708	11,577
Contributed surplus	144,819	144,819
Deficit	(64,963)	(49,291)
Accumulated other comprehensive income	14,574	18,110
Total equity	<u>107,138</u>	<u>125,215</u>
Total liabilities and equity	<u><u>111,158</u></u>	<u><u>129,084</u></u>
Subsequent events (note 7)		

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

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

For the 13-week and 39-week periods ended September 25, 2016 and September 27, 2015

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

	13-week period ended September 25, 2016 \$	13-week period ended September 27, 2015 \$	39-week period ended September 25, 2016 \$	39-week period ended September 27, 2015 \$
Equity income (loss) (note 5)	2,010	(2,397)	2,101	(3,964)
Dilution gain (note 7)	58	7	142	129
Income (loss) before income taxes	2,068	(2,390)	2,243	(3,835)
Income taxes (note 6)	1,299	(409)	3,557	(270)
Net income (loss) for the period	769	(1,981)	(1,314)	(3,565)
Other comprehensive income (loss) net of tax expense (recovery) (note 8)				
Items that will not be reclassified to net income (loss):				
Remeasurements of pensions	(2,825)	274	(9,034)	(590)
Remeasurements of post-retirement benefits	(285)	145	(447)	(71)
Items that may be subsequently reclassified to net income (loss):				
Available-for-sale investment	-	(39)	(41)	(43)
Cumulative translation adjustment	711	4,732	(3,495)	7,847
Total other comprehensive income (loss) for the period	(2,399)	5,112	(13,017)	7,143
Comprehensive income (loss) for the period	(1,630)	3,131	(14,331)	3,578
Basic earnings (loss) per share	0.08	(0.22)	(0.15)	(0.40)
Weighted average number of shares outstanding	9,051,321	8,921,501	9,021,008	8,896,215

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

KP Tissue Inc.
Unaudited Condensed Statement of Changes in Equity
For the 39-week periods ended September 25, 2016 and September 27, 2015

(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, 2015	8,861,980	10,138	144,819	(12,220)	7,858	150,595
Issuance of common shares	64,370	978	-	-	-	978
Dividends payable	-	-	-	(1,607)	-	(1,607)
Dividends paid	-	-	-	(3,199)	-	(3,199)
Fair value adjustment	-	35	-	(29)	-	6
Remeasurements of pensions	-	-	-	(590)	-	(590)
Remeasurements of post-retirement benefits	-	-	-	(71)	-	(71)
Available-for-sale investment	-	-	-	-	(43)	(43)
Cumulative translation adjustment	-	-	-	-	7,847	7,847
Net loss for the period	-	-	-	(3,565)	-	(3,565)
As of September 27, 2015	8,926,350	11,151	144,819	(21,281)	15,662	150,351
As of January 1, 2016	8,958,590	11,577	144,819	(49,291)	18,110	125,215
Issuance of common shares (note 7)	100,195	1,129	-	-	-	1,129
Dividends payable	-	-	-	(1,631)	-	(1,631)
Dividends paid	-	-	-	(3,244)	-	(3,244)
Fair value adjustment	-	2	-	(2)	-	-
Remeasurements of pensions	-	-	-	(9,034)	-	(9,034)
Remeasurements of post-retirement benefits	-	-	-	(447)	-	(447)
Available-for-sale investment	-	-	-	-	(41)	(41)
Cumulative translation adjustment	-	-	-	-	(3,495)	(3,495)
Net loss for the period	-	-	-	(1,314)	-	(1,314)
As of September 25, 2016	9,058,785	12,708	144,819	(64,963)	14,574	107,138

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

KP Tissue Inc.
Unaudited Condensed Statement of Cash Flows

For the 39-week periods ended September 25, 2016 and September 27, 2015

(tabular amounts are in thousands of Canadian dollars)

	39-week period ended September 25, 2016	39-week period ended September 27, 2015
	\$	\$
Cash flows from (used in) operating activities		
Net loss for the period	(1,314)	(3,565)
Items not affecting cash		
Equity loss (income)	(2,101)	3,964
Dilution gain	(142)	(129)
Income taxes	3,557	(270)
Total items not affecting cash	1,314	3,565
Tax payments	(205)	(1,405)
Tax Distribution received	-	571
Advances received	205	834
Net cash from (used in) operating activities	-	-
Cash flows from (used in) investing activities		
Investment in associate (note 5)	-	(195)
Partnership unit distributions received	3,728	4,012
Net cash from investing activities	3,728	3,817
Cash flows from (used in) financing activities		
Issuance of common shares (note 7)	-	195
Dividends paid	(3,728)	(4,012)
Net cash used in financing activities	(3,728)	(3,817)
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 condensed financial statements.

KP Tissue Inc.

Notes to Unaudited Condensed Financial Statements

For the 39-week periods ended September 25, 2016 and September 27, 2015

(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 25, 2016, the Corporation held a 16.2% (December 31, 2015 – 16.3%), 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 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 condensed financial statements should be read in conjunction with the annual financial statements of the Corporation for the year ended December 31, 2015.

These condensed financial statements were approved by the board of directors on November 2, 2016.

3 Summary of significant accounting policies

The significant accounting policies that have been used in the preparation of these condensed financial statements are described in the annual financial statements of the Corporation for the year ended December 31, 2015 and have been applied to all periods presented except the following accounting policies, which were adopted effective January 1, 2016:

- (i) IAS 34, Interim Financial Reporting. The IASB issued an amendment to clarify what is meant by “information disclosed elsewhere in the interim financial report”. IAS 34 prescribes the minimum content for an interim financial report, and the principles for recognition and measurement in complete and condensed financial statements for an interim period. The amended 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, 2017 and have not been early adopted have been discussed in the annual financial statements for the year ended December 31, 2015, except for the following:

- (i) IAS 12, Income Taxes – Deferred Tax. The IASB issued an amendment to clarify the requirements for recognising deferred tax assets on unrealised 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 amendment is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. Management is evaluating the amended standard and has not yet determined the impact on its unaudited condensed financial statements.
- (ii) IFRS 2, Share-based Payments. The IASB issued an amendment to address (i) certain issues related to the accounting for cash settled awards, and (ii) the accounting for equity settled awards that include a “net settlement” feature in respect of employee withholding taxes. The amendment is effective for annual periods beginning on or after January 1, 2018. The amended standard will not have an impact on the unaudited condensed financial statements.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements

For the 39-week periods ended September 25, 2016 and September 27, 2015

(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 statement 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, 2015.

5 Investment in associate

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

	39-week period ended September 25, 2016	Year ended December 31, 2015
	\$	\$
Opening balance	126,643	153,732
Investment in associate	1,129	1,379
Share of income	6,489	245
Depreciation of fair value increments	(4,388)	(5,725)
Share of other comprehensive income (loss)	(15,181)	12,510
Dilution gain	142	70
Impairment in investment in associate	-	(28,000)
Tax Distribution	(432)	(1,155)
Partnership unit distributions	(4,875)	(6,413)
Closing balance	<u>109,527</u>	<u>126,643</u>

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

	13-week period ended September 25, 2016	13-week period ended September 27, 2015	39-week period ended September 25, 2016	39-week period ended September 27, 2015
	\$	\$	\$	\$
Share of income (loss)	3,494	(966)	6,489	332
Depreciation of fair value increments	(1,484)	(1,431)	(4,388)	(4,296)
	<u>2,010</u>	<u>(2,397)</u>	<u>2,101</u>	<u>(3,964)</u>

The following summarizes financial information about the assets, liabilities, revenue and net income of KPLP, in which the Corporation holds a 16.2% interest as of September 25, 2016 (December 31, 2015 – 16.3%). The financial information was derived from the unaudited condensed consolidated financial statements of KPLP for the 39-week period ended September 25, 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.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 39-week periods ended September 25, 2016 and September 27, 2015

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

	September 25, 2016		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	332,890	-	332,890
Non-current assets	964,764	546,482	1,511,246
Liabilities to non-unitholders	847,580	-	847,580
Partnership units liability	123,778	-	123,778
Net assets	326,296		
	13-week period ended September 25, 2016	39-week period ended September 25, 2016	
	\$	\$	
Revenue	312,823	888,270	
Net income	21,558	39,984	
Other comprehensive loss	(19,013)	(85,653)	
Total comprehensive income (loss)	2,545	(45,669)	

	December 31, 2015		
	KPLP basis of accounting	FV increment	KPT basis of accounting
	\$	\$	\$
Current assets	331,176	-	331,176
Non-current assets	966,252	551,520	1,517,772
Liabilities to non-unitholders	783,851	-	783,851
Partnership units liability	125,176	-	125,176
Net assets	388,401		
	13-week period ended September 27, 2015	39-week period ended September 27, 2015	
	\$	\$	
Revenue	293,574	838,287	
Net income (loss)	(5,866)	2,019	
Other comprehensive income	29,314	37,762	
Total comprehensive income	23,448	39,781	

KP Tissue Inc.
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(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 25, 2016	December 31, 2015
	\$	\$
KPLP consolidated equity	326,296	388,401
Add back: Inception value of Partnership units liability	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	<u>(296,439)</u>	<u>(347,386)</u>
Equity pertaining to KPT	148,419	159,577
Investment in associate recorded in KPT	<u>109,527</u>	<u>126,643</u>
Reconciling difference	38,892	32,934
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	24,255	19,867
Currency translation adjustment in fair value increments	(3,495)	(4,775)
Tax Distribution	2,171	1,739
Gain on exercise of overallotment option	(375)	(375)
Dilution gain	(554)	(412)
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 statement of comprehensive income (loss) were as follows:

	13-week period ended September 25, 2016	13-week period ended September 27, 2015	39-week period ended September 25, 2016	39-week period ended September 27, 2015
	\$	\$	\$	\$
Current tax expense	1,037	299	1,272	907
Deferred tax expense (recovery)	262	(708)	2,285	(1,177)
	<u>1,299</u>	<u>(409)</u>	<u>3,557</u>	<u>(270)</u>

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

Details of the provision for income taxes were as follows:

	13-week period ended September 25, 2016	13-week period ended September 27, 2015	39-week period ended September 25, 2016	39-week period ended September 27, 2015
	\$	\$	\$	\$
Income tax at statutory rate of 26%	537	(621)	583	(997)
Permanent differences and other	14	69	(21)	136
Dilution gain	(15)	(2)	(37)	(34)
Taxed in hands of subsidiaries	(76)	(79)	(133)	(101)
Realization of previously unrecognized tax attributes	462	499	1,191	1,485
Change in basis of investment in associate	377	(275)	1,974	(759)
	<u>1,299</u>	<u>(409)</u>	<u>3,557</u>	<u>(270)</u>

Components of the deferred income tax liability were as follows:

	September 25, 2016	December 31, 2015
	\$	\$
Deferred tax liability (asset)		
Pensions	(645)	(432)
Deferred finance fees	(51)	(55)
Property, plant and equipment	3,125	2,664
Other	(1,301)	(1,170)
	<u>1,128</u>	<u>1,007</u>

The analysis of the deferred tax liability was as follows:

	September 25, 2016	December 31, 2015
	\$	\$
Deferred tax liabilities to be realized greater than 12 months	1,128	1,007
	<u>1,128</u>	<u>1,007</u>

In addition to the above, the Corporation has a deferred tax asset of \$4.5 million (December 31, 2015 - \$2.2 million) related to the Investment in associate which has not been recognized in the financial statements.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 39-week periods ended September 25, 2016 and September 27, 2015

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

The movement in the deferred tax liability was as follows:

	39-week period ended September 25, 2016	Year ended December 31, 2015
	\$	\$
Opening balance	1,007	2,005
Charge to net income (loss)	2,285	(2,510)
Charge to other comprehensive income (loss)		
- remeasurements of cumulative translation adjustment	(522)	1,528
Charge to other comprehensive income (loss)		
- remeasurements of post-retirement benefits	(286)	(171)
Charge to other comprehensive income (loss)		
- remeasurements of pensions	(1,350)	151
Charge to other comprehensive income (loss)		
- mark-to-market on Available-for-sale investment	(6)	4
	<u>1,128</u>	<u>1,007</u>

On February 26, 2016, KPT received a Tax Distribution of \$0.4 million from KPLP for purposes of settling its obligation for federal and provincial taxes, for the year ended December 31, 2015. The Tax Distribution was used to partially settle the advances to KPT recorded during the year ended December 31, 2015. On February 26, 2016, the excess advances over the Tax Distributions were \$0.7 million. During the 39-week period ended September 25, 2016, KPT repaid \$0.6 million of these advances. As of September 25, 2016, the excess advances of \$0.1 million are due to KPLP no later than March 31, 2017.

During the 39-week period ended September 25, 2016, pursuant to the Tax Distribution as defined in the Partnership Agreement, KPT received an advance from KPLP of \$0.2 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

On January 15, 2016, the Corporation paid a 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 41,671 common shares at a price of \$10.29. The proceeds were used to acquire additional units of KPLP.

On April 15, 2016, the Corporation paid a dividend of \$0.18 per common share to shareholders. Pursuant to the Corporation's DRIP, a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 20,791 common shares at a price of \$12.31. The proceeds were used to acquire additional units of KPLP.

On July 15, 2016, the Corporation paid a dividend of \$0.18 per common share to shareholders. Pursuant to the Corporation's DRIP, a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 37,733 common shares at a price of \$11.75. The proceeds were used to acquire additional units of KPLP.

Subsequent to the quarter-end, on October 17, 2016, the Corporation paid a dividend of \$0.18 per common share to shareholders. Pursuant to the Corporation's DRIP, a portion of the dividend was reinvested by the shareholders, resulting in the Corporation issuing 32,813 common shares at a price of \$13.77. The proceeds were used to acquire additional units of KPLP.

Subsequent to September 25, 2016, the Corporation declared a dividend of \$0.18 per common share to shareholders, payable on January 16, 2017.

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements

For the 39-week periods ended September 25, 2016 and September 27, 2015

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

During the 39-week period ended September 25, 2016, KPT's DRIP reinvestment was \$1.1 million.

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 39-week period ended September 25, 2016 (39-week period ended September 27, 2015 – gain of \$0.1 million).

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

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

	13-week period ended September 25, 2016 \$	13-week period ended September 27, 2015 \$	39-week period ended September 25, 2016 \$	39-week period ended September 27, 2015 \$
Items that will not be reclassified to net income (loss):				
Remeasurements of pensions	(3,249)	315	(10,384)	(678)
Income tax recovery (expense)	424	(41)	1,350	88
Net of income tax recovery (expense)	<u>(2,825)</u>	<u>274</u>	<u>(9,034)</u>	<u>(590)</u>
Remeasurements of post-retirement benefits	(467)	239	(733)	(115)
Income tax recovery (expense)	182	(94)	286	44
Net of income tax recovery (expense)	<u>(285)</u>	<u>145</u>	<u>(447)</u>	<u>(71)</u>
Items that may be subsequently reclassified to net income (loss):				
Available-for-sale investment	-	(45)	(47)	(50)
Income tax recovery	-	6	6	7
Net of income tax recovery	<u>-</u>	<u>(39)</u>	<u>(41)</u>	<u>(43)</u>
Cumulative translation adjustment	818	5,438	(4,017)	9,019
Income tax recovery (expense)	(107)	(706)	522	(1,172)
Net of income tax recovery (expense)	<u>711</u>	<u>4,732</u>	<u>(3,495)</u>	<u>7,847</u>
Total other comprehensive income (loss) for the period	<u><u>(2,399)</u></u>	<u><u>5,112</u></u>	<u><u>(13,017)</u></u>	<u><u>7,143</u></u>

9 Economic dependence

The Corporation is economically dependent upon the Partnership.