



KP TISSUE INC.

UNAUDITED CONDENSED FINANCIAL STATEMENT

**FOR THE 13-WEEK AND 26-WEEK PERIODS ENDED JUNE 26, 2016
AND JUNE 28, 2015**

KP Tissue Inc.
Unaudited Condensed Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	June 26, 2016	December 31, 2015
	\$	\$
Assets		
Current assets		
Distributions receivable	1,624	1,613
Income taxes recoverable	897	828
	<u>2,521</u>	<u>2,441</u>
Non-current assets		
Investment in associate (note 5)	111,544	126,643
Total Assets	<u>114,065</u>	<u>129,084</u>
Liabilities		
Current liabilities		
Dividend payable (note 7)	1,624	1,613
Payable to Partnership	207	108
Current portion of advances from Partnership (note 6)	914	432
	<u>2,745</u>	<u>2,153</u>
Non-current liabilities		
Advances from Partnership (note 6)	-	709
Deferred income taxes (note 6)	1,365	1,007
Total liabilities	<u>4,110</u>	<u>3,869</u>
Equity		
Common shares (note 7)	12,258	11,577
Contributed surplus	144,819	144,819
Deficit	(60,985)	(49,291)
Accumulated other comprehensive income	13,863	18,110
Total equity	<u>109,955</u>	<u>125,215</u>
Total liabilities and equity	<u>114,065</u>	<u>129,084</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 26-week periods ended June 26, 2016 and June 28, 2015

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

	13-week period ended June 26, 2016 \$	13-week period ended June 28, 2015 \$	26-week period ended June 26, 2016 \$	26-week period ended June 28, 2015 \$
Equity Income (loss) (note 5)	469	(909)	91	(1,567)
Dilution gain (note 7)	255	37	84	122
Income (loss) before income taxes	724	(872)	175	(1,445)
Income taxes (note 6)	1,329	75	2,258	139
Net loss for the period	(605)	(947)	(2,083)	(1,584)
Other comprehensive income (loss) net of tax expense (recovery) (note 8)				
Items that will not be reclassified to net loss:				
Remeasurements of pensions	(3,829)	1,631	(6,209)	(864)
Remeasurements of post-retirement benefits	(174)	151	(162)	(216)
Items that may be subsequently reclassified to net loss:				
Available-for-sale investment	-	32	(41)	(4)
Cumulative translation adjustment	(1,675)	(296)	(4,206)	3,115
Total other comprehensive income (loss) for the period	(5,678)	1,518	(10,618)	2,031
Comprehensive income (loss) for the period	(6,283)	571	(12,701)	447
Basic loss per share	(0.07)	(0.11)	(0.23)	(0.18)
Weighted average number of shares outstanding	9,016,939	8,894,391	9,005,511	8,883,295

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

KP Tissue Inc.
Unaudited Condensed Statement of Changes in Equity

For the 26-week periods ended June 26, 2016 and June 28, 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 (note 7)	36,796	583	-	-	-	583
Dividends payable	-	-	-	(1,602)	-	(1,602)
Dividends paid	-	-	-	(1,597)	-	(1,597)
Fair value adjustment	-	19	-	(13)	-	6
Remeasurements of pensions	-	-	-	(864)	-	(864)
Remeasurements of post-retirement benefits	-	-	-	(216)	-	(216)
Available-for-sale investment	-	-	-	-	(4)	(4)
Cumulative translation adjustment	-	-	-	-	3,115	3,115
Net loss for the period	-	-	-	(1,584)	-	(1,584)
As of June 28, 2015	8,898,776	10,740	144,819	(18,096)	10,969	148,432
As of January 1, 2016	8,958,590	11,577	144,819	(49,291)	18,110	125,215
Issuance of common shares (note 7)	62,462	685	-	-	-	685
Dividends payable	-	-	-	(1,624)	-	(1,624)
Dividends paid	-	-	-	(1,620)	-	(1,620)
Fair value adjustment	-	(4)	-	4	-	-
Remeasurements of pensions	-	-	-	(6,209)	-	(6,209)
Remeasurements of post-retirement benefits	-	-	-	(162)	-	(162)
Available-for-sale investment	-	-	-	-	(41)	(41)
Cumulative translation adjustment	-	-	-	-	(4,206)	(4,206)
Net loss for the period	-	-	-	(2,083)	-	(2,083)
As of June 26, 2016	9,021,052	12,258	144,819	(60,985)	13,863	109,955

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

KP Tissue Inc.
Unaudited Condensed Statement of Cash Flows
For the 26-week periods ended June 26, 2016 and June 28, 2015

(tabular amounts are in thousands of Canadian dollars)

	26-week period ended June 26, 2016	26-week period ended June 28, 2015
	\$	\$
Cash flows from (used in) operating activities		
Net loss for the period	(2,083)	(1,584)
Items not affecting cash		
Equity loss (income)	(91)	1,567
Dilution gain	(84)	(122)
Income taxes	2,258	139
Total items not affecting cash	2,083	1,584
Tax payments	(205)	(1,097)
Tax Distribution received	-	571
Advances received	205	526
Net cash from (used in) operating activities	-	-
Cash flows from (used in) investing activities		
Investment in associate (note 5)	-	(195)
Partnership unit distributions received	2,548	2,804
Net cash from investing activities	2,548	2,609
Cash flows from (used in) financing activities		
Issuance of common shares (note 7)	-	195
Dividends paid	(2,548)	(2,804)
Net cash used in financing activities	(2,548)	(2,609)
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 26-week periods ended June 26, 2016 and June 28, 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 June 26, 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 August 9, 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 adoption of this standard had no significant impact on these 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. Management is evaluating the amended standard and has not yet determined the impact on its unaudited condensed financial statements.

KP Tissue Inc.

Notes to Unaudited Condensed Financial Statements

For the 26-week periods ended June 26, 2016 and June 28, 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 judgements 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:

	26-week period ended June 26, 2016	Year ended December 31, 2015
	\$	\$
Opening balance	126,643	153,732
Investment in associate	685	1,379
Share of income	2,995	245
Depreciation of fair value increments	(2,904)	(5,725)
Share of other comprehensive income (loss)	(12,283)	12,510
Dilution gain	84	70
Impairment in investment in associate	-	(28,000)
Tax Distribution	(432)	(1,155)
Partnership unit distributions	(3,244)	(6,413)
Closing balance	<u>111,544</u>	<u>126,643</u>

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

	13-week period ended June 26, 2016	13-week period ended June 28, 2015	26-week period ended June 26, 2016	26-week period ended June 28, 2015
	\$	\$	\$	\$
Share of income	1,954	522	2,995	1,298
Depreciation of fair value increments	(1,485)	(1,431)	(2,904)	(2,865)
	<u>469</u>	<u>(909)</u>	<u>91</u>	<u>(1,567)</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 June 26, 2016 (December 31, 2015 – 16.3%). The financial information was derived from the unaudited condensed consolidated financial statements of KPLP for the 26-week period ended June 26, 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 26-week periods ended June 26, 2016 and June 28, 2015

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

	KPLP basis of accounting	FV increment	June 26, 2016 KPT basis of accounting
	\$	\$	\$
Current assets	318,472	-	318,472
Non-current assets	950,721	554,583	1,505,304
Liabilities to non-unitholders	816,216	-	816,216
Partnership units liability	123,778	-	123,778
Net assets	329,199		

	13-week period ended June 26, 2016	26-week period ended June 26, 2016
	\$	\$
Revenue	295,757	575,447
Net income	12,036	18,426
Other comprehensive loss	(35,721)	(66,640)
Total comprehensive loss	(23,685)	(48,214)

	KPLP basis of accounting	FV increment	December 31, 2015 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 June 28, 2015	26-week period ended June 28, 2015
	\$	\$
Revenue	279,337	544,713
Net income	3,175	7,885
Other comprehensive income	5,880	8,448
Total comprehensive income	9,055	16,333

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 26-week periods ended June 26, 2016 and June 28, 2015

(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:

	June 26, 2016	December 31, 2015
	\$	\$
KPLP consolidated equity	329,199	388,401
Add back: Inception value of Partnership units liability	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	<u>(298,580)</u>	<u>(347,386)</u>
Equity pertaining to KPT	149,181	159,577
Investment in associate recorded in KPT	<u>111,544</u>	<u>126,643</u>
Reconciling difference	37,637	32,934
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	22,771	19,867
Currency translation adjustment in fair value increments	(3,324)	(4,775)
Tax Distribution	2,171	1,739
Gain on exercise of overallotment option	(375)	(375)
Dilution gain	(496)	(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	13-week	26-week	26-week
	period ended	period ended	period ended	period ended
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
	\$	\$	\$	\$
Current tax expense	185	236	235	608
Deferred tax (credit) expense	1,144	(161)	2,023	(469)
	<u>1,329</u>	<u>75</u>	<u>2,258</u>	<u>139</u>

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 26-week periods ended June 26, 2016 and June 28, 2015

(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 June 26, 2016	13-week period ended June 28, 2015	26-week period ended June 26, 2016	26-week period ended June 28, 2015
	\$	\$	\$	\$
Income tax at statutory rate of 26%	189	(227)	46	(376)
Permanent differences and other	(10)	(13)	(35)	67
Dilution gain	(67)	(10)	(22)	(32)
Taxed in hands of subsidiaries	(53)	(26)	(57)	(22)
Realization of previously unrecognized tax attributes	410	582	729	986
Change in basis of investment in associate	860	(231)	1,597	(484)
	<u>1,329</u>	<u>75</u>	<u>2,258</u>	<u>139</u>

Components of the deferred income tax liability were as follows:

	June 26, 2016	December 31, 2015
	\$	\$
Deferred tax liability (asset)		
Pensions	(512)	(432)
Deferred finance fees	(54)	(55)
Property, plant and equipment	3,228	2,664
Other	(1,297)	(1,170)
	<u>1,365</u>	<u>1,007</u>

The analysis of the deferred tax liability was as follows:

	June 26, 2016	December 31, 2015
	\$	\$
Deferred tax liabilities to be realized greater than 12 months	<u>1,365</u>	<u>1,007</u>
	<u>1,365</u>	<u>1,007</u>

In addition to the above, the Corporation has a deferred tax asset of \$3.9 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 26-week periods ended June 26, 2016 and June 28, 2015

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

The movement in the deferred tax liability was as follows:

	June 26, 2016	December 31, 2015
	<u>\$</u>	<u>\$</u>
Opening balance	1,007	2,005
Charge to net loss	2,023	(2,510)
Charge to other comprehensive income (loss)		
- remeasurements of cumulative translation adjustment	(629)	1,528
Charge to other comprehensive income (loss)		
- remeasurements of post-retirement benefits	(104)	(171)
Charge to other comprehensive income (loss)		
- remeasurements of pensions	(926)	151
Charge to other comprehensive income (loss)		
- mark-to-market on Available-for-sale investment	(6)	4
	<u>1,365</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. The excess advance over KPT's portion of the Tax Distribution, in the amount of \$0.7 million, is repayable by KPT to KPLP by March 31, 2017.

During the 26-week period ended June 26, 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 June 26, 2016, the Corporation declared a dividend of \$0.18 per common share to shareholders, payable on October 17, 2016.

During the 26-week period ended June 26, 2016, KPT's DRIP reinvestment was \$0.7 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 26-week period ended June 26, 2016 (26-week period ended June 28, 2015 – gain of \$0.1 million).

KP Tissue Inc.
Notes to Unaudited Condensed Financial Statements
For the 26-week periods ended June 26, 2016 and June 28, 2015

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

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 June 26, 2016	13-week period ended June 28, 2015	26-week period ended June 26, 2016	26-week period ended June 28, 2015
	\$	\$	\$	\$
Items that will not be reclassified to net loss:				
Remeasurements of pensions	(4,399)	1,875	(7,135)	(993)
Income tax recovery (expense)	570	(244)	926	129
Net of income tax recovery (expense)	<u>(3,829)</u>	<u>1,631</u>	<u>(6,209)</u>	<u>(864)</u>
Remeasurements of post-retirement benefits	(286)	248	(266)	(354)
Income tax recovery (expense)	112	(97)	104	138
Net of income tax recovery (expense)	<u>(174)</u>	<u>151</u>	<u>(162)</u>	<u>(216)</u>
Items that may be subsequently reclassified to net loss:				
Available-for-sale investment	-	36	(47)	(5)
Income tax recovery (expense)	-	(4)	6	1
Net of income tax recovery (expense)	<u>-</u>	<u>32</u>	<u>(41)</u>	<u>(4)</u>
Cumulative translation adjustment	(1,926)	(339)	(4,835)	3,581
Income tax recovery (expense)	251	43	629	(466)
Net of income tax recovery (expense)	<u>(1,675)</u>	<u>(296)</u>	<u>(4,206)</u>	<u>3,115</u>
Total other comprehensive income (loss) for the period	<u><u>(5,678)</u></u>	<u><u>1,518</u></u>	<u><u>(10,618)</u></u>	<u><u>2,031</u></u>

9 Economic dependence

The Corporation is economically dependent upon the Partnership.