



NEWS RELEASE
For immediate release

KP Tissue Releases First Quarter 2018 Financial Results

Strong revenue growth / earnings impacted by market headwinds

Mississauga (ON), May 10, 2018 - KP Tissue Inc. (KPT) (TSX: KPT) reports the Q1 2018 financial and operational results of KPT and Kruger Products L.P. (KPLP). Kruger Products is Canada's leading manufacturer of quality tissue products for the Consumer market (Cashmere, Purex, SpongeTowels, Scotties, and White Swan) and the Away-From-Home market, and continues to grow in the U.S. Consumer tissue business with the White Cloud® brand and premium private label products. KPT currently holds a 15.9% interest in KPLP.

KPLP Q1 2018 Business and Financial Highlights

- Revenue increased by 11.9% to \$323.7 million in Q1 2018 compared to Q1 2017
- Adjusted EBITDA was \$27.0 million in Q1 2018 compared to \$33.8 million in Q1 2017
- Experienced continuing escalation in pulp and freight costs in the quarter
- Issued \$125 million of senior unsecured notes on April 24, and used the net proceeds to reduce the outstanding balance of the existing credit facility, and the credit facility was reduced from \$300 million to \$200 million
- Declared a quarterly dividend of \$0.18 per share to be paid on July 16, 2018

"We continued to show revenue growth in the first quarter, driven by our leadership position in Canada, focused growth in the U.S., and last year's selling price increase moving through the Canadian market. Despite this strong revenue growth, we faced sustained market headwinds from rising pulp and freight costs," said Dino Bianco, CEO of KP Tissue and KPLP.

"We remain committed to our long-term strategy of building our brands in Canada and growing our business in the United States, for both the Consumer and Away-from-Home segments. Looking forward, with industry forecasters expecting input costs to continue to remain high all year, we will take the necessary steps to mitigate the impact on our results including additional cost reduction programs, but expect second quarter Adjusted EBITDA to be lower than Q2 2017," concluded Mr. Bianco.

KPLP Q1 2018 Financial Results

Revenue in Q1 2018 was \$323.7 million, compared to \$289.3 million in Q1 2017, an increase of \$34.4 million or 11.9%. The increase in revenue was due to the combination of: an additional 6 days of sales in Q1 2018 compared to Q1 2017; the favourable impact of increased sales volume; and a Consumer selling price increase in Canada in Q4 2017; partially offset by the unfavourable impact of foreign exchange fluctuations on U.S. dollar sales.

Cost of sales in Q1 2018 increased to \$287.4 million from \$244.3 million in Q1 2017. Manufacturing costs increased primarily due to increased sales volume and significantly higher pulp costs, partially offset by the favourable impact of foreign exchange fluctuations on U.S. dollar denominated costs. Freight costs increased primarily due to increased sales volume and higher carrier rates. As a percentage of revenue, cost of sales were 88.8% in Q1 2018 compared to 84.4% in Q1 2017.

Selling, general and administrative (SG&A) expenses in Q1 2018 were \$22.9 million, compared to \$23.2 million in Q1 2017. The decrease was primarily due to lower advertising and promotion expenses. As a percentage of revenue, SG&A expenses were 7.1% in Q1 2018, compared to 8.0% in Q1 2017.

Adjusted EBITDA in Q1 2018 was \$27.0 million, compared to \$33.8 million in Q1 2017, lower by \$6.8 million or 20.1%, due to significantly higher pulp costs and increased freight costs. These were partially offset by increased sales volume, the Canadian Consumer selling price increase and the net favourable impact of foreign exchange fluctuations.

Net income in Q1 2018 was \$1.6 million, compared to \$6.9 million in Q1 2017, primarily due to lower Adjusted EBITDA of \$6.8 million, higher depreciation expense of \$1.1 million, an increase in interest expense of \$1.0 million, a decrease in foreign exchange gain of \$0.4 million and the loss on sale of fixed assets of \$0.4 million. These items were partially offset by a decrease in tax expense of \$3.8 million and the change in fair value of derivatives of \$0.6 million.

Total liquidity, representing cash and cash equivalents and availability under the credit line within covenant limitations, was \$30.2 million as of April 1, 2018, compared to \$53.3 million as of December 31, 2017. With the issuance of the senior unsecured notes on April 24, 2018, total liquidity increased by \$25 million.

KPT Q1 2018 Financial Results

KPT incurred a net loss of \$0.8 million in Q1 2018. Included in the net loss was \$0.3 million representing KPT's share of KPLP's income. The income was reduced by depreciation expense of \$1.5 million related to adjustments to carrying amounts on acquisition, partially offset by an income tax recovery of \$0.3 million.

Dividends on Common Shares

The Board of Directors of KPT declared a quarterly dividend of \$0.18 per share to be paid on July 16, 2018 to shareholders of record at the close of business on June 29, 2018.

Additional Information

For additional information please refer to Management's Discussion and Analysis (MD&A) of KPT and KPLP for the first quarter ended April 1, 2018 available on SEDAR at www.sedar.com or our website at www.kptissueinc.com.

First Quarter Results Conference Call Information

KPT will hold its first quarter conference call on Thursday, May 10, 2018 at 8:30 a.m. Eastern Time.

Via telephone: 1-877-223-4471 or 647-788-4922

Via the internet at: www.kptissueinc.com

Presentation material referenced during the conference call will be available at www.kptissueinc.com.

A rebroadcast of the conference call will be available until midnight, May 17, 2018 by dialing 800-585-8367 or 416-621-4642 and entering passcode 8486799.

The replay of the webcast will remain available on the website until midnight, May 17, 2018.

About KP Tissue Inc. (KPT)

KPT was created to acquire, and its business is limited to holding, a limited partnership interest in KPLP, which is accounted for as an investment on the equity basis. KPT currently holds a 15.9% interest in KPLP. For more information visit www.kptissueinc.com.

About Kruger Products L.P. (KPLP)

KPLP is Canada's leading manufacturer of quality tissue products for household, industrial and commercial use. KPLP serves the Canadian consumer market with such well-known brands as Cashmere®, Purex®, SpongeTowels®, Scotties® and White Swan®. In the U.S., KPLP manufactures the White Cloud® brand, as well as many private label products. The Away-From-Home division manufactures and distributes high-quality, cost-effective product solutions to a wide range of commercial and public entities. KPLP has approximately 2,500 employees and operates eight FSC® COC-certified (FSC® C-104904) production facilities in North America. For more information visit www.krugerproducts.ca.

Non-IFRS Measures

This press release uses certain non-IFRS financial measures which KPLP believes provide useful information to management of KPLP and the readers of the financial information in measuring the financial performance and financial condition of KPLP. These measures do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other companies. An example of such a measure is Adjusted EBITDA. Beginning with Q4 2015 in accordance with Canadian Securities Administrators Staff Notice 52-306 (Revised), we reference Adjusted EBITDA as a non-IFRS financial measure. This term replaces the previously referenced non-IFRS financial measure EBITDA. Our definition of Adjusted EBITDA is unchanged from our former definition of EBITDA. Accordingly, this change in terminology has no impact on our reported financial results for prior periods. Adjusted EBITDA is not a measurement of operating performance computed in accordance with IFRS and should not be considered as a substitute for operating income, net income or cash flows from operating activities computed in accordance with IFRS. "Adjusted EBITDA" is calculated by KPLP as net income (loss) before (i) interest expense, (ii) income taxes, (iii) depreciation, (iv) amortization, (v) impairment (gain on sale) of non-financial assets, (vi) loss (gain) on disposal of property, plant and equipment, (vii) foreign exchange loss (gain), (viii) costs related to

restructuring activities, (ix) changes in amortized cost of Partnership units liability, and (x) one-time costs due to pension revaluations related to past service. A reconciliation of Adjusted EBITDA to the relevant reported results can be found in the MD&A of KPT and KPLP for the first quarter ended April 1, 2018 available on SEDAR at www.sedar.com.

Forward-Looking Statements

Certain statements in this press release about KPT's and KPLP's current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute forward-looking statements. Forward-looking statements in this press release include, but are not limited to, items such as: the potential installation of a second TAD paper machine; KPLP's expansion efforts in U.S. premium private label; and KPLP's future business strategy. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements. The forward-looking statements are based on certain key expectations and assumptions made by KPT or KPLP, including expectations and assumptions concerning: the impact of the TAD Project on Adjusted EBITDA; the expectation of continued growth in sales of TAD products in the U.S.; a successful ramp-up of the Crabtree paper machine; improved performance of the Away-From-Home business; and expanded distribution of White Cloud to select U.S. retailers. Although KPT and KPLP believe that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking statements since no assurance can be given that such expectations and assumptions will prove to be correct.

The outlook provided in respect of Adjusted EBITDA for Q2 2018 is forward-looking information and is subject to the risk and uncertainties referred to below. The purpose of the outlook is to provide the reader with an indication of management's expectations, at the date of this press release, regarding KPLP's future financial performance. Readers are cautioned that this information may not be appropriate for other purposes.

Many factors could cause KPLP's actual results, level of activity, performance or achievements or future events or developments (which could in turn affect the economic benefits derived from the corporation's economic interest in KPLP) to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the "Risk Factors – Risks Related to KPLP's Business" section of the KPT Annual Information Form dated March 9, 2018 available on SEDAR at www.sedar.com: Kruger Inc.'s influence over KPLP; KPLP's reliance on Kruger Inc.; consequences of an event of insolvency relating to Kruger Inc.; risks associated with the Memphis TAD machine; operational risks; Gatineau Plant land lease; significant increases in input costs; reduction in supply of fibre; increased pricing pressure and intense competition; KPLP's inability to innovate effectively; adverse economic conditions; dependence on key retail trade customers; damage to the reputation of KPLP or KPLP's brands; KPLP's sales being less than anticipated; KPLP's failure to implement its business and operating strategies; KPLP's obligation to make regular capital expenditures; KPLP's entering into unsuccessful acquisitions; KPLP's dependence on key personnel; KPLP's inability to retain its existing customers or obtain new customers; KPLP's loss of key suppliers; KPLP's failure to adequately protect its intellectual property rights; KPLP's reliance on third party intellectual property licenses; adverse litigation and other claims affecting KPLP; material expenditures due to comprehensive environmental regulation affecting KPLP's cash flow; KPLP's pension obligations are significant and can be materially higher than predicted if KPLP Management's underlying assumptions are incorrect; labour disputes adversely affecting KPLP's cost structure and KPLP's ability to run its plants; exchange rate and U.S. competitors; KPLP's inability to service all of its indebtedness; exposure to potential consumer product liability; covenant compliance; interest rate and refinancing risk; and risks relating to information technology, cyber-security, insurance, internal controls, and trade.

Readers should not place undue reliance on forward-looking statements made herein. The forward-looking information contained herein is expressly qualified in its entirety by this cautionary statement. The forward-looking information contained herein is made as of the date of press release and KPT undertakes no obligation to publicly update such forward-looking information to reflect new information, subsequent or otherwise, unless required by applicable securities laws.

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Kruger Products L.P.
Unaudited Condensed Consolidated Statement of Financial Position
(thousands of Canadian dollars)

	April 1, 2018	December 31, 2017
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	10,477	8,837
Trade and other receivables	137,724	113,194
Receivables from related parties	54	85
Current portion of advances to partners	6,008	1,928
Inventories	210,728	192,394
Income tax recoverable	333	522
Prepaid expenses	15,597	8,007
	<u>380,921</u>	<u>324,967</u>
Non-current assets		
Advances to partners	-	4,489
Property, plant and equipment	768,289	761,610
Other long-term assets	-	6,331
Goodwill	160,939	160,939
Intangible assets	15,032	15,327
Deferred income taxes	28,387	26,092
	<u>1,353,568</u>	<u>1,299,755</u>
Total assets	<u>1,353,568</u>	<u>1,299,755</u>
Liabilities		
Current liabilities		
Bank indebtedness	9,140	9,051
Trade and other payables	194,087	190,698
Payables to related parties	8,287	2,596
Income tax payable	729	498
Distributions payable	10,447	10,382
Current portion of provisions	280	333
Current portion of long-term debt	198,204	190,947
	<u>421,174</u>	<u>404,505</u>
Non-current liabilities		
Long-term debt	262,316	225,368
Provisions	6,086	5,973
Pensions	103,285	119,558
Post-retirement benefits	60,100	60,457
	<u>852,961</u>	<u>815,861</u>
Liabilities to non-unitholders		
Current portion of Partnership units liability	1,928	1,928
Long-term portion of Partnership units liability	159,131	158,381
Total Partnership units liability	<u>161,059</u>	<u>160,309</u>
Total liabilities	<u>1,014,020</u>	<u>976,170</u>
Equity		
Partnership units	361,300	356,240
Deficit	(97,683)	(99,742)
Accumulated other comprehensive income	75,931	67,087
	<u>339,548</u>	<u>323,585</u>
Total equity	<u>339,548</u>	<u>323,585</u>
Total equity and liabilities	<u>1,353,568</u>	<u>1,299,755</u>

Kruger Products L.P.
Unaudited Condensed Consolidated Statement of Comprehensive Income
(thousands of Canadian dollars)

	3-month period ended April 1, 2018	3-month period ended March 26, 2017
	\$	\$
Revenue	323,735	289,271
Expenses		
Cost of sales	287,369	244,254
Selling, general and administrative expenses	22,953	23,221
(Gain) loss on sale of non-financial assets	(215)	13
Restructuring costs, net	-	11
Operating income	13,628	21,772
Interest expense	11,313	10,264
Other expense	1,788	1,945
Income before income taxes	527	9,563
Income taxes	(1,050)	2,614
Net income for the period	1,577	6,949
Other comprehensive income		
Items that will not be reclassified to net income:		
Remeasurements of pensions	16,806	(2,567)
Remeasurements of post-retirement benefits	638	(884)
Items that may be subsequently reclassified to net income:		
Cumulative translation adjustment	8,844	(765)
Total other comprehensive income (loss) for the period	26,288	(4,216)
Comprehensive income for the period	27,865	2,733

Kruger Products L.P.
Unaudited Condensed Consolidated Statement of Cash Flows
(thousands of Canadian dollars)

	3-month period ended April 1, 2018	3-month period ended March 26, 2017
	\$	\$
Cash flows from (used in) operating activities		
Net income for the period	1,577	6,949
Items not affecting cash		
Depreciation	12,815	11,748
Amortization	295	240
Loss (gain) on sale of property, plant and equipment	434	(2)
Change in amortized cost of Partnership units liability	2,678	2,529
Foreign exchange gain	(241)	(584)
Change in fair value of derivatives	(649)	-
Interest expense	11,313	10,264
Pension and post-retirement benefits	3,344	2,513
Provisions	48	244
Income taxes	(1,050)	2,614
Loss (gain) on sale of non-financial assets	(215)	13
Total items not affecting cash	<u>28,772</u>	<u>29,579</u>
Net change in non-cash working capital	(36,621)	(28,860)
Contributions to pension and post-retirement benefit plans	(3,987)	(3,738)
Provisions paid	(41)	(334)
Income tax payments	<u>(352)</u>	<u>(1,507)</u>
Net cash from (used in) operating activities	<u>(10,652)</u>	<u>2,089</u>
Cash flows from (used in) investing activities		
Purchases of property, plant and equipment	(15,718)	(12,734)
Capitalized interest paid	-	(222)
Government assistance received	-	916
Proceeds on sale of property, plant and equipment	<u>331</u>	<u>1,043</u>
Net cash used in investing activities	<u>(15,387)</u>	<u>(10,997)</u>
Cash flows from (used in) financing activities		
Proceeds from long-term debt	38,050	28,015
Repayment of long-term debt	(285)	(126)
Payment of deferred financing fees	(232)	(9)
Interest paid on long-term debt	(3,240)	(2,558)
Distributions and advances paid, net	<u>(7,025)</u>	<u>(9,018)</u>
Net cash from financing activities	<u>27,268</u>	<u>16,304</u>
Effect of exchange rate changes on cash and cash equivalents held in foreign currency	<u>322</u>	<u>(56)</u>
Increase in cash and cash equivalents during the period	1,551	7,340
Cash and cash equivalents - Beginning of period	<u>(214)</u>	<u>27,504</u>
Cash and cash equivalents - End of period	<u><u>1,337</u></u>	<u><u>34,844</u></u>

Kruger Products L.P.
Segment and Geographic Results
(thousands of Canadian dollars)

	3-month period ended April 1, 2018	3-month period ended March 26, 2017
	\$	\$
<i>Segment Information</i>		
Segment Revenue		
Consumer	267,696	238,927
AFH	53,525	48,674
Other	2,514	1,670
Total segment revenue	<u>323,735</u>	<u>289,271</u>
Segment Adjusted EBITDA		
Consumer	29,871	32,972
AFH	(331)	655
Other	(2,583)	155
Total segment Adjusted EBITDA	<u>26,957</u>	<u>33,782</u>
Reconciliation to Net Income:		
Depreciation and amortization	13,110	11,988
Interest expense	11,313	10,264
Change in amortized cost of Partnership units liability	2,678	2,529
Change in fair value of derivatives	(649)	-
(Gain) loss on sale of property, plant and equipment	434	(2)
(Gain) loss on sale of non-financial assets	(215)	13
Restructuring costs, net	-	11
Foreign exchange gain	(241)	(584)
Income before income taxes	<u>527</u>	<u>9,563</u>
Income taxes	(1,050)	2,614
Net income	<u>1,577</u>	<u>6,949</u>
<i>Geographic Revenue</i>		
Canada	188,653	173,877
U.S.	115,552	104,649
Mexico	19,530	10,745
Total revenue	<u>323,735</u>	<u>289,271</u>

KP Tissue Inc.
Unaudited Condensed Statement of Financial Position
(thousands of Canadian dollars)

	<u>April 1, 2018</u>	<u>December 31, 2017</u>
	\$	\$
Assets		
Current assets		
Distributions receivable	1,665	1,658
Income tax recoverable	1,221	826
	<u>2,886</u>	<u>2,484</u>
Non-current assets		
Investment in associate	99,519	98,674
Total Assets	<u><u>102,405</u></u>	<u><u>101,158</u></u>
Liabilities		
Current liabilities		
Dividend payable	1,665	1,658
Payable to Partnership	52	52
Current portion of advances from Partnership	975	309
	<u>2,692</u>	<u>2,019</u>
Non-current liabilities		
Advances from Partnership	-	731
Deferred income taxes	1,632	1,483
Total liabilities	<u><u>4,324</u></u>	<u><u>4,233</u></u>
Equity		
Common shares	15,548	15,014
Contributed surplus	144,819	144,819
Deficit	(75,802)	(74,952)
Accumulated other comprehensive income	13,516	12,044
Total equity	<u><u>98,081</u></u>	<u><u>96,925</u></u>
Total liabilities and equity	<u><u>102,405</u></u>	<u><u>101,158</u></u>

KP Tissue Inc.
Unaudited Condensed Statement of Comprehensive Income (Loss)
(thousands of Canadian dollars, except share and per share amounts)

	3-month period ended April 1, 2018	3-month period ended March 26, 2017
	\$	\$
Equity loss	(1,202)	(363)
Dilution gain	43	50
Loss before income taxes	(1,159)	(313)
Income taxes	(321)	248
Net loss for the period	(838)	(561)
Other comprehensive income (loss) net of tax expense (recovery)		
Items that will not be reclassified to net loss:		
Remeasurements of pensions	2,332	(359)
Remeasurements of post-retirement benefits	89	(87)
Items that may be subsequently reclassified to net loss:		
Cumulative translation adjustment	1,472	(172)
Total other comprehensive income (loss) for the period	3,893	(618)
Comprehensive income (loss) for the period	3,055	(1,179)
Basic loss per share	(0.09)	(0.06)
Weighted average number of shares outstanding	9,245,170	9,116,437

KP Tissue Inc.
Unaudited Condensed Statement of Cash Flows
(thousands of Canadian dollars)

	3-month period ended April 1, 2018 \$	3-month period ended March 26, 2017 \$
Cash flows from (used in) operating activities		
Net loss for the period	(838)	(561)
Items not affecting cash		
Equity loss	1,202	363
Dilution gain	(43)	(50)
Income taxes	(321)	248
Total items not affecting cash	838	561
Net change in non-cash working capital	-	697
Tax payments	(244)	(1,249)
Tax Distribution received	-	481
Advances received	244	71
Net cash from (used in) operating activities	-	-
Cash flows from investing activities		
Partnership unit distributions received	1,144	1,176
Net cash from investing activities	1,144	1,176
Cash flows used in financing activities		
Dividends paid	(1,144)	(1,176)
Net cash used in financing activities	(1,144)	(1,176)
Increase (decrease) in cash and cash equivalents during the period	-	-
Cash and cash equivalents - Beginning of period	-	-
Cash and cash equivalents - End of period	-	-