



August 9, 2017

## KP Tissue Releases Second Quarter 2017 Financial Results

### Continued improvement despite pulp price headwinds

MISSISSAUGA, ONTARIO--(Marketwired - Aug. 9, 2017) - KP Tissue Inc. (KPT) (TSX:KPT) reports the Q2 2017 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(R) brand and premium private label products. KPT currently holds a 16.0% interest in KPLP.

#### KPLP Q2 2017 Business and Financial Highlights

- Revenue increased by 6.3% to \$314.4 million in Q2 2017 compared to Q2 2016
- Adjusted EBITDA was \$37.3 million in Q2 2017 compared to \$35.9 million in Q2 2016, up 3.9%
- TAD Products sales and profits continue to be strong, in line with previously set targets
- AFH business segment improved profitability
- Declared a quarterly dividend of \$0.18 per share to be paid on October 16, 2017

We are pleased with our second quarter Adjusted EBITDA performance of \$37.3 million, despite the continued upward trend of pulp market prices to near peak levels in Canadian dollars. Supported by new customers and higher manufacturing efficiency, TAD products sales and profits continue to meet our targets in the U.S., while the Away-from-Home business started to get the benefits from new production lines," said Mario Gosselin, CEO of KP Tissue and KPLP.

"We are pleased by the progress achieved in Crabtree with our new paper machine project, representing a total investment of \$55 million. The project is on time and on budget, and in the third quarter we will start the commissioning process and will incur some start-up costs. Considering the commercial ramp-up phase in 2017, we expect to achieve a positive contribution from the project in the first quarter of 2018.

"A selling price increase to our Canadian retail customers was announced in late July 2017 and will take effect in the fourth quarter. This price increase will partially offset a double digit increase in pulp market prices over the past year as well as increases in other commodity costs in Canadian dollars.

"Adjusted EBITDA for Q3 2017 is expected to decrease over Q3 2016 due to higher input costs but increase sequentially over Q2 2017 due to higher promotional activities in Q3," concluded Mr. Gosselin.

## KPLP Q2 2017 Financial Results

Revenue in Q2 2017 was \$314.4 million, compared to \$295.8 million in Q2 2016, an increase of \$18.6 million or 6.3%. The increase in revenue was primarily due to higher sales volume and the favourable impact of foreign exchange on U.S. dollar sales.

Cost of sales in Q2 2017 increased to \$267.1 million, compared to \$249.9 million in Q2 2016, primarily due to higher sales volumes, an increase in fibre and natural gas prices and the unfavourable impact of foreign exchange on U.S. dollar denominated costs, as well as higher freight and warehousing costs, partially offset by cost reduction initiatives and the impact of capital projects. As a percentage of revenue, cost of sales were 85.0% in Q2 2017 compared to 84.5% in Q2 2016.

Selling, general and administrative (SG&A) expenses in Q2 2017 were \$22.5 million, compared to \$22.0 million in Q2 2016. The increase was primarily due to higher selling expenses related to higher sales volume and the unfavourable impact of foreign exchange. As a percentage of revenue, SG&A expenses were 7.2% in Q2 2017, compared to 7.4% in Q2 2016.

Adjusted EBITDA in Q2 2017 was \$37.3 million, compared to \$35.9 million in Q2 2016, primarily due to increased sales volume and the benefit of cost reduction initiatives and capital projects, partially offset by higher commodity, logistics and SG&A costs and the unfavourable impact of foreign exchange.

Net income in Q2 2017 was \$9.9 million, compared to \$12.0 million in Q2 2016, primarily due to an increase in the change in amortized cost of Partnership units liability of \$2.5 million and an increase in tax expense of \$1.3 million. These increases were partially offset by higher Adjusted EBITDA of \$1.4 million.

Total liquidity, representing cash and cash equivalents and availability under the credit line within covenant limitations, was \$80.3 million as of June 25, 2017, compared to \$88.6 million as of March 26, 2017.

## KPT Q2 2017 Financial Results

KPT incurred a net loss of \$0.6 million in Q2 2017. Included in the net loss was \$1.6 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 and income tax expense of \$0.8 million.

## Dividends on Common Shares

The Board of Directors of KPT declared a quarterly dividend of \$0.18 per share to be paid on October 16, 2017 to shareholders of record at the close of business on September 29, 2017.

## Additional Information

For additional information please refer to Management's Discussion and Analysis (MD&A) of KPT and KPLP for the second quarter ended June 25, 2017 available on SEDAR at [www.sedar.com](http://www.sedar.com) or our website at [www.kptissueinc.com](http://www.kptissueinc.com).

## Second Quarter Results Conference Call Information

KPT will hold its second quarter conference call on Wednesday, August 9, 2017 at 8:30 a.m. Eastern Time.

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

Via the internet at: [www.kptissueinc.com](http://www.kptissueinc.com)

Presentation material referenced during the conference call will be available at [www.kptissueinc.com](http://www.kptissueinc.com).

A rebroadcast of the conference call will be available until midnight, September 9, 2017 by dialing 800-585-8367 or 416-621-4642 and entering passcode 47442643.

The replay of the webcast will remain available on the website until midnight, September 9, 2017.

## 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 16.0% interest in KPLP. For more information visit [www.kptissueinc.com](http://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(R), Purex(R), SpongeTowels(R), Scotties (R) and White Swan(R). In the U.S., KPLP manufactures the White Cloud(R) 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(R) COC-certified (FSC (R) C-104904) production facilities in North America. For more information visit [www.krugerproducts.ca](http://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 second quarter ended June 25, 2017 available on SEDAR at [www.sedar.com](http://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. 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 information is based on certain key expectations and assumptions made by KPT, 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 start-up of the Crabtree paper machine in Q4 2017; improved performance of the Away-From-Home business; and expanded distribution of White Cloud to select U.S. retailers. Although KPT believes 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 information 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 Q3 2017 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, 2017 available on SEDAR at [www.sedar.com](http://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 TAD Project; 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, restrictive covenants; interest rate and refinancing risk; information technology; cyber-security; insurance; internal controls; and trade related risk.

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.

Kruger Products L.P.

Unaudited Condensed Consolidated Statement of Financial Position

(thousands of Canadian dollars)

	June 25, December 31,	
	2017	2016
	\$	\$
	-----	
Assets		
Current assets		
Cash and cash equivalents	28,286	36,511
Trade and other receivables	107,667	123,095
Receivables from related parties	273	185
Current portion of advances to partners	3,678	5,465
Inventories	187,199	179,543
Income tax recoverable	666	423
Prepaid expenses	11,679	7,286
	-----	
	339,448	352,508
Non-current assets		
Property, plant and equipment	778,072	762,270
Other long-term assets	5,900	6,075
Goodwill	160,939	160,939

Intangible assets	14,781	15,270
Deferred income taxes	35,506	39,913
	-----	-----
Total assets	1,334,646	1,336,975
	-----	-----
	-----	-----
Liabilities		
Current liabilities		
Bank indebtedness	3,732	9,007
Trade and other payables	180,883	201,477
Payables to related parties	3,756	3,606
Income tax payable	508	1,779
Distributions payable	10,259	10,148
Current portion of provisions	1,487	1,885
Current portion of long-term debt	8,754	8,859
	-----	-----
	209,379	236,761
Non-current liabilities		
Long-term debt	441,249	415,379
Provisions	6,878	6,487
Pensions	107,411	92,646
Post-retirement benefits	60,629	57,162
	-----	-----
Liabilities to non-unitholders	825,546	808,435
Current portion of Partnership units liability	8,611	8,611
Long-term portion of Partnership units liability	133,745	137,296
	-----	-----
Total Partnership units liability	142,356	145,907
	-----	-----
Total liabilities	967,902	954,342
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Equity		
Partnership units	346,334	336,576
Deficit	(65,094)	(42,792)
Accumulated other comprehensive income	85,504	88,849
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Total equity	366,744	382,633
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Total equity and liabilities	1,334,646	1,336,975
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Kruger Products L.P.

Unaudited Condensed Consolidated Statement of Comprehensive Loss

(thousands of Canadian dollars)

	3-month period ended June 25, 2017 \$	3-month period ended June 26, 2016 \$	6-month period ended June 25, 2017 \$	6-month period ended June 26, 2016 \$
Revenue	314,388	295,757	603,659	575,447
Expenses				
Cost of sales	267,077	249,878	511,331	490,525
Selling, general and administrative expenses	22,520	21,986	45,741	43,638

Gain on sale of non-financial assets	(81)	-	(68)	-
Restructuring costs, net	-	393	11	393
-----				
Operating income	24,872	23,500	46,644	40,891
Interest expense	10,757	10,921	21,021	22,135
Other (income) expense	2,018	(291)	3,963	(1,120)
-----				
Income before income taxes	12,097	12,870	21,660	19,876
Income taxes	2,150	834	4,764	1,450
-----				
Net income for the period	9,947	12,036	16,896	18,426
-----				
Other comprehensive loss				
Items that will not be reclassified to net income:				
Remeasurements of pensions	(12,656)	(27,120)	(15,223)	(43,889)
Remeasurements of post-retirement benefits	(2,317)	(1,755)	(3,201)	(1,634)
Items that may be subsequently reclassified to net income:				
Available-for-sale investment	-	-	-	(290)
Cumulative translation adjustment	(2,580)	(6,846)	(3,345)	(20,827)
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Total other comprehensive loss for the period	(17,553)	(35,721)	(21,769)	(66,640)
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Comprehensive loss for the period	(7,606)	(23,685)	(4,873)	(48,214)
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Kruger Products L.P.

Unaudited Condensed Consolidated Statement of Cash Flows

(thousands of Canadian dollars)

	3-month period ended June 25, 2017 \$	3-month period ended June 26, 2016 \$	6-month period ended June 25, 2017 \$	6-month period ended June 26, 2016 \$
-----				
Cash flows from (used in) operating activities				
Net income for the period	9,947	12,036	16,896	18,426
Items not affecting cash				
Depreciation	12,316	11,681	24,064	21,768
Amortization	249	296	489	580
Gain on sale of property, plant and equipment	-	(4)	(2)	(3)



Change in amortized cost of				
Partnership units liability	2,531	-	5,060	1,234
Gain on sale of investment	-	-	-	(324)
Foreign exchange gain	(513)	(291)	(1,097)	(2,030)
Interest expense	10,757	10,921	21,021	22,135
Pension and post retirement				
benefits	2,513	2,659	5,026	5,318
Provisions	94	658	338	799
Income taxes	2,150	834	4,764	1,450
Gain on sale of non-financial				
assets	(81)	-	(68)	-
	-----			
Total items not affecting cash	30,016	26,754	59,595	50,927
Net change in non-cash working				
capital	(2,229)	12,177	(31,089)	(4,462)
Contributions to pension and post-				
retirement benefit plans	(3,933)	(5,462)	(7,671)	(11,305)
Provisions paid	(116)	(642)	(450)	(1,118)
Income tax payments	(1,547)	(508)	(3,054)	(1,373)
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Net cash from operating activities	32,138	44,355	34,227	51,095
	-----			
Cash flows from (used in) investing				
activities				
Purchases of property, plant and				
equipment	(25,511)	(22,512)	(38,245)	(38,701)
Capitalized interest paid	(159)	-	(381)	-
Proceeds on sale of investment	-	-	-	1,439
Government assistance received	2,033	-	2,949	1,209
Purchases of software	-	(2)	-	(71)
Proceeds on sale of property, plant				

and equipment	127	4	1,170	4
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Net cash used in investing				
activities	(23,510)	(22,510)	(34,507)	(36,120)
-----				
Cash flows from (used in) financing				
activities				
Proceeds from long-term debt	(1,245)	-	26,770	791
Repayment of long-term debt	(375)	(306)	(501)	(7,510)
Payment of deferred financing fees	(3)	(5)	(12)	(335)
Interest paid on long-term debt	(8,553)	(8,737)	(11,111)	(9,756)
Distributions and advances paid, net	(8,711)	(5,530)	(17,729)	(12,077)
-----				
Net cash used in financing				
activities	(18,887)	(14,578)	(2,583)	(28,887)
-----				
Effect of exchange rate changes on				
cash and cash equivalents held in				
foreign currency	(31)	(1,143)	(87)	(1,439)
-----				
Increase (decrease) in cash and cash				
equivalents during the period	(10,290)	6,124	(2,950)	(15,351)
Cash and cash equivalents -				
Beginning of period	34,844	3,980	27,504	25,455
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Cash and cash equivalents - End of				
period	24,554	10,104	24,554	10,104
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Kruger Products L.P.

Segment and Geographic Results

(thousands of Canadian dollars)

	3-month period ended June 25, 2017	3-month period ended June 26, 2016	6-month period ended June 25, 2017	6-month period ended June 26, 2016
	\$	\$	\$	\$

Segment Information

Segment Revenue

Consumer	252,152	231,924	491,079	460,076
AFH	59,919	59,051	108,593	108,102
Other	2,317	4,782	3,987	7,269
Total segment revenue	314,388	295,757	603,659	575,447

Segment Adjusted EBITDA

Consumer	34,902	33,719	67,874	61,526
AFH	2,333	1,775	2,988	1,805
Other	121	372	276	622
Total segment Adjusted EBITDA	37,356	35,866	71,138	63,953

Reconciliation to Net Income:

Depreciation and amortization	12,565	11,977	24,553	22,348
Interest expense	10,757	10,921	21,021	22,135
Change in amortized cost of				
Partnership units liability	2,531	-	5,060	1,234
Gain on sale of property, plant and				
equipment	-	(4)	(2)	(3)
Gain on sale of non-financial assets	(81)	-	(68)	-
Restructuring costs	-	393	11	393
Foreign exchange gain	(513)	(291)	(1,097)	(2,030)
	-----			
Income before income taxes	12,097	12,870	21,660	19,876
Income taxes	2,150	834	4,764	1,450
	-----			
Net income	9,947	12,036	16,896	18,426
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	-----			

Geographic Revenue

Canada	187,783	180,263	361,660	344,035
U.S.	114,904	102,617	219,553	206,403
Mexico	11,701	12,877	22,446	25,009

	-----			
Total revenue	314,388	295,757	603,659	575,447
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	-----			

KP Tissue Inc.

Unaudited Condensed Statement of Financial Position

(thousands of Canadian dollars)

	June 25, December 31,	
	2017	2016
	\$	\$
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Assets		
Current assets		
Distributions receivable	1,647	1,636
Receivable from Partnership	-	426
Income tax recoverable	629	-
	-----	
	2,276	2,062
Non-current assets		
Investment in associate	109,750	117,349
	-----	
Total Assets	112,026	119,411
	-----	
	-----	
Liabilities		
Current liabilities		
Dividend payable	1,647	1,636
Payable to Partnership	271	-
Current portion of advances from Partnership	596	914
Income tax payable	-	884
	-----	
	2,514	3,434
Non-current liabilities		

Deferred income taxes	1,021	893
	-----	-----
Total liabilities	3,535	4,327
	-----	-----
Equity		
Common shares	14,116	13,176
Contributed surplus	144,819	144,819
Deficit	(65,643)	(58,729)
Accumulated other comprehensive income	15,199	15,818
	-----	-----
Total equity	108,491	115,084
	-----	-----
Total liabilities and equity	112,026	119,411
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KP Tissue Inc.

Unaudited Condensed Statement of Comprehensive Loss

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

	3-month period ended June 25, 2017 \$	3-month period ended June 26, 2016 \$	6-month period ended June 25, 2017 \$	6-month period ended June 26, 2016 \$
Equity Income (loss)	115	469	(248)	91

Dilution gain	47	255	97	84
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Income (loss) before income				
taxes	162	724	(151)	175
Income taxes	752	1,329	1,000	2,258
-----				
Net loss for the period	(590)	(605)	(1,151)	(2,083)
-----				
Other comprehensive loss				
net of tax recovery				
Items that will not be				
reclassified to net loss:				
Remeasurements of pensions	(1,771)	(3,829)	(2,130)	(6,209)
Remeasurements of post-				
retirement benefits	(227)	(174)	(314)	(162)
Items that may be subsequently				
reclassified to net loss:				
Available-for-sale investment	-	-	-	(41)
Cumulative translation				
adjustment	(447)	(1,675)	(619)	(4,206)
-----				
Total other comprehensive loss				
for the period	(2,445)	(5,678)	(3,063)	(10,618)
-----				
Comprehensive loss for the				
period	(3,035)	(6,283)	(4,214)	(12,701)
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Basic loss per share (0.06) (0.07) (0.13) (0.23)

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Weighted average number of

shares outstanding 9,144,390 9,016,939 9,130,890 9,005,511  
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KP Tissue Inc.

Unaudited Condensed Statement of Cash Flows

(thousands of Canadian dollars)

	3-month period ended June 25, 2017 \$	3-month period ended June 26, 2016 \$	6-month period ended June 25, 2017 \$	6-month period ended June 26, 2016 \$
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Cash flows from (used in)

operating activities

Net loss for the period (590) (605) (1,151) (2,083)

Items not affecting cash

Equity (income) loss (115) (469) 248 (91)

Dilution gain (47) (255) (97) (84)

Income taxes 752 1,329 1,000 2,258

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Total items not affecting cash 590 605 1,151 2,083



Net change in non-cash working capital	-	-	697	-
Tax payments	(525)	-	(1,774)	(205)
Tax Distribution received	-	-	481	-
Advances received	525	-	596	205
-----				
Net cash from (used in) operating activities	-	-	-	-
-----				
Cash flows from investing activities				
Partnership unit distributions received	1,192	935	2,368	2,548
-----				
Net cash from investing activities	1,192	935	2,368	2,548
-----				
Cash flows used in financing activities				
Dividends paid	(1,192)	(935)	(2,368)	(2,548)
-----				
Net cash used in financing activities	(1,192)	(935)	(2,368)	(2,548)
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Increase (decrease) in cash and cash equivalents during the period	-	-	-	-
Cash and cash equivalents -				

Beginning of period	-	-	-	-
-----				
Cash and cash equivalents - End				
of period	-	-	-	-
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FOR FURTHER INFORMATION PLEASE CONTACT:

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Source: KP Tissue Inc.

