KP TISSUE INC.

UNAUDITED CONDENSED FINANCIAL STATEMENT

FOR THE 3-MONTH AND 9-MONTH PERIODS ENDED SEPTEMBER 24, 2017 AND SEPTEMBER 25, 2016

KP Tissue Inc.
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KP Tissue Inc.
Unaudited Condensed Statement of Financial Position

(tabular amounts are in thousands of Canadian dollars)

	September 24, 2017 $	December 31, 2016 $
Assets		
Current assets		
Distributions receivable	1,653	1,636
Receivable from Partnership	-	426
Income taxes recoverable	1,031	-
	2,684	2,062
Non-current assets		
Investment in associate (note 5)	104,650	117,349
Total Assets	107,334	119,411
Liabilities		
Current liabilities		
Dividend payable (note 7)	1,653	1,636
Payable to Partnership	52	-
Advances from Partnership (note 6)	1,040	914
Income tax payable	-	884
	2,745	3,434
Non-current liabilities		
Deferred income taxes (note 6)	1,946	893
Total liabilities	4,691	4,327
Equity		
Common shares (note 7)	14,573	13,176
Contributed surplus	144,819	144,819
Deficit	(67,862)	(58,729)
Accumulated other comprehensive income	11,113	15,818
Total equity	102,643	115,084
Total liabilities and equity	107,334	119,411

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 and 9-month periods ended September 24, 2017 and September 25, 2016

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

	3-month period ended September 24, 2017 $	3-month period ended September 25, 2016 $	9-month period ended September 24, 2017 $	9-month period ended September 25, 2016 $
Equity income (note 5)	1,179	2,010	931	2,101
Dilution gain (note 7)	39	58	136	142
Income before income taxes	1,218	2,068	1,067	2,243
Income taxes (note 6)	1,288	1,299	2,288	3,557
Net income (loss) for the period	(70)	769	(1,221)	(1,314)
Other comprehensive loss net of tax expense (recovery) (note 8)				
Items that will not be reclassified to net income (loss):				
Remeasurements of pensions	(755)	(2,825)	(2,885)	(9,034)
Remeasurements of post-retirement benefits	287	(285)	(27)	(447)
Items that may be subsequently reclassified to net income (loss):				
Available-for-sale investment	-	-	-	(41)
Cumulative translation adjustment	(4,086)	711	(4,705)	(3,495)
Total other comprehensive loss for the period	(4,554)	(2,399)	(7,617)	(13,017)
Comprehensive loss for the period	(4,624)	(1,630)	(8,838)	(14,331)
Basic earnings (loss) per share	**(0.01)**	**0.08**	**(0.13)**	**(0.15)**
Weighted average number of shares outstanding	**9,176,138**	**9,051,321**	**9,146,312**	**9,021,008**

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 9-month periods ended September 24, 2017 and September 25, 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	8,958,590	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 (note 7)	-	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
As of January 1, 2017	9,091,598	13,176	144,819	(58,729)	15,818	115,084
Issuance of common shares (note 7)	92,028	1,339	-	-	-	1,339
Dividends payable	-	-	-	(1,653)	-	(1,653)
Dividends paid	-	-	-	(3,289)	-	(3,289)
Fair value adjustment (note 7)	-	58	-	(58)	-	-
Remeasurements of pensions	-	-	-	(2,885)	-	(2,885)
Remeasurements of post-retirement benefits	-	-	-	(27)	-	(27)
Cumulative translation adjustment	-	-	-	-	(4,705)	(4,705)
Net loss for the period	-	-	-	(1,221)	-	(1,221)
As of September 24, 2017	9,183,626	14,573	144,819	(67,862)	11,113	102,643

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

KP Tissue Inc.
Unaudited Condensed Statement of Cash Flows
For the 9-month periods ended September 24, 2017 and September 25, 2016

(tabular amounts are in thousands of Canadian dollars)

	9-month period ended September 24, 2017 $	9-month period ended September 25, 2016 $
Cash flows from (used in) operating activities		
Net loss for the period	(1,221)	(1,314)
Items not affecting cash		
Equity income	(931)	(2,101)
Dilution gain	(136)	(142)
Income taxes	2,288	3,557
Total items not affecting cash	1,221	1,314
Net change in non-cash working capital (note 10)	478	-
Tax payments	(1,999)	(205)
Tax Distribution received	481	-
Advances received	1,040	205
Net cash from (used in) operating activities	-	-
Cash flows from investing activites		
Partnership unit distributions received	3,586	3,728
Net cash from investing activities	3,586	3,728
Cash flows used in financing activities		
Dividends paid	(3,586)	(3,728)
Net cash used in financing activities	(3,586)	(3,728)
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.

(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 24, 2017, the Corporation held a 16.0% (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 ended September 24, 2017 represents the 91 day period from June 26 to September 24, 2017 and the 3-month period ended September 25, 2016 represents the 91 day period from June 27 to September 25, 2016. The 9-month period ended September 24, 2017 represents the 267 day period from January 1 to September 24, 2017 and the 9-month period ended September 25, 2016 represents the 269 day period from January 1 to September 25, 2016.

These unaudited condensed financial statements were approved by the board of directors on November 7, 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 Corporaton 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.

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

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, except for the following:

(i) IFRIC 23, Uncertainty over income tax treatments. In June 2017, the IFRS Interpretation Committee issued an interpretation which clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019. Management is evaluating the amended standard and has not yet determined the impact on the unaudited condensed financial statements.

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:

	Investment in associate **$**
As of January 1, 2017	117,349
Investment in associate	1,339
Share of income	5,356
Depreciation of fair value increments	(4,425)
Share of other comprehensive loss	(8,768)
Dilution gain	136
Tax Distribution	(1,395)
Partnership unit distributions	(4,942)
As of September 24, 2017	104,650

The equity income was comprised of the following components:

	3-month period ended September 24, 2017 **$**	**3-month period ended September 25, 2016** **$**	**9-month period ended September 24, 2017** **$**	**9-month period ended September 25, 2016** **$**
Share of income	2,639	3,494	5,356	6,489
Depreciation of fair value increments	(1,460)	(1,484)	(4,425)	(4,388)
	1,179	2,010	931	2,101

(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 16.0% interest as of September 24, 2017 (December 31, 2016 – 16.1%). The financial information was derived from the unaudited condensed consolidated financial statements of KPLP for the 9-month period ended September 24, 2017. 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.

			September 24, 2017
	KPLP basis of accounting $	FV increment $	KPT basis of accounting $
Current assets	344,873	-	344,873
Non-current assets	963,861	504,908	1,468,769
Liabilities to non-unitholders	815,924	-	815,924
Partnership units liability	141,474	-	141,474
Net assets	351,336		

	3-month period ended September 24, 2017 $	9-month period ended September 24, 2017 $
Revenue	336,284	939,943
Net income	16,450	33,346
Other comprehensive loss	(26,269)	(48,038)
Total comprehensive loss	(9,819)	(14,692)

			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 September 25, 2016 $	9-month 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)

(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 24, 2017 $	December 31, 2016 $
KPLP consolidated equity	351,336	382,633
Add back: Inception value of Partnership units liability	118,562	118,562
Less: Equity pertaining to Kruger Inc. and KPGP	(318,600)	(343,935)
Equity pertaining to KPT	151,298	157,260
Investment in associate recorded in KPT	104,650	117,349
Reconciling difference	46,648	39,911
Reconciling items since inception:		
Equity issuance costs	(11,110)	(11,110)
Depreciation of FV increments	30,166	25,741
Currency translation adjustment in fair value increments	(2,860)	(3,913)
Tax Distribution	3,566	2,171
Gain on exercise of overallotment option	(375)	(375)
Dilution gain	(739)	(603)
Impairment in investment in associate	28,000	28,000
	-	-

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 September 24, 2017 $	3-month period ended September 25, 2016 $	9-month period ended September 24, 2017 $	9-month period ended September 25, 2016 $
Current tax expense (recovery)	(177)	1,037	84	1,272
Deferred tax expense	1,465	262	2,204	2,285
	1,288	1,299	2,288	3,557

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

Details of the provision for income taxes were as follows:

	3-month period ended September 24, 2017 $	3-month period ended September 25, 2016 $	9-month period ended September 24, 2017 $	9-month period ended September 25, 2016 $
Income tax at statutory rate of 26%	316	537	277	583
Permanent differences and other	(25)	14	(16)	(21)
Dilution gain	(10)	(15)	(35)	(37)
Taxed in hands of subsidiaries	(22)	(76)	(298)	(133)
Realization of previously unrecognized tax attributes	366	462	1,221	1,191
Change in basis of investment in associate	663	377	1,139	1,974
	1,288	1,299	2,288	3,557

Components of the deferred income tax liability were as follows:

	September 24, 2017 $	December 31, 2016 $
Deferred tax liability (asset)		
Pensions	(435)	(417)
Deferred finance fees	(47)	(50)
Property, plant and equipment	4,623	3,546
Other	(2,195)	(2,186)
	1,946	893

The analysis of the deferred tax liability was as follows:

	September 24, 2017 $	December 31, 2016 $
Deferred tax liabilities to be realized greater than 12 months	1,946	893
	1,946	893

In addition to the above, the Corporation has a deferred tax asset of $4.4 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 9-month period ended September 24, 2017.

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

The movement in the deferred tax liability was as follows:

	9-month period ended September 24, 2017 $	Year ended December 31, 2016 $
Opening balance	893	1,007
Charge to net income (loss)	2,204	406
Charge to other comprehensive loss - remeasurements of cumulative translation adjustment	(703)	(337)
Charge to other comprehensive loss - remeasurements of post-retirement benefits	(17)	6
Charge to other comprehensive loss - remeasurements of pensions	(431)	(183)
Charge to other comprehensive loss - mark-to-market on Available-for-sale investment	-	(6)
	1,946	893

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 9-month period ended September 24, 2017, pursuant to the Tax Distribution as defined in the Partnership Agreement, KPT received an advance from KPLP of $1.0 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 9-month periods ended September 24, 2017 and September 25, 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:

	9-month period ended September 24, 2017			
Dividend Payment Date	**Dividends paid** $	**Share price** $	**Issuance of Common shares** #	**Gross proceeds** $
January 16, 2017	1,636	15.25	30,162	460
April 17, 2017	1,642	15.30	29,419	450
July 17, 2017	1,647	13.23	32,447	429
	4,925		92,028	1,339

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

	9-month period ended September 25, 2016			
	Dividends paid	Share price	Issuance of Common shares	Gross proceeds
Dividend Payment Date	$	$	#	$
January 15, 2016	1,613	10.29	41,671	429
April 15, 2016	1,620	12.31	20,791	256
July 15, 2016	1,624	11.75	37,733	444
	4,857		100,195	1,129

On October 16, 2017, the Corporation paid a dividend of $1.7 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 29,287 common shares at a price of $14.81.

Subsequent to September 24, 2017, the Corporation declared a dividend of $0.18 per common share to shareholders, payable on January 15, 2018.

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 9-month period ended September 24, 2017 (9-month period ended September 25, 2016 - $0.1 million).

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

8 Income tax recovery on other comprehensive loss

Income tax recovery on other comprehensive loss was as follows:

	3-month period ended September 24, 2017 $	3-month period ended September 25, 2016 $	9-month period ended September 24, 2017 $	9-month period ended September 25, 2016 $
Items that will not be reclassified to net income (loss):				
Remeasurements of pensions	(868)	(3,249)	(3,316)	(10,384)
Income tax recovery	113	424	431	1,350
Net of income tax recovery	(755)	(2,825)	(2,885)	(9,034)
Remeasurements of post-retirement benefits	471	(467)	(44)	(733)
Income tax recovery (expense)	(184)	182	17	286
Net of income tax recovery (expense)	287	(285)	(27)	(447)
Items that may be subsequently reclassified to net income (loss):				
Available-for-sale investment	-	-	-	(47)
Income tax recovery	-	-	-	6
Net of income tax recovery	-	-	-	(41)
Cumulative translation adjustment	(4,697)	818	(5,408)	(4,017)
Income tax recovery (expense)	611	(107)	703	522
Net of income tax recovery (expense)	(4,086)	711	(4,705)	(3,495)
Total other comprehensive loss for the period	(4,554)	(2,399)	(7,617)	(13,017)

9 Economic dependence

The Corporation is economically dependent upon the Partnership.

10 Non-cash working capital

	9-month period ended September 24, 2017 $	9-month period ended September 25, 2016 $
Decrease in receivable from Partnership	426	-
Increase in payable to Partnership	52	-
	478	-